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<http://www.whitehouse.gov/WH/EOP/OMB/finance>

## FOREWORD

The Chief Financial Officers Act of 1990 (CFOs Act) requires that the Director of the Office of Management and Budget (OMB) annually submit to the Congress a governmentwide financial management status report and five-year plan. This document is the seventh such plan and the fourth time the plan has been prepared jointly with the CFO Council. Authorized by the CFOs Act, the CFO Council is a governmentwide body that addresses critical crosscutting financial issues. The CFO Council is comprised of the CFOs and Deputy CFOs of the 24 largest Federal agencies and senior officials of OMB and the Department of the Treasury. OMB's Office of Federal Financial Management works toward improving governmentwide financial management by providing policy guidance, leadership, and support to Federal management and audit communities and to the Government's external partners who receive Federal assistance.

The CFO Council and OMB are working to achieve eight priorities: obtaining unqualified opinions on financial statements and issuing accounting standards; improving financial management systems; implementing the Government Performance and Results Act; developing human resources and CFO organizations; improving management of receivables; ensuring management accountability and control; modernizing payments and business methods; and improving administration of Federal assistance programs. In April 1998, the CFO Council held an annual all-day planning conference to review the governmentwide progress in each of the Council's eight priority areas and to determine any needed mid-course adjustments. This report reflects those discussions.

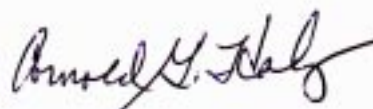
The CFO Council's highest priority is to obtain unqualified opinions on the agency and the governmentwide consolidated financial statements. The President issued a memorandum to agency heads on May 26, 1998 requiring that selected agencies prepare and implement action plans to achieve the goal of an unqualified opinion on the FY 1999 Federal consolidated financial statements. These agencies will report quarterly to OMB on their progress and OMB will provide periodic reports to the Vice President.

For each CFO priority area discussed in this report, there is a summary of accomplishments, a current status report, including performance measures where available, and plans for achieving specific objectives. Chapter B includes the report on the Federal Financial Management Improvement Act of 1996. Appendices cover reports required by the Debt Collection Act of 1982, as amended; the Prompt Payment Act of 1982, as amended; and the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended.

The CFOs Act requires that this report include an estimate of the cost of implementing the governmentwide five-year plan. For FY 1998, the 24 agencies covered by the CFOs Act estimated that the cost of maintaining, operating, and improving financial management activities will total approximately \$7.5 billion.



G. Edward DeSeve  
Controller



Arnold Holz  
Executive Vice Chair, CFO Council



## EXECUTIVE SUMMARY

The *Federal Financial Management Status Report and Five-Year Plan*, describes the Administration's accomplishments, status, and plans for strengthening Federal financial management as required by the Chief Financial Officers (CFOs) Act of 1990, as amended. The CFO Council and the Office of Management and Budget (OMB) are aggressively working on eight priority initiatives which are described in this report. These priorities are:

- obtain unqualified opinions on financial statements and issue accounting standards;
- improve financial management systems;
- implement the Government Performance and Results Act (GPRA);
- develop human resources and CFOs organizations;
- improve management of receivables;
- ensure management accountability and control;
- modernize payments and business methods; and
- improve administration of Federal assistance programs.

Working collaboratively on these priorities, the CFO Council and OMB made important progress towards improving Federal financial management. A comprehensive set of basic Federal accounting standards are in place, laying the foundation for the most significant and historic accomplishment this past year: the publication of the first-ever, consolidated financial statements of the Federal Government. This accomplishment stems from the Vice President's 1993 National Performance Review recommendation for governmentwide audited financial statements beginning in 1997. This recommendation was incorporated into the Government Management Reform Act of 1994 (GMRA), and the first governmentwide financial statements were issued on-time in March 1998 by the Department of the Treasury.

The President, as stated in the Fiscal Year (FY) 1999 Budget, has set the ambitious goal of achieving an unqualified opinion on the FY 1999 consolidated financial statements of the Federal Government. Towards this end, the President issued a memorandum to agency heads on May 26, 1998 directing additional steps to improve financial management. The President has directed selected agencies to submit an initial plan, with milestones for resolving the financial reporting deficiencies by July 31, 1998, and to provide quarterly reports beginning on September 30, 1998. OMB will monitor agency progress towards the goal of obtaining an unqualified audit opinion on the FY 1999 consolidated Federal Government financial statements and provide periodic reports to the Vice President.

With respect to the agencywide audited financial statements also required by GMRA, for FY 1997, 10 of the 24 CFOs Act agencies received unqualified opinions on their departmentwide audited financial statements, a 60 percent increase over 1996. OMB, Treasury and GAO are working with those agencies that did not receive an unqualified opinion on actions needed to improve their audit results.

Under GPRA, Federal agencies are required to develop strategic and performance plans to help them administer Federal programs more effectively. In September 1997, Federal agencies submitted their strategic plans to Congress, and the 24 CFOs Act agencies submitted their Annual Performance Plans this Spring. The CFO Council is now engaged in helping agencies and working closely with Congress to take the next step from compliance with the statute to improving measurement of performance.

As part of our overall financial system efforts, OMB is working to improve the resources available to agencies and to provide agencies with enhanced governmentwide solutions. For example, the Electronic Processes Initiatives Committee (EPIC) supports: using a multi-purpose smart card to re-engineer business and administrative processes; integrating electronic buying and paying processes; and developing more efficient and effective processes of intra-governmental transfers that will contribute to obtaining unqualified financial statements. We are also working to establish a stronger systems capability in the Joint Financial Management Improvement Program (JFMIP).

Improvements are continually being made to the government's management of account receivables (debt collection) and account payables (payments). The Debt Collection Improvement Act of 1996 created incentives and provided tools for the Treasury Department and other debt collection agencies to reduce debt losses and increase collections. It also mandated Federal agencies to make and transfer payments electronically by January 1999 and to modernize the business operations of the Federal Government via electronic commerce. The CFO Council will continue to enhance debt collection tools and techniques, and collaborating with EPIC, the CFO Council will implement the electronic commerce strategic plans in the upcoming years.

Financial management must provide information on budget integrity, effective operating performance, and management accountability and control. The CFO Council's pilot program on agency Accountability Reports is in its third year, helping to consolidate and streamline Federal statutory reporting requirements.

The CFO Council was especially active in educational and outreach activities that improve the overall quality of the financial management workforce. The CFO Council inaugurated a governmentwide CFO Fellows Program to provide career development opportunities to promising financial managers and develop a cadre of experienced and diverse leaders ready to step into future Federal financial management executive positions.

Improving Federal financial management is integral to accomplishing the Federal Government's program performance goals. The CFO Council and central agencies, OMB, General Services Administration (GSA), Office of Personnel Management (OPM), and Treasury played important roles in setting standards and policies, and removing obstacles to re-engineering work processes. Agency CFOs are working within their agencies and through the CFO Council to achieve the critical objectives, as described in this plan. They will continue to pursue high standards of fiscal discipline to make significant contributions to the improved management of their agencies and the Federal Government.

## **VISION, GOALS, AND STRATEGIES FOR FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT**

### **CFO COUNCIL MISSION STATEMENT**

*We influence the future of the Federal Government through ethical and effective leadership; serve as a catalyst for constructive change to ensure the integrity of financial information needed for decisionmaking; and measure program and financial performance to achieve desirable results.*

### **VISION STATEMENT**

*Shaping an environment in which government officials use high quality financial and performance information to make and implement effective policy, management, stewardship, and program decisions.*

We envision an environment where:

- Program and financial managers work in partnership to achieve the full integration of financial (finance, budget, and cost), program, and oversight information and processes.
- Financial management policies and practices enhance effectiveness and efficiency of governmental programs; measuring performance is a critical element in making decisions.
- Financial management emphasizes customer service based on customer needs.
- Integrated financial management systems, with adequate internal review and controls, provide information that is timely, accurate, and analyzed for options in ways that specifically help achieve program objectives. Governmentwide systems are shared among agencies, and accountability is assured.
- Financial management leverages technology to achieve optimal results and maximize use of available resources.
- Performance management based on quantitative standards, collecting accurate and timely performance data, and comparing the results against appropriate standards are an integral part of planning, decisionmaking, and assessment processes used by agency management, Congress, the Executive Branch, and the public.
- Agencies assure Congress and the public that assets are being safeguarded and financial results are reported accurately and timely.
- Financial management processes are streamlined, effective, and allow for the highest operational standards.
- Financial managers are recognized as leaders in their profession, creative in finding solutions to management issues, and valued members of any management team.
- Financial management goals are backed by recruitment, training, performance, and reward structures.
- Program managers embrace their responsibility for managing financial resources with support from the financial management communities.

## **GOALS AND STRATEGIES FOR IMPLEMENTING GOVERNMENTWIDE FINANCIAL MANAGEMENT**

### **GOAL: *Provide Leadership to Promote the Efficient Management of Government Resources and Assets***

- Improve accountability by ensuring that management control is a day-to-day process
- Create an environment that demands quality financial management at all levels, provides incentives, eliminates impediments, and encourages responsible risk taking
- Build a partnership to ensure the functioning together of information resource management, program management, and financial management, including budgeting
- Attract, retain, and develop highly qualified financial professionals who are valued members of the management team

### **GOAL: *Provide Quality Financial Services to Customers Based on Their Needs***

- Change the view of financial management from solely control to service
- Enhance customer focus through strong partnerships
- Commit to achieving high standards of customer financial services through continuous improvement
- Help customers restructure their work processes in order to more efficiently achieve their service objectives

### **GOAL: *Provide High Quality Financial Information on Federal Government Operations Which Fully Supports Financial and Performance Reporting***

- Establish standards and definitions
- Create a system for integrating performance measures, cost information, and financial reporting
- Establish integrated government financial management systems which minimize data entry and human intervention
- Provide cost-effective reporting, analysis, and advice which are interactive, timely, reliable, user-friendly, and fully satisfy user needs

### **GOAL: *Enhance The Governmentwide Framework That Provides Sound Financial Policies and Services, and Facilitates Effective Communication***

- Improve the integration between the budget and management function within the Federal Government
- Review and improve the functions and coordination among central agencies and between central agencies and program agencies
- Improve and expand collaboration, cross-servicing, and user-friendly outreach within and among government organizations
- Strengthen the partnership between the Executive Branch and Congress to improve financial management

### **GOAL: *Enhance—Continually—Financial Management Use of Modern Technology and Business Practices***

- Benchmark with ourselves and other high performance organizations
- Share best practices among agencies and with the public and private sectors



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**FEDERAL FINANCIAL MANAGEMENT  
STATUS REPORT AND  
FIVE-YEAR PLAN**



## **A. OBTAIN UNQUALIFIED OPINIONS ON FINANCIAL STATEMENTS AND ISSUE ACCOUNTING STANDARDS**

**PRIORITY:** Present performance and cost information in a timely, informative, and accurate way, consistent with Federal accounting standards. Assure the integrity of Federal financial information by completing audits and gaining unqualified opinions for all Chief Financial Officers (CFOs) Act agencies and the Federal Government as a whole.

**BACKGROUND:** Effective management of the Federal Government has suffered from a lack of reliable, timely, and consistent financial information. The Administration is committed to addressing this shortcoming. In 1994, the Administration strongly supported the Government Management Reform Act (GMRA), which amended the CFOs Act and mandated annual audited financial statements for the 24 largest Executive Branch agencies and for the government as a whole. To provide a sound basis for these financial statements, the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), and the General Accounting Office (GAO), working through the Federal Accounting Standards Advisory Board (FASAB), developed a basic set of Federal accounting standards.

For fiscal year (FY) 1997, 23 of the 24 CFOs Act agencies prepared financial statements covering all of their accounts and activities, and 10 of the 24 received unqualified opinions. On March 31, 1998, the Department of the Treasury issued the first-ever, audited consolidated financial statements for the Federal Government. This was a historic undertaking. Never before has the United States Government attempted to assemble comprehensive financial statements covering all of its vast and complex activities and subject those financial statements to the rigors of a financial audit.

Notwithstanding this significant progress, much work remains to be done. Twenty of the 24 agencies are committed to obtaining unqualified opinions on their FY 1999 financial statements, and as stated in the FY 1999 Budget, the President has set a goal of obtaining an unqualified opinion on the FY 1999 consolidated financial statements of the Federal Government.

## **ACCOMPLISHMENTS:**

- The Department of the Treasury issued the first-ever, governmentwide audited consolidated financial statements on March 31, 1998, the statutory due date.
- Ten of the 24 CFOs Act agencies received unqualified opinions on their FY 1997 audited financial statements, a 60 percent increase over FY 1996.
- In February 1998, the CFO Council and the Joint Financial Management Improvement Program (JFMIP) jointly published the *Managerial Cost Accounting Implementation Guide*.
- The eighth Statement of Federal Financial Accounting Standard (SFFAS), *Supplementary Stewardship Reporting*, was issued in July 1997. It recommends standards for reporting the Federal Government's stewardship over resources entrusted to it and responsibilities assumed by it.
- FASAB recommended and OMB approved Interpretation 3, *Measurement Date for Pension and Retirement Health Care Liabilities*, and Interpretation 4, *Accounting for Pension Payments in Excess of Pension Expense*.
- FASAB issued the following exposure drafts for comments: *Management Discussion and Analysis; Governmentwide Supplementary Stewardship Reporting; Amendments to Accounting for Property, Plant and Equipment; Accounting for Internal Use Software; and Accounting for Social Insurance*.
- The Accounting and Auditing Policy Committee (AAPC) developed and OMB issued *Technical Release 1, Audit Legal Letter Guidance and Technical Release 2, Environmental Liabilities*.
- AAPC sponsored an educational forum on accounting for property, plant and equipment in April 1998.

## **STATUS/PERFORMANCE INFORMATION**

Related internet sites: <http://www.financenet.gov/fasab.htm>  
<http://www.financenet.gov/financenet/fed/cfo/cfocost/cfocost.htm>

### *Consolidated Financial Statements of the U.S. Government*

The Department of the Treasury issued the first-ever, governmentwide consolidated financial statements on March 31, 1998. Because of current data limitations, GAO was unable to render an opinion on the reliability of the data in the statements. This came as no surprise since it was the first audit of the largest financial reporting entity in the world.

GAO's audit report discusses issues that must be addressed to achieve the President's goal of an unqualified opinion on the Federal Government's FY 1999 consolidated financial statements.

Table 1 summarizes the major obstacles to an unqualified opinion.

**Table 1. Obstacles to an Unqualified Opinion on the Governmentwide Consolidated Financial Statements**

| Issues   | Obstacles   |
|--|---|
| <i>Property, Plant and Equipment</i>                       | The Federal Government does not have accurate information about assets held to support its domestic and global operations.  |
| <i>Loans Receivable and Loan Guarantee Liabilities</i>     | Most Federal credit agencies responsible for Federal lending programs need to properly report the cost of loan programs.  |
| <i>Environmental/Disposal Liabilities</i>                  | Environmental liabilities are materially understated because an estimate needs to be developed for major national defense clean-up costs.   |
| <i>Pension, Health Benefits, and Other Liabilities</i>     | Systems and data are not available to accurately estimate significant portions of Federal benefits liabilities. Some agencies need to properly calculate estimates of accounts payable and other liabilities, such as those associated with litigation. |
| <i>Improper Payments &amp; Disbursements</i>               | Agencies need to determine the full extent of improper payments, i.e., payments made for other than valid, authorized purposes. Unresolved gross differences also exist between agencies and Treasury records of cash disbursements.                    |
| <i>Intra-Governmental Transactions</i>                     | Agencies need to properly identify and eliminate transactions between Federal Government entities.  |
| <i>Reconcile Change in Net Position with Budget Result</i> | The Federal Government needs to establish a process to effectively reconcile the reported change in net position with the reported budget deficit.  |

On May 26, 1998, the President issued a memorandum to heads of agencies on additional actions to improve financial management. The President is requiring that selected agencies prepare, by July 31, 1998, an action plan with milestones for resolving the financial reporting deficiencies and provide quarterly reports beginning on September 30, 1998. OMB will monitor agency progress towards the goal of obtaining an unqualified audit opinion on the Federal Government's FY 1999 consolidated financial statements. Agencies with key responsibilities for overcoming these obstacles are listed in Table 2.

**Table 2. Agencies' Obstacles to an Unqualified Opinion on the Governmentwide Financial Statements**

| Agency         | Obstacles                   |  |                                    |                                     |                                   |                                 |  |
|----------------|-----------------------------|--|------------------------------------|-------------------------------------|-----------------------------------|---------------------------------|--|
|                | Property, Plant & Equipment | Credit Program and Other Receivables & Guarantee Liabilities | Environmental/Disposal Liabilities | Pension, Health & Other Liabilities | Improper Payments & Disbursements | Intra-Governmental Transactions | Reconcile Change in Net Position with Budget Results |
| USDA           |                             | X  |                                    |                                     |                                   | X                               |  |
| DOD            | X                           |  | X                                  | X                                   | X                                 | X                               |  |
| Education      |                             | X  |                                    |                                     |                                   | X                               |  |
| HHS            |                             | X  |                                    |                                     |                                   | X                               |  |
| HUD            |                             | X  |                                    |                                     |                                   | X                               |  |
| DOI            |                             |  |                                    |                                     |                                   | X                               |  |
| DOJ            |                             |  |                                    |                                     |                                   | X                               |  |
| DOT            | X                           |  |                                    |                                     |                                   | X                               |  |
| Treasury       |                             |  |                                    |                                     |                                   | X                               | X  |
| VA             |                             | X  |                                    |                                     |                                   | X                               |  |
| OPM            |                             |  |                                    | X                                   |                                   | X                               |  |
| Other Agencies |                             |  |                                    |                                     |                                   | X                               |  |

*Agencywide Audited Financial Statements*

Table 3 presents the results of agencywide audits under GMRA for FY 1996 and 1997 and summarizes agency goals for obtaining unqualified opinions on their financial statements for FYs 1998 through 2000. Ten of the 24 CFOs Act agencies received unqualified opinions on their FY 1997 financial statements, a 60 percent increase over FY 1996. Overall, as of June 1998, 21 agencies submitted their audited financial statements to OMB. Of the 21 agencies, 13 agencies submitted their FY 1997 financial statements on-time. Beginning with the financial statements for FY 1998, all agencies are expected to submit their statements on-time by the statutory due date.

**Table 3. Agencywide Unqualified Audit Opinions on Financial Statements**

| Agency                   | Actual   |           | Goals     |           |           |
|--------------------------|----------|-----------|-----------|-----------|-----------|
|                          | FY 1996  | FY 1997   | FY 1998   | FY 1999   | FY 2000   |
| USDA                     |          |           |           |           |           |
| Commerce                 |          |           |           |           |           |
| DOD <sup>1</sup>         |          |           |           |           |           |
| Education                |          |           |           |           |           |
| DOE                      |          |           |           |           |           |
| HHS                      |          |           |           |           |           |
| HUD                      |          |           |           |           |           |
| DOI                      |          |           |           |           |           |
| DOJ                      |          |           |           |           |           |
| DOL                      |          |           |           |           |           |
| State                    |          |           |           |           |           |
| DOT                      |          |           |           |           |           |
| Treasury                 |          |           |           |           |           |
| VA                       |          |           |           |           |           |
| AID                      |          |           |           |           |           |
| EPA                      |          |           |           |           |           |
| FEMA <sup>2</sup>        |          |           |           |           |           |
| GSA                      |          |           |           |           |           |
| NASA                     |          |           |           |           |           |
| NRC                      |          |           |           |           |           |
| NSF                      |          |           |           |           |           |
| OPM                      |          |           |           |           |           |
| SBA                      |          |           |           |           |           |
| SSA                      |          |           |           |           |           |
| <b>Total Unqualified</b> | <b>6</b> | <b>10</b> | <b>14</b> | <b>20</b> | <b>23</b> |

<sup>1</sup> DOD is making some progress in meeting the audited financial statement requirements of the CFOs Act. However, significant and long standing system deficiencies preclude DOD from projecting an unqualified consolidated audited financial statement until after FY 2000.


<sup>2</sup> FEMA submitted an audited financial statement for a part of the agency, and this part received an unqualified opinion. Financial statements were not produced or audited for the whole agency.

■ = Unqualified Opinion

Further, 23 agency components are also required to prepare audited financial statements, which stand-alone from the department's consolidated financial statement. Table 4 displays the FY 1997 audit results for each agency component and expected dates for obtaining an unqualified opinion. All agency components are expected to submit their financial statements by the statutory due date, beginning with the statements for FY 1998.

**Table 4. Unqualified Audit Opinions on Financial Statements of Selected Agency Components**

| Agency   | Actual   |          | Goals     |           |           |
|--|----------|----------|-----------|-----------|-----------|
|  | FY 1996  | FY 1997  | FY 1998   | FY 1999   | FY 2000   |
| <b>USDA</b>                                      |          |          |           |           |           |
| Food and Nutrition Service                       |          |          |           |           |           |
| Forest Service                                   |          |          |           |           |           |
| Rural Development                                |          |          |           |           |           |
| <b>DOD</b>                                       |          |          |           |           |           |
| Department of the Air Force General Fund         |          |          |           |           |           |
| Department of the Air Force Working Capital Fund |          |          |           |           |           |
| Department of the Army General Fund              |          |          |           |           |           |
| Department of the Army Working Capital Fund      |          |          |           |           |           |
| Department of the Navy General Fund              |          |          |           |           |           |
| Department of the Navy Working Capital Fund      |          |          |           |           |           |
| DOD Military Retirement Trust Fund               |          |          |           |           |           |
| Army Corps of Engineers Civil Works Program      |          |          |           |           |           |
| Defense Logistics Agency Working Capital Fund    |          |          |           |           |           |
| Defense Finance and Accounting Service           |          |          |           |           |           |
| <b>HHS</b>                                       |          |          |           |           |           |
| Health Care Financing Administration             |          |          |           |           |           |
| <b>DOL</b>                                       |          |          |           |           |           |
| Unemployment Trust Fund                          |          |          |           |           |           |
| <b>DOT</b>                                       |          |          |           |           |           |
| Federal Aviation Administration                  |          |          |           |           |           |
| Highway Trust Fund                               |          |          |           |           |           |
| <b>TREASURY</b>                                  |          |          |           |           |           |
| Bureau of Alcohol, Tobacco, and Firearms         |          |          |           |           |           |
| Internal Revenue Service                         |          |          |           |           |           |
| U. S. Customs Service                            |          |          |           |           |           |
| <b>OPM</b>                                       |          |          |           |           |           |
| Civil Service Retirement and Disability Fund     |          |          |           |           |           |
| Federal Employees Health Benefits Program        |          |          |           |           |           |
| Federal Employees Life Insurance Program         |          |          |           |           |           |
| <b>Total Unqualified</b>                         | <b>3</b> | <b>7</b> | <b>10</b> | <b>14</b> | <b>15</b> |

 = Unqualified Opinion

*Government Corporations*

In addition to the foregoing results for Federal agencies, OMB expects FY 1997 audited financial statements from 36 of the 37 government corporations covered under the Government Corporation and Control Act. Thirty-four of the 37 corporations are expected to obtain unqualified opinions.



*Federal Financial Accounting Standards*

The basic set of Federal Government accounting standards was completed as indicated in Table 5. All documents can be accessed at FASAB's web page (<http://www.financenet.gov/fasab.htm>). Printed documents can also be obtained by calling FASAB at (202) 512-7350 or the Government Printing Office at (202) 512-1800.

