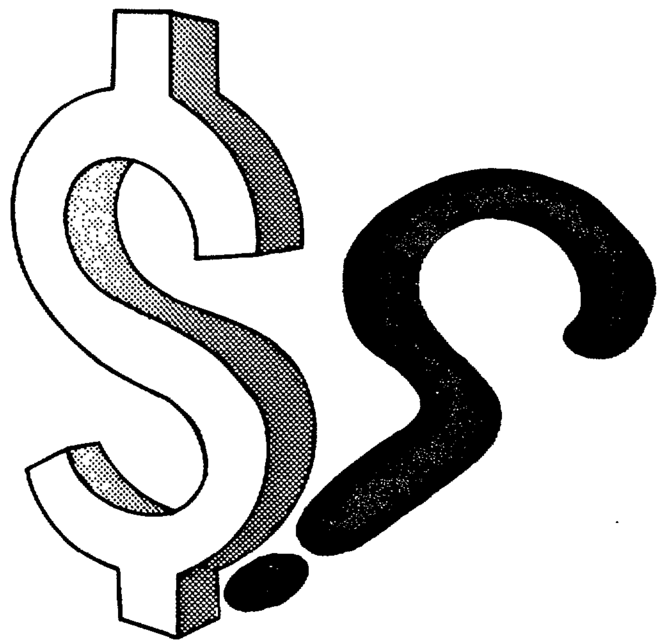
FINANCIAL HANDBOOK FOR NONFINANCIAL EXECUTIVES IN THE FEDERAL GOVERNMENT



JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

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IN THE

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MARCH 1981

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Foreword

Today, top Federal executives and managers continue to face an old, but ever-demanding, challenge. Scarce resources are becoming scarcer, and their distribution among programs, functions and activities must be made more wisely, properly and timely. With tight budgets, more work has to be accomplished with fewer people; the top manager must assure that work is accomplished more efficiently and effectively with the available resources. Also, the top managers must be concerned with internal control systems that will discourage and minimize fraud, abuse, waste and mismanagement. To meet this challenge, the top managers need to understand and to take advantage of the services that can be provided by their financial management staffs.

This Handbook was prepared to help nonfinancial managers understand financial management and to encourage a closer partnership between financial and nonfinancial managers in the Federal Government. This Handbook attempts to introduce financial management to nonfinancial executives using simple and nontechnical terms as much as possible.

We believe that the Handbook will be a useful and informative reference for the nonfinancial executives and managers. We also believe that it will encourage closer working relationships between financial and nonfinancial managers. With financial and nonfinancial managers working together, financial management services will become more responsive and effective in serving management.

We thank the many individuals who assisted us in the development of this Handbook, particularly:

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Susumu Uyeda
Executive Director
March 1981

CONTENTS

CHAPTER I

INTRODUCTION

Financial Management is that part of management concerned primarily with the fiscal affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Financial management covers a broad spectrum of management activities including budgeting, accounting, reporting, cash management, internal control, auditing, management analysis, productivity and performance measurement, and training.

In recent years, Federal executives and managers have become more and more aware of the importance of good financial management systems and practices. They need a strong and capable financial management staff to enable them to better manage their operations. They realize that financial management staffs can assist greatly in overseeing and assuring that the mission of their organization is accomplished efficiently, effectively and timely. One of their goals is to be cost efficient and to save the taxpayers money. With Federal expenditures increasing each year, management should employ every practical means to cut costs within their organizations. A way to accomplish this goal and others is to improve the financial management practices within each organization and to take advantage of the full array of services financial managers can provide.

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

1. Full disclosure of the financial results of the agency's activities;

2. Adequate financial information needed for agency's management purposes;

3. Consistency in accounting and budget classifications;

4. Support of budget justifications with cost and performance data;

5. Effective control over and accountability for all funds, property and other assets for which the agency is responsible, including appropriate internal audit;

6. Reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of the budget, and for providing financial information required by the Office of Management and Budget; and

7. Suitable integration between agency accounting of transactions with those in the central accounting system maintained by the Treasury Department.

In addition to the requirements in this Act, other legislative requirements are found in authorization and appropriation laws governing each Government agency. These laws contain provisions relating specifically to expenditure limitations, ceilings on the rate of obligations, financial reporting, auditing requirements and special evaluations. Each agency head must incorporate these requirements and features into its accounting and control systems. These systems must also comply with the policy guidelines of the General Accounting Office, the Office of Management and Budget, and the Department of the Treasury.

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

Chapter II provides a brief summary of the roles and responsibilities of the central financial management agencies--the Office of Management and Budget, the Department of the Treasury, the General Accounting Office, and the Office of Personnel Management. In the remaining chapters, the Handbook covers 14 major areas of financial management including budget preparation, administrative control of funds, accounting systems, financial reporting, cash management, internal controls, etc.

In each chapter, a narrative background of the subject matter is provided followed by a series of questions top executives and managers may ask in their meetings with the financial management staffs. These questions are designed to enable nonfinancial managers to:

1. Familiarize themselves with the subject area,

2. Pinpoint potential problem areas,

3. Establish plans to make financial management more useful and responsive to management, and

4. Emphasize top management interest and reliance on financial management.

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

CHAPTER II

FUNCTIONS OF THE CENTRAL AGENCIES

The central agencies that provide overall direction and guidance to departments and agencies on financial management policies and practices include: the Office of Management and Budget, the Department of the Treasury, the General Accounting Office and the Office of Personnel Management. This chapter briefly highlights the principal functions of these agencies. In addition, the major objectives and activities of the Joint Financial Management Improvement Program are listed.

The OFFICE OF MANAGEMENT AND BUDGET (OMB) assists the President in the development and effective management of Federal programs. Its primary functions are to:

--Assist the President in the preparation of the budget and the formulation of the fiscal program for the Federal Government.

--Supervise and control the administration of the budget.

--Assist the President in his effort to develop and maintain effective Government by reviewing the organizational structures and management procedures of the Executive Branch to assure that they are capable of producing the intended results.

--Evaluate the performance of Federal programs and serve as a catalyst in the effort to improve interagency and intergovernmental cooperation and coordination.

--Assist the President by clearing and coordinating proposed legislation initiated in the Executive Branch and make recommendations for Presidential action on bills passed by the Congress.

--Assist in the development of regulatory reform proposals and in programs for paperwork reduction, especially reporting burdens on the public.

--Keep the President advised of the progress of activities by agencies with respect to those proposed, actually initiated, and completed. This, together with the relative timing of interagency activities, is necessary to assure that programs are coordinated and that money appropriated by the Congress is spent effectively with the least possible overlapping and duplication.

In addition, the OFFICE OF FEDERAL PROCUREMENT POLICY within OMB was created to improve the economy, efficiency and effectiveness of the procurement of property and services by agencies. One of its major functions is to establish a system of uniform and coordinated procurement policies.

The DEPARTMENT OF THE TREASURY provides centralized fiscal services for the Federal Government. It estimates the Government's financial needs; receives, keeps and disburses Federal funds; and records and reports this financial information. Its major functions are to:

--Act as the Government's treasurer and be responsible for the Government's cash management policy and procedures.

--Provide services in support of the management of the public debt.

--Act as the Government's banker for the collection and disbursement of funds.

--Maintain a system of central accounting and reporting to provide a consolidated record of the Government's financial transactions.

--Issue instructions on central accounting and reporting, payroll, disbursing, and deposit regulations.

The GENERAL ACCOUNTING OFFICE is primarily responsible for:

--Auditing. Auditing the programs, activities, financial transactions, and accounts of the Federal Government, and reporting to the Congress and the agencies on the results of audit work.

--Fraud Prevention. Providing resources to make an overall analysis of identified fraudulent or potentially fraudulent practices in order to identify controls and audit approaches designed to prevent or minimize opportunities to commit fraud.

--Accounting and Financial Management. Prescribing principles, standards, and related requirements for accounting; cooperating in the development and improvement of agency accounting and financial management systems; approving agency accounting systems; and reviewing agency accounting systems in operation.

