

## Financial Management Service

### Mission:

To provide central payment services to federal program agencies, operate the federal government's collections and deposit systems, provide government-wide accounting and reporting services, and manage the collection of delinquent debt.

### Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005	FY 2006	FY 2007		
	Enacted	Enacted	President's Budget	Change	% Change
Salaries and Expenses	\$229,083	\$233,881	\$233,654	(\$227)	-0.1%
Payments	141,287	144,135	147,358	3,223	2.2%
Collections	16,693	16,931	17,396	465	2.7%
Debt Collection	9,855	10,162	5,250	(4,912)	-48.3%
Government-wide Accounting	61,248	62,653	63,650	997	1.6%
<b>Subtotal, Financial Management Service</b>	<b>\$229,083</b>	<b>\$233,881</b>	<b>\$233,654</b>	<b>(\$227)</b>	<b>-0.1%</b>
Offsetting Collections - Reimbursables	151,135	167,770	196,282	28,512	17.0%
<b>Total Program Operating Level</b>	<b>\$380,218</b>	<b>\$401,651</b>	<b>\$429,936</b>	<b>\$28,285</b>	<b>7.0%</b>

### Overview

The Financial Management Service (FMS) is the federal government's financial manager. FMS oversees a daily cash flow in excess of \$50 billion and disburses 85 percent of the federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits, and other federal payments to individuals. It administers the world's largest collection system, collecting approximately \$2.7 trillion annually and provides cash management guidance to federal program agencies. FMS compiles and publishes government-wide financial information used to monitor the government's financial status and serves as the government's central debt collection agency for delinquent non-tax debt.

In FY 2005, FMS:

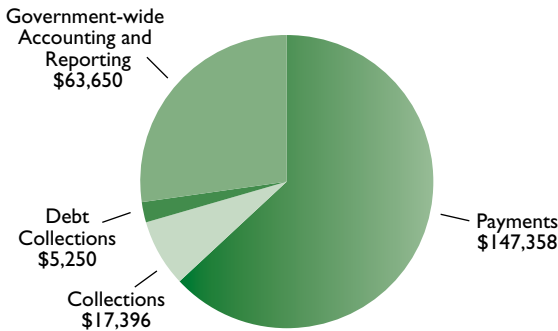
- Issued over 950 million non-defense payments worth approximately \$1.5 trillion. 76 percent of these transactions were issued electronically,

- Issued over 2.5 million FEMA disaster assistance payments valued at over \$5.9 billion in response to Hurricane Katrina through December 2005, established a debit card program that issued 11,374 FEMA Assistance Cards valued at \$22.7 million to evacuees in three Texas cities, and provided guidance and relief to financial institutions in cashing Treasury checks for hurricane victims,
- Collected record receipts of \$2.7 trillion, a 12.5 percent increase over FY 2004 collections, with a 10.2 percent increase in electronic collections,
- Collected over \$3.25 billion in delinquent debt, exceeding all previous collection amounts, with almost every collection tool achieving increased collections over last year, and
- Issued all government-wide accounting reports on time and accurately, including issuing the government-wide Consolidated Financial Report which was issued 75 days after the close of the fiscal year.

Total resources required to support FMS activities for FY 2007 are \$429,936,000 including \$233,654,000 from appropriations and \$196,282,000 from offsetting collections and reimbursable agreements.

## FMS Funding by Budget Activity

(Dollars in Thousands)



## Performance Highlights

FMS' top strategic goals include:

- Providing timely and accurate payment and collection services of federal funds while minimizing transaction costs by moving towards an all electronic Treasury,
- Maximizing the collection of government delinquent debt through efficient and centralized debt collection services,
- Producing accurate, reliable, and timely government-wide financial information and reports which contribute to improved financial decision making,
- Achieving a clean audit opinion on the *Financial Report of the United States Government* through FMS' internal operations and support to government agencies, and
- Establishing policies and processes that integrate e-commerce technologies into FMS' business programs and infrastructure.

FMS will improve the efficiency of its operations through increasing the use of electronic payments. After the rapid expansion of direct deposit in

the 1990s, growth has leveled off to a rate of less than 1 percent a year. To increase direct deposit, FMS launched a nationwide campaign called "Go Direct" in September 2005 to encourage current check recipients to switch to direct deposit. Each check converted from paper to electronic format saves taxpayers about 75 cents and is more secure for recipients.

In FY 2007, FMS will continue to expand the use of electronic media to deliver federal payments, with a goal of issuing 79 percent of its payments electronically, a 3 percent increase over FY 2005 actuals. FMS has also set an ambitious target of 84 percent of federal receipts collected electronically in FY 2007, 5 percent over FY 2005 actual levels. Moving towards an all-electronic Treasury will help FMS meet its goals for reducing the unit cost of payments and collections.

This budget includes legislative proposals to increase and enhance debt collection opportunities. As a result of projected increased revenues, FMS is able to reduce the direct funding in the debt program by half and still achieve established performance goals.

