JFMIP

Federal
Financial
Management
System
Requirements

Direct Loan System Requirements

DRAFT

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JFMIP-SR-98-6
December 1998

What is JFMIP?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the U.S. Department of the Treasury, the General Accounting Office, the Office of Management and Budget, and the Office of Personnel Management, working in cooperation with each other and other agencies to improve financial management practices in government. The Program was given statutory authorization in the Budget and Accounting Procedures Act of 1950 (31 USC 65). Leadership and program guidance are provided by the four Principals of the JFMIP--Comptroller General of the United States, Secretary of the Treasury, and the Directors of the Office of Management and Budget, and the Office of Personnel Management. Each Principal designates a representative to serve on the JFMIP Steering Committee, which is responsible for the general direction of the Program. The JFMIP Executive Director, and a program agency representative (who serves for 2 years) are also on the Steering Committee.

The Program promotes strategies and guides financial management improvement across government; reviews and coordinates central agencies' activities and policy promulgations; and acts as catalyst and clearinghouse for sharing and disseminating information about good financial management practices. This information sharing is done through conferences and other educational events, newsletters, meetings with interagency groups and agency personnel, and through FinanceNet, an electronic clearinghouse on the Internet.

The JFMIP has worked on interagency projects that developed a financial systems framework and financial systems requirements. For the future JFMIP plans to assist Federal agencies in improving their financial systems through its Program Management Office. The Office will work on revising the Federal government's requirements definition, testing and acquisition processes, the first target of opportunity is core financial systems. The objectives of the Office are to develop systems requirements, communicate and explain Federal and agency needs, provide agencies and vendors information to improve financial systems, ensure that products meet relevant system requirements, and simplify the procurement process.

Information on JFMIP can be found at its website at www.financenet.gov/financenet/fed/jfmip/jfmip.htm or call (202) 512-9201.

JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM

JFMIP

441 G Street NW, Room 3111
Washington, DC 20548

Memorandum

DATE: December 14, 1998

TO: Senior Financial Officials

FROM: Executive Director, JFMIP - Karen Cleary Alderman

SUBJECT: JFMIP Direct Loan System Requirements Document

The JFMIP Direct Loan System Requirements document Exposure Draft is attached. This update effort was led by the Department of Education, Director of Accounting and Financial Management Service, and reflects the efforts of her governmentwide team. The effort was supported by the JFMIP; Chief Financial Officers Council Financial Systems Committee (FSC); Federal Credit Policy Working Group (FCPWG); Office of Management and Budget (OMB); and others. The extensive vetting process that was used, revealed many changes that needed to be included in the Direct Loan System Requirements document, to reflect:

(1) statutory and regulatory changes, including Debt Collection Improvement Act of 1996; Statement of Audit Standards (SAS 70); Troubled Debt Servicing; Treasury Cross-Servicing,

(2) technological changes, including electronic guidance to make collections using Web-based technology; automated system balancing; electronic application criteria, and

(3) JFMIP documentation changes, including the updated JFMIP Core Financial System Requirements document and issuance of the Framework for Federal Financial Management Systems document.

We want to point out that mandatory and value added requirements have been addressed in the document and defined in the Terminology appendix. We ask that you look closely at the Terminology appendix and, if needed, recommend

additional terms that are shown in the document that you believe need to be defined.

The attachment has been reviewed, previously, by representatives of the JFMIP, FSC, Federal Accounting Standards Advisory Board, General Accounting Office, OMB, FCPWG, and others.

The document is being circulated widely within the Federal government's financial systems community, private sector service providers, and other major stakeholders. It is also being placed on FinanceNet at:

www.financenet.gov/financenet/fed/jfmip/jfmipexp.htm

Please provide your comments by Friday, February 26, 1999. Comments on any section of this document are encouraged. Responses will be more helpful to the JFMIP if they also include your rationale. Respondents should also indicate the capacity in which they are responding.

Comments should be sent to:

Joint Financial Management Improvement Program
441 G Street NW, Room 3111
Washington, DC 20548

If you have any questions, please contact Dennis Mitchell via electronic mail at mitchelld.jfmip@gao.gov, telephone 202-512-5994, or fax 202-512-9593.

Attachment

Foreword

This Direct Loan System Requirements document is one of a series of publications which started with the Core Financial System Requirements published by the Joint Financial Management Improvement Program (JFMIP). Its preparation addresses the goal of the President's Council on Management Improvement (PCMI) and the JFMIP to improve the efficiency and quality of financial management in the Federal Government. Impetus has been provided by the Chief Financial Officers Act of 1990 (CFO) and the Federal Credit Reform Act of 1990 (FCRA), Government Management Reform Act of 1994 (GMRA), and Federal Financial Management Improvement Act of 1996 (FFMIA), which strongly reaffirmed the need for the Federal Government to provide financial systems that facilitate the effective management of Government programs and services and the proper stewardship of public resources.

These requirements encompass the full scope of requirements for an automated direct loan system. Each Agency must evaluate whether it is practical to fully automate all of these functions or whether manual systems and processes are justified. Agencies are to use these functional requirements in planning their financial system improvement projects. As with the other systems requirements documents, agencies will have to include their unique requirements, both technical and functional, with the requirements in this document. Furthermore, each agency must develop its own integration strategy detailing how the direct loan system will either interface or integrate with the core financial system and other applicable systems.

We want to thank the agency officials and others in the financial management community who contributed to the document. We value their assistance and support.

Karen Cleary Alderman

Karen Cleary Alderman
Executive Director
December 1998

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Acronyms

AAPC	Accounting and Auditing Policy Committee
ACH	Automated Clearing-house
CAIVRS	Credit Alert Interactive Voice Response System
CCLR	Claims Collection Litigation Report
CFO Act	Chief Financial Officers Act of 1990
CM	Configuration Management
DCA	Debt Collection Act
DCIA	Debt Collection Improvement Act
DOJ	Department of Justice
EDA	Electronic Debit Account
E-mail	Electronic mail
FASAB	Financial Accounting Standards Advisory Board
FCRA	Federal Credit Reform Act
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
GAO	General Accounting Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Program
OGC	Office of General Counsel
OMB	Office of Management and Budget
PCMI	President's Council on Management Improvement
SAS 70	Statements of Auditing Standards
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SGL	U.S. Government Standard General Ledger
TFM	Treasury Financial Manual
TIN	Taxpayer Identification Number
TOP	Treasury Offset Program

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Introduction

The CFO Act of 1990, GMRA, and FFMIA of 1996 mandate improved financial management, assign clearer responsibility for leadership to senior officials, and require new financial organizations, enhanced financial systems, and audited financial reporting. Improving Federal financial management systems is critical to increasing the accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal Government.

Proficient financial management and, accordingly, reliable financial systems, must provide for:

- Accountability. Inform taxpayers, agency personnel, and the Congress, in terms they can readily understand, about what the nation's tax dollars are spent for, and how Federal assets are protected.
- Efficiency and Effectiveness. Provide efficient and effective service to the various partners the Agency has in its direct loan program (i.e. individuals, contractors, partnerships, corporations, not-for-profits, grantees, state, and local Governments).
- Better Decision-Making. Provide to agency heads, program managers, and the Congress timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately.

Office of Management and Budget (OMB) Circular A-127, Financial Management Systems, sets forth general policies for Federal financial management systems. Each agency is required to develop and maintain a single, integrated financial management system. To support this objective, each agency is required to have an ongoing financial systems improvement planning process and periodic reviews of financial system capabilities.

Agency financial systems must enable agencies to prepare financial reports in accordance with Federal accounting and reporting standards. Financial systems need to be flexible to adapt to changes in accounting standards.

The Federal Accounting Standards Advisory Board (FASAB) was established in October 1990 to recommend Federal accounting principles and standards to the Secretary of the Treasury, the Director of OMB, and the Comptroller General, who are Principals of the JFMIP. The FFMIA of 1996 adopts the FASAB as the standard-setting body and requires each Federal agency to implement and maintain financial management systems that comply with uniform Federal accounting concepts and standards.

The Direct Loan System Requirements document has been prepared as a continuation of the Federal Financial Management System Requirements series that began with the Core Financial System Requirements in January 1988. The document has been prepared in consultation with OMB, the General Accounting Office (GAO), the Financial Management Service (FMS) of the Department of the Treasury, and Federal program agencies.

Federal Financial Management Framework

This document is a part of a broad program to improve Federal financial management which involves the establishment of uniform requirements for financial information, financial systems, reporting, and financial organization.

System requirements for common systems have been prepared under the direction of JFMIP as a series of publications entitled Federal Financial Management System Requirements. Successive publications in the series have included the *Core Financial System Requirements* (undergoing update), *Human Resources & Payroll Systems Requirements* (undergoing update), *Travel System Requirements* (undergoing update), *Seized/Forfeited Assets System Requirements* (undergoing update), and *Managerial Cost Accounting System Requirements* (July 1995). This publication, *Direct Loan System Requirements*, and its companion, *Guaranteed Loan System Requirements*, (December 1993)" extend the establishment of functional requirements for agency systems.

As shown in Illustration 1, *Financial System Improvement Projects*, establishing uniform requirements is only part of the process of improving financial management systems and information. Improvements can be achieved through the selection, development, and/or purchase of applications that meet approved functional requirements and technical as well as data management specifications. Agencies must continue to improve their financial systems and implement new requirements as they are issued so that continuing efforts to standardize and upgrade data and reporting requirements in accordance with OMB's Governmentwide 5-year financial management plan will be successful.

Well defined and effective Governmentwide functional requirements assist agencies in developing strong systems and information by eliminating duplicate work among agencies and providing a common framework so that outside vendors can more economically provide systems software. Development of Governmentwide functional requirements for each application is a critical effort that will affect internally developed systems and the evaluation and selection of commercially available systems. Agencies should consider including a vendor's degree of compliance with JFMIP System Requirements as this may provide the agencies with an important evaluation criteria. However, agencies must augment these Governmentwide requirements with their own unique agency requirements, which must be carefully defined to ensure consistency with the Governmentwide requirements. Each agency must also integrate the Governmentwide requirements with existing systems, including the major program systems that are unique to the agency.

The CFO Act requires agency CFOs to develop and maintain agency financial management systems that comply with applicable accounting principles, standards, and requirements; internal control standards; and policies and requirements prescribed by OMB and the Department of the Treasury.

The FFMIA requires each agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the U.S. Government Standard General Ledger (SGL) at the transaction level. This law recognizes that financial management systems include the financial portions of mixed systems, such as direct loan systems, that are needed to support financial management. Each audit of an Agency's financial statements will report on whether the Agency's financial management systems substantially comply with Federal financial management system requirements. If, based on the auditor's report and any other relevant information, the Head of the Agency determines the Agency's financial systems are not substantially compliant, then a remediation plan will be established that includes the resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

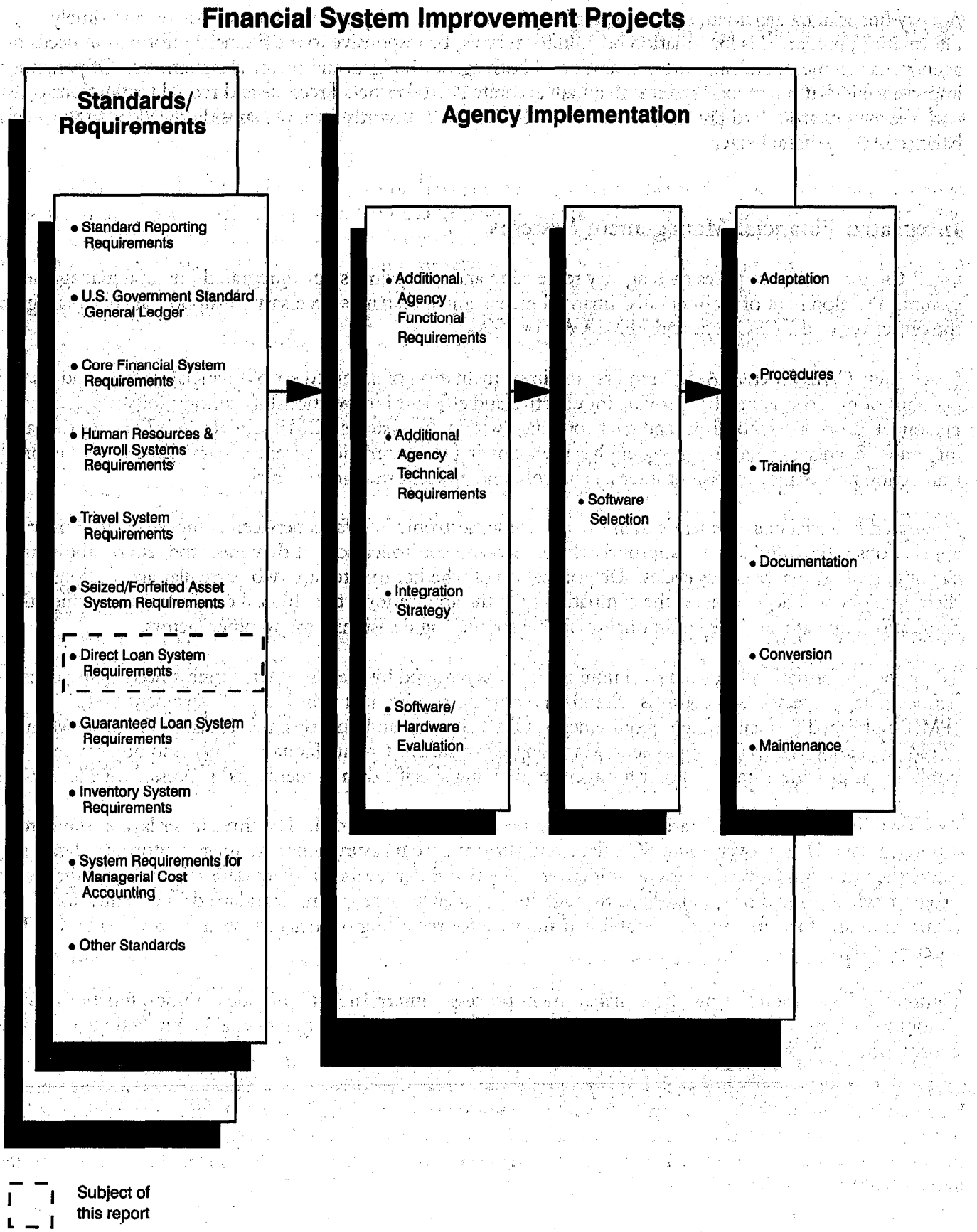


Illustration 1

Agency financial management systems must be able to provide complete, reliable, consistent, and timely information; prepare this information on a uniform basis; be responsive to the financial information needs of agency management; and support preparation of both agency budgets and financial statements. Of paramount importance is that direct loan systems maintain accurate borrower detail records and record transactions consistent with the loan contract and the U.S. Government SGL as these records form the subsidiary ledger to the receivable balance in the general ledger.

Integrated Financial Management Systems

OMB Circular A-127 requires each agency to develop and maintain a single integrated financial management system. Development of an integrated financial management system is necessary to support agency management, the objectives of the CFO Act, and FFMIA Act of 1996.

Specifically, OMB Circular A-127 requires the implementation of a unified set of financial systems and financial portions of mixed systems that provide for effective and efficient interrelationships among software, hardware, personnel, procedures, controls, and data contained within the systems. OMB Circular A-127 states that an integrated financial management system has the following characteristics: common data elements, common transaction processing, consistent internal controls, and efficient transaction entry.

Integrated financial management systems may include electronic interfaces between component systems or applications if the interfaces are appropriately defined and controlled so that they meet the criteria above and follow the timing of normal business cycles. Determination of whether to interface two particular applications or to merge them into one will depend upon the compatibility of the applications, the physical environment in which the applications operate, and the commonality of data for making decisions, among other factors.

To provide information prepared on a uniform basis as required by the CFO Act, systems need to use consistently defined data, processes, and controls. Standard reporting requirements, the U. S. Government SGL, JFMIP-published financial system requirements, OMB circulars and bulletins, the Treasury Financial Manual (TFM) including the credit supplement, Managing Government Credit (January 1989), and other such publications provide a starting point for agencies defining specific data elements and processes for their systems.

As shown in Figure 1 of Illustration 2, many layers of data can be defined. The three inner layers; standard reporting data, U. S. Government SGL data, and performance measurement data must conform to data standards established through Governmentwide initiatives. The two outer layers represent data specific to an agency or to a program which should be standardized throughout the agency or program. Standard data classifications (definitions and formats) must be established and used for recording financial events as prescribed by OMB Circular A-127.

Figure 2 of Illustration 2 shows how management processes interrelate and provide common functionality. Common processes that are based on standards and used throughout the system enable transactions to be recorded consistently, with predictable results.

Framework for the Integration of Federal Agency Systems

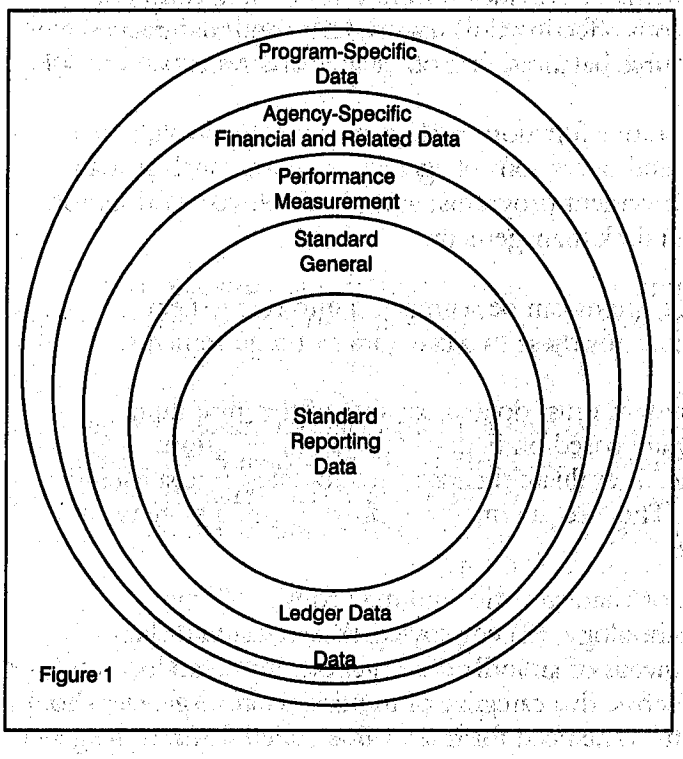


Figure 1

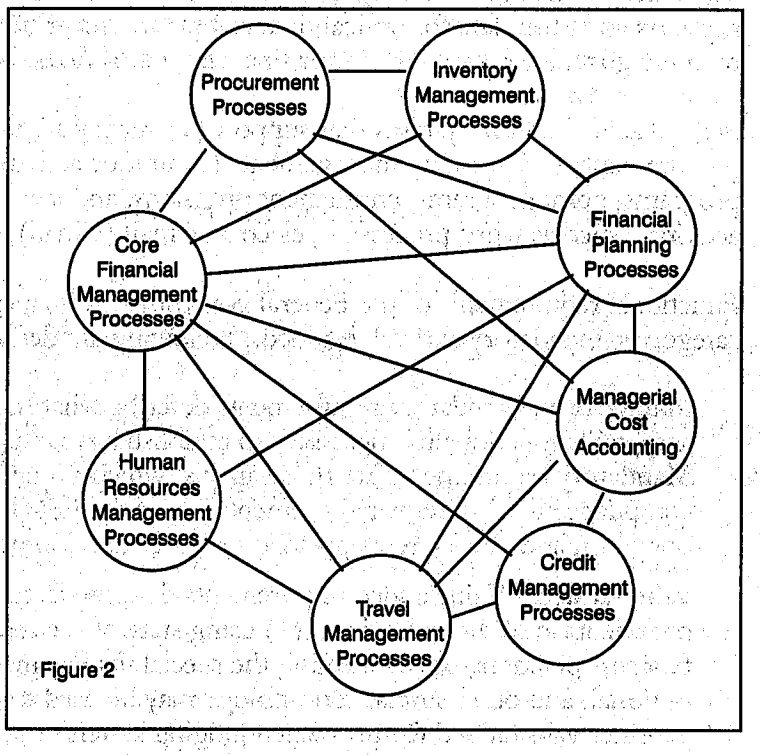
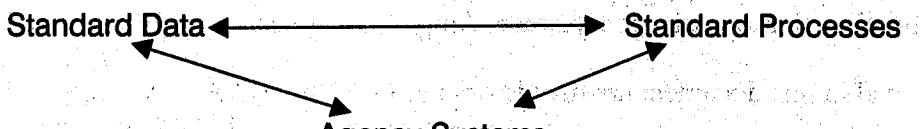


Figure 2



Agency Systems

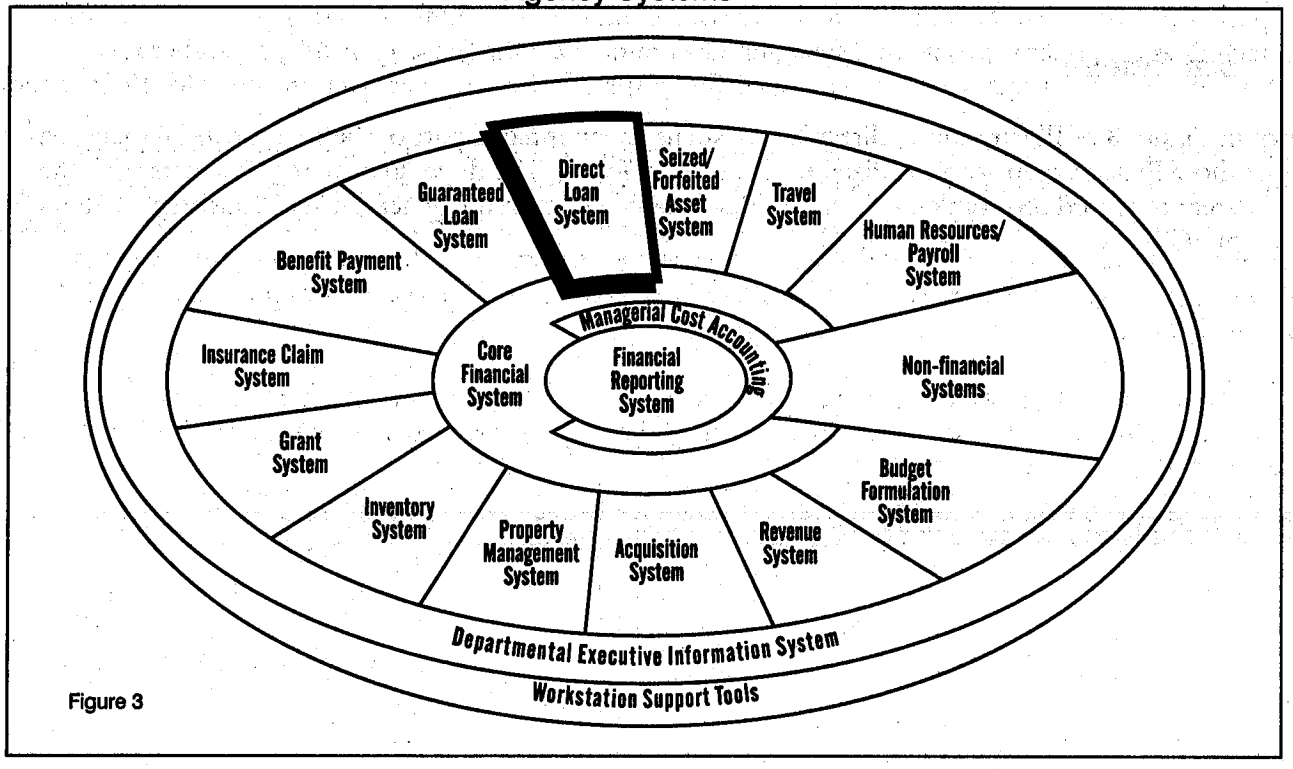


Figure 3

As shown in Illustration 2, data, processes, and application software need to be linked to each other to form a system; each is dependent on the other. Figure 3 of Illustration 2 shows that the financial system forms the backbone for the agency's integrated financial management system. It provides common processing routines, supports common data for critical financial management functions affecting the entire agency, and maintains the required general ledger control over financial transactions, resource balances, and other financial systems.

Federal agencies have systems that support (1) agency administrative functions such as personnel/payroll, travel, procurement, and property management; (2) unique activities and operations of agency programs, such as loan programs, grant programs, entitlement programs, and law enforcement programs; and (3) employee workstation activities, such as word processing, electronic mail (e-mail), and desk management.

Functional requirements of the Federal government's financial systems can be segregated into two general categories, mandatory and value added. Following are definitions for these two categories of requirements:

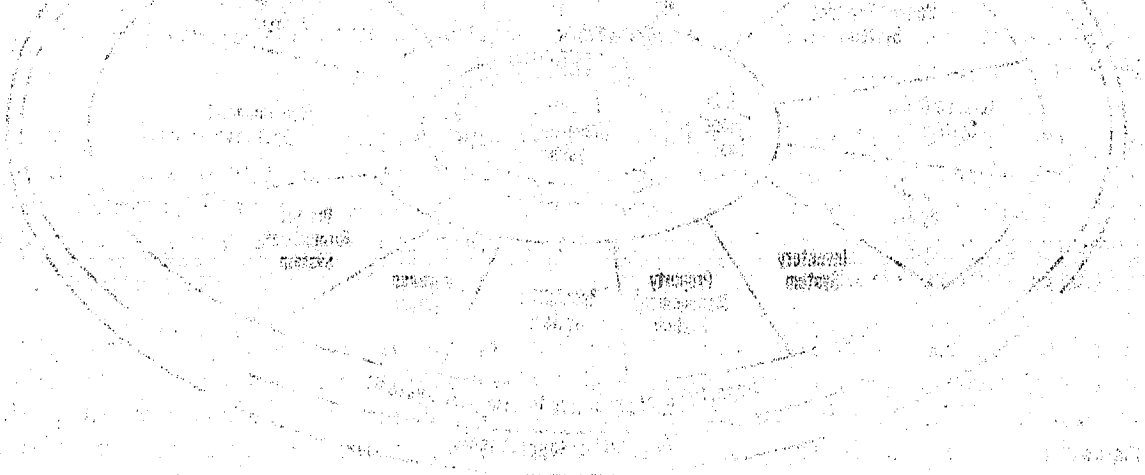
mandatory - Mandatory requirements describe what the system must do and consists of the minimum acceptable functionality, necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.

value-added - Value added requirements describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional, and other similar terminology may be used to describe this category of requirements. Agencies should consider value added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.

All requirements described in this document are mandatory.

Direct Loan System

As shown in Figure 3 of Illustration 2, direct loan systems are an integral part of the total financial management system for those Federal agencies authorized to make direct loans. The direct loan system interacts with the financial system to record receivables, collections and disbursements in the general ledger consistent with the U.S. Government SGL.



