



Financial Handbook for Federal Executives and Managers

August 1991

Foreword

Our nation is facing some of its toughest financial challenges in recent times. These challenges, such as large budget deficits and the quality of management for significant federal programs such as housing, require the concerted, cooperative efforts of both financial and nonfinancial federal managers to strengthen financial management. General and program as well as financial managers are integral parts of the financial management structure.

The recently enacted Chief Financial Officers Act requires development and implementation of a comprehensive program of financial management improvement throughout the government. With this legislative emphasis on improving financial management, further opportunities will be available for general and program managers to play very active parts in deciding what information is needed, when it is needed, and how it should be presented. The rapid advances in computer and communication technologies are creating the means by which managers can better meet program operational needs and the financial information needs of federal decisionmakers, program managers, and oversight bodies. Through our collective efforts, a financial management structure may be established for delivering programs effectively and efficiently, controlling resources, and guarding against future liabilities.

This *Handbook* was initially issued in 1981 and revised and updated in 1984 to help federal executives and managers understand financial management and to encourage closer working relationships among financial and nonfinancial managers. This revision reflects the latest developments in financial management activities.

We take this opportunity to express our appreciation to all of the agency officials who assisted us in revising and updating this information source. We hope this *Handbook* will enhance financial management working relationships and financial management systems that contribute to effective and efficient agency operations.

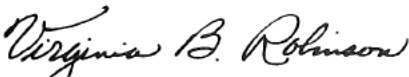

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What is JFMIP?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Office of Personnel Management joined as a central agency sponsor of JFMIP in 1966.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the government so that they will contribute significantly to the effective and efficient planning and operation of government programs. Activities aimed at achieving this objective include:

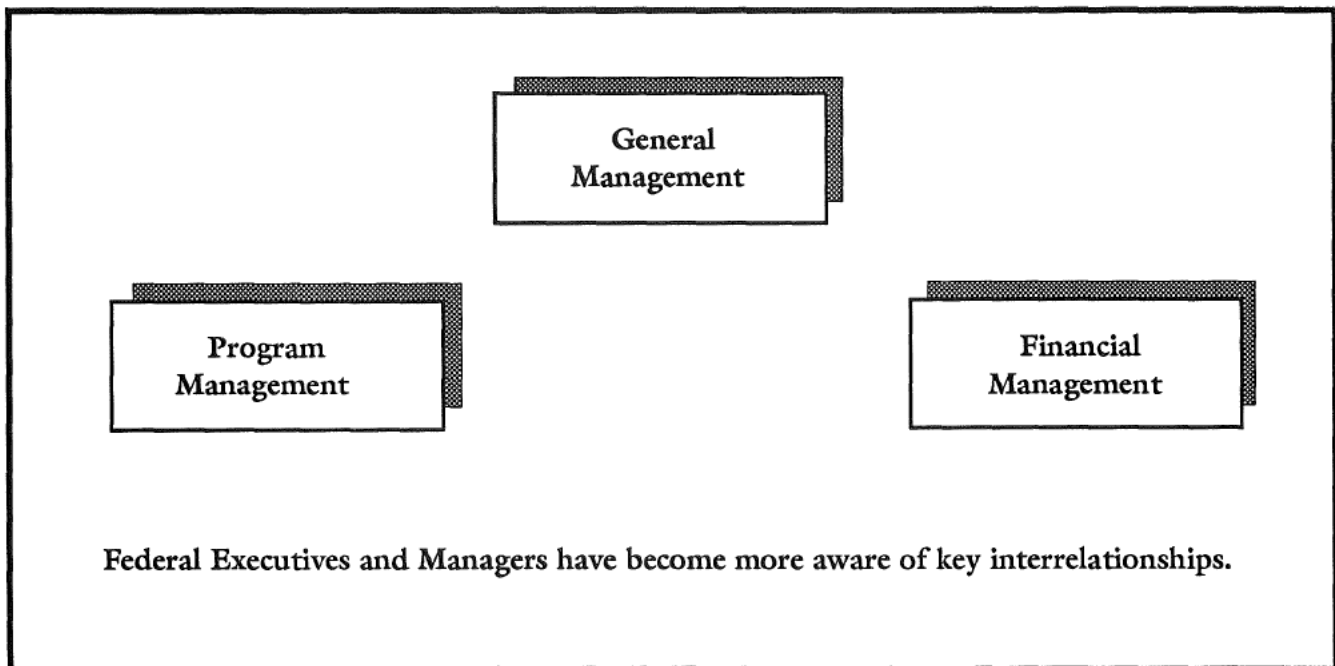
- Developing general objectives in those areas of common interest to the central agencies for guiding the improvement of financial management across government and promoting strategies for achieving those objectives.
- Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.
- Undertaking projects and special reviews of significant problems and new technologies in financial management and publishing the findings and conclusions.
- Acting as a catalyst and clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.
- Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

The JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices, and to be successful it relies on the active participation of federal agencies. The JFMIP is guided by a Steering Committee consisting of a key policy official from each sponsoring agency. A key official from a program agency also serves on the Steering Committee. A small staff is headed by the Executive Director.

Introduction

Financial management is concerned primarily with the fiscal affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Financial management covers a broad spectrum of activities including planning, programming, budgeting, accounting, cash and credit management, reporting, and audit and review. It also directly supports management controls, total quality management, training, personnel management, grant management, procurement, and property management.

In recent years, federal executives and managers have become more aware of the key interrelationships of financial management systems and practices with general and program management. They realize the need for a strong, capable, integrated financial management staff. Financial management can provide great assistance in ensuring that missions are accomplished efficiently, effectively, and timely.



To initiate improvements, top executives and managers need information on past and current operations so that they can plan, coordinate, and control activities, and make decisions within their organizations. The Budget and Accounting Procedures Act of 1950 places with the head of the agency the responsibility for establishing and maintaining adequate systems of accounting and internal control. The Act also requires that such systems provide for

Program and administrative managers from top to bottom are responsible for developing, implementing, and maintaining an effective and efficient internal management control system . . .

- full disclosure of the financial results of the agency's activities;
- adequate financial information needed for the agency's management purposes;
- proper consistency in accounting and budget classifications;
- accurate support of budget justifications with cost and performance data;
- effective control over accountability and appropriate internal audit for all funds, property, and other assets for which the agency is responsible;
- reliable accounting results to serve as the basis for preparing and supporting the agency's budget requests, controlling the execution of the budget, and providing financial information required by the President; and
- suitable integration between agency accounting of transactions and those in the central accounting system maintained by the Department of the Treasury.

With the passage of the Federal Managers' Financial Integrity Act of 1982, the head of each executive agency is required to prepare an annual statement indicating the adequacy of the agency's accounting and administrative controls. Implementing guidelines issued by the Office of Management and Budget provide that the designated internal control officials and heads of organizational units within the agency are responsible for ensuring the performance of necessary control evaluations and providing assurance to the agency head. All other agency managers are responsible for operating effective and efficient systems of internal or management control, periodically evaluating the control systems, and taking timely corrective actions on known weaknesses. Program and administrative managers from top to bottom are responsible for developing, implementing, and maintaining an effective and efficient internal management control system as an integral part of the systems used to conduct the organization's programs and functions.

The most significant legislation related to financial management is the Chief Financial Officers Act of 1990 (CFOs Act) which established CFOs in the major agencies. The purpose of this legislation is to bring more effective general and financial management practices to the federal government. The CFOs Act significantly enhances the financial management functions of the Office of Management and Budget in order for it to provide overall direction and leadership in the development of a modern financial management structure. The Congress found that current financial management systems are obsolete and do not provide reliable information, and that an improved financial management structure could significantly decrease

losses among federal programs from fraud, waste, and mismanagement that cost the federal government billions of dollars annually.

This *Handbook* was prepared to help nonfinancial managers understand financial management and to encourage a closer working relationships between financial, general, administrative, and program managers. Using simple and nontechnical terms as much as possible, it provides background to enhance the knowledge of financial management. The *Handbook* can be used also by the financial managers as a simple checklist to review their operations.

Chapter II provides a summary of the roles and responsibilities of the central management agencies—the Office of Management and Budget, the Department of the Treasury, the General Accounting Office, the Office of Personnel Management, and the General Services Administration. In the remaining chapters, the *Handbook* covers 15 major areas of financial management including budget preparation, administrative control of funds, financial management systems, financial reporting, cash and credit management, management controls, and total quality management. In each chapter, a narrative background of the subject matter is provided, followed by a series of questions managers may use to

- familiarize themselves with the subject area,
- perform a self assessment, and
- establish plans for improvements of the subject area.

Finally, for those who desire to know more about the subject area, several references are suggested at the end of each chapter. Additional information can be found in each agency's internal policy and procedural manuals that implement central agencies' guidance and establish agency operating procedures.

Functions of the Central Agencies

The central agencies which provide overall direction and guidance to departments and agencies on financial management policies and practices include the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), the General Accounting Office (GAO), the Office of Personnel Management (OPM), and the General Services Administration (GSA). This chapter briefly highlights the principal functions of these agencies.

Office of Management and Budget

The Office of Management and Budget assists the President in the development and effective management of federal programs. Its primary functions are as follows:

- Assist the President in the preparation of the budget submission to Congress.
- Supervise and control administration of the enacted budget, which determines how federal programs are funded.
- Assist the President in the effort to develop and maintain effective government by reviewing the organizational structures and management procedures of the Executive Branch to assure that they are capable of efficiently and effectively delivering programs and maintaining stewardship over resources.
- Evaluate the performance of federal programs and serve as a catalyst for improving interagency and intergovernmental cooperation and coordination.
- Provide overall direction and leadership in the development of a federal financial management structure as required by the Chief Financial Officers Act.
- Assist the President by clearing and coordinating proposed legislation initiated in the Executive Branch and make recommendations for Presidential action on bills passed by the Congress.
- Assist in the development of regulatory reform proposals and in programs for paperwork reduction, especially those reporting requirements which burden the public.
- Keep the President advised of the progress of activities by agencies. Information about activities proposed, actually initiated, and completed, together with the relative timing of interagency activities, is necessary to assure that programs are coordinated and that money appropriated by the Congress is spent effectively with the least possible overlap and duplication.

The Office of Management and Budget, includes the Office of Federal Procurement Policy, the Office of Information and Regulatory

Affairs, and the Office of Federal Financial Management. The Office of Federal Procurement Policy was created to improve the economy, efficiency and effectiveness of the procurement of property and services by agencies through means such as establishing a system of uniform and coordinated procurement policies. The Office of Information and Regulatory Affairs carries out responsibilities required by the Paperwork Reduction Act, including information technology policies such as computer security. The Office of Federal Financial Management was created by the Chief Financial Officers Act of 1990 for the purpose of strengthening the system of internal controls in the federal government. It is headed by a Controller, who reports to a Deputy Director for Management, an office also created by the Act, who is the chief official responsible for financial management in the federal government. The CFOs Act established chief financial officers in 23 agencies.

Department of the Treasury

The Department of the Treasury provides centralized fiscal services for the federal government. It estimates the government's needs for funds; taxes, borrows, maintains, and disburses federal funds; and records and reports information on federal finances. Its major functions are to:

- Act as the government's treasurer.
- Formulate and recommend domestic and international financial policy, economic policy, and tax policy.
- Manage the public debt.
- Act as the government's banker for the collection and disbursement of funds.
- Maintain a system of central accounting and reporting to provide a consolidated record of the government's financial transactions.
- Determine the reporting requirements necessary to gather financial management data, work with agencies to ensure the integrity of financial data reported, and establish central accounting and reporting policy for the federal government.
- Issue instructions on central accounting and reporting, disbursing, deposit, and investment practices.

General Accounting Office

The General Accounting Office is responsible for assisting the Congress in its oversight of the Executive Branch in carrying out programs enacted by the Congress. The General Accounting Office audits and evaluates programs, activities, and financial operations of

federal departments and agencies and their contractors and grantees, and makes recommendations for improving the efficiency and effectiveness of government operations. The General Accounting Office has statutory authority to investigate all matters relating to the receipt, disbursement, and application of federal funds. In the financial management area, its primary responsibilities are to:

- Serve as a member of the Federal Accounting Standards Advisory Board on developing federal accounting standards, cooperating in the development and improvement of agency accounting and financial management systems, and reviewing operational accounting systems.
- Audit the programs, activities, financial transactions, and accounts of the federal government and report audit results to the Congress and agencies.
- Analyze identified fraudulent or potentially fraudulent practices to identify controls and audit approaches designed to prevent or minimize opportunities for fraud.

In carrying out its audit responsibilities, the General Accounting Office examines the overall effectiveness of operating accounting systems with emphasis on the adequacy of internal accounting and financial controls, compliance of accounting operations with the Comptroller General's principles and standards, and overall ability of the accounting systems to provide the information needed by management to effectively operate the agency.

Office of Personnel Management

The Office of Personnel Management administers a merit system for federal employment that includes recruiting, examining, training, and promoting people on the basis of their knowledge and skills, regardless of their race, religion, sex, political influence, or other nonmerit factors. Through a range of programs designed to develop and encourage the effectiveness of the government employee, OPM supports government program managers in their personnel management responsibilities and provides benefits to employees and to retired employees and their survivors. Regarding financial management in particular, OPM performs the following functions:

- Provide examining, selecting, and appointing authorities to agencies, including delegation and decentralization, for positions in the financial management field.
- Supply training opportunities in financial management and in supervision and general management positions.
- Provide qualification and position classification standards for positions in the various financial management occupations.

- Administer the federal pay, leave, retirement, and insurance systems.

General Services Administration

The General Services Administration establishes policy and provides a system for the management of government property and records including construction and operation of buildings, procurement and distribution of supplies, utilization and disposal of property, transportation, travel, communications management, and the management of the governmentwide information resource management program. Its basic responsibilities are to:

- Manage 239 million square feet of office space including construction, acquisition, utilization and disposal of excess and surplus space for civilian agencies.
- Procure common goods, equipment and services for civilian agencies, and collect procurement data through the Federal Procurement Data System.
- Procure, lease, and dispose of motor vehicles.
- Dispose of excess real and personal property.
- Formulate and issue civilian government travel regulations and provide government travelers with discounted transportation and lodging.
- Coordinate policies on the management and use of federally-owned aircraft and maintain inventory, cost accounting, and utilization data on government aircraft.
- Manage information technology resources; direct and oversee governmentwide programs for the acquisition and use of automated data processing, records, and telecommunications equipment and services; and set standards for information systems.

Suggested References

GAO Annual Report, General Accounting Office (annual).

The Budget of the United States Government, Executive Office of the President (annual).

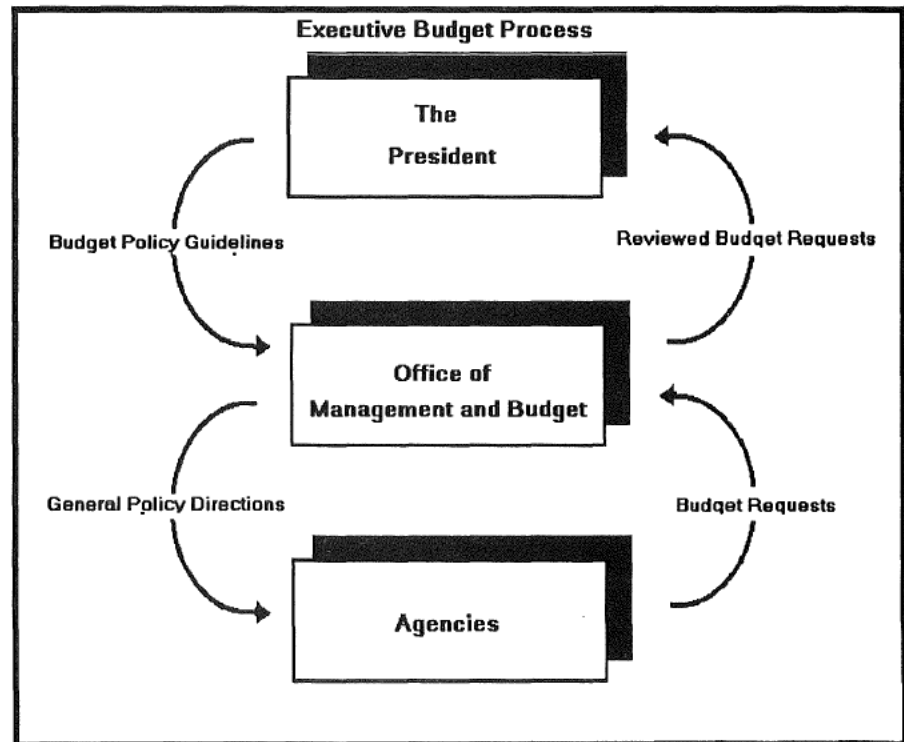
The United States Government Manual, Office of the Federal Register, National Archives and Records Administration (annual).