**Table 5. Documents Created by FASAB and OMB**

| Type                 | Number              | Title  | Date  |
|----------------------|---------------------|--|-------|
| Concept              | SFFAC 1             | Objectives of Federal Financial Reporting                                      | 9/93  |
| Concept              | SFFAC 2             | Entity and Display   | 6/95  |
| Standard             | SFFAS 1             | Accounting for Selected Assets and Liabilities                                 | 3/93  |
| Standard             | SFFAS 2             | Accounting for Direct Loans and Loan Guarantees                                | 8/93  |
| Standard             | SFFAS 3             | Accounting for Inventory and Related Property                                  | 10/93 |
| Standard             | SFFAS 4             | Managerial Cost Accounting Concepts and Standards                              | 7/95  |
| Standard             | SFFAS 5             | Accounting for Liabilities of the Federal Government                           | 12/95 |
| Standard             | SFFAS 6             | Accounting for Property, Plant and Equipment                                   | 11/95 |
| Standard             | SFFAS 7             | Accounting for Revenue and Other Financing Sources (plus implementation guide) | 5/96  |
| Standard             | SFFAS 8             | Supplementary Stewardship Reporting  | 6/96  |
| Standard             | SRAS <sup>1</sup> 9 | Deferral of Required Implementation Date for SFFAS 4                           | 10/97 |
| Exposure Draft       |                     | Management's Discussion and Analysis   | 2/97  |
| Exposure Draft       |                     | Governmentwide Supplementary Stewardship Reporting                             | 6/97  |
| Exposure Draft       |                     | Accounting for Internal Use Software   | 6/97  |
| Exposure Draft       |                     | Amendments to Accounting for Property, Plant and Equipment                     | 2/98  |
| Exposure Draft       |                     | Accounting for Social Insurance  | 2/98  |
| Invitation for Views |                     | Accounting for the Cost of Capital by Federal Entities                         | 7/96  |
| Interpretation       | 1                   | Reporting on Indian Trust Funds  | 3/97  |
| Interpretation       | 2                   | Accounting for Treasury Judgment Fund Transactions                             | 3/97  |
| Interpretation       | 3                   | Measurement Date for Pension and Retirement Health Care Liabilities            | 8/97  |
| Interpretation       | 4                   | Accounting for Pension Payments in Excess of Pension Expense                   | 12/97 |
| Report               | Report 1            | Overview of Federal Financial Accounting Concepts and Standards                | 12/96 |
| Other                | Codification Vol. 1 | FASAB Volume 1, Original Statements  | 3/97  |
| Technical Release    | 1                   | Audit Legal Letter Guidance  | 3/98  |
| Technical Release    | 2                   | Environmental Liabilities Guidance   | 3/98  |

Updated: 5/98.

<sup>1</sup> Statement of Recommended Accounting Standards (SRAS).

In addition to the accomplishments listed in the front of this chapter, FASAB continues to make progress towards completion of the following projects:

***Management's Discussion and Analysis (MD&A):*** An exposure draft was issued and a final concept statement and standard is expected in late 1998. MD&A as proposed would include a discussion of financial and nonfinancial performance, significant changes in financial statement items, sustainability of services, short-term and long-term trends and events, and major problems in systems and controls.

Cost of Capital: FASAB issued an Invitation for Views, *Accounting for the Cost of Capital by Federal Entities*. After considering responses, FASAB decided to do more research on the current practices and potential uses of cost of capital information.

Natural Resources: FASAB established a task force that is formulating approaches to accounting for extractable resources, such as oil, gas, coal, gold and silver, from government land, and for renewable resources, such as timber, forage, and water rights. The task force delivered the results of its research in April 1998.

As FASAB completes its current projects, it expects to address other Federal accounting and financial management issues. Such areas include accounting for grants, possibly including accounting for joint ventures and cooperative agreements; reporting on systems and internal controls; defining assets, including intangible assets; and issues related to reporting custodial activities and balances, trust funds, and fiduciary funds. FASAB also agreed to monitor developments in performance reporting to prepare for the issuance of guidance on the use of financial information in performance measurement.

#### *Accounting and Auditing Policy Committee (AAPC)*

In 1997, OMB, Treasury, GAO, FASAB, the CFO Council, and the President's Council on Integrity and Efficiency (PCIE), established the AAPC. The mission of the AAPC is to assist the Federal Government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature. AAPC serves as a permanent committee sponsored by FASAB. It recommends Accounting and Auditing Technical Releases, which are cleared by FASAB and approved and issued by OMB.

The AAPC consists of eleven members—three each from the CFO and the Inspector General (IG) communities, one each from the FASAB principals (OMB, Treasury, and GAO), one at-large member, and a non-voting member from FASAB staff. The chairperson of AAPC currently is the Executive Director of FASAB.

During its first five months of operations, the AAPC developed and OMB approved and issued the following documents:

*Technical Release 1, Audit Legal Letter Guidance*, issued by OMB in March 1998.

*Technical Release 2, Environmental Liabilities*, issued by OMB in April 1998.

In addition, the AAPC sponsored a two-day forum in April 1998 on accounting for property, plant and equipment.

#### *Cost Accounting*

The CFO Council and the JFMIP published the *Managerial Cost Accounting System Requirements* in February 1998. More information about these requirements is provided in *Chapter B. Improve Financial Management Systems*.

In addition, the CFO Council and JFMIP published the *Managerial Cost Accounting Implementation Guide (MCAI Guide)*, which is available in electronic format on the CFO Council's home page (<http://www.financenet.gov/financenet/fed/cfo/cfocost/cfocost.htm>.) The purpose of the *MCAI Guide* is to aid Federal agencies in implementing the SFFAS 4, which establishes the cost accounting standards for Federal agencies effective in 1998.

The *MCAI Guide* addresses the following four issue areas:

- Integration of cost accounting, budget and the Government Performance and Results Act;
- Accounting for full costs;
- Implementation of a managerial cost accounting process; and
- Reporting of managerial cost information.

The *MCAI Guide* provides suggested approaches for addressing various cost accounting issues, including those listed above, and provides a “toolkit” for agencies to use in implementing managerial cost accounting processes. It also contains case studies which illustrate agency practices.

The *MCAI Guide* also includes a costing model. The model shows the interrelationship of cost accounting information to Federal accounting standards and various management decisionmaking situations. It also introduces the concept of “relevant costs,” which recognizes that full costs may not be applicable to some decisionmaking situations.

## FINANCIAL MANAGEMENT PLANS

**Prior Year** Of the 20 tasks outlined in last year's plan, 17 were completed, 2 are **Performance:** on-target, and 1 has been re-scheduled.

To obtain unqualified opinions on financial statements and issue accounting standards, the following objectives, task, and milestones were established:

| <b>OBJECTIVE: Obtain unqualified audit opinion on the FY 1998 governmentwide consolidated financial statements</b>  |                    |
|---|--------------------|
| <b>TASKS:</b>   | <b>MILESTONES:</b> |
| Issue form and content guidance for FY 1998 governmentwide financial statements (OMB and Treasury)  |                    |
| —Propose guidance   | 7/98               |
| —Issue final guidance   | 9/98               |
| Issue Presidential memorandum on actions to improve financial management (OMB)  | 5/26/98 (Actual)   |
| Prepare action plan with milestone for resolving financial reporting deficiencies (Agencies)  | 7/98               |
| Develop a strategy and identify key issues relating to the preparation and audit of the governmentwide financial statement (CFO Council, OMB, Treasury, PCIE and GAO) | 9/98               |
| Provide quarterly reports on the status of the agency plans (Agencies)  | 9/98 and ongoing   |
| Provide training and education on the whole spectrum of topics related to audited financial statements (Treasury, GAO and OMB)  | Ongoing            |
| Issue audited governmentwide statement (Treasury, Agency IGs and GAO)   | 3/99               |
| <b>OBJECTIVE: Implement the agencywide and component reporting requirements of GMRA by issuing agencywide and component entity audited financial statements</b>       |                    |
| <b>TASKS:</b>   | <b>MILESTONES:</b> |
| Define components required to submit financial statements (OMB and CFO Council)   | 6/98               |
| Issue revisions to Form and Contents of agency financial statements (OMB)   | 9/98               |
| Monitor agency plans to obtain unqualified opinions (Agencies, OMB and Treasury)  | 9/98               |
| Correct material weaknesses and remove impediments to agencies' obtaining unqualified audit opinions on financial statements (Agencies)                               | 3/99 (14 of 24)    |
|   | 3/00 (20 of 24)    |
|   | 3/01 (23 of 24)    |
| <b>OBJECTIVE: Promulgate a comprehensive set of accounting standards for Federal agencies</b>   |                    |
| <b>TASKS:</b>   | <b>MILESTONES:</b> |
| Issue standards on current FASAB projects, including management's discussion and analysis, social insurance, and computer software development costs (FASAB and OMB)  |                    |
| —Recommend standards  | 1998               |
| —Issue standards  | 1999               |
| Issue technical guidance for preparing and auditing credit subsidy estimates  |                    |
| —Recommend technical guidance (AAPC)  | 1998               |
| —Issue technical guidance (OMB)   | 1999               |
| Issue policy guidance for inter-entity costs  |                    |
| —Recommend inter-entity cost guidance (AAPC)  | 1998               |
| —Issue inter-entity cost guidance (OMB)   | 1999               |

Deliberate and issue formal interpretations of SFFASs, as requested (FASAB and OMB)

Ongoing

Train agencies on accounting standards, form and content, and requirements (FASAB, Treasury and OMB)

Ongoing

**OBJECTIVE: Ensure that Federal agency financial statements adequately incorporate accounting standards and OMB's revised form and content guidance**

**TASKS:**

Update and issue audit requirements for Federal agency FY 1998 financial statements (OMB)

Update form and content guidance for FY 1998 agencywide financial statements (OMB)

—Propose guidance

—Issue final guidance

Train agencies on audit guidance implementation (OMB)

**MILESTONES:**

6/98

6/98

8/98

Ongoing

## **B. IMPROVE FINANCIAL MANAGEMENT SYSTEMS**

**PRIORITY:** Establish financial management systems throughout the Federal Government, using standardized information, electronic data exchange, and commercially provided software and transaction processing services.

**BACKGROUND:** Understanding the importance of solid and comprehensive financial management systems, the CFO Council, JFMIP, OMB, Treasury and individual agencies are all working to improve Federal financial systems.

The CFO Council expects to see improvements in four areas related to financial systems: (i) standardizing the financial information environment; (ii) capturing transactions electronically; (iii) implementing the process for compliance reporting, required in the Federal Financial Management Improvement Act of 1996 (FFMIA); and (iv) preparing for the year 2000.

The rationale for this approach assumes that:

- new systems are selected or (when necessary) developed within a standardized information environment. A standardized environment includes requirements for commercial systems and software, systems architecture, and information architecture for collecting and reporting budget, accounting, and program data;
- transactions are captured electronically, at a sufficient level of detail to allow appropriate aggregation and reconciliation, using commercial systems where available, or commercial software; and
- development of a standardized information environment and selection of commercial systems and software should be directed at achieving FFMIA compliance and ensuring that financial systems function properly in the year 2000.

### **ACCOMPLISHMENTS:**

- The President's FY 1999 budget included a proposal for establishing a Program Management Office (PMO) within the JFMIP to develop financial management systems requirements, address system integration issues, interpret requirements in the context of off-the-shelf software, develop comprehensive testing vehicles, serve as an information clearinghouse for financial management systems procurement, and communicate with the private sector.
- In January 1998, an OMB/JFMIP team awarded a contract to research alternatives to the existing processes for certifying and procuring core accounting software packages.
- In April 1998, Treasury published a supplement to the Treasury Financial Manual that identifies about 20 kinds of data that agencies are required to capture in their financial systems starting in Fall 1999. These data will be reported from agencies to fulfill three sets of OMB and Treasury budget execution reporting requirements.

### **ACCOMPLISHMENTS:—Continued**

- In June 1998, JFMIP and the CFO Council Financial Systems Committee updated and released core financial systems requirements, composed of mandatory and value added requirements, delineated by source. This serves as the baseline for developing comprehensive testing and certification processes.
- In February 1998, the JFMIP published the *Managerial Cost Accounting System Requirements*.
- In September 1997, OMB issued guidance to Federal agencies for determining compliance with governmentwide system requirements referred to in FFMIA.

### **STATUS/PERFORMANCE INFORMATION**

Related internet site: <http://www.financenet.gov/financenet/fed/jfmip/jfmip.htm>

The 24 CFOs Act agencies update an inventory of financial management systems each fiscal year, which OMB analyzes and uses as the source of the performance information in this section. This inventory includes information, as of September 1997, on each of the financial applications that are components of a financial management system critical to agency financial management. These applications may be operated by the agency itself, by another agency (“cross-servicing”), or by a contractor (“outsourcing”).

#### *Financial Management Systems Policy*

OMB Circular A-127 prescribes the policy for Federal financial management systems. Circular A-127 will be revised during FY 1998 to include: (i) FFMIA review and reporting requirements; (ii) guidance on procuring financial management systems and services; and (iii) clarifications of current financial management system requirements.

#### *Agency Financial Management Systems*

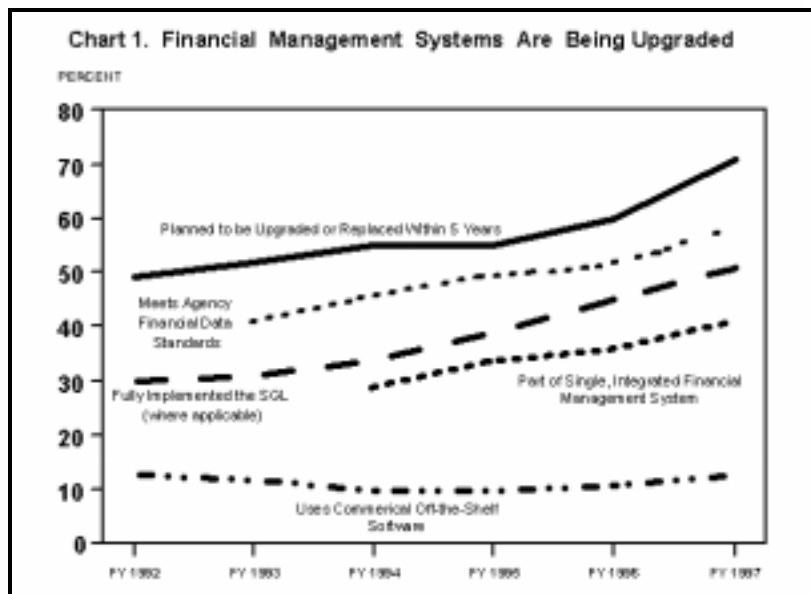
As of the end of FY 1997, agencies identified 809 operating financial management system applications that need to be replaced or significantly upgraded in the next five years. This represents 72 percent of total applications in operation. Agencies lack the resources to replace or upgrade some systems that need modernization, which in turn could affect agencies’ ability to implement management improvements. Nevertheless, agencies continue to make improvements, including implementation of the Standard General Ledger (SGL) and new accounting standards, as required by OMB.

Chart 1 shows overall trends in financial management system improvements. Percentages are based on the number of agency applications in operation. Fifty-nine percent of the applications currently in operation meet agency standards for financial data. The SGL is fully implemented at the transaction level in 51 percent of all applications to which agencies report that the SGL applies. Further, agencies determined that 41 percent of their applications are part of their single, integrated financial management system as defined in OMB Circular A-127.<sup>1</sup>

Only 13 percent of current applications use commercial off-the-shelf (COTS) software. To encourage the use of COTS, OMB and JFMIP recently obtained services through a GSA contract to research ways to improve the availability of commercial software and services. This contractor will be recommending ways to improve: (i) the testing and certification of COTS systems; (ii) the procurement schedules; and (iii) processes to obtain COTS systems.

In addition, 14 of the 24 CFOs Act agencies report that they use cross-servicing, outsourcing, or both to obtain financial management systems support. For instance, the new General Services Administration (GSA) corporate credit card contract uses commercial bank processing systems to capture small purchase, intra-governmental travel and fleet transactions. Improved access to outsourcing options is expected to create a trend towards using more commercial services than the individually-operated agency systems.

Efforts are also being made to increase the number of agencies implementing SGL. Implementation of the SGL at the transaction level throughout an agency's financial management systems is one of the major requirements of OMB Circular A-127 and the FFMIA. To be in compliance with this requirement, agencies' financial and mixed systems must produce data in financial reports that record transactions consistently with SGL rules and provide supporting transaction details. As previously stated, 51 percent of the applications to which agencies report the SGL applies use the SGL at the transaction level. This percentage represents 43 percent of core financial system applications and 56 percent of other (non-core) applications.



<sup>1</sup>To be integrated, financial management systems must possess the following physical characteristics: common data elements, common transaction processing, consistent internal controls, and efficient transaction entry.

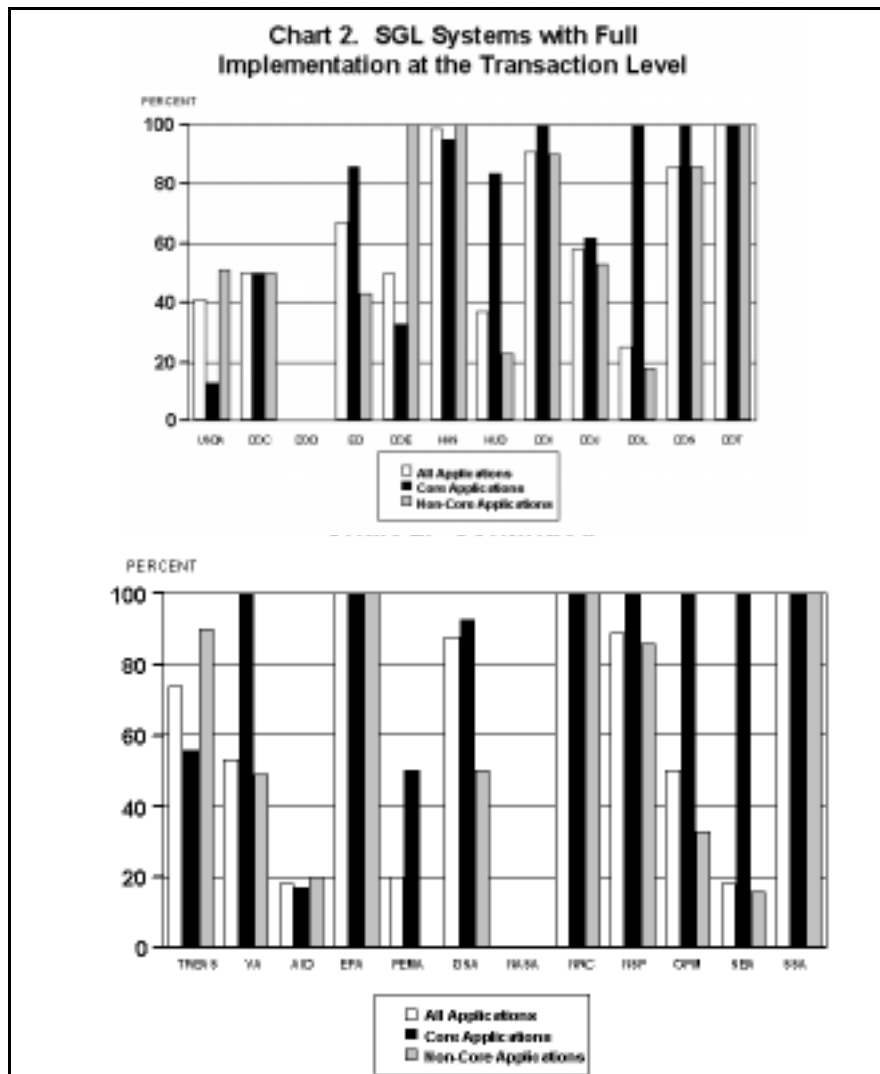


Chart 2 shows the percentage of agency applications (excluding those reporting that SGL posting is not applicable) in which the SGL is fully implemented at the transaction level. The data are stratified with percentages for all applications, core financial systems applications, and non-core applications.

*Activities for Improving Financial Management Systems*

The CFOs Act requires a plan for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy, consistency, and timeliness of financial information. The CFO Council will address the areas needing improvements by conducting activities in the following categories:

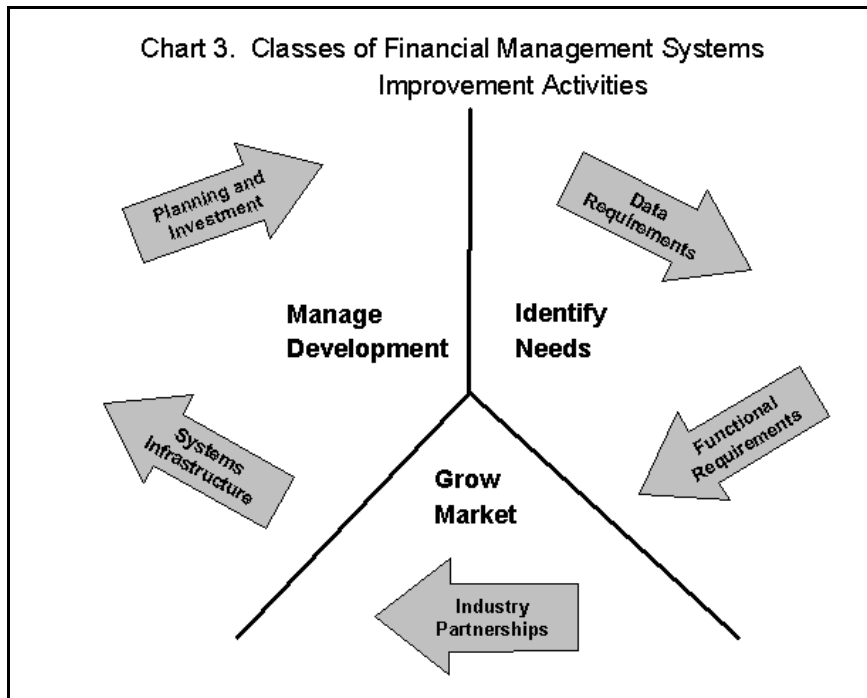
- Planning and Investment includes capital programming (budgeting, procurement and management), information technology management, systems components of Five-Year Financial Management Improvement Plans, and asset management. Planning and investment helps ensure that deficient systems are modified or replaced with systems that meet data and functional requirements and that improvement efforts are coordinated with information technology infrastructure plans.



Note: Education, DOE, GSA, NASA, and NSF have reported substantial compliance with FFMA, which includes full implementation of the SGL at the transaction level to support financial statement and budget execution reporting.

- Data Requirements includes development and maintenance of standard data models, definitions, and elements including compliance programs for ensuring these standards are properly implemented. Developing and maintaining data requirements—which define the information included in the system—is necessary for agencies to develop and implement systems that consistently and accurately capture transactions.
- Functional Requirements includes development and maintenance of standard functional requirements, interface standards between commercial systems which capture financial transactions and agency systems, and compliance programs for ensuring functional standards are properly implemented. Developing and maintaining functional requirements—which define how information is processed and shared with other systems—also is necessary for agencies to develop and implement systems which consistently and accurately capture transactions.
- Industry Partnership includes ongoing acquisition and management of software and services, information sharing programs for industry and agencies, and cooperative efforts with vendors. Fostering partnerships with industry allows vendors to understand what systems capabilities the government needs and leads to improved availability of off-the-shelf Federal financial systems and services.
- Systems Infrastructure includes development of governmentwide financial management systems capabilities, resolution of new millennium issues, and processes to improve the management and organization of efforts supporting financial management systems. Systems infrastructure focusses on the global issues impacting financial management systems which must be addressed in the planning and investment function.