Background

This chapter presents a brief history of Federal credit programs, describes the policies that affect Federal credit programs, and defines the roles and responsibilities of the Federal organizations involved in directing, overseeing, and implementing credit programs.

History

Federal credit programs provide benefits to certain borrowers or channel additional resources to certain sectors of the economy. Examples of Federal credit programs include agricultural loans, small business loans, housing mortgage loans, and student loans. There are two types of Federal loan programs: direct loans and guaranteed loans. In direct loan programs, the Federal Government makes a direct disbursement to an approved borrower and services the loan and collects the loan. Guaranteed loan programs utilizeprivate sector lenders to originate and service loans, with all or a portion of the interest and loan repayment guaranteed by the Government in case of borrower default.

Federal credit programs generally are costly to the Government because they provide more favorable terms to borrowers than are available from private lenders, often lending to individuals and businesses who cannot obtain private financing. Although the Government has chosen to administer these inherently high risk loan programs in order to achieve social purposes, efficient and effective management can minimize losses. Financial systems are a key element in achieving this goal. Financial systems are especially critical to implementing the requirements of the CFO Act of 1990, as amended, including measures of program performance and financial statements, and the FCRA of 1990, which sets up new procedures to budget and account for credit subsidies and loan assets.

Policy

The policies governing credit programs and financial systems that affect direct loan systems are attached in Appendices 1, 2 (current policies), and Appendix 3 (proposed policies).

Roles and Responsibilities of Departments and Agencies

This section identifies the key organizations in the credit management community and the roles they play in managing Federal credit programs.

Office of Management and Budget. OMB is responsible for reviewing legislation to establish new credit programs or to expand or modify existing credit programs, reviewing and clearing testimony pertaining to credit programs and debt collection, reviewing agency budget submissions for credit programs and debt collection activities, formulating and reviewing credit management and debt collection policy, and approving agency credit management and debt collection plans.

Department of the Treasury. The Department of the Treasury, through its FMS, is responsible for monitoring and facilitating implementation of credit management and debt collection policy. FMS develops and disseminates as a supplement to the TFM operational guidelines for agency compliance with Governmentwide credit management and debt collection policy. FMS assists agencies in improving credit management activities and evaluates innovative credit management practices.

Federal Accounting Standards Advisory Board. The FASAB was established in October 1990, by the Comptroller General, the Director of OMB and Budget, and the Secretary of the Treasury. The Board exists through a memorandum of understanding among these three principal Federal executives. The FASAB recommends accounting standards to the JFMIP principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and other users of financial data.

Accounting and Auditing Policy Committee. The Accounting and Auditing Policy Committee (AAPC) is a permanent FASAB committee established to improve Federal financial reporting by assisting in providing timely guidance to preparers and auditors of Federal financial statements. It recommends guidance on issues received from numerous sources and referencing three topical areas: Statement of Federal Financial Accounting Standards (SFFAS), OMB's Form and Content, and audit issues. The AAPC has established a credit reform task force composed of members of Treasury, GAO, OMB and representatives from all the credit agencies to address all accounting, auditing, budgeting and reporting issues encountered by agencies subject to the FCRA of 1990.

Federal Credit Policy Working Group. The Federal Credit Policy Working Group is an interagency forum that provides advice and assistance to OMB and Treasury in the formulation and implementation of credit policy. In addition to OMB and the Department of the Treasury, membership includes theDepartments of Agriculture, Commerce, Education, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Veterans Affairs, the Agency for International Development, the Export-Import Bank, and the Small Business Administration.

Agencies. Each agency is responsible for managing its own credit activities in accordance with its statutory authorities and the provisions of OMB circulars and other policy guidance. OMB Circular A-129, Appendix 3, outlines the specific functions of the agencies in relation to credit management.

System Overview

This chapter provides an overview of direct loan system requirements. Data from the loan extension, account servicing, portfolio management and delinquent debt functions will be used to calculate credit subsidy estimates and satisfy credit reform accounting requirements. The overview has the following sections:

- **Summary of Functions** presents a high-level description of the functions that are supported by direct loan systems.
- **Relationships with Other Systems** describes how direct loan systems interact with other systems.
- **Data Requirements** discusses the types of data needed to perform the various functions of a direct loan system.

Summary of Functions

Illustration 3 shows the six functions of direct loan systems and the key sources and destinations of information flowing into and out of the loan system.

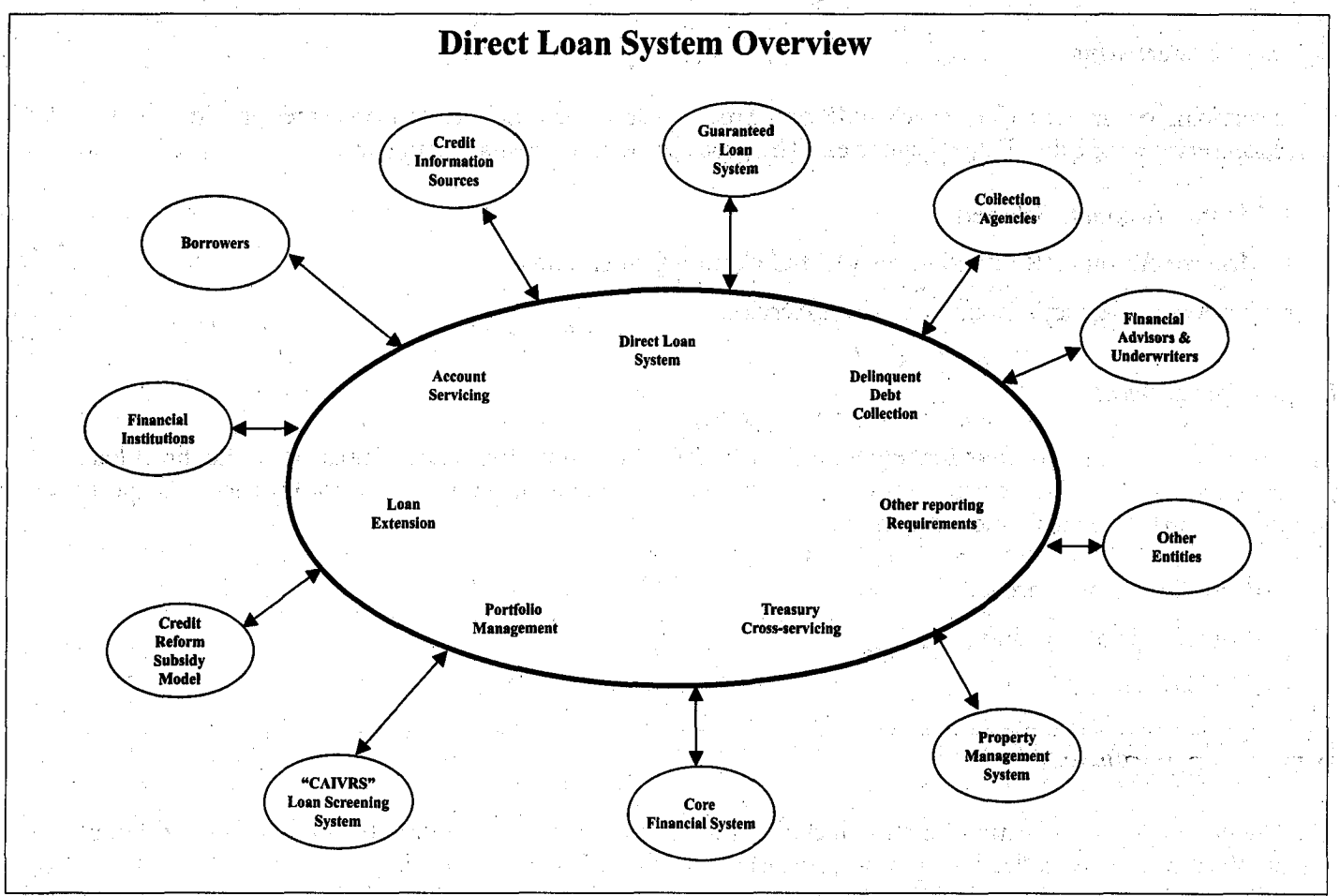


Illustration 3

The following is a brief description of the major functions of a direct loan system. The Functional Requirements chapters provide a detailed description of each function, including the lower level processes within each function.

Loan Extension

The Loan Extension function supports analysis of the applicant's eligibility in accordance with statutory and regulatory requirements. The Loan Extension function also supports the development of information to satisfy credit reform accounting and budgeting requirements. The processes within the Loan Extension function are:

- Application Screening, and
- Loan Origination.

Account Servicing

The Account Servicing function supports routine invoicing and collection of debts. The processes within the Account Servicing function are:

- Billing and Collection, and
- Account Status Maintenance.

Treasury Cross-Servicing

Cross-servicing occurs when Treasury's FMS or a Treasury-designated debt collection center provides debt collection services for other Federal agencies. The processes within cross-servicing are:

- Identify Accounts Selected
- Monitor Accounts Referred to the Debt Collection Center, and
- Support an Agency's Request to Cross-Service.

Portfolio Management

The Portfolio Management function supports the management and performance evaluation of the direct loan program and its portfolio. It also supports program financing and management of portfolio sales. The processes within the Portfolio Management function are:

- Portfolio Performance,
- Program Financing, and
- Portfolio Sales.

Delinquent Debt Collection

The Delinquent Debt Collection function includes the recovery of delinquent debt through the use of dunning letters, offset programs, collection agencies, garnishment of non-Federal wages, litigation, and the termination of collection action on uncollectible debt. The processes within the Delinquent Debt Collection function are:

- Collection Actions,
- Write-offs and Close-outs, and
- Troubled Debt Servicing Under Agency Program Requirements.

Other Reporting Requirements

This chapter provides requirements for two types of reporting:

- Transaction History, and
- External Reporting Requirements.

Relationships with Other Systems

The direct loan system must be capable of interfacing with other financial management systems. A brief description of some of the systems which interact with the direct loan system is provided below.

- The direct loan system interacts with the core financial system to perform fund control checks, initiate or record payments, record the results of other direct loan-related financial transactions, and acknowledge receipt of financial information exchange. The direct loan system must be able to perform automatic system balancing. This system balancing must ensure that direct loan partners involved in a financial information exchange agree on transaction number and dollar values passed, processed, and rejected. The automated system balancing will include cumulative subsidiary account balancing to the general ledger. This automated system balancing ensures that direct loan partners reflect the same picture of valid transactions over a specified period of time, such as a month, quarter, or a year. The direct loan system must be capable of supporting managerial cost accounting.
- Direct loan programs and guaranteed loan programs have common processes for managing receivables. Defaulted guaranteed loans acquired by the Government are serviced and collected in a manner similar to direct loans. Therefore, an agency with both direct and guaranteed loan programs may have a direct loan system and a guaranteed loan system that share system capabilities related to collecting delinquent debt. If an agency acquires property serving as collateral on a defaulted direct loan, the direct loan system will provide the property management system with the information needed to manage and liquidate the collateral.

System Interface Functioning Verification

A team independent of the development organization will perform all verifications to ensure that the direct loan system is capable of interfacing with other financial management systems. Verifications should include the following:

- Intersystem testing will take place to ensure that the direct loan system can process inbound and outbound data to other interfaces for the direct loan program. This testing will ensure that the direct loan system can accept data files, process them correctly, and transmit the necessary transactions to other systems.
- All intersystem vendors involved with the testing will create and accept a comprehensive test plan.
- A team independent of the development organization will review requirements, test plans and scenarios, monitor test execution, and ensure that testing objectives are met.

- The team independent of the development organization will work as a partner in the development effort, gaining system-specific knowledge while reviewing processes, outputs, and techniques to ensure compliance with procedures and quality results.

When issues arise, they will be tracked through a CM tool, and the resolutions will be included in testing sign-off documentation when resolved. Review other than test execution will include at a minimum the following:

- Requirements Traceability Matrix. The system shall be able to demonstrate that all development requirements are incorporated into the final system output through the use of requirements traceability matrices. These matrices shall be submitted with the Preliminary Design Document and should be updated with each subsequent step in the enhancement effort (i.e., requirements should be traced through the preliminary design, detailed design, specifications, test plans, and test results).
- Functional Requirements Document. The system shall perform all work needed to accomplish the specified outcomes, achieve or exceed the specified performance standards, record and reconcile funds, and track and report activity.
- Detail Design Document. The detail design shall fully consider requirements for hardware, software, integration with other systems, security, telecommunications, data management, manual procedures, QA/QC, auditability, and capacity planning and management. It should document the design in system/subsystem specifications, program specifications, and database specifications.
- System Specifications. System/Subsystem specifications, program specifications, and database specifications should all be included within the Detail Design Document. Specifications should include at a minimum flowcharts, input/output processing, and file layouts.
- Manual procedures. All system modifications or maintenance changes shall be incorporated into manual procedures and functions as necessary to keep the procedures up to date. System testing shall ensure that all related manual procedures perform according to system requirements.

Post Implementation Testing

After the system is implemented, transactions should be reviewed to make sure that transactions are processing correctly and the data being produced is reliable. This testing will be conducted with actual production data, and will be done with the team independent of the development organization verifying expected results. In addition, whenever possible, daily, monthly, quarterly and fiscal/calendar year-end reports should be reviewed prior to dissemination to ensure that the data has updated correctly.

Configuration Management (CM)

The direct loan system must use CM that will establish and maintain the security and integrity of the direct loan system throughout its development life cycle. A comprehensive CM must provide all project team members with a consistent level of understanding of the system engineering process, maintain systems stability, and reduce technical risk associated with the development effort.

Data Requirements

The direct loan system stores, accesses, and/or updates several types of data. In this document, a grouping of related types of data are referred to as an information store. The term information store (rather than database or

file) is used to avoid any reference to the technical or physical characteristics of the data storage medium. Actual data storage (physical databases and files) must be determined by each agency during system development and implementation based upon the loan program's statutory requirements as well as the agency's technical environment, processing volumes, organizational structure, and degree of system centralization or decentralization. This section defines the six information stores and provides examples of the data that comprise each information store.

Direct Loan System Information Stores

The following three information stores are internal to the direct loan system:

Application Information. This refers to data used to determine the eligibility and creditworthiness of the applicant; data about the loan being applied for; and the status of the review and approval of the application. It includes the following specific types of data:

- Applicant Data (e.g., name, address, income, demographic data)
- Application Data (e.g., amount, date, program)
- Application Status (e.g., pending, approved, rejected)

Loan Information. This refers to data associated with a loan once the loan has been approved. Data are captured from the Application Information store for approved loans. Additional data are added throughout the life of the loan to support servicing and analysis. It includes the following data:

- Loan Data (e.g., status, subsidy information, cohort)
- Collateral Data (e.g., appraised value, status)
- Payment History (e.g., disbursement amount, collections including principal and interest, accruals)
- Special Collection Activity Data (e.g., delinquent debt collection activity and status)

Program Criteria. This refers to decision-making criteria used in loan extension and servicing, portfolio management, and delinquent debt collection based on statutes, program regulations, and policies for the loan program.This information store includes the following types of data:

- Eligibility
- Creditworthiness
- Invoicing
- Receipt Application Rules
- Loan Modification
- Delinquent Debt Identification
- Portfolio Evaluation
- Loan Sale
- Loan Purchase
- Prepayment
- CAIVRS Referral
- Credit Bureau Reporting
- Treasury Offset Referral
- Cross-Servicing Referral
- Collection Agency Referral for debt greater than 180 days delinquent
- Collection Agency Selection for debt greater than 180 days delinquent
- Litigation Referral
- Write-off
- Close-out
- Collateral Foreclosure Selection and Holding Costs

Other Information Stores

Additional information stores are controlled and managed outside the direct loan system:

Credit Information. This refers to information concerning the applicant's financial background and creditworthiness. This information store includes the following types of data:

- Delinquencies on Debt to the Federal Government
- Credit History
- Employment and Income Data
- Collateral Value

Core Financial System Information. This refers to information for performing funds control checks, initiating or recording payments, and recording the results of other direct loan financial transactions. This information store includes the following types of summary data:

- Budget Execution Data
- Net Receivables
- Disbursements
- Collections/Receipts
- Administrative Costs
- Principal and Interest Data
- Working Capital Data
- Acquired Asset Data

Organizational Information.

- Treasury Interest Rates
- Offset Requests
- Loan Payments
- Sales Proceeds
- Approval for Sale
- Approval for Prepayment
- SF-1151 and SF-1081
- Write-off Approval
- Collection Activities and Results
- Foreclose Data

Relationships of Information Stores

Illustration 4 depicts the relationships between the loan system information stores described above and the processes within each function which access or update those information stores.

Direct Loan System
Internal Information Stores

Information Stores \ System Process	Loan Extension		Account Servicing		Treasury Cross-Servicing				Portfolio Management		Delinquent Debt Collection				Other Reporting Requirements		
	Application Screening	Loan Origination	Billing and Collection	Account Status Maintenance	Identify Account Selected	Monitor Accounts Referred to Debt Collection	Support Request to Cross Service Agency's		Portfolio Performance	Program Financing	Portfolio Sales	Collection Actions	Write-Offs and Close-Outs	Foreclose on Collateral	Manage/Dispose of Collateral	Transaction History	External Reporting Requirements
Application Information																	
Applicant Data	X					X											
Application Data	X																
Application Status	X																
Loan Information																	
Loan Data	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	
Collateral Data	X			X					X			X			X	X	
Payment History			X	X		X			X		X	X				X	
Special Collection Activity Data						X	X		X				X			X	X
Program Criteria																	
Eligibility Criteria	X				X	X											
Creditworthiness Criteria	X																
Invoicing Criteria			X														
Receipt Application Rules			X														
Loan Modification Criteria				X			X										
Delinquent Debt Identification Criteria				X	X												X
Portfolio Evaluation Criteria						X			X								
Sales Criteria												X					
Prepayment Criteria												X					
CAIVRS Referral Criteria													X				X
Credit Bureau Reporting Criteria													X				X
Offset Referral Criteria													X				
Collection Agency Referral Criteria							X						X				X
Collection Agency Selection Criteria													X				
Litigation Referral Criteria													X				
Write-off Criteria							X							X		X	X
Close-out Criteria							X							X			
Collateral Foreclosure Selection Criteria															X		

Illstrutation 4

Direct Loan System
External Information Stores

System Process / Information Stores	Loan Extension		Account Servicing		Treasury Cross-Servicing				Portfolio Management		Delinquent Debt Collection				Other Reporting Requirements		
	Application Screening	Loan Origination	Billing and Collection	Account Status Maintenance	Identify Account Selected	Monitor Accounts Referred to Debt Collection	Support Agency's Request to Cross Service		Portfolio Performance	Program Financing	Portfolio Sales	Collection Actions	Write-Offs and Close-Outs	Foreclose on Collateral	Manage/Dispose of Collateral	Transaction History	External Reporting Requirements
Credit Information																	
Delinquencies on Federal Debt	X																X
Credit History	X	X										X	X				
Employment and Income Data	X																
Collateral Value	X														X		
Core Financial System Information																	
Budget Execution Data		X	X	X						X	X						
Receivables		X	X	X	X	X	X			X			X	X			
Disbursements		X	X												X		
Collections/Receipt			X		X	X	X				X	X			X		
Administrative Costs									X			X	X	X			
Principal and Interest Data			X							X	X		X				
Working Capital Data										X							
Acquired Asset Data														X	X		
External Organizational Information																	
Treasury Interest Rates		X								X							
Offset Requests												X					
Loan Payments			X														X
Sales Proceeds											X				X		
Approval for Sale											X						
Approval for Prepayment											X						
SF-1151 and SF-1081			X							X		X					
Write-off Approval							X					X	X				
Collection Activities and Results							X										X
Foreclose Data						X								X			X

Illustration 4 (continued)

Introduction to Functional Requirements

This introduction as shown in Illustration 5 describes the functional requirements for a direct loan system. The following functions should be supported by the system:

- Loan Extension
- Account Servicing
- Treasury Cross-Servicing
- Portfolio Management
- Delinquent Debt Collection
- Other Reporting Requirements

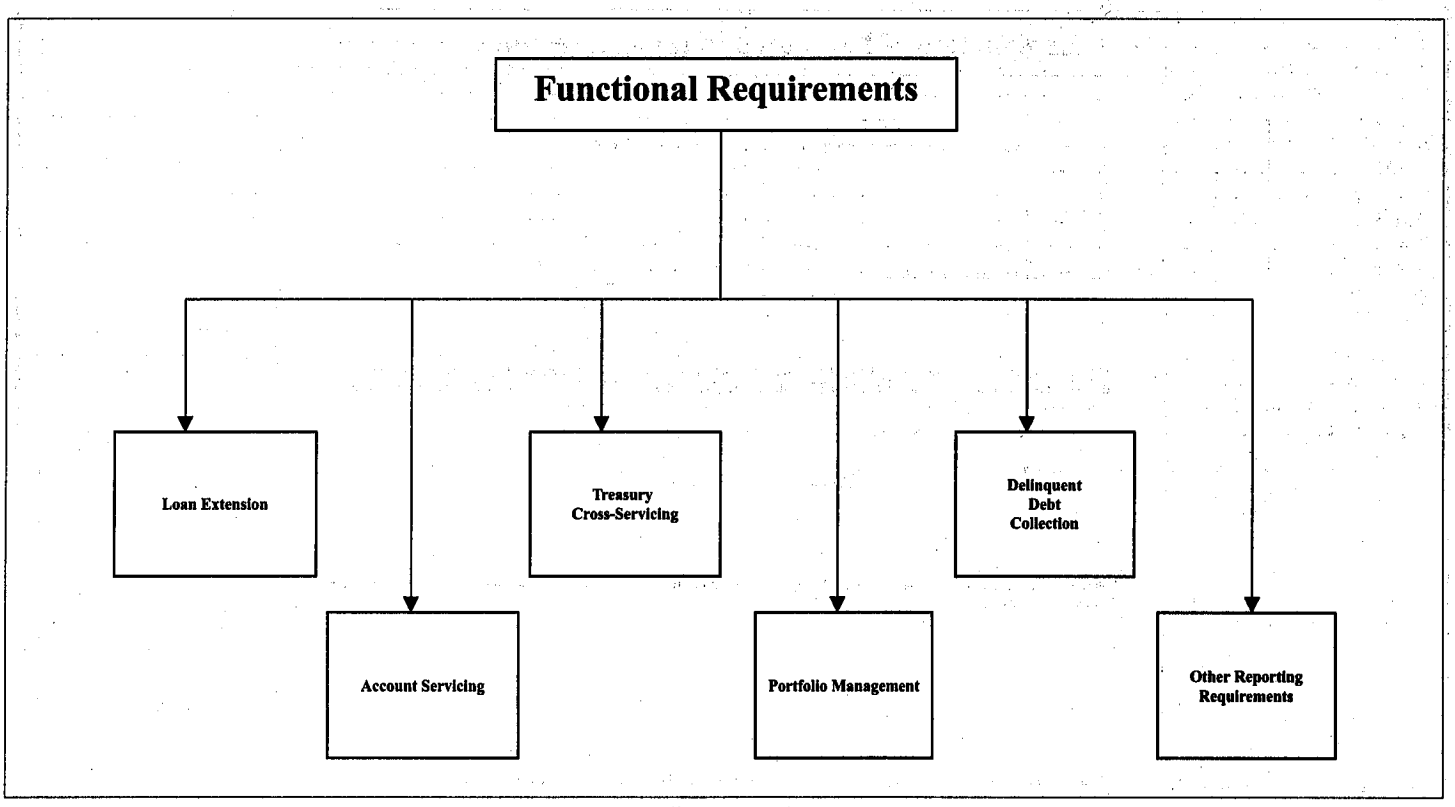


Illustration 5

The functional requirements identified define the typical processing and data requirements for Federal direct loan programs except some international programs, such as lending to sovereign nations. These requirements do notinclude specific or unique requirements of individual direct loan programs.

Rather, the general requirements are a guide for agencies to use in enhancing existing systems or developing new systems. These requirements assume the agency has a fully automated system that encompasses the complete scope of requirements described in this document. Some agencies may determine that it is not practical to fully automate all functions based on factors such as loan volume, operating environment, statutory requirements, and cost. In addition, some agencies may decide that one or more of the direct loan functions may be best performed by an

outside agency or contractor. Accordingly, it will be necessary for agencies to make adjustments to adapt the requirements to meet their specific program and system requirements.

The internal management information requirements identified throughout this document are those required to establish credit management and financial reporting systems that are in compliance with the standards provided in OMBCirculars A-34, A-123, A-127, and A-129. Agencies' systems shall be capable of satisfying the reporting requirements of OMB and Treasury, including those associated with the FCRA of 1990 and the CFO Act of 1990.

For each function, the narrative is supported by diagrams showing the relationship between processes and activities and the flow of information. These diagrams are conceptual in nature; they do not imply any physicalstructure of systems. The diagrams use conventions adopted to ensure consistency of presentation. The explanation of icons used in the illustrations are explained in Illustration 6.

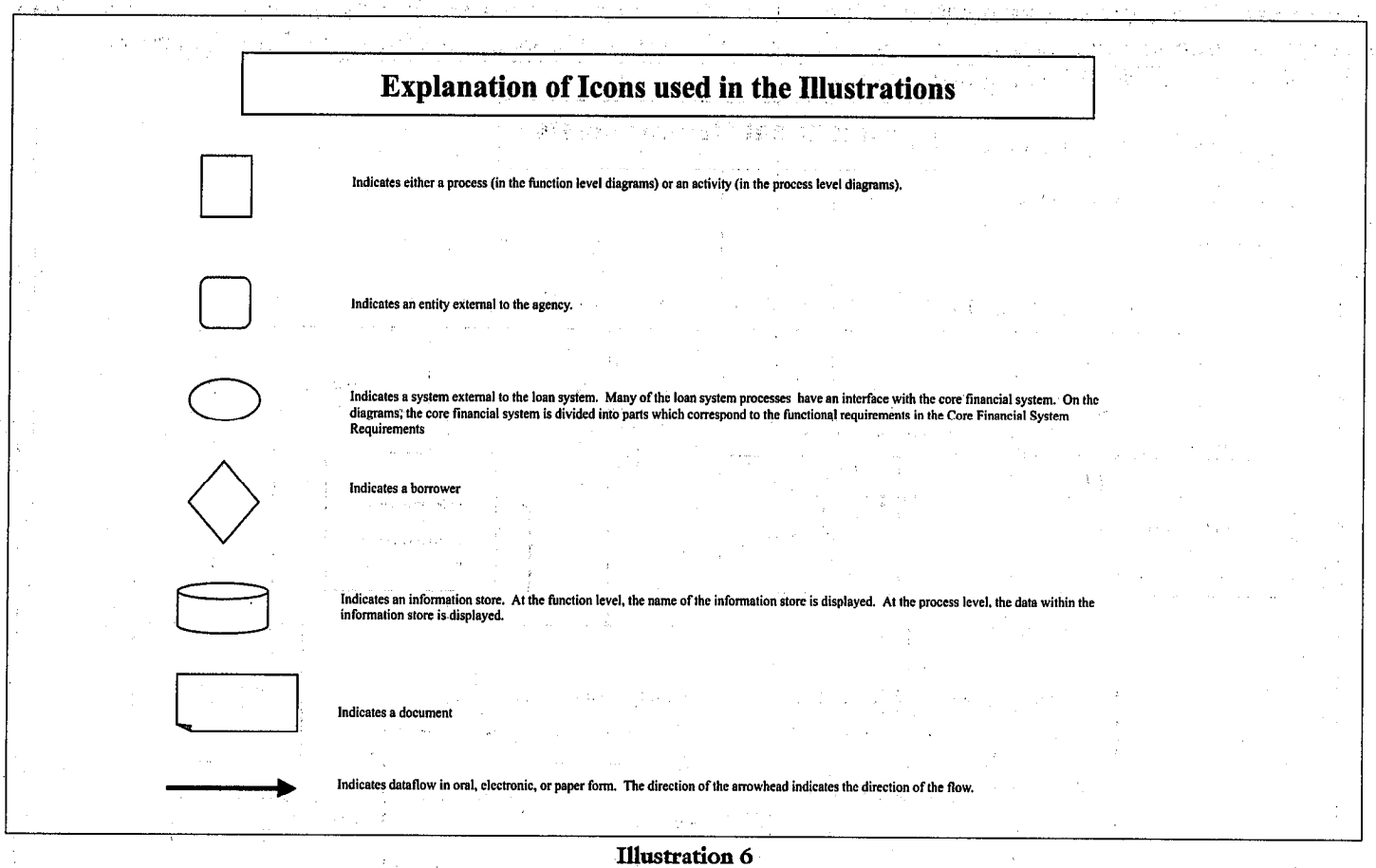


Illustration 6

Functional Requirements—Loan Extension

When extending credit through a loan program, agencies must ensure that applicants are considered in accordance with the statutory and regulatory requirements applicable to the specific program. In addition, agencies also must satisfy Governmentwide statutory and regulatory requirements for credit management, such as the Debt Collection Act of 1982 (DCA), as amended; the FCRA of 1990; and OMB Circular A-129. Agencies must be able to assess each applicant's eligibility for the specific type of credit being sought and to document the result of their determination.