Budget Preparation and Process

The federal budget system provides the framework within which decisions on resource allocation and program management are made. These decisions relate to the requirements of the nation, availability of federal resources, effective financial control, and accountability for use of the resources. The three main phases of the budget process are Executive Branch formulation and transmittal, Congressional action, and budget execution and control.

Executive Formulation and Transmittal

The budget sets forth the President's financial plan and indicates priorities for the federal government. The primary focus of the budget is on the budget year—the next fiscal year for which Congress needs to make appropriations. The budget, however, is developed in the context of a multi-year budget planning system that includes coverage of the 4 years following the budget year in order to integrate long-range planning into the executive budget process. The system requires that broad fiscal goals and agency spending and employment levels be established beyond the budget year.



The President transmits the budget to Congress early in each calendar year, 8 to 9 months before the next fiscal year begins on October 1st. In a year in which a new President takes office, the

outgoing President submits a budget, for which the new President usually proposes changes. The annual process of formulating the budget begins not later than the spring, at least 9 months before the budget is transmitted and at least 18 months before the fiscal year begins.

During the formulation of the budget, there are continual exchanges of information, proposals, evaluations, and policy decisions among the President, the Office of Management and Budget (OMB), other Executive Office units, and the various government agencies. Decisions concerning the upcoming budget are influenced by the results of previously enacted budgets, including the one being executed by the agencies, and reactions to the last proposed budget, which is being considered by Congress. Decisions are influenced also by projections of the economic outlook prepared jointly by the Council of Economic Advisers, OMB, and the Department of the Treasury.

The President establishes general budget and fiscal policy guidelines. Based on the President's decisions, OMB issues general policy directions and planning levels to the agencies, both for the budget year and for the following 4 years, to guide the preparation of their budget requests.

During the summer months, agencies prepare their budget requests in accordance with the Presidential policy directions and planning levels. Detailed instructions for agencies' budget requests are published in OMB Circular No. A-11. In September, agencies submit budget requests to OMB, where they are reviewed in detail, and decisions are made. These decisions may be revised as a result of Presidential review. Fiscal policy issues, which affect outlays and receipts, are reexamined. The effect of budget decisions in the years that follow are explicitly considered, in the form of multi-year budget planning estimates. Decisions must also consider statutory limitations on spending and the deficit. Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the total outlays and receipts that are appropriate in relation to current and prospective economic conditions, and statutory constraints. For 1991 through 1995, certain categories of spending and the maximum deficit amount are constrained by law. The President's budget proposals must be consistent with these constraints, which are discussed below under "Budget Enforcement."

By law, the President transmits the budget to the Congress the first Monday after January 3rd each year. Supplemental budget requests and amendments may be submitted later to cover unanticipated needs. The President updates the budget by July 15th, taking into account newly enacted legislation, the administration's latest economic assumptions, new recommendations, and revised estimates.

Congressional Action

Congress considers the President's budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or eliminate taxes and other sources of receipts, or make other changes that affect the amount of receipts collected.

Congress does not enact a budget in one step. It enacts appropriations bills and other legislation affecting outlays and receipts, for example, legislation to amend eligibility requirements for benefit payments or to amend revenue laws. Congress has only a limited ability to reduce a deficit in a given year through legislation passed in that year, because most receipts collected and most outlays made in any year are the result of laws enacted in previous years.

Prior to making appropriations, Congress usually enacts legislation that authorizes an agency to carry out a particular program and, in some cases, includes limits on the amount that can be appropriated for the program. Some programs require annual authorizing legislation. Others are authorized for a specified number of years or indefinitely.

In making appropriations, Congress does not vote on the level of outlays directly, but rather on budget authority or other authority to incur obligations that will result in immediate or future outlays. For many federal programs, budget authority becomes available each year only as voted by Congress in appropriations acts. However, in many cases Congress has voted permanent budget authority, under which funds become available annually without further congressional action. Many trust fund appropriations are permanent, as are a number of federal fund appropriations, such as the appropriation to pay interest on the public debt. Some authority to incur obligations takes forms other than budget authority, and such obligational authority usually becomes available for obligation without further congressional action. In recent years, more obligational authority has become available under permanent appropriations than by current actions of Congress. In turn, the outlays from permanent appropriations, together with the outlays from obligations incurred in prior years, comprise the majority of the outlay total for any year. Therefore, most outlays in any year are not controlled through appropriations actions for that year.

Under the procedures established by the Congressional Budget Act of 1974, Congress considers budget totals before completing action on individual appropriations. The Act requires each standing committee of Congress to report on budget estimates to the House and Senate Budget Committees within 6 weeks after the President's budget is transmitted. Congress adopts a concurrent budget resolution as a guide in its subsequent consideration of appropriations and receipt measures. The budget resolution, scheduled to be adopted by April 15th, sets targets for total receipts and for budget authority

and outlays, in total and by functional category. Like the President's budget, the budget resolution is subject to spending limitations imposed in law for 1991 through 1995.

Although budget resolutions do not require Presidential approval, there is consultation between the congressional leadership and the Administration, because legislation developed to attain congressional budget targets must be sent to the President for approval. For some budgets prior to 1991, the President and the joint leadership of Congress have formally agreed on the framework of a deficit reduction plan. These agreements, known as Bipartisan Budget Agreements, were reflected in the budget legislation passed for those years. A similar agreement process led to the enactment of the Budget Enforcement Act of 1990, which is designed to constrain spending for 1991 through 1995.

Congressional consideration of requests for appropriations and changes in revenue laws occurs first in the House of Representatives. The Appropriations Committee, through its subcommittees, studies the requests for appropriations and examines in detail each agency's performance. The Ways and Means Committee reviews proposed revenue measures. Each committee then recommends the action to be taken by the House of Representatives. After passage of the budget resolution, a point of order can be raised to block consideration of bills that would cause a committee's targets, as set by the resolution, to be breached.

When the appropriations and tax bills are approved by the House, they are forwarded to the Senate, where a similar review follows. In case of disagreement between the two houses of Congress, a conference committee (formed from both bodies) meets to resolve the differences. The report of the conference committee is returned to both houses for approval. When the measure is agreed to, first in the House and then in the Senate, it is ready to be transmitted to the President as an enrolled bill, for approval or veto.

When action on appropriations is not completed by the beginning of the fiscal year, Congress enacts a joint continuing resolution to provide authority for the affected agencies to continue financing operations up to specified date or until their regular appropriations are enacted. In some years, a portion or all of the government has been funded for the entire year by a continuing resolution. Continuing resolutions must be presented to the President for approval or veto.

In each of the last several years, Congress has enacted omnibus budget reconciliation acts, which combine many amendments to authorizing legislation that affect outlays and receipts. For example, these acts may change benefit formulas or eligibility requirements, the spending for which is often not controlled through appropriations acts.

BUDGET CALENDAR

No later than
the 1st Monday
in February.....President transmits the budget, including a sequester preview report.
6 weeks later Congressional committees report budget estimates to Budget Committees.
April 15.....Action to be completed on congressional budget resolution.
May 15.....House consideration of annual appropriations bills may begin.
June 15Action to be completed on reconciliation.
June 30Action on appropriations to be completed by House.
July 15President transmits Mid-Session Review of the budget.
August 20OMB updates the sequester preview.
October 1Fiscal year begins.
15 days after the
end of a session
of CongressOMB issues final sequester report, and the President issues a sequester order, if necessary.

Budget Enforcement

Limits on expenditures, receipts, and the deficit are established in law for 1991 through 1995, as are procedures for enforcing the limits throughout the budget process each year. These limits and procedures are determined by the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), which was extended and amended extensively by the Budget Enforcement Act. The latter also affected the President's Budget and the congressional budget process.

The law divides spending into two types—discretionary appropriations and direct spending. These categories are designed to distinguish spending that is generally controlled through annual appropriations acts from that which is generally provided in other, more permanent laws (most entitlement and other so-called mandatory spending). The law specifies processes, called sequesters, for reducing spending. Different sequester procedures are prescribed for reducing the excess spending resulting from discretionary appropriations and for eliminating increases in the deficit resulting from legislation affecting direct spending or receipts. A third type of sequester applies to all types of spending if, after application of the discretionary and direct spending procedures, the deficit exceeds specified maximum deficit amounts.

The sequester processes for discretionary appropriations and direct spending are designed to apply uniform reductions to the same kind of spending that caused the sequester. Discretionary appropriations are subdivided into three categories for 1991 through 1993 — defense, international, and domestic. Spending limits for budget authority and outlays are specified for each category for each of those years. For 1994 and 1995, the limits apply to the total of discretionary spending. From adjournment of a session of Congress through the following June 30th of a fiscal year, discretionary sequesters take place whenever an appropriation bill causes the limit in a category to be breached. Under a sequester, spending for most non-exempt programs in the category is reduced by a uniform percentage. Special rules apply in reducing some programs and some programs are exempt from sequester by law. Between June 30th and the end of a fiscal year, for practical reasons, the sequester is accomplished by reducing the limit for the category for the next fiscal year.

Sequesters of direct spending, called pay-as-you-go sequesters, occur following the end of a session of Congress (usually in the fall of each year) if there is estimated to be a net increase in the deficit caused by laws enacted that affect direct spending and receipts. Under a pay-as-you-go sequester, spending for most non-exempt programs in the category is reduced by a uniform percentage. Special rules apply in reducing some programs and some programs are exempt from sequester by law.

A deficit sequester occurs if it is calculated that estimated spending in all categories and estimated receipts will result in a deficit that exceeds that maximum deficit amount for the year by more than the allowed margin (zero in 1992 and 1993, \$15 billion in 1994 and 1995). Under a deficit sequester, half of any excess must be taken from defense programs and half from non-exempt non-defense programs. Spending for most programs is reduced by a uniform percentage that is calculated (separately for defense and non-defense programs) to eliminate the increase in the deficit. Special rules apply in reducing some programs, and some programs are exempt from sequester.

The law provides that the estimates and calculations that determine whether there is to be a sequester are to be made by the OMB and reported to the President and Congress. The Congressional Budget Office (CBO) is required to make the same estimates and calculations, and the Director of OMB is required to explain any differences between OMB estimates and the estimates prepared by CBO. The estimates and calculation by OMB are the basis for sequester orders issued by the President. The President's orders may not change any of the particulars in the OMB report. The General Accounting Office is required to prepare compliance reports.

Questions and Notes

1. What formalized internal procedures do we have for preparing our budget submission to the Office of Management and Budget consistent with Presidential policies and OMB guidelines?
2. What are the key events in our internal budget process and when do they occur? What controls do we have to assure that these events occur on time?
3. What is my role and responsibility in the budget process? How much of my personal time will be required, and when will it be required?
4. How do we establish the overall budget strategy in terms of goals and objectives? How do we surface programs that should be curtailed or eliminated?
5. Who has the final word for the budget decision in this department (agency)? How do we include the Secretary's (Administrator's) policies in the budget? Do we have a budget policy committee? If so, how does it work? If not, do we need one?
6. What organization levels are appropriate for establishing budget considerations? Why is this a realistic level?
7. Are the present accounting systems adequate to meet the needs of budget formulation? Are our budget requests based on actual cost and spending level data from our accounting system? Are these data reliable and consistent? If not, what improvements are necessary?
8. How do we make use of available computers to make "what if" analyses in determining financial consequences when a number of alternatives or assumptions are being considered?
9. Are we adequately staffed to meet OMB's day-to-day demands in the final phase of the budget preparation? How do we take advantage of available computers to handle tedious, detailed, and repetitive budget work?
10. What is the budget appeal process to the Director of OMB? To the President?
11. What major kinds of problems in the internal budget process have we experienced in the past? Have they been resolved? If not, what can we do?
12. What authorizing and appropriation committees and subcommittees in the Congress are responsible for our programs and appropriations?

13. How do we track congressional actions on authorization and appropriation bills that concern our agency? Who prepares and who presents the testimonies before the Congressional committees? How do we ensure that testimonies and other dealings with the Congress are consistent with Presidential policies?
14. What kind of legislative restrictions do we normally have on the appropriations? How much, if any, flexibility do we have in transferring funds among programs within an appropriation (reprogramming)? How much, if any, flexibility do we have in transferring funds among appropriations (appropriation transfer)?

■ Suggested References ■

The Budget of the United States Government, Executive Office of the President (annual).

The Budget System and Concepts of the United States Government, Office of Management and Budget (annual).

OMB Circular A-11, "Preparation and Submission of Budget Estimates" (annual).

Administrative Control of Funds

As discussed in the previous chapter, the President, with input from departments and agencies, submits a budget to the Congress each year. The Congress, in turn, passes legislation so that each agency will have fund authorizations (appropriations, contract authority, loan authority, etc.) for “spending” to accomplish its mission. Once the President signs the legislation, the Department of the Treasury prepares an appropriations warrant authorizing the amounts to be charged to each fund account (appropriation symbol).

The total amount of funds is not available for the agency’s use until the Director of the Office of Management and Budget (OMB) apportions or distributes the funds to that agency. Apportionment action consists of dividing the total available funds into specific amounts for portions of the fiscal year (usually quarters) or for particular projects or activities. After the apportionments are received from OMB, agencies have internal procedures through which funds are controlled and distributed among agency components.

The Antideficiency Act prohibits any officer or employee of the United States from making or authorizing obligations or expenditures under any appropriation or fund in excess of the amount available.

The Antideficiency Act prohibits any officer or employee of the United States from making or authorizing obligations or expenditures under any appropriation or fund in excess of the amount available. Obligations are formal reservations of funds for orders placed, contracts awarded, or services to be rendered. Any government employee who violates this law will be subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office. Penalties for those who knowingly and willfully violate the law include, upon conviction, fines up to \$5,000 or imprisonment for not more than 2 years, or both.

The Antideficiency Act also requires OMB to approve each agency regulation for administratively controlling funds. The regulation must:

- Restrict obligations or disbursements for each appropriation to the amount available;
- Enable the agency head to fix responsibility for the creation of any obligation or the making of any disbursement in excess of the amount available; and

- Provide for the immediate reporting of violations through the Director of the Office of Management and Budget to the President and the Congress.

The Impoundment Control Act of 1974 provides that the Executive Branch, in regulating the rate of spending, must report to the Congress any deferrals or proposed rescissions of budget authority—that is, any effort through administrative action to postpone or eliminate spending authorized by law. Deferrals, which are temporary withholdings of budget authority, cannot extend beyond the end of the fiscal year, and may be overturned by an act of Congress. Rescissions, which permanently cancel existing budget authority, must be enacted by the full Congress. If the Congress does not approve a proposed rescission by the President within 45 calendar days of continuous session, the funds must be made available for obligation. Agencies should have internal procedures for reporting deferrals and proposed rescissions to the Office of Management and Budget in accordance with its guidelines.