FMS maintained its perfect record of issuing government-wide accounting reports on time and with improved accuracy and usefulness. FMS will restructure government-wide accounting processes to provide more timely, reliable and useful financial information. The new government-wide accounting system will reduce agency reporting requirements and reconciliation burdens. As part of the system redesign, FMS will provide agencies with a web-based account statement resembling a bank statement which will contain summarized Treasury fund account balance activity. A web-based system will give agencies daily access to the account statement for reconciliation and fund reclassification. This will move the government toward producing financial information on a regular, recurring basis more quickly and reliably.

Source of Funds

### FMS Performance by Budget Activity

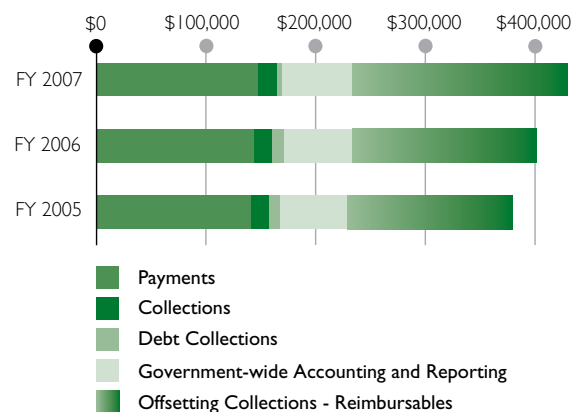
Budget Activity	Performance Measure	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
		Actual	Actual	Actual	Target	Target	
Debt Collection	debt collected per \$1 spent (E)	n/a	n/a	36.23	✗	36.4	36.5
	debt collected through all available tools (Ot)	3.1	3	3.25	✓	3.1	3.2
	% eligible debt referred for collection (Ot)	92	99	97	✓	93	94
Payments	% payments & information made electronically (Oe)	74	75	76	✓	78	79
	% payments accurate/on time (paper & electronic) (Oe)	100	100	100	✓	100	100
	unit cost for Federal government payments (E)	n/a	0.35	0.355	✗	0.35	0.35
Collections	unit cost per collection transaction (E)	n/a	1.4	1.2	✓	1.37	1.33
	% total receipts collected electronically (Oe)	80	81	79	✗	83	84
Government-wide Accounting	% reports issued accurately (Oe)	98	100	100	✓	100	100
	% reports issued timely (E)	100	100	100	✓	100	100
	Unit Cost to Manage \$1 Million Dollars of Cash Flow (E)	n/a	n/a	n/a	n/a	n/a	\$6.40

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

The FMS request of \$429,936,000 includes \$233,654,000 from direct appropriations and \$196,282,000 from offsetting collections and reimbursable agreements to process federal payments and collections and conduct debt collection activities. FMS' offsetting collections and reimbursable activities include disbursement of federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and Department of Veterans Affairs benefit payments (Payments); and debt collection services for federal agencies and states through the Treasury Offset Program (Debt Collection).

### FMS Funding History

(Dollars in Thousands)



## Budget Activities

### Salaries and Expenses

*Payments (\$282,389,000, including \$147,358,000 from direct appropriations and \$135,031,000 from offsetting collections and reimbursements)* FMS develops and implements federal payment policy and procedures, issues and distributes payments, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to electronic funds transfer.

*Collections (\$17,396,000 from direct appropriations)* FMS collects revenue needed to operate the federal government. The Collections activity includes various electronic initiatives such as Pay.gov, a government-wide web portal to collect non-tax revenue electronically; Paper Check Conversion, which converts checks into electronic debits thereby moving funds more quickly; and the Electronic Federal Tax Payment System (EFTPS), which processes approximately \$1.7 to \$1.8 trillion in tax collections annually.

*Debt Collection (\$66,501,000 including \$5,250,000 from direct appropriations and \$61,251,000 from offsetting collections and reimbursements)* FMS recovers delinquent government debt by providing centralized debt collection, oversight and operational services to federal program agencies and states as required by the Debt Collection Improvement Act of 1996 and related legislation. FMS will also focus on incorporating all non-Treasury disbursed salary and vendor payments into FMS' offset programs for collecting delinquent debt. This activity includes FedDebt, a system which provides a single point of entry for agencies to refer their debts to FMS for collection and to access the delinquent debtor database. By FY 2007, Integrated FedDebt will combine FMS' Cross-Servicing application and the Treasury Offset Program. This will eliminate the need for separate and distinct databases and will allow FMS to streamline data, reduce redundancies and improve data integrity.

*Government-wide Accounting and Reporting (\$63,650,000 from direct appropriations)* The function of the Government-wide Accounting and Reporting

activity is to maintain the federal government's books and account for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system.

### FMS FY 2007 Budget Highlights

(Dollars in Thousands)

	<b>Amount</b>
<b>FY 2005 Enacted</b>	<b>\$229,083</b>
FY 2006 Appropriation (P.L. 109-115)	236,243
Rescission (P.L. 109-148)	(2,362)
<b>FY 2006 Enacted</b>	<b>\$233,881</b>
<b>Current Services</b>	
<b>Adjustments to