General Requirements

This section provides the Governmentwide functional requirements for the Loan Extension function of a direct loan system. Illustration 7 provides an overview of the Loan Extension function. As shown, the Loan Extension function consists of the following major processes:

- Application Screening Process, and
- Loan Origination Process.

Overview of the Loan Extension Function of a Direct Loan System

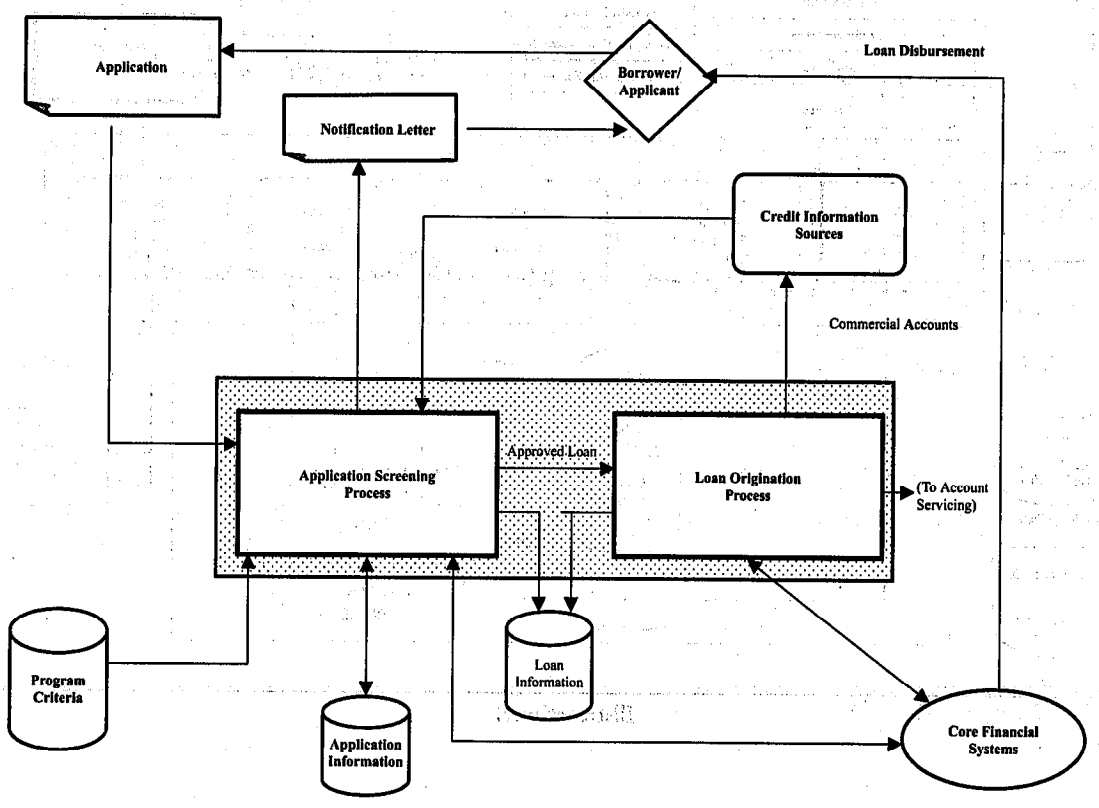


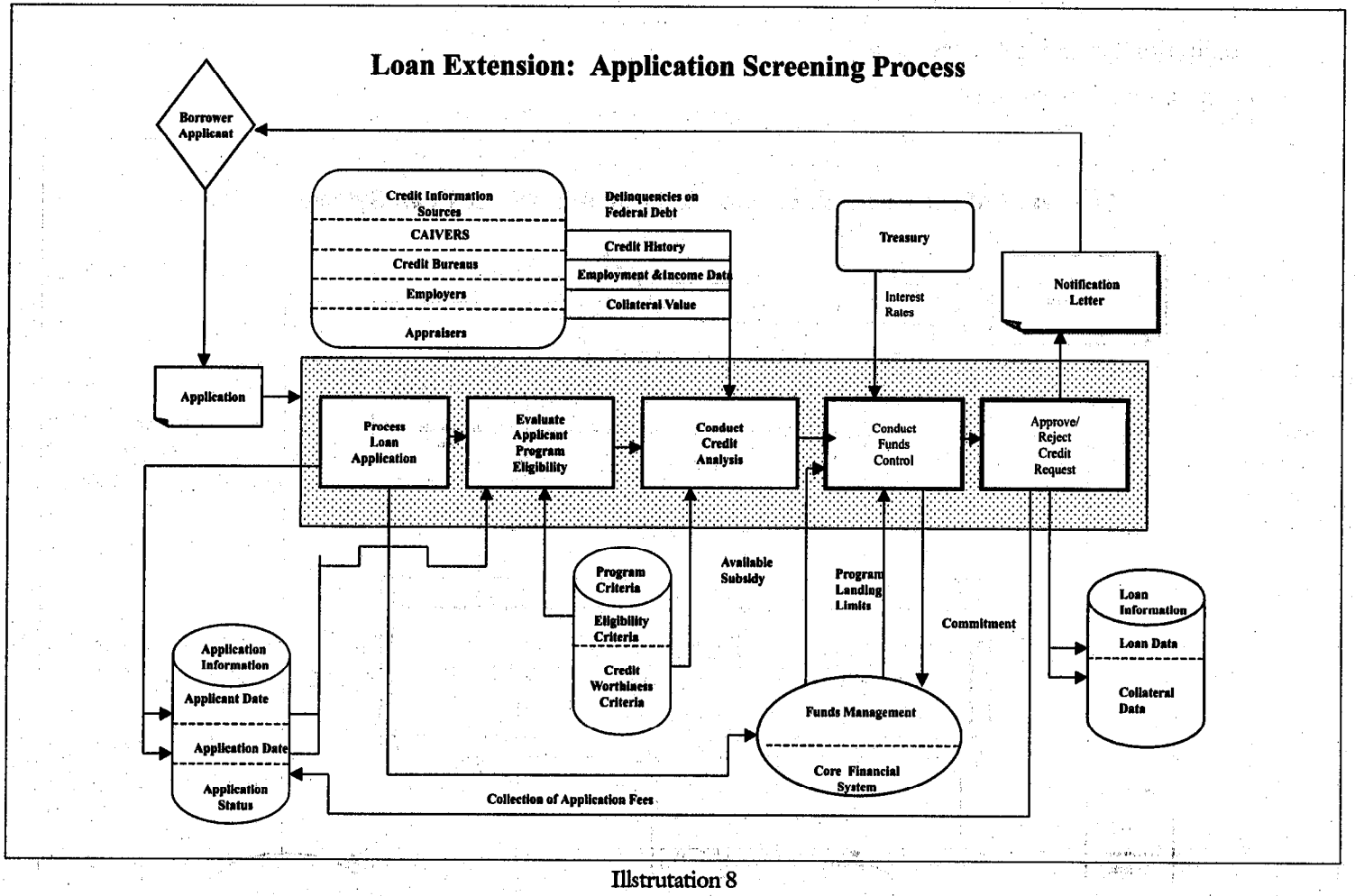
Illustration 7

Loan Extension: Application Screening Process

In order to determine the eligibility of loan applicants, agencies must screen applicants for program eligibility and, where appropriate, creditworthiness, as well as check funds availability. During screening, thesystem captures information about both approved and disapproved applications for use in subsequent loan activities.

As shown in Illustration 8, the Application Screening Process consists of the following major activities:

- Process Loan Application,
- Evaluate Applicant Program Eligibility,
- Conduct Credit Analysis,
- Conduct Funds Control, and
- Approve/Reject Credit Request.



Illstrutation 8

Process Loan Application. This activity captures data about the applicant and the application.

An automated system should:

- Provide for a electronic application process using various media, such as a secure internet application (WEB site).
- Record critical credit application data needed to support application screening.
- Provide access to application information to all agency staff participating in the screening and credit-granting decisions.
- Process and record collections of fees remitted with the application in both the direct loan system and the core financial system.

Evaluate Applicant Program Eligibility. This activity supports termination of the applicant's general program eligibility. The system compares information from the loan application, recorded in the system in the prior activity, to system-stored agency program eligibility criteria, and provides the results of this comparison. If full automation of this process is not practical, the system must document the results of a manual comparison by agency staff.

An automated system should:

- Compare loan application information to agency program eligibility criteria.
- Check the appropriate system data files to determine whether the applicant has submitted a duplicate application or has had a recent loan application rejected. These situations may indicate attempts by applicants to subvert agency credit policies.
- Document that borrowers have certified that they have been unable to obtain credit from private financial sources, where such certification is a program requirement.

Conduct Credit Analysis. Where required by statute or regulation, this activity assesses the applicant's creditworthiness by comparing the applicant's ability and history of repaying debt against the agency's creditworthiness criteria. The data used in this assessment are provided in the application form and from several external sources, including credit bureaus and the Credit Alert Interactive Voice Response System (CAIVRS). CAIVRS provides agency staff with telephone access to a database of individuals delinquent/defaulted on debt to the Federal Government.

An automated system should:

- Provide an automated interface with credit bureaus that allows agencies to obtain applicant credit history information (credit bureau report). For credit bureaus that do not have the capability for an automated interface, record credit history information entered by agency staff.
- Document that applicant financial data, repayment ability, and repayment history have been verified through the use of supplementary data sources such as employment and income data, financial statements, tax returns, and collateral appraisals, where this is a program requirement.
- Compare the applicant's creditworthiness information to system-stored program creditworthiness criteria and, where a program requirement, calculate a credit risk rating for the applicant.
- Document whether CAIVRS identified the applicant as a borrower who is delinquent/defaulted on a previous Federal debt. The system should allow override if the agency determines that the account was referred to CAIVRS in error.

Conduct Funds Control. An agency must have sufficient subsidy funds available and be within program lending limits in order to approve a credit request and obligate funds. This activity supports the calculation of the subsidy cost of a direct loan and provides an interface with the core financial system to check subsidy funds availability and lending limits.

An automated system should:

- Provide the information needed to compute the credit subsidy amount associated with a loan using projected cash flows and the applicable Treasury interest rate in accordance with OMB Circular A-11, A-34, and SFFAS No. 2.
- Provide an automated interface with the core financial system to determine if sufficient funds are available in the Program Account to cover the subsidy cost and if available lending limits in the Financing Account are sufficient to cover the face value of the proposed loan.
- Provide an automated interface with the core financial system to commit funds for the loan if funds control is not done within the DL system.

Approve/Reject Credit Request. This activity supports the final review and acceptance or rejection of each credit application based on the applicant's fulfillment of program eligibility and creditworthiness criteria and based on the availability of funds.

An automated system should:

- Update the application information store to reflect the status of the loan.
- Accept, identify, track, and report supervisor overrides of system- generated acceptance/rejection recommendations.
- Create and maintain a system record of accepted and rejected loan applications.
- Generate a letter notifying the applicant of rejection or acceptance of the loan application.

Loan Extension: Loan Origination Process

Loan origination includes booking the loan, establishing a financial obligation, creating the loan documents, and disbursing funds in accordance with agency requirements, the Credit Supplement to the TFM, and OMB Circular A-34. Loan origination is performed only if the Application Screening process concluded that the loan should be extended. As shown in Illustration 9, the Loan Origination process consists of the following major activities:

- Book Loan, and
- Disburse and Account for Funds.

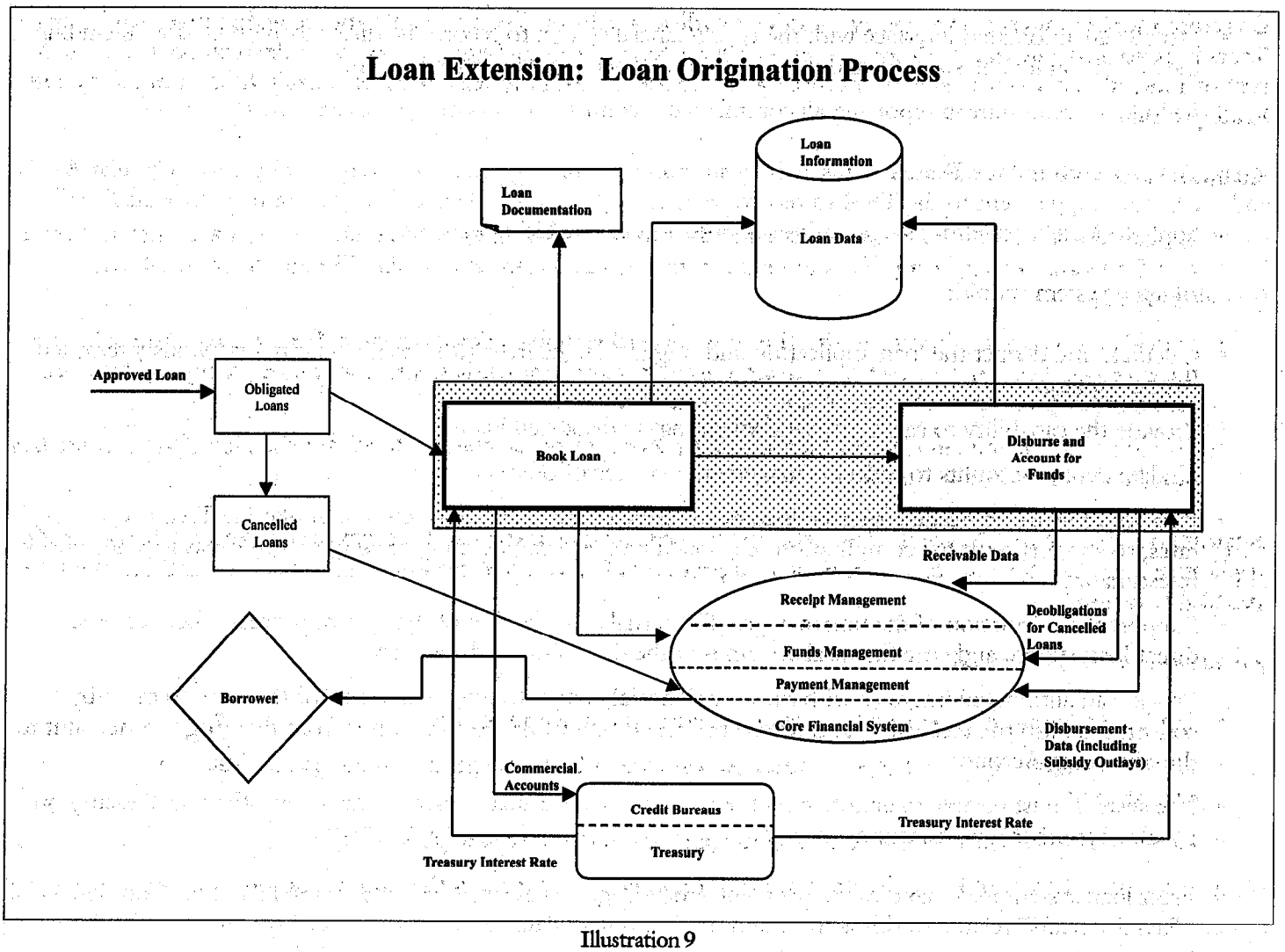


Illustration 9

Book Loan. This activity concludes loan negotiations and generates the necessary loan documents for the borrower and the agency.

An automated system should:

- Record loan terms and calculate disbursement schedules and repayment amounts and schedules as needed.
- Record the cohort and risk category, as defined in OMB Circular A-34, associated with the loan.
- Assign a unique account number to the loan that remains unchanged throughout the life of the loan.
- Support the generation of loan documents for the borrower and the agency.
- Record information concerning the loan booking process, including date of booking.
- Record the applicable Treasury interest rate for the loan at the time of obligation in accordance with OMB Circular A-34 and agency specific guidelines. This rate is used in subsidy calculations.

- Provide an automated interface with the core financial system to record the direct loan obligation, including the obligation for the subsidy, and liquidate commitments previously recorded.
- Include in credit bureau reporting all commercial accounts in excess of a pre-determined amount.

Disburse and Account for Funds. This activity supports accounting procedures required by OMB Circular A-34, and the Credit Supplement to the TFM to record payments made to the debtor. The system requirements listed below apply to loans with either single disbursements or multiple disbursements.

An automated system should:

- Calculate and deduct the loan application and origination fee from disbursements if not previously remitted by the applicant.
- Provide the capability to cancel, thus deobligating, undisbursed loans.
- Update debtor accounts to reflect management override of offsets.
- Record information needed for each loan disbursement, including amounts and applicable Treasury interest rates, to support both the computation of accrued interest expense on borrowings from Treasury and subsidy re-estimates.
- Support the calculation of the borrowings. The actual organization of the system processes between the direct loan system and core financial system is at the discretion of the agency.
- Provide an automated interface with the core financial system to initiate and record the disbursement by cohort, establish the receivable, and record the movement of the subsidy funds from the Program Account to the Financing Account.
- The system must be able to annotate on the borrower record that a disbursement was offset by Treasury on behalf of another government agency.

If the direct loan system itself handles the payment processing, it must meet the requirements in the "Core Financial System Requirements" related to this activity and send summary data to the core financial system.

Collateral Requirements

Some credit programs provide loans to finance the acquisition of an asset that then serves as collateral for the loan. OMB Circular A-129 requires that property serving as collateral be appraised by a state licensed or certified appraiser when the loan amount exceeds a pre-determined amount. Circular A-129 also requires that the useful life and value of pledged collateral must be recognized in the direct loan system at the time of credit screening. The estimated useful life of the collateral must be longer than the loan maturity and the loan-to-value ratio must be within applicable program requirements.

An automated system should:

- Capture the estimated useful economic life of the pledged collateral, and compare it to the proposed term of the loan.
- Document that transactions over a pre-determined amount have a collateral appraisal by a licensed or certified appraiser.

- Compute the loan-to-value ratio and flag those loans with a ratio exceeding 100% (or more stringent standards set by the agency).

Internal Management Information Requirements

Listed below are internal management information requirements for the Loan Extension function. This information should be available to agency credit program managers and designated internal review officials on a periodic or an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Loan Extension function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission andapplicable statutory requirements. In order to support these needs, a system should provide a user-friendly query tool (preferably graphics-based) that facilitates reporting rapidly on any required data elements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The direct loan system should provide at least the following types of management information:

Approval and Rejection Monitoring. This summary provides information about all credit applications that were approved or rejected for a given time period. The data are broken down into separate statistics on credit approvals and rejections. The approval section indicates the number of approved applications and the percentage of total applications that they represent. The total requested amount and total approved amount are shown for each loan origination office. The rejected application section contains the number of rejected applicants and the percentage of total applications that they represent. The total of all loans requested is also shown. This data summary also lists the average time spent to process a credit application, from the time of application until the final decision is made.

Override Exceptions. This summary identifies all credit application decisions that override actions of the automated system processes. Overrides can occur in two situations: an application is approved even though the applicant's program eligibility or creditworthiness assessment is not acceptable under agency program management lending criteria, or anapplication is rejected even though the applicant's program eligibility and creditworthiness are acceptable under agency program management lending criteria.

Potential Application Fraud. This summary identifies all credit applications that matched one or more pending or recently rejected applications. Comparison is based on four criteria: applicant name, applicant address, applicant phone number, and applicant Taxpayer Identification Number (TIN). If a pending application matches any of these criteria, the data fields that matched and the original application and pending application identification numbers appear on this data summary with primary application identification information.

Detailed Transaction History. This summary contains detailed loan origination and account data. The data summary is used for control and tracking, as an audit trail, and provides some of the data necessary for the credit subsidy calculation. Detailed transaction history data summaries include, at a minimum, loan origination and disbursement data.

Exceptions. This summary highlights exceptions in loan origination processing. The summary should be generated periodically or on demand as needed. Examples of exception data include loan-to-value ratios exceeding the allowable amount for a given program and approved loans that have not been disbursed within a specified period of time.

Disbursement Management Summary. This summary displays allloan origination activity on a periodic basis. The summary is used to monitor the performance of each loan origination center, and to track the volume and amount of loan disbursements by program.

Illustration 10 provides an overview of the Internal Management Information Requirements of the Loan Extension Function.

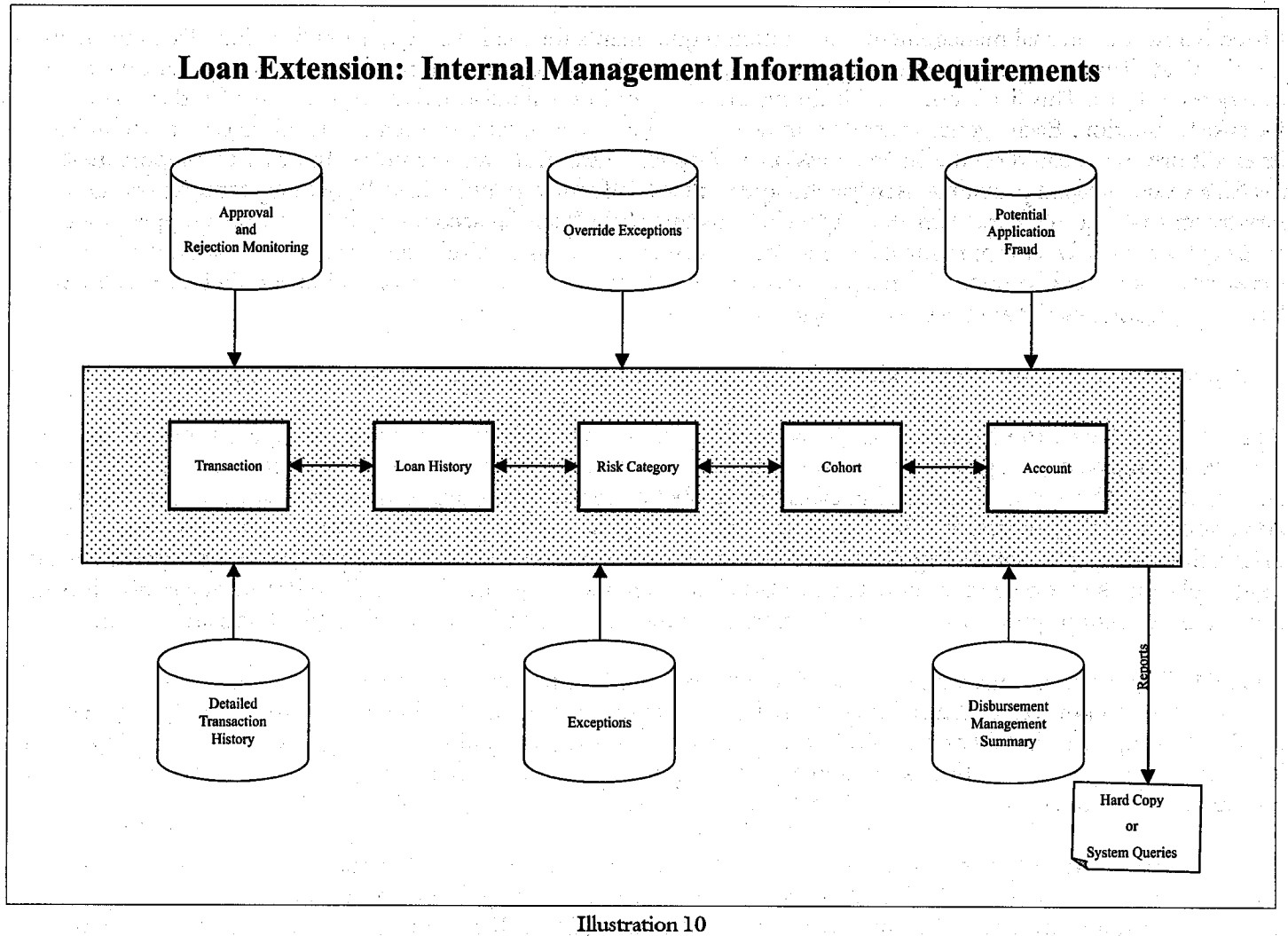


Illustration 10

Functional Requirements—Account Servicing

OMB Circular A-129 requires the Government to service and collect its loans in a manner that best protects the value of the Government's assets. Efficient mechanisms must be in place to collect and record payments and to provide sufficient accounting and management information for effective stewardship of the loan portfolio. These servicing activities can be carried out by the agency, or obtained through a cross-servicing arrangement with another agency. Under certain conditions, it may be advantageous for the Government to transfer servicing and collection responsibilities to the private sector.

General Requirements

This section provides the Governmentwide functional requirements for the Account Servicing function of a direct loan system. If applicable, agencies that utilize Servicer Organizations will be required to have a Statements of Auditing Standard (SAS) 70 examination as part of their annual audit. SAS 70 examines the internal control environment of Service Organizations. Illustration 11 provides an overview of the Account Servicing function. As shown, the Account Servicing function consists of the following major processes:

- Billing and Collection Process, and
- Account Status Maintenance Process.