Deferral	—temporary withholding of budget authority —cannot extend beyond the fiscal year —may be overturned by the full Congress
Rescission	—permanent cancellation of budget authority —requested by the President —must be enacted by the full Congress within 45 days of the President's request

If the Congress fails to enact budget authority or continuing resolutions in time, policy guidance issued by the Office of Management and Budget should be followed. This policy guidance provides that:

- In the absence of new appropriations, federal officers may incur no obligations that cannot lawfully be funded from prior appropriations unless such obligations are otherwise authorized by law, and
- Under authority of the Antideficiency Act, federal officers may incur obligations as necessary for orderly termination of an agency's functions, but no funds may be disbursed.

Specific guidance on reallocation of funds prior to shutdown, activities related to orderly shutdown, and requirements for agency plans are provided in annual OMB Bulletins.

More recent legislation affects the administrative control of funds in certain ways. The National Defense Authorization Act of 1990 (Public Law 101-510) prescribed new rules for determining the availability of appropriations and fund balances, and it established new procedures for closing accounts. OMB issued guidance on these changes in January 1991 in Bulletin No. 91-07 which added to Circular A-34.

Questions and Notes

1. When was our agency's fund control regulation approved by OMB? If not approved, what is the status, and what are we doing to expedite OMB's review and approval?
2. What major problems do we have in obtaining approval from OMB? What can I do to assist?
3. Do we have plans to review and update regularly the fund control regulation? If so, are the plans adequate? If not, what are we doing to rectify the situation? When significant changes occur, what procedures do we follow to request review and approval by OMB?
4. Have we reported any violation of the Antideficiency Act (overobligations or overexpenditures) in the past 2 years? If so, what were they and why did they happen? What corrective actions have been taken to avoid reoccurrence? Are there violations that have gone unreported?
5. Is our fund control system integrated with the accounting systems to provide complete, accurate and timely information on fund status? Have vulnerability assessments and internal control reviews disclosed any weaknesses in this area? If so, what are they and what plans do we have to rectify the condition?
6. Are the administrative controls over funds established at the highest practical level? Do we need to change responsibility for control to a higher or lower operation level in order to make the control function more meaningful?
7. Are all managers, financial as well as program and line managers, aware of the fund control regulation and do they know their responsibilities?
8. Do we have a systematic way to report deferrals or proposed rescissions to OMB in accordance with its guidelines?
9. Do we have internal plans and procedures to follow when the Congress fails to enact budget authority or continuing resolution on time?
10. Have we established adequate procedures to ensure that we are complying with the new rules of the National Defense Authorization Act of 1990 for determining the availability of appropriations and fund balances and for closing accounts?

■ Suggested References ■

Accounting Guide: Basic Topics Relating to Appropriations and Reimbursables, General Accounting Office, AFMD-PPM-2.1, September 1990.

“Anti-deficiency Act,” 31 U.S.C. §1517 (Public Law 93-344).

“Federal Managers’ Financial Integrity Act,” 31 U.S.C. §3512(c) (Public Law 97-255).

“Impoundment Control Act of 1974,” 31 U.S.C. §665 (Public Law 100-119).

OMB Bulletin No. 91-07, “Budget Execution Procedures for Closing Accounts,” Office of Management and Budget (January 17, 1991).

OMB Circular A-34, “Instructions on Budget Execution,” Office of Management and Budget (August 26, 1985).

OMB Circular A-123, “Internal Control Systems,” Office of Management and Budget (August 4, 1986).

OMB Circular A-127, “Financial Management Systems,” Office of Management and Budget (December 11, 1984).

Principles of Federal Appropriations Law, 1st ed., GAO Office of General Counsel. Washington: Government Printing Office, June 1982.

Financial Management Systems

Each federal agency's financial management systems and information must accomplish efficient, effective program delivery and maintain proper stewardship over federal resources. The agency may meet these broad goals through its own systems or by acquiring financial management services.

OMB Circular A-127, "Financial Management Systems," requires that each agency's systems must operate as a single, integrated financial management system. The scope of agency financial management systems is extensive and may include discrete systems or subsystems for

- planning, programming, budgeting, accounting, reporting, review, and oversight;
- management of resources such as cash, credit, investments, inventory, equipment, and property;
- management of commitments, potential liabilities, and actual liabilities;
- financial management of such administrative activities as procurement, grant management, personnel, payroll, and travel; and
- financial management of direct federal programs.

The head of each agency must report annually whether agency financial management systems conform to legal and policy requirements under the Federal Managers' Financial Integrity Act of 1982. Where areas of nonconformance exist, the annual report must include a statement of nonconformances and a schedule of corrective action.

Furthermore, with respect to the information in the systems, OMB began in 1986 to standardize the financial information contained in all federal financial management systems by requiring all agencies to adopt the *U.S. Standard General Ledger*, a chart of accounts covering all budget and accounting transactions and balances. The *U.S. Standard General Ledger* was incorporated in the *Treasury Financial Manual* in 1987. Agencies must follow the detailed operating guidance contained in the *Treasury Financial Manual*, and must review the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*.

In recent years, financial management systems were defined more precisely. In 1987, the President's *Report on the Management of the United States Government* defined the three types of systems that make up each agency's financial management system. Standards for primary accounting systems were issued by OMB, GAO and Treasury in 1988. These standards entitled *Core Financial System Requirements*, were developed by an interagency group led by the Joint Financial

**Types of
Financial Management
Systems**

**Primary Accounting
System**

provides general ledger control over all financial transactions, resource balances, and subsidiary and program financial systems.

**Subsidiary Financial
System**

carries out common administrative functions, e.g. personnel/payroll, travel, grants, inventory, procurement, and property.

**Program Financial
System**

carries out major, unique program functions, e.g. large entitlements, major loan, sales, insurance, and fiscal programs.

Management Improvement Program. Additional standards for personnel/payroll systems and travel systems have been developed and standards for budget and accounting information are in the process of being developed.

During 1990, several developments occurred that will significantly impact financial management systems:

- The OMB originated a Five-Point Financial Improvement Program to upgrade federal financial systems and information. The new program encompasses broad accounting standards, financial information standards, agency and federal financial system upgrades, and agency and governmentwide financial reporting.
- The Chief Financial Officers Act of 1990 provides for a controller in OMB to oversee federal financial management systems and information and for a chief financial officer in each agency. It also provides for a program of improved federal agency financial statements.
- Broad standards for federal accounting will be developed by the Federal Accounting Standards Advisory Board. This Board was authorized on October 10, 1990, by OMB, Treasury, and GAO. Updates to OMB's Circular A-127 will include new definitions, data standards, and system standards.

The Chief Financial Officers Act of 1990 (CFOs Act) mandates that an integrated financial management system be established for the federal government. The CFOs Act requires the Office of Management and Budget to develop and submit to Congress a financial management status report and a governmentwide, 5-year financial management plan. The Act requires that the plan describe the existing financial management structure and any changes needed to establish an integrated financial management system, provide a strategy for developing and integrating individual agency accounting financial information and systems, and identify and make proposals to eliminate duplicative and unnecessary systems.

Questions and Notes

1. What financial management systems does the agency currently have?
2. Are the present financial management systems fully responsive to the needs of managers and the reporting requirements of the Treasury, OMB, and the Congress? If not, what are we doing to make the systems more responsive?
3. Do we have a good long-range plan with milestones and cost estimates for streamlining and upgrading our financial management systems? Are we executing according to the plan? Do we have sufficient resources to meet the plan? If not, what is the problem and what can we do about it?
4. Do the present financial management systems fully meet the needs of internal management as identified in our overall plan for information resources management systems? Are the accounting systems adequately integrated with planning, programming and budgeting activities? If not, what are we doing about the situation?
5. Do we have adequate automated data processing (ADP) resources to perform the necessary automated accounting and financial management functions? How are we exploring the application of microcomputers to enhance our accounting functions?
6. In complying with the Federal Managers' Financial Integrity Act of 1982, have we reported any major deficiencies in our accounting systems? If so, what are our plans to correct weaknesses in the system? What can I do to expedite this process?
7. Is our statement prepared under Section 4 of the Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-127 concerning compliance of financial management systems with appropriate principles and standards supported by adequate evaluations of the operation of our accounting system, including appropriate testing? What major differences were reported and what are we doing to correct them?
8. Are there any recent audit or other reports that recommended improvements to our accounting systems? What are our plans and time schedules for implementing them?

■ Suggested References ■

“Chief Financial Officers Act of 1990,” 31 U.S.C. §3512 (Public Law 101-576).

Controls and Risk Evaluation (CARE) Audit Methodology: To Review and Evaluate Agency Accounting and Financial Management Systems, General Accounting Office, July 1985.

Federal Financial Management Systems: Core Financial System Requirements, Joint Financial Management Improvement Program, January 12, 1988.

Federal Financial Management Systems: Personnel/Payroll System Requirements, Joint Financial Management Improvement Program, May 1990.

Federal Financial Management Systems: Travel System Requirements, Joint Financial Management Improvement Program, January 1991.

Financial Management and Accounting Objectives, M-85-10, Office of Management and Budget, March 13, 1986.

Guidelines for Evaluating Financial Management/Accounting Systems, M-85-16, Office of Management and Budget, May 20, 1985.

OMB Circular A-34, “Instructions on Budget Execution,” August 26, 1985.

OMB Circular A-127, “Financial Management Systems,” December 1984.

Policy and Procedures Manual for Guidance of Federal Agencies, General Accounting Office.

U.S. Government Standard General Ledger, M-86-28, Office of Management and Budget, September 19, 1986; and Department of Treasury Bulletin No. 87-08, September 30, 1987.

Treasury Financial Manual, Volume I, Department of the Treasury.

Financial Reporting

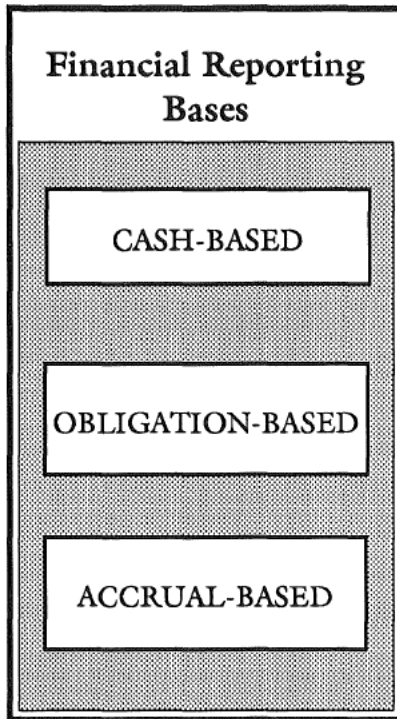
Federal government executives and managers depend on budget, accounting, and other financial and performance information and reports. Such information is necessary to plan, program, budget, manage, and review federal programs — and to safeguard resources. Information is needed on governmentwide and agency totals, as well as the details of program funding, cost, and performance.

Financial management databases and reports must serve agency managers at various levels, as well as the President and Congress. Such information should support:

- **Informed program and resource decisions.**
This requires information to support the budget and management decision process, both within the agency and at the executive and congressional level.
- **Compliance with law, policy requirements, and budget and management decisions.**
This requires the establishment of controls and the tracking of spending against requirements.
- **Efficient, effective program delivery.**
This requires reporting on service efforts, accomplishments, and costs.
- **Proper stewardship over federal resources.**
This requires reporting on management's accountability for resources, as well as their cost and service potential.
- **Protection from future liabilities resulting from current decisions and events.**
This requires information on such things as loan guarantees, insurance exposures, pension commitments, and environmental clean-up decisions.
- **Meeting external reporting requirements.**
This requires budget formulation and execution presentations, as well as financial statements stating financial position, results of operations, cash flows, and reconciliation to budget reports.

There are several required bases for financial reporting:

- **Cash-based reporting** reflects revenues (recorded when received in cash) and expenditures —outlays (recorded when paid), without regard to the accounting period to which the transactions apply.
- **Obligation-based reporting** reflects agreements involving future performance and future payments. Obligations occur when orders are placed and grants or contracts are awarded.



- Accrual-based reporting is essential in measuring cost, period expense, and accrued expenditures. This includes determining the cost of construction work put in place and cost per unit of delivered services or goods. Costs are recognized when resources are applied, period expense is recognized when resources are consumed, and revenues are recognized when earned. Accrued expenditures are recognized when performance is completed or goods are delivered.

The Chief Financial Officers Act of 1990 provided a new requirement for external reports: audited, general-purpose, financial statements. The Act requires such statements covering revolving funds, trust funds, and "substantial commercial functions." The Act also requires, on a pilot basis, financial statements covering all the accounts of certain departments and agencies. The Act requires that agency chief financial officers prepare performance reports on the financial execution of the agency's budget in relation to actual expenditures.

Within agencies, reports must be tailored to the specific needs of executives and managers, while maintaining comparability and consistency with governmentwide concepts and totals. For top executives, summary information may suffice. However, such information must be supportable in detail by information in use by operating managers. Full use should be made of modern databases and information entry and retrieval technologies.

Questions and Notes

Determining Compliance

1. What types of reports do our managers receive on funds authorized, funds spent, and funds still available? How is accuracy, completeness, consistency, and timeliness assured in preparing these reports? Are reports prepared on aging of accounts receivable and payable, significant fluctuations of inventories, and other items of general interest?
2. How do we evaluate the usefulness of the financial reports? How do we determine if these reports properly and adequately provide for narrative analyses and suggested actions or decisions to be made?
3. How do we know that details in the financial reports are sufficient to meet the diverse needs of the different levels in our management hierarchy? How is the frequency of reporting tailored to the requirements of these different levels?
4. What changes have we made or plan to make to the reports and the data to better serve our managers? Are we planning to review current reports and eliminate those which are not needed?

Assessing Performance

1. How do the reports provide for accurate, complete and timely cost and performance information by programs, functions, activities, and subactivities? What is our method for comparing actual costs and performance with budgeted cost and performance data and explaining any deviations? Where appropriate, are unit costs computed and compared with budgeted unit costs? If not, what are our plans to do so in the future?
2. Do these reports properly and adequately highlight good and poor performance? How are these reports integrated into our management's decision-making process?
3. What type of monitoring system has been implemented to hold our managers accountable for avoidable excessive costs and inefficiency? What type of incentives exist to reward our managers for their cost savings and efficiency?
4. What type of incentives are used to control costs and improve efficiency? How can we do more in this area?

External Reporting

1. What controls have been implemented to assure that external reports are submitted on time?
2. How is verification performed on the information in external reports to assure agreement and compatibility with agency reports? Do we reconcile the differences in a timely manner and correct any discrepancies?
3. Have we received, from the recipients of our reports, any complaints or repetitive inquiries concerning our reports? What are they and what are we doing to avoid them in the future?
4. Since we use considerable resources to prepare external reports, how do we use them to review and evaluate our own operations?

General

1. Are we looking into the feasibility of installing remote terminals so that our managers can access data when and in the form they want? What types and how many of the recurring hard-copy reports can be eliminated by the use of such terminals?
2. To what extent are we taking advantage of modern computer and communication technology in transmitting data rather than preparing and sending hard copies? Where can we do more in this area?
3. How frequently are the different types of reports or data audited or reviewed? If there have been any reported weaknesses, what are we doing to correct them?

■ Suggested References ■

Federal Financial Transactions, Department of the Treasury, June 1980.

Managers, Your Accounting System Can Do a Lot for You, General Accounting Office, May 1979.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office, August 31, 1987.

Treasury Financial Manual, Volume I, Part II, Department of the Treasury.

Management Controls

Each manager and supervisor, whether in accounting, administration, program or budget, is responsible for management controls.