The OFFICE OF PERSONNEL MANAGEMENT (OPM) is chiefly responsible for personnel policy for the Federal Government. In relationship to financial management, OPM has the following functions:

--Improving Federal employee and organizational productivity.

--Training of personnel in financial management areas.

--Reviewing and developing position classification and qualification standards for financial jobs.

The JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM (JFMIP) is a cooperative and joint undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury and the Office of Personnel Management, working with each other and in cooperation with all Government agencies to improve financial management practices Government-wide.

Its activities include:

--Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.

--Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

--Undertaking special projects of a Government-wide nature to resolve specific financial problems.

--Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.

--Providing advisory services in dealing with specific financial management problems.

Suggested Reference:

Financial Management Functions in the Federal Government, Joint Financial Management Improvement Program, August 1979.

CHAPTER III

BUDGET PREPARATION

The budget system of the U. S. Government provides the framework within which decisions on resource allocation and program management are made in relation to the requirements of the Nation, availability of Federal resources, effective financial control and accountability for use of the resources. The budget process has four interrelated phases: (1) Executive formulation and transmittal; (2) Congressional action; (3) budget execution and control; and (4) review and audit. The first two phases will be discussed in this Chapter, while the other phases will be covered in later chapters.

The budget sets forth the President's financial plan of operation and indicates his priorities for the Federal Government during the coming year. The President's transmittal of his budget to the Congress early in each calendar year is the climax of many months of planning and analysis throughout the Executive Branch. Formulation of the budget for a fiscal year begins about 18 months prior to the beginning of the fiscal year to which the budget will pertain, although general goals are set earlier.

Executive Formulation

During the period when a budget is being formulated in the Executive Branch, there is a continuous exchange of information, proposals, evaluations, and policy decisions among the President, the Office of Management and Budget (OMB), and the various Government agencies. In the spring, agency programs are evaluated, policy issues are identified, and budgetary projections are made, giving attention both to important modifications and innovations in programs and to alternative long-range program plans. These budgetary projections, including projections of estimated receipts prepared by the Department of the Treasury, are then presented to the President for his consideration, and the major issues are discussed.

At about the same time, the President receives projections of the economic outlook that are prepared jointly by the Council of Economic Advisors, the Office of Management and Budget and the Departments of Commerce, Labor and Treasury. Following a review of these projections, the President establishes general budget and fiscal policy guidelines for the fiscal year that will begin about

15 months later and for the two years beyond. General policy directions and planning ceilings are then given to the agencies to govern the preparation of their budget requests.

In the summer, agencies prepare their budget requests in accordance with the Presidential policy directions and planning ceilings. Detailed instructions for agencies' budget requests are published in OMB Circular A-11. In the fall, the Office of Management and Budget reviews the budget requests and presents them to the President in the context of overall fiscal policy issues. The budget thus reflects the President's recommendations for existing and proposed programs, as well as total outlay and receipt levels appropriate to the state of the economy. Supplemental budget requests and amendments may be submitted later to cover unanticipated needs.

By law, the President transmits his budget to the Congress within 15 days after the start of each new Congressional session in January. Also, the President must update the budget on or before April 10 and again by July 15, taking into account newly enacted legislation, the administration's latest economic assumptions, new recommendations and revised estimates. The law also requires him to transmit current services estimates annually. These estimates represent the budget authority and outlays required to continue existing programs in the forthcoming fiscal year without any policy changes, thereby providing a base to compare program initiatives against current spending levels.

Congressional Action

The Congress can act to approve, modify, or disapprove the President's budget proposals. It can change funding levels, eliminate proposals, or add programs not requested by the President. It may also act upon legislation determining taxes and other means of increasing or decreasing receipts.

The Congress first enacts legislation that authorizes an agency to carry out a particular program and, in some cases, includes guidance on the amount that subsequently should be appropriated for the program. Many programs are authorized for a specified number of years or indefinitely, while other programs require annual authorizing legislation.

Budget authority is usually provided in a separate, subsequent action. Generally, budget authority becomes available each year only as voted by the Congress. However, in a significant number of cases, the Congress has provided permanent budget authority, under which funds become available annually without further Congressional action. Most trust fund appropriations are permanent, as are a number of Federal fund appropriations, such as the appropriation to pay interest on the public debt.

Congressional review of the budget begins when the President transmits his budget estimates to the Congress. Under the procedures established by the Congressional Budget Act, the Congress considers budget totals before completing action on individual appropriations. The Act requires that each standing committee of the Congress submit reports on budget estimates to the House and Senate Budget Committees by March 15; and that the Congressional Budget Office submit a fiscal report to the two Budget Committees by April 1. This is followed, no later than May 15, by the adoption of the first concurrent budget resolution, containing Government-wide budget targets of receipts, budget authority, and outlays in total and by functional category. The budget resolution guides the Congress in its subsequent consideration of appropriations and revenue measures.

Congressional consideration of requests for appropriations and for changes in revenue laws occurs first in the House of Representatives. The Appropriations Committee, through its subcommittees, studies the proposals for appropriations and examines in detail each agency's performance. The Ways and Means Committee reviews proposed revenue measures. Each committee then recommends the action to be taken by the House of Representatives.

As the appropriation and tax bills are approved by the House, they are forwarded to the Senate, where a similar review process is followed. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The report of the conference committee is returned to both Houses for approval. When the measure is agreed to, first in the House and then in the Senate, it is ready to be transmitted to the President in the form of an enrolled bill, for his approval or veto.

After action has been completed on all money bills, the Congress adopts, by September 15, a second concurrent resolution containing budget ceilings classified by function for budget authority and outlays, and a floor for budget receipts. This resolution may retain or revise the levels set earlier in the first concurrent resolution and may include directives to the appropriations committee and to other committees to recommend changes in new or carryover authority or entitlements. Similarly, the second resolution may direct the appropriate committees to recommend changes in budget receipts or in the statutory limit on the public debt. Changes recommended by various committees pursuant to the second budget resolution are to be reported in a reconciliation bill (or resolution, in some cases) on which the Congress must complete action by September 25, a few days before the new fiscal year commences on October 1.

After the Congress completes action on the reconciliation bill or resolution, it may not consider any spending or revenue legislation that would breach any of the levels specified in the second resolution. The Congress cannot pass a supplemental appropriation that would cause budget authority or spending to rise above, or reduce receipts below, the second resolution's totals without adopting a new budget resolution changing the levels set by the second resolution. Once passed by the Congress and signed by the President, the budget becomes the financial plan for the operations of each agency during the fiscal year.

If action on appropriations is not completed by the beginning of the fiscal year, the Congress may enact a "continuing resolution" to provide authority for the affected agencies to continue operations usually until their regular appropriations are enacted.

Additional Agency Considerations

The confidential nature of agencies' budget submissions, requests, recommendations, supporting materials and similar communications should be maintained. These documents are an integral part of the decisionmaking process by which the President resolves budget issues and develops recommendations to the Congress. Therefore, budgetary material should not be disclosed in any form prior to transmittal of the budget by the President to the Congress. The head of each agency is responsible for preventing premature disclosures of this budgetary information.

While the Congressional committees are deliberating on budget and related matters, agency representatives will be asked to testify or otherwise provide budgetary information. Agency representatives should be fully aware of the restrictions upon communications to influence legislation that are not conducted through proper channels. When testifying before any Congressional committee or communicating with members of the Congress, the following policies apply:

1. Witnesses will give frank and complete answers to all questions.

2. Witnesses will avoid volunteering personal opinions that reflect positions inconsistent with the program or appropriation requests the President has transmitted to the Congress.

3. If statutory provisions exist for the direct submission of agency budget estimates to the Congress, witnesses will be prepared to explain both the agency submission and the request in the President's budget.

4. In responding to specific questions on program and appropriation requests, witnesses will make clear the extent to which testimony reflects personal opinion, and that such opinion does not constitute a Presidential request for increased or decreased funds. Witnesses, typically, bear responsibility for the conduct of one or a few programs; whereas, the President must weigh carefully all of the needs of the Federal Government, compare them against each other and against the revenues available to meet such needs. Where appropriate, witnesses should call attention to this difference in scope of responsibility between them and the President.