Overview of the Account Servicing Function of a Direct Loan System

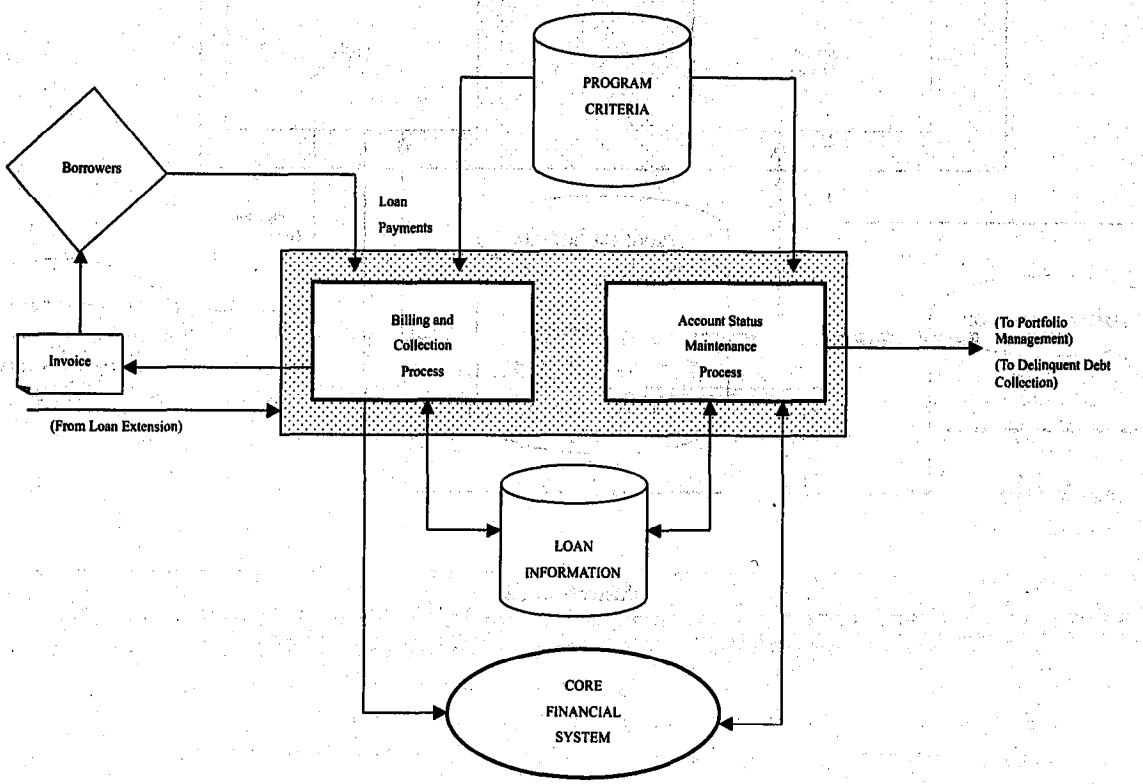


Illustration 11

Account Servicing: Billing and Collection Process

This process involves routine billing and collection activities. System requirements related to collecting delinquent debt are included in the Delinquent Debt Collection function. Agencies must ensure that invoices are generated promptly and that efficient mechanisms are in place to collect and record payments and to provide support for loan servicing. Borrowers should be encouraged to use pre-authorized debits, customer initiated payments, and other electronic fund transfer methods that may be available when making loan payments. As shown in Illustration 12, the Billing and Collection process consists of the following major activities:

- Invoice Debtor, and
- Apply Collections.

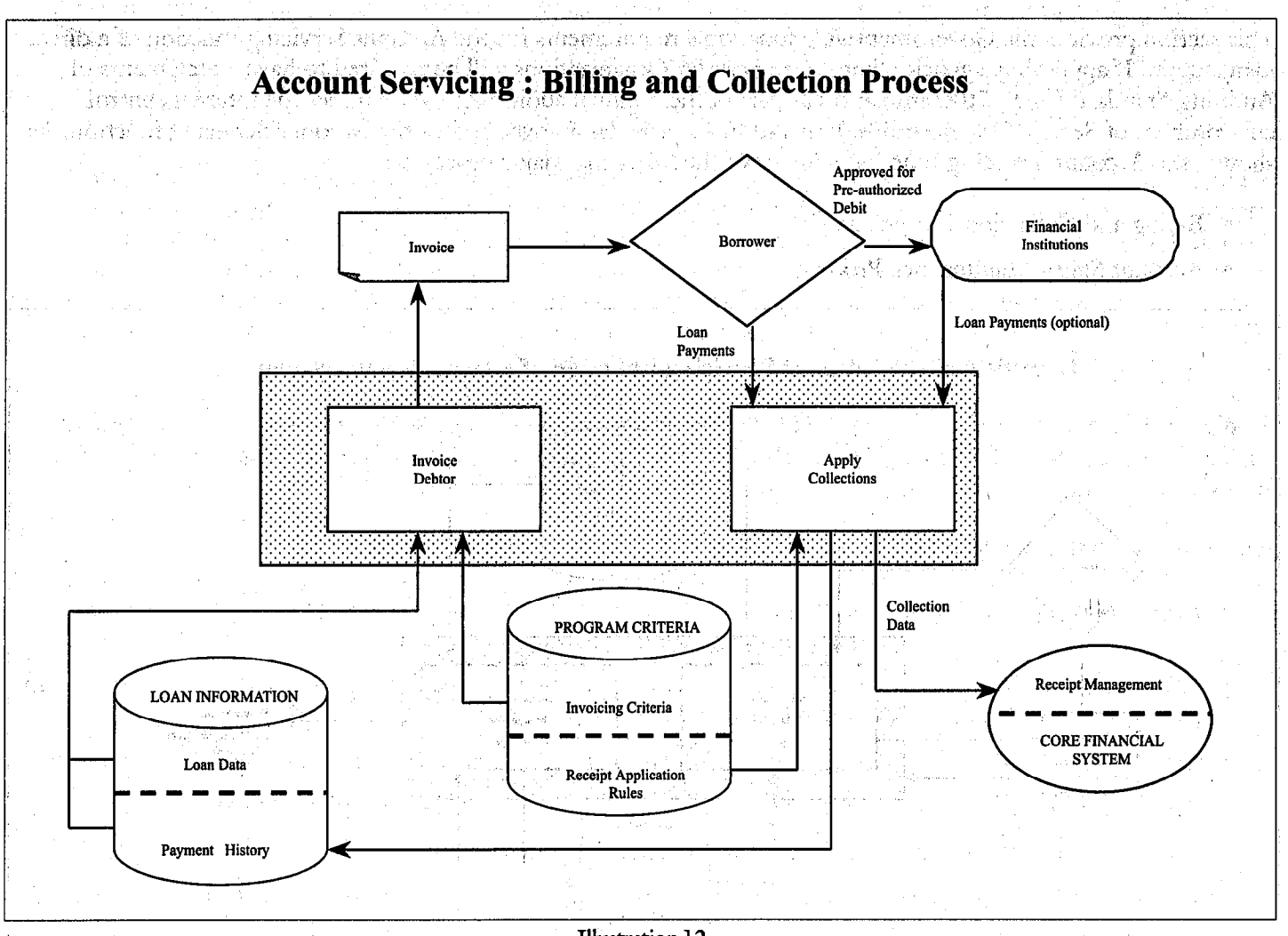


Illustration 12

Invoice Debtor. This activity supports invoicing of debtors. Most loans are billed based on a schedule determined at loan origination, but some may be based on renegotiated payment schedules.

An automated system should:

- Calculate outstanding balances for each loan account invoiced, including principal, interest, late charges, and other amounts due.
- Identify loan accounts to be invoiced based on agency program invoicing criteria and loan account information, such as amount outstanding, most recent payment, payment amount due, and date due.
- Provide the capability to analyze escrow balances to adjust required deposit amounts to prevent deficiencies in tax and insurance deposits and payments for housing and other long-term real estate loans.
- Generate and transmit a bill, payment coupon, invoice or other document that shows the borrower ID, amount due, date due, the date after which the payment will be considered late, and the current balance.
- Provide a means for debtors to inquire into their account status such as electronic inquiry using a secure internet site WEB site or automated telephone program such as a voice response unit.

Reporting. The direct loan system must be able to prepare and mail to borrowers by January 31 of each year Internal Revenue Service (IRS) Form 1098, Mortgage Interest Statements; IRS Form 1099-A, Acquisition or Abandonments of Secured Property; IRS Form 1099-C, Cancellation of Debt; IRS Form 1099-G, Certain Government Payments and other IRS Forms as required. In addition, the direct loan system must be able to transmit to the IRS information on interest paid and other reportable data. The Debt Collection Improvement Act (DCIA) now authorizes agencies to report non-delinquent consumer and commercial debt to credit bureaus, providing the agency has processed the necessary Privacy Act notices for consumer debt.

Apply Collections. This activity records collections against debt from borrowers and applies the loan payment to the debtor's account in accordance with pre-determined receipt application rules to the appropriate liquidating or financing account.

An automated system should:

- Apply collections according to agency program receipt application rules to the appropriate liquidating or financing account. Collection sources could include cash, pre-authorized debit, check, or credit card.
- Record a prepayment (the early payoff of the entire loan balance or paying more than the scheduled monthly payment), partial, full, or late payment indicator.
- Identify payments that cannot be applied and document why the payments cannot be applied.
- Apply components of payment (principal, interest, late fees) in accordance with established business rules.
- Be capable of automatically capitalizing interest in accordance with established policy.
- Provide an electronic means to receive payments such as Automated Clearing-house (ACH) and Electronic Debit Account (EDA).
- Provide the capability to compare borrower's pre-authorized debits received from financial institutions and other external sources toexpected collections.
- Provide an automated interface with the core financial system to record the collection. If the direct loan system itself handles the collection processing, it must meet the requirements in the "Core Financial System Requirements" related to this activity and send summary data to the core financial system.

Account Servicing: Account Status Maintenance Process

Agencies' direct loan systems must contain adequate and current information reflecting loan payment history, including occurrences of delinquencies and defaults, and any subsequent loan actions that result in payment deferrals, refinancing, or rescheduling. As shown in Illustration 13, the Account Status Maintenance process consists of the following major activities:

- Direct Loan Modifications, and
- Troubled Debt Servicing (Addressed in Chapter 9, Delinquent Debt Collection).

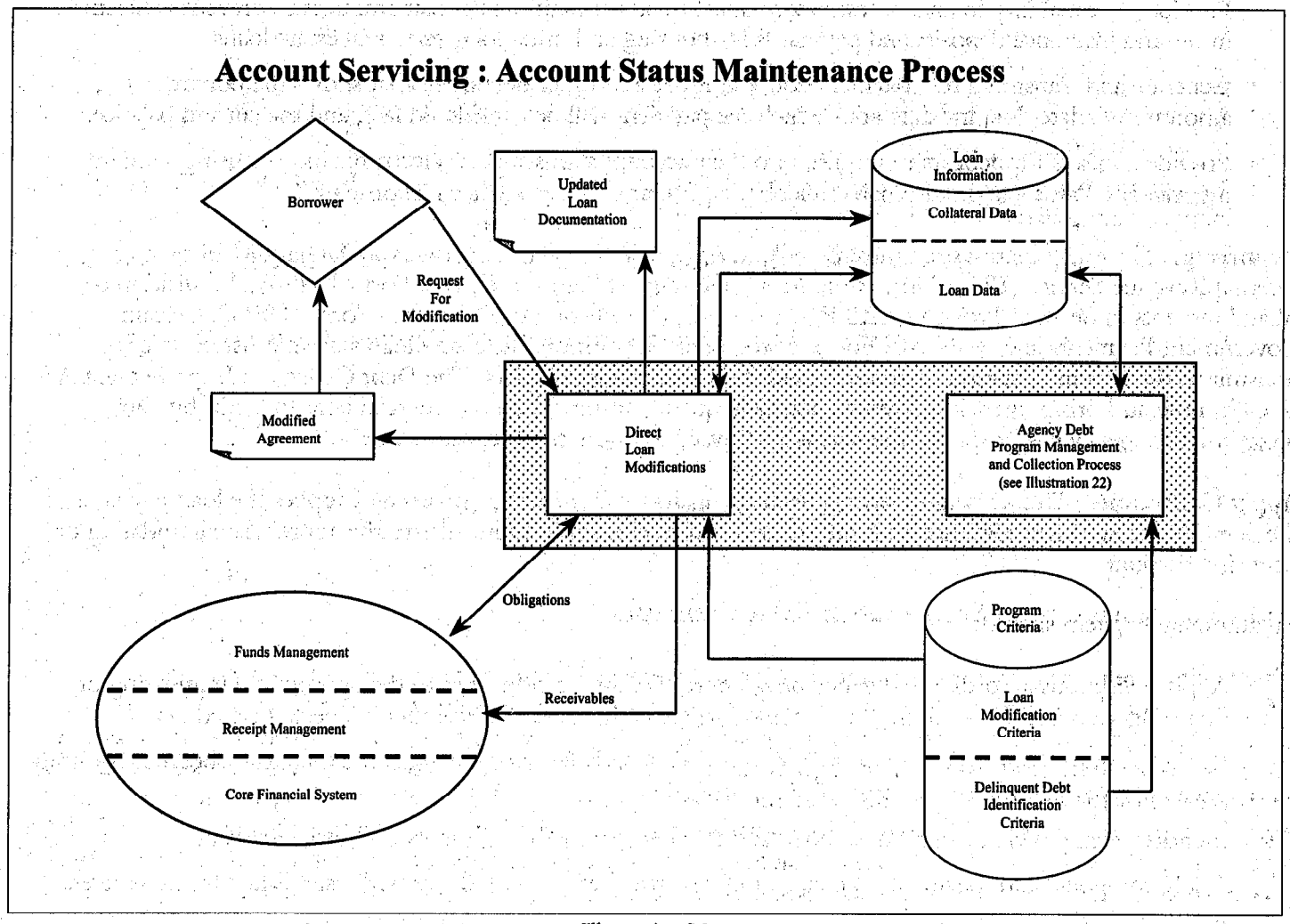


Illustration 13

Direct Loan Modifications. Modifications to direct loans areGovernment actions that alter subsidy costs by altering the terms of the loan. Modifications do not include subsidy cost re-estimates, routine administrative workouts of troubled loans, and other actions that are permitted within the existing contract terms. Government actions leading to a modification include forgiveness, forbearance, reduction in interest rate, prepayment, and extensions of maturity unless such actions are provided for in the original loan agreement. Subsidy funds must be transferred from the program account to the financing account to cover the cost of the modification. This is required for all loans, although systems requirements for pre-1992 loans in liquidating accounts will be different than the system requirements for post-1991 loans.

An automated system should:

- Support evaluation of accounts proposed for modification by the agency or borrower by comparing loan data to agency program loan modification criteria.
- Calculate rescheduled loan terms, including repayment amounts and schedules, where appropriate. Calculate any change in the subsidy amount as a result of the loan modifications.
- Perform a funds control check to verify the availability of subsidy through an automated interface with the core financial system.
- Produce selected loan account information listings for review by internal modification groups.
- Establish a new loan account and collateral record for each new debt instrument and assign a unique loan account number to the new account record.
- Maintain a link between the new loan account established for the new debt instrument and the old loan account records.
- Update the loan information store to reflect the modified status of the loan, including changes in the value or status of any collateral.
- Provide an automated interface with the core financial system to record pre-1992 and post-1991 direct loan modifications.
- Generate a new loan document which displays information concerning the original and modified direct loan.

Collateral Requirements

The system must document significant changes to the condition and value of any collateral.

Internal Management Information Requirements

Listed below are internal management information requirements for the Account Servicing function. This information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Account Servicing function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, riskcategory, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The direct loan system should provide at least the following types of management information:

Detailed Transaction History. This summary provides detailed loan account data and payment transaction activity on a loan by loan basis to provide a sufficient amount of the detailed transaction history and should be accessible online to permit routine account servicing. Additional detailed transaction history should be maintained on media such as microfiche or CD-ROM which can be readily accessible by the user.

Standard Management Control/Activity. This summary tracks the status of all loan accounts by summarizing loan activity at various critical points of the loan cycle such as status, i.e. current, delinquent, in collection, etc. The collection process summarizes payment activity to allow agency management to monitor the effectiveness of each activity in the collection process. Delinquency information is summarized to highlight delinquent debt (collateralized and non-collateralized) and modified debt. This data summary is produced periodically and provides information for preparing the Standard Form (SF) 220-9.

Exceptions. This summary identifies deficiencies that have occurred in the routine processing and monitoring of account status. Examples of exceptions include unapplied payments and delinquent accounts not eligible for debt collection. This summary is generally produced on a periodic basis.

Illustration 14 provides an overview of the Internal Management Information Requirements.

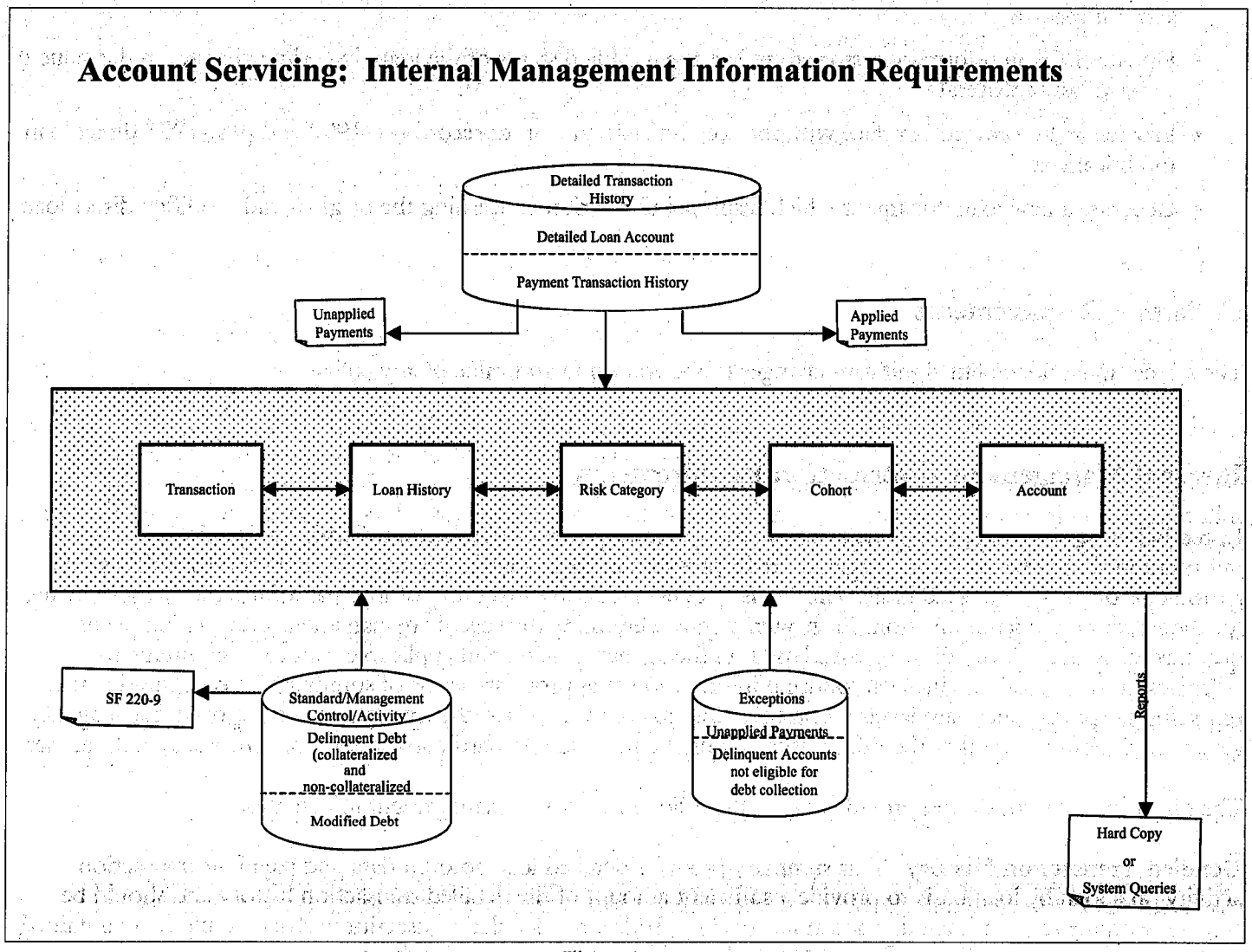


Illustration 14

Functional Requirements—Treasury Cross-Servicing

General Requirements

Cross-servicing occurs when Treasury's FMS or a Treasury-designated debt collection center provides debt collection services for other Federal agencies as shown in Illustration 15. The DCIA of 1996 mandates agencies to refer their delinquent non-tax debt over 180 days delinquent to Treasury or a Debt Collection Center for purposes of collection. Debt is considered delinquent if it is 180 days past due and is legally enforceable, i.e., there has been a final agency determination that the debt, in the amount stated, is due and there are no legal bars to collection action. For example, debts in an appeals process required by statute or regulation should not be transferred to a Debt Collection Center if collection action during the appeals process is prohibited. There are five specific instances where debts are excluded from transfer. They are:

- debts that are in litigation or foreclosure,
- debts that will be disposed of under an asset sales program within one year after becoming eligible for sale, or later than one year if consistent with an asset sales program and a schedule established by the agency and approved by the Director of OMB,
- debts that have been referred to a private collection contractor for collection for a period of time determined by Treasury,
- debts that have been referred to a Debt Collection Center with the consent of Treasury and for a period of time determined by Treasury, and
- debts that will be collected under internal offset if such offset is sufficient to collect the debt within three years after the debt is first delinquent.

In addition, a specific class of debt may be excluded by the Secretary of the Treasury at the request of an executive, legislative or judicial agency. Agencies are not required to transfer to FMS debts which are over 180 days delinquent until such time as a final agency determination regarding the debt is made or the legal bar to further collection action is removed. An agency may refer non-tax debt less than 180 days delinquent to FMS, or with the consent of FMS, to a Treasury-designated debt collection center for appropriate debt collection action.

Before referring debt to a Debt Collection Center, the agency enters into a letter of agreement with Treasury FMS authorizing FMS to provide debt collection services. This agreement details the limitations and parameters required for the compromise, settlement or termination of collection action.

FMS and other debt collection centers may charge and retain fees (based on actual costs) for debt collection services. Fees may be added on to the debt as an administrative cost if authorized by law.

Treasury can authorize an agency to "cross-service", that is, collect debts on behalf of another agency, as a debt collection center. The agency must submit a proposal to Treasury which contains the documentation supporting its request to be designated as a debt collection center. The proposal must indicate what types of debts the agency wishes to cross-service and its success at collecting its own delinquent accounts. Some agencies may be debt collection centers satisfactorily "working" their own debts. However, these agencies may not want to cross-service for other agencies. Treasury will grant a one-year waiver to the transfer provision of the DCIA for debts which are being collected in an agency's own debt collection center, provided the agency submits documentation which indicates the volume and type of debts being worked in the debt collection center, what percentage or proportion it

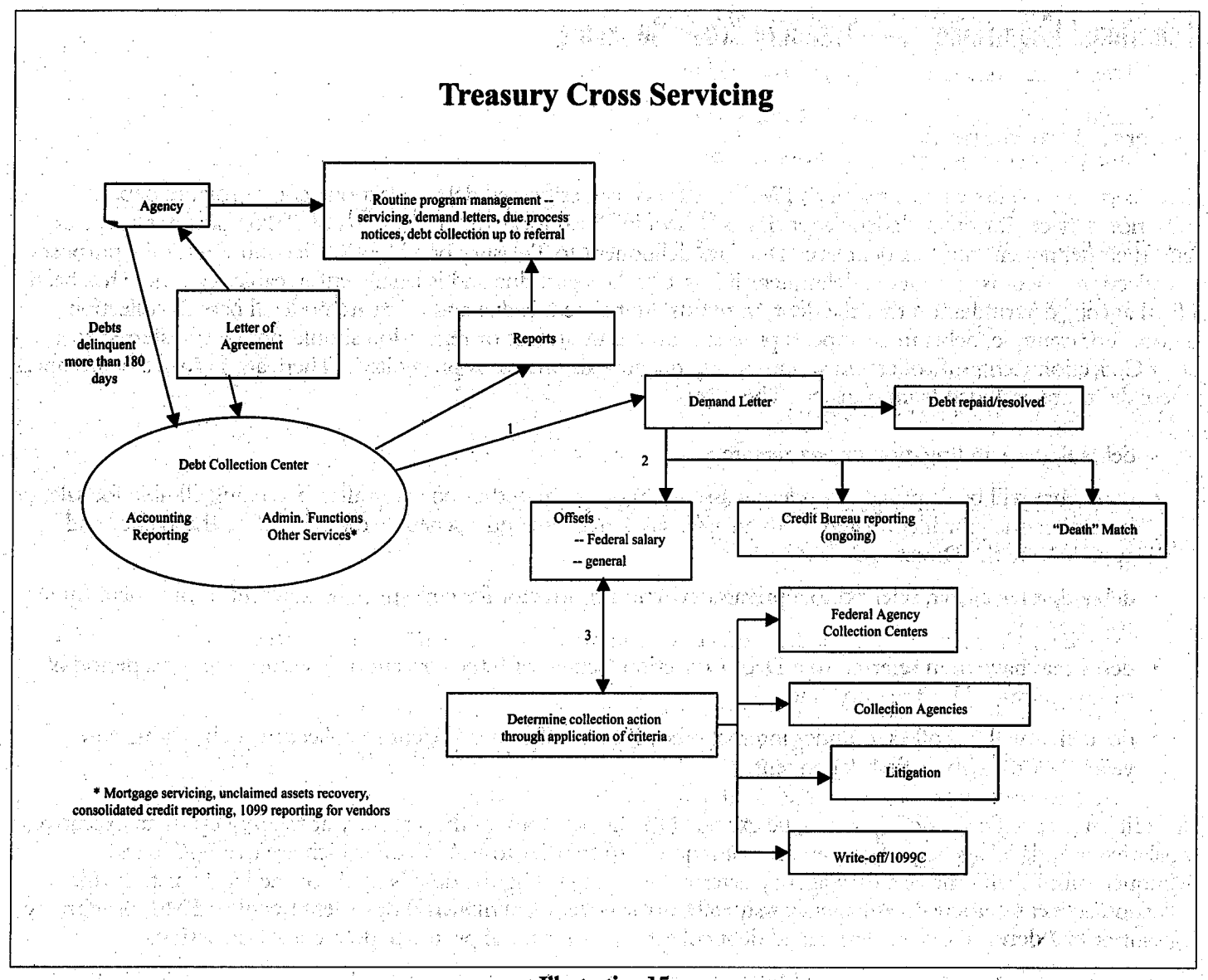


Illustration 15

represents of the total agency volume, a description of the center's use of the various debt collection tools, and historical portfolio performance.

After debts are referred to a designated collection center, the agency retains responsibility for reporting the debts on the Report of Receivables Due from the Public. The agency is also responsible for removing accounts from its receivables when the designated collection center directs it to write-off the debt. However, at the time the debt is referred to Treasury for cross-servicing, the agency must discontinue all servicing activities. At that time, the designated collection center has authority to act in the Government's best interest to service, collect, compromise, suspend or terminate collection action in accordance with existing laws under which the debts arise and in accordance with the letter of agreement with the Agency.