Federal managers must establish cost-effective systems of management controls to assure Government activities are managed effectively, efficiently, economically and with integrity. Responsibility for preventing fraud and waste is not solely confined to financial or internal audit personnel. Each manager and supervisor, whether in accounting, administration, program or budget, is responsible for management controls. A sound management control process is a dynamic, cost-saving management tool. Management control programs must anticipate and prevent (as well as detect and correct) errors, irregularities and mismanagement.

For all program and administrative activities, management controls help agency managers prevent or correct

- conditions which might lead to, or threaten, loss of life or personal injury;
- conditions or factors which might significantly impair the successful conduct of a program or assigned mission;
- conditions which endanger the security of facilities, information, or equipment; and
- potential financial losses or waste of resources.

The Accounting and Auditing Act of 1950 requires the head of each agency to establish and maintain adequate systems of internal control. The Federal Managers' Financial Integrity Act of 1982 amended the former Act to require ongoing evaluations and reports on the adequacy of the systems of internal control of each executive agency. The management controls of each executive agency should provide reasonable assurance that

- obligations and costs are in compliance with applicable laws;
- funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

The Act requires each department or agency head to express an opinion on the adequacy of the organization's system of management controls in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) report to the President and the Congress. To comply with this requirement, each agency should conduct continuous evaluations of its management control systems. Such evaluations will form the basis of the annual report. OMB Circular A-123 states that the head of each agency is responsible for designing, installing, evaluating,

improving and reporting on the agency's management control systems. The agency head is specifically required to

- designate a senior official who will be responsible for coordinating the overall agencywide efforts of evaluating, improving and reporting on management control systems;
- issue management control directives to establish specific responsibilities for seeing that agency management control systems are developed, maintained, evaluated, improved, and reported;
- provide for coordination among principal participants, i.e., the designated management control official, heads of organizational units, and program and technical staff, including the Inspector General;
- assign responsibility for management control to appropriate levels of management in each agency component;
- perform (at least once every 5 years or as program changes require) risk assessments providing a preliminary review of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation of all agency components and assessable units;
- provide for detailed examination of the system of internal controls to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner;
- identify material weaknesses which qualify as high risk areas and give priority to designing and implementing timely corrective action for high risk areas; and
- establish a formal follow-up system to record and track recommendations as to their resolution and implementation of corrective actions.

The Inspector General (or the senior audit official if there is no Inspector General) should provide technical assistance in the agency effort to evaluate and improve internal controls. The Inspector General is also responsible for the review of management control systems as part of its normal audit process.

The General Accounting Office also audit the agencies' efforts to comply with the FMFIA. During the first year of the implementation of the Act, GAO reviewed the processes used by the agencies in complying with the Act. In subsequent years, GAO has reviewed agency actions to address internal control weaknesses.

The Office of Management and Budget reviews the annual FMFIA reports of agencies and meets with their staffs to ensure compliance

Each management control system should be designed to fit the organization and its operating philosophy to focus on areas of inherent risk and to achieve a thoughtful balance between control costs and benefits.

with FMFIA and OMB Circulars A-123 and A-127. OMB works particularly close with those agencies reporting high risk areas.

What constitutes an effective control system may vary with circumstances. Top government managers are responsible for adequate management controls in their agencies. They should establish an environment that creates the appropriate control awareness, attitude and discipline. Each management control system should be designed to fit the organization and its operating philosophy to focus on areas of inherent risk and to achieve a thoughtful balance between control costs and benefits. Management control systems should provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. This concept recognizes that the cost of management control should not exceed the benefits derived from it.

Questions and Notes

1. Who is the senior official responsible for coordinating management control efforts in our agency, and has the agency established a management control council?
2. Do we have an overall agency directive and plan for management control that creates the appropriate control awareness, attitude, and discipline and that establishes management control policies and procedures? How is actual performance monitored? How is coordination among the senior management control official, heads of organizational units, and program and technical staff achieved?
3. How have we sought the technical assistance of the Inspector General or the senior audit official of the agency?

4. How do we assure ourselves that managers at all levels are aware of their responsibility for implementing and employing adequate management controls?
5. How and when were vulnerability assessments made in accordance with the FMFIA and OMB Circular A-123? What was the result of the assessments? Were new programs assessed?
6. Do we systematically review and evaluate our management controls on a regular basis, especially in the “high risk” areas? How frequently is a review performed? What are the weaknesses? How are recommendations implemented?
7. Do we have adequate resources to perform the required function to review management controls?
8. What procedures do we follow to assure the reporting of all weaknesses in the systems of management control to the President and to the Congress? What are the problem areas in management control that require high level attention or decision? How do we assure that the high risk areas get the level of attention they need and are corrected in a timely manner?

■ Suggested References ■

Assessing Internal Controls in Performance Audits, General Accounting Office, OP-4.1.4, September 1990.

Assessing the Reliability of Computer-Processed Data, General Accounting Office, OP-8.1.3, September 1990.

Controls and Risk Evaluation (CARE) Audit Methodology: To Review and Evaluate Agency Accounting and Financial Management Systems, General Accounting Office, July 1985.

Executive Reporting on Internal Controls in Government, General Accounting Office, December 8, 1980.

Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, Office of Management and Budget, December 1982.

OMB Circular A-123, “Internal Control Systems,” August 1986. Also: “Questions and Answers on Circular A-123, Internal Control Systems,” Office of Management and Budget, August 1984.

OMB Circular A-127, “Financial Management Systems,” December 1984.

OMB Circular A-130, “Management of Federal Information Resources,” December 12, 1985.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office, August 31, 1987.

CHAPTER 8

Cash Management

During the past several years, more attention has been focused on the subject of cash management. Larger budget deficits, fluctuating interest rates, and changing economic conditions have contributed to the rising cost of money and increased government sensitivity for the time value of funds. Simply put, cash management is the acceleration of receipts (the expeditious billing, collecting, and depositing of receipts), the timely disbursement of payments (the scheduling of payments on due dates, neither early nor late), and the investment of any temporary excess cash balances.

During the past several years, more attention has been focused on the subject of cash management. Larger budget deficits, fluctuating interest rates, and changing economic conditions have contributed to the rising cost of money and increased government sensitivity for the time value of funds.

The governmentwide policy for cash management and associated implementing instructions is contained in Chapter 8000 of Part 6 in Volume I of the Treasury Financial Manual (TFM). It requires that agencies conduct financial activities in a manner that will maximize the amount of cash available to the Treasury and preclude unnecessary borrowing.

Important legislation has strengthened control over federal funds:

- the Prompt Payment Act of 1982 requires federal agencies to pay their bills on time, to pay interest penalties when payments are late, and to take discounts only when payments are made within the discount period. The implementing instructions for the Act are contained in the OMB Circular No. A-125.
- the Collection and Deposit Legislation portion of the Deficit Reduction Act of 1984 (effective January 1, 1985) authorizes the Department of the Treasury to prescribe the mechanism to be used by federal agencies to collect receipts and the timeframes for deposit of the funds.
- the Cash Management Improvement Act of 1990 institutes good financial management and equity in the transfer of funds between the federal government and the states. The Act centralizes authority in the Secretary of the Treasury for regulating and enforcing timely intergovernmental transfers of funds.

The Financial Management Service (FMS) of the Department of the Treasury has enhanced cash management through the development or use of sophisticated funds transfer systems that are available for agencies to use in collecting or disbursing funds. The systems are described in the table on the previous page. Federal agencies should explore the use of the most efficient mechanisms to collect or disburse funds.

FMS FUND TRANSFER SYSTEMS

AUTOMATED CLEARING HOUSE SYSTEM

An individual or organization authorizes the government to deposit to or withdraw funds from a personal or corporate bank account automatically. Funds are transferred by magnetic tape through commercial depositories, the Federal Reserve System, and the Financial Management Service.

CREDIT CARD NETWORK

An agency can accept Mastercard or Visa for payment of goods or services. Payment can be authorized and credited electronically.

FEDWIRE DEPOSIT SYSTEM

A wire deposit network, this system allows agencies access via personal computers to current and historical information about wire deposits.

LOCKBOX NETWORK

An arrangement where receipts are mailed directly from payers to a post office box that is serviced by a designated bank. The bank will process the checks the day of the receipt and electronically transfer the amount into the Treasury's General Account at the Federal Reserve Bank of New York.

Questions and Notes

General Cash Management

1. Does our agency have an overall cash management policy, published and widely distributed, which is in compliance with FMS and OMB guidelines? What actions have we taken to ensure that our regulations include the provisions of the Prompt Payment and Deficit Reduction Acts?

2. What external factors (legislation, program definition, traditions, or others) constrain good cash management? What action should be taken to alleviate them?
3. How do we assure ourselves that managers at all levels are aware of their responsibilities for implementing good cash management practices? Are cash management elements included in agency managers' performance appraisals? Do performance incentives exist?
4. Do Inspector General audits include tests of compliance with cash management regulations? Are there any recent audit or review reports that disclose weaknesses in the cash management area? What are we doing about these weaknesses? What are our plans and timeframes for correcting them?
5. How effective and accurate have our cash flow forecasts been in the past? How often are forecasts developed? What can we do to improve cash forecasting?
6. Are key duties separated so that no individual can control a transaction from beginning to end?

Collections and Deposits

1. Do we meet to the greatest extent possible the Treasury Financial Manual requirement to deposit funds on the same day as received?
2. Do we separate money and checks from related accounting documentation in order to accelerate deposits?
3. Do we deposit Treasury checks which add up to \$5,000 in a day in the nearest Federal Reserve Bank? Do our written procedures reflect this requirement?
4. Do billings require that payment be received no later than the due date? Are interest, penalties, and administrative charges assessed on late payments as required by 31 U.S.C. 3717?
5. How do we assure ourselves that optimal collection mechanisms (ACH, lockbox, credit cards) have been implemented to collect and deposit agency receipts?
6. Are salary offset procedures used to collect delinquent debt from current employees? Are administrative appeals regulations published and approved by the Office of Personnel Management?
7. Are we reporting interest savings on collection and deposit improvements through the FMS automated CashMan reporting system so that we are recognized for our efforts?

Payables and Disbursements

1. What controls do we have to pay amounts owed on due dates—neither early nor late? What is our record in terms of late or early payments? Are the causes for late or early payments documented and reviewed? What actions have been taken to improve the payment cycle to eliminate late or early payments?
2. Are penalties on late payments calculated in accordance with OMB Circular A-125, “Prompt Payment”?
3. What is our agency’s policy on taking discounts offered? What procedure is followed or analysis performed in deciding whether to take a discount? Is this consistent with the cost effective formula prescribed in I TFM 6-8000?
4. Do we have a system to identify discounts lost? If so, what was the amount of discounts lost in the last 6 months? Why were they lost and what is being done to prevent this in the future?
5. Are our ongoing efforts sufficient to encourage our employees to use Direct Deposit to the greatest extent possible to receive salary payments? What is our participation level compared to the government’s goal of 80 percent participation?
6. Are we reporting interest savings on disbursement improvements through the FMS automated CashMan reporting system so that we are recognized for our efforts?
7. Have we been monitoring grantees’ use of federal assistance funds to make sure that they are not withdrawing funds earlier than necessary? Do we have a plan to make all possible grant payments via electronic funds transfers?
8. Are we using Vendor Express to the greatest extent possible in paying our vendor obligations?
9. Do we have in place a system that provides for the timely disbursement of federal funds to states through cash, check, electronic funds transfer, or other means identified by FMS?
10. Will our agency’s disbursements to the states avoid costs to the general fund of the Treasury that could be charged to our agency under the Cash Management Improvement Act of 1990 for failure to make timely disbursements of federal funds to states?

Cash Balances Held Outside Treasury

1. Do we have statutory authority for any cash balances held outside Treasury accounts?
2. Do we minimize cash balances and add internal controls and security through the use of third party drafts, travelers checks, and the I.M.P.A.C. credit card for making small purchases? Do we review cash levels and are they commensurate with actual needs?
3. Do we have legal authority to invest? Are funds invested at the highest possible interest rate? How are investments determined?
4. Has our financial institution been designated a depository and financial agent of the federal government? Can we use a qualified minority financial institution for our banking needs?
5. Are our funds fully secured? What procedure is followed or analysis performed to ensure that our deposits are collateralized as prescribed in I TFM 6-9000? Do we monitor our balances to ensure adequate collateral is pledged at all times?

■ Suggested References ■

“Cash Management Made Easy, a Supplement to the *Treasury Financial Manual*,” Financial Management Service, Department of the Treasury, November 1990.

Money Management Study, Joint Financial Management Improvement Program, May 1976.

OMB Circular A-125, “Prompt Payment,” Office of Management and Budget, December 12, 1989.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 4. General Accounting Office.

Report on Strengthening Federal Cash Management, Office of Management and Budget, August 1980.

Treasury Financial Manual, Volume I: Part 4—Chapter 3000 and Part 6—Chapters 2000, 8000, and 9000; Financial Management Service, Department of the Treasury.

CHAPTER 9

Credit Management

A program of credit management was initiated by the “Reform 88” program in 1982. The Government’s commitment to improved credit management was reaffirmed with the issuance of the President’s Management by Objective Program in August 1989. It has become an integral part of the government’s effort to improve its financial management policies, procedures, practices, and standards.

The initial focus of the “Reform 88” credit management program was on collecting delinquent direct loans made by five major credit agencies: the Departments of Agriculture, Housing and Urban Development, Education, and Veterans Administration, and the Small Business Administration. With the issuance in 1985 of Office of Management and Budget Circular A-129, “Managing Federal Credit Programs” (revised and reissued in November 1988) and the Nine Point Credit Management Program issued in 1986, emphasis shifted to improving the entire credit management cycle from credit extension through write-off. With increased emphasis on using guaranteed loans to accomplish program goals as evidenced by a 63 percent increase in guaranteed loan commitments between 1984 and 1990 and a doubling of guaranteed loan terminations in that same period, focus has shifted to include improving the way the government manages its guaranteed loan programs and the property it acquires as the result of guaranteed loan defaults.

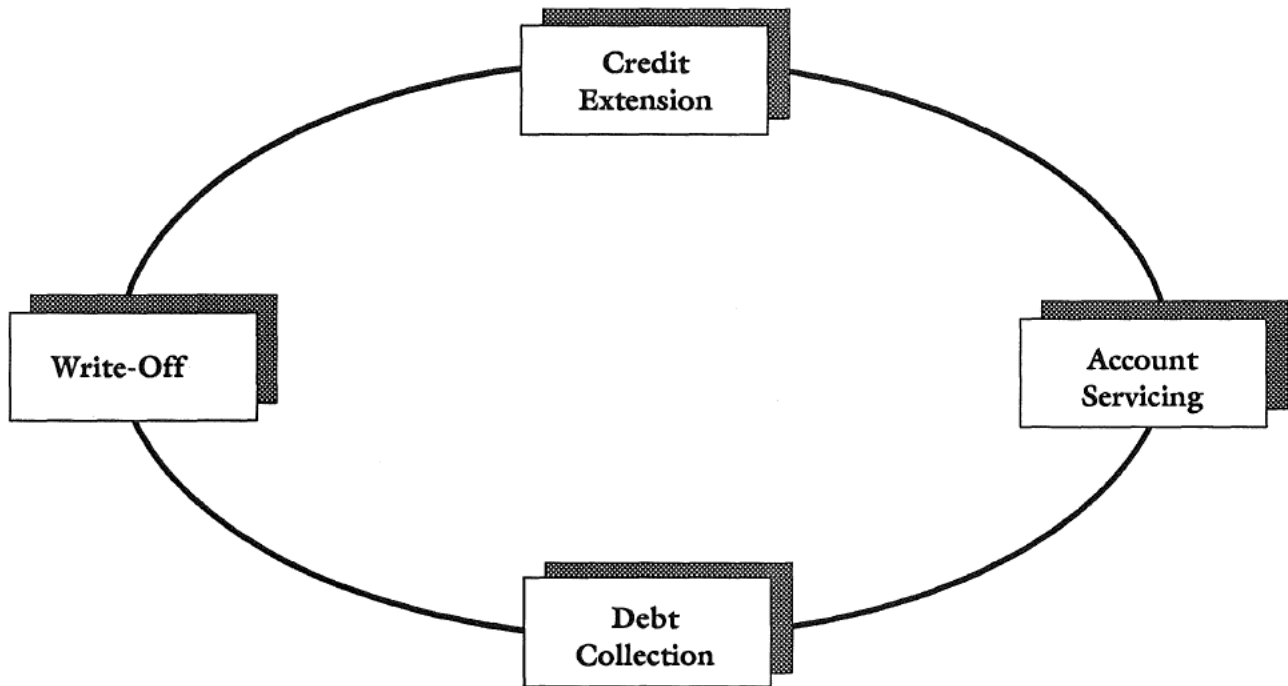
There are three major pieces of legislation which govern the operation of the credit program:

- The Federal Claims Collection Act of 1966 (FCCA) gave the Department of Justice and the General Accounting Office the authority to develop regulations for debt collection.
- The Debt Collection Act of 1982 amended the FCCA to give the agencies specific authority to use such tools as credit bureaus, collection agencies, federal salary offset, and administrative offset and to assess late charges in the form of interest, penalties and administrative charges.
- The Deficit Reduction Act of 1984, established the tax refund offset program, as a 2-year pilot program for 1986 and 1987, to recover debts owed by individuals. The Family Support Act of 1988 extended this program until January 1994 and authorized the pilot of a corporate refund offset program.