Taken together, these categories as shown in Chart 3 form a cycle similar to the capital programming cycle. Table 6 outlines key tasks, within each category, which taken together provide for improvements in the financial information, electronic transaction, FFMIA compliance and year 2000 preparation.



**Table 6. Activities Supporting Financial Systems Improvements**

| Areas of Improvement                              | Planning and Investment                           | Data Requirements               | Functional Requirements                              | Industry Partnerships   | Systems Infrastructure   |
|---|---|---------------------------------|--|---|--|
| Standardize the Financial Information Environment |   | Implement and expand data model | Core systems<br>Feeder systems<br>Systems interfaces | Establish a knowledge-base<br><br>Improve procurement process | Improve consistency of central accounting information<br><br>Institutionalized JFMIP PMO |
| Capture Transactions Electronically <sup>1</sup>  |   |                                 | IGOTS requirements                                   | IGOTS partnership   | Credit card implementation   |
| FFMIA   | Remediation plans<br><br>Budget reporting changes | SGL implementation compliance   | Systems requirements compliance                      |   |  |
| Ensure Systems are Year 2000 Compliant            |   |                                 |  |   | Modify systems to be year 2000 compliant.  |

<sup>1</sup>. Credit card systems are being considered for Intra-governmental Transfers Systems (IGOTS), to support intra-governmental exchange of goods and services (for relatively high volume, low dollar transactions). Several prototypes are under consideration for fiduciary transfers. More information on capturing transactions electronically can be found in *Chapter G. Modernize Payments and Business Methods*.

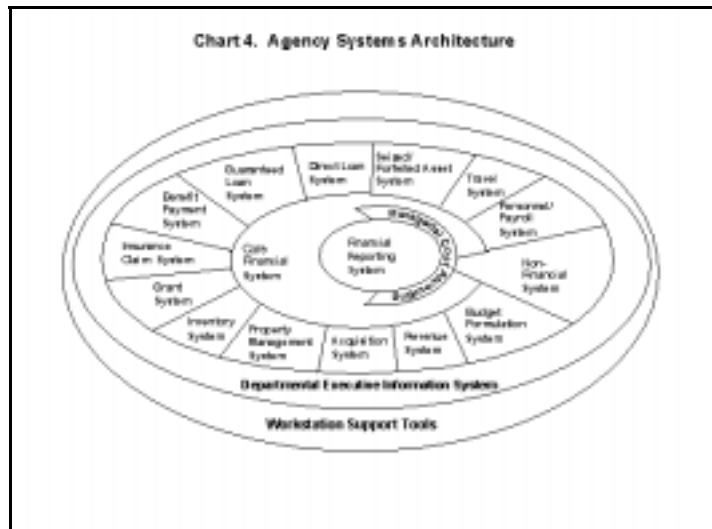
*Standardize the Financial Systems Environment*

System requirements serve as a baseline for implementing common and compatible financial systems across the government. Systems requirements, which are composed of mandatory and value-added requirements, can be divided between core financial system requirements and feeder system requirements.

The JFMIP Financial Systems Requirements Framework identifies core financial systems, managerial cost accounting, and thirteen subsidiary financial systems. (See Chart 4). The systems requirements describe and communicate functional capabilities necessary for a Federal financial system to comply with Federal laws, accounting standards, and policies. Common system requirements ensure standards are met, reduce development time and cost, and organize the market for Federal financial management systems. The CFO Financial Systems Committee, in concert with the JFMIP PMO, is establishing processes to do this. The first task of the PMO is to update and communicate financial management system requirements where needed.

*Core Financial Systems Requirements:* The core financial system requirements were defined in 1998 under the direction of the CFO Council Financial Systems Committee. These requirements serve as the baseline for developing the tests to determine COTS core accounting system certification. Under a reengineered testing process, detailed certification test results will be available on the functional design and other features of certified core financial management systems software. This “consumer report” should provide agencies and vendors with a better understanding of the marketplace and reduce the acquisition costs and risks of implementing COTS products. The testing and certification process will also extend to custom-designed or customized COTS products that are being made available to other Federal agencies on a franchising or cross-servicing basis.

*Feeder System Requirements:* The passage of FFMIA and the commercial market’s development of “enterprise” systems—that support multiple financial management functions—pose new challenges for non-core financial management systems requirements. A complete set of



system requirements for non-core systems will provide agencies and private sector vendors the necessary information to consider “enterprise” solutions to system requirements. It will also resolve key interface issues related to passing data electronically using commercial transaction processing services.

The systems requirements documents have been established for six of the 13 subsidiary systems, as shown in Chart 4 above. JFMIP is working towards updating the existing requirements. Four of the system requirement documents issued in 1993 or earlier need to be updated to reflect significant changes in laws, regulations, and accounting standards:

- GSA is sponsoring the update of the *travel system requirements*;
- The CFO Council Financial Systems Committee and JFMIP in coordination with Human Resources Technology Council (HRTC) are sponsoring the update of *personnel/payroll system requirements*, building on the OPM and HRTC efforts updating personnel requirements. The expected reissuance date of the Personnel/Payroll systems requirements is in the summer of 1998;
- Work is about to begin on *Seized/Forfeited Assets System requirements*; and
- The Federal Credit Policy Working Group will be asked to review the *Direct and Guaranteed Loans System Requirements* and update as appropriate.

Seven functional areas remain in development: *grants, benefit payments, acquisition, property management, revenue, insurance claims and budget formulation*. Development of systems requirements in grants, benefit payment, acquisition and property management will commence in 1998. The goal is to publish or update non-current requirements for all functional areas by the end of 1999.

*Interfaces Between Systems:* Systems provided by commercial vendors and in operation at agencies have become more modular. This has increased the emphasis placed on standard data and processes to support integration between the various accounting systems and applications. The JFMIP PMO and the CFO Council Financial Systems Committee will initiate efforts to define appropriate data exchange and processing connections between critical financial management systems in the Federal Government. The first area to be addressed will be the interface between Federal systems and the charge card vendor systems offered under the new GSA Charge Card Contract. This effort will be led by the Financial Implementation Team for Electronic Commerce. See *Chapter G. Modernize Payments and Business Methods* for more detail.

Establishing a Knowledge Base: Improving the partnership with industry is facilitated through open communication of requirements. A comprehensive database of requirements, linked to the sources of those requirements, will be updated and communicated so that COTS vendors can better understand Federal system needs and resulting market opportunities. Testing and certification processes will be separated to assist new vendors in entering the market when they are ready, rather than waiting until the next procurement cycle. Agencies and potential vendors will have a clearer understanding of what is provided by COTS packages, as information on the functional design and features of certified core financial management systems software are available. The current procurement schedule also will be redesigned.

Improve Procurement Process: The CFO Council has recognized for a long time that the current financial management systems procurement process and supporting Financial Management Systems Software (FMSS) schedule were not meeting the needs of the Federal Government. Efforts to re-engineer the current procurement process began in FY 1997 and are moving forward. The main focus is to re-engineer the procurement process for financial software, which will include replacing the current schedule with a multiple award, indefinite delivery, indefinite quantity, contract for products certified under a new testing process. The new process will be in place during FY 1999.

JFMIP Project Management Office (PMO): In 1997 the Joint Systems Solution Team, under the auspices of the CFO Council Financial Systems Committee, made recommendations that were approved by the CFO Council to establish a program management office (PMO) within JFMIP. The PMO will: (i) develop financial management systems requirements; (ii) address system integration issues; (iii) interpret requirements in the context of off-the-shelf software; (iv) develop comprehensive testing vehicles; (v) serve as an information clearinghouse for Federal financial management system procurement; and (vi) facilitate communication with the private sector. JFMIP is moving forward to establish the PMO that will assist in improving financial management systems as outlined further in the following area of responsibility.

The JFMIP PMO will provide information on software to support functionality outside of core accounting on the replacement FMSS 99 schedule and identify other schedules which include financial management systems with relevant software, maintenance, and support services. These activities will provide more information, assistance, and choices to agencies and better market information to vendors. However, to match private sector experience in acquiring and implementing COTS financial software, the Federal Government must reduce system procurement and implementation cycle time. PMO will be undertaking efforts to improve system procurement and implementation processes.

Implement and Expand Data Model: In 1998, Treasury published a model describing data elements needed to support governmentwide reporting of budget execution information to OMB and Treasury, and is now building a system, Federal Agencies Centralized Trial-Balance Systems (FACTS) II, to collect these data by elements. Collecting data by elements rather than using multiple forms will eliminate reporting inconsistencies and make data more reliable. In Fall 1999, data will be used to fulfill the requirements of the SF 133 "Report on Budget Execution", the SF 2108, Year-End Closing Statement, and populate much of the initial set of prior year data on the "Program & Financing Schedule" in the President's Budget. The data model will be expanded in the future to cover other aspects of financial reporting and eliminate additional form-based reporting to OMB and Treasury.

Improve Consistency of Central Accounting Information: Treasury Financial Management Services (FMS) used FACTS to collect data from all CFO Act agencies that was published in the first-ever governmentwide, consolidated financial statement.

### *Capture Transactions Electronically*

Capturing financial events in the systems is the basis for good financial information. Efforts are underway to provide methods for capturing data electronically. Further improvements for capturing intra-governmental transfers now in process will result in better information for preparing the governmentwide financial statements.

*Intra-governmental Transfers:* The Federal Government currently is developing requirements for intra-governmental transfers, i.e., cash transfers between budget accounts, in exchange for goods and services. Requirements specifying data that must be provided to transferees does not exist, and agencies are experiencing difficulty aligning data from transfer systems with records in their accounting systems. The Electronic Processes Initiatives Committee is working to define common functional requirements for the systems that process these transfers. More information on this project can be found in *Chapter G. Modernize Payments and Business Methods*.

*Standardizing Agency Credit Card Implementation:* In support of its governmentwide electronic commerce role, GSA signed a master contract for card-issuing services to support Federal procurement and payment activities for small purchases, travel, motor vehicles, intra-governmental services and other functions. Treasury also entered into an agreement to provide card issuing and acquiring services for intra-governmental transactions. The CFO Council encourages agencies to use these services to develop and prototype new electronic commerce products, promote the replacement of current single card programs and integrate front- and back-end processing (e.g., authorization, reconciliation, accounting, and reporting). More information on this initiative can also be found in *Chapter G. Modernize Payments and Business Methods*.

### *Ensure Implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA)*

FFMIA mandates that agencies implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government SGL at the transaction level. FFMIA also requires that auditors report on substantial compliance in their financial statement audits. In September 1997, OMB issued implementation guidance that defined which requirements must be satisfied for financial management systems to be considered substantially compliant.

FY 1997 is the first year for which these audits were performed. As previously mentioned in Chapter A, as of June 1998, 21 agencies have submitted their 1997 audited financial statements. Of these 21 agencies, five agencies—Education, Department of Energy (DOE), GSA, National Aeronautics and Space Administration (NASA), and National Science Foundation (NSF)—were reported to be in compliance with FFMIA, while 16 agencies were reported by auditors to be in substantially non-compliance.

Because the process for reviewing systems for compliance is not well defined, the CFO Council and PCIE are planning to develop a methodology to appropriately review FFMIA functional management systems compliance. This methodology will be available for audits performed for FY 1999 financial statements.

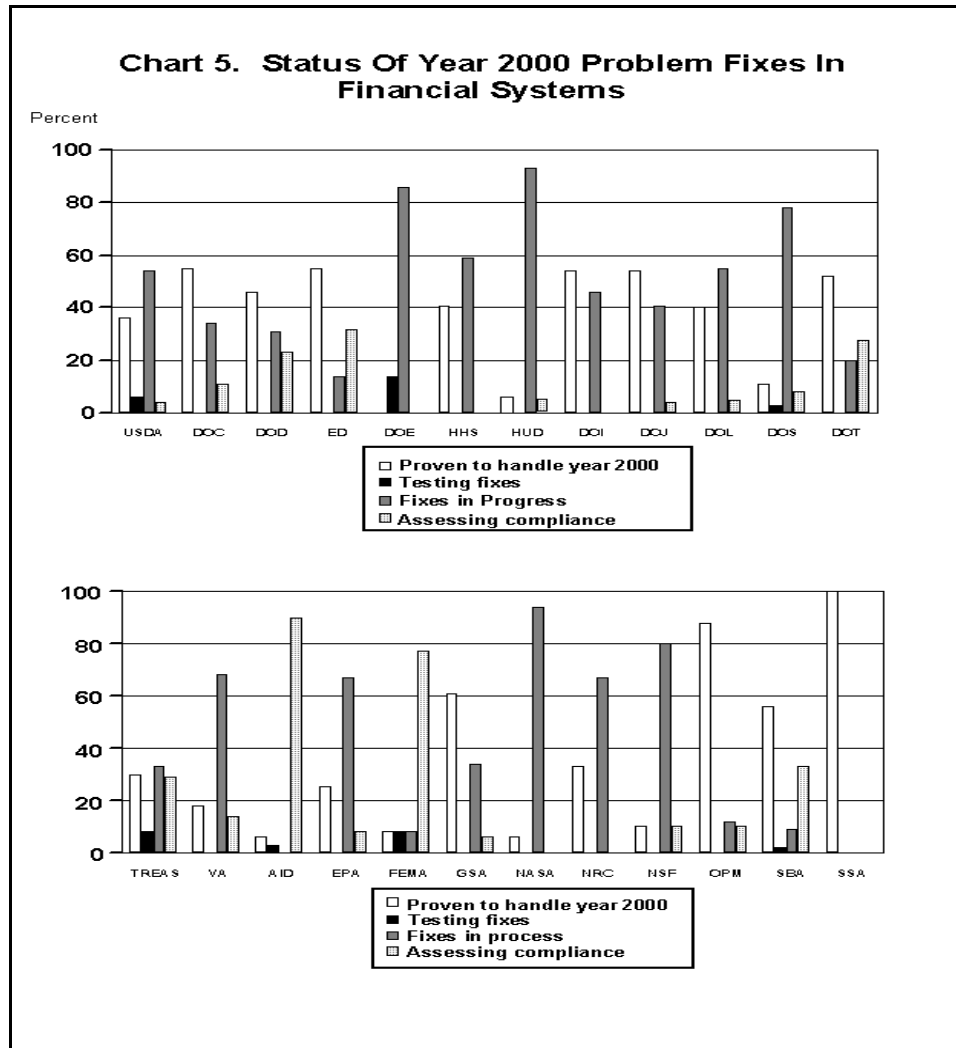
When agencies are found to be non-compliant with FFMIA, they must develop and include remediation plans in their financial management status report and five-year plan as required by OMB Circular A-11 (Preparation and Submission of Budget Estimates). Plans to upgrade or replace agency financial management systems must be part of a comprehensive information technology planning process that includes the agency architecture and plans for non-financial

management systems. Information system improvements of large magnitude also must be included in the agency's capital planning processes.

*Ensure Systems are Year 2000 Compliant*

In February 1998, the President's Council on Year 2000 Conversion was created to ensure that the Federal Government was doing everything possible to minimize year 2000-related disruptions in the lives of the American people. The President's Council on Year 2000, comprised of representatives from over 35 major Federal executive and regulatory agencies, is focused on supporting agency efforts to prepare their mission-critical systems for the year 2000. They are also coordinating agency efforts to reach out beyond the Federal Government—to State and local governments, businesses and other private sector entities, and foreign governments and organizations—to increase awareness of the problem and offer support.

Chart 5 shows the status of efforts to ensure that all financial applications are ready for year 2000 processing. As of the end of FY 1997, 38 percent of the operating financial management applications were tested and proven year 2000 compliant. Agencies have reported significant progress in assessing and fixing non-compliant financial management systems since last Fall.



## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 26 tasks outlined in last year's plan, 14 were completed, 4 are on-target, 5 have been re-scheduled, and 3 will not be completed because of changed circumstances.

To improve financial management system, the following objectives, task, and milestones were established:

| <b>OBJECTIVE: Develop a plan to upgrade and modernize Federal financial systems.</b>   |  |
|--|--|
| <p><b>TASKS:</b></p> <p>Develop agency CFO plans as part of the budget request, ensure that sufficient resources are provided in agencies' budgets/resource plans, and identify the budget impact of potential changes to the plans (Agencies)</p> <p>Implement financial systems plans for single integrated financial management systems, and coordinating financial, program, budget, and procurement activity (Agencies)</p> <p>Using a governmentwide inventory of financial management systems, produce a status report on governmentwide financial management systems and modernization (OMB and CFO Council)</p>   | <p><b>MILESTONES:</b></p> <p>Annually in September</p> <p>See agency specific plans</p> <p>Annually</p>  |
| <b>OBJECTIVE: Standardize the financial systems environment</b>  |  |
| <p><b>TASKS:</b></p> <p>Establish mechanisms for ongoing communication with vendors of financial software and services (JFMIP PMO and GSA)</p> <p>Establish an electronic repository for financial management software and related information (CFO Council Systems Committee and JFMIP PMO)</p> <p>Establish a permanent program management office (PMO) within JFMIP to develop financial management systems requirements, address system integration issues, interpret requirements in the context of off-the-shelf software, develop comprehensive testing vehicles, serve as an information clearinghouse for financial management systems procurement, and communicate with the private sector (CFO Council, OMB and JFMIP)</p> <p>Implement revisions to the core financial system acquisition process:</p> <ul style="list-style-type: none"> <li>—Initiate policy changes to OMB Circular A-127 (OMB)</li> <li>—Initiate policy changes to the Federal Acquisition Regulation b(GSA)</li> <li>—Establish research procurement reforms and types of procurement vehicles that could be used (CFO Council, GSA, OMB and JFMIP PMO)</li> </ul> <p>Implement new testing procedures for core financial system software (JFMIP PMO)</p> <p>Establish new contract vehicle(s) to replace the existing FMSS schedule for purchasing core financial systems software and related services (GSA)</p> <p>Develop a method for reviewing agency FFMIA compliance for financial management systems requirements (CFO Council Systems Committee and PCIE)</p> <p>Identify standard processes and requirements for selected financial feeder systems, e.g., personnel/payroll and travel, and establish testing procedures and appropriate multi-agency procurement vehicle(s) (JFMIP PMO)</p> <p>Publish updated systems requirements for financial feeder systems , e.g., personnel/payroll and travel (JFMIP)</p> <p>Collect financial information for the governmentwide financial statements and analysis activities (Treasury)</p> <p>Convert the GOALS system to a new technology platform to improve flexibility and ease of use (Treasury)</p> | <p><b>MILESTONES:</b></p> <p>9/98</p> <p>10/98</p> <p>10/98</p> <p>10/98</p> <p>10/98</p> <p>10/98</p> <p>9/98 solicitation<br/>1/99 contract starts</p> <p>3/99</p> <p>6/99</p> <p>11/98</p> <p>Annually</p> <p>10/00</p> |



|  |   |
|--|---|
| <p>Collect budgetary information through the FACTS II system for governmentwide analysis activities (Treasury)</p> <p>Implement the budget execution data model at agencies to provide a uniform account code classification structure including data elements and definitions necessary for governmentwide reporting of budget and financial information (Treasury, OMB, SGL Board, JFMIP PMO and Agencies)</p> <p>Expand the data model to include other kinds of budget execution data, asset and liability types of data, and other financial transaction supporting data (Treasury, OMB, SGL Board and JFMIP PMO)</p> | <p>11/99</p> <p>Starting in 10/98</p> <p>TBD</p>  |
| <p><b>OBJECTIVE: Capture transactions electronically</b></p>   |   |
| <p><b>TASKS:</b></p> <p>Implement Federal Government requirements for processing intra-governmental transfers (see chapter G)</p> <p>Coordinate effort to standardize agency credit card implementation (see chapter G)</p>  | <p><b>MILESTONES:</b></p> <p>3/99</p> <p>9/99</p>   |
| <p><b>OBJECTIVE: Implement the process for compliance reporting as required in the Federal Financial Management Improvement Act of 1996 (FFMIA)</b></p>  |   |
| <p><b>TASKS:</b></p> <p>Implement FFMIA provisions including:</p> <ul style="list-style-type: none"> <li>—Issue annual assessment of agency compliance with FFMIA as part of financial statement audits (Agency IGs)</li> <li>—Complete and submit to OMB remedial financial management plans as part of agency budget submissions (Agencies)</li> </ul> <p>Incorporate FFMIA implementation guidance into revised OMB Circular A-127 (OMB)</p> <p>Update the <i>Federal Financial Management Status Report and Five-Year Plan</i> to report on the status of FFMIA implementation (OMB and CFO Council)</p>               | <p><b>MILESTONES:</b></p> <p>Annually, starting with FY 1997 audits</p> <p>Annually, starting 9/98</p> <p>10/98</p> <p>Annually</p> |
| <p><b>OBJECTIVE: Ensure Federal management systems are Year 2000 compliant</b></p>   |   |
| <p><b>TASKS:</b></p> <p>Monitor financial management systems Year 2000 conversion efforts being tracked through Chief Information Officers level reporting and identify governmentwide problem areas related to financial management systems (OMB)</p>   | <p><b>MILESTONES:</b></p> <p>3/99</p>   |

## C. IMPLEMENT GOVERNMENT PERFORMANCE AND RESULTS ACT

**PRIORITY:** Redesign the way that Federal agencies plan, budget, manage, evaluate, and account for Federal programs.

**BACKGROUND:** Under GPRA, agencies are required to develop strategic plans, set performance goals (targets), and measure their performance against these goals. The agency strategic plans required by the Government Performance and Results Act (GPRA) provide the framework for implementing all other parts of this Act, and are a key part of the effort to improve the performance of government programs and operations. Complementing the strategic plans are annual performance plans that set annual goals with measurable target levels of performance, and annual program performance reports that compare actual performance to the annual goals. Together, these are the basis for the Federal Government to manage for results.

### **ACCOMPLISHMENTS:**

- By September 30, 1997, the first GPRA statutory deadline, the 24 CFOs Act agencies submitted strategic plans to Congress. In addition, the agencies began submitting their annual performance plans to Congress in early 1998.
- In May 1998, the GPRA Implementation Committee distributed the initial version of *Integrating the Budget Structure, Financial Statements, and Performance Measures into One Understandable Package*. This document discusses the need for alignment of key financial information to ensure the successful implementation of GPRA.
- Under the theme "People Achieving Results," a series of bulletins were released addressing issues related to linking performance measures to personnel accountability initiatives.
- From September 1997 through March 1998, the GPRA Implementation Committee updated the user guide *Integrating Performance Measurement into the Budget Process*. This "living" guide, first released in January 1997, provides a model to move toward the ultimate goal of connecting resources to results with current ideas, practices, formats, processes, and steps.
- September 1997 inaugurated a monthly newsletter: *Heard Around Town*. The newsletter, provided by the GPRA Implementation Committee, alerts the Federal community to developments on integration of performance measurement into the budget process. The newsletter provides "sound bite" length news items which may be pursued as interest warrants.

**ACCOMPLISHMENTS:—Continued**

- As a result of CFO Council outreach efforts, approximately 500 Federal employees attended GPRA-related educational events.
- The GPRA Implementation Committee assisted GAO in developing its February 1998, *Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*.