5. Where there is a request for a written submission that will involve a statement of opinion relating to program and appropriation requests, witnesses will arrange for reply to be provided through the head of the agency.

6. Agency representatives should be careful that their communications are not perceived to be an estimate or request for an appropriation, or an increase thereof. Agency representatives are expected to support the President's budgetary decisions and seek adjustments to those decisions through established procedures for budget amendments or supplemental appropriation requests, if the agency head determines such action to be necessary. The prohibition against submissions by agencies to the Congress of estimates or requests for appropriations without the approval of the President or request of either House of the Congress applies to changes in appropriation language and to changes in the limitations recommended in the budget. When an agency desires to propose such changes, written requests will be presented to the Office of Management and Budget.

The following questions may be useful in reviewing the budget preparation process in your agency.

1. Do we have formalized internal procedures to prepare our budget submission to the Office of Management and Budget consistent with Presidential policies and OMB guidelies?

2. What are the key events in our internal budget process and when do they occur? Do we have adequate controls to assure that these events occur timely?

3. What is my role and responsibility in the budget process? How much of my personal time will be required?

4. How do we establish the overall budget strategy in term of goals and objectives? How do we surface programs that should be curtailed or eliminated?

5. Who has the final word for the budget decision in this department (agency)? How do we include the Secretary's (Administrator's) policies into the budget? Do we have a budget policy committee?

6. How far down the organization do we penetrate to flush out budget considerations? Is this level realistic?

7. Are the present accounting systems adequate to meet the needs of budget formulation? If not, what improvements are necessary?

8. Do we make use of available computers to make "what-if" analyses in determining financial consequences when a number of alternatives are being considered?

9. Are we adequately staffed to meet OMB's day-to-day demands in the final phase of the budget preparation?

10. What is the budget appeal process to the Director of OMB? To the President?

11. What major kinds of problems in the internal budget process did we experience in the past? Have they been resolved? If not, what can we do?

12. What authorizing and appropriation committees and subcommittees in the Congress are responsible for

our programs and appropriations? Who prepares and who presents the testimonies before the Congressional committees? How do we insure that testimonies are consistent with Presidential policies?

13. What kind of legislative restrictions do we normally have on the appropriations? How much, if any, flexibility do we have in transferring funds among programs within an appropriation (reprogramming)? How much, if any, flexibility do we have in transferring funds among appropriations (appropriation transfer)?

<u>Suggested References:</u>

<u>Budget of the United States Government, Fiscal Year 1982</u>, Office of Management and Budget.

"Preparation and Submission of Budget Estimates, Circular A-11, OMB, June 3, 1980.

"Responsibilities for Disclosure with Respect to the Budget", Circular A-10, OMB, November 12, 1976.

CHAPTER IV

ADMINISTRATIVE CONTROL OF FUNDS

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

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

Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), known as the Antideficiency Act, prohibits any officer or employee of the United States from making or authorizing obligations or expenditures under any appropriation or fund in excess of the amount available. Obligations are formal reservations of funds for orders placed, contracts awarded or services to be rendered.

Any Government employee who violates this law will be subject to appropriate administrative discipline, including, when circumstances warrant, suspension from duty without pay or removal from office. Penalties for those who knowingly and willfully violate the law include, upon conviction, fines up to $5000 or imprisonment for not more than two years, or both.

The Antideficiency Act also requires each agency head to prescribe by regulation a system for administratively controlling funds to:

- --Restrict obligations or disbursements for each appropriation to the amount available.

- --Enable the agency head to fix responsibility for the creation of any obligation or the making of any disbursement in excess of the amount available.

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

Agencies' administrative fund control regulations must be approved by OMB.

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

Also, if the Congress fails to enact budget authority or continuing resolutions in time, policy guidance issued by the Office of Management and Budget should be followed. This includes the following policies:

--In the absence of new appropriations, Federal officers may incur no obligations that cannot lawfully be funded from prior appropriations unless such obligations are otherwise authorized by law;

--Under authority of the Antideficiency Act, Federal officers may incur obligations as necessary for orderly termination of an agency's functions, but no funds may be disbursed.

Specific guidance on reallocation of funds prior to shutdown, orderly shutdown activities, and requirements for agency plans for shutdown were provided in OMB Bulletin 80-14.

The following questions may be useful in determining the quality of the fund control system in your organization and whether this system has been approved by OMB.

1. Has the agency's fund control regulation been approved recently by OMB? If not, what is the status, and what are we doing to expedite OMB's review and approval?

2. Do we have any major problems in obtaining approval from OMB? If so, what can I do to assist?

3. Do we have plans to review and update regularly the fund control regulation? If so, are the plans adequate? If not, what are we doing to rectify the situation?

4. Have we reported any violation of Section 3679 of the Revised Statutes (overobligations or over-expenditures) in the past two years? If so, what were they and why did they happen? What corrective actions have been taken to assure that this does not reoccur?

5. Is our fund control system fully integrated with the accounting systems to provide complete, accurate and timely information on fund status?

6. Are the administrative controls over funds established at the highest practical level? Do we need to delegate the responsibility for control to a lower operating level in order make the control function more meaningful?

7. Are all managers, financial as well as program and line managers, aware of the fund control regulations and do they know their responsibilities?

8. Do we have a systematic way to report deferrals or proposed rescissions to the Office of Management and Budget in accordance with OMB guidelines?

9. Do we have internal plans and procedures to follow when the Congress fails to enact budget authority or continuing resolution on time?

<u>Suggested References</u>:

"Impoundment Control Act of 1974," Bulletin 75-15, OMB, May 16, 1975.

"Instructions on Budget Execution," Circular A-34, OMB, 1976.

"OMB Guidelines For Administrative Control of Funds Regulation," <u>A Checklist for New Agencies Designing and Implementing Financial Management Systems</u>, Joint Financial Management Improvement Program, February 1979.

"Preparation and Submission of Budget Estimates," Circular A-11, OMB, June 3, 1980.

"Shutdown of Agency Operations upon Failure by the Congress to Enact Appropriations," Bulletin 80-14, OMB, August 28, 1980.

CHAPTER V

ACCOUNTING SYSTEMS

The Comptroller General of the United States, in consultation with the Director of the Office of Management and Budget, is required by the Budget and Accounting Procedures Act of 1950 to prescribe the principles and standards and related requirements for accounting to be observed by each executive agency. The head of each executive agency is responsible for establishing and maintaining systems of accounting and internal control, which conform to the principles, standards and related requirements prescribed by the Comptroller General. The Act also requires that these systems be approved by the Comptroller General.

Accordingly, in designing accounting systems, agency heads should comply fully with the Comptroller General's principles, standards, and related requirements and other legislative requirements. In addition, the accounting systems should be designed to meet all internal (agency) and external (Treasury, OMB, Congress, etc.) needs for cost and other financial data. This data will be used for planning, programming, budgeting, controlling, reporting of agency operations, and auditing. The accounting systems should provide not only a basis for control over funds, property, and other assets, but also an accurate and reliable basis for developing and reporting cost and performance data by major organizational segment, budget activity, and program structure.

Before embarking on major systems developmental work, each agency should develop an overall plan for a financial management system which will satisfy the requirements of its management, applicable laws and regulations, and the accounting principles and standards prescribed by the Comptroller General. Such a plan serves as the framework to insure adherence to established objectives and compatibility of results, and prevent extensive revision to policies and procedures.

As systems developmental work progresses, each agency should request approval of the accounting systems from the Comptroller General in two stages:

--Agency statements of principles and standards established to govern agency accounting systems, and

--The accounting systems designs.

The General Accounting Office is also responsible for the reviewing of accounting systems in operation.

The head of each executive agency is responsible for continuously bringing about necessary improvements in the accounting systems within the agency. The following questions may be useful in determining the status and the general quality of the agency's accounting systems.