The cross-servicing process consists of the following:

- identify accounts selected for cross-servicing,
- monitor accounts at the debt collection center, and
- use an agency authorized to "cross-service."

Identify Accounts Selected. This activity identifies and refers accounts for cross-servicing based on past collection history and agency servicing requirements. An automated system should:

- compare delinquent loan account information to statutory criteria to select delinquent loan accounts for possible referral.
- generate notification to the debtor of the agency's intent to refer the debt to a debt collection center.
- update the loan information store.
- identify accounts that can no longer be serviced by agency personnel.

Monitor Accounts Referred to the Debt Collection Center. This activity monitors and periodically reevaluates accounts referred for cross-servicing.

- identify accounts with monetary adjustments that must be reported to the debt collection center.
- provide ad hoc reporting capability needed to monitor the accounts referred to a debt collection center and the amounts recovered.
- interface with the core financial system to record receipts remitted to the agency.
- apply collections received from the debt collection center according to agency application rules.
- record collection fees in accordance with agency program requirements.
- process agency or debt collection center refunds, notify debt collection center as appropriate, and update the loan information store.
- notify debt collection center of adjustments, recalls of debt, or collections received by the agency on the referred debt.
- remove from the accounting and financial records accounts that the debt collection center recommends should be written off.

Use an Agency Authorized to Cross-Service. This activity determines the agency's performance in collecting debts.

An automated system should:

- identify the volume and type of debts serviced.
- identify the tools used by the agency to collect its own debt.
- provide one or more years of information on the average age of debt over 180 days.
- calculate the amount of debt collected using various collection tools.
- accrue late charges, as required by referring agency.

- provide information to referring agency sufficient for the referring agency to satisfactorily complete the Report on Receivables Due From the Public.
- track, by portfolio, age of debt referred, dollar and number of referrals, collections on referred debts and report to Treasury on a monthly basis.
- provide information to referring agency as needed i.e., collections received.
- provide ad hoc reporting capability needed to satisfy referring agencies unique information requests such as, length of workout agreements, percent of debt that can be compromised, etc.

Internal Management Information Requirements

Listed below are internal management information requirements for the Treasury Cross-Servicing function. This information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Treasury Cross-Servicing function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are:

- transaction,
- loan history,
- risk category,
- cohort, and
- account.

Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

Functional Requirements—Portfolio Management

Portfolio management ensures that an agency continually evaluates program effectiveness and minimizes its program costs.

General Requirements

This section provides the Governmentwide functional requirements for the Portfolio Management function of a direct loan system. Illustration 16 provides an overview of the Portfolio Management function. As shown, the Portfolio Management function consists of the following major processes:

- Portfolio Performance Process,
- Program Financing Process,
- Support Subsidy Estimate (see Illustration 18), and
- Portfolio Sales Process.

Overview of the Portfolio Management Function of a Direct Loan System

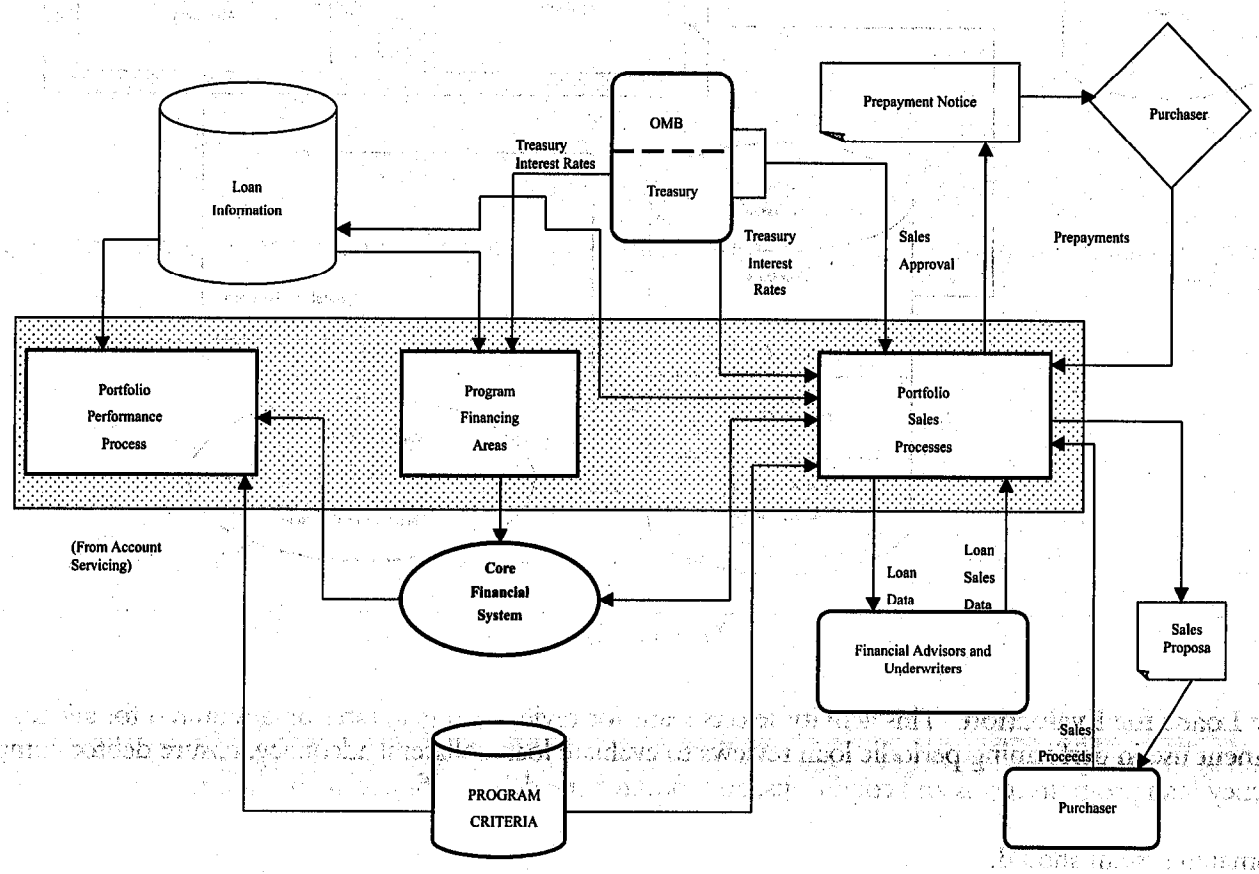


Illustration 16

Portfolio Management: Portfolio Performance Process

Agencies must maintain adequate and up-to-date information on the status of their loan portfolio to evaluate management and program effectiveness. Agencies need information about the status and quality of the loan portfolio to monitor its financial health. As shown in Illustration 17, the Portfolio Performance Process consists of the following major activities:

- Identify Loans for Evaluation, and
- Compute Portfolio Performance Measures activities.

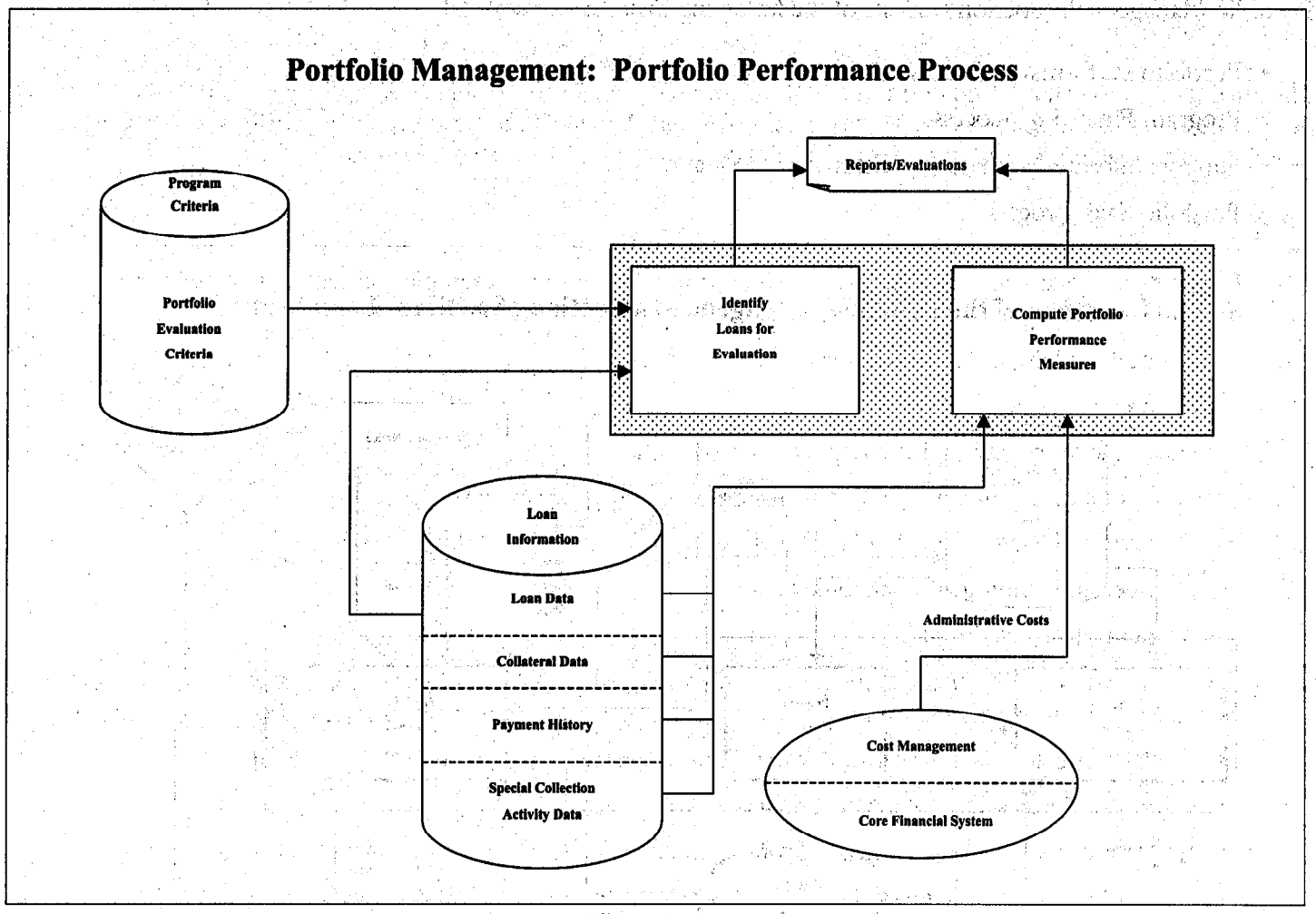


Illustration 17

Identify Loans for Evaluation. This activity selects loans for review and generates data required for agency management use in performing periodic loan reviews to evaluate loan collateral adequacy, ensure debtor compliance with agency loan program terms and conditions, and monitor the debtor's financial condition.

An automated system should:

- Compare loan data to agency program portfolio evaluation criteria in order to identify loans that require review or evaluation.
- Compare loan data to agency program portfolio evaluation criteria to identify loans with potential for graduation to private sectorfinancing.

Compute Portfolio Performance Measures. This activity supports portfolio reviews that allow agency management to evaluate overall agency program performance in relation to program goals and performance measures included in the agency's annual performance plan, strategic plan, and financial statements. Performance measures inform management how well the program reaches its intended constituents, how effectively the program uses its allocated resources, and how successfully the program achieves its intended public policy results. Effective performance measurement should highlight program trends to prompt reexamination of agency policies as conditions warrant.

The information necessary to compute some of the following measures may not be readily available for all loan programs, or may be available only at substantial expense. Therefore, the value of a given performance measure should be examined within the context of the total cost to an agency of using that measure.

An automated system should:

- Compute and maintain program performance information. Some examples of the types of performance measures an agency may want its automated system to compute are:
  - Number and dollar value of loans made
  - Average loan size
  - Loans made by geographical region
  - Number and amount of delinquent by key indicators such as loan-to-value ratios
  - Number and amount of defaulted loans by key indicators such as loan-to-value ratios
  - Number and amount of rescheduled loans
  - Amount of loan write-offs
- Compute and maintain financial measures to help assess the credit soundness of a loan program. Some examples of the types of performance measures an agency may want its automated system to compute are:
  - Average loan-to-value ratio (for collateralized programs)
  - Current loans as a percentage of total loans
  - Delinquent loans as a percentage of total current loans
  - Write-offs as a percentage of seriously delinquent loans
  - Overall portfolio risk rate
  - Loan loss rates
  - Recovery rates on defaulted loans
- Compute and maintain efficiency measures to help determine the effectiveness of use of agency resources. Some examples of the types of performance measures an agency may want its automated system to compute are:
  - Administrative cost per loan approved

- Time required to process a loan application
- Administrative cost per loan serviced
- Administrative cost per delinquent dollar collected
- Net proceeds on real property sold compared to appraised value

Portfolio Management: Program Financing Process

In accordance with the FCRA of 1990 and OMB guidance, agencies have several components to credit program financing, including Treasury borrowing, subsidy re-estimates, and working capital funding. Agencies borrow from the Treasury to finance the unsubsidized portion of loans disbursed and to make interest payments to Treasury if insufficient funds are available at the time. Agencies must re-estimate subsidy costs to reflect differences in interest rates between the time of obligation and disbursement and changes in projected cash flows. Finally, agencies may elect to set aside funds as working capital to finance costs associated with foreclosing, managing, and selling collateral.

Agencies should use the Funds Management function of the core financial system to record the appropriations, apportionments, and limitations associated with the Program Account and Financing Account for each credit program. The direct loan system would access the core financial system toperform funds control validation.

Accounting for and controlling administrative expenses related to credit programs can be accomplished in the core financial system, so this activity would not normally be included in the direct loan system. As shown in Illustration 18, the Program Financing process consists of the following major activities:

- Support Treasury Borrowing Calculations,
- Support Subsidy Estimate
- Support Subsidy Re-estimates, and
- Analyze Working Capital Needs.

Support Treasury Borrowing Calculations. The FCRA of 1990 provides financing accounts with permanent indefinite authority to borrow from Treasury. The agency is required to track the amounts of borrowing, compute interest expense related to these borrowings, and compute interest earned on uninvested funds in accordance with guidance provided by OMB and Treasury. The transactions to record borrowings and interest would usually be processed by the core financial system with support for the calculations being provided by the direct loan system. The actual organization of system processes between the direct loan system and the core financial system is at the discretion of the agency; however, together the systems must:

- Execute SF-1151's and record amounts borrowed from Treasury to finance loans. Make adjustments to borrowings during the year to reflect changes in original estimates.
- Execute and record Treasury borrowings to finance interest payments to Treasury if insufficient funds are available to make the payment.
- Track the amount of uninvested funds in the Financing Account as needed to support interest earnings calculations.
- Compute interest expense on borrowings and interest earnings on uninvested funds.
- Execute and record repayment of principal using SF-1151's and interest to Treasury using SF-1081's.

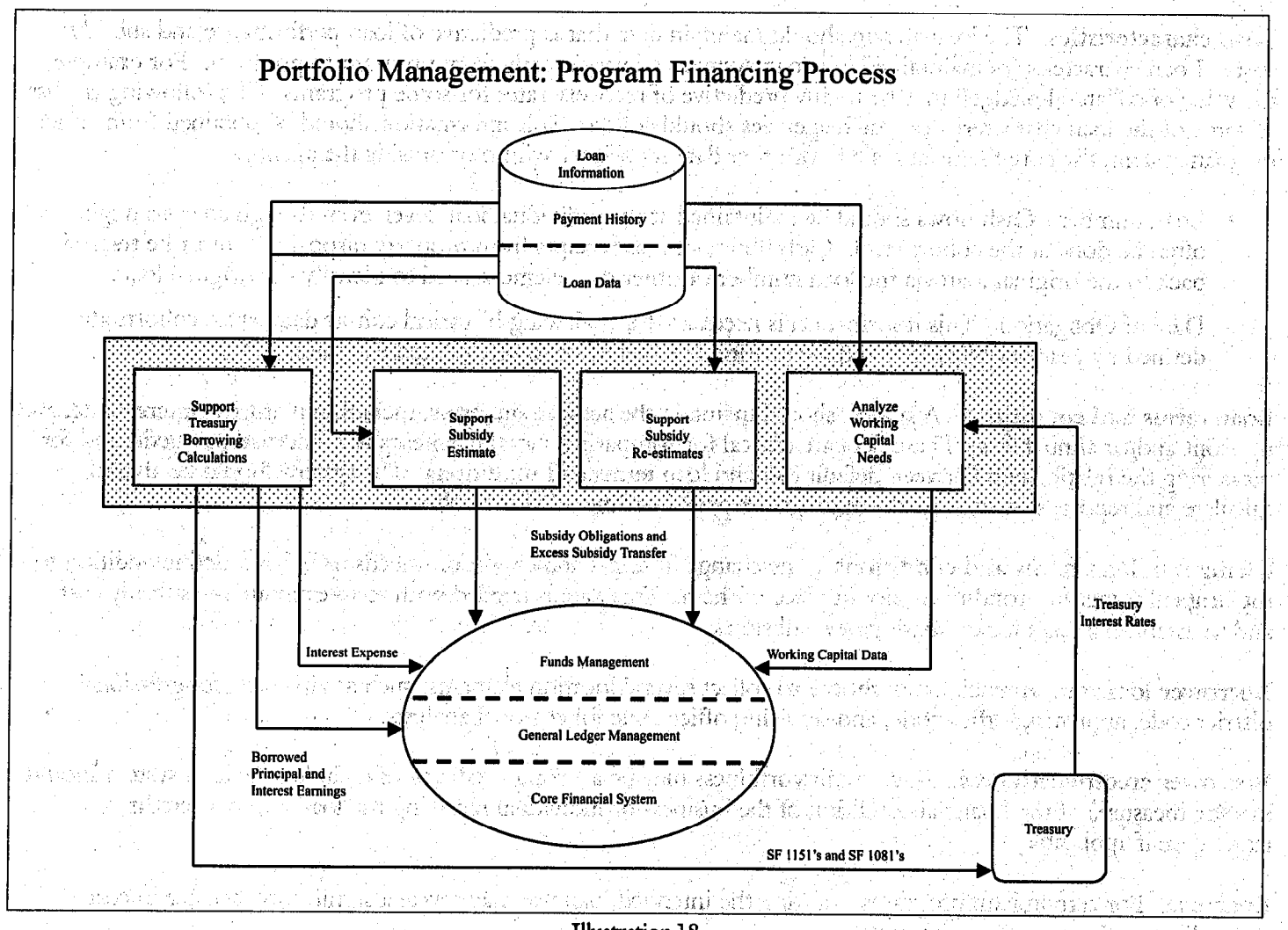


Illustration 18

- Execute and record receipt of interest earnings from Treasury on uninvested funds using SF-1081's.
- Provide an automated interface with the core financial system to record all calculations.

Portfolio Management: Support Subsidy Estimate

This section outlines the types of data elements which might be included in a loan system and builds upon the standards set forth in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees* and OMB Bulletins A-11 and A-34. The key to implementing the requirements of these documents is having adequate systems and reliable data to reasonably calculate the credit subsidy estimate.

Given the diversity of Federal credit programs and, therefore, the wide range in data required to support subsidy estimates, a loan system should be tailored to the data needs of each loan program. The data elements in a loan system should be selected to allow for more in-depth analysis of the most significant subsidy estimate assumptions. To accomplish this generally the loan system should maintain three types of data. First, information regarding loan characteristics should be maintained. Second, relevant economic data should be gathered. Third, data on the actual timing and amount of all cash flows related to each loan in the loan system should be collected.

Loan characteristics. The loan system should maintain data that is predictive of loan performance and subsidy costs. Loan characteristics maintained in a loan system will vary greatly from program to program. For example, the value of collateral pledged may be highly predictive of recovery rates for some programs. The following is a list of some of the loan characteristics which agencies should collect. This information should be obtained from either the loan system, the core financial system, or other data repository within or outside the agency.

- Loan number - Cash flows should be maintained at the individual loan level, even though analysis might often be done at the cohort level. Cash flows, such as receipts from property disposition, must be tracked back to the original loan via the loan number or other data element used to identify the original loan.
- Date of Obligation - This information is necessary for reviewing historical cohort data, since cohorts are defined by year of obligation, and for relating loan behavior to other dated variables.

Loan terms and conditions. A system should maintain the actual loan terms, including maturity, interest rate, and up-front and/or annual fees. These data are critical for comparing actual payments to scheduled payments and for measuring the relationship between default risk and loan terms and conditions. The system should be able to calculate and report, as necessary, the aggregate repayment schedule for a cohort.

Changes in loan terms and conditions. Any change in terms and conditions needs to be recorded in addition to the original terms and conditions, not in place of them. This data is needed both to re-estimate the subsidy cost and to establish a basis for estimating new subsidies.

Borrower location. Agencies may choose to collect several location elements, such as zip code, congressional district code, approving office code, and servicing office code for regional analysis.

Borrower creditworthiness. Since creditworthiness may be a strong predictor of defaults, the loan system should include measures of the financial condition of the business or individual receiving the loan and past credit experience if applicable.

Loan use. For certain loan programs, tracking the intended loan use may reveal a significant variance in cost depending on the use of loan proceeds.

Program-specific data. Other loan characteristics may also be important in predicting default. The loan-to-value ratio is a critical data element for predicting housing loan defaults; for student loans, the type of educational institution may be important; the value of collateral is important in a number of programs.

Economic data. Nearly all loan programs are affected by trends and fluctuations in the economy. The system should maintain the primary economic factors which influence loan performance. The critical indicators will vary across programs. For housing loans, among other factors, property values and house appreciation rates should be monitored. For programs which determine borrower's interest rates based on the borrower's income, all economic data on incomes should be maintained in either the direct loan system, the core financial system, or other data repository within or outside the agency.

Historical cash flows. All cash transactions related to each loan should be maintained in the system for several years to allow for trend analysis. Since transactions may be identified by a wide variety of transactional codes, agencies should consider grouping transactions by the type of cash flows that are projected in loan program subsidy estimates. These groupings will vary from program to program, depending on the way cash flows are projected for subsidy estimates. This information should be obtained from either the direct loan system, the core financial system, or other data repository (such as microfiche or CD-ROM that permits easy retrieval of data) within or outside the agency.

Listed below are suggested groupings which may be modified to fit actual loan programs.

- Approval amount.
- Disbursement amount and disbursement rate for each year.
- Up-front fee.
- Annual fees.
- Interest subsidies.
- Prepayments including both the timing and amount.
- Defaulted loan amounts including both the timing and amount.
- Delinquencies.
- Recoveries (including both the timing and amount) on defaulted loans by recovery method such as sale of collateral, or offset programs.
- Scheduled principal and interest payments.
- Actual principal and interest payments.

Support Subsidy Re-estimates. OMB Circular A-34 and SFFAS No. 2 generally requires that the subsidy cost of a cohort of direct loans be re-estimated at the beginning of each fiscal year following the year in which the initial disbursement was made. A re-estimate of each cohort cash flow should include prepayments, defaults, delinquencies, recoveries, etc. This activity examines the results of operations, by risk category (if applicable) and cohort, and adjusts loan subsidy costs between risk categories (if applicable) within a cohort and for the cohort as a whole to account for changes in cohort subsidy costs resulting from interest rate changes and differences between estimated cash flows, the actual performance of the cohort, and expected performance changes in future cash flow. System activities may be located in either the direct loan system or the core financial system, as appropriate.

An automated system should:

- Support the re-estimate of the subsidy cost for each cohort and risk category of loans at the beginning of each fiscal year in accordance with OMB Circular A-34 and SFFAS No. 2.
- Maintain cash flow data that permits comparison of actual cash flows each year (and new estimates of future cash flows), as well as historical data from prior years to the cash flows used in computing the latest loan subsidy estimate.
- Compare the current year re-estimated subsidy cost to prior years re-estimated loan subsidy costs to determine whether subsidy costs for a risk category increased or decreased.
- Transfer loan subsidy from those risk categories with an excess of loan subsidy to those risk categories in the same cohort that are deficient in loan subsidy to provide adequate funding for each risk category.
- Group those cohorts that need indefinite appropriation loan subsidy funds separately from those cohorts that have excess funds. Request an apportionment and obligate funds to cover the subsidy increase for those cohorts of loans that have insufficient subsidy. Transfer excess subsidy of cohorts of loans to the Special Fund ReceiptAccount.

The loan system should support the re-estimate calculation and provide the necessary data to record the re-estimate in the core financial system.

Analyze Working Capital Needs. Working capital is the excess of current assets over current liabilities which an agency may elect to set aside in the Financing Account to finance the costs of foreclosing, managing, and selling loan collateral for collateralized programs. This activity assesses working capital data needs and provides for the maintenance and accounting for these funds in accordance with OMB Circular A-34. System activities may be located in either the direct loan system or the core financial system, as appropriate.

An automated system should:

- Account for working capital cash balances in accordance with OMB guidance.
- Record costs incurred which are funded by working capital.
- Compute the amount of Treasury interest earned by working capital funds and provide this amount to the core financial system.

Portfolio Management: Portfolio Sales Process

OMB Circular A-129 states that Federal loans may be sold to a non-Federal entity without recourse, with the approval of OMB and Treasury. Federal loans may be sold with recourse if there is statutory authority for such sales. When a loan is sold without recourse, the Federal Government neither warrants future payments of interest and principal nor takes any service or collection responsibilities after the sale. If a loan is sold with recourse, the Federal Government is required to reimburse or repurchase the loan if the loan cannot be collected. Under the FCRA, the sale of direct loans is considered a loan modification subject to credit reform budgeting and accounting requirements. Additional guidelines for loan asset sales and prepayment programs are provided in the credit supplement to the TFM.

As shown in Illustration 19, the Portfolio Sales process consists of the following major activities:

- Prepare Portfolio for Sale or Prepayment,
- Conduct Prepayment Program, and
- Execute Portfolio Sales.

Prepare Portfolio for Sale. This activity identifies loan assets to be included in the pool of loans for sale or for prepayment. If the need arises, an agency has the option of engaging a financial advisor to conduct portfolio evaluations and make recommendations as to whether to execute a portfolio sale. In addition, this activity supports the preparation of statistical data for finalizing the terms of the portfolio sale and recording OMB/Treasury approval or disapproval of the sale. Subsidy costs of the sale would be estimated outside of this system and checked against available funds before approval.

An automated system should:

- Compare loan information to agency program criteria to select loans for inclusion in a potential sales pool.
- Provide the ad hoc query capability needed to provide information on selected loans.
- Record OMB/Treasury approval or disapproval of the sale/prepayment.

Conduct Prepayment Program. Prepayment programs are initiated only when statutorily mandated or upon approval by OMB and Treasury. This process supports prepayment programs conducted in conjunction with a portfolio sale or independent of a portfolio sale.