**STATUS/PERFORMANCE INFORMATION**

Related internet site: <http://www.financenet.gov/financenet/fed/cfo/gpra/gpra.htm>  
<http://www.npr.gov//initiati/mfr/index.html>

*GPRA Compliance*

The 24 CFOs Act agencies sent Congress their strategic plans by GPRA's first statutory deadline, September 30, 1997. In addition, all CFOs Act agencies began submitting their first annual performance plans to OMB and Congress. The strategic plans and performance plans of several agencies are available on the GPRA Implementation Committee's Home Page.

Throughout the year, the GPRA Implementation Committee played a key role in assisting OMB particularly in educational activities and in providing feedback on draft OMB guidance. This inter-agency partnership will continue as agencies prepare to meet the March 2000 annual performance reporting requirement.

*Integrating the Budget Structure, Financial Statements, and Performance Measures*

The GPRA Implementation Committee distributed a report titled, *Integrating the Budget Structure, Financial Statements, and Performance Measures into One Understandable Package*. The report focuses on the need for alignment of key financial information to ensure the successful implementation of GPRA. Topics include: (i) the current environment and background on the three unintegrated pieces; (ii) potential challenges and problems encountered during integration; (iii) how Federal agencies are addressing the integration challenges; and (iv) a summary of next steps. The report is available on the GPRA Implementation Committee's home page.

*"People Achieving Results"*

The GPRA Human Resources Workgroup, a joint workgroup of the Interagency Advisory Group of Federal Personnel Directors and the CFO Council's GPRA Implementation Committee, was formed to address issues related to linking performance measures to personnel accountability initiatives. The workgroup products, issued as bulletins under the theme, "People Achieving Results," focus on human resources issues that impact successful implementation of

GPRA. A total of nine bulletins are available on the GPRA Implementation Committee's Home page under "People Achieving Results."

### *Integrating Performance Measurement into the Budget Process*

The CFO Council's GPRA Implementation Committee updated its "living" document, *Integrating Performance Measurement into the Budget Process*. This user guide, first released in January 1997, was developed to aid program managers in integrating performance measurement into the budget process. The 1998 version incorporates suggestions received since the document's initial release, which include: FY 1999 budget submission samples, more ideas on sources of help and information, and basic program management teaching tools for managers not familiar with the budget process.

### *Heard Around Town*

The GPRA Implementation Committee started publishing a monthly newsletter, *Heard Around Town*, to communicate information on integrating performance information into the budget process. Monthly editions of this newsletter have been published since September 1997. This widely distributed electronic and newsletter service distills information in capsule format to alert readers of breaking events in performance information and the budget process. OMB, the Congress, GAO, the Office of Personnel Management (OPM), Congressional Institute, the CFO Council and PCIE all have found this newsletter a useful tool in conveying GPRA-related information to the Federal community.

### *Outreach Efforts*

Numerous outreach initiatives were undertaken this past year to help educate Federal managers and employees on GPRA.

- The GPRA Implementation Committee members made presentations at various training/outreach sessions throughout the year, showcasing the publications described above. For example, in February 1998, the Committee and the DC Chapter of the Association of Government Accountants co-sponsored a full day conference for 165 Federal employees, which focused on compliance and performance management issues.
- The PCIE and CFO Council established a joint working group to look at issues that may impact the two communities. The workgroup found considerable support for better dialogue on issues of GPRA-related interest. As a result, in January 1998, 153 Federal employees attended a symposium titled, "Two Sides of the GPRA Coin ... Continuing Dialogue between the CFOs and PCIE Communities."
- In April 1998, 176 Federal employees attended a half-day symposium titled, "Purpose of Program Evaluations and Results Act Use." Presenters were representatives from the Congress, OMB, GAO, National Academy of Public Administration, Department of Education, Department of Health and Human Services (HHS), and Department of Transportation (DOT). The symposium proved to be very timely and informative for agencies in the early stages of determining the breadth and depth of their program evaluations. In addition, the symposium enhanced collaboration between CFO representatives and program evaluators.
- The GPRA Implementation Committee continues to update its home page to utilize the powerful tool of information technology. Format improvements were made to the home page to make it easier to locate and retrieve information. GPRA-related documents produced by the Committee are available, as are conference schedules, training sessions, and meeting agendas. In addition, links have been established to other GPRA-related home pages and resources.

### *GAO Partnership*

GAO and the GPRA Implementation Committee continued their longstanding partnership to assist agencies as they implement GPRA. Most recently, the Committee worked closely with GAO in the development of GAO's February 1998 *Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*. The guide is organized around three core questions that provide a framework for congressional and agency decisionmakers to use to promote sound, accountable management practices. By disseminating draft portions of the guide through its home page, the GPRA Implementation Committee was able to assist GAO in soliciting comments on the guide's overall framework from a wide range of agency representatives and to provide agencies preliminary guidance on the issues that interest congressional decisionmakers.

### *CFO Council/OMB Performance Management Initiative*

The CFO Council and OMB incorporated the discipline of performance management by reporting quarterly on the progress made toward the eight priorities and completion of their relevant tasks as referenced in the *1997 Federal Financial Management Status Report and Five-Year Plan*. A summary of prior year performance is available in the financial management plan section of each chapter of this report. This reporting method will continue to be used as a performance management tool to ensure that the CFO Council and OMB continue to focus on the eight CFO Council priorities and relevant tasks and to encourage performance reporting on specific, quantifiable projects.

## FINANCIAL MANAGEMENT PLANS

*Please note:* To emphasize the need for agencies to shift from compliance with statutes to improving financial and program management, the “GPRA Implementation Committee” has changed its name to “Performance Management Committee.” This name change is effective June 1998.

**Prior Year Performance:** Of the 23 tasks outlined in last year’s plan, 21 were completed, 1 is on-target, and 1 will not be completed because of changed circumstances.

To implement GPRA, the following objectives, tasks, and milestones were established:

| <b>OBJECTIVE: Inform and advise agency management, regional and field locations, and Congressional committees on GPRA implementation</b>  |   |
|---|---|
| <p><b>TASKS:</b></p> <p>Conduct performance management forums for the Federal community, i.e., political appointees, Senior Executive Staff, and managers (CFO Council’s Performance Management Committee)</p> <ul style="list-style-type: none"> <li>—Program Evaluation: IG’s Role vs. Management Role</li> <li>—Performance Reports: OMB Guidance</li> </ul> <p>Issue periodic bulletins on emerging issues to identify problems, share information, highlight examples, and offer solutions (CFO Council’s Performance Management Committee)</p>  | <p><b>MILESTONES:</b></p> <p>4/99</p><br><p>4/99</p>  |
| <b>OBJECTIVE: Ensure effective use of performance information in the budget process at all levels of decisionmaking—agency, OMB, and the Congress—and ensure that the mandates of the CFOs Act and the budget process are consistent with GPRA implementation</b>   |   |
| <p><b>TASKS:</b></p> <p>Prepare guidance on annual performance plans for FY 2000 budget (OMB)</p> <p>Submit FY 2000 budgets and performance plans to OMB with performance information required by OMB Circular A-11 (Agencies)</p> <p>Conduct Fall performance review of FY 2000 budget and proposed performance goals for FY 2000 (OMB and Agencies)</p> <p>Prepare governmentwide performance plan for FY 2000 (OMB)</p> <p>Submit FY 2000 Performance Plan to Congress (Agencies)</p> <p>Issue updates to the “living” user guide (CFO Council’s Performance Management Committee)</p> <ul style="list-style-type: none"> <li>—<i>Integrating Performance Measurement into the Budget Process</i></li> <li>—<i>Integrating the Budget Structure, Financial Statements, Performance Measures into One Understandable Package</i></li> <li>—<i>People Achieving Results</i></li> </ul> <p>Submit FY 1999 Program Performance Report (Agencies)</p> | <p><b>MILESTONES:</b></p> <p>6/98</p> <p>9/98</p><br><p>9/98–12/98</p><br><p>2/99</p> <p>2/99–4/99</p> <p>4/99</p><br><p>3/00</p> |

## D. DEVELOP HUMAN RESOURCES AND CFO ORGANIZATIONS

**PRIORITY:** Develop a high quality Federal financial management workforce and appropriate CFO organization structures to support the successful implementation of agency missions.

**BACKGROUND:** The Human Resources Committee (HRC) of the CFO Council was established to assist CFOs in improving the recruitment, retention, performance, and professional development of financial management personnel within the Federal Government. Membership includes senior financial managers from several Federal agencies including OMB, Treasury and the JFMIP, with participation from OPM.

### ACCOMPLISHMENTS:

- The CFO Council Fellows Program was initiated with the selection of nine fellows to serve one-year appointments at host organizations beginning in April 1998. The purpose of the program is to provide career development opportunities to promising financial managers and develop a cadre of experienced and diverse leaders ready to step into future Federal financial management executive positions.
- In September 1997, a workgroup of HRC members and representatives of the Interagency Advisory Group (IAG) published *Current Recruitment and Retention Tools*. This document summarizes existing authorities—some rarely used or little known—available to management for recruiting and retaining highly qualified personnel. It summarizes in six pages information from three volumes of Title V of the Code of Federal Regulations.
- The HRC met with OPM officials to address concerns regarding OPM's conceptual approach for revising financial classification standards. OPM agreed to work with the HRC to more accurately capture the changing nature of the Federal financial management work. They also agreed to examine the qualification standards in light of those changes and to seek a more cohesive integration of the standards.

### **ACCOMPLISHMENTS—Continued**

- The HRC and JFMIP defined core competencies for Federal personnel who perform financial management functions. The following core competency documents are available:
  - *Core Competencies in Financial Management for Information Technology Personnel in the Federal Government;*
  - *Core Competencies for Financial Systems Analysts in the Federal Government; and*
  - *Core Competencies in Financial Management for Management Analysts and Financial Specialists.*
- The HRC and the Private Sector Council sponsored the Federal Financial Education Forum in February, which was hosted by the University of Maryland School of Public Affairs. The Forum drew together Federal leaders, education providers, and industry representatives to recommend future directions in Federal financial professional development.

### **STATUS/PERFORMANCE INFORMATION**

Related internet site: <http://www.financenet.gov/fed/cfo/hrc.htm>

The Core Competencies provide a solid foundation for improving the financial management workforce. The Committee now proposes to build on that foundation with specific initiatives in the following areas:

#### *Qualification and Classification Standards*

The HRC gained OPM's commitment to collaborate on thoroughly evaluating and upgrading current qualification standards for the financial management occupational series. A series of focus groups to document current and emerging work requirements took place in April 1998 as a first step in this joint venture. A proposal for revision of the standards will be available in July 1998.

#### *Recruitment and Retention*

HRC's recent collaboration with the IAG identified the value of using selective placement factors in recruiting to ensure that the most qualified individuals will rise to the top of candidate certifications. This is a current authority that may be underutilized by selecting officials. The HRC will develop model selective placement factors for various positions, and then issue a policy from the CFO Council to strongly encourage their use in the identification of candidates. The Committee will identify the range of positions, produce the models, and issue the policy guidance by March 1999.



The HRC continues to pursue several strategies to recruit competitively for highly qualified financial personnel. Recognizing that many CFO agencies have limited capability to mount a sustained and effective recruitment effort, the HRC will establish a consolidated recruiting network for financial management staff. The HRC will develop a strategy for joint recruitment and determine an appropriate way to provide a clearinghouse of recruitment information for both candidates and hiring agencies. This may include publicizing financial management governmentwide job opportunities at colleges and universities, adapting existing automated tools for screening applicants, and sharing candidates across agencies.

HRC is also working with OPM to maximize recruitment from the Presidential Management Intern (PMI) program. For the current PMI cycle, OPM has sent the HRC a roster of all PMI candidates having either a graduate or undergraduate degree in accounting, finance, or other closely related field. HRC distributed that roster to all CFO agencies. The PMI program is a direct hire program, so agencies can move quickly to interview and offer a position.

The HRC will identify colleges and universities that OPM will add to its list of recruiting sources for the next cycle. The Committee will arrange with OPM to participate in promotional activities and get the word out that the Government is looking for highly talented financial managers.

#### *Continuing Professional Education (CPE)*

The HRC and the Private Sector Council sponsored the Federal Financial Education Forum in February, which was hosted by the University of Maryland School of Public Affairs. The Forum drew together Federal leaders, education providers and industry representatives to recommend future directions for development of Federal financial professionals. Participants at the Forum emphasized the need to establish a standard for CPE and require all financial management employees to meet that standard. The HRC will develop a statement of principles for CPE and will work with OPM and other appropriate organizations to implement a standard. The statement of principles will be developed by July 1998.

The HRC recognizes that a standard for professional development cannot be achieved without a sustainable infrastructure. The Committee will propose a strategy that will provide long-term financing for CPE. It will partner with the Private Sector Council, OPM, and education providers to facilitate the goals of professional development. The infrastructure strategy will be developed by July 1998.

The core competencies serve as a foundation for the improvement of the financial management workforce. The HRC and JFMIP will establish a core competency review board to ensure that the competencies documents are constantly updated with existing and emerging requirements.

#### *CFO Organizations*

A description of the 24 CFO organizations is found in Table 7. It indicates for each CFO agency the functions over which the CFO has some managerial responsibility. The third and fourth columns identify the current CFOs and Deputy CFOs.

**Table 7. Chief Financial Officer Organizations**

| Agency     | CFO Functions      | Chief Financial Officer  | Deputy Chief Financial Officer |
|------------|--------------------|--------------------------|--------------------------------|
| USDA*      | F S G Gp           | Sally Thompson           | Allan Johnson (A)              |
| Commerce*  | B F I P Pr G Gp O  | W. Scott Gould           | Anthony Musick                 |
| DOD*       | B F Gp* S          | William J. Lynn          | Nelson Toye                    |
| Education* | F S Pr G           | Don Rappaport            | vacant                         |
| DOE*       | B F S              | Michael Telson           | Elizabeth Smedley (A)          |
| HHS*       | B F I Pr G Gp* P O | John Callahan            | George Strader                 |
| HUD*       | B E F S Gp         | Richard F. Keevey        | William E. Dobrzykowski        |
| DOI*       | B F Gp I P Pr G    | John Berry               | R. Schuyler Leshner            |
| DOJ*       | B F Gp I P Pr O    | Stephen Colgate (A)      | Santal Manos                   |
| DOL*       | E F S              | Kenneth M. Bresnahan (A) | Brenda Kyle (A)                |
| State*     | B F S              | Kathleen Charles (A)     | Larry Eisenhart                |
| DOT*       | B F Gp S           | vacant                   | David Kleinberg                |
| Treasury*  | B F Gp I P Pr O    | Nancy Killefer           | Steve App                      |
| VA*        | B F Gp I Pr        | D. Mark Catlett (A)      | Frank W. Sullivan              |
| AID        | F                  | Tony Cully (A)           | Elmer S. Owens (A)             |
| EPA*       | B F Gp S           | Sallyanne Harper         | Michael Ryan (A)               |
| FEMA       | B F S Pr G         | Gary D. Johnson          | James L. Taylor                |
| GSA        | B F Gp S           | Thomas Bloom             | William B. Early               |
| NASA*      | B F S              | Arnold Holz              | Kenneth J. Winter              |
| NSF        | B F Pr G           | Joseph Kull              | Albert Muhlbauer               |
| NRC        | B F Gp S           | Jesse L. Funches         | Peter Rabideau                 |
| OPM        | B F Gp S           | J. Gilbert Seaux         | Kathleen M. McGettigan (A)     |
| SBAB       | F S                | J. Larry Wilson          | Gregory Walter                 |
| SSA        | B F Pr G S O       | Yvette Jackson           | Thomas G. Staples              |

\* CFOs Presidentially Appointed with Senate Confirmation (A) Acting

Function Codes:

- B Budget formulation and execution
- E Budget execution only
- F Finance operations and analysis
- G Grants management
- Gp GPRA (primary agencywide responsibilities)
- Gp\* GPRA (primary agencywide responsibilities except for the Strategic Plan)
- I Information resources management office (IRM) (CIO responsibility per ITMRA)
- O Other
- P Personnel
- Pr Procurement
- S Financial systems only (excludes other types of system development by IRM/CIO Office)

## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 19 tasks outlined in last year's plan, 18 were completed and 1 has been re-scheduled.

To develop human resources and CFO organizations, the following objectives, tasks, and milestones were established:

| <b>OBJECTIVE: Implement methods to assist agencies in recruiting and retaining qualified financial management personnel</b>   |  |
|---|--|
| <p><b>TASKS:</b></p> <ul style="list-style-type: none"> <li>Promote best practices in recruiting (CFO Council and OPM)</li> <li>Establish a consolidated recruiting network for financial management staff (CFO Council)</li> <li>Produce a set of model selective placement factors for use by recruiters and selecting officials (CFO Council and OPM)</li> <li>Improve recruitment of finance personnel from the Presidential Management Intern Program (CFO Council and OPM)</li> <li>Expand use of FinanceNet's web and e-mail resources for disseminating information on Federal financial management vacancies (CFO Council, JFMIP and OPM)</li> </ul>   | <p><b>MILESTONES:</b></p> <ul style="list-style-type: none"> <li>Ongoing</li> <li>2/99</li> <li>3/99</li> <li>4/99</li> <li>Ongoing</li> </ul>             |
| <b>OBJECTIVE: Strengthen qualifications standards for financial management personnel</b>  |  |
| <p><b>TASKS:</b></p> <ul style="list-style-type: none"> <li>Participate in OPM's revision to the qualification and classification standards for the GS-500 professional and administrative group (HRC)</li> <li>Conduct focus groups with OPM to document deficiencies in current qualification standards (CFO Council)</li> <li>Draft proposal for strengthening qualification standards (CFO Council and OPM)</li> <li>Reach consensus on specifics of new standards (CFO Council and OPM)</li> <li>Develop implementation plan for new standards (CFO Council and OPM)</li> <li>Implement new standards or report progress toward that goal (CFO Council and OPM)</li> </ul>   | <p><b>MILESTONES:</b></p> <ul style="list-style-type: none"> <li>Ongoing</li> <li>5/98</li> <li>7/98</li> <li>9/98</li> <li>10/98</li> <li>3/99</li> </ul> |
| <b>OBJECTIVE: Promote effective financial management education and training within the Federal Government</b>   |  |
| <p><b>TASKS:</b></p> <ul style="list-style-type: none"> <li>Establish a policy on quality of training and present to the CFO Council for consideration (HRC)</li> <li>Establish a requirement for continuing professional education by developing a statement of principles for consideration by CFO Council (CFO Council, OPM and OMB)</li> <li>Provide a sustainable infrastructure for professional development by developing a strategic policy proposal that would provide long-term financing of CPE (CFO Council)</li> <li>Establish a Core Competencies Review Board to keep competencies up-to-date with current and emerging requirements (JFMIP and CFO Council)</li> <li>Catalog existing training opportunities to meet core competency standards (JFMIP, Treasury and OPM)</li> </ul> | <p><b>MILESTONES:</b></p> <ul style="list-style-type: none"> <li>6/98</li> <li>9/98</li> <li>9/98</li> <li>11/98</li> <li>Ongoing</li> </ul>               |

**OBJECTIVE: Develop means for Federal financial management personnel to share information**

**TASKS:**

Explore development of Internet communications tools among vendors, oversight agencies and financial management personnel at the operational levels to open dialog, innovate problem solving and share information (FinanceNet, Agencies and vendors)

Expand interface with agencies via the FinanceNet Technical Working Group to receive more relevant and timely electronic information and improve CFO Council awareness of this need (FinanceNet and Agencies)

Develop a new electronic, automated on-line library/database of financial management "best practices," policies, performance measures, etc. (FinanceNet, JFMIP and Agencies)

Explore an expansion of FinanceNet's Internet-based communications tools, groupware and database services to collaborate within and between committees and working groups of various intergovernmental organizations and associations sharing similar or related missions (FinanceNet and organizations)

Explore development of an Internet "clearinghouse" of education, training initiative(s) and information on governmentwide jobs in financial management (FinanceNet and Agencies)

**MILESTONES:**

7/99

7/99

10/99

10/99

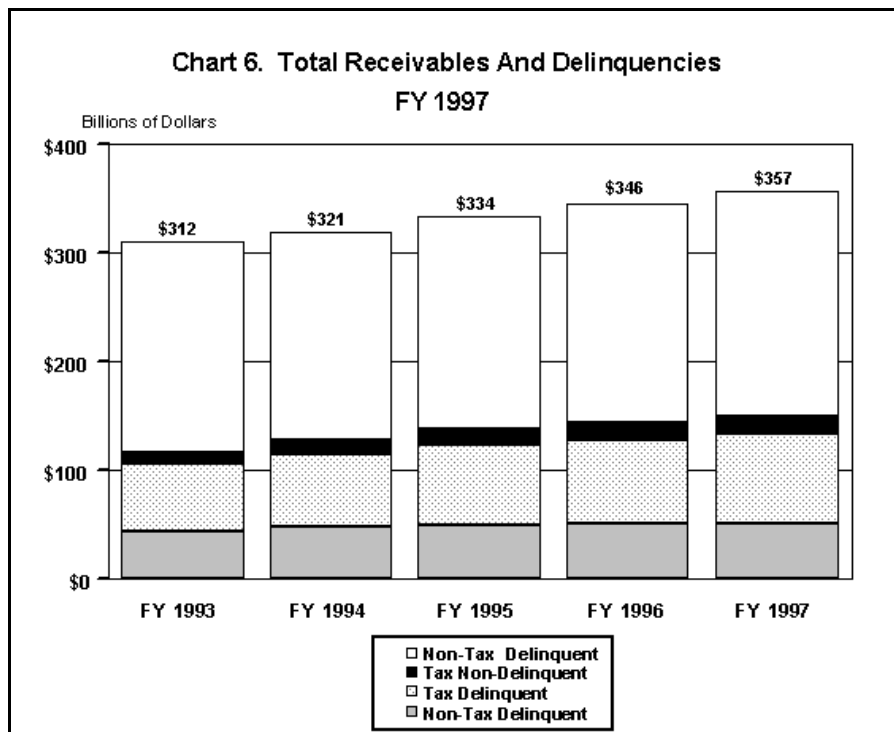
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## E. IMPROVE MANAGEMENT OF RECEIVABLES

**PRIORITY:** Improve debt collection for major receivable accounts by effectively using the tools provided by the Debt Collection Improvement Act of 1996 (DCIA).

**BACKGROUND:** The DCIA created new tools for Treasury and other agencies to reduce losses and increase collections. When a debt becomes seriously delinquent—over 180 days past due—agencies are required to refer these debts to Treasury for offset or collection (known as cross-servicing.) Once debts are referred by the agencies to Treasury, they are analyzed and the appropriate collection tools are applied.