Three additional pieces of legislation which affect agency credit program operations and policies passed in November 1990:

- The Federal Debt Collection Procedures Act established a uniform process for collecting, through the court system, debts owed the federal government.

The Credit Cycle



Credit Extension includes screening applicants for creditworthiness and financial responsibility, including the use of credit reports.

Account Servicing includes the recordkeeping, billing, and collecting of accounts.

Debt Collection refers to collecting delinquent accounts, including the use of offset, collection agencies, and reporting delinquent consumer accounts to credit bureaus.

Write-Off means terminating collection action on uncollectible debts, removing accounts from receivables, and reporting the amount written-off to the Internal Revenue Service as income of the debtor.

- The Administrative Dispute Resolution Act increased, from \$20,000 to \$100,000, the dollar threshold for referral of cases to the Department of Justice for its concurrence in compromise, suspension, and termination of collection action.
- The Federal Credit Reform Act requires agencies to estimate and request appropriations to cover the subsidy costs of their programs. The subsidy amount is identified as the net present value of the difference between cash inflows and cash outflows. Credit programs are now on the same budgetary basis as other federal programs. The implementation of credit reform has substantially changed the way agencies account for and report credit program operations.

The requirements of the Federal Claims Collection Act, as amended by the Debt Collection Act, were codified in the *Federal Claims Collection Standards* (FCCS), published jointly by the General Accounting Office and the Department of Justice in 1984. In 1985, OMB issued Circular A-129, establishing governmentwide credit management policy and a framework for specific standards and procedures on credit management. In 1989, the Financial Management Service provided practical guidance on credit management in a credit supplement to the *Treasury Financial Manual*. Working with OMB and under the auspices of the Federal Credit Policy Working Group, the Financial Management Service develops credit management procedures and standards, assists agencies in implementing credit management tools and techniques (including credit reform) and monitors agency progress in meeting the government's credit management goals.

The tools and techniques currently being used by agencies include:

- credit bureaus
Agencies are required to refer all non-tax, non-tariff commercial accounts and non-tax, non-tariff delinquent consumer accounts to credit bureaus. Agencies have referred an estimated 2 million accounts to credit bureaus.
- federal salary offset
Agencies are authorized to offset up to 15 percent of a federal employee's disposable pay to recover amounts owed. Since a governmentwide program was initiated in 1987, a total of \$124 million was collected through January 1991.

- collection agencies

Agencies are authorized to refer accounts to private collection agencies to enforce recovery of amounts owed. Since 1985, through two successive governmentwide contracts administered by the General Services Administration, a total of \$75 million has been recovered through January 1991. An additional \$350 million has been collected from 1982 through 1990 by the Department of Education through its own contracts.

- tax refund offset

Agencies are authorized to refer delinquent debts to the Internal Revenue Service for offset against tax refunds. Since the inception of the program in 1986, agencies collected over \$1.6 billion through December 1990.

- litigation

Unless they have independent statutory authority, agencies refer their delinquent debts to the Department of Justice to enforce collection through litigation. The Department of Justice estimates that from 1982 through 1990 it had recovered over \$5 billion.

As the government's actual and contingent liabilities under direct and guaranteed loan programs total almost \$750 billion, it has become increasingly critical that the government use all available tools and techniques to minimize its losses and recover amounts owed.

Questions and Notes

1. What is the total amount of accounts and loans receivable for the agency, by program? What is the status of agency receivables, in terms of delinquencies, age of delinquencies, allowance account amounts, and write-offs? How much of our delinquencies are defaulted guaranteed loans?
2. Does our agency assess applicant credit-worthiness using credit reports or other financial information? Do we verify information we receive from the applicant? Do we require applicants to certify that they are not or have not defaulted on a prior government debt? Do we require applicants to certify that they have been informed of the government's debt collection policies? Have we established a policy to deny credit to any applicant found to be delinquent or defaulted on a government loan until that applicant resolves the delinquency or default?
3. Do we bill and properly credit accounts for payments received? Do we have a mechanism for identifying and acting on overdue payments?

4. Do we refer all eligible debts to credit bureaus, and use collection agencies, federal salary offset, tax refund offset, administrative offset, and litigation in accordance with current regulations and standards? Do we have policies and procedures for using these tools and for writing off and closing out debts?
5. Do we assess interest, penalties, and administrative costs on delinquencies?
6. Do we take aggressive action to recover delinquencies? Have we established a debt collection strategy with timeframes and dollar thresholds for taking action?
7. Do we use an account or file checklist to ensure that we have taken all appropriate actions on each account and to document our activities?
8. Do our systems allow us to track accounts we have referred and report required information to management and central regulatory agencies?
9. Have we established a certification program to qualify lenders for participating in our guaranteed loan programs?
10. Have we established a lender review/monitoring system? Do we follow up on deficiencies identified as the result of reviews? Have we established incentives and penalties to encourage lender compliance with our regulations and procedures?
11. Do we require our guarantee lenders to follow the same processes and procedures that we should if we were making a direct loan? Do we require them to follow prudent lending practices for their industry? Have we defined our performance expectations?
12. Have we established policies and procedures to dispose of property we acquire as the result of defaults? Are these policies and procedures designed to minimize our losses?

■ Suggested References ■

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Coordinated Review of Guaranteed Loans, Segment I and Segment II), President's Council on Integrity and Efficiency (September 1988 and March 1989).

Early Warning Indicators for Federal Programs, Federal Credit Policy Working Group Report, May 1990.

The Federal Claims Collection Standards, 4 C.F.R. §101-105, General Accounting Office and Department of Justice.

The Federal Credit Management and Debt Collection System: A Conceptual Model, Financial Management Service, Department of the Treasury, April 1990.

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Guaranteed Loan Management Assessment, Financial Management Service, Department of the Treasury, June 1990.

Guide to Conducting Portfolio Sales: A Companion to the Treasury Financial Manual Credit Supplement, Financial Management Service, Department of the Treasury, June 1990.

Guidelines for Credit Bureau Reporting, Financial Management Service, Department of the Treasury, September 1990.

Guidelines for the Federal Employee Salary Offset Program, Financial Management Service, Department of the Treasury, May 1988.

Guidelines on the Debt Collection Contract, 1988-1990, Financial Management Service, Department of the Treasury, January 1988.

Managing Government Credit: A Supplement to the Treasury Financial Manual, Financial Management Service, Department of the Treasury, January 1989.

Managing Guaranteed Single Family Housing Loans, Financial Management Service, Department of the Treasury, September 1990.

OMB Bulletin 91-05, "Guidance for the Management of Guaranteed Loan Programs," Office of Management and Budget, November 1990.

OMB Circular A-129, "Managing Federal Credit Programs," Office of Management and Budget, November 1988.

Recommendations for Managing and Disposing of the Federal Government's Real-Property Acquired Through Loan Defaults, Financial Management Service, Department of the Treasury, February 1991.

Systems Checklist: A Companion to the Federal Credit Management and Debt Collection System, Financial Management Service, Department of the Treasury, August 1990.

Assuring Proper Payments

Payments for the government usually are made by Treasury disbursing officers. The payments are based on vouchers certified by designated certifying officers in the agencies as to their legality, correctness and propriety. The Certifying Officers Act (Public Law-389, December 29, 1941) defined the roles of disbursing and certifying officers. The Act provided that disbursing officers disburse on the basis of vouchers certified only by authorized certifying officers. The Act makes certifying officers accountable and liable for any illegal, improper, or incorrect payments resulting from any false, inaccurate, or misleading certifications made by them.

Certifying officers may be granted relief from liability for physical losses that are not due to improper payments or the fault or negligence of the certifying officers. Agencies may administratively grant this relief if the loss is less than \$1,000. If the loss is \$1,000 or more, the agency must formally request relief from GAO.

In the military departments and in other special situations, disbursing officers perform both certification and disbursement functions. Military disbursing officers are held accountable and primarily liable for the legality, propriety, and correctness of all payments.

The government has grown enormously and the use of computers has significantly altered payment methods. In the past, payments were processed manually. Large groups of clerks prepared vouchers, verified their accuracy, and compared related data with those on supporting source documents such as purchase orders, receiving reports, and vendors' billing documents. Certifying officers certified vouchers on the basis of reviews made by examiners under their supervision. Today, much of the preparation and processing of vouchers is automated, and inputs are made by persons of other organizational elements. Computers, under still another organization, encode payment data electronically on such means as magnetic tapes from which checks are prepared.

Payment processing is increasingly becoming more mechanized as additional manual processes are automated and as computer technology improves. For example, the Department of the Treasury developed a method to approve payment vouchers through electronic signature certification. The method allows certifying officers to certify payment vouchers without manually signing the individual vouchers.

In today's automated environment, most decisions and actions which make the government liable for payments are made at offices scattered nationwide. The payments, however, are processed and certified at central locations. For example, purchase orders are entered into a central computer by remote terminals at field offices. Receiving reports and vendors' bills are later entered into the computer by the same means, but at other locations. The central computer verifies and

matches these transactions and prepares the payment vouchers. The legality, propriety, and correctness of transactions affecting payments are actually determined by individuals at the field offices and/or by a computer. It is on the basis of computer-generated output that certifying officers must certify these payments, but certifying officers can no longer directly attest to the legality and correctness of payments.

In view of the large volume of transactions, many locations initiating transactions, transaction entry by remote terminals, data transfer through telecommunications networks and central computer processing, the certifying officers must rely on many other individuals and on the payment systems. Certifying and disbursing officers must have evidence that the *systems* are designed and operated properly to assure that payments are legal, proper, and correct. In compliance with the Federal Managers' Financial Integrity Act of 1982 (see Chapter 7, Management Controls), controls should be built into all phases of the payments system to assure legal, proper, and correct payments.

Well-designed automated payments systems have procedures that ensure that

- documents are properly authorized, approved, and examined before they are input into the payment system;
- inputs are complete and accurate;
- outputs are in accordance with systems specifications and are processed consistently with current legal and policy requirements;
- outputs from the payment system are used as direct input in updating the general ledger system; and
- source data received from outside the processing departments and agencies or from other computer systems are processed according to the above criteria.

Further, physical access to documents and equipment and additions, deletions, or changes to data or computer programs must be properly authorized and controlled. The equipment should function properly and operate according to established procedure and regulations.

Agency top management plays an important role in creating an environment and process to ensure that certifying officers and other managers in the payment process fulfill responsibilities so that only legal, proper and correct payments are made. Managers in the payment process have the responsibility for assuring proper control over the portions of the system for which they are responsible.

Questions and Notes

1. Does our agency have an overall plan and procedures that provide assurance to certifying officers that the overall payment system is properly designed, implemented and modified; is operating properly; and can be relied on to process legal, proper, and correct payments? How is this plan monitored? Do the vulnerability assessments and management control reviews required by OMB Circular A-123 provide adequate evaluations of payment systems that cross many organizational lines?
2. Do the various key officials in the payment process understand that they must operate their responsible portions of the payment system to produce legal, proper and correct payments? What type of a confirmation process has been implemented to assure that these portions are operating satisfactorily?
3. What "quick resolution" process is followed when there is an indication that certain portions of the payment process are not functioning properly?
4. What is our agency's disciplinary and sanction policy regarding individuals who are found to be responsible for causing illegal, improper, and incorrect payments?
5. How frequently in the last 2 years have we experienced losses of \$1,000 or more? Under \$1,000? What has been the total dollar amount of these losses? What were the root causes for these losses, and what has been done to prevent them in the future?
6. How frequently in the last 2 years have we experienced improper payments? What has been the total dollar amount of these improper payments? What were the root causes for these improper payments, and what has been done to prevent them in the future?
7. Are periodic and independent reviews or audits performed on the payment systems? Are they adequate? What follow-up is performed, and is such action timely to ensure that recommendations are implemented, as appropriate?
8. Are we using the most cost-effective payment systems, for example, Vendor Express for vendor payments and Direct Deposit for salaries and payments to program beneficiaries?

■ Suggested References ■

Now That You're a Certifying Officer, Department of the Treasury, September 1983.

Policy and Procedures Manual for Guidance of Federal Agencies, Titles 3 and 7, General Accounting Office, February 12, 1990, (Revised).

Principles of Federal Appropriations Law, Chapter 10, General Accounting Office.

Treasury Financial Manual, Volume I, Part 4, Department of the Treasury.

Total Quality Management

Total Quality Management (TQM) is a comprehensive management approach for meeting customer needs and expectations that involves employees in improving continuously the organization's processes, products, and services. The federal government's TQM activities evolved from the President's Quality and Productivity Improvement Program begun in 1986. The program promotes the timely delivery of high-quality, error-free, cost-effective products and services to the American people. In some functional areas, quality management has become the primary approach to improvement. The realization that quality improvement is the key to productivity improvement has led many agencies to adopt the principles of TQM, which is now the focus of a governmentwide effort.

The Federal Quality Institute (FQI) has been assigned the mission to promote and facilitate the implementation of TQM throughout the federal government. The Federal Quality Institute provides specific services to agencies:

- **start-up services**

Services include introductory TQM briefings for top management, awareness seminars, and initial readiness assessment; planning and establishment of a Quality Council; general implementation planning of vision, strategy, organizational assessment, and training requirements; Quality Coordinator development; and TQM implementation evaluation.

- **partnership projects**

These are created as TQM models to provide in-depth services that will extend considerably beyond the start-up phase. Services include introductory briefings and planning sessions; development of goals; awareness seminars; quality coordinator training, development, and consultation; strategic consultation to develop general plans for implementation, training, and self-assessment; identification of Quality Council members and facilitation of its first meeting; development of a training plan; and assistance in designing an ongoing system to evaluate TQM progress.

- **networks**

The FQI organizes and conducts TQM networks of managers in similar functional areas across government, such as for health care, grants management, inspection, and investigation.

- **conferences**

The FQI plans and conducts an annual conference on Federal Quality and Productivity Improvement as well as organizing seminars and workshops on various quality improvement topics.

- **awards**

The FQI manages the Presidential Award for Quality and the Quality Improvement Prototype Award, including evaluation and selection of applications and the development of case studies and videotapes on the winners.