1. How many accounting systems does this agency have that are subject to the General Accounting Office review and approval?

2. Have the principles and standards for these accounting systems been approved by GAO? For those accounting systems that GAO has not approved, what is the status and what are we doing to expedite GAO's review and approval? Do we have any major problems in obtaining GAO approval? If so, what can I do to assist?

3. How many accounting system designs have been approved by GAO? For those accounting systems that GAO approved, what are the status and the plans towards obtaining GAO's approval? Are adequate resources available to meet the planned schedules? Do we have any major problems in obtaining GAO approval? If so, what can I do to assist?

4. Are the present accounting systems fully responsive to the reporting requirements of the Treasury, OMB, and the Congress? If not, what are we doing to make the systems more responsive?

5. Do the present accounting systems fully meet the needs of internal management as identified in our overall plan for financial management systems? If not, what are we doing to meet them?

6. Do we have adequate ADP resources to perform the necessary automated accounting and financial management functions?

7. Are there any recent audit or other reports that recommended improvements to our accounting systems? What are our plans and time schedules for implementing them?

Suggested References:

"Accounting Principles and Standards for Federal Agencies," Policy and Procedures Manual for Guidance of Federal Agencies, Titles 2, 6 and 7, General Accounting Office, 1978.

A Checklist for New Agencies Designing and Implementing Financial Management Systems, Joint Financial Management Improvement Program, February 1979.

GAO Review Guides for Federal Agencies:

1. Accounting System Designs: ADP Applications, May 1978.

2. Accounting System Designs, January 1977.

3. Payroll System Designs, January 1976.

4. Statements of Accounting Principles and Standards, October 1979.

CHAPTER VI

FINANCIAL REPORTING

Today's top Federal executives and managers are more dependent than ever on complete, accurate and timely financial data to manage their operations efficiently and effectively. With the present data processing technology, an inordinate volume of data is processed each day. Financial reports must be prepared for top executives and managers when they are needed and in a format that is readily understandable and useful.

Financial reports are prepared and used as follows:

1. For control--to show that the agency is staying within Congressional and other spending limits, to show that receivables and payables are periodically aged for proper disposition, to assure financial control over inventory and other property, etc.

2. For review of operations--to analyze cost and performance data for evaluating efficiency (and effectiveness) of operating activities, to assure that operations are meeting the established objectives, to insure continued improvements in productivity, etc.

3. For meeting external requirements--to submit reports required by the Congress, the President and the central financial management agencies. Frequently these reports are also useful for agency control and review purposes as well.

The financial reports should be tailored to the specific needs and use of executives and managers at different levels. For top executives, a summary or aggregate report may suffice, while operating managers may require detailed reports by program, function, activity and subactivity. Frequency of the reports must also be given due consideration. Many agencies are obtaining systems with the capability to automatically query the computer data bank by using remote terminals. This enables managers to obtain the information when they need it, rather than having to wait for the weekly, monthly, or quarterly reports.

The following questions should stimulate improvements in financial reporting.

Assuring proper controls

1. Do managers receive accurate, complete, and timely reports on funds authorized, funds spent, and funds still available? Are reports prepared on aging of accounts receivable and payable and on significant fluctuations of inventories and other categories of property?

2. Do these reports properly and adequately provide for narrative analyses and suggested actions or decisions to be made by managers?

3. Are reports with different degrees of details prepared to meet the needs of different levels of management heirarchy? Is the frequency of reporting tailored to the requirements of these different levels?

Reviewing Operations

1. Do the reports provide for accurate, complete and timely cost and performance information by programs, functions, activities and subactivities? Are actual costs and performance compared with budgeted cost and performance data? Where appropriate, are unit costs computed and compared with budgeted unit costs? If not, what are our plans to do so in the future?

2. Do these reports properly and adequately highlight good and poor performance and provide for narrative analyses and suggested actions or decisions to be made by managers?

3. Are reports with different degrees of details prepared to meet the needs of different levels of management hierarchy? Is the frequency of reporting tailored to the requirements of different levels?

4. Do we have a system that holds managers accountable for avoidable excessive costs and inefficiency? Are managers rewarded for their cost savings and efficiency?

5. What type of incentives are used to control costs and improve efficiency? Can we do more in this area?

External Reporting

1. Do we have proper controls to assure that external reports are submitted on time?

2. Is the information on external reports in agreement with and compatible with the internal reports? If not, do we reconcile the differences in a timely manner and correct any discrepancies?

3. Have we received, from the recipients of our reports, any complaints or repetitive inquiries concerning our reports? What are they and what are we doing to avoid them in the future?

4. Since we use considerable resources to prepare external reports, do we use them, as appropriate, to review and evaluate our own operations?

General

1. Are we looking into the feasibility of installing remote terminals so managers can access data when and in the form they want them? What types and how many of the recurring hard-copy reports can be eliminated by the use of such terminals?

2. Do we periodically audit or review the different types of reports or data that are available? Have we made the necessary changes to the reports and the data to better serve the managers? Are we planning to review current reports and eliminate those which are not needed?

Suggested References:

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

Managers: Are You Looking For More Meaningful Financial Reports?, Joint Financial Management Improvement Program, August 1980.

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

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office, 1978.

Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies, Volume I, Part 2, Department of the Treasury.

CHAPTER VII

INTERNAL CONTROL

Internal control consists of internal accounting controls and internal administrative controls. Internal accounting controls establish a framework which is intended to provide assurances to managers that assets are reasonably safeguarded, and financial transactions are executed as authorized and properly recorded. Internal administrative controls are designed to provide a control structure to carry out other organizational objectives such as planning, productivity, programmatic quality, economy, efficiency and effectiveness.

The General Accounting Office defines internal control as: "The plan of organization and all the coordinate methods and measures adopted to safeguard assets, check the accuracy and reliability of accounting data, (accounting controls), promote operational efficiency, and encourage adherence to prescribed managerial policies (administrative controls)."

What constitutes an effective control system may vary with circumstances. Top Government managers are responsible for adequate internal controls in their agencies. They should establish an environment that creates the appropriate control awareness, attitude and discipline. Each control system should be designed to fit the organization and its operating philosophy, to focus on areas of inherent risk and to achieve a thoughtful balance between control costs and benefits. An effective control system should:

--Promote efficiency and economy of operations;

--Restrict obligations and costs within the limits of Congressional appropriations and other authorizations and restrictions;

--Safeguard assets against fraud, waste and abuse;

--Insure that all revenues applicable to agency assets or operations are collected and accounted for; and

--Assure the accuracy and reliability of financial and other reports.

The following questions should inform the manager as to the condition of internal controls in an agency.

1. Do we have an overall agency plan for internal control that creates the appropriate control awareness, attitude and discipline and that establishes internal control policies and procedures? If not, what are we doing to develop one?

2. How do we assure ourselves that managers at all levels are aware of their responsibility for implementing and employing adequate internal controls?

3. Do we systematically review and evaluate our internal controls on a regular basis, especially in the "high risk" areas? Is the frequency of the review adequate?

4. Are there any recent audit or review reports that disclosed weaknesses in internal controls? What are our plans and time schedules for correcting them?

5. Do we have adequate resources to implement desirable internal control procedures, especially in the "high risk" areas?

6. What are the problem areas in internal controls that require high level attention or decision?

<u>Suggested References</u>:

<u>Audit Guide for Reliability Assessment of Controls in Computerized Systems</u>, General Accounting Office, 1978.

<u>Executive Reporting on Internal Controls in Government</u>, General Accounting Office, 1980.

<u>Internal Auditing in Federal Agencies: Basic Principles, Standard and Concepts</u>, General Accounting Office, 1974.

<u>Internal Control -- A Diagnostic Checklist</u>, Office of Personnel Management, 1980.

<u>Policy and Procedures Manual for Guidance of Federal Agencies</u>, Title 2, GAO, 1978.

"Security of Federal Automated Information Systems," Circular A-71, Office of Management Budget.