At the end of 1997, the Federal Government reported over \$1 trillion in outstanding non-tax receivables and guaranteed loans. \$51.9 billion or five percent of that was delinquent. Of the \$51.9 billion, \$33 billion is non-tax delinquent debt at the five major credit agencies: HUD, Education, SBA, VA, and USDA. Total non-tax delinquencies over 180 days past due increased by over \$1 billion from \$46 billion in 1996 to \$47 billion in 1997. The amount of receivables written-off as uncollectible increased from \$5 billion in 1996 to \$6 billion in 1997. (See *Appendix I, Status Report on Credit Management and Debt Collection for detailed data.*)



## **ACCOMPLISHMENTS:**

- Federal non-tax debt collections by the Tax Refund Offset Program (TROP) totaled \$674 million in 1997 and \$675 million from January 1998 through April 1998.
- Executive Order 13019, directed Treasury to assist the States in collecting delinquent child support debts by administrative offset. As of April 1998, 15 States and territories have referred \$6.6 billion to TOP and collections have totaled \$483,000 since program inception in May 1997.
- Treasury has published the following regulations in support of DCIA. Interim Rules include: Federal Salary Offset; Transfer of Debts to Treasury for Collection; Collection of Past-Due Support by Administrative Offset; and Offset of Tax Refund Payments to Collect Past-Due, Legally Enforceable, Non-tax Debt. Notices of Proposed Rulemaking include: Pay Administration: Collection by Offset from Indebted Government Employees; Barring Delinquent Debtors from Obtaining Federal Loans or Loan Insurance or Guarantees; Federal Claims Collection Standards; and Taxpayer Identifying Number Requirement. Final Rules include Administrative Wage Garnishment.
- Treasury awarded a new governmentwide Private Collection Agency contract to 12 contractors (contracts were originally awarded to 13 PCAs but two have since merged). Treasury will refer delinquent Federal obligations to these private firms for collection. The debt collection contractors will be paid based on a percentage of monies recovered.
- In FY 1997, the Department of Education reported 53,000 defaulted loans in garnishment status, awarded 18 private collection contracts, and sent 24,000 litigation cases to the Department of Justice.
- In FY 1997, VA's total non-tax delinquent debt decreased by 33 percent from \$2.5 billion to \$1.7 billion. VA has referred over 78 percent of eligible debt to Treasury for offset.
- In FY 1997, SBA increased collections on restructured loans and recoveries on collateral by 16.4 percent from \$265 million in FY 1996 to \$309 million in FY 1997. This increase represents a 41 percent improvement over the average from the previous three fiscal years. At the same time, SBA's purchases of delinquent loans from banks declined 15 percent from \$502 million in FY 1996 to \$427 million in FY 1997.
- In FY 1997, HUD sold 37,000 mortgage loans with a total unpaid principal balance in excess of \$3.2 billion, for gross proceeds in excess of \$2.9 billion.

## STATUS/PERFORMANCE INFORMATION

Related Internet site: <http://fms.treas.gov/debt/index.html>

### *Debt Collection Improvement Act Implementation*

In implementing the DCIA, Treasury has established strong agency relationships to obtain compliance with provisions of the Act and resolve implementation issues. Actions underway to implement the DCIA are as follows:

- In 1998 Treasury began to combine the Internal Revenue Service TROP and FMS TOP processes. These programs will be fully merged in January 1999. Centralized salary payment offset for Federal employees will begin in FY 1998 and be phased in over time beginning at the USDA National Finance Center under the responsibility of the Office of the Chief Financial Officer. Treasury and the Social Security Administration (SSA) are finalizing requirements and establishing implementation schedules to offset benefit payments. The target date for the first phase of SSA benefit payments offset is FY 1999.
- Treasury is helping agencies analyze their debt management portfolios. This includes identifying any barriers to referral of eligible debts to Treasury, establishing agency agreements with FMS for a referral schedule, developing a compliance plan and tracking mechanism, and working with agencies to assess the value and collectibility of delinquent non-tax debt.
- In an effort to increase debt referrals to the private sector, Treasury plans to have agency agreements in place with all CFO agencies by May 1998 and all remaining agencies with delinquent debt by July 1998. Treasury has signed cross-servicing letters of agreement with 30 entities. Of the Federal program agencies tracked by Treasury, 18 have referred over 88,500 cases valued at more than \$1.3 billion for cross-servicing as of April 30, 1998.
- Interagency Issue Resolution Workgroups have been established to provide a forum for agencies to participate in the DCIA implementation process. Groups were formed to resolve issues relating to the collection of taxpayer identifying numbers, the offsetting of purchase card transactions, and the offsetting and cross-servicing of delinquent debt.

Treasury had Price Waterhouse perform an independent evaluation of the Federal Government's debt that is eligible for Treasury offset and cross-servicing, as well as the amount of referred debt that is collectible by Treasury. Analysis of the \$47.2 billion in non-tax debt over 180 days delinquent owed to the Federal Government reveals that \$29.0 billion is eligible for Treasury offset, and \$8.5 billion of the \$29.0 billion is also eligible for Treasury cross-servicing. See Table 8.

**Table 8. Summary Analysis of Delinquent Debt for the  
Federal Government (as of September 30, 1997)**

(In millions of dollars)

|   | Estimated Delinquent<br>Debt |
|---|------------------------------|
| <b>Total Government</b> .....   | \$51,902                     |
| Less Than 180 Days .....  | (\$4,728)                    |
| <b>Delinquent Debt Over 180 Days</b> .....                                  | \$47,174                     |
| <b>Debt Excluded from Offset</b>  |                              |
| In Bankruptcy <sup>1</sup> .....  | (\$3,381)                    |
| Foreign Debt <sup>2</sup> .....   | (\$3,917)                    |
| In Forbearance or In Appeals <sup>3</sup> .....                             | (\$6,381)                    |
| In Foreclosure <sup>4</sup> .....   | (\$3,571)                    |
| Other (Accelerated Debt Not Due) <sup>5</sup> .....                         | (\$875)                      |
| <b>Subtotal</b> .....   | <b>(\$18,125)</b>            |
| <b>Eligible to Refer to Treasury for Offset</b> .....                       | <b>\$29,049</b>              |
| <b>Debt Excluded from Cross-Servicing</b> <sup>6</sup> .....                |                              |
| At Private Collection Agencies .....  | (\$5,937)                    |
| At DOJ .....  | (\$3,857)                    |
| Eligible for Internal Offset .....  | (\$712)                      |
| At Third Party .....  | (\$10,448)                   |
| Other .....   | (\$436)                      |
| <b>Subtotal</b> .....   | <b>(\$20,518)</b>            |
| <b>Eligible to Refer to Treasury for Cross-Servicing</b> <sup>7</sup> ..... | \$8,531                      |

**NOTES:**

1. The automatic stay mandated by 11 U.S.C. 362 generally prevents the Government from pursuing collection against debtors in bankruptcy.

2. Debt owed by foreign governments.

3. Debts that are subject to forbearance or that are in appeal generally are not "legally enforceable." The government cannot pursue collection against a debt if it is not legally enforceable. Most credit-granting agencies are subject to forbearance requirements by statute and/or regulation.

4. Foreclosure is governed by State law. In some States (such as California and Idaho), to maintain the right to foreclose, a creditor must foreclose the collateral securing the debt before seeking other collection remedies. In these States, offsetting payments could preclude the Government from pursuing foreclosure.

5. Other debt excluded for offset includes USDA accelerated debt not past due and VA erroneously reported debt.

6. Debts that are excluded for offset are also excluded for cross-servicing. The DCIA exempts debts in foreclosure for referral to Treasury for cross-servicing.

7. Adjusted to include \$436 million in non-judicial foreclosure deficiencies for VA that cannot be collected by offset (by statute).

When all payment streams are incorporated into the administrative offset program and all eligible debt is referred to Treasury, Price Waterhouse is projecting that \$864 million to \$1 billion will be collectible on an annual basis by Treasury. In addition, debts collected by private collection agencies and DOJ will be significant. Tax refund offset collections account for \$661 million annually, administrative offset collections for \$86 to \$142 million annually, and cross-servicing collections for \$117 to \$225 million annually.



### *Asset Sales*

DCIA authorized agencies to sell any non-tax debt owed to the United States that is more than 90 days delinquent, subject to the Federal Credit Report Act of 1990. Furthermore, agencies are required to sell any non-tax debts for which collection action has been terminated, if the Secretary of the Treasury determines that the sale is in the best interest of the United States. Under these provisions, agencies are: (i) required to use competitive procedures to sell the debt; (ii) authorized to pay contractor fees for assistance in conducting the sale out of sale proceeds; (iii) required to sell the debts for cash or a combination of cash and profit participating if such an arrangement is more advantageous to government; and (iv) required to make the sales without recourse, including a government guarantee only if specifically authorized. GSA, working closely with the Federal Credit Policy Working Group, is providing governmentwide support for asset sales by acquiring financial advisory services from the private sector for loan asset sales planning and execution.

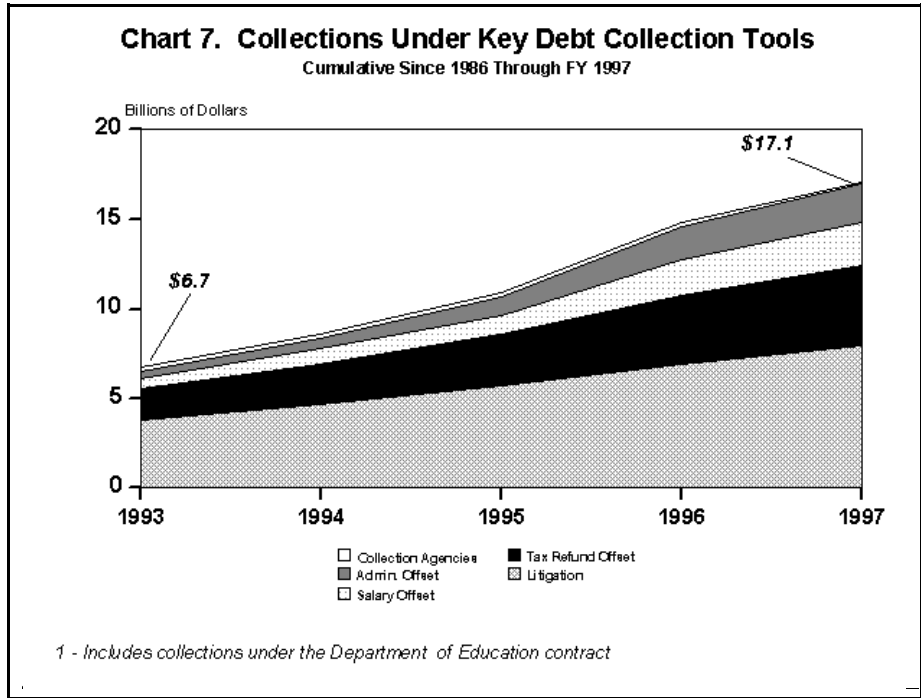
### *Write-offs*

OMB and Treasury will continue to encourage agencies to write-off and sell assets as appropriate. A principle of sound debt management for most Federal credit programs is that if a debt is delinquent for over one year, the agency should sell the debt or write it off as uncollectible. HUD's aggressive program of selling delinquent assets over the past three years has demonstrated that agencies can significantly reduce their delinquent debt in a way that furthers program objectives and increases the return to the Government. The Federal Credit Policy Working Group will review write-off practices and redesign loan sales policy to cut the growth of delinquencies and boost Federal collections.

### *Debt Collection Tools*

At each stage of the Government's credit and debt management process, there are specific tools that can be used to prevent default, convert delinquent accounts into repayment, and, if appropriate, enforce a claim through the judicial process. Chart 7 shows the historical growth in debt collections through private collection agencies, salary offset, tax refund offset, administrative offset, and litigation. Over the last ten years, the use of these tools has resulted in the collection of over \$17 billion.

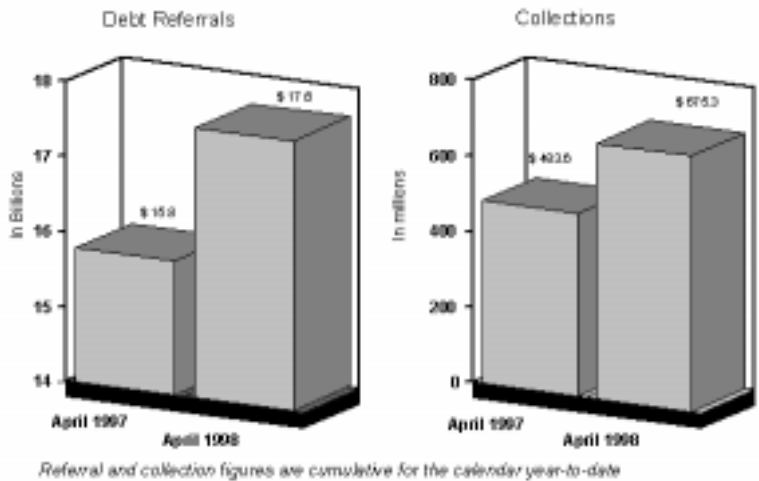
Total collections on outstanding receivables increased from \$95 billion to \$102 billion from FY 1996 to FY 1997. As Treasury and the agencies implement the DCIA, collections are expected to increase through the use of such tools as administrative garnishment and loan asset sales. In addition, initiatives such as screening for prior delinquency will prevent unnecessary future defaults.



*Treasury Offset and Cross-Servicing Performance Indicators*

The TROP increased debt referrals by 11 percent (not including child support debt) between April 1997 and April 1998. Collections increased by 40 percent for the same time period, but it is in part due to early electronic filings. (See charts 8 and 9). Some debt that has been referred to Treasury may be returned to the agency if Treasury questions the validity of the debt or the agency has not yet sent due process notices to the debtor.

**Charts 8 and 9. TAX REFUND OFFSET PERFORMANCE  
Federal Non-Tax Debt**



In addition, the Treasury program is showing increased collections in other areas based on referral of delinquent debt. Treasury FMS is tracking each of the following items as key performance indicators for the Treasury offset and cross-servicing programs to fully assess and monitor progress in implementing the DCIA:

- The TROP increased referrals for child support debt by 9 percent from \$38 billion in April 1997 to \$41.2 billion in April 1998. TROP increased collections for child support debt by 14 percent from \$712.4 million in April 1997 to \$805.3 million in April 1998.
- The TOP increased the number of participating States and territories from eight to 15 for child support debt and increased collections for child support debt from \$153,385 in November 1997 to \$290,000 in April 1998.
- The TOP increased debt referrals by 76 percent from \$9.4 billion in November 1997 to \$16.5 billion in April 1998. Collections are beginning to increase significantly from \$782,646 in November 1997 to \$1,232,509 in April 1998.
- The Treasury Cross-servicing Program has increased debt referrals by 185 percent and collections increased from \$1.1 million in November 1997 to \$4.4 million in April 1998.

*Debt Performance Indicators for the Major Credit Agencies*

FMS met with the five major credit agencies (USDA, Education, HUD, SBA and VA) in January 1998 to agree on debt that is eligible for referral to Treasury for offset and cross-servicing. Tables 9 and 9a summarize debt at the major credit agencies that is eligible for Treasury offset and cross-servicing.

**Table 9. Debt Performance Indicators for the Major Credit Agencies FY 1997**

(In millions of dollars)

| Agency         | PORTION OF DELINQUENT DEBT THAT IS SUBJECT TO TREASURY OFFSET |               |              |   |                      |         |                                 |                                   |
|----------------|---|---------------|--------------|---|----------------------|---------|---------------------------------|-----------------------------------|
|                | Total delinquent Debt over 180 days                           | In Bankruptcy | Foreign Debt | In Statutory Forbearance or in Formal Appeals Process | In Foreclosure       | Other   | Eligible for Referral to Offset | Referred to Offset (As of 2/9/98) |
| USDA.....      | \$7,321   | (\$1,204)     | (\$2,492)    | (\$452)   | (\$376)              | (\$734) | \$2,063                         | \$774                             |
| Education..... | \$20,787  | (\$535)       | —            | (\$3,830)   | —                    | —       | \$16,422                        | \$13,079                          |
| HUD.....       | \$1,277   | (\$83)        | —            | —   | (\$395) <sup>1</sup> | —       | \$799                           | \$192                             |
| SBA.....       | \$2,273   | —             | —            | —   | (\$1,523)            | —       | \$750                           | \$559                             |
| VA.....        | \$1,332   | (\$182)       | —            | (\$225)   | (\$535)              | (\$57)  | \$333                           | \$263                             |
| Total.....     | \$32,990  | (\$2,004)     | (\$2,492)    | (\$4,507)   | (\$2,829)            | (\$791) | \$20,367                        | \$14,867                          |

<sup>1</sup> \$395 includes debts at DOJ and debts in foreclosure.

**Table 9a. Debt Performance Indicators for the Major Credit Agencies FY 1997**

(In millions of dollars)

| Agency         | PORTION OF DELINQUENT DEBT SUBJECT TO TREASURY OFFSET AND CROSS-SERVICING |           |         |                                |                    |           |   |  |
|----------------|---|-----------|---------|--------------------------------|--------------------|-----------|---|--|
|                | Eligible for Referral to Offset   | At PCAs   | At DOJ  | Collectible by Internal Offset | Scheduled for Sale | Other     | Eligible for Referral for Cross-servicing | Referred to Cross-servicing (As of 2/8/98) |
| USDA.....      | \$2,063   | (\$2)     | (\$80)  | (\$19)                         | —                  | —         | \$1,962                                   | —  |
| Education..... | \$16,422  | (\$4,981) | (\$286) | (\$286)                        | —                  | (\$9,609) | \$1,260                                   | \$664                                      |
| HUD.....       | \$799   | (\$299)   | —       | (\$333)                        | —                  | \$583*    | \$167                                     | —  |
| SBA.....       | \$750   | (\$33)    | —       | \$0                            | —                  | **        | \$717                                     | —  |
| VA.....        | \$333   | (\$51)    | (\$20)  | —                              | —                  | —         | \$699                                     | —  |
| Total.....     | \$20,367  | (\$5,366) | (\$386) | (\$638)                        | —                  | (\$9,609) | \$4,805                                   | \$664                                      |

\* HUD has not scheduled this sale yet.

\*\* SBA anticipates the sale of assets valued at \$10 billion over the next three years.

## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 18 tasks outlined in last year's plan, 8 were completed, 4 are on-target, and 6 have been re-scheduled.

To improve management of receivables, the following objectives, tasks, and milestones were established:

|  |   |
|--|---|
| <b>OBJECTIVE: Implement debt referral to Treasury for cross-servicing</b>  |   |
| <p><b>TASKS:</b></p> <p>Ensure that debts 180 days delinquent are referred to Treasury for collection action as required by DCIA unless the debts are in an exempt status (Treasury, OMB and Agencies)</p>   | <p><b>MILESTONES:</b></p> <p>Review quarterly</p>   |
| <b>OBJECTIVE: Implement the Treasury Offset Program as a governmentwide program</b>  |   |
| <p><b>TASKS:</b></p> <p>Complete the merger of the Tax Refund Offset Program into the Treasury Offset Program (Treasury and Agencies)</p> <p>Expand the debtor database with referrals from States and Federal agencies (Treasury, Agencies and States)</p> <p>Expand the Treasury Offset Program to include non-Treasury disbursing officials of other government agencies and government corporations (Treasury and Agencies)</p>  | <p><b>MILESTONES:</b></p> <p>1/99</p> <p>Review quarterly</p> <p>Review quarterly</p>                         |
| <b>OBJECTIVE: Implement enhanced debt collection tools and techniques</b>  |   |
| <p><b>TASKS:</b></p> <p>Refer accounts to private collection agencies (Treasury)</p> <p>Implement administrative wage garnishment (Treasury and Agencies)</p> <p>Evaluate agency loan portfolios for potential debt referrals and collections (Treasury, OMB and Agencies)</p>   | <p><b>MILESTONES:</b></p> <p>Review quarterly</p> <p>90 days after regulation is published</p> <p>Ongoing</p> |
| <b>OBJECTIVE: Provide governmentwide leadership and policy guidance to support full implementation of the debt collection provisions of the DCIA</b>   |   |
| <p><b>TASKS:</b></p> <p>Analyze delinquent receivables included on the Report of Receivables Due From the Public (Treasury)</p> <p>Review agency applications for designation as debt collection centers and make determinations in accordance with standards published in December 1996 (Treasury)</p> <p>Implement a public awareness campaign to heighten public understanding of their obligation to repay government loans (Treasury)</p> <p>Publish all regulations necessary to implement the DCIA (Treasury)</p> <p>Evaluate and revise Treasury receivables reporting requirements (Treasury, OMB and Agencies)</p> | <p><b>MILESTONES:</b></p> <p>4/98</p> <p>Ongoing</p> <p>12/98</p> <p>6/99</p> <p>12/99</p>                    |
| <b>OBJECTIVE: Improve loan asset sales for delinquent debt</b>   |   |
| <p><b>TASKS:</b></p> <p>Complete GSA schedule for loan asset sales financial advisors (GSA)</p>  | <p><b>MILESTONES:</b></p> <p>4/98</p>   |

Work with agencies that hold delinquent Federal non-tax receivables to evaluate individual loan portfolios and make recommendations regarding loan sales and write-offs (OMB and Agencies)

Ongoing

Award financial advisory services contract (GSA)

6/98

Review write-off levels by agency (OMB and Agencies)

8/98

Complete first loan asset sales (SBA)

9/98

Perform asset valuation (USDA and Education)

9/98

Complete plans for asset sales (Agencies)

12/98

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## **F. ENSURE MANAGEMENT ACCOUNTABILITY AND CONTROL**

**PRIORITY:** Design management structures that help ensure accountability for achieving results.

**BACKGROUND:** Improved management accountability through the integration of management processes and information is an important goal of the CFO Council and OMB. To advance this goal, OMB issued guidance to agencies on implementing the Federal Managers' Financial Integrity Act (FMFIA) and serves as a focal point for communicating management control policies among the agencies. An important part of the Administration's efforts to streamline management controls is the CFO Council's pilot program on agency Accountability Reports, which integrates the following information:

- the FMFIA report;
- the CFOs Act Annual Report (including audited financial statements);
- Management's Report on Final Action as required by the IG Act;
- Civil Monetary Penalty and Prompt Payment Act reports; and
- available information on agency performance compared with its stated goals and objectives, in advance of GPRA performance reporting statutory deadlines.

### **ACCOMPLISHMENTS:**

- Twelve agencies are producing Accountability Reports for FY 1997, with Education, HHS, Labor and State joining the eight agencies which issued reports covering FY 1996. As of June 1998, ten agencies have submitted their FY 1997 Accountability Reports: SSA, NASA, GSA, NRC, HUD, Treasury, DOL, HHS, DOI, and VA.
- The CFO Council Reports Streamlining Committee developed program requirements and review standards for a certificate program to recognize and encourage excellence in Accountability Reports. The Association of Government Accountants (AGA) will manage this program and has used these standards to develop a "reviewer's guide," which will be pilot tested on selected FY 1997 Accountability Reports.
- The Administration submitted a legislative proposal to permit (but not require) IG Act reports to be part of the GMRA reporting pilot program.

## STATUS/PERFORMANCE INFORMATION

Related internet sites: See Table 10 for the listing of FY 1997 Accountability Reports

### *Report Streamlining*

The CFO Council evaluated the second year of the pilot project to consolidate and streamline Federal statutory reports and concluded that the FY 1996 Accountability Reports: (i) showed improvement by agencies in the preparation and reporting of financial and program performance information; (ii) gave a more comprehensive picture of each pilot agency's overall performance than the FY 1995 reports; and (iii) successfully presented the results of agency operations in a streamlined format. Evaluation results of all eight FY 1996 agency reports were issued in a February 1998 report by the CFO Council's Reports Streamlining Project Committee. The evaluation report recommended that agencies should continue to focus on the following areas:

- **Timeliness.** The usefulness of the reports directly correlates to how close to the end of the fiscal year the report is issued, so agencies should concentrate on establishing earlier target dates for issuing their Accountability Reports.
- **Performance Measurement.** Accountability Reports should include the most relevant performance measures and demonstrate their link to the agency's strategic and program performance goals and should describe what actions will be taken in the future to address missed goals and material weaknesses.
- **Integration.** Reports should integrate FMFIA material weaknesses, GAO high risk areas and audit findings within the program presentations with planned corrective actions to be taken.
- **Graphics.** It is helpful to display comparisons of actual performance data to the planned standards in graphs and charts.
- **Financial Statement/Audit Presentation.** Reports should include a short summary up front on both the financial condition of the agency, as reflected in the audited financial statements, and the auditor's opinion and findings. Additionally, the auditor's findings and reports on compliance and internal controls should be tied to the applicable program sections of the report.