- **resources**

The FQI serves as a resource center for central coordination and collection of federal TQM information. It also maintains a list of competitively-certified private sector contractors who can provide federal agencies with consultation, training, and materials to aid them in implementing TQM.

TQM involves top executives, managers, union leadership, and employees working together in creating a work environment that emphasizes

- top management leadership and support,
- strategic planning and implementation geared to long-term success,
- focus on the customer,
- commitment to training and recognition,
- employee empowerment and teamwork,
- reliance on measurement and analysis of processes and outputs, and
- quality assurance.

A long-term commitment must be made to ensure that improvements in service will be continuous and the desire for excellence will become embedded deeply within the organization. Organizations in both the private and public sectors that have adopted the TQM approach have consistently found that they increase value to customers, improve productivity, reduce total costs, improve products and services, achieve better planning and forecasting, reduce administrative overhead, reduce rework and waste, and improve employee performance and morale.

Organizational Comparability Measurements

The Bureau of Labor Statistics maintains the overall Federal Productivity Measurement System, which collects and analyzes productivity data for the federal sector. The data are submitted by about 340 organizational units with 61 agencies of the federal government (approximately 69 percent of the civilian force in the Executive branch). Organizational and agency indices are developed and returned by the Bureau to participants for their use. Productivity and related measures are prepared for 28 functional categories such as

financial management, personnel management, supply, and inventory control. Summary results are available to all agencies for their comparison with similar activities throughout the federal government.

... the three essential requirements or principles of TQM are: (1) the pursuit of complete customer satisfaction by 2) continuously improving products and services, through (3) the full and active involvement of the entire workforce.

These principles are met by integrating seven key operating practices:

- Demonstrating personal leadership of TQM by top management;
- Strategically planning the short and long-term implementation of TQM throughout the organization;
- Assuring that everyone focuses on customers' needs and expectations;
- Developing clearly defined measures for tracking progress and identifying improvement opportunities;
- Providing adequate resources for training and recognition to enable workers to carry the mission forward and reinforce positive behavior;
- Empowering workers to make decisions and fostering teamwork; and
- Developing systems to assure that quality is built in at the beginning and throughout operations.

— *Introduction to Total Quality Management In the Federal Government*, Federal Quality Intititute, page 14, (May 1991).

Questions and Notes

1. What is the mission of the organization? What products and services are provided?
2. Who are the internal and external customers?
3. What measurement systems are presently in place?
4. Does the organization measure its success in terms of meeting customer requirements and expectations?
5. How well does the organization communicate with its customers and its suppliers?
6. How much emphasis is placed on planning as opposed to fire-fighting?
7. How does the organization generate ideas for improvement in general or quality improvement specifically?
8. What type of suggestion system is in place? How effective is it?
9. Does the organization reward improvement in general or quality improvement specifically?
10. To what extent is teamwork used, encouraged and recognized?
11. What is the nature of management's relationship with employees' unions?
12. How well do functional units cooperate? Are "turf" battles endemic?
13. Does the executive leadership have credibility in the eyes of middle and line managers? Front-line workers?
14. What type of management style is employed? Is it directive or participative?
15. How much discretion do employees have in making decisions? Is authority delegated to the lowest levels possible?
16. What is the attitude toward training?
17. What is the attitude toward quality work? Is the focus on quality of the end product or quality of the process?
18. Are the organization's values, goals, objectives, policies, and procedures clearly stated and widely known?
19. Does the organization have an abundance of priorities or have a vital few been identified and articulated?

■ Suggested References ■

Catalog of Federal TQM Documents, Federal Quality Institute Information Network, P.O. Box 99, Washington, DC 20044-0099 (with Technology Administration, National Technical Information Service, U.S. Department of Commerce), May 1991.

Criteria and Scoring Guidelines - The Presidents Award for Quality and Productivity Improvement, Federal Total Quality Management Handbook 2, Federal Quality Institute, Office of Personnel Management, June, 1990.

Federal TQM Database Users Guide, Federal Quality Institute Information Network, P.O. Box 99, Washington, DC 20044-0099 (with Technology Administration, National Technical Information Service, U.S. Department of Commerce), May 1991.

How to Establish a Local TQM Information Center, Federal Quality Institute Information Network, P.O. Box 99, Washington, DC 20044-0099 (with Technology Administration, National Technical Information Service, U.S. Department of Commerce), May 1991.

How to Get Started Implementing Total Quality Management, Federal Quality Management Handbooks 1 and 1a, Federal Quality Institute, Office of Personnel Management, June 1990.

Introduction to Total Quality Management in the Federal Government, Federal Quality Management Handbook, Federal Quality Institute, Office of Personnel Management, May 1991.

Special Cost Studies

Executive Order 12615 and Office of Management and Budget (OMB) Circular No. A-76, "Performance of Commercial Activities," establish policies and procedures to determine whether commercial or industrial type work should be performed by contract or "in-house" using government personnel. The Executive Order and the Circular are based on three policy precepts:

- Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by government employees.
- Where available, commercial or industrial products and services needed by the government should be obtained from commercial sources if they can be procured more economically.
- When private performance is permissible with no overriding factors, a comparison of the cost of contracting and cost of in-house performance should be performed to determine who will do the work.

In an effort to implement these policy precepts, OMB Circular A-76 provides that each agency shall

- designate an official at the assistant secretary or equivalent level and officials at comparable levels in major component organizations with responsibility for implementing the provisions of the Executive Order 12615 and OMB Circular A-76;
- evaluate all agency activities and functions to determine which are inherently governmental and which are commercial activities;
- complete annual inventories of all existing commercial activities performed in-house, known or projected expansions, and new requirements (these inventories shall be made available to other agencies and to the public upon request);
- schedule for review the commercial activities listed in the inventories and publish the review schedules in the *Commerce, Business Daily* and the *Federal Register*;
- conduct the cost comparison reviews in accordance with the schedules and OMB Circular A-76;
- utilize the more economical method as demonstrated by the cost comparisons; and
- submit quarterly progress reports to OMB.

Government performance of a commercial activity is authorized under any of the following conditions:

- It has been demonstrated that there are no satisfactory commercial sources available.
- A formal cost comparison with the private sector, conducted in accordance with the requirements of the OMB Circular A-76, shows that in-house performance is less costly than a qualified commercial source.
- The activity is vital to national defense, as directed by the Secretary of Defense.
- For government hospitals (DOD or VA), continued in-house performance of support services is determined to be in the best interest of direct patient care.

Commercial activities involving 10 or fewer full-time equivalents (FTE) (2,087 hours of paid straight time per fiscal year) may be converted to contract without a cost comparison. Activities exceeding 10 FTE must undergo cost comparison to determine whether in-house performance should be continued or performance should be converted to contract. Cost comparisons may be waived by the designated assistant secretary responsible for the implementation of the Circular and the activity converted directly to contract, if there is adequate price competition available and little likelihood that the in-house operation could win a formal cost comparison.

Commercial activities approved for continued in-house performance must be reviewed at least once every 5 years. Contracted commercial activities should also be monitored and, if contract costs appear to be unreasonable or performance appears to be unsatisfactory, a formal cost comparison should be made and the results considered as to continuance of contracting or to conversion of the function to in-house performance. The Circular and its supplement provide specific and detailed cost guidance for performing these analyses.

Formal cost comparisons with the private sector have resulted in improved definitions of requirements, the development of improved and expanded performance criteria, improved contract administration, the conduct of more comprehensive and detailed management studies, and substantial cost savings and productivity increases. These improvements are primarily the result of focused managerial efforts to identify the true scope of work, eliminate unnecessary functions, and the search for the most efficient in-house organization, under the threat of competition from the private sector. Comparing the government's costs against benchmark or bid costs from the private sector to perform the same scope of work, and then choosing the less costly alternative, has led to further cost savings.

Questions and Notes

1. Have we established internal procedures and instructions implementing Executive Order 12615 and OMB Circular A-76? If answer is "no," what is the status?
2. Have we identified and inventoried all commercial and industrial activities performed by federal employees in this agency, in accordance with the Circular? Does it include projected expansions or potential new requirements? Does this inventory include work that is currently performed by contract that we believe, due to cost or poor performance, we should be provided with in-house resources?
3. If the answers to questions 1 and 2 are "yes," have we prepared and published a formal schedule to review these activities for direct conversion to contract performance or for cost comparison in order to determine whether contractual or in-house performance is more economical?
4. Are we performing our reviews and cost comparisons as scheduled? Are direct conversions or cost comparison studies being completed, as scheduled? If not, why not and what are we doing to get back on schedule?
5. In performing formal OMB Circular A-76 cost comparisons, how do we assure ourselves that the OMB guidelines for the development of the Performance Work Statement, the Management Study, the development of the in-house bid and related appeals procedures are being followed and used?
6. Do our workload and financial accounting systems provide the necessary information for the cost comparisons? Are we spending significant additional resources to identify information to develop our solicitations and in-house bids? If so, and if these types of information are generally available within the private sector, what changes, if any, are needed to accommodate such needs?
7. What is the process for identifying the performance criteria of the performance work statement upon which both the contractor and the in-house organization will compete? How do we assure that those performance criteria are met when the function is contracted out or retained in-house? What kinds of inspections would be conducted?

8. Do we systematically review existing organizational staffing and operational procedures to detect unnecessary or overlapping responsibilities prior to competition with the private sector? If not, why not and what are we doing to enhance productivity and reduce cost?
9. Do we have orderly and systematic procedures to change the mode of performance in a timely manner when a change is dictated by the cost comparison reviews? If not, when will they be available?

■ Suggested References ■

Executive Order 12615, "Performance of Commercial Activities," November 1987.

OMB Circular A-76, "Performance of Commercial Activities," Office of Management and Budget, August 1983 and revisions. Also: Supplement to OMB Circular No. A-76, Office of Management and Budget, August 1983.

Property And Inventory

Hundreds of billions of dollars are invested in government property. Managers are responsible for assuring that property held by federal agencies is procured, used and managed properly, efficiently and effectively. Managers are also responsible for designing and operating financial management systems that provide accurate, reliable financial and quantitative information on property resources for use by internal management and for preparing financial reports for the Congress and others.

The Congress has enacted several laws specifically addressing the accounting for property.

- The National Security Act of 1947, as amended, requires the Secretary of Defense to have property records maintained in the military departments on both a quantitative and monetary basis, so far as practicable (10 U.S.C. 2701).
- The Federal Property and Administrative Services Act of 1949, Section 202(b), requires each Executive agency to maintain adequate inventory controls and accountability systems for the property under its control (40 U.S.C. 483).
- Public Law 84-863, passed in 1956, Section 2, imposes the requirement that the accounting system of each agency include monetary property accounting records (31 U.S.C. 3512(d)).
- Public Law 94-519, enacted in 1976, Section 1, requires each government agency to establish a property accountability system.

The Accounting and Auditing Act of 1950 requires agency heads to establish and maintain adequate systems of accounting and internal control. The Federal Managers' Financial Integrity Act of 1982 calls for agency internal accounting and administrative controls to provide reasonable assurance that property and other assets are safeguarded against waste, loss or unauthorized use. The standards for accounting for property, plant and equipment, and inventory are being developed by a new Federal Accounting Standards Advisory Board.

Managers are responsible for establishing systems and procedures for efficient and effective utilization of an agency's property. They should provide assurance that property is used only for official purposes, adequate inventory controls and accountable records are maintained, effective controls are employed over the custody of property, adequate maintenance and proper care are provided, and property records are reconciled annually to the accounting records.

Agency managers are also responsible for maintaining a reliable accounting system in which records are systematically maintained for property. Such records should provide for the recording of all transactions affect property such as acquisition, use, depreciation (as applicable), disposal, and loss.

Proper control over property requires maintenance of adequate records and procedures. General ledger accounts with the amounts for property and inventory should be maintained in accordance with the *U. S. Standard General Ledger* (SGL) and supported by detailed property records. Individual property records should be maintained showing the description, quantity, location, and acquisition costs of each item. The individual property records (property subledgers) should be reconciled to the general ledger annually. The records should be usable for calculating depreciation and replacement values, when appropriate.

Periodically, physical inventories should be taken to verify the accuracy of the individual property records. The inventory count should be used as an internal control check on property within the agency. If differences exist between the quantities determined by physical inspection and those shown in the accounting records, an investigation should be initiated to determine the cause of the difference and to identify the improvements needed to prevent any fraud, waste or abuse. Accounting records should be adjusted to agree with the results of the physical inventory.

Questions and Notes

1. Do we have adequate financial control of property in accordance with the *U.S. Standard General Ledger*? If not, what are our plans to do so?
2. Do we have adequate procedures to charge the custody, use, application, or consumption of property to proper organization operations, programs, or administrative activities? If not, what are we planning to do to do to charge for property costs?
3. In support of SGL financial controls, do we have subsidiary property records that show the responsible organization, description, quantity, location, condition, acquisition costs, and other pertinent information? If not, when do we expect to have them?
4. When was the last physical inventory conducted to check the accuracy of the detailed property records? Did we conduct investigations when material discrepancies were disclosed? How have we corrected and monitored the system when such investigations have shown procedural or control weaknesses?

5. When did we last reconcile the total dollar value of the detailed property records with the amounts shown in the general ledger accounts? Have we investigated any significant differences for taking corrective actions?
6. How do our property records disclose efficient, effective procurement and proper stewardship over property? How well do we identify and dispose of excess property?
7. How do we assure ourselves that proper and adequate safeguards and maintenance for property have been provided?
8. Do we adequately maintain control over government property in the hands of others (contractors and grantees)?
9. What improvements have recent audit findings recommended? What have we done to implement these improvements?

■ Suggested References ■

Do It Yourself—Compare and Improve Your Property System, Joint Financial Management Improvement Program, March 1982.

Federal Property Management Regulations, General Services Administration.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office, August 31, 1987.

Property Management Evaluation Guide for Federal Agencies, Joint Financial Management Improvement Program, March 1982.

Treasury Financial Manual, Department of the Treasury, 1977.

U. S. Government Standard General Ledger, Office of Management and Budget, September 1976.

Federal Assistance Programs

There are over 1,100 federal assistance programs. Over \$130 billion is provided annually to state and local governments. Additional funding is provided to universities and other nonprofit institutions.

There has been a growing concern, both in the private and public sectors, about the effectiveness of federal assistance programs and the problems of fraud, abuse, and mismanagement. Both the legislative and executive branches continue to strongly emphasize program integrity and the need for efficient and effective programs. The federal government has established specific requirements governing the use of federal funds.

The Congress passes legislation to create each federal assistance program. Some legislation includes specific requirements for recipients, while other legislation provides more general requirements. The agencies administering these programs incorporate these and other requirements in their own regulations which apply to their internal operations and to recipients' operations.

The rapid growth in the size and diversity of federal assistance programs and the multitude of complex and varying regulations in the 1960s and 1970s brought increasing demands for simplification and standardization of the financial and other administrative requirements imposed by federal agencies. In the 1970s, to solve this problem, the Office of Management and Budget, in consultation with other Executive agencies, the General Accounting Office, and representatives of recipients, developed a series of financial circulars that established uniform policies and rules to be observed by all federal agencies. These circulars covered standard administrative requirements, uniform financial reports, application forms, cost principles, and audits.

A major goal of the federal government in the early 1980s was to reduce its involvement in activities considered to be more properly administered by state and local governments. During this period, many narrow categorical grant programs were consolidated into more flexible block grants. The new block grants gave state and local governments considerably more discretion over the use of federal aid and included simpler administrative requirements.

Standardization, regulatory simplification, and consolidation of federal assistance programs provide more flexibility to the recipients of grants and enable them to focus more attention on the effective administration of programs. Further, grant recipients are able to fold new programs into their ongoing operations without major impact. Maximum use is made of existing records and reports, eliminating the need for costly duplicative systems.