CHAPTER VIII

CASH MANAGEMENT

Top managers are responsible for establishing cash management policy and procedures in their agencies and for ensuring that they are adhered to. In an October 1980, Office of Management and Budget report, cash management was defined as "getting the most out of the time value of the money we collect, hold and disburse." Thus, effective cash management means billing, collecting and processing receipts on a timely basis and efficiently, so that funds can be put to work rather than be tied up in paperwork. In addition, effective cash management means ensuring that we pay our bills and make other disbursements on time--not early or late.

A good cash management practice must ensure that money which is on hand between receipt and disbursement is put to work either by earning interest or repaying short term debt, thereby eliminating interest we might otherwise pay. Effective cash management policy and practices cannot be overemphasized when the annual cost of borrowing by the U. S. Treasury in terms of interest is over $50 billion.

The Government-wide policy for cash management is stated in Treasury Department Circular 1084. Regulations for billings and collections, deposits, disbursements, cash advances, cash held outside Treasury and foreign currency are prescribed in Chapter 8000 of Part 6, Volume I of the Treasury Fiscal Requirements Manual. Each agency must follow these guidelines established by the Treasury Department.

The management of cash includes the areas of accounts receivable and accounts payable, the custodial responsibilities and control systems over cash and the use of letters of credit for cash advances. The letters-of-credit system provides a flexible and timely method by which recipient organizations can obtain cash as needed to make disbursements under grant programs and other projects which authorize advance financing. The objective is to facilitate cash availability to meet program requirements while simultaneously controlling the timing of cash withdrawals by recipients, so as to minimize the impact of these withdrawals on the public debt level and related financing costs. The Treasury Department is responsible for approving agency procedures covering advance financing.

Some of the questions on cash management that you may ask your financial managers are as follows:

General Cash Management

1. Does our agency have an overall policy and procedures statement on cash management which is in full compliance with Treasury guidelines? If so, have we reviewed it recently to make sure that it is fully effective? If not, what are the status and target dates for establishing it?

2. What external factors (e.g., legislation, program definition, traditions, etc.) constrain good cash management? What action should be taken to alleviate them?

3. Have we designated an individual to be responsible for operating policy and procedures of cash management in the agency?

4. How do we assure ourselves that managers at all levels are aware of their responsibilities for implementing good cash management practices?

5. What recent cash management initiatives have been undertaken and what has been the effect? What cash management initiatives are contemplated for the near future?

6. Are there any recent audit or review reports that disclose weaknesses in the cash management area? What are we doing about these weaknesses? What are our plans and timeframes for correcting them?

7. What are other major problems in implementing good cash management initiatives that require my attention? What do you suggest that I do to resolve them quickly?

8. How effective and accurate have our cash flow forecasts been in the past? What can we do to improve cash forecasting?

Receivables and Past Due Accounts

1. What is the total amount of accounts and loans receivable for the agency?

2. Do we have an aging schedule for receivables that lets us know numbers and amounts of current receivable accounts (under 30 days) and of past due accounts (over 30 days)?

3. Do we keep track of delinquent accounts on a systematic basis, and do we periodically notify the debtors of the consequences for overdue debts? Do we charge interest on late payments? Do we flag the names of individuals or companies with delinquent accounts, so that recurrences do not happen?

4. How do we assure that collections are deposited promptly in designated depositories?

5. Do we have problems in collecting our debts? If so, what are the major obstacles in collecting them?

6. Do we have enough resources to follow up on past due accounts?

7. Do we have written procedures for program managers to follow on the collection of past due accounts?

8. What can I do to assist in resolution of debt collection problems?

9. What is our policy for writing off bad debts? Is it consistent with the central agencies' promulgations? If not, what are we doing to correct this problem?

Accounts Payable

1. Is there a system for scheduling payments on accounts payables as they become due so that payments are not made too early or late? (Generally, when billing documents do not contain payment due dates, 30 days is a reasonable time).

2. Do we have a system to identify discounts lost? If so, what was the amount of discounts lost in the last 6 months? Why were they lost and what is being done to prevent this in the future?

3. What is the agency's policy in taking discounts offered? Do we know the break-even point when the amount of discount would be offset by the cost involved in the special handling to take the discount? Do we use the break-even point in deciding when discounts will not be taken because it would be more costly to do so?

4. How do certifying officers assure themselves that the payments they are authorizing are legal, accurate, and proper?

5. Do we use electronic fund transfers for large dollar payments whenever feasible and proper?

Cash Collection and Control

1. Are receipts deposited in a timely manner?

2. Are we using the most optimal procedures for timely deposit of collections? Options include centralization, decentralization, lock boxes, electronic fund transfers and other banking services.

3. Do we use electronic fund transfers for large dollar receipts?

4. Are the duties of receiving, processing, recording and reconciling cash receipts segregated?

5. Are there controls on cash to ensure that it is promptly received and deposited, and properly recorded and reconciled?

6. Are physical safeguards (i.e., fire-resistant boxes, vaults and overnight depositories) over cash and other receipts maintained?

Letters of Credit

1. Are we utilizing letters of credit to the fullest extent for those programs that qualify for this method of financing? If not, what are the plans for doing this?

2. Have we been monitoring the recipients use of federal assistance funds to make sure that they are not withdrawing funds earlier than necessary? If not, what are our plans for scheduling reviews or audits in this area?

3. Do we have a system that keeps track of our letter of credit activities? Are program managers receiving timely information from the system?

4. Are there any audit reports that disclose weaknesses in this area? If so, how are we correcting the problem areas?

5. Do we have procedures to convert from letter-of-credit "advance" payment procedures to reimbursement procedures when a recipient habitually abuses the letter-of-credit procedures?

Suggested References:

Electronic Funds Transfer--Its Potential For Improving Cash Management In Government, General Accounting Office, FGMSD-80-80, September 19, 1980.

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

Proceedings of Debt Collection Workshop, Joint Financial Management Improvement Program, April 1980.

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

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

CHAPTER IX

ASSURING PROPER PAYMENTS

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

Federal agencies can administratively resolve improper payments of less than $500 by certifying officers. If the amount is over $500, then the agencies must request relief from liability for certifying officers from the Comptroller General.

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

With the use of sophisticated computers and nationwide telecommunication networks, much of the preparation and processing of payment vouchers is automated with payment information being fed from a multitude of locations. A large number of payment vouchers are encoded on magnetic tapes and forwarded to certifying officers for certification. In these large systems, certifying officers are no longer in a position to personally assure that each payment is legal, proper and correct. Rather than being able to personally check each voucher, certifying officers need to be able to rely on the overall "payment" system and the people who operate the system for legal, proper and correct payments.

Agency top management, therefore, must create an environment and process to assure that certifying officers and other managers in the payment process are fulfilling responsibilities so that only legal, proper, and correct payments are made. The following questions may be useful in establishing such an environment and process:

1. Does the agency have an overall plan and procedures that will provide assurance to certifying officers

that the overall payment system (a) is properly designed, implemented and modified, (b) is operated properly and in accordance with the approved design, and (3) can be relied on to process legal, proper and correct payments? Do we have someone designated in the agency whose duties include assuring the above?

2. Have we designated key officials in the payment process and placed the responsibility on them for assuring that their responsible portions of the payment system are operating to produce legal, proper and correct payments? Have we developed a confirmation process to assure that these portions are operating satisfactorily?

3. Do we have a quick resolution process when there is an indication that certain portions of the payment process are not functioning properly?

4. Do we have a well articulated disciplinary and sanction policy, when individuals are found to be responsible for causing illegal, improper and incorrect payments?

5. How frequently in the last two years have we experienced incorrect, improper and illegal payments over $500? Under $500? What were the root causes for these erroneous payments, and how have we overcome them to avoid them in the future?

6. Are periodic and independent reviews or audits performed of the payment systems? Are they adequate? Do we followup to ensure that recommendations are implemented, as appropriate?

<u>Suggested References:</u>

<u>Assuring Accurate and Legal Payments - The Role of Certifying Officers in Federal Government</u>, Joint Financial Management Improvement Program, June 1980.