Based on the promising results achieved in FY 1996, four additional agencies—Education, HHS, Labor and State—were approved to join the pilot program for its third year. The twelve Accountability Reports for FY 1997 are available through the Internet as indicated in Table 10.



**Table 10. FY 1997 Accountability Reports**

| Agency   | Issued   | Internet Sites  |
|--|----------|---|
| Education.....                                   | *        | <a href="http://www.ed.gov/offices/OCFO/97AcctRpt/index.html">http://www.ed.gov/offices/OCFO/97AcctRpt/index.html</a>                   |
| Health and Human Services .....                  | 4/29/98  | <a href="http://www.hhs.gov/progorg/fin/report97.html">http://www.hhs.gov/progorg/fin/report97.html</a>                                 |
| Housing and Urban Development.....               | 3/27/98  | <a href="http://www.hud.gov/cfo/cfoacct.html">http://www.hud.gov/cfo/cfoacct.html</a>   |
| Interior .....                                   | 5/30/98  | <a href="http://www.doi.gov/pfm">http://www.doi.gov/pfm</a>   |
| Labor .....                                      | 4/29/98  | <a href="http://www.dol.gov/dol/ocfo">http://www.dol.gov/dol/ocfo</a>   |
| State .....                                      | *        | <a href="http://www.state.gov">http://www.state.gov</a>   |
| Treasury .....                                   | 3/30/98  | <a href="http://www.treas.gov/treasury/financial/tcfo/annrep.htm">http://www.treas.gov/treasury/financial/tcfo/annrep.htm</a>           |
| Veterans Affairs.....                            | 6/4/98   | <a href="http://www.va.gov/cfo/pubs.htm">http://www.va.gov/cfo/pubs.htm</a>   |
| General Services Administration .....            | 2/27/98  | <a href="http://www.gsa.gov/staff/pa/annrpt/annrpt.htm">http://www.gsa.gov/staff/pa/annrpt/annrpt.htm</a>                               |
| National Aeronautics and Space Administration... | 2/17/98  | <a href="http://www.hq.nasa.gov/office/codeb/ANN-REPT-96/contents.htm">http://www.hq.nasa.gov/office/codeb/ANN-REPT-96/contents.htm</a> |
| Nuclear Regulatory Commission .....              | 3/2/98   | <a href="http://www.nrc.gov/NRC/planning.html">http://www.nrc.gov/NRC/planning.html</a>   |
| Social Security Administration .....             | 11/21/97 | <a href="http://www.ssa.gov/finance/finance_intro.html">http://www.ssa.gov/finance/finance_intro.html</a>                               |

\* Not yet received

*Certificate of Excellence Program*

The next important step in the pilot program is underway with the development of a certificate program to recognize and encourage excellence in Accountability Reports. The Reports Streamlining Project Committee developed the initial program requirements and review standards for the certificate program. The Committee also worked with OMB and the AGA to develop a “reviewers guide,” which will be pilot tested on six of the FY 1997 Accountability Reports. The reviewer’s guide will be revised as necessary, and submitted to the CFO Council for final approval prior to use with the FY 1998 Accountability Reports. The attainment of a certificate of excellence will represent a significant accomplishment for a Federal agency and its management. The certificate will also be evidence of a fair presentation of the programmatic and financial affairs of an agency, and will have the practical effect of providing guidance for preparing Accountability Reports.

*Forum on Accountability Reports*

Another effort to provide guidance to agencies on producing Accountability Reports took place on June 3, 1998, when the Report Streamlining Committee and OMB hosted a CFO Forum to share promising practices related to Accountability Reports. Three agencies which produced reports for the first time shared lessons learned. Two agencies shared tips on specific aspects of reporting: concisely presenting information through graphics and incorporating performance information. Other topics included the Certificate of Excellence program and the utility of Accountability Reports, presenting perspectives from Congressional, OMB and IG staff.

*Future Plans*

As the Accountability Report pilot program moves forward, OMB and the CFO Council will focus on the relationship between Accountability Reports and two other reporting vehicles:

- MD&A in Federal financial reports, for which FASAB is developing guidance. More information on MD&A can be found in *Chapter A. Obtain Unqualified Opinion on Financial Statement and Issue Accounting Standards*; and
- GPRA performance reporting. In all likelihood, agencies will report on actual performance in their budget justifications and in Accountability Reports. Some

guidance on this subject will be included in the annual revision of OMB Circular A-11, expected in June 1998.

The impact of the Federal Reports Elimination and Sunset Act of 1995 (P.L. 104-66), which eliminates, as of FY 1999, many outdated reporting requirements, will also continue to be considered.

OMB's authority to conduct a pilot program to streamline financial management reporting extends through December 1999. OMB and the CFO Council expect that more agencies will participate in the Accountability Report pilot program each year. The goal is for almost all CFO agencies to produce Accountability Reports for FY 2000. (See Table 12).

**Table 11. Agency Accountability Reports GMRA Pilot Program Goals for FY 1996–2000**

|   | Actual |      | Goal |      |      |
|---|--------|------|------|------|------|
|   | 1996   | 1997 | 1998 | 1999 | 2000 |
| Number of 24 CFO Agencies Participating ..... | 8      | 12   | 18   | 22   | 23   |

*Management Accountability and Control*

Tables 12 and 13 include the number of “material weaknesses,” (Section 2 of the FMFIA), and financial system “non-conformances,” (Section 4 of the FMFIA), reported by agencies in their FY 1997 FMFIA reports. Section 2 reporting of material weaknesses refers to the overall adequacy and effectiveness of agency management controls. Section 4 reporting of non-compliance refers to compliance with governmentwide standards for financial systems.

In the FY 1997 audit opinions on agency financial statements, auditors report instances of noncompliance with systems standards as mandated by FFMA for the first time (see discussion in *Chapter B. Improve Financial Systems*). Inconsistencies exist between these reports and agency reporting under Section 4 of the FMFIA. OMB will revise the 1998 FMFIA reporting guidance to remind agencies that they should carefully consider audit findings related to noncompliance with systems standards when developing their 1998 FMFIA reports.

**Table 12. Section 2 Of Agency FMFIA Reports**

| Agency          | Compliance |    | Number of Material Weaknesses |                        |                   |                        |
|-----------------|------------|----|-------------------------------|------------------------|-------------------|------------------------|
|                 | Yes        | No | Pending as of 12/31/96        | Newly Reported in 1997 | Corrected in 1997 | Pending as of 12/31/97 |
| USDA .....      | *X         |    | 39                            | 7                      | 9                 | 37                     |
| Commerce.....   | X          |    | 4                             | 0                      | 0                 | 4                      |
| DOD .....       | *X         |    | 130                           | 29                     | 36                | 123                    |
| Education ..... | X          |    | 4                             | 1                      | 0                 | 5                      |
| DOE.....        | *X         |    | 9                             | 1                      | 1                 | 9                      |
| HHS.....        | X          |    | 10                            | 3                      | 4                 | 9                      |
| HUD.....        | *X         |    | 8                             | 1                      | 0                 | 9                      |
| DOI.....        | X          |    | 15                            | 3                      | 2                 | 16                     |
| DOJ.....        | X          |    | 11                            | 10                     | 0                 | 21                     |
| DOL.....        | X          |    | 9                             | 0                      | 3                 | 6                      |
| State.....      | *X         |    | 14                            | 1                      | 3                 | 12                     |
| DOT.....        | X          |    | 1                             | 0                      | 0                 | 1                      |
| Treasury .....  | **X        |    | 23                            | 20                     | 6                 | 37                     |
| VA.....         | X          |    | 7                             | 0                      | 1                 | 6                      |
| EPA.....        | X          |    | 5                             | 1                      | 3                 | 3                      |
| NASA.....       | X          |    | 1                             | 0                      | 0                 | 1                      |
| AID .....       | X          |    | 10                            | 4                      | 5                 | *** 7                  |
| FEMA .....      | X          |    | 2                             | 0                      | 1                 | 1                      |
| GSA.....        | X          |    | 5                             | 2                      | 0                 | 7                      |
| NRC.....        | X          |    | 0                             | 0                      | 0                 | 0                      |
| NSF.....        | X          |    | 0                             | 0                      | 0                 | 0                      |
| OPM.....        | *X         |    | 10                            | 5                      | 1                 | 14                     |
| SBA.....        | X          |    | 11                            | 0                      | 5                 | 6                      |
| SSA.....        | X          |    | 2                             | 0                      | 1                 | 1                      |
| Total .....     |            |    | 330                           | 88                     | 81                | **** 335               |

**NOTE:** As reported to OMB by the agencies.

\* These agencies provided reasonable assurance that their systems of management control comply with the objectives of FMFIA section 2 except for the weaknesses identified in their FMFIA reports.

\*\* Treasury provides reasonable assurance with the exception of the Community Development Financial Institutions Fund. Also, Treasury's published 1997 FMFIA statistics indicate that 16 weaknesses were newly reported in 1997. However this number did not include two previously closed weaknesses at IRS which were re-opened and two weaknesses identified in the Secret Service's FY 1996 audited financial statement, which was issued in 1997. These four additional weaknesses bring the total identified in 1997 to 20.

\*\*\* AID's total excludes two material weaknesses –"Data Reconciliations" and "Accounts Receivable"– that were consolidated into the material weakness on "USAID's Primary Accounting System" as of 9/30/97.

\*\*\*\* Numbers do not add across because of AID's consolidation of weaknesses (see previous footnote).

**Table 13. Section 4 of Agency FMFIA Reports**

| Agency            | Compliance |          | Number of Material Non-Conformances |                        |                   |                        |
|-------------------|------------|----------|-------------------------------------|------------------------|-------------------|------------------------|
|                   | Yes        | No       | Pending as of 12/31/96              | Newly Reported in 1997 | Corrected in 1997 | Pending as of 12/31/97 |
| USDA.....         |            | X        | 12                                  | 0                      | 1                 | 11                     |
| Commerce .....    |            | X        | 0                                   | 0                      | 0                 | 0                      |
| DOD.....          | X          |          | 211                                 | 0                      | 61                | 149                    |
| Education.....    | * X        |          | 2                                   | 0                      | 0                 | 2                      |
| DOE.....          | * X        |          | 1                                   | 0                      | 0                 | 1                      |
| HHS.....          | X          |          | 0                                   | 0                      | 0                 | 0                      |
| HUD.....          | * X        |          | 2                                   | 0                      | 0                 | 2                      |
| DOI.....          | X          |          | 1                                   | 0                      | 0                 | 1                      |
| DOJ.....          |            | X        | 4                                   | 0                      | 1                 | 3                      |
| DOL.....          | X          |          | 4                                   | 0                      | 3                 | 1                      |
| State.....        |            | X        | 6                                   | 0                      | 0                 | 6                      |
| DOT.....          | X          |          | 0                                   | 0                      | 0                 | 0                      |
| Treasury.....     |            | X        | 14                                  | 3                      | 3                 | 14                     |
| VA.....           | * X        |          | 5                                   | 0                      | 1                 | 4                      |
| EPA.....          | X          |          | 3                                   | 0                      | 3                 | 0                      |
| NASA.....         | X          |          | 0                                   | 0                      | 0                 | 0                      |
| AID.....          |            | X        | 1                                   | 0                      | 0                 | 1                      |
| FEMA.....         | X          |          | 4                                   | 0                      | 1                 | 3                      |
| GSA.....          | X          |          | 0                                   | 1                      | 0                 | 1                      |
| NRC.....          | X          |          | 0                                   | 0                      | 0                 | 0                      |
| NSF.....          | X          |          | 0                                   | 0                      | 0                 | 0                      |
| OPM.....          | X          |          | 3                                   | 1                      | 0                 | ** 2                   |
| SBA.....          | X          |          | 3                                   | 1                      | 2                 | 2                      |
| SSA.....          | X          |          | 0                                   | 0                      | 0                 | 0                      |
| <b>Total.....</b> | <b>18</b>  | <b>6</b> | <b>276</b>                          | <b>6</b>               | <b>76</b>         | <b>*** 203</b>         |

**NOTE:** As reported to OMB by the agencies.

\* These agencies report reasonable assurance except as noted and qualified in their FMFIA reports.

\*\* Reflects reclassification of two material nonconformances in 1997 as material weaknesses.

\*\*\* Numbers do not add across because of OPM's reclassification (see previous footnote).

## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 12 tasks outlined in last year's plan, 11 are completed and 1 is on-target.

To ensure management accountability and control, the following objectives, tasks, and milestones were established:

| <b>OBJECTIVE: Make management reports more effective</b>  |                    |
|---|--------------------|
| <b>TASKS:</b>   | <b>MILESTONES:</b> |
| Implement a certificate program for excellence in Accountability Reports  |                    |
| —Evaluate six FY 1997 Accountability Reports using the reviewer's guide criteria (AGA, OMB and CFO Council)   | 6/98               |
| —Assess reviewer's guide used for evaluation; revise as necessary (AGA, OMB and CFO Council)  | 8/98               |
| —Approve reviewer's guide (CFO Council and OMB)   | 9/98               |
| —Submit FY 1998 Accountability Reports for evaluation (Agencies)  | 4/99               |
| Provide feedback to agencies on format/content of FY 1997 Accountability Reports (OMB)  | 9/98               |
| Publicize agency efforts to reinvent management control programs through promising practices workshop (CFO Council and OMB)                         | 6/98               |
| FY 1998 Accountability Reports  |                    |
| —Contact agency CFOs to confirm participation in Accountability Report pilot program for FY 1998 (OMB and CFO Council)                              | 6/98               |
| —Provide Congress a list of proposed FY 1998 Accountability Reports (OMB)   | 9/98               |
| —Issue FY 1998 Accountability Reports (Eighteen agencies)   | 4/99               |
| <b>OBJECTIVE: Implement management accountability and control policy</b>  |                    |
| <b>TASKS:</b>   | <b>MILESTONES:</b> |
| Revise 1998 FMFIA reporting guidance to emphasize link between audit findings on noncompliance with systems standards and Section 4 reporting (OMB) | 8/98               |

## G. MODERNIZE PAYMENTS AND BUSINESS METHODS

**PRIORITY:** Modernize financial practices in support of business operations.

**BACKGROUND:** Electronic commerce and cross-servicing can improve the effectiveness and efficiency of business-like operations of the Federal Government. The Electronic Processes Initiatives Committee (EPIC) of the President's Management Council is working to integrate business processes end-to-end using existing and emerging electronic technology. In particular, the CFO Council is working with the EPIC on the following priorities: administrative and financial card services for Federal personnel, electronic commerce for buyers and sellers, and intra-governmental transfers.

In addition, the CFO Council continues to implement two pieces of legislation that support these efforts. The DCIA requires all Federal payments, except tax refunds, be made by electronic funds transfer by January 1999, and the GMRA authorizes six franchise fund pilots to provide common administrative services between Federal agencies on a competitive basis.

### ACCOMPLISHMENTS:

- In March 1998, OMB transmitted the EPIC report, *Electronic Commerce for Buyers and Sellers*, to Congress. The report presents a vision for Federal electronic commerce to support agencies' buying and paying, establishes policy principles to guide investment, and presents a migration path—including infrastructure building blocks—to achieve the vision. The report may be found at <http://policyworks.gov/epic>.
- In February 1998, GSA awarded a governmentwide master contract for procuring Fleet, Travel, and Purchase Card Payment Systems that provide Federal agencies with a source of commercial accounting services for payment management and other financial management functions.
- Federal executive agencies increased their purchase card use in FY 1997 to over 10 million transactions worth more than \$5 billion. GSA estimates that, over that time, the purchase card was responsible for administrative savings of \$616 million. The CFO Council goal for purchase card use is more than 90 percent of purchases under \$2,500. The Financial Implementation Team for Electronic Commerce reports that five agencies have achieved this goal and six more are over 80 percent.
- In November 1997, Treasury awarded new agreements for the Plastic Card Network to facilitate acceptance of credit cards for purchasing goods and services from the government.

### **ACCOMPLISHMENTS:—Continued**

- In January 1998, the EPIC released a Federal smart card strategic plan. The plan presents a vision, rationale, and migration path for smart cards in support of Federal programs. The report may be found at <http://policyworks.gov/epic>.
- Treasury initiated a series of stored value card pilots to test this tool for both the payment and collection of Federal funds. Collaborating with the DOD, Treasury is testing stored value cards in distributing payroll at three Army sites. This project won the Smart Card Industry Association award for outstanding application of smart card technology. Several Veteran Affairs (VA) medical centers, Treasury and VA implemented stored value programs as a collection tool.
- The President's Management Council sponsored an effort to coordinate multiple improvement projects. For example, in the area of intra-governmental transfers, Treasury's USA card and electronic data interchange payment and collection system began operation in 1998. Planning for these and other initiatives is now being coordinated.

### **STATUS/PERFORMANCE INFORMATION**

#### Related internet Sites:

|  |   |
|--|---|
| Electronic Benefits Transfer               | <a href="http://www.usda.gov/fcs/ebt.htm">http://www.usda.gov/fcs/ebt.htm</a>   |
| Electronic Commerce for Buyers and Sellers | <a href="http://policyworks.gov/epic">http://policyworks.gov/epic</a>   |
| Electronic Funds Transfer 99               | <a href="http://www.fms.treas.gov/eft/index.html">http://www.fms.treas.gov/eft/index.html</a>                               |
| Electronic Processes Initiatives Committee | <a href="http://policyworks.gov/epic">http://policyworks.gov/epic</a>   |
| Entrepreneurial Government                 | <a href="http://www.financenet.gov/financenet/fed/cfo/franchiz/">http://www.financenet.gov/financenet/fed/cfo/franchiz/</a> |
| FITEC                                      | <a href="http://www.gsa.gov/fitec">http://www.gsa.gov/fitec</a>   |
| Government-Wide Card Services Plan         | <a href="http://policyworks.gov/epic">http://policyworks.gov/epic</a>   |
| New Purchase, Travel and Fleet Cards       | <a href="http://pub.fss.gsa.gov/fin/future/">http://pub.fss.gsa.gov/fin/future/</a>   |
| Payment Advice Internet Delivery           | <a href="http://arfc.fms.treas.gov">http://arfc.fms.treas.gov</a>   |
| Vendor Express                             | <a href="http://www.fms.treas.gov/vendor.html">http://www.fms.treas.gov/vendor.html</a>                                     |

The CFO Council supports Electronic Commerce (EC) efforts through the Financial Implementation Team for Electronic Commerce (FITEC), an interagency team of financial experts. FITEC continues to be a highly effective vehicle for providing a focal point for financial electronic commerce. Agencies, other EC focus groups, and central agencies use FITEC to identify issues and gain insight and consensus on their resolution. FITEC continues to contribute to credit card program expansion, implementation of mandatory electronic funds transfer, and improvements in tax information reporting and Taxpayer Identification Number validation.

#### *Electronic Commerce*

Agencies can better support their programs by using customer-friendly electronic purchasing tools integrated with end-to-end commercial processing of payment, accounting and performance information. The combination of next-generation purchase cards and electronic

catalogs provides immediate opportunity for migration to large-scale EC for up to 85 percent of Federal purchases.

Electronic catalogs are Internet or Intranet systems that: (i) involve contracts with industry; (ii) allow buyers to identify and order goods and services; (iii) contain adequate information to compare items by performance, price and delivery; and (iv) include mechanisms for payment. To improve agency use of electronic catalogs, GSA's EC program office, EPIC and FITEC are working together to make catalogs interoperable and to increase the use of commercial catalog software and services.

The Administration's goal is to use the purchase card for more than 90 percent of purchases under \$2,500. In FY 1997, agencies used purchase cards for more than 10 million transactions worth in excess of \$5 billion. GSA estimates that the purchase card was responsible for savings of \$616 million during that period. Purchase card use has grown by more than 80 percent annually since the program started. Through the EPIC's Prototype Agency Senior Technical Advisors Group, agencies will work to expand the purchase card model to enhance purchase card services and to use commercial transaction processing utilities for other financial services.

To realize the potential of electronic catalogs and transaction processing utilities, these commercial systems must interface with agency legacy systems. System interfaces are those points where software is required to allow one system to link up electronically (couple) with another, thereby eliminating any need for manual intervention, crosswalks, or data re-entry. Over the next year, the CFO Council Financial Systems Committee and JFMIP will work to develop interface standards between transaction processing utilities and agency legacy systems.

**Chart 10. Federal Purchase Card Growth**

|          | Transactions |          | Sales     |          |
|----------|--------------|----------|-----------|----------|
|          | (000)        | % Growth | (000,000) | % Growth |
| FY 1990  | 270          | --       | \$56      | --       |
| FY 1991  | 639          | 136      | \$141     | 152      |
| FY 1992  | 1,059        | 66       | \$276     | 96       |
| FY 1993  | 1,512        | 43       | \$472     | 71       |
| FY 1994  | 2,471        | 63       | \$808     | 71       |
| FY 1995  | 4,248        | 72       | \$1,592   | 97       |
| FY 1996  | 7,328        | 73       | \$2,914   | 83       |
| FY 1997* | 10,000       | 36       | \$5,000   | 72       |

\* Estimated  
Source: FITEC

This year, agencies will be developing their own agency-specific EC plans for purchasing and payment based on the recently issued governmentwide plan, *Electronic Commerce for Buyers and Sellers*. To further focus EC efforts, the EPIC will work with CFOs, Chief Information Officers and Senior Procurement Executives to review the mission and relationship of existing interagency EC groups.

*Electronic Funds Transfer*

Electronic Funds Transfer (EFT) supports EC by providing payment in an electronic format. In April 1996, the Congress enacted legislation, mandating that 100 percent of payments except tax refunds, be made via EFT by 1999. The EFT provisions of the DCIA are estimated to achieve, when fully implemented, governmentwide savings of about \$100 million per year by reducing people, paper, printing, and postage costs.

Agencies have several electronic payment products to choose from in implementing EFT '99 including Direct Deposit, Vendor Express, Automated Standard Application for Payment, government credit and debit cards and pre-authorized debits to the Treasury General Account. The use of EFT increased to 58 percent of all payments disbursed by Treasury, an increase of 5



percent over the EFT level in FY 1996. (See Chart 10). In an effort to involve agencies in the formulation of policies related to EFT '99, an EFT interagency policy workgroup has been active in gaining agency input on EFT '99 regulations. In September 1997, Treasury published a Notice of Proposed Rulemaking for implementing EFT '99. Over 200 comment letters were received, and a final rule will be published in the summer of 1998. A comprehensive education and marketing campaign is being conducted in partnership with Federal agencies, the Federal Reserve Bank, the financial services industry, the vendor community, and consumer and community-based organizations.