The single audit concept has been legislated as the way to audit and evaluate the financial operations and compliance with major

requirements of the federal assistance programs by the recipients (see Chapter 16, Auditing). Certain federal agencies are designated as cognizant agencies to review and approve indirect cost plans and negotiate indirect cost rates for grantees. In the absence of legislative restrictions, these rates are used in grant awards and “reimbursements.”

Questions and Notes

1. Do we have well-developed and comprehensive federal assistance policy regulations and manuals for agency officials and recipients? How do we assure ourselves that they provide clear guidance to federal and non-federal participants, when appropriate, regarding the following:
 - ❑ eligibility requirements, specific program requirements, and statutory requirements?
 - ❑ standard administrative requirements promulgated by the Office of Management and Budget and embodied in common rules promulgated by other agencies?
 - ❑ use of standard forms?
 - ❑ allowable and unallowable costs and indirect cost computations? The process to review and negotiate indirect cost rates of the recipients?
 - ❑ recipient's responsibility for sound financial management systems?
 - ❑ appropriate timing of cash drawdown from the federal government?
 - ❑ the requirement for implementation of the single audit concept?

If the above items are not covered, what is the status and the target date for their issuance?

2. For project-oriented grants, do our application review procedures provide adequate and timely review? How do we assure recipients' eligibility? Do we provide pre-award surveys when appropriate? How do we assure objective selection of recipients?
3. How do we monitor and analyze post-award performance by the recipients? What kinds of action can we take or have we taken when we find substandard performance?
4. What kinds of information and reports are available to our program managers from the financial management system? Have we checked with our program managers recently to see if the information is adequate or if improvements can be made?
5. How do we determine that the recipients are maintaining proper accountability over property acquired with federal assistance?

6. Do we have provisional or negotiated indirect cost rates for all of our major recipients? Which federal agency is the cognizant agency responsible for review, approval, and negotiation of indirect cost rates? Do we have any problems or disagreements with the established rates? If so, how can they be resolved?
7. How do we control the payments to recipients to ensure that they are correct, proper, and legal and to prevent early and excess advances? How do we prevent the recipients from extending early and excess advances to subrecipients?
8. Do we have prompt and adequate closeout procedures for completed grants to assure proper performance and expenditure of funds? Do our procedures enable timely recovery of excess government funds or property? How is this monitored?
9. Do we provide for systematic review and action on recommendations contained in audit or other review reports? What management process exists to track costs questioned by auditors and to assure timely and satisfactory resolutions?
10. What is the frequency of audits performed on grants? Are there any areas for which we need the assistance of auditors, inspectors, or investigators to follow up on alleged weaknesses, fraud, abuse, or mismanagement? If so, how can these efforts be coordinated?

■ Suggested References ■

Catalog of Federal Domestic Assistance, Office of Federal Information Resources Management, General Services Administration, May 1990 (annual).

Executive Order 12372, "Intergovernmental Review of Federal Programs," Office of the President, July 14, 1982, and agency implementing final rules, June 24, 1983.

Government Auditing Standards: Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, General Accounting Office, July 1988.

OMB Circular A-21, "Cost Principles for Educational Institutions," Office of Management and Budget, December 2, 1986.

OMB Circular A-73, "Audit of Federal Operations and Programs," Office of Management and Budget, June 20, 1983.

OMB Circular A-87, "Cost Principles for State and Local Governments," Office of Management and Budget, January 28, 1981.

OMB Circular A-88, "Indirect Cost Rates, Audit and Audit Followup at Educational Institutions," Office of Management and Budget, November 27, 1979.

OMB Circular A-102, "Uniform Requirements for Grants to State and Local Governments," Office of Management and Budget, March 1988.

OMB Circular A-110, "Uniform Requirements for Grants to Universities, Hospitals and Other Nonprofit Institutions," Office of Management and Budget, 1976.

OMB Circular A-128, "Audits of State and Local Governments," Office of Management and Budget, April 12, 1985.

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," Office of Management and Budget, February 12, 1990.

Treasury Financial Manual, Volume I, Part 6, Chapters 2000 and 8000, Department of the Treasury.

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Final Common Rule, March 11, 1988.

CHAPTER 15

Procurement

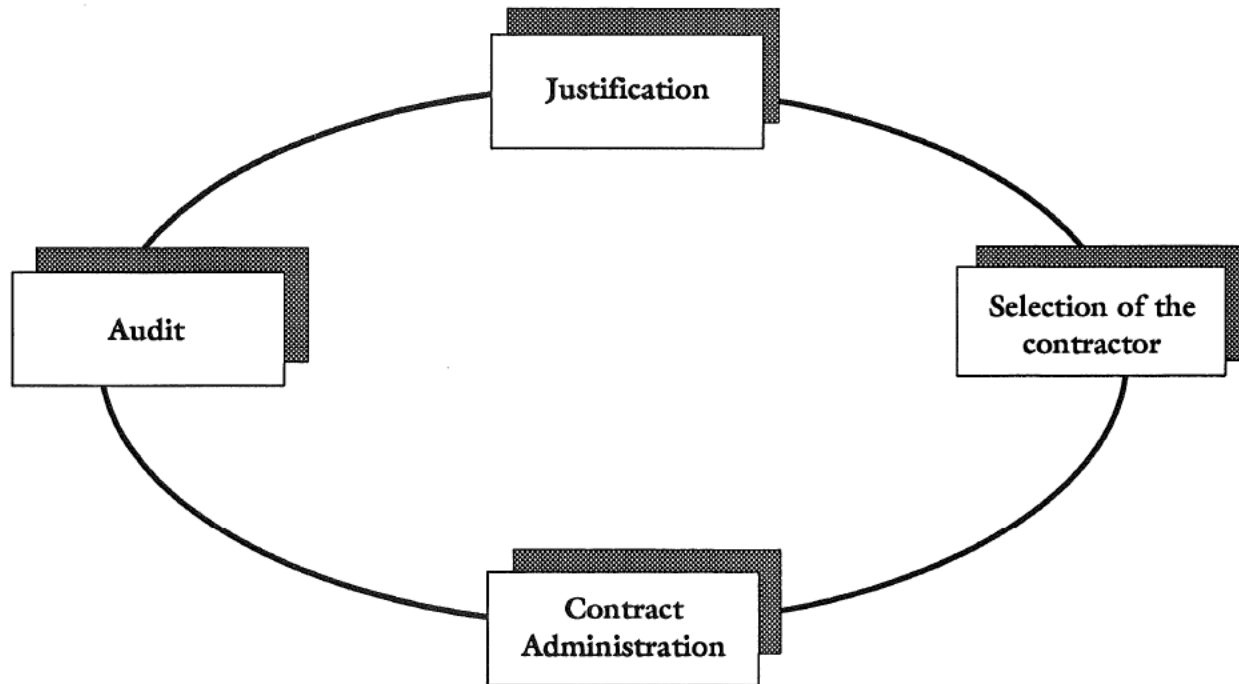
Federal departments and agencies spend nearly \$200 billion annually to procure supplies and services from the private sector. Managers at all levels should do their part to assure that only necessary supplies and services are procured and that the government obtains the best value for its money.

The Office of Federal Procurement Policy (OFPP), within the Office of Management and Budget, is responsible for providing overall direction of procurement policy. OFPP is assisted by the Federal Acquisition Regulatory Council (FAR Council) in the direction and coordination of governmentwide procurement policy and regulatory activities. The FAR Council consists of the Administrator of OFPP, and senior officials from the Department of Defense, National Aeronautics and Space Administration, and the General Services Administration. The FAR Council manages the uniform governmentwide acquisition regulation—the Federal Acquisition Regulation (FAR).

The FAR applies to all federal departments and agencies and contains the acquisition policies, procedures, contract clauses and forms to be used in the acquisition of supplies and services. It is organized into subchapters covering acquisition planning, contracting methods and contract types, socioeconomic programs, general contracting requirements, special categories of contracting, contract management, solicitation provisions, and contract clauses. The FAR is codified in Chapter 1, Title 48, of the *Code of Federal Regulations*. All implementing and supplementing regulations are published in assigned chapters of Title 48. The FAR is maintained by the Defense Acquisition Regulatory Council and the Civilian Agency Acquisition Council. The two councils are supported administratively by a FAR Secretariat at the General Services Administration.

Generally, contracts are awarded using procedures that require full and open competition among responsible individuals and firms. Competitive procedures include obtaining sealed bids or negotiating offers received in response to a government solicitation. Contracts of less than \$25,000 can be awarded using simplified small-purchase procedures.

The Procurement Cycle



Justification—Agencies should plan for a procurement in advance and determine the need for supplies and services. All efforts should be made to avoid unnecessary and duplicative purchases. An analysis of the potential use should be made to help managers determine the appropriateness of the procurement before approval.

Selection of the Contractor—Offers must be solicited openly, evaluated fairly and the final award made in an impartial manner.

Contract Administration—contractors should be continuously monitored to determine whether work is being performed in an efficient, effective manner and consistent with the contractual provisions. If a contractor is not satisfactorily fulfilling its contractual obligations, the agency should initiate appropriate actions, which may include termination of the contract.

Audit—Audits should be conducted, when appropriate, to assure that costs incurred by the contractor are valid and that the contractor performed fully in accordance with the contract.

Questions and Notes

1. What procedures do we follow to ensure that duplicative or unnecessary supplies or services are not purchased?
2. How do we determine in advance that potential contractors:
 - ☐ Have the necessary financial and technical capabilities?
 - ☐ Have the necessary facilities to perform?
 - ☐ Have performed satisfactorily in the past?
 - ☐ Are otherwise qualified?
3. How do we assure ourselves that procurement procedures provide for full and open competition among potential contractors?
4. How do we assure ourselves that supplies and services we acquire are priced fairly and reasonably?
5. How do our contractual provisions provide sufficient protection of the government interest?
6. What type of contract administration review system is in place to assure that contractors are delivering the specified supplies and services, in the specified quantity, within the specified time?
7. What process is in effect that will assure early detection of potential and real cost overrun by contractors?
8. How do we assure that we are making appropriate payments to contractors?
9. How do we assure timely and adequate closeout of contracts to determine that each party to the contract has fulfilled its commitment? Where applicable, are audits of contract costs performed properly and on time?
10. Are there any “open” audit reports that indicate weakness in our procurement procedures or question costs incurred by the contractors? What are we doing about these?

■ Suggested References ■

Federal Acquisition Regulation, 48 C.F.R. 1.

Office of Federal Procurement Policy Pamphlet No. 6, as amended, "Procurement Policy Letters," Office of Management and Budget.

OMB Circular A-76, "Performance of Commercial Activities," Office of Management and Budget, August 1983.

Auditing

The audit function—examining the entity and its financial statements—is an important and valuable part of management. Audits determine compliance with applicable laws and regulations, review the economy and efficiency of operations, and assess the effectiveness of program goals and objectives. The staff assigned to conduct an audit should collectively possess adequate professional proficiency for the type of audit and the tasks required.

Auditing is an independent, objective, and systematic review of the diverse operations and controls within an organization. The audit of governmental organizations, programs, activities, and functions includes both financial and performance audits. Financial audits are further defined as financial statement and financial related audits. Performance audits are further defined as economy and efficiency and program audits.

- **Financial statement audits**

These audits determine whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles; and whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

- **Financial related audits**

These audits determine whether financial reports and related items, such as elements, accounts, or funds are fairly presented; whether financial information is presented in accordance with established or stated criteria; and whether the entity has adhered to specific financial compliance requirements.

- **Economy and efficiency audits**

These audits determine whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, the causes of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

- **Program audits**

These audits determine (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (2) the effectiveness of organizations, programs, activities, or functions; and (3) whether the entity has complied with laws and regulations applicable to the program.

Audits of governmental organizations, programs, activities, and functions, and funds received by contractors, state and local governments, nonprofit organizations, and other external organizations should be made in accordance with

- the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988;
- Office of Management and Budget Circular A-73 (Revised), “Audit of Federal Operations and Programs”;
- Office of Management and Budget Circular A-128 “Audits of State and Local Governments;”
- Office of Management and Budget Circular A-133, “Audits of Institutions of Higher Learning and Other Non-Profit Institutions”; and
- the Comptroller General’s *Governmental Auditing Standards*.

The Chief Financial Officers Act of 1990 requires the preparation and audit of financial statements covering agency revolving and trust funds and for agency offices, bureaus, and activities which performed substantial commercial functions during the preceding fiscal year. The audits are to be performed by the Inspector General of the agency, or by an independent external auditor as determined by the Inspector General. The Comptroller General may perform the audit at his discretion or at the direction of a congressional committee.

Audit services should be an integral part of the management process and be responsive to management needs. In order to obtain the maximum benefit from audit services, agency audit organizations should have a sufficient degree of independence and objectivity to carry out their responsibilities. This independence and objectivity is provided for in most of the departments and specified agencies by the statutes establishing Inspectors General who report to the heads of the agencies. Some audit organizations perform audits of contracts for other departments and agencies based on interagency agreements. A number of organizations procure the services of public accounting firms to assist them in conducting audits.

The President’s Council on Integrity and Efficiency was established to provide a mechanism for developing coordinated governmentwide plans to prevent and detect fraud, waste, and mismanagement and to implement those plans. It is chaired by the Deputy Director for Management of the Office of Management and Budget and comprised principally of the Presidentially-appointed statutory Inspectors General. Statutory Inspectors General appointed by agency heads are represented on the Coordinating Conference of the President’s Council on Integrity and Efficiency.

Single Audit Act

The Single Audit Act of 1984 (Public Law 98-502) provided for a single audit approach for audits of federal assistance programs to state and local governments. As provided for under the Act, the Office of Management and Budget in consultation with the General Accounting Office issued OMB Circular A-128, "Audits of State and Local Governments." The single audit approach described in the Circular provides for independent audits of financial operations, including compliance with certain provisions of federal laws and regulations, to be arranged for by the recipients of federal assistance programs. The requirements are established to ensure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether

- financial operations are conducted properly;
- the financial statements, including reports to the federal government, are presented fairly, accurately and completely;
- the organization has complied with laws and regulations affecting the expenditure of federal funds; and
- internal procedures have been established to meet the objectives of federal assistance programs.

In 1990, OMB issued Circular A-133, "Audits of Institutions of Higher Learning and Other Non-Profit Institutions," which extended the single audit concept to universities and non-profit organizations.

Under the single audit approach, the Office of Management and Budget has designated specific federal agencies as "cognizant audit organizations" to coordinate the efforts of audits on federal assistance programs. More specifics are provided in the applicable OMB Circulars. In general, federal cognizant audit organizations review the audits arranged for by the recipients. When audits are deemed adequate, other federal agencies will be so notified. If audits are inadequate, the cognizant agencies take certain actions that would overcome the associated problems. The National Intergovernmental Audit Forum and the Regional Intergovernmental Audit Forums were established, in part, to assist in coordinating the audit of federal assistance programs. Membership of the Forums consists of federal, state and local audit officials.

Audit Results

Most audits, internal or external, result in issuance of some form of audit reports with recommended actions when appropriate. Management is primarily responsible for directing action and follow-up on audit recommendations. However, auditors should have a process that enables them to track the status of their previous

recommendations to determine whether appropriate corrective actions have been taken by management officials. Management at all levels within an agency should be accountable to ensure that corrective actions are taken to resolve audit findings. Agency heads are responsible for designating a top official to oversee audit follow-up and assuring agency responsiveness to audit recommendations. The procedures should provide for a means to assure timely responses to audit reports and to resolve major disagreements between the audit organizations and agency management within 6 months. Agency heads should be provided with semi-annual reports on the status of all unresolved audit reports over 6 months old, the reasons for nonresolution, and a timetable for their resolution in addition to other related information. The policies and procedures for audit follow-up in executive agencies are outlined in OMB Circular A-50, "Audit Follow-up."