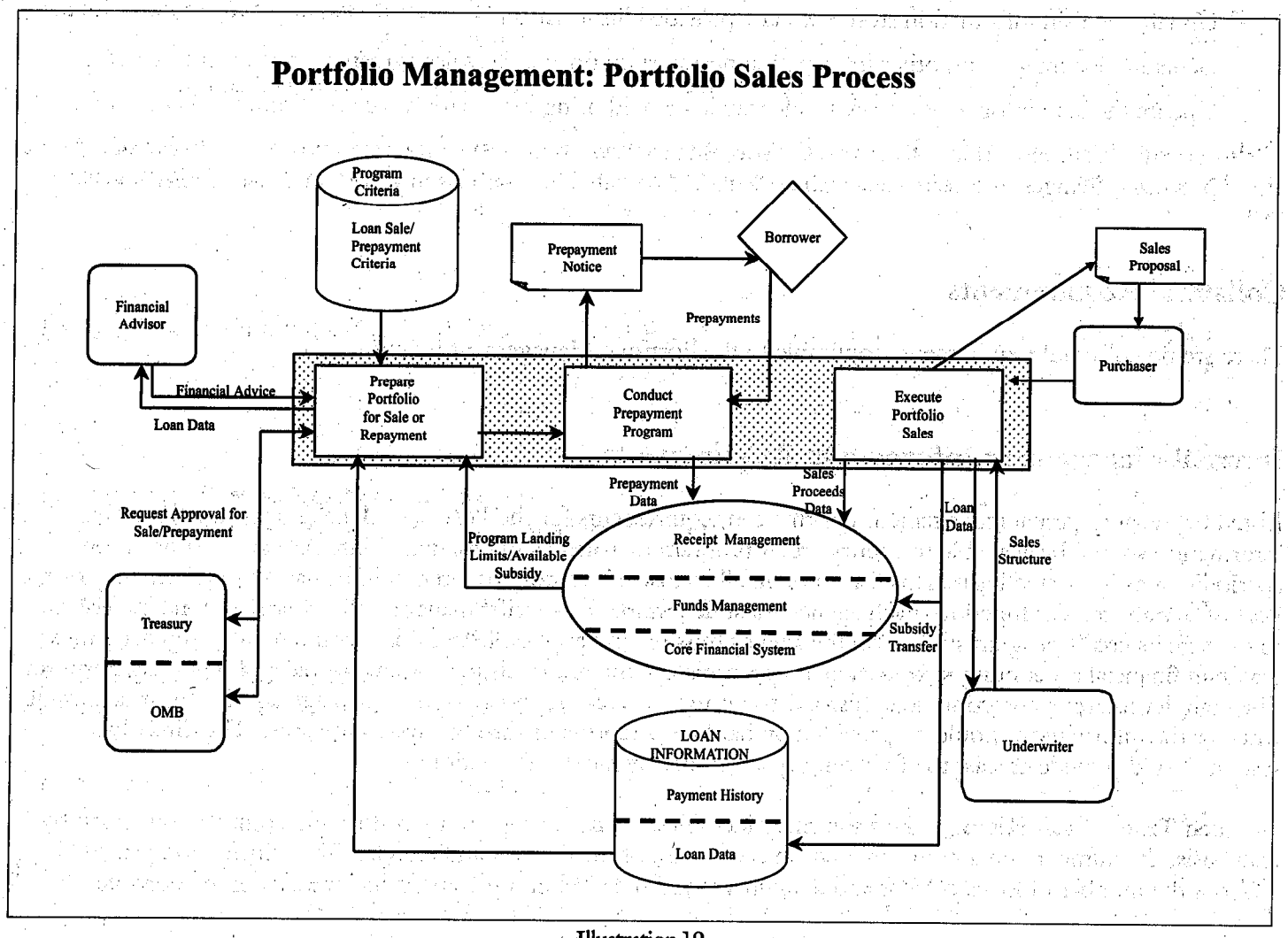


Illustration 19

An automated system should:

- Generate a prepayment offer to be sent to eligible borrowers for participation in the prepayment program.
- Record receipt of commitment letters from borrowers.
- Provide an automated interface with the core financial system to record the receipt of a prepayment and the changes in subsidy costs.

Execute Portfolio Sale. Portfolio sales are initiated only when statutorily mandated or upon approval by OMB and Treasury. This process supports the preparation of statistical data for finalizing the terms of the sale, the sale closing, and transfer of sale proceeds to Treasury. At the time of the sale, legal title is transferred from the agency to the third party purchaser.

An automated system should:

- Identify loans with incomplete documentation in the loan information store and generate a request for information to ensure loan files are complete.

- Update the loan information store with any provided information.
- Generate documents and other information necessary to finalize the sales agreement with the purchaser.
- Update the loan information store to identify loans sold using information received from the underwriter.
- Provide an automated interface with the core financial system to record the sale of the receivables, the proceeds, changes in subsidy costs, and calculate the related gain or loss in accordance with SFFAS No. 2.

Collateral Requirements

There are no collateral requirements applicable to the Portfolio Management function.

Internal Management Information Requirements

Listed below are internal management information requirements for the Portfolio Management function. This information should be available to agency credit program managers and designated internal review officials on aperiodic or as requested basis. This list is not an all inclusive inventory of internal information requirements for the Portfolio Management function. Each agency must determine the specific management information needsnecessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate summary levels for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries. The direct loan system should provide at least the following types of management information:

Detailed Transaction History. This summary identifies, for each program by cohort and compiled on a loan by loan basis, the number and amount of loans in each phase of the direct loan lifecycle. The information provided includes the number of loans current and delinquent, and the total number and value of loans in the portfolio.

Standard Management Control/Activity. This summary provides portfolio activity, with comparisons to one or more prior year loan activity, for agency management use in evaluating portfolio and credit management performance.

Portfolio Sale Historical Payments. This summary provides a detailed payment history for each loan included in the portfolio selected for sale. Historical payment data are critical in order to assess the investment value of the portfolio to be offered for sale, determining the structure and terms of the sale, and calculating the gain or loss on the sale.

Portfolio Sale Performance. This summary provides the rating agencies and financial advisors with statistics to more effectively evaluate portfolio characteristics performance. Statistics include loan-to-value ratios, effective yields, and loss estimates.

Program Credit Reform Status. This summary provides the status of the fiscal year's credit reform appropriations and subsidy levels.

Illustration 20 provides an overview of the Internal Management Information Requirements of the Portfolio Management Function.

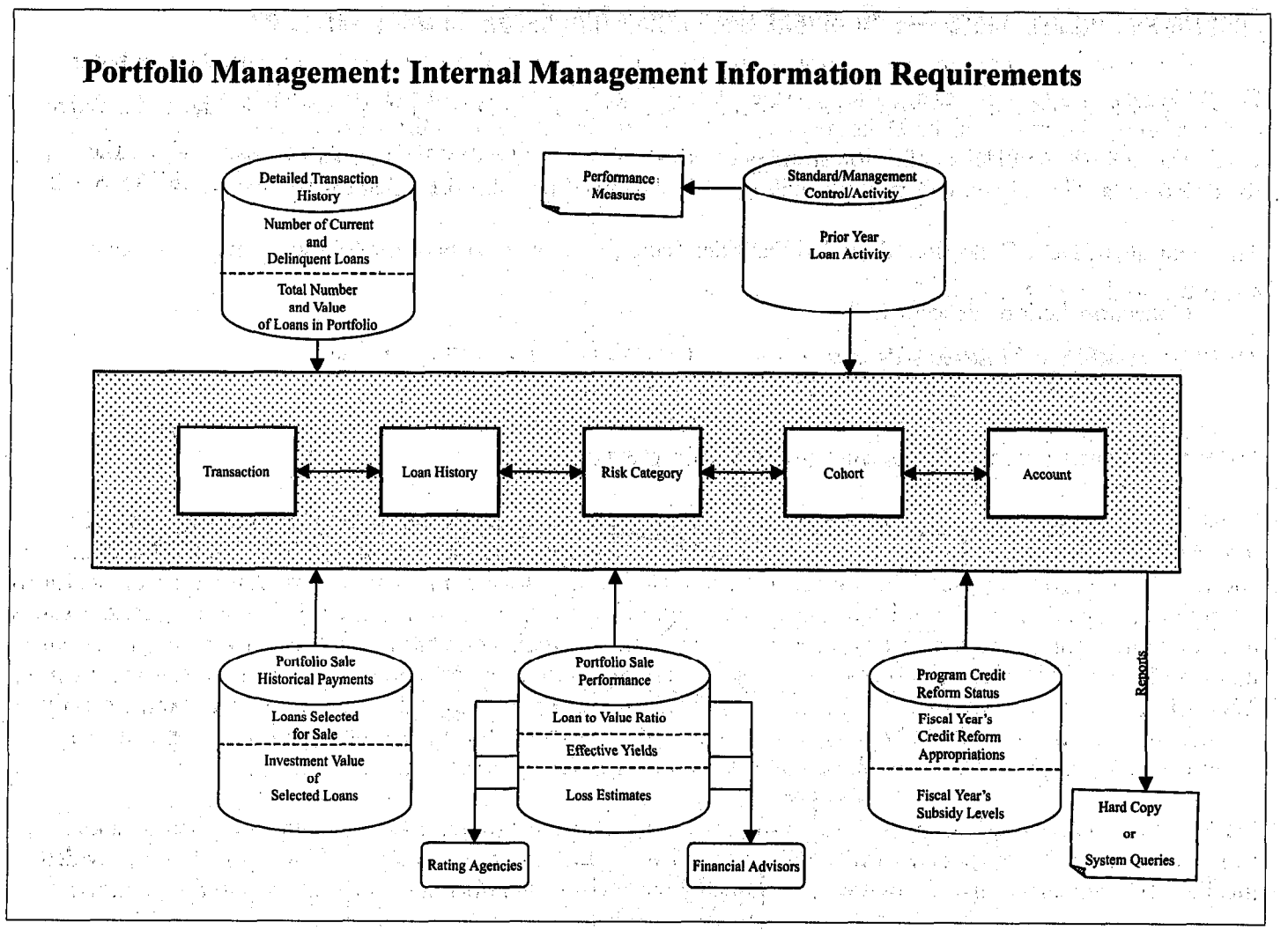


Illustration 20

Functional Requirements—Delinquent Debt Collection/Troubled Debt Servicing

OMB Circular A-129 requires agencies to have a fair but aggressive program to recover delinquent debt. Example is shown in the Overview of the Delinquent Debt Collection Function of a Direct Loan System, Illustration 21. Each agency must establish a collection strategy consistent with its statutory program authority that seeks to return the debtor to a current payment status or failing that, maximize the collections that can be realized.

The Delinquent Debt Collection/Troubled Debt Servicing function consists of the following major processes:

- Collection Actions Process, and
- Write-offs and Close-outs Process.

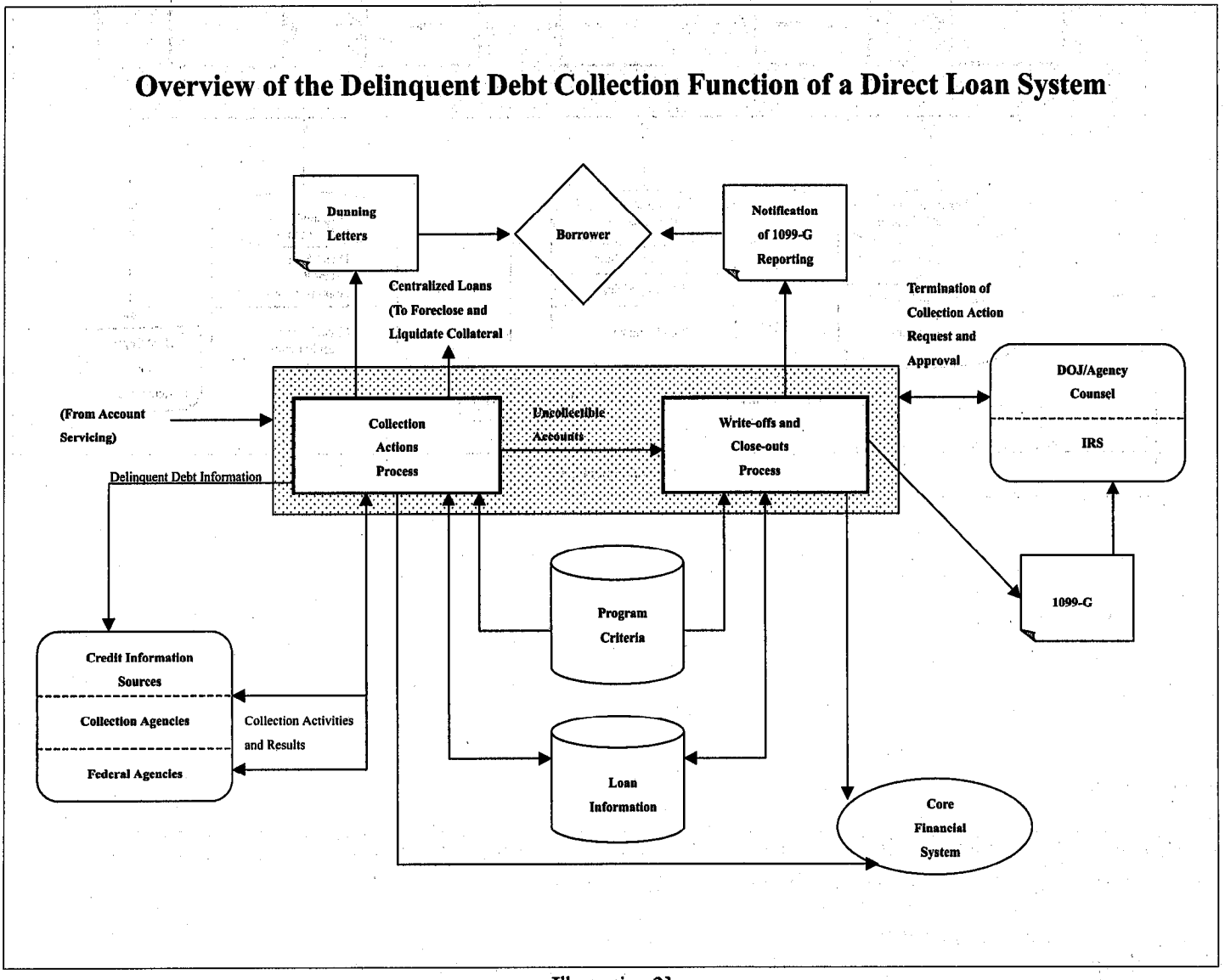


Illustration 21

General Requirements

This section provides the Governmentwide functional requirements for legislative and/or program servicing actions that must be accomplished before the debt can be referred for cross-servicing as shown in Illustration 22, Agency Debt Program Management and Collection Process.

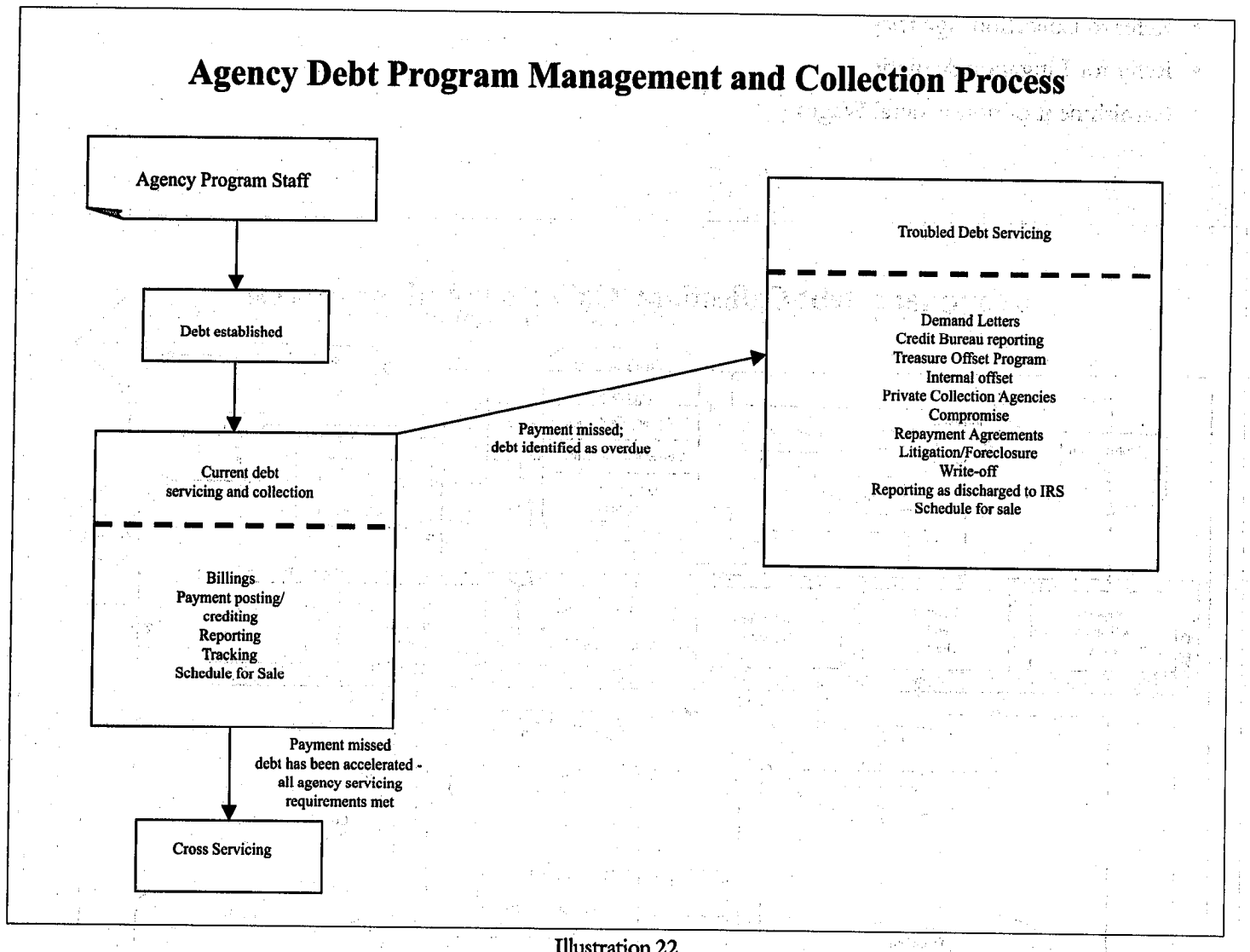


Illustration 22

Delinquent Debt Collection: Collection Actions Process

The agency has considerable flexibility in determining how to collect its delinquent debt. The size, age, and type of debt are essential factors in determining the resources to be expended in recovering debt. OMB Circular

A-129 and the Credit Supplement to the TFM provide guidelines to determine the appropriate tools to use to collect delinquent debt. If collateral is attached to the direct loan, foreclosure and liquidation of the collateral should occur after providing the debtor reasonable opportunity to cure the loan. Any deficiency balance may be pursued using collection tools such as referral of the balance for cross servicing. As shown in Illustration 23,

Delinquent Debt Collection: Collection Actions Process, Troubled Debt Servicing under agency program requirements includes:

- Report Delinquent Debt
- Contact with the Debtor
- Refer for Treasury Offset
- Refer to Collection Agencies
- Refer for Litigation Activities
- Garnishment of non-Federal Wages

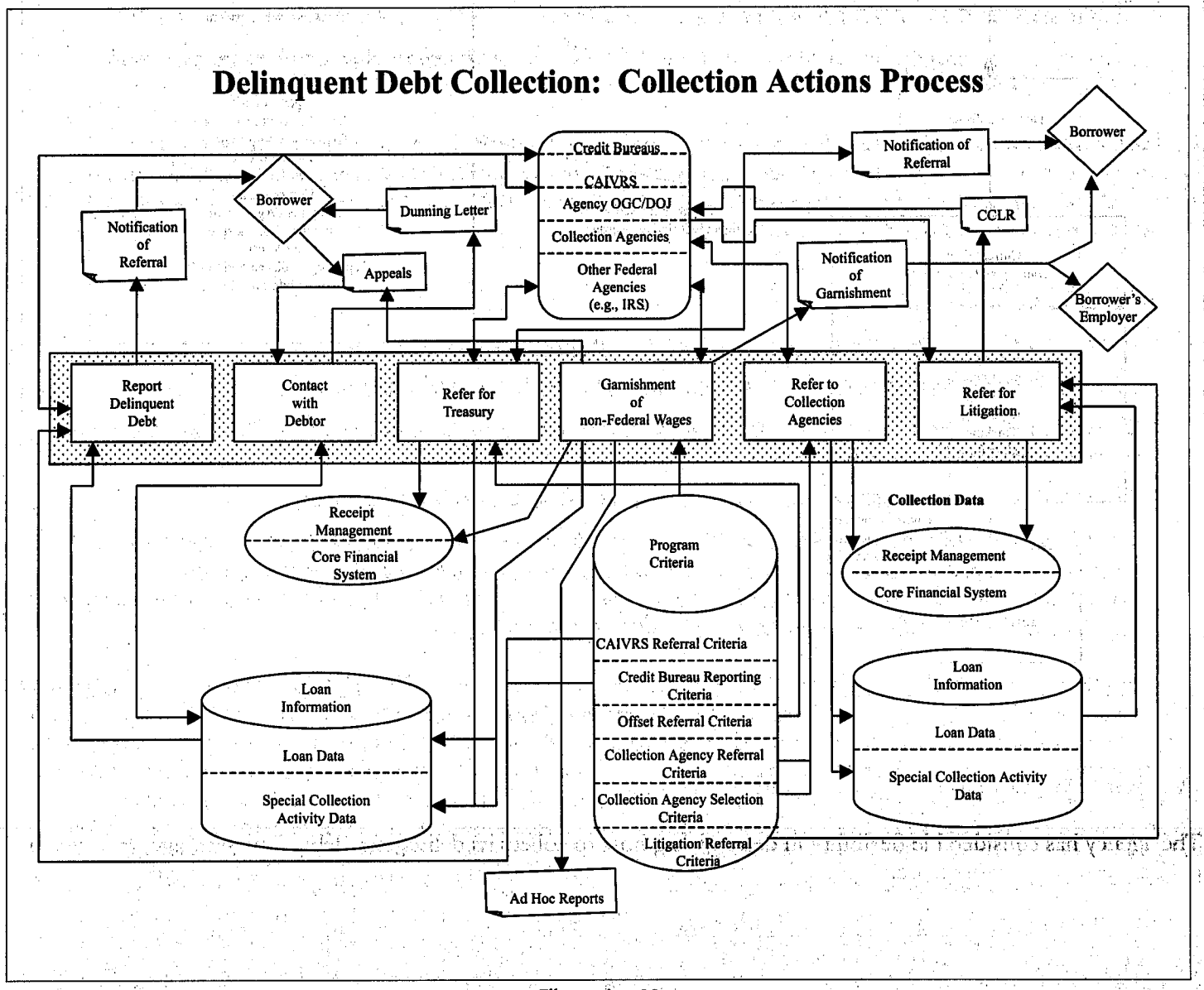


Illustration 23

Report Delinquent Debt. This activity reports selected delinquent account information to credit bureaus and to CAIVRS to indicate the delinquency status of the debt. Agencies must report all non-tax commercial and delinquent consumer accounts in excess of a pre-determined amount credit bureaus provided that the agency has processed the necessary Privacy Act notices for consumer debt.

An automated system should:

- Identify delinquent commercial and consumer accounts for reporting to credit bureaus (preferably by electronic interface) and CAIVRS bycomparing reporting criteria to delinquent loan data.
- Calculate outstanding balances, including interest, penalties, and administrative charges, and include this information in credit bureau reports.
- Generate (or include in demand letters) a notice to inform consumer borrowers of the referral of a delinquent debt to a credit bureau and CAIVRS in accordance with regulations.
- Maintain a record of each account reported to credit bureaus to allow tracking of referred accounts.
- Prepare data on appropriate medium, on a monthly basis, of delinquent debtors to be included in the CAIVRS database.

Contact with Debtor. It is critical for an agency to address a delinquency immediately to prevent it from becoming more serious. If the delinquency is not resolved after the initial contact, the agency should pursue additional contacts. If the volume and amount of loans is large enough, agencies may establish workout groups to decide on appropriate actions to maximize debt recovery.

An automated system should:

- Generate and transmit dunning letters to debtors with past-due loan accounts.
- Identify debtors who do not respond to dunning letters within a specified time period.
- Track demand letters and borrower responses to document borrower due process notification (and borrower willingness and ability to repay debt).
- Track and document debtor appeals received in response to demands for payment.
- Provide automated support to the collection process. Support could be provided for activities such as contacting a delinquent borrower by phone; documenting contacts with a debtor and the results; documenting installment payments, rescheduling agreements, and debt compromise; generating management reports; and tracking the performance of individual agency collectors.

Refer for Treasury Offset. The DCIA of 1996 mandates the referral of all Federal debts over 180 days delinquent to Treasury FMS for the purposes of administrative offset. A delinquent debt for administrative offset is a debt that is not being paid voluntarily by the debtor. If the delinquent debtor is in a voluntary repayment plan acceptable to the creditor agency and is making the payments as required under the plan, the debt should not be referred for administrative offset. In addition, debts that are over 10 years old, in foreclosure, moratorium, or bankruptcy cannot be referred to Treasury for administrative offset. The administrative offset program administered by the Department of the Treasury is named the Treasury Offset Program (TOP). The DCIA requires FMS, the U.S. Postal Service, or any other government corporation, or any other disbursing officials of the U.S. designated by the Secretary of the Treasury, to offset Federal Payments to pay the delinquent debts. When fully implemented, TOP will offset Federal salaries, IRS refunds, and Federal administrative payments such as payments to vendors. DCIA authorizes Treasury to charge a fee sufficient to cover the full cost of implementing administrative offset; the agency can either pass this fee on to the debtor or absorb it.

An automated system should:

- identify accounts eligible for referral to the TOP.
- generate written notification to the borrower that includes the following: the nature and the amount of the debt; the intention of the agency to collect the debt through administrative offset; an explanation of the rights of the debtor; an offer to provide the debtor an opportunity to inspect and copy the records of the agency with respect to the debt; and an offer to enter into a written repayment agreement with the agency.
- identify, at the end of the notification period, the debtors that remain delinquent and are eligible for referral.
- offset delinquent debts internally before referral to TOP, where applicable.
- transmit to TOP eligible new debts, and increase, decrease, or delete previously reported debts.
- apply collections received through the TOP process to debtor accounts in accordance with applicable payment application rules.
- record offset fees in accordance with agency program requirements.
- update the loan information store to reflect TOP status.
- update the core financial system to record collections from TOP.
- process agency refunds given to borrowers erroneously offset and transmit this information to Treasury in a timely manner.
- record refunds given by Treasury and adjust the loan information store accordingly.