**Table 14. FY 1997 Treasury Disbursed Payment**

| Operations                  | FY 1997 Volume of Payments | Percent of EFT Payments |
|-----------------------------|----------------------------|-------------------------|
| Salary/Allotments.....      | 49,674,826                 | 94%                     |
| Benefit Payments.....       | 689,742,425                | 62%                     |
| Vendor Payments.....        | 16,394,355                 | 27%                     |
| Miscellaneous Payments..... | 10,614,115                 | 17%                     |
| Tax Refund Payments.....    | 90,261,182                 | 18%                     |
| Total.....                  | 856,686,903                | 58%                     |

*Payment and Collection Initiatives*

EFT, card technology and Electronic Data Interchange (EDI) can be combined in a variety of ways to meet the differing needs of various government payment and collection activities. Payment and collection initiatives using these technologies are ongoing in the areas of vendor payments, benefits payments, intra-governmental transfers, stored value cards, Internet payments and prompt payments. Treasury implemented the Electronic Data Interchange Payment and Collection (EDIPAC) system in January 1998. This system allows sufficient detail to support proper accounting and reporting for intra-governmental transactions. The Defense Finance Accounting Service and the Department of Energy are currently using EDIPAC on a pilot basis to conduct business. The Federal Prison Industries, Government Printing Office, Postal Service and OPM are targeted to begin use of EDIPAC later this year.

Vendor Payments: Critical to the continued growth of electronic vendor payments is the remittance data for the payment. Remittance information is used by vendors to further identify the payment. To transmit remittance data successfully, agencies must ensure that the addenda records meet formatting standards and mechanisms are available for vendors to receive remittance information. Agencies use two Automated Clearing House (ACH) formats for vendor payments:

- Cash Concentration and Disbursement (CCD+)—Corporate payment format which includes one addenda record (80 characters) of payment related information.
- Corporate Trade Exchange (CTX) - Corporate payment format which may include up to 9,999 addenda records of payment related information.

The following are aimed at increasing remittance data availability:

- Remittance Data Passage ACH Rule Change—This National Automated Clearing House Association rule change, effective in September 1998, requires a financial institution, upon request of the receiver, to provide all payment related information contained in the addenda records transmitted with a CCD or CTX payment.

- Federal Reserve EDI Solution—By December 1998, the Federal Reserve will be offering FED\*EDI, a stand alone translation software product which can work in conjunction with Fedline and allows financial institutions to receive, process and forward remittance information to their customers. Fedline is a Federal Reserve software product for financial institutions.
- Payment Advice Internet Delivery [PAID]—This Treasury product allows vendors to obtain remittance information on a secure Internet site. It is designed as an interim solution until more financial institutions become EDI capable and the Federal Reserve's FED\*EDI product becomes available. PAID is geared to vendors that need a limited amount (CCD+) of remittance information and whose financial institution is not EDI capable.
- GSA developed an Internet system for vendor payment inquiries and an e-mail mechanism for transmitting remittance information. FITEC is actively encouraging agencies to offer payment remittance information by e-mail to vendors who have Internet access.
- The Vendor Express program uses the ACH network and EDI to pay vendors electronically and transmit remittance information in an EDI format based on industry standards. The use of the corporate ACH formats combined with successful marketing efforts has brought electronic vendor payment volume to 38 percent during March 1998.

Benefit Payments: State implementation of Electronic Benefits Transfer (EBT) programs to provide food stamps and other benefits is growing rapidly. As of April 1998, 31 States have operational food stamp EBT systems; 19 are statewide. Nine additional States have approved contracts for statewide EBT implementation. Only a year ago, just 16 States had operational EBT programs. Nationwide EBT is estimated to be operational by 2000, and all 50 States expect to be operating statewide EBT systems by 2002.

Intra-Governmental Transfers: Intra-governmental transfers (IGOTS) are expenditure transfers between agency budget accounts (see OMB Circular A-11). The lack of clear requirements has resulted in many IGOTS being made without sufficient detail to support proper accounting and reporting of these transactions. The GSA purchase card program and the Treasury USA Card program are operating pilot projects that use card technology to affect IGOTS. The EPIC is completing an analysis of needs, benchmarking and audit requirements related to IGOTS and will develop standard requirements for systems that process IGOTS. Beginning in December 1998, agencies will be able to process IGOTS transactions using bank services from both the GSA SmartPay program and the Treasury Plastic Card Network program.

Stored Value Card Payments: Treasury initiated a series of large-scale pilots to test stored value cards as a Federal disbursement mechanism. In conjunction with the Department of the Army and the Defense Finance and Accounting Service, Treasury has supported an initial pay application using stored value cards at three Army basic training sites: Ft. Knox, KY; Ft. Sill, OK; and Ft. Leonard Wood, MO. Thousands of incoming recruits receive their initial pay on stored value cards, replacing payments formerly made with cash, checks, money orders, and paper credit vouchers. The pilots are being evaluated and, if successful, the technology will be expanded to additional sites.

Stored Value Card Collections: Treasury and VA implemented a new point-of-sale (POS) system at the Bronx, NY, and Tampa, FL Medical Centers to test stored value cards as a Federal collection mechanism. All cafeterias, vending machines, retail stores, gift shops and barber shops in the Medical Centers have been equipped with stored value card POS collection readers. Employees, patients and volunteers were issued 46,000 reloadable stored value cards, which can

be loaded at smart card capable ATM machines in the Medical Centers. The stored value cards may be used in lieu of cash to make purchases at all POS locations, which are operated by the Veterans Canteen Service.

*Emerging Internet Payment Technology:* Treasury and DOD are pilot testing electronic check technology as a Federal disbursement mechanism. The electronic check, developed by a consortium of large banks and technology companies, is an all-electronic payment mechanism modeled on the paper check. It is a digital document that uses digital signatures for signing and endorsement in lieu of written signatures and is delivered via secure Internet e-mail instead of postal mail. Fifty DOD vendors will receive their Federal payments over the Internet through electronic checks. The Federal Reserve Bank of Boston is also participating in the pilot as Treasury's fiscal agent.

*Prompt Payments:* See *Appendix II, Status of Federal Agency Prompt Payment* for information.

#### *Franchise Fund Pilot Programs*

GMRA authorized the establishment of franchise fund pilots within six Federal agencies to provide common administrative services on a competitive basis. Franchise activities can enhance efficiency by striving to provide best-value administrative services to Federal customers. Franchise fund managers use a set of "12 Business Operating Principles" that encourage the implementation of key entrepreneurial elements such as full cost recovery, competition, dynamic adjustments, performance measurement and benchmarking. In April 1998, OMB and CFO Council issued an interim report on the pilot program and progress to date in implementing these 12 principles.

Franchise funds provide a variety of common administrative services (see Table 15) on a fee-for-service basis. Over the past year, franchise funds have sought to achieve efficiencies and extend cost savings to their customers, both by spreading fixed costs over an expanding customer base (economies of scale) and by improving service delivery through streamlining, investment in information technology, cross-training, and more accurate cost accounting and fee-setting methods.

The delivery of common administrative services in a competitive environment is expected to result in the consolidation of repetitive administrative functions, consequently reducing costs and improving efficiency. For FY 1997, gross revenue generated by franchise funds was reported in the range of \$4 million to \$100 million, with an average of \$50 million across pilots. Approximately three-fourths of this revenue was provided by external customers (those outside the franchising agency). To encourage the retention of current customers and to improve services for future customers, franchise funds utilize customer advisory boards. The boards have been effective in enabling communication and identifying opportunities for improvement.

Private sector firms contribute to franchise operations in a variety of ways, ranging from support functions to actual service delivery. An estimated three-fourths of gross franchise fund revenue paid for services provided by the private sector. The extent of private sector participation varied across pilot agencies (from approximately 40 percent of gross revenues to more than 90 percent), depending on the services being provided.

Several recommendations were made in the 1998 report that are intended to improve franchise fund management in the future. These recommendations included the following:

- Continue to provide best-value services to customers at the least cost to the taxpayer by consolidating duplicative administrative functions;

- Improve the allocation of full cost for franchise services;
- Use audits more effectively to identify strengths and opportunities for improvement; and
- Emphasize the “12 Business Operating Principles,” which provide a framework for fund management.

The CFO Council, through its Entrepreneurial Government Committee, and OMB will be working with franchise funds over the coming years to implement these recommendations.

**Table 15. Federal Franchising**

| Agency                          | Franchise Activities  |   |
|---------------------------------|---|---|
| Interior                        | Administrative Systems and Systems Support Services<br>General Purpose Computing Services<br>Accounting Operations<br>Internet/World Wide Web Support | Administrative Operations (Acquisition Management and Human Resources Services)<br>Training and Development<br>Facilities Management and Services             |
| Treasury                        | Financial Education and Training<br>Consulting Work<br>Accounting Services  | Standardized Background Checks<br>Cooperative Administrative Support Units<br>Central Repository/Dissemination  |
| Veterans Affairs                | ADP and Business Support Systems<br>Law Enforcement Training<br>Security Investigations Processing  | Payroll and Financial Services<br>Secure Records Storage<br>Desktop ADP Training  |
| Commerce                        | Payroll Services<br>Personnel Services<br>Property Services<br>Administrative Payments<br>Engineering<br>Financial and Administrative Services        | Procurement<br>Publications and Printing<br>Health and Safety<br>Environmental Compliance<br>Security<br>Computer Services<br>Information Technology Services |
| Environmental Protection Agency | Data Processing and Telecommunications  | Network Services<br>Postage Services  |
| Health and Human Services       | Occupational Health Services  |   |

## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 31 tasks outlined in last year's plan, 16 were completed, 9 are on-target, 3 have been re-scheduled, and 3 will not be completed because of changed circumstances.

To modernize payments and business methods, the following objectives, tasks, and milestones were established:

| <b>OBJECTIVE: Implement the Electronic Commerce Strategic Plan</b>   |  |
|--|--|
| <p><b>TASKS:</b></p> <p>Provide direction for agency-specific EC plans (OMB)</p> <p>Establish governmentwide performance measures for use of the purchase card (OMB and CFO Council)</p> <p>Publish statistics analyzing the increased use of purchase cards against agency potential (FITEC)</p> <p>Develop agency-specific EC plans (Agencies)</p> <p>Review mission and relationship of existing inter-agency EC groups to EC plan (EPIC)</p> <p>Begin using payment utilities to support standard catalog access and Internet ID and authentication (EPIC, ECPO, Catalog Agencies, PKI Steering Committee and Selected Agencies)</p> <p>Issue plan for identifying and implementing EC applications related to acquisition functions (Federal Procurement Council, with assistance from EPIC and EC Program Officers)</p> <p>Implement prototype for integrated smart card EC access (GSA and Selected Agencies)</p> | <p><b>MILESTONES:</b></p> <p>6/98</p> <p>6/98</p> <p>Semi-annually</p> <p>9/98</p> <p>9/98</p> <p>12/98</p> <p>12/98</p> <p>3/99</p> |
| <b>OBJECTIVE: Phase in mandatory EFT by 1999</b>   |  |
| <p><b>TASKS:</b></p> <p>Publish Treasury's final rule implementing EFT '99 in <i>Federal Register</i> (Treasury)</p> <p>Publish final revised OMB A-125 Prompt Payment Circular to require collection of EFT banking information and TINs (OMB)</p> <p>Develop and make nationally available an electronic transfer account for delivering Federal EBT payments (Treasury)</p> <p>Conduct a public education campaign to notify key stakeholders of rights and responsibilities (Treasury)</p> <p>Continue to work with agencies and vendors to resolve obstacles in the conversion of vendor payments to EFT (Treasury)</p> <p>Publish FAR rulemaking requiring collection of EFT banking information and TINs in <i>Federal Register</i> (GSA, DOD and OMB)</p>  | <p><b>MILESTONES:</b></p> <p>8/98</p> <p>8/98</p> <p>1/00</p> <p>Ongoing</p> <p>Ongoing</p> <p>tbd, by FAR council</p>               |
| <b>OBJECTIVE: Make payments and collections effectively and efficiently</b>  |  |
| <p><b>TASKS:</b></p> <p>Complete IGOTS technical needs assessment, benchmarking analysis, pilot evaluations and audit requirements review (EPIC)</p> <p>Complete standard functional requirements for systems processing IGOTS (EPIC and CFO Council)</p> <p>Establish governmentwide management structure to coordinate ongoing IGOTS operating rules development and communications (EPIC and Treasury)</p>  | <p><b>MILESTONES:</b></p> <p>6/98</p> <p>7/98</p> <p>7/98</p>  |

|   |       |
|---|-------|
| Complete recommended changes to commercial operating rules to accommodate IGOTS (EPIC and Treasury)                     | 8/98  |
| Begin IGOTS production prototypes using SmartPay and PCN in five or more agencies (Treasury, GSA and Selected Agencies) | 12/98 |
| Successfully transition purchase cards from IMPAC to SMARTPAY (GSA and Agencies)  | 12/98 |
| Evaluate prototypes and amend requirements and operating rules as necessary (EPIC)                                      | 2/99  |
| Begin roll-out of IGOTS services governmentwide (Agencies)  | 3/99  |
| Review existing IGOTS regulations and requirements to identify needed changes (OMB and Treasury)                        | 3/99  |
| Implement EBT in 50 States (Selected Agencies and States)   | 1/02  |

**OBJECTIVE: Successfully implement franchise funds**

**TASKS:**

- Implement the level playing field as defined by A-76 and cost accounting guidance for franchise funds and other inter-service support agreements (OMB and CFO Council)
- Implement the recommendations made in the April 1998 report to the Congress on franchise funds (OMB and CFO Council Entrepreneurial Government Committee)

**MILESTONES:**

- Ongoing
- Ongoing

## **H. IMPROVE ADMINISTRATION OF FEDERAL ASSISTANCE PROGRAMS**

**PRIORITY:** Provide management guidance for grants with State and local governments, colleges and universities, and non-profit organizations.

**BACKGROUND:** The Federal Government awards over \$200 billion in grants to non-Federal entities. OMB, working cooperatively with agencies and non-Federal parties, establishes policies and guidelines to assure that these dollars are managed properly and spent in accordance with laws and regulations. OMB establishes policies and guidelines through grants management circulars and governmentwide common rules. Governmentwide common rules are implemented by agencies through codified regulations. This process ensures fairness and openness between the Federal Government, the non-Federal parties, and others affected by the policies and guidelines. The process also provides standardization and predictability in the issuance of Federal requirements.

Six OMB circulars define the standard administrative requirements for management of Federal dollars, the cost principles for determining allowable and unallowable expenditures of Federal dollars, and the requirements for auditing non-Federal parties' management of Federal dollars. They include:

- Circular A-102, Grants and Cooperative Agreements with State and Local Governments (There is a companion governmentwide grants management common rule that specifies uniform administrative requirements for State and local grantees.)
- Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
- Circular A-21, Cost Principles for Educational Institutions
- Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
- Circular A-122, Cost Principles for Non-Profit Organizations
- Circular A-133, Audits of States, Local Governments and Non-Profit Organizations

### **ACCOMPLISHMENTS:**

- The updated OMB Circular A-133 Compliance Supplement was published in May 1998.
- After conducting a survey of existing Federal payment systems, the CFO Council Cash Drawdown Subcommittee drafted a plan with recommendations to reduce the number of cash drawdown systems. The grantee community widely accepted the plan's recommendations, and the CFO Council will consider whether to adopt the plan within the next two or three months.
- The CFO Council Grant Accounting Subcommittee prepared papers on several grant accounting policies and issues for the CFO Council. The papers include recommendations to streamline and standardize accounting procedures and provide additional supportive guidance to departments and agencies.
- A final revision of OMB Grants Management Circulars for greater flexibility for State-administered grant programs was published in August 1997.
- Interim final amendments to agencies' codifications of OMB circular A-110 to reflect OMB Circular A-133 and the Single Audit Act Amendments of 1996 were published in August 1997.
- Additional revisions to OMB Circulars A-21 and A-122 to enhance cost accountability for research programs were published in June 1998.

### **STATUS/PERFORMANCE INFORMATION**

Related internet site: <http://www.whitehouse.gov/WH/EOP/OMB/Grants/>

In May 1997, the CFO Council established a new Committee on Grants Management. The Committee quickly organized three subcommittees:

- Cash Drawdown Subcommittee addresses the issue of multiple Federal systems for cash payments. This Subcommittee's goal is to significantly reduce the number of Federal cash drawdown systems, and thus reduce the burden on the grantees and the costs associated with the development and maintenance of multiple systems. The Subcommittee conducted surveys of various Federal drawdown systems and drafted a plan with recommendations for simplification and consolidation. The CFO Council will consider the adoption of the plan within the next two or three months.
- Grant Accounting Subcommittee reviews the various accounting practices and recommends governmentwide use of accounting standards and practices. The Subcommittee prepared several papers on grant accounting policies and issues for the CFO Council, with recommendations to streamline and standardize grant accounting procedures.



- Outreach Grants Management Subcommittee coordinates the Committees work with other groups, both inside and outside the Federal Government. The Subcommittee met with agency and State officials on various aspects of grants management.

In May 1998, OMB published the updated OMB Circular A-133 Compliance Supplement. This Supplement identifies the compliance requirements for Federal programs and provides steps and procedures for more consistent audits of Federal awards, as required by the Single Audit Act Amendments of 1996. It also includes compliance requirements for 85 programs and will add another 25 programs in FY 1999.

In June 1998, OMB published additional revisions to Circulars A-21 and A-122 to improve consistent treatment of costs charged against Federal research programs at educational and non-profit institutions. Final revisions were published in the *Federal Register* on June 1, 1998.

## FINANCIAL MANAGEMENT PLANS

**Prior Year Performance:** Of the 17 tasks listed in last year's plan, 8 were completed, 3 are on-target, 4 have been re-scheduled, and 2 will not be completed because of changed circumstances.

To improve administration of Federal assistance programs, the following objectives, tasks, and milestones were established:

|   |   |
|---|---|
| <b>OBJECTIVE: Develop governmentwide policy and complete regulatory implementation of governmentwide cost principles for sponsored agreements (OMB Circulars A-21, A-87 and A-122)</b>  |   |
| <p><b>TASKS:</b></p> <p>Issue revisions to OMB Circular A-122 and have agencies implement (OMB and Agencies)</p> <ul style="list-style-type: none"> <li>—Issue final revisions</li> <li>—Implement</li> </ul> <p>Propose revisions to OMB Circular A-21 and have agencies implement (OMB and Agencies)</p> <ul style="list-style-type: none"> <li>—Issue final revisions</li> <li>—Implement</li> </ul> | <p><b>MILESTONES:</b></p> <p>6/98</p> <p>6/99</p> <p>6/98</p> <p>6/99</p> |
| <b>OBJECTIVE: Develop governmentwide policy and complete regulatory implementation of governmentwide audit requirements for sponsored agreements (OMB Circular A-133)</b>   |   |
| <p><b>TASKS:</b></p> <p>Issue 1999 compliance supplement which updates 85 current programs and includes 25 additional Federal programs (OMB)</p>  | <p><b>MILESTONES:</b></p> <p>5/99</p>                                     |
| <b>OBJECTIVE: Develop an efficient, effective, and customer-oriented grant payment process</b>  |   |
| <p><b>TASKS:</b></p> <p>Establish policy for standardizing and consolidating payment systems (Treasury and CFO Council)</p> <p>(See Chapter G for more information on payment processes.)</p>   | <p><b>MILESTONES:</b></p> <p>9/98</p>                                     |

## **APPENDIX I.**

# **STATUS REPORT ON CREDIT MANAGEMENT AND DEBT COLLECTION**



## APPENDIX I. STATUS REPORT ON CREDIT MANAGEMENT AND DEBT COLLECTION

**Table 16. Receivables And Delinquencies As Of September 30, 1997**

(Dollars in Millions)

| Agency                | Guaranteed<br>Loans<br>Outstanding | Non-Credit<br>Receivables | Loans<br>Receivables | Total<br>Receivables | Total<br>Delinquencies | Percent of<br>Receivables<br>Delinquent | Percent of<br>Change in<br>Delinquencies<br>1997 vs. 1996 | Percent of<br>Total<br>Portfolio<br>Delinquent |
|-----------------------|------------------------------------|---------------------------|----------------------|----------------------|------------------------|---|---|--|
| USDA .....            | \$19,175                           | \$2,252                   | \$102,262            | \$104,514            | \$7,533                | 7.21%                                   | -13.99%   | 6.10%  |
| DOC .....             | \$194                              | \$41                      | \$241                | \$282                | \$96                   | 34.04%                                  | -1.03%  | 20.17%   |
| DOD .....             | \$0                                | \$5,526                   | \$12                 | \$5,538              | \$3,120                | 56.34%                                  | -7.39%  | 56.34%   |
| Education .....       | \$98,967                           | \$55                      | \$44,729             | \$44,784             | \$22,036               | 49.21%                                  | 15.03%  | 15.33%   |
| DOE.....              | \$0                                | \$7,013                   | \$65                 | \$7,078              | \$2,335                | 32.99%                                  | -1.77%  | 32.99%   |
| HHS.....              | \$4,124                            | \$7,558                   | \$528                | \$8,086              | \$4,167                | 51.53%                                  | 10.15%  | 34.13%   |
| SSA .....             | \$0                                | \$5,119                   | \$0                  | \$5,119              | \$744                  | 14.53%                                  | 124.77%   | 14.53%   |
| HUD.....              | \$455,569                          | \$918                     | \$13,156             | \$14,074             | \$1,646                | 11.70%                                  | -27.87%   | 0.35%  |
| DOI .....             | \$159                              | \$4,350                   | \$338                | \$4,688              | \$646                  | 13.78%                                  | 47.49%  | 13.33%   |
| DOJ .....             | \$0                                | \$70                      | \$0                  | \$70                 | \$48                   | 68.57%                                  | -52.48%   | 68.57%   |
| DOL.....              | \$0                                | \$170                     | \$0                  | \$170                | \$89                   | 52.35%                                  | -6.32%  | 52.35%   |
| State .....           | \$0                                | \$198                     | \$3                  | \$201                | \$7                    | 3.48%                                   | 0.00%   | 3.48%  |
| DOT.....              | \$2,574                            | \$193                     | \$440                | \$633                | \$182                  | 28.75%                                  | 13.75%  | 5.68%  |
| Treasury (less IRS) . | \$0                                | \$1,415                   | \$2,528              | \$3,943              | \$251                  | 6.37%                                   | -51.07%   | 6.37%  |
| VA.....               | \$167,762                          | \$1,506                   | \$2,195              | \$3,701              | \$1,581                | 42.72%                                  | -35.78%   | 0.92%  |
| AID .....             | \$8,831                            | \$0                       | \$12,556             | \$12,556             | \$937                  | 7.46%                                   | 18.01%  | 4.38%  |
| EPA .....             | \$0                                | \$1,008                   | \$145                | \$1,153              | \$670                  | 58.11%                                  | -4.56%  | 58.11%   |
| FEMA .....            | \$0                                | \$39                      | \$239                | \$278                | \$27                   | 9.71%                                   | -6.90%  | 9.71%  |
| GSA.....              | \$0                                | \$44                      | \$2                  | \$46                 | \$32                   | 69.57%                                  | -27.27%   | 69.57%   |
| NASA.....             | \$0                                | \$30                      | \$0                  | \$30                 | \$14                   | 46.67%                                  | -22.22%   | 46.67%   |
| NRC.....              | \$0                                | \$5                       | \$0                  | \$5                  | \$2                    | 40.00%                                  | -50.00%   | 40.00%   |
| OPM .....             | \$0                                | \$184                     | \$0                  | \$184                | \$90                   | 48.91%                                  | -1.10%  | 48.91%   |
| SBA .....             | \$35,212                           | \$0                       | \$10,001             | \$10,001             | \$1,788                | 17.88%                                  | -11.96%   | 3.95%  |
| Ex/Im Bank.....       | \$22,112                           | \$10                      | \$8,871              | \$8,881              | \$2,643                | 29.76%                                  | 7.83%   | 8.53%  |
| All Other .....       | \$8,032                            | \$5,013                   | \$18,116             | \$23,129             | \$1,210                | 5.23%                                   | 2.37%   | 3.88%  |
| Subtotal.....         | \$822,711                          | \$42,717                  | \$216,427            | \$259,144            | \$51,894               | 20.03%                                  | 1.22%   | 4.80%  |
| IRS .....             | \$0                                | \$97,558                  | \$0                  | \$97,558             | \$81,837               | 83.89%                                  | 4.74%   | 83.89%   |
| Total.....            | \$822,711                          | \$140,275                 | \$216,427            | \$356,702            | \$133,731              | 37.49%                                  | 3.35%   | 11.34%   |

**NOTES:**

1. This information was reported by Federal agencies on the Treasury Report on Receivables Due from the Public.
2. Loan receivables consist of direct loans and loans acquired as a result of claims paid on defaulted guaranteed loans.
3. NRC's delinquent debt averages 11 percent of receivables; however, because of NRC's annual billing cycle with less than one percent of annual billings billed in September, fiscal year-end delinquent debt equals 40 percent of the receivables.