The General Accounting Office, as the representative of the Congress, performs audits of programs, activities, financial transactions, and accounts of departments and agencies. The GAO normally requests agencies to review and comment on draft reports so that final reports may incorporate agency views. By law, agencies have a maximum of 30 calendar days to provide comments on draft GAO reports unless additional time has been requested and approved. When the GAO issues final reports to the Congress or the head of an agency, agencies are required by OMB Circular A-50 to submit a statement to the Director of OMB within 60 calendar days after formal transmittal of a GAO report to the agency. The statement should identify the GAO report, describe the agency views on the report's findings and recommendations and identify action taken or planned on each significant finding. The statement is required when at least one of the following applies:

- The report contains a specific recommendation for the head of the agency.
- The report contains financial statements accompanied by either a qualified audit opinion or a disclaimer of opinion.
- The report indicates a violation of the Antideficiency Act which has not been reported to the appropriate authorities.
- The report indicates a violation of other laws.
- Comments are requested by OMB.

When a GAO report contains recommendations to the head of an agency, the agency (in accordance with 31 U.S.C. 720) must submit a written statement to the following committees declaring what action was taken or will be taken:

- The Senate Committee on Governmental Affairs and the House Committee on Government Operations must receive the statement no later than 60 days after the date of such report.
- The Committees on Appropriations of the Senate and the House of Representatives must receive the statement at the time of the agency's first request for appropriations to the Congress, for all GAO reports that were issued more than 60 days before the appropriations requests.

Two copies of the statements are required to be submitted on the same date to the OMB and the GAO. Moreover, OMB Circular A-50 states that agency statements to Congressional committees, individual Members of Congress or the GAO will be subject to advance clearance by OMB when the statement expresses views on proposed or pending legislation or deals with other agencies or Executive Branch budget policies. Clearance action should be completed prior to transmittal of the statement in accordance with OMB Circular A-19, "Legislative Coordination and Clearance."

Questions and Notes

1. Has our audit staff been responsive to the needs of management? If not, what should be done?
2. How do we assure ourselves that audit reports are timely, accurate, relevant and useful? Are there sufficient opportunities for management to express its priorities and needs to the audit staff without interfering with auditor's independence and objectivity? How is this accomplished?
3. Does our audit staff have sufficient resources to fulfill its responsibilities? With the present resources, is the audit staff providing adequate audit coverage of our agency's functions, programs, and activities? What is the desirable cycle for audits (some functions, programs, and activities may require more frequent audit than others)? What additional resources are required to accomplish this?
4. Do we have a management review team or internal review team duplicating or overlapping the efforts of the audit staff? If so, why?
5. How have audits covered the most critical areas where large dollar amounts are involved or where fraud, abuse, waste or mismanagement is likely?

6. What formal policies and procedures for prompt and proper resolution of audit recommendations exist? Do they include
 - ❑ designation of responsible official(s) for audit follow-up?
 - ❑ a tracking system for audit recommendations until final resolution?
 - ❑ requirements for a decision within 6 months as to disposition of each audit recommendation?
 - ❑ elevation to agency head for decision when auditors and operating officials cannot agree on disposition of audit recommendations within 6 months?
 - ❑ preparation of semi-annual reports to the agency head on status of audit recommendations?
 - ❑ evaluation of the follow-up system for audit recommendations?
7. Are there any audit recommendations where auditors and operating officials disagree presently? What can be done to help resolve the disagreement?
8. Are there any problems in carrying out the resolutions agreed upon? What are they and how can they be solved.
9. For federal assistance programs, has our agency issued or revised our audit policy and regulations to implement the “single audit approach”? Are we making satisfactory progress in implementing the approach? If not, what are the problems, and what are we doing to overcome them?
10. How do we assure ourselves that formal statements in response to GAO reports are prepared and submitted properly?

■ Suggested References ■

Audit and Accounting Guide for Audits of State and Local Governmental Units, American Institute of Certified Public Accountants, 1986.

Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants, 1984.

Compliance Supplement for Single Audits of State and Local Governments, Office of Management and Budget, 1990.

Government Auditing Standards, General Accounting Office, 1988.

Guide to Federal Agencies' Procurement of Audit Services from Independent Public Accountants, General Accounting Office, AFMD-12.19.3, April 1991.

“Inspector General Act of 1978,” as amended, 5 U.S.C. Appendix.

OMB Circular A-50, “Audit Followup,” Office of Management and Budget, September 29, 1982.

OMB Circular A-73, “Audit of Federal Operations and Programs,” Office of Management and Budget, June 1983.

OMB Circular A-110, “Uniform Requirements for Grants to Universities, Hospitals and Other Nonprofit Institutions,” Office of Management and Budget, 1976.

OMB Circular A-128, “Audits of State and Local Governments,” Office of Management and Budget, April 12, 1985.

OMB Circular A-133, “Audits of Institutions of Higher Learning and Other Non-Profit Institutions,” Office of Management and Budget, 1990.

“Single Audit Act of 1984,” 31 U.S.C. §7501-7507, Public Law 98-502.

Training and Development of Financial Staff

A key element to an effective financial organization is a capable and motivated staff. Financial managers and supervisors get work done through others. Relevant training can improve the work product as well as managers' own performances and achievements. Training can

- improve staff productivity on current assignments,
- develop staff for new assignments, and
- bring about changes in the activities to which staff members are assigned.

Training Needs Recognized

According to the findings in *Civil Service 2000* (CS 2000), a workforce study conducted for the U.S. Office of Personnel Management, federal financial managers face a serious problem recruiting college and high school graduates in the years ahead. Further, they also will have difficulty retaining their present high skilled and experienced employees. The CS 2000 study and another major workforce study for the U.S. Department of Labor called *Workforce 2000* both spell out the essential role training and development will play to help American employers solve these serious recruiting and retention problems. The American Society for Training and Development, in its report *Train America's Workforce*, predicts that by the year 2000, 75 percent of all workers currently employed will need retraining.

The National Commission on the Public Service (Paul Volcker, *Leadership for America: Rebuilding the Public Service*) reported in 1989 that training employees results in higher retention and morale and increased credibility. The Commission suggested three training purposes to keep in mind: proficiency on the job, training for renewal, and training for growth and development.

Federal financial management career fields will be especially impacted because there is already keen competition for employees in many financial occupations. Also, a high level of retirements is occurring in the senior technical and managerial ranks. Automation in the financial management function and the resulting changes in the way work is performed also require extensive staff training and retraining.

The Joint Financial Management Improvement Program placed training and continuing education at the top of its priorities list by completing in 1990 a major study on continuing education for federal accountants. The report recommends that agency management endorse a continuing education requirement for accountants and that adequate funds be provided to accomplish that goal. These recommendations, along with those arising out of the workforce

studies previously discussed, illustrate that the need for staff training in all financial occupations is evident and critical.

Training and staff development will become, if not already, one of the highest priorities of the management of the federal financial management function. New staff will have to be trained and existing staff will have to be retrained. Advances in technology require constant updating of employees' skills and knowledge. Therefore, managers must use every training source available to help them provide the essential training and development needed by their employees.

Training Approaches

There are many ways to train and develop employees. Much can be done by on-the-job training (OJT) where the supervisor or a colleague provides training and retraining for employees. OJT is by far the most extensively used training method in the workplace. To be most effective, OJT requires that the job tasks be defined and carefully taught by an individual who has good communication skills and high knowledge of the job. Most employees have learned their jobs by OJT; and, if done well, OJT is a very effective and efficient training method.

Another way to develop employees is through short details to other jobs involving on-the-job learning. These details broaden employees' job knowledge and skills and provide management staffing flexibility. Longer term developmental assignments are another way to broaden staff skills and knowledge. These long-term assignments are usually coupled with OJT and often with formal training to supplement the on-the-job learning.

Formal training provides the fastest means of training employees. Formal training includes short-term classroom, academic, and self-study training materials which can be studied on the job. Managers should contact their training office staff for help in finding the best sources of training materials and courses to meet their employees' training needs. The primary government sources of formal training for financial management employees are described below.

Internal Agency Training

Slightly over half of the training provided federal employees is conducted by agency staff for agency employees. This training is primarily technical in nature and occurs where other training sources are limited or unavailable. Changes in law, technology, or procedure which require a quick training response are likely to be taught by agency instructors. When considering in-house training, the financial program manager needs to look at the number of employees to be trained. This is important because internal staff costs to develop

training materials and to instruct courses are very expensive. Often it is more economical to go outside to purchase off-the-shelf courses or to have unique courses developed and taught by outside sources. Cost comparisons between internal, interagency, or nongovernment training delivery should always be made on major training investments.

Interagency Training Sources

There are a number of federal interagency training programs which have been established especially to train federal employees. These sources provide technical financial management training in government accounting, budgeting, internal control, productivity improvement, and total quality management.

Federal Law Enforcement Training Center (FLETC)

FLETC is operated by the Department of the Treasury for federal law enforcement agencies and it provides generic law enforcement training for federal, state, and local government agencies. FLETC also conducts courses on white collar crimes and other subjects which are attended by non-law enforcement employees. It is located in Glynco, Georgia, on its own campus of residential and classroom facilities.

General Services Administration (GSA)

The GSA Training Center provides a full range of contracting, procurement, and small purchases training courses needed for the federal acquisitions warrant program. In addition, the Center provides training in records and facilities management, computer acquisition, and end-user computer skills. This training is provided in Washington, DC, and at major cities throughout the U.S.

Government Audit Training Institute (GATI)

The GATI is operated for the Department of Agriculture by the USDA Graduate School and conducts a full range of courses for federal, state, and local auditors from its permanent site in Washington, DC, and at ad hoc sites throughout the country. GATI provides a wide array of courses for new and advanced auditors.

Office of Personnel Management (OPM)

OPM provides a full range of financial management courses from entry through advanced levels in each of its training centers in Washington, DC, its five regions, and in Europe and the Far East. OPM also offers a wide range of generic courses in writing and public speaking; in end-user computer skills; in supervision, management, and executive development; and in programs such as total quality management.

Joint Financial Management Improvement Program

The Joint Financial Management Improvement Program sponsors and conducts an annual financial management conference in the spring of each year. It periodically conducts workshops on current issues of financial management topics such as audited financial statements in the federal government.

Other Training Sources

Professional Associations

Several professional associations provide training seminars and workshops that are available to help train employees in financial management careers. If nongovernment training costs are paid by the government, the training must be job-related.

Colleges and Universities

There are thousands of local community colleges and state and private universities that provide a wide range of credit and non-credit academic courses that can be used to train federal employees. Managers should also encourage their employees' self-development and should recognize their educational accomplishments. Training office staff can advise and assist managers when considering academic training for employees.

Trade and Technical Schools

Federal employees can be sent to trade and technical schools for job-related training. Managers should check with their training offices to find out about available training through these sources.

Private Commercial Training Vendors

There are thousands of private training organizations providing high quality off-the-shelf courses to meet the training needs of employees in financial occupations. These commercial firms are also available to assist agency managers in developing specialized training to meet their unique needs. Training offices can assist in procuring the services of these private firms for staff training.

Not-for-Profit Training

There are numerous nonprofit training organizations that conduct training available to federal employees. The USDA Graduate School is a non-profit training program established by the U.S. Department of Agriculture to provide training for government employees. The School provides a wide range of day and evening training courses.

Suggested Contacts for Courses

Federal Law Enforcement Training Center
Public Affairs Office, Building 94
Glynco, GA 31524
FTS 230-2447/(912) 267-2447

FLETC Washington Office
Ariel Rios Building
1200 Pennsylvania Ave., NW
Room 4211
Washington, DC 20026
(202) 566-2951

The GSA Training Center
P.O. Box 15608
Arlington, VA 22215
FTS 557-0986/(703) 557-0986

Government Audit Training Institute
USDA Graduate School, Room 138
600 Maryland Avenue, SW.
Washington, DC 20024
(202) 382-8620

Washington Training and Development Services
Office of Personnel Management
P.O. Box 7230
Washington, DC 20044
FTS 632-5600/(202) 632-5600

Atlanta Regional Training Center
Office of Personnel Management
Richard B. Russell Federal Building
75 Spring Street, SW.
Atlanta, GA 30303
FTS 841-3488/(404) 331-3488

Chicago Regional Training Center
Office of Personnel Management
John C. Kluczynski Federal Building
230 S. Dearborn St., 30th Floor
Chicago, IL 60604
FTS 353-3139/(312) 353-3139

Dallas Regional Training Center
Office of Personnel Management
1100 Commerce Street
Dallas, TX 75242
FTS 729-8245/(214) 767-8245

Philadelphia Regional Training Center
Office of Personnel Management
William J. Green, Jr., Federal Building
600 Arch Street
Philadelphia, PA 19106
FTS 597-2527/(215) 597-2527

San Francisco Regional Training Center
Office of Personnel Management
120 Howard Street, 2nd Floor
San Francisco, CA 94105
FTS 484-7287/(415) 744-7287

European Training Program
Office of Personnel Management
APO New York, NY 09175
(Darmstadt, Federal Republic of Germany)
Commercial 49-06151-33648/Military 348-7252/7393

USDA Graduate School
600 Maryland Avenue, SW.
Washington, DC 22024
(202) 447-5885

The following OPM training organizations provide 2 to 4-week residential management and executive development programs:

Federal Executive Institute
1301 Emmet Street
Charlottesville, VA 22901
FTS 940-6200/(804) 980-6200

Central Executive Seminar Center
301 Broadway Street
Oak Ridge, TN 37830
FTS 626-1730/(615) 576-1730

Eastern Executive Seminar Center
c/o U.S. Merchant Marine Academy
Kings Point, Long Island, New York 11024
FTS 663-8800/(516) 773-5800

Western Executive Seminar Center
1405 Curtis Street
Denver, CO 80202
FTS 564-6181/(303) 844-6181

OPM also offers over 30 correspondence courses in management, communication, computer skills, and personnel management. For information, contact:

National Independent Study Center
Office of Personnel Management
P.O. Box 25167
Denver, CO 80225
FTS 776-4100/(303) 236-4100

For information on available training courses, two compendiums on courses have been developed: *"Compendium of Training Courses Available in the Federal Audit Community"*, The President's Council on Integrity and Efficiency, Washington, D. C., 1988; and *"Continuing Professional Education: Federal GS-510 Accountants' Report, Compendium of Courses"*, Joint Financial Management Improvement Program, May 1991. The latter publication will be reissued annually.

Questions and Notes

1. What kind of a formal policy do we have to encourage training and development of employees?
2. How do we provide counseling to assist employees in choosing the courses that best suit their needs?
3. How are training opportunities from numerous sources made available to employees?
4. How do managers follow up to determine that training has had the desired results and is improving employee performance?
5. To what extent are supervisors and managers afforded an opportunity to obtain at least rudimentary training in the elements of financial management, i.e., the federal budget process, internal control and accounting?

■ Suggested References ■

Continuing Professional Education: Federal GS-510 Accountants' Report, Joint Financial Management Improvement Program (December 1990).

Continuing Professional Education: Federal GS-510 Accountants' Report, Compendium of Courses, Joint Financial Management Improvement Program (March 1991, or later update).

Guide to Training and Development Services, U.S. Office of Personnel Management (1991, or later update).

Interagency Catalog and Schedule, U.S. General Services Administration (1991, or later update).

Requests for copies of JFMIP reports should be sent to:

Joint Financial Management Improvement Program
666 11th Street NW, Suite 320
Washington, DC 20001-4542

Telephone (202) 376-5439
Fax (202) 376-5396

U.S. General Accounting Office
JOINT FINANCIAL MANAGEMENT
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