Garnishment of Non-Federal Wages. The DCIA of 1996 authorizes Federal agencies administratively to garnish up to 15 percent of the disposable pay of a debtor to satisfy delinquent non-tax debt. Prior to the enactment of the DCIA, agencies were required to obtain a court judgment before garnishing the wages of non-Federal employees. Wage garnishment is a process whereby an employer withholds amounts from an employee's wages and pays those amounts to the employee's creditor in satisfaction of a withholding order. At least 30 days before an agency initiates garnishment proceedings, the agency must give the debtor written notice of its intent.

An automated system should:

- generate written notice informing the borrower of the agency's intention to initiate proceedings to collect the debt through deductions from pay, the nature and amount of the debt to be collected, and the debtor's rights.
- document that the wage garnishment order was sent to the employer.
- provide ad hoc reporting capability needed to monitor the amounts recovered through non-Federal wage garnishment.
- document that the agency provided debtors a hearing, when requested.
- interface with the core financial system to record receipts remitted to the agency.
- apply collections received through wage garnishment according to agency application rules.

Refer to Collection Agencies. This activity determines and refers delinquent loan accounts to collection agencies for collection. Agencies can refer debts to a private collection contractor for collection for a period of time determined by Treasury.

An automated system should:

- Compare delinquent account data to agency program collection agency referral criteria to select delinquent loan accounts for referral to collection agencies.
- Sort and group delinquent loan accounts based on type of debt (consumer or commercial), age of debt, and location of debtor.
- Calculate outstanding interest, penalties, and administrative charges for each delinquent loan account to be referred.
- Assign selected delinquent loan account groupings to appropriate collection agencies based on collection agency selection criteria for agency programs.
- Document that the delinquent account has been referred to a collection agency.
- Generate and receive electronic transmissions of account balance data and status updates to and from collection agencies.
- Record receipts remitted to the collection agency and forwarded to the agency.
- Update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.
- Accept and match collection agency invoices with agency records.
- Generate payment to the collection agency for services rendered through the core financial system.
- Request, reconcile, and record returned accounts from collection agencies.
- Interface with the core financial system to record collections processed through collection agencies.

Refer For Litigation Activities. OMB Circular A-129 requires agencies to refer delinquent accounts to the Department of Justice (DOJ), or use other litigation authority that may be available, as soon as there is sufficient reason to conclude that full or partial recovery of the debt can best be achieved through litigation. This activity determines and refers selected accounts for litigation. Referrals to DOJ should be made in accordance with the Federal Claims Collections Standards.

An automated system should:

- Compare delinquent loan account information against the agency's litigation referral criteria to identify delinquent loan accounts eligible for referral. Support identification of accounts to bereferred to counsel for filing of proof of claim based on documentation that a debtor has declared bankruptcy.
- Provide an electronic interface with credit bureaus to obtain credit bureau reports that will enable assessment of the debtor's ability to repay before a claim is referred to legal counsel.
- Calculate the outstanding balance, including principal, interest penalties, and administrative charges, for each delinquent loan account to be referred to legal counsel.
- Generate the Claims Collection Litigation Report (CCLR). The CCLR is used to capture collection actions and current debtor information and transmit this information to DOJ.
- Receive electronic transmissions of account data and status updates to and from DOJ's Central Intake Facility or the agency's Office of General Counsel's (OGC) automated system for referrals.
- Update the loan status to reflect referral for litigation so that the loan can be excluded from other collection actions, and to alert the agency to obtain approval from counsel before accepting voluntary debtor payment.

- Track filing of pleadings and other motions, including proofs of claims in bankruptcy, to ensure swift legal action and to monitorlitigation activity.
- Match agency litigation referrals with DOJ listing of agency litigation referrals.
- Record and track recovery of judgment decisions.
- Update the loan information store to reflect receipts and adjustments.
- Interface with the core financial system to record any collections resulting from litigation.

Delinquent Debt Collection: Write-Offs and Close-Outs Process

OMB Circular A-129 and the Credit Supplement to the TFM describe effective write-off and close-out procedures for delinquent loan accounts. As shown in Illustration 24, the Write-offs and Close-outs process consists of the following major activities:

- Identify and Document Accounts Selected for Write-off,
- Monitor Written-off Accounts, and
- Document Close-out of Uncollectible Accounts.

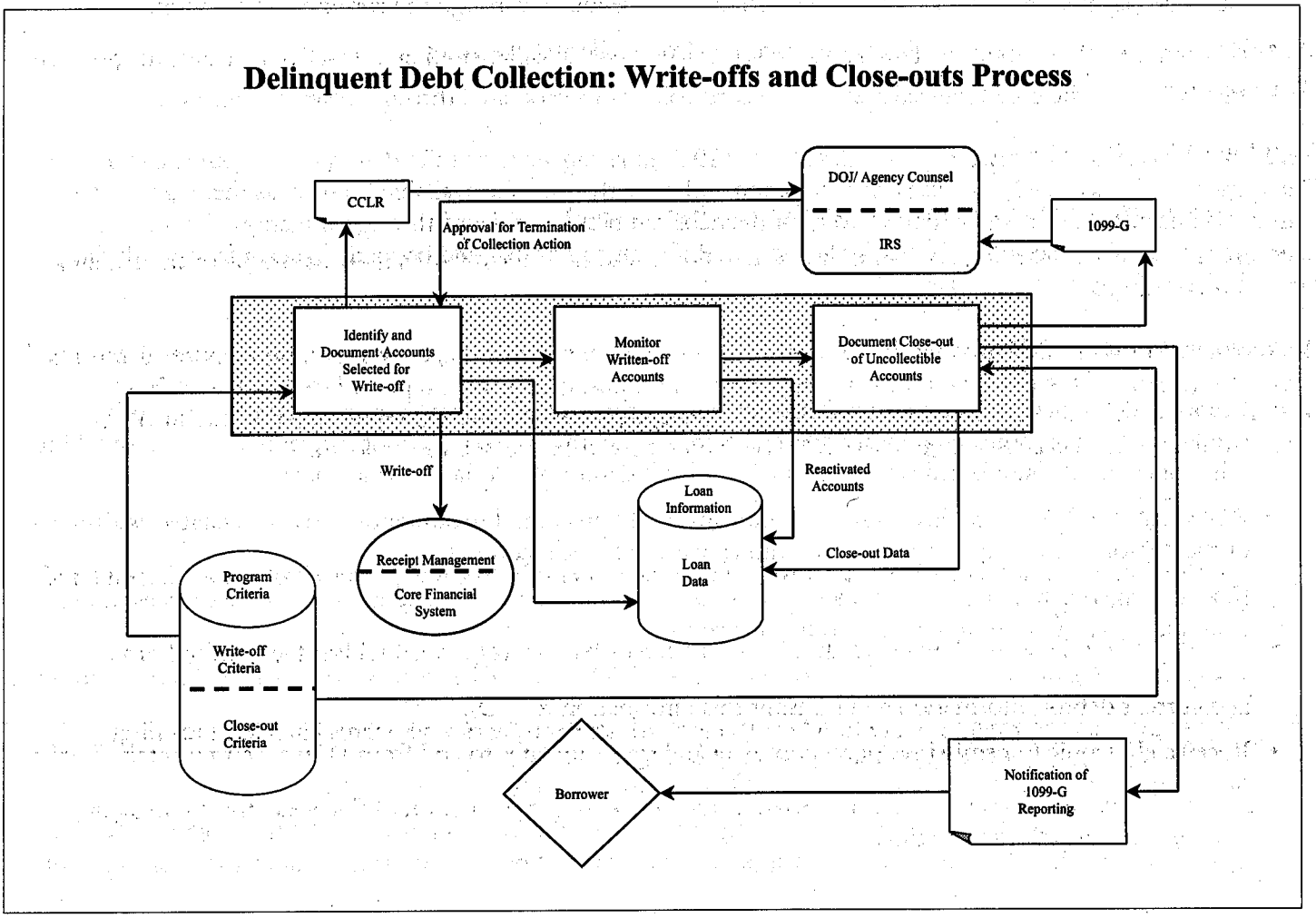


Illustration 24

Identify and Document Accounts Selected for Write-Off. This activity identifies and processes accounts for write-off based on past collection history and a system-prepared debtor financial profile. Write-offs of loan accounts that exceed a pre-determined amount in accordance with program requirements require approval of the DOJ.

An automated system should:

- Compare delinquent loan account information to agency program write-off criteria to select delinquent loan accounts for possible write-off.
- Classify debtors based on financial profile and ability to repay.
- Indicators of the financial well-being of a debtor include debtor financial statements, credit bureau reports, and payment receipt history.
- Produce a CCLR for each loan account to be referred to agency counsel or the (DOJ) for approval of termination of collection action. Update the loan status to reflect the referral.
- Update the loan information store to reflect approval or disapproval by agency counsel or the DOJ for termination of collection action.
- Update the loan information store and provide an automated interface with the core financial system to record the write-off of the receivable.

Monitor Written-Off Accounts. This activity monitors and periodically reevaluates inactive accounts for possible reclassification.

An automated system should:

- Maintain a suspense file of inactive (written-off) loan accounts.
- Reactivate written-off loan accounts at a system user's request if the debtor's financial status or the account status changes.

Document Close-Out Of Uncollectible Accounts. This activity completes agency action on accounts determined to be uncollectible. Closed out accounts over a pre-determine amount must be reported to the IRS on Form 1099-C. When a debt is reported, the IRS will match the agency's Form 1099-C report against individual tax returns to determine if the discharge of the debt has been reported by the debtor as income.

An automated system should:

- Compare loan account data to agency close-out criteria to identify debtor accounts eligible for close-out and 1099-C reporting.
- Prepare and send a Form 1099-C to the IRS if the debtor has not responded within the required time period.
- Update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.
- Retain electronic summary records of close-out account activity for a period of five years for use in agency screening of new loan applications.

Collateral Requirements

Collateral activities, where applicable, are an integral part of the delinquent debt collection function. For collateralized loans, agencies should pursue foreclosure/liquidation of collateral after providing the debtor a reasonable time to cure the loan. Illustration 25 provides an overview of the Foreclose and Liquidate Collateral function. As shown, the Foreclose and Liquidate Collateral function consists of the following major processes:

- Foreclose on Collateral Process, and
- Manage/Dispose of Collateral Process.

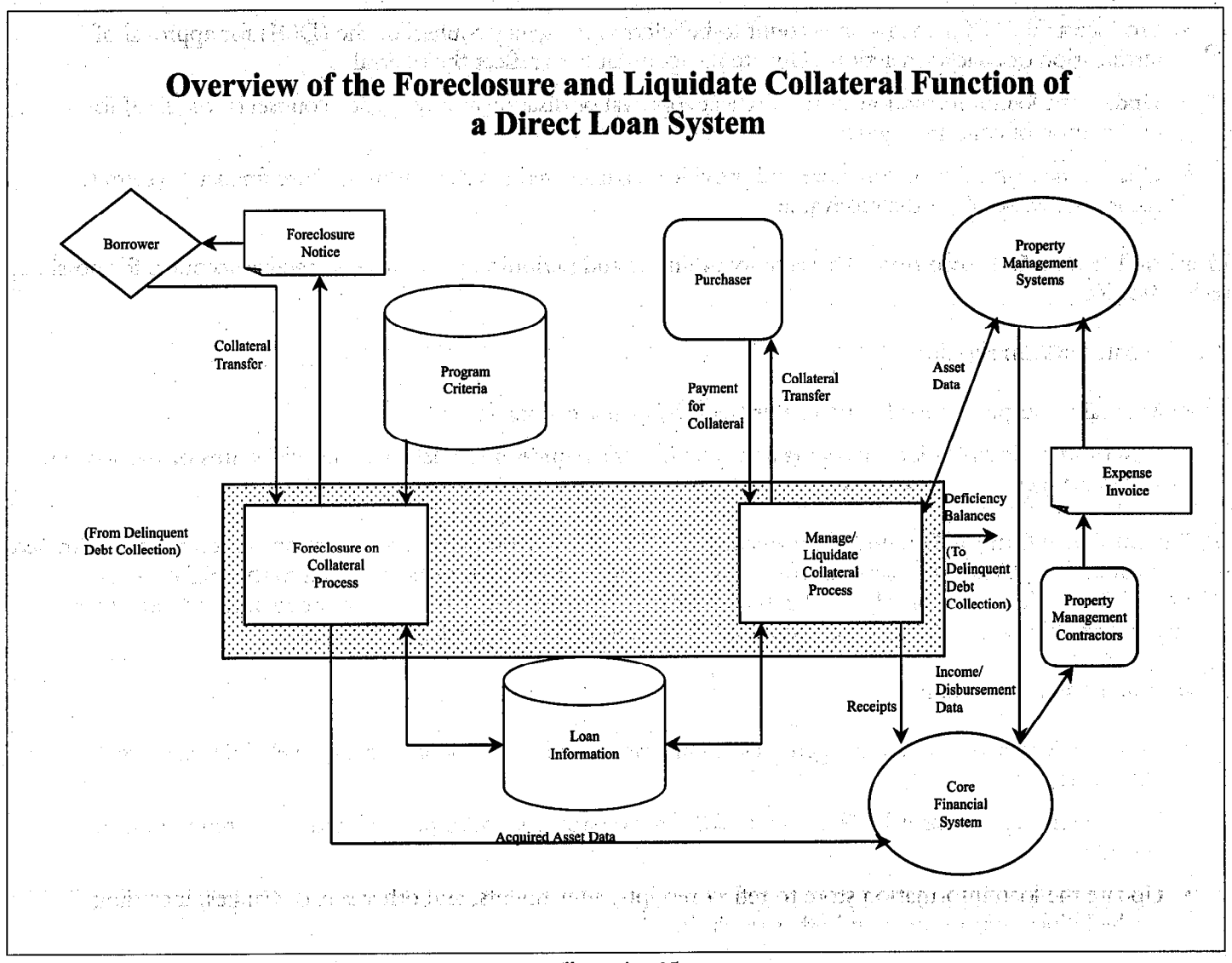


Illustration 25

Foreclose and Liquidate Collateral: Foreclose on Collateral

As shown on Illustration 26, the Foreclose on Collateral process consists of the following major activities:

- Identify Foreclosure Candidates, and
- Foreclose.

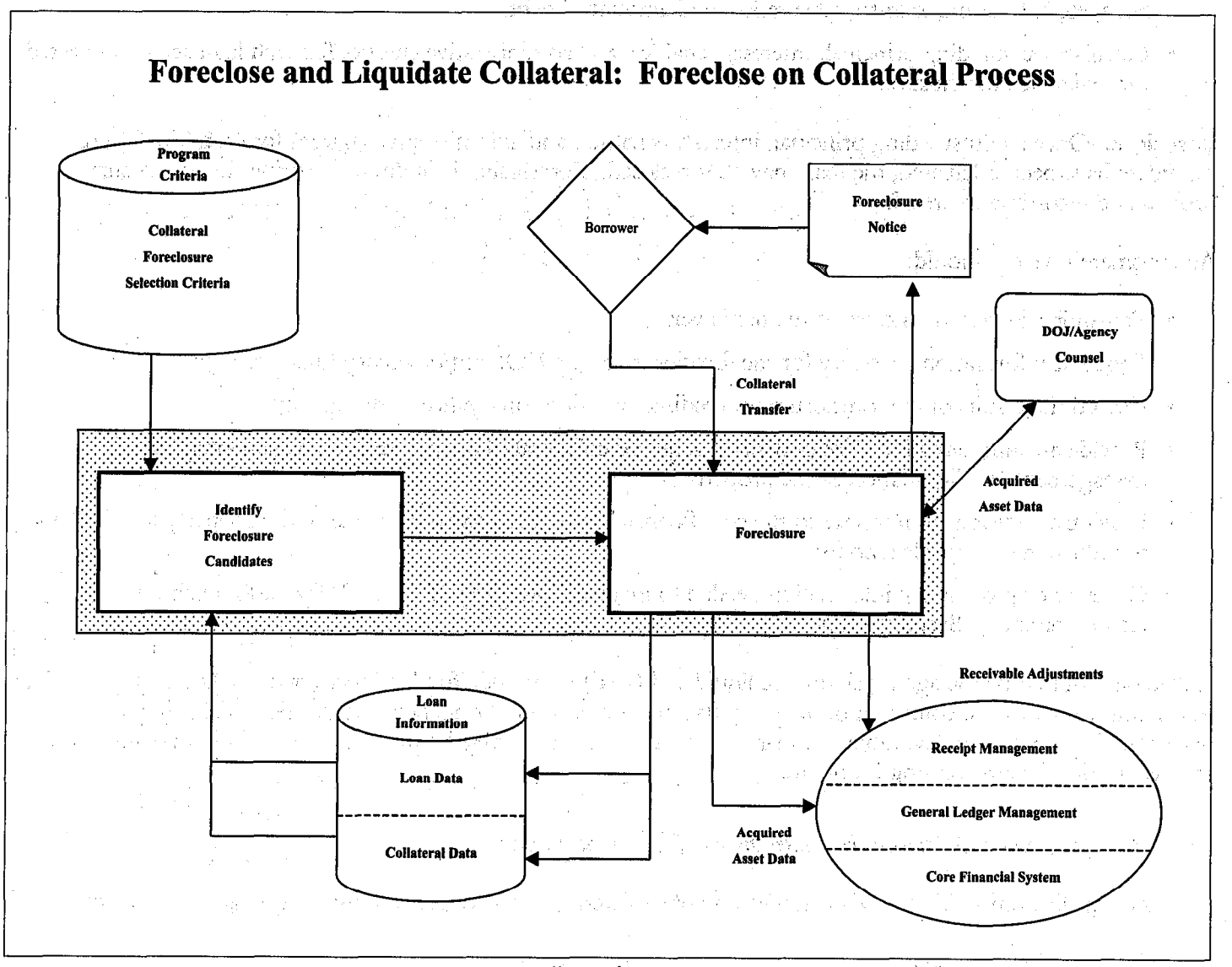


Illustration 26

Identify Foreclosure Candidates. Foreclosure on collateral may be initiated upon recognition of an unresolvable delinquency on collateralized direct loans. Collateral foreclosure includes identifying accounts eligible for foreclosure by comparing delinquent account data to agency collateral foreclosure selection criteria.

An automated system should:

- Compare delinquent account data to collateral foreclosure selection criteria.
- Sort and group selected delinquent accounts by type of collateral (single family or multifamily, commercial, farm, etc.), location, loan-to-value ratios, and amount of debt.
- Calculate outstanding principal, interest, penalties, and administrative charges for each loan account selected for review for foreclosure.

Foreclose. Once all outstanding principal, interest, penalties, and administrative charges for each foreclosure candidate have been calculated, the loan may be foreclosed. Foreclosing includes monitoring the foreclosure process and recording the results.

An automated system should:

- Transmit a foreclosure notice to the borrower.
- Transmit information necessary for the foreclosure to the DOJ and/or agency OGC, as applicable.
- Record the results of the foreclosure proceedings and title conveyance to the agency.
- Provide an automated interface of data on acquired collateral to the property management system for management and liquidation of the property.
- Provide an automated interface to the core financial system to record the value of the property acquired and to reduce the receivable amount.
- Generate or provide the information needed to manually prepare IRS Form 1099-A, Acquisition or Abandonment of Secured Property.

Collateral acquired by the agency should be liquidated (sold) to provide funds to recover the delinquent debt. Due to economic conditions, condition of the property, or other factors, the agency may decide to delay liquidation until conditions are more favorable. In that situation, the property must be managed until it is liquidated; this may involve making repairs, renting it out, etc.

Foreclose and Liquidate Collateral: Manage/Dispose of Collateral Process

As shown in Illustration 27, the Manage/Dispose of Collateral process consists of the following major activities:

- Manage Collateral, and
- Dispose of Collateral.

Foreclose and Liquidate Collateral: Manage/Dispose Collateral Process

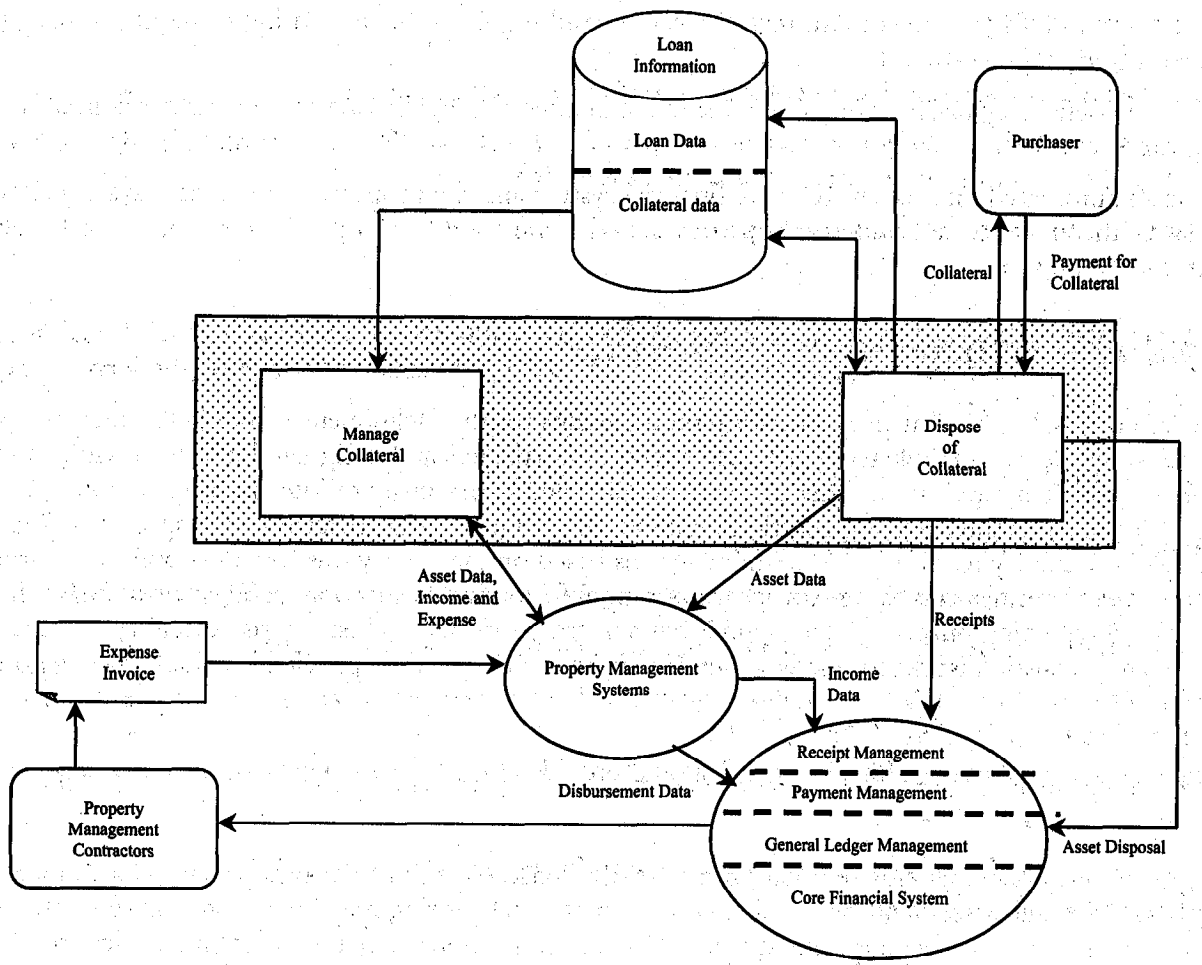


Illustration 27

Manage Collateral. This activity supports management of acquired collateral. If a property management system exists, some of these activities may be supported by that system rather than the direct loan system.

An automated system should:

- Generate payments to property management contractors for services rendered.
- Track, record, and classify operations and maintenance expenses related to the acquired collateral.
- Document rental income and other collections related to the acquired collateral.
- Post the expenses and income to the core financial system through an automated interface.

Dispose of Collateral. This activity supports the sale or other disposal of acquired collateral.

An automated system should:

- Update the loan information store to record receipts resulting from the liquidation of acquired collateral and the disposition of the collateral.
- Identify any deficiency balances remaining for the loan after ollateral liquidation for further collection activities.
- Provide an automated interface to the core financial system and the property management system to record disposal of the property and associated receipts.

Internal Management Information Requirements

Listed below are internal management information requirements for the Delinquent Debt Collection function. This information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Delinquent Debt Collection function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The direct loan system as shown in Illustration 28 should provide at least the following types of management information:

Detailed Transaction History. This summary provides detailedaccount information by cohort for internal control and tracking and, in the absence of an electronic interface to external entities, may be used to transfer data from the agency to the external entity to facilitate delinquent debt collection actions. Separate data summaries are produced for offset referrals, collection agency referrals, litigation referrals, and write-offs and close-outs.

Standard Management Control/Activity. This summary tracks the status of all referral activity including initial referrals, status updates, and account balance updates. Separate and summary listings are produced for individual and total reporting and referral activity.

Exceptions. This summary highlights deficiencies that have occurred in the referral process. Examples of subjects for periodic exception information include: delinquent accounts eligible for reporting that have not been reported, defaulted rescheduled loans, account referrals that cannot be processed, collection agency resolution percentage, accounts without foreclosure or collateral management activity for a specified period of time, accounts referred for litigation for which no litigation decision has been recorded, and delinquent accounts without activity for long periods of time that have not been written-off.

Offsetting Agency Description. This summary contains offsetting agency requirements to facilitate the offset referral process. The summary includes content and transmission specifications, reimbursement fee data, account selection criteria, and any other agency-specific details.

Trend Analysis/Performance. This summary highlights the effectiveness of different delinquent debt collection techniques over time. The summary indicates the effectiveness of using different types of collection actions for different credit programs.

Collection Contractor Compensation. This summary provides monthly account analyses to calculate, track, and verify compensation for each contractor providing collection services to an agency. This information aids in the verification of invoices received from the contractor, and highlights the differences in fee schedules among contractors.

Collateral Management Activity and Expense. This summary provides detailed and summary data of collateral management activity and expense data for monitoring collateral management activities that affect the value of the agency-owned property prior to disposition. All income earned and expenses incurred while the collateral is in the agency's possession must be recorded and tracked to support the agency's ability to recover the expenses.