**Table 17. Collections and Write-offs as of September 30, 1997**  
(Dollars in Millions)

| Agency                    | Non-Credit<br>Receivables<br>Collected | Loans<br>Receivables<br>Collected | Total<br>Receivables<br>Collected | Total Write-Offs | Percent of<br>Change in<br>Collections<br>1997 vs. 1996 |
|---------------------------|--|-----------------------------------|-----------------------------------|------------------|---|
| USDA .....                | \$3,317                                | \$14,734                          | \$18,051                          | \$1,156          | -11.29%   |
| DOC .....                 | \$98                                   | \$42                              | \$140                             | \$4              | 21.74%  |
| DOD .....                 | \$10,163                               | \$0                               | \$10,163                          | \$445            | 109.89%   |
| Education .....           | \$131                                  | \$2,430                           | \$2,561                           | \$352            | -13.10%   |
| DOE .....                 | \$4,815                                | \$1                               | \$4,816                           | \$38             | 1.67%   |
| HHS .....                 | \$10,971                               | \$33                              | \$11,004                          | \$77             | 8.42%   |
| SSA .....                 | \$2,172                                | \$0                               | \$2,172                           | \$888            | 22.37%  |
| HUD .....                 | \$2,867                                | \$4,227                           | \$7,094                           | \$777            | -2.53%  |
| DOI .....                 | \$1,231                                | \$11                              | \$1,242                           | \$26             | -1.79%  |
| DOJ .....                 | \$93                                   | \$0                               | \$93                              | \$9              | -78.77%   |
| DOL .....                 | \$104                                  | \$0                               | \$104                             | \$23             | 6.12%   |
| State .....               | \$108                                  | \$0                               | \$108                             | \$4              | 3510.00%  |
| DOT .....                 | \$165                                  | \$82                              | \$247                             | \$14             | 109.32%   |
| Treasury (less IRS) ..... | \$2,300                                | \$622                             | \$2,922                           | \$23             | -27.00%   |
| VA .....                  | \$873                                  | \$1,182                           | \$2,055                           | \$1,285          | -11.88%   |
| AID .....                 | \$0                                    | \$904                             | \$904                             | \$0              | -4.84%  |
| EPA .....                 | \$390                                  | \$13                              | \$403                             | \$155            | 4.68%   |
| FEMA .....                | \$6                                    | \$46                              | \$52                              | \$15             | -27.78%   |
| GSA .....                 | \$1,649                                | \$6                               | \$1,655                           | \$14             | 488.97%   |
| NASA .....                | \$130                                  | \$0                               | \$130                             | \$1              | -13.33%   |
| NRC .....                 | \$458                                  | \$0                               | \$458                             | \$1              | 2.23%   |
| OPM .....                 | \$174                                  | \$0                               | \$174                             | \$5              | 2.96%   |
| SBA .....                 | \$0                                    | \$1,647                           | \$1,647                           | \$689            | 3.98%   |
| Ex/Im Bank .....          | \$74                                   | \$1,826                           | \$1,900                           | \$44             | 38.28%  |
| All Other .....           | \$29,052                               | \$2,490                           | \$31,542                          | \$22             | 6.65%   |
| Subtotal .....            | \$71,341                               | \$30,296                          | \$101,637                         | \$6,067          | 6.51%   |
| IRS .....                 | \$32,689                               | \$0                               | \$32,689                          | \$14,023         | 5.78%   |
| Total .....               | \$104,030                              | \$30,296                          | \$134,326                         | \$20,090         | 6.33%   |

**NOTES:**

1. This information was reported by Federal agencies on the Treasury Report on Receivables Due from the Public.

2. Loan receivables consist of direct loans and loans acquired as a result of claims paid on defaulted guaranteed loans.

## **APPENDIX II.**

# **STATUS OF FEDERAL AGENCY PROMPT PAYMENT**





## APPENDIX II. STATUS OF FEDERAL AGENCY PROMPT PAYMENT

The Prompt Payment Act of 1982, as amended, requires OMB to submit an annual report to Congress regarding Federal agency compliance with the requirements of the Act. This Appendix fulfills this statutory requirement. Treasury's FMS assists OMB in the implementation of the Prompt Payment Act. The Act requires agencies to pay their bills on time and to pay interest on late payments. OMB Circular A-125, Prompt Payment, provides specific requirements for implementing the Prompt Payment Act.

This report summarizes annual reports submitted to FMS by the 24 CFOs Act agencies and USIA. Information reported by the agencies includes: the number and amounts of payments subject to the Act, the number and amounts of interest penalties paid, and reliability of data reported through payment systems.

### HIGHLIGHTS OF AGENCY REPORTS

#### *Timeliness of Payments*

Table 18 summarizes the timeliness of vendor payments for 25 reporting agencies who complied with the Prompt Payment Act from 1993-1997.

**Table 18. Timeliness of 1993-1997 Vendor Payments Reported by Agencies <sup>1</sup>**

| Timeliness of Payments              | Percent of Payments |       |       |       |       |
|-------------------------------------|---------------------|-------|-------|-------|-------|
|                                     | 1993                | 1994  | 1995  | 1996  | 1997  |
| Total .....                         | 100                 | 100   | 100   | 100   | 100   |
| On time .....                       | 92.4                | 93.1  | 91.4  | 91.5  | 91.9  |
| Early .....                         | 0.6                 | 1.3   | 1.6   | 1.6   | 0.8   |
| Late .....                          | 6.0                 | 5.6   | 7.0   | 6.9   | 7.3   |
| Interest penalty paid .....         | (2.2)               | (2.0) | (3.1) | (3.2) | (3.8) |
| Interest not due <sup>2</sup> ..... | (3.4)               | (3.4) | (3.6) | (3.6) | (3.2) |
| Interest due but not paid .....     | (0.3)               | (0.2) | (0.3) | (0.1) | (0.3) |

<sup>1</sup> Includes the 24 CFO agencies and USIA.

<sup>2</sup> Interest was not due because interest was less than \$1.

Table 19 refers to agency specific figures regarding payments for 1997.

**Table 19. Timeliness of Vendor Payments by Agency in 1997**

| Agency                    | Payments On Time | Early   | Late      | Interest Not Due <sup>1</sup> | Interest Due But Not Paid |
|---------------------------|------------------|---------|-----------|-------------------------------|---------------------------|
| Agriculture .....         | 6,246,170        | 202     | 86,067    | 53,996                        | 0                         |
| Commerce.....             | 496,856          | 19,534  | 33,938    | 22,291                        | 78                        |
| Defense.....              | 18,256,329       | 9,545   | 1,757,086 | 660,215                       | 18,420                    |
| Education .....           | 36,135           | n/a     | 519       | n/a                           | n/a                       |
| Energy <sup>2</sup> ..... | 139,296          | 361     | 6,529     | 3,248                         | 1,032                     |
| HHS.....                  | 974,807          | 57,599  | 117,955   | 67,315                        | 37                        |
| HUD.....                  | 53,276           | 473     | 8,658     | 5,177                         | 34                        |
| Interior.....             | 397,183          | 17,724  | 119,192   | 69,454                        | 2,941                     |
| Justice.....              | 713,73           | 739,572 | 131,033   | 86,423                        | 7,664                     |
| Labor.....                | 158,728          | 3,770   | 11,799    | 8,244                         | 52                        |
| State.....                | 308,867          | 94      | 25,132    | 12,318                        | 0                         |
| Transportation .....      | 513,259          | 616     | 39,577    | 6,417                         | 2,395                     |
| Treasury.....             | 267,764          | 28,012  | 24,639    | 16,578                        | 482                       |
| Veterans Affairs .....    | 3,774,207        | 99,450  | 260,089   | 122,210                       | 39,305                    |
| AID.....                  | 26,531           | 7,462   | 9,240     | 2,737                         | 585                       |
| EPA.....                  | 120,706          | 0       | 1,823     | 300                           | 0                         |
| FEMA.....                 | 31,049           | 48      | 4,854     | 3,313                         | 0                         |
| GSA.....                  | 1,503,917        | 10,317  | 110,773   | 63,843                        | 23,996                    |
| NASA.....                 | 197,547          | 855     | 3,456     | 1,204                         | 0                         |
| NSF.....                  | 22,270           | n/a     | 2         | 0                             | 0                         |
| NRC.....                  | 8,801            | 0       | 492       | 231                           | 7                         |
| OPM.....                  | 18,606           | 2       | 2,217     | 0                             | 0                         |
| SBA.....                  | 21,817           | 2,456   | 6,428     | 2,456                         | 1,535                     |
| SSA.....                  | 539,376          | 0       | 4,792     | 3,747                         | 0                         |
| USIA.....                 | 75,937           | 15,527  | 6,189     | 5,424                         | 0                         |
| Total.....                | 33,587,467       | 313,619 | 2,772,479 | 1,217,141                     | 98,563                    |
| Percent.....              | 88.4%            | 0.8%    | 7.3%      | 3.2%                          | 0.3%                      |

<sup>1</sup> Interest was not due because interest was less than \$1.

<sup>2</sup> These figures are computed by combining the Prompt Pay Reports of both the Department of Energy and one of its bureaus, Bonneville Power Company.

In 1997, the number of late payments decreased from 3.1 million in 1996 to 2.8 million. However, the percentage of total payments that were late increased from 6.9 percent to 7.3 percent in 1997.

The number of early vendor payments decreased from 717,051 in 1996 to 313,479. The percentage of total payments made early also decreased from 1.6 percent in 1996 to 0.8 percent in 1997.

*Interest Penalties*

In 1997, the number of payments subject to the Prompt Payment Act decreased from 44 million to 38 million, increasing slightly from \$173.4 billion to \$174.2 billion. The number of interest penalties paid increased by 24,625 penalties or 3 percent. The dollar value of interest penalties paid decreased from \$41 million to \$38 million. The percent of interest penalties paid increased to 3.8 percent from 3.2 percent of total payments.

**Table 20. Summary of Agency Interest Penalty Payments in 1997**

| Agency                 | Payments Subject to the Act and Circular |            | Interest Penalties Paid |           | Percent of Payments |                    | Major Reasons for Interest Penalties* |
|------------------------|--|------------|-------------------------|-----------|---------------------|--------------------|---------------------------------------|
|                        | (\$000)                                  | Number     | (\$000)                 | Number    | \$ Flow             | Transaction Volume |                                       |
| Agriculture .....      | \$14,020,423                             | 6,332,439  | \$971                   | 32,071    | 0.007%              | 0.506%             | B,F                                   |
| Commerce .....         | \$1,289,760                              | 550,328    | \$333                   | 11,652    | 0.026%              | 2.117%             | C,F                                   |
| Defense.....           | \$107,106,122                            | 20,022,960 | \$27,478                | 1,078,451 | 0.026%              | 5.386%             | A,F                                   |
| Education .....        | \$426,209                                | 36,654     | \$163                   | 519       | 0.038%              | 1.416%             | B,E                                   |
| Energy.....            | \$2,739,643                              | 146,186    | \$109                   | 2,178     | 0.004%              | 1.490%             | A,G                                   |
| HHS .....              | \$3,860,581                              | 1,150,361  | \$806                   | 50,603    | 0.021%              | 4.399%             | A,F                                   |
| HUD .....              | \$488,417                                | 62,407     | \$129                   | 3,447     | 0.026%              | 5.523%             | B,F                                   |
| Interior.....          | \$1,809,489                              | 534,099    | \$1,213                 | 46,797    | 0.067%              | 8.762%             | A,F                                   |
| Justice.....           | \$3,850,952                              | 884,342    | \$1,252                 | 36,946    | 0.033%              | 4.178%             | B,F                                   |
| Labor.....             | \$524,882                                | 174,297    | \$139                   | 3,503     | 0.026%              | 2.010%             | B,F                                   |
| State.....             | \$1,261,368                              | 334,093    | \$779                   | 12,814    | 0.062%              | 3.835%             | A,C                                   |
| Transportation .....   | \$2,416,972                              | 553,452    | \$604                   | 30,765    | 0.025%              | 5.559%             | A,D                                   |
| Treasury .....         | \$2,126,881                              | 320,415    | \$249                   | 7,572     | 0.012%              | 2.363%             | A,F                                   |
| Veterans Affairs ..... | \$6,589,382                              | 4,133,746  | \$2,116                 | 98,574    | 0.032%              | 2.385%             | A,C                                   |
| AID .....              | \$2,182,831                              | 43,233     | \$398                   | 5,770     | 0.018%              | 13.346%            | A,G,F                                 |
| EPA.....               | \$1,185,610                              | 122,529    | \$25                    | 1,522     | 0.002%              | 1.242%             | A,F                                   |
| FEMA .....             | \$361,183                                | 35,951     | \$80                    | 1,477     | 0.022%              | 4.108%             | A                                     |
| GSA .....              | \$9,169,946                              | 1,625,007  | \$1,082                 | 22,934    | 0.012%              | 1.411%             | A,G                                   |
| NASA .....             | \$11,169,854                             | 201,858    | \$87                    | 2,252     | 0.001%              | 1.116%             | A,F                                   |
| NSF.....               | \$242,292                                | 22,272     | *                       | 2         | 0.008%              | 0.009%             | A                                     |
| NRC .....              | \$41,654                                 | 9,293      | \$3                     | 257       | 0.007%              | 2.766%             | C,G                                   |
| OPM.....               | \$86,823                                 | 20,825     | \$5                     | 504       | 0.006%              | 2.420%             | A,G                                   |
| SBA.....               | \$63,698                                 | 30,701     | \$91                    | 2,437     | 0.143%              | 7.938%             | C,G                                   |
| SSA.....               | \$677,131                                | 544,168    | \$21                    | 1,045     | 0.003%              | 0.192%             | n/a                                   |
| USIA.....              | \$517,775                                | 97,653     | \$14                    | 765       | 0.003%              | 0.783%             | C,G                                   |
| Total.....             | \$174,209,878                            | 37,989,269 | \$38,146                | 1,454,857 | 0.022%              | 3.83%              |                                       |

\*—Interest Penalties paid were \$182.00

- A—Delay in receipt of receiving report by paying office.
- B—Delay in receipt of purchase order or contract by paying office.
- C—Delay in receipt of other necessities by paying office.
- D—Delay or error by paying office in taking discount.
- E—Delay or error by paying office in notifying vendor or defective invoice.
- F—Delay or error by paying office in computer or other system processing.
- G—Delay or error by paying office in other areas.

### *Additional Penalties*

The number of additional penalties resulting from an agency's failure to pay interest on late payments decreased from 454 penalties in 1996 to 357 in 1997. The dollar value of additional penalties totaled \$26,512.

### *General Findings*

For 1997 reporting, an Internet web page was developed to allow agencies to download the Prompt Pay files electronically. Approximately 40 percent used this method to submit their reports. This web page will be reactivated next year for the agencies' convenience.

Many agencies have begun implementing automated systems which compute the date of payment and applicable interest. In addition, agencies reported increased use of the government purchase card to increase the timeliness of payments and streamline accounts payable. Some agencies are also accepting invoices by fax and EDI to decrease the lag time and increase the opportunity for discounts. Other innovative approaches include utilizing ACH technology, on-line tracking of payments and approval of invoices, full EDI invoicing and bidding, and automated Quality Control.

## **APPENDIX III.**

# **CIVIL MONETARY PENALTY ASSESSMENT AND COLLECTIONS**



## APPENDIX III. CIVIL MONETARY PENALTY ASSESSMENT AND COLLECTIONS

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the DCIA, establishes annual reporting requirements for civil monetary penalties (CMPs) assessed and collected by Federal agencies. CMPs are non-criminal penalties imposed for violations of Federal law and have a fixed or maximum dollar value (such as “\$2,500 per day,” “\$10,000 per violation,” or “10 percent of the gross value, but not more than \$5,000”). Federal agencies assess and collect CMPs to enforce a wide variety of laws in areas such as health and safety, transportation safety, environmental hazards, import and export restrictions, land and resource management, and lobbying.

Seventy-six Federal entities provided data on civil monetary assessments and collections.<sup>1</sup> The table below lists the major agencies that reported assessments and collections for CMPs in FY 1997.

**Table 21. Assessments and Collections Reported by Agencies for FY 1997**

| Agency                         | Assessments     | Collections   |
|--------------------------------|-----------------|---------------|
| Commerce.....                  | \$11,508,370    | \$5,684,164   |
| EPA.....                       | \$71,870,638    | \$56,660,669  |
| Federal Reserve System.....    | \$67,977,500    | \$32,799,636  |
| Federal Trade Commission.....  | \$12,502,186    | \$9,690,208   |
| Health and Human Services..... | \$185,980,271   | \$33,134,750  |
| Justice.....                   | \$33,828,625    | \$25,178,697  |
| Labor.....                     | \$107,395,473   | \$86,136,531  |
| SEC.....                       | \$25,043,569    | \$8,215,009   |
| Transportation.....            | \$73,001,897    | \$70,606,173  |
| Treasury (less IRS).....       | \$26,378,475    | \$3,914,086   |
| IRS.....                       | \$675,345,171   | \$120,814,628 |
| All Others.....                | \$19,703,075    | \$15,542,865  |
| Total.....                     | \$1,310,535,250 | \$468,377,416 |
| Total less IRS.....            | \$635,190,079   | \$347,562,788 |

<sup>1</sup>There are currently 77 Federal entities required to report CMP activity.

### *Highlights*

- In FY 1997, agencies reported \$1.3 billion in CMP assessments, of which \$675 million represented IRS assessments and \$635 million represented non-tax assessments. Overall, assessments in FY 1997 remained constant with respect to the previous fiscal year.
- Seven agencies were responsible for 89 percent of the \$635 million in non-tax CMP assessments during FY 1997: HHS (\$186 million), Labor (\$107 million), Transportation (\$73 million), EPA (\$72 million), Federal Reserve System Board of Governors (\$68 million), Justice (\$34 million), and Treasury (\$26 million).
- In FY 1997, agencies reported \$468 million in CMP collections, of which \$121 million represented IRS collections and \$347 million represented non-tax assessments. Overall, collections in FY 1997 increased 3 percent from the previous fiscal year.
- Seven agencies were responsible for 90 percent of the \$347 million in non-tax CMP collections during FY 1997: Labor (\$86 million), Transportation (\$71 million), EPA (\$57 million), HHS (\$33 million), Federal Reserve System Board of Governors (\$33 million), Justice (\$25 million), and Federal Trade Commission (\$10 million).



## CFOs ACT AGENCIES

|           |   |          |   |
|-----------|---|----------|---|
| USDA      | Department of Agriculture                   | Treasury | Department of the Treasury                    |
| Commerce  | Department of Commerce                      | VA       | Department of Veterans Affairs                |
| DOD       | Department of Defense                       | AID      | Agency for International Development          |
| Education | Department of Education                     | EPA      | Environmental Protection Agency               |
| DOE       | Department of Energy                        | FEMA     | Federal Emergency Management Agency           |
| HHS       | Department of Health and Human Services     | GSA      | General Services Administration               |
| HUD       | Department of Housing and Urban Development | NASA     | National Aeronautics and Space Administration |
| DOI       | Department of the Interior                  | NSF      | National Science Foundation                   |
| DOJ       | Department of Justice                       | NRC      | Nuclear Regulatory Commission                 |
| DOL       | Department of Labor                         | OPM      | Office of Personnel Management                |
| State     | Department of State                         | SBA      | Small Business Administration                 |
| DOT       | Department of Transportation                | SSA      | Social Security Administration                |

## GENERAL ABBREVIATIONS

|        |   |       |   |
|--------|---|-------|---|
| AAPC   | Accounting and Auditing Policy Committee                  | FY    | Fiscal Year   |
| ACH    | Automated Clearing House                                  | GAO   | General Accounting Office                           |
| AGA    | Association of Government Accountants                     | GMRA  | Government Management Reform Act of 1994            |
| CCD    | Cash Concentration and Disbursement                       | GPRA  | Government Performance and Results Act of 1993      |
| CFOs   | Chief Financial Officers                                  | HRC   | Human Resources Committee                           |
| CMP    | Civil Monetary Penalties                                  | HRTC  | Human Resources Technology Council                  |
| COTS   | Commercial Off-the-Shelf (software)                       | IAG   | Interagency Advisory Group                          |
| CPE    | Continuing Professional Education                         | IG    | Inspector General                                   |
| CTX    | Corporate Trade Exchange                                  | IGOTS | Intra-Governmental Transfer (card pilots)           |
| EBT    | Electronic Benefits Transfer                              | JFMIP | Joint Financial Management Improvement Program      |
| EC     | Electronic Commerce                                       | MCAI  | Managerial Cost Accounting Implementation Guide     |
| EDI    | Electronic Data Interchange                               | MD&A  | Management Discussion and Analysis                  |
| EDIPAC | Electronic Data Interchange Payment and Collection        | OMB   | Office of Management and Budget                     |
| EFT    | Electronic Funds Transfer                                 | PAID  | Payment Advice Internet Delivery                    |
| EPIC   | Electronic Processes Initiatives Committee                | PCIE  | President's Council on Integrity and Efficiency     |
| DCIA   | Debt Collection Improvement Act of 1996                   | PMI   | Presidential Management Intern                      |
| DCFOs  | Deputy Chief Financial Officers                           | PMO   | Program Management Office                           |
| FACTS  | Federal Agencies' Centralized Trial Balance System        | POS   | Point of Sale                                       |
| FASAB  | Federal Accounting Standards Advisory Board               | SFFAC | Statement of Federal Financial Accounting Concept   |
| FFMIA  | Federal Financial Management Improvement Act of 1996      | SFFAS | Statement of Federal Financial Accounting Standards |
| FITEC  | Financial Implementation Team for Electronic Commerce     | SGL   | Standard General Ledger                             |
| FMFIA  | Federal Managers' Financial Integrity Act of 1982         | SRAS  | Statement of Recommended Accounting Standards       |
| FMS    | Department of the Treasury's Financial Management Service | TOP   | Treasury Offset Program                             |
| FMSS   | GSA Financial Management Systems Software                 | TROP  | Tax Refund Offset Program                           |