<u>New Methods Needed for Checking Payments Made by Computers</u>, General Accounting Office, FGMSD 76-82, November 7, 1977.

CHAPTER X

PRODUCTIVITY AND PERFORMANCE MEASUREMENT

Productivity is broadly defined as the measure of individual or organizational performance. It means increasing efficiency, increasing the usefulness and effectiveness of governmental services or products, increasing the responsiveness of services to the public, decreasing the cost of services and the time required to provide the services.

Top executives and managers must constantly encourage productivity improvements within their organizations. In order to initiate and maintain a good productivity program, they must:

--Identify and define the goals and objectives of the mission(s), services and products being provided and the expected results.

--Collect and analyze information on how effectively and efficiently these results are being achieved.

--Introduce and adopt innovative technological and procedural changes to improve the productivity of the operations.

--Reevaluate productivity measurement systems periodically and make the necessary changes.

--Monitor productivity improvements.

--Hold subordinates, line managers and individuals accountable for implementing productivity improvements; and

--Provide incentives to employees to improve productivity.

With tighter budget constraints and increasing workload, it is now more important to get the most efficient performance from staff resources. Some of the following questions may be useful in determining whether or not a productivity program has been successfully implemented in accounting and finance operations.

1. Does the agency's accounting system provide adequate cost and performance information to line and operating officials for evaluating efficiency and

productivity improvements? If not, do we have a plan to improve our accounting system to provide this service? If yes, do we continue to review it for further improvement?

2. Is there a productivity improvement program within our accounting and finance operations? If not, are there plans for initiating a program?

3. Is enough time and effort devoted to reviewing operational performances? To reviewing other productivity issues?

4. Are productivity improvement responsibilities clearly identified for each level of management? Are our managers held accountable for productivity improvements?

5. How are various productivity efforts coordinated? Do we exchange information with different agencies and others to find out what they have done in this area?

6. Are there adequate staff resources to support productivity improvements?

7. Do we have training programs to teach our managers and employees productivity improvement skills and attitudes? Are incentives (e.g., monetary awards, and certificates) used to stimulate productivity improvement?

8. Do we measure productivity in our accounting and finance operations? If so, is performance as well as quality measured?

<u>Suggested References</u>:

<u>Evaluating a Performance Measurement System - A Guide for the Congress and Federal Agencies</u>, General Accounting Office, FGMSD 80-57, May 12, 1980.

<u>Implementing A Productivity Program: Points to Consider</u>, Joint Financial Management Improvement program, March 1977.

<u>Improving Productivity: A Self Audit and Guide for Federal Executives and Managers</u>, National Center for Productivity and Quality of Work Life, 1978.

Improving the Productivity of Federal Payment Centers Could Save Millions, General Accounting Office, FGMSD-80-13, February 12, 1980.

Increasing Federal Work Force Productivity, Office of Personnel Management, January 1980.

Managers Guide for Improving Productivity, Office of Personnel Management, May 1980.

Proceedings of the Workshop on Improving Productivity in Accounting and Finance Operations, Joint Financial Management Improvement Program, September 1980.

CHAPTER XI

SPECIAL COST STUDIES

Circular No. A-76, issued by the Office of Management and Budget, establishes policies and procedures to determine whether needed commercial or industrial type work should be performed by contract with private sources or "in-house" using Government facilities and personnel. The Circular was based on three equally valid policy precepts:

1. Where private sources are available, they should be looked to first to provide the commercial or industrial goods and services needed by the Government:

2. Certain functions, however, are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Government employees; and

3. When private performance is feasible with no overriding factors requiring in-house performance, rigorous comparison of contract costs and in-house cost should be used to decide, when appropriate, how the work will be performed.

In accordance with the Circular, each agency must:

--Identify those activities which it operates to provide products or services that could be obtained from private sources;

--Identify all current contracts for products or services that could be reasonably performed in-house;

--Prepare and publish a schedule for reviewing those activities and contracts to determine whether contract or in-house performance is more economical, and

--Convert to the more economical method, when a change in mode of performance would result in sufficient savings considering all costs including transition costs.

The Circular and its supplementing Cost Comparison Handbook provide specific and detailed guidance for performing comparative cost analyses. This Circular should not be used to contract out work solely to stay within an agency personnel ceiling.

Past experiences have shown that comparative cost analyses resulted in substantial cost savings and productivity increases. First, in some instances, the reexamination of Government requirements resulted in the identification and elimination of unnecessary functions and features. Second, the search for the most efficient way to perform an activity within Government under the threat of competition has led to reduction in staffing in some cases. Finally, comparing Government costs with competitive contract costs and choosing the less costly alternative have led to further cost savings.

The following questions should enable top managers to quickly determine the degree of implementation of the OMB Circular A-76 policies and procedures:

1. Have we identified all activities in this agency providing a product or service that can be obtained from private sources? Have we identified all current contracts awarded by this agency for products and services that could be produced in-house?

2. If answer to 1 is "no," what is the status and when will we have such a schedule?

3. If answer to 1 is "yes," have we prepared and published a schedule to review those activities and contracts to determine whether contractual or in-house performance is more economical?

4. Are we performing the review as scheduled? If not, why not and what are we doing to get back on schedule?

5. In performing the cost comparison analyses, how do we assure ourselves that the OMB guidelines are followed and used?

6. Where appropriate and applicable, does our accounting system provide necessary and timely information for the cost comparision reviews? What changes, if any, are needed to accommodate such needs?

7. Do we review procedures specifically and systematically to detect unnecessary and overlapping activities, as well as to seek more efficient and productive ways of performance?

8. What controls do we exercise to assure that contracts are not awarded solely to stay within our agency personnel ceiling?

9. Do we have orderly and systematic procedures to change the mode of performance in a timely manner when a change is dictated by the cost comparison reviews? If not, when will they be available?

Suggested Reference:

"Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government," Circular A-76, Office of Management and Budget, March 29, 1979.

CHAPTER XII

PROPERTY AND INVENTORY

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

The Congress has enacted several laws specifically addressing the accounting for property; they include:

1. National Security Act of 1947, as amended, requires the Secretary of Defense to have property records maintained in the military departments on both a quantitative and monetary basis, so far as practicable (10 U.S.C. 2701).

2. Federal Property and Administrative Services Act of 1949, Section 202(b), requires each Executive agency to maintain adequate inventory controls and accountability systems for the property under its control (40 U.S.C. 483).

3. Public Law 84-863, passed in 1956, Section 2, imposes the requirement that the accounting system of each agency include adequate monetary property accounting records (31 U.S.C. 66A(c)).

Thus, agency management is responsible for maintaining a reliable accounting system in which records are systematically maintained for property. Such records should provide for recording of all transactions as appropriate affecting property such as acquisition, use, depreciation, disposal, and loss of property.

Adequate records and procedures must be maintained to have proper control over property. A general ledger account with the total amounts for property and inventory should be supported by detailed property records. Individual property records should be maintained showing the description, quantity, location, and acquisition costs of each item. The records should be usable for calculating depreciation and replacement values.

Periodically, physical inventories should be taken to reconcile the individual property records with entries in the general ledger.

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

Questions that you should ask about the property account in your agency are as follows:

1. Where appropriate, do we have overall control of property in the general ledger accounts? If not, what are our plans to do so? If so, are the accounts classified adequately to show the different types of property we have (e.g., land, building, equipment, supplies, etc.)?

2. Where appropriate, do we have procedures to charge the use, application or consumption of property to proper operations, activities or goods produced? If not, what are we planning to do to charge for property costs?

3. In addition to the overall financial controls, do we have separate property records that show the description, quantity, location, condition, acquisition costs and other pertinent information? If not, when do we expect to have them?

4. Do we conduct physical inventories periodically to check the accuracy of the property records? Do we conduct investigations when large discrepancies are disclosed? Have we corrected the system when such investigations have shown procedural or control weaknesses?