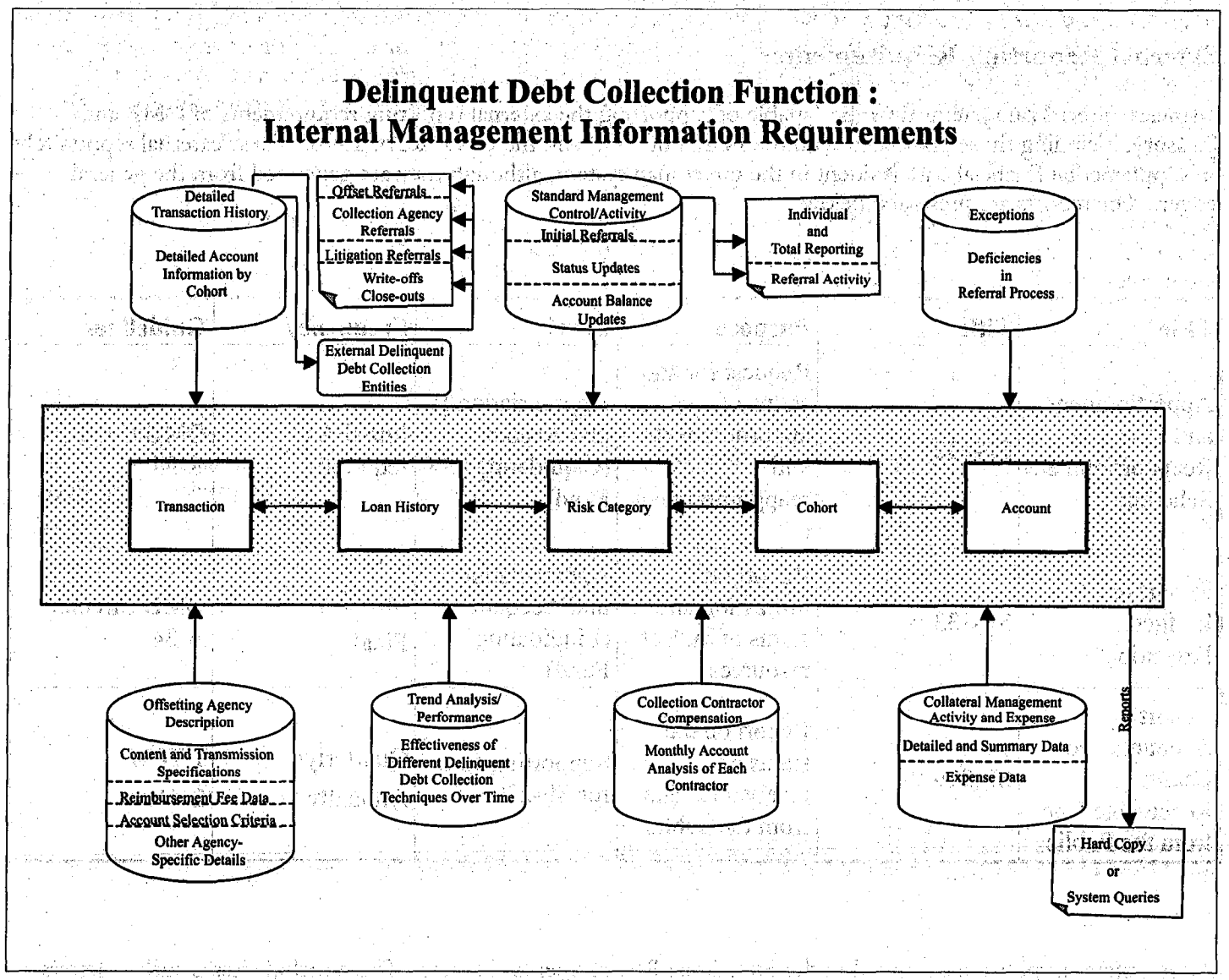


Illustration 28

Functional Requirements—Other Reporting Requirements

This chapter provides requirements for two types of reporting:

- Transaction History, and
- External Reporting Requirements.

Transaction History

The direct loan system must be capable of producing a complete transaction history of each loan.

External Reporting Requirements

Agencies' direct loan systems must be capable of supporting the external reporting requirements of OMB and Treasury, including those associated with the FCRA of 1990 and the CFO Act of 1990. These external reports rely on supplemental financial data resident in the direct loan system, although they are generated from the general ledger. The reports are presented below.

Title	Title	Purpose	Level	Frequency	Guidelines
Apportionment and Reapportionment Schedule	SF-132	Request for and status of apportionments and reapportionments	Appropriation/Fund Account (Liquidating Fund)	Initial/As required	OMB Circular A-34
Report on Budget Execution	SF-133	Report on utilization and status of budget resources	Appropriation/Fund Account (Liquidating Fund)	Monthly/ Final	OMB Circular A-34
Report on Accounts and Loans Receivable Due from the Public	SF-220-9	Report on the status of receivables due from the public	Supporting form for SF-220	Quarterly/ Annually	1 TFM 2-4100

Other system outputs are described in the Functional Requirements chapters. These include items such as letters and invoices to borrowers, SF-1151's and SF-1081's used in Treasury borrowing, and delinquent debt information sent to credit bureaus, collection agencies, and the DOJ.

Appendix 1: Policies Governing JFMIP Direct Loan System Requirements -Sequential

This appendix displays the requirements in sequential order as shown in Illustration 29.

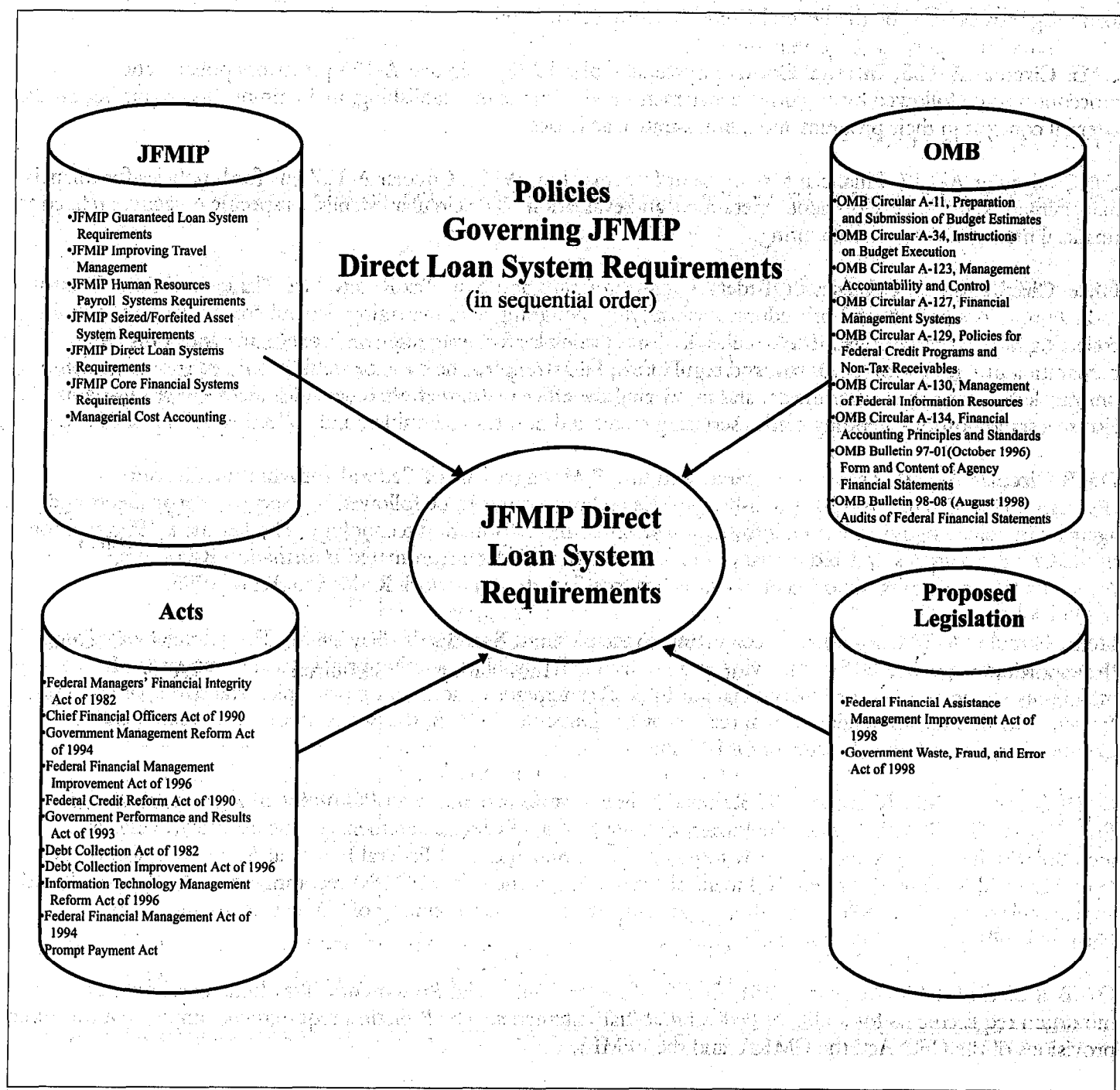


Illustration 29

OMB Circular A-11, Preparation and Submission of Budget Estimates (updated annually). Circular A-11 sets forth the policies and procedures for preparation and submission of agency budget estimates to the OMB.

OMB Circular A-34 - Instructions on Budget Execution: Credit Apportionment and Budget Execution (October 1991). Circular A-34, sets forth the requirements for apportionment and budget execution for all direct loan programs covered by the Federal Credit Reform Act of 1990.

OMB Circular A-123, Internal Control Systems (June 1995). Circular A-123 prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, and reporting on the internal controls in their program and administrative activities.

OMB Circular A-127, Financial Management Systems (July 1993). Circular A-127 sets forth policies for financial management systems development, operations, and evaluation. The circular establishes specific objectives related to financial management and accounting.

OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables (January 1993). Circular A-129 prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. The circular discusses principles for designing credit programs, including the preparation and review of legislation and regulations; budgeting for the costs of credit programs and minimizing unintended costs to the Government; and improving the efficiency and effectiveness of Federal credit programs. It also sets standards for extending credit, servicing credit and non-tax receivables, and collecting delinquent debt.

OMB Circular A-130, Transmittal Memorandum 3 Management of Federal Information Resources (February 1996). Circular A-130 establishes policies and procedures to be followed by executive departments and agencies in managing information, information systems, and information technology. The February 1996 revision of the Circular contains updated guidance in the "Security of Federal Automated Information Resources," Appendix III, and makes minor technical revisions to reflect the Paperwork Reduction Act of 1995.

OMB Circular A-134, Financial Accounting Principles and Standards (May 1993). This Circular establishes the policies and procedures for approving and publishing financial accounting principles and standards. It also establishes the procedures for OMB review of FASAB statements of accounting principles, standards, or concepts. If such a FASAB recommendation is agreed to by the Director of OMB, the Secretary of the Treasury, and the Comptroller General, the Director of OMB issues a SFFAS.

OMB Bulletin 97-01 (October 1996), and successor bulletins, Form and Content of Agency Financial Statements. This Bulletin defines the form and content of the financial statements of the executive agencies. It incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs) recommended by the FASAB and approved as of October 1996. This Bulletin explains the financial accounting of "Direct Loans and Loan Guarantees, Non-Federal Borrowers."

OMB Bulletin 98-08 (August 1998), Audits of Federal Financial Statements. This Bulletin establishes minimum requirements for audits of Federal financial statements. The Bulletin's requirements implement the audit provisions of the CFO Act, the GMRA, and the FFMIA.

Chief Financial Officers Act of 1990 (CFO Act). The CFO Act provides new tools to improve the management of the Federal Government. It establishes CFO in 23 major executive agencies as well as a new Deputy Director for Management and a Controller in the OMB. The CFO Act reinforces the need for and development of Federal accounting standards; supports integration and modernization of the Government's financial systems; and requires the preparation of annual audited financial statements.

Government Management Reform Act (GMRA) of 1994/Federal Financial Management Act (FFMA) of 1994; The GMRA expands the CFO Act and the FMFIA. Title IV of the GMRA, (known as The Federal Financial Management Act). Contains the financial management provisions. The FFMA requires the Treasury Department to prepare each year a Governmentwide, consolidated financial statement that the Comptroller General then audits. Pursuant to the GMRA, several agencies participated in a pilot program in which they issue accountability reports, consolidating their reporting under several statutes, including the **CFO, Federal Managers' Financial Integrity (FMFIA), GPRA, Prompt Payment, and Debt Collection Acts.** The accountability reports include program and financial information, such as the audited financial statements and performance measures reflecting performance in meeting key agency goals, as well as the Government Performance and Results Act of 1993 (GPRA). The GPRA requires agencies to develop strategic plans, Set performance goals, and report annually on actual performance compared to goals.

Federal Financial Manager's Improvement Act (FFMIA) of 1996. The FFMIA builds on the CFO Act and the GMRA by requiring agencies' financial statement auditors to report whether agencies' financial management systems comply substantially with Federal financial management systems requirements, applicable federal accounting standards, and the SGL at the transaction level. The FFMIA also requires the Treasury Department to prepare each year a Governmentwide, consolidated financial statement that the Comptroller General audits.

Federal Managers' Financial Integrity Act (1982). The FMFIA requires that all executive agencies implement, maintain, and report on internal accounting and administrative controls. These controls must provide reasonable assurances that (i) obligations and costs comply with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. Agency heads must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs. The FMFIA encompasses program, operational, and administrative areas as well as accounting and financial management.

Information Technology Management Reform Act (ITMRA) of 1996. The ITMRA requires the head of each executive agency to design and implement a process for maximizing the value and assessing and managing the risks of information technology acquisitions. Agency heads must use performance-and results-based management practices and prepare an annual report to Congress regarding progress in achieving these goals. The ITMRA designates a Chief Information Officer (CIO) within each executive agency. It also requires the head of each agency, in consultation with the agency's CFO and CIO, to establish policies and procedures to ensure the integration of the agency's accounting, financial, asset management, and other information systems, so that the systems effectively provide financial or program performance data for financial statements.

Debt Collection Act of 1982 (as amended). The Debt Collection Act prescribes the policies and procedures for executive agencies in Federal debt collection activities.

Debt Collection Improvement Act of 1996. The Debt Collection Act of 1996 provided several new tools to help Federal agencies collect delinquent non-tax debt. It centralized many debt collection operations within the Treasury's Financial Management Service (FMS) and created a Treasury Offset Program enabling FMS to offset Federal debts by "withholding" payments to delinquent debtors. In addition the Act:

- required agencies to obtain taxpayer identifying numbers.
- barred agencies from giving financial assistance to those already delinquent on Government debt.
- allowed agencies to establish procedures for garnishing non-Federal wages to recover delinquent debts not in repayment status.
- required agencies to transfer debts over 180 days delinquent to the Treasury for collection, unless the debts are in a specified exempt status.

- required Treasury to take action to collect referred debts including referral to another collection center, to private collection agencies or DOJ.
- allowed agencies to retain fees charged for services from collection and to retain a portion of collections for improving debt collection activities.
- required agencies to provide debtors all due process rights, including the ability to verify, challenge, and compromise claims.
- encouraged agencies, when appropriate, to sell delinquent debt.
- required agencies to submit debts for offset.
- simplified salary offset processes, by formally establishing an interagency consortium and allowing agencies to make routine adjustments to pay, without using salary offset procedures.
- mandated electronic funds transfer.

Federal Credit Reform Act of 1990. The Federal Credit Reform Act prescribes policies and requirements to achieve four objectives: to measure more accurately the costs of Federal credit programs; to place the cost of credit programs on a budgetary basis equivalent to other Federal spending; to encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and to improve the allocation of resources among credit programs and between credit and other spending programs.

Appendix 2: Policies Governing JFMIP Direct Loan System Requirements - Relational

This appendix displays the requirements in relational subject order as shown in Illustration 30.

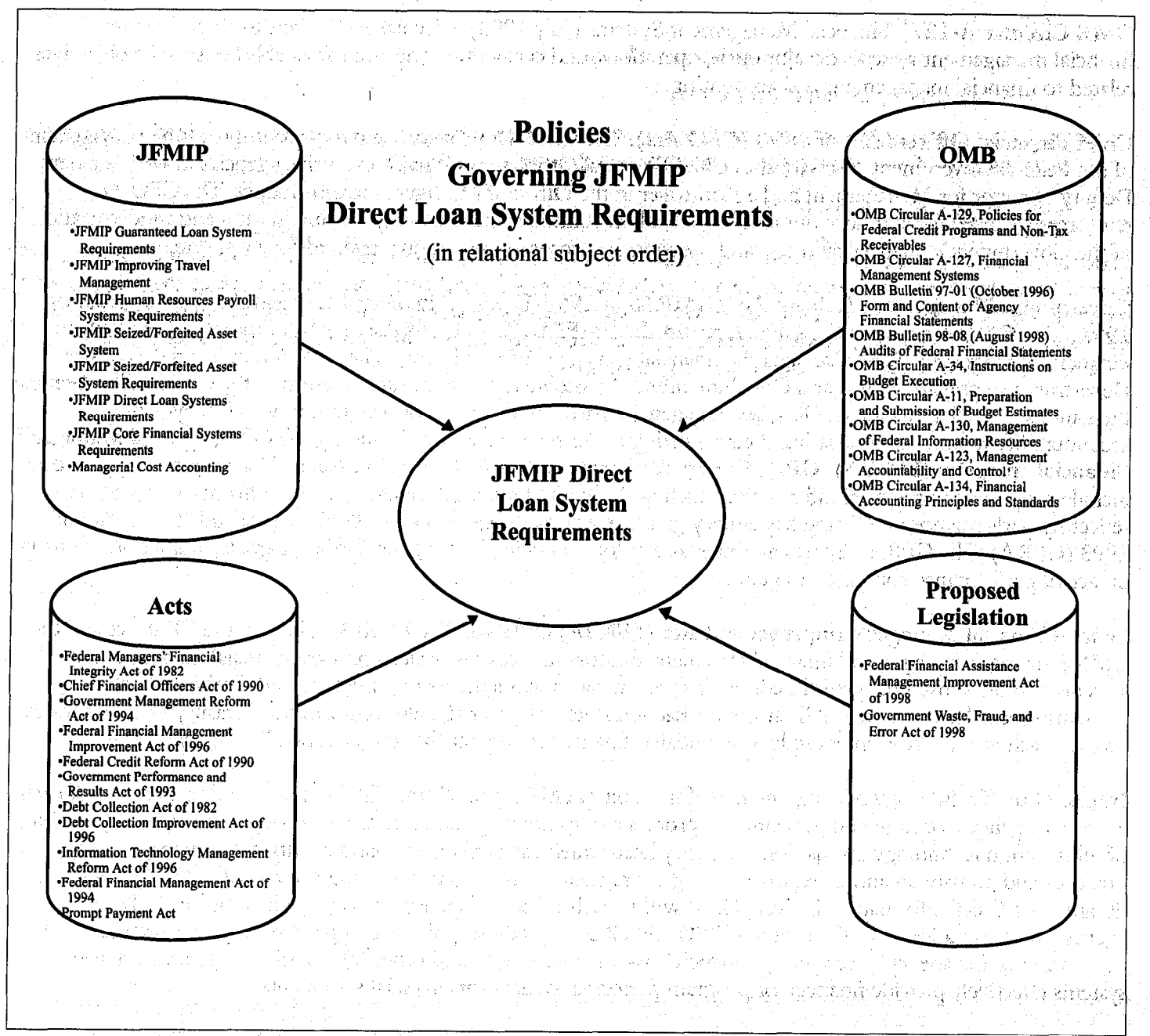


Illustration 30

OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables (January 1993). Circular A-129 prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. The circular discusses principles for designing credit programs, including the preparation and review of legislation and regulations; budgeting for the costs of credit programs and minimizing unintended costs to the Government; and improving the efficiency and effectiveness of Federal credit programs. It also sets standards for extending credit, servicing credit and non-tax receivables, and collecting delinquent debt.

OMB Circular A-127, Financial Management Systems (July 1993). Circular A-127 sets forth policies for financial management systems development, operations, and evaluation. The circular establishes specific objectives related to financial management and accounting.

Chief Financial Officers Act of 1990 (CFO Act). The CFO Act provides new tools to improve the management of the Federal Government. It establishes Chief Financial Officers in 23 major executive agencies as well as a new Deputy Director for Management and a Controller in the Office of Management and Budget. The CFO Act reinforces the need for and development of Federal accounting standards; supports integration and modernization of the Government's financial systems; and requires the preparation of annual audited financial statements.

Government Management Reform Act (GMRA) of 1994/Federal Financial Management Act (FFMA) of 1994; The GMRA expands the CFO Act and the FMFIA. Title IV of the GMRA (known as The Federal Financial Management Act). Contains the financial management provisions. The FFMA requires the Treasury Department to prepare each year a Governmentwide, consolidated financial statement that the Comptroller General then audits. Pursuant to the GMRA, several agencies participated in a pilot program in which they issue accountability reports, consolidating their reporting under several statutes, including the **CFO, Federal Managers' Financial Integrity (FMFIA), GPR, Prompt Payment, and Debt Collection Acts.** The accountability reports include program and financial information, such as the audited financial statements and performance measures reflecting performance in meeting key agency goals, as well as the Government Performance and Results Act of 1993 (GPRA). The GPRA requires agencies to develop strategic plans, Set performance goals, and report annually on actual performance compared to goals.

Federal Finacial Manager's Improvement Act (FFMIA) of 1996. The FFMIA builds on the CFO Act and the GMRA by requiring agencies' financial statement auditors to report whether agencies' financial management systems comply substantially with Federal financial management systems requirements, applicable federal accounting standards, and the SGL at the transaction level. The FFMIA also requires the Treasury Department to prepare each year a Governmentwide, consolidated financial statement that the Comptroller General audits.

Information Technology Management Reform Act (ITMRA) of 1996. The ITMRA requires the head of each executive agency to design and implement a process for maximizing the value and assessing and managing the risks of information technology acquisitions. Agency heads must use performance-and results-based management practices and prepare an annual report to Congress regarding progress in achieving these goals. The ITMRA designates a Chief Information Officer (CIO) within each executive agency. It also requires the head of each agency, in consultation with the agency's CFO and CIO, to establish policies and procedures to ensure the integration of the agency's accounting, financial, asset management, and other information systems, so that the systems effectively provide financial or program performance data for financial statements.

OMB Bulletin 97-01 (October 1996)**, and successor bulletins, Form and Content of Agency Financial Statements.** This Bulletin defines the form and content of the financial statements of the executive agencies. It incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved as of October 1996. This Bulletin explains the financial accounting of "Direct Loans and Loan Guarantees, Non-Federal Borrowers."

OMB Bulletin 98-08 (August 1998), **Audits of Federal Financial Statements.** This Bulletin establishes minimum requirements for audits of Federal financial statements. The Bulletin's requirements implement the audit provisions of the CFO Act, the GMRA, and the FFMIA.

Debt Collection Act of 1982 (as amended). The Debt Collection Act prescribes the policies and procedures for executive agencies in Federal debt collection activities.

Debt Collection Improvement Act of 1996. The Debt Collection Act of 1996 provided several new tools to help Federal agencies collect delinquent non-tax debt. It centralized many debt collection operations within the Treasury's Financial Management Service (FMS) and created a Treasury Offset Program enabling FMS to offset Federal debts by "withholding" payments to delinquent debtors. In addition the Act:

- required agencies to obtain taxpayer identifying numbers.
- barred agencies from giving financial assistance to those already delinquent on Government debt.
- allowed agencies to establish procedures for garnishing non-Federal wages to recover delinquent debts not in repayment status.
- required agencies to transfer debts over 180 days delinquent to the Treasury for collection, unless the debts are in a specified exempt status.
- required Treasury to take action to collect referred debts including referral to another collection center, to private collection agencies or DOJ.
- allowed agencies to retain fees charged for services from collection and to retain a portion of collections for improving debt collection activities.
- required agencies to provide debtors all due process rights, including the ability to verify, challenge, and compromise claims. encouraged agencies, when appropriate, to sell delinquent debt.
- required agencies to submit debts for offset.
- simplified salary offset processes, by formally establishing an interagency consortium and allowing agencies to make routine adjustments to pay, without using salary offset procedures.
- mandated electronic funds transfer.

Federal Credit Reform Act of 1990. The Federal Credit Reform Act prescribes policies and requirements to achieve four objectives: to measure more accurately the costs of Federal credit programs; to place the cost of credit programs on a budgetary basis equivalent to other Federal spending; to encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and to improve the allocation of resources among credit programs and between credit and other spending programs.

OMB Circular A-34 - Instructions on Budget Execution: Credit Apportionment and Budget Execution (October 1991). Circular A-34, sets forth the requirements for apportionment and budget execution for all direct loan programs covered by the Federal Credit Reform Act of 1990.

OMB Circular A-11, Preparation and Submission of Budget Estimates (updated annually). Circular A-11 sets forth the policies and procedures for preparation and submission of agency budget estimates to the Office of Management and Budget.

OMB Circular A-130, Transmittal Memorandum 3 Management of Federal Information Resources (February 1996). Circular A-130 establishes policies and procedures to be followed by executive departments and agencies in managing information, information systems, and information technology. The February 1996 revision

of the Circular contains updated guidance in the "Security of Federal Automated Information Resources," Appendix III, and makes minor technical revisions to reflect the Paperwork Reduction Act of 1995.

OMB Circular A-123, Internal Control Systems (June 1995). Circular A-123 prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, and reporting on the internal controls in their program and administrative activities.

OMB Circular A-134, Financial Accounting Principles and Standards (May 1993). This Circular establishes the policies and procedures for approving and publishing financial accounting principles and standards. It also establishes the procedures for OMB review of FASAB statements of accounting principles, standards, or concepts. If such a FASAB recommendation is agreed to by the Director of OMB, the Secretary of the Treasury, and the Comptroller General, the Director of OMB issues a Statement of Federal Financial Accounting Standards (SFFAS).

Federal Managers' Financial Integrity Act (1982). The FMFIA requires that all executive agencies implement, maintain, and report on internal accounting and administrative controls. These controls must provide reasonable assurances that (i) obligations and costs comply with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. Agency heads must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs. The FMFIA encompasses program, operational, and administrative areas as well as accounting and financial management.

Appendix 3: Proposed Policies Governing JFMIP Direct Loan System Requirements

Proposed Policies

Government Waste, Fraud, and Error Reduction Act of 1998, H.R. 4243 (in House committee) Proposes – Financial statements of agencies are required to be submitted to Congress as well as to the Director of OMB; Technical revisions to CFOA, GMRA, and FFMIA; agencies have the authority to accept electronic payments; technical corrections to the **Debt Collection Improvement Act of 1996;** delinquent Federal debtors would be ineligible to obtain Federal loans or loan insurance guarantees; Federal agencies would not be permitted to terminate collection action on a debt unless the debt had been referred to a collection agency or Federal debt collection service; the sale of debts owed to the United States; and encouragement of electronic payments to vendors/contractors.

Federal Financial Assistance Management Improvement Act of 1998, H.R. 3921, S. 1642 (in House and Senate committees). Proposes – Streamlining and simplification of Federal financial assistance administrative procedures and reporting requirements; establishment of a uniform application and common rules for Federal financial assistance programs that serve similar purposes and are administered by different Federal agencies; process for applicants to apply electronically for and report the use of funds from Federal financial assistance programs; improvement of interagency and inter-governmental coordination of information collection and sharing of data pertaining to Federal financial assistance programs; and establishment of 18-month timeline for agency compliance with the Act.

Appendix 4: Glossary

Requirements: The JFMIP system requirements are either mandatory or value added. The definitions of these two categories are:

mandatory - Mandatory requirements describe what the system must do and consists of the minimum acceptable functionality, necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.

value-added - Value added requirements describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional, and other similar terminology may be used to describe this category of requirements. Agencies should consider value added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.

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