5. Do we periodically compare the total dollar value of the property records with the amounts shown in the general ledger accounts? Have we investigated any significant differences for taking corrective actions?

6. Are the property records designed and used to assure proper procurement and maximum utilization of property? Are the property records reviewed periodically to identify and dispose of excess property?

7. Do we provide proper and adequate safeguards and maintenance for property?

8. Do we maintain adequate controls over Government property in the hands of others (e.g., contractors and grantees)?

9. Have any audit findings recommended improvements in this area? If so, what have we done to implement these improvements?

<u>Suggested References</u>:

<u>Accounting Principles and Standards for Federal Agencies</u>, General Accounting Office, 1978 (Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies).

<u>Federal Property Management Regulations</u>, General Services Administration.

CHAPTER XIII

FEDERAL ASSISTANCE PROGRAMS

There are over 600 Federal financial assistance programs providing approximately $85 billion annually to State and local governments, universities and other nonprofit institutions. Federal assistance to State and local governments consists of about 22 percent of their combined budgets.

There is growing concern, both in the private and public sector, about the effectiveness of these programs and about the increase in fraud, abuse and mismanagement in these programs. Both the Legislative and Executive Branches continue to strongly emphasize the need for efficient and effective programs free of fraud, waste and abuse. Recognizing the need to control these programs, the Federal Government established specific requirements affecting the use of the funds.

The Congress passes legislation to create each Federal assistance program--some legislation includes specific requirements for recipients while other legislation provides more general requirements. The rapid growth in the size and diversity of Federal assistance programs in the 1960's and 1970's brought increasing demands for simplification and standardization of the financial and other administrative requirements imposed by Federal agencies on the recipients.

To meet this problem the Office of Management and Budget, in consultation with other Executive agencies, the General Accounting Office, and representatives of recipients, developed a series of financial circulars that establish uniform policies and rules to be observed by all Federal agencies. These circulars cover standard administrative requirements, uniform financial reports, application forms, cost principles, and audit approaches.

Standardization and simplification of Federal requirements enables the recipients of grants to focus more attention on the effective administration of programs instead of diverting attention to compliance with a different set of Federal rules and requirements for each individual grant. Further, grant recipients are able to fold new programs into their ongoing operations without major impact. Maximum use is made of existing records and reports, eliminating the need for costly duplicative systems.

To insure that Federal assistance programs are administered and monitored properly, the following questions may be useful to the top managers.

1. Do we have well-developed and comprehensive Federal assistance policy regulations and manuals for agency officials and recipients? If so, do they provide clear guidance to Federal and non-Federal participants as to:

   --Eligibility requirements, specific program requirements and statutory requirements?

   --Standard administrative requirements promulgated by the Office of Management and Budget and other agencies?

   --Use of standard forms?

   --Allowable and unallowable costs and indirect cost computations?

   --Recipient's responsibility for sound financial management systems?

   If not, what is the status and the target date for their issuance?

2. Do our application review procedures provide adequate and timely review? How do we assure recipient eligibility? Do we provide preaward surveys when appropriate? How do we assure objective selection of recipients?

3. How do we monitor and analyze post award performance by the recipients? What kinds of action can we take or have we taken when we find substandard performance?

4. What kinds of information and reports are available to program managers from the financial management system? Have we checked with the program managers recently to see if the information is adequate or if improvements can be made?

5. How do we determine that the recipients are maintaining proper accountability over property acquired with Federal assistance?

6. Do we have provisional or negotiated indirect cost rates for all of our major recipients? Which Federal agency is the cognizant agency responsible for audit and negotiation of indirect cost rates? Do we have any problems or disagreements with the established rates? If so, what can I do to assist?

7. How do we control the payments to recipients to insure that they are correct, proper, and legal and to avoid excess advances?

8. Do we have prompt and adequate closeout procedures for completed grants to assure proper performance and expenditure of funds? Do our procedures enable timely recovery of excess Government funds or property?

9. Do we provide for systematic review and action on recommendations contained in audit or other review reports? Do we sufficiently track costs questioned by auditors to assure timely and satisfactory resolutions?

10. Have any recent audits been performed? Are there any areas in which we need the assistance of auditors/inspectors/investigators to follow up on alleged weaknesses, fraud, abuse or mismanagement?

<u>Suggested References</u>:

<u>Catalog of Federal Domestic Assistance</u>, Office of Management and Budget.

"Evaluation, Review and Coordination of Federally Assisted Programs and Projects," Circular A-95, OMB, January 13, 1976.

<u>Financial Management of Federal Assistance Programs</u>, Office of Management and Budget.

"Joint Funded Assistance to State and Local Governments and Non-profit Organizations," Circular A-111, OMB, July 30, 1976.

"Uniform Administration Requirements for Grants-In-Aid to State and Local Governments," Circular A-102, OMB, September 12, 1977 and other related Circulars.

CHAPTER XIV

PROCUREMENT

As a part of the performance of their respective mission and programs, agencies procure goods and services from the private sector. Approximately $100 billion is spent annually for obtaining goods and services. With such a significant percentage of Federal funds spent on procurements, managers at all levels should be responsible for assuring that only necessary goods and services are procured properly at the least cost.

The procurement cycle is governed by many regulations. The procurement cycle includes:

1. Justification of the procurement--Agencies should plan for procurement in advance of purchase and determine the need for goods and services. All efforts should be made to avoid unnecessary and duplicate purchases. An analysis of the potential use should be made to help managers determine the appropriateness of the procurement before the procurement is approved.

2. Selection of the contractor or vendor--This is part of the cycle in which agencies must openly and fairly solicit bids, evaluate them and make the final award in an impartial manner to the responsible and responsive bidder with the lowest bid.

3. Contract administration--Contractors and their work should be continuously monitored to determine whether they are performing in an efficient, effective and economical manner and consistent with the contractual provisions. If the contractor is not satisfactorily fulfilling his commitments, the agency should initiate the appropriate actions, including termination of the contract.

4. Post review--Audits and reviews should be conducted, when appropriate, to assure that costs incurred by the contractors are valid and to assure that the contractors performed fully in accordance with contractual agreements. Where discrepancies or shortcomings are disclosed, procedures should be established and followed to take proper action against the contractor.

Basically, Government policy states that most purchases and contracts are made on a competitive basis, whether by formal advertising or by negotiation. Formal advertising is used whenever it is feasible and practical, otherwise negotiation may be used.

The overall Government procurement policies are issued by the Office of Federal Procurement Policy and specific regulations on procurement can be found in the <u>Federal Procurement Regulations</u> issued by the General Services Administration. Each agency should have an adequate procurement system with proper internal controls. The procurement systems are governed by either the Armed Services Procurement Act of 1947 or the Federal and Administrative Services Act of 1949.

Some of the following questions may be useful in determining whether or not your procurement system and procedures are adequate.

1. What procedures do we follow to assure that duplicative or unnecessary services or products are not purchased?

2. How do we determine in advance that potential contractors:

   --Have the necessary financial and technical capabilities?

   --Have the necessary facilities to perform?

   --Performed satisfactorily in the past?

   --Are otherwise qualified?

3. Do our procurement procedures provide for maximum competition among potential contractors? Do they provide for fair and open selection of successful contractors?

4. Do our contractual provisions provide sufficient protection of Government interest?

5. Do we have an adequate system of contract administration to assure that the contractors are performing and delivering the specified services and/or goods in the specified quantity within the specified time?

6. How do we assure that payments to contractors are legal, proper and accurate before they are certified and forwarded to the disbursing officers?

7. Do we have timely and adequate closeout procedures to assure that each party to the contract has fulfilled its commitment? Where applicable, are audits of contract costs performed timely and properly?

8. Are there any "open" audit reports that have indicated weaknesses in our procurement procedures or questioned costs incurred by the contractors? What are we doing about these?

Suggested References:

Federal Procurement Regulations, General Services Administration

"Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government," Circular A-76, Office of Management and Budget, March 29, 1979.

"Use of Management and Operating Contracts," Circular A-49, OMB, February 25, 1959.

CHAPTER XV

AUDITING

The audit function is an extremely important management tool and can provide a valuable service to management by reviewing, appraising and reporting on the extent and nature of compliance with management's policies, plans and procedures as well as with legal and external requirements. With qualified staff, it can also make evaluations of operations as to their efficiency and effectiveness.

Audit is a systematic review of an organization to determine whether:

1. Financial operations are properly conducted and financial reports are presented fairly (financial audit);

2. Applicable laws and regulations have been complied with (compliance audit);

3. Resources are managed and used in an economical and efficient manner (economy or efficiency audit); and

4. Desired results and objectives are being achieved in an effective manner (program results or effectiveness audit).

In accordance with OMB Circular No. A-73, "Audit of Federal Operations and Programs," agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether funds have been applied efficiently, economically, effectively, and in a manner that is consistent with related laws, program objectives and underlying agreements. Furthermore, legislation establishing Inspectors General requires all audits to be performed in accordance with the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, which were issued by the Comptroller General of the United States.

Audit services in Government should be an integral part of the management process. Audit services and reports must be responsive to management needs. In order to obtain the maximum benefit from audit services, agency audit organizations should have a sufficient degree of independence in carrying out their responsibilities. The Congress has established Offices of Inspector General in 15 departments and agencies to perform audits among other things. Other agencies should have internal audit staffs that report to a high management level to ensure proper consideration of audit results. Some audit organizations perform audits of contracts and grants for other departments and agencies based on interagency agreements. Other audit organizations procure the services of public accounting firms. In addition, the General Accounting Office audits programs, activities, financial transactions and accounts of the Federal Government and reports the results of audit work to the Congress and the Federal agencies.

Recently, the Office of Management and Budget, in cooperation with the General Accounting Office, issued new guidance on audits of federally assisted programs. It requires the "single audit approach" to these programs. The single audit approach provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulations, to be performed by the recipients of Federally assisted programs. The requirements are established to ensure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements are presented fairly, (c) the organization has complied with laws and regulations affecting the expenditure of Federal funds, (d) internal procedures have been established to meet the objectives of federally assisted programs, and (e) financial reports to the Federal Government contain accurate and reliable information.

Federal cognizant audit organizations, designated by OMB, are to review the audits performed by the recipients. When audits are deemed adequate, other Federal agencies will be so notified. If audits are inadequate, the cognizant agencies are to take certain actions that would overcome the associated problems.

Although audits are performed by independent audit organizations, followup on audit recommendations and their implementation are the responsibility of management, <u>not</u> of auditors. Therefore, each agency should establish policies and procedures for prompt and proper resolution of audit recommendations.

The following are pertinent questions concerning auditing:

1. Has the audit staff been responsive to the needs of management?

2. Have audits covered the most critical areas where large dollar amounts are involved or where fraud, abuse or mismanagement is likely?

3. Are the audit reports timely, accurate, relevant and useful?

4. Are there sufficient opportunities for management to express its priority and needs to the audit staff without interfering with auditor's independence?

5. Does the audit staff have sufficient resources to fulfill its responsibilities? With the present resources, how long will it take the audit staff to make a complete audit of our agency's functions, programs and activities? What is the desirable cycle for audits (some functions, programs and activities may require more frequent audit than others)? What additional resources are required to accomplish this?

6. Do we have a management review team or internal review team duplicating or overlapping the efforts of the audit staff? If so, why?

7. Do we have formal policies and procedures for prompt and proper resolution of audit recommendations? Do they include:

   --Designation of responsible official(s) for audit followup?

   --Tracking system for audit recommendations until final resolution?

   --Requirements for a decision within six months as to disposition of each audit recommendation?

   --Elevation to agency head for decision when auditors and operating officials cannot agree on disposition of audit recommendations within six months?

   --Preparation of semiannual reports to the agency head on status of audit recommendations?

   --Evaluation of the followup system for audit recommendations?

8. Are there any audit recommendations where auditors and operating officials disagree presently? What can I do to help resolve the disagreement?

9. Are there any problems in carrying out the resolutions agreed upon? What are they and how can I help in carrying them out?

10. For Federal assistance programs, has our agency issued or revised our audit policy and regulations to implement the "single audit approach?" Are we making satisfactory progress in implementing the approach? If not, what are the problems, and what are we doing to overcome them?

<u>Suggested References</u>:

"Audit of Federal Operations and Programs," Circular A-73, Office of Management and Budget, 1979.

<u>Audit Guide for Reliability Assessment of Controls In Computerized Systems</u>, General Accounting Office, May 1978

<u>Auditing Computer Based Systems</u>, General Accounting Office, March 1979.

<u>Guidelines for Financial and Compliance Audits of Federally Assisted Programs</u>, General Accounting Office, 1980.

<u>Internal Auditing In Federal Agencies</u>, General Accounting Office, 1974

<u>Supplement to Guidelines for Financial and Compliance Audits of Federally Assisted Programs</u>, Office of Management and Budget, August 18, 1980.

"Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments," Circular A-102, Attachment P, Office of Management and Budget, 1980.

CHAPTER XVI

TRAINING AND DEVELOPMENT OF FINANCIAL STAFF

A key element to an effective financial organization is a capable and motivated staff. Financial managers and supervisors get work done through others. Providing relevant training can improve the work product as well as managers' own performance and achievements. Training can be used for three general purposes:

--To improve staff productivity on current assignments,

--To develop staff for new assignments, and

--To bring about changes in the activities to which staff members are assigned.

Formal training is not always necessary; there are less expensive alternatives. Desired performance may be achieved simply by telling people what is expected of them, providing feedback in their actual performance, and rewarding those who perform well and disciplining those who do not do what is expected.

Another alternative is on-the-job training which can be improved by performing the following tasks:

--Analyze the job. List the tasks that make up the job and decide which tasks require training.

--Set training objectives. Specify what people should be able to do if the training is successful.

--Train people carefully. Tell people what they are supposed to do, show them how to do it, and have them show you that they can do it.

--Evaluate the training. Allow time for people to practice what you have taught. Follow up to see that the desired results are being achieved.

Formal classroom training may be needed to provide the necessary skills required for the job. Training is available from various sources.

Agency Conducted Training

Most training accomplished by the Federal Government is performed by individual departments and agencies for their own staffs. "In-house" training offers the advantages of training conveniently located at the employees' work site during normal working hours and training which is custom tailored to an agency's specific needs, procedures and operations.

Interagency Training

Several organizations in the Federal Government provide interagency financial management training. Numerous courses in financial management are offered on an interagency basis by the Management Sciences Training Center in the Office of Personnel Management. OPM may also tailor these courses to the unique needs of individual agencies. In addition, if agencies desire to do their own training, OPM will provide the materials, train the agency instructors, and help install the course. Course topics include agency budget preparation procedures, budget execution, cash management and internal control.

The Auditor Training Program sponsored by the Department of Agriculture Graduate School offers training courses on auditing, including such topics as statistical sampling, effective governmental auditing techniques, operational auditing, and written and oral communications.

The Joint Financial Management Improvement Program sponsors and conducts an annual financial management conference in the spring. It periodically conducts workshops on current issues of financial management topics, such as internal control, productivity improvements in accounting and finance operations, and cash management.

Professional Associations

Several professional associations offer training at conferences, seminars and meetings focused on financial management. Representative examples are the spring and fall seminars sponsored by the American Association for Budget and Program Analysis, and the annual symposium offered by both the Association of Government Accountants and the American Society of Auditing Comptrollers. Additional courses are also available through these professional organizations.

The following questions may be of assistance in assessing your financial training opportunities:

1. Does our agency have a formal policy that encourages training and development of employees?

2. Is counseling available to assist employees in choosing the courses that best suit their needs?

3. Are training opportunities from numerous sources made available to employees?

4. Do managers follow up to determine that training has had the desired results and is improving employee performance?

5. Are supervisors and managers afforded an opportunity to obtain at least rudimentary training in the elements of financial management, i.e., the Federal budget process, internal control and accounting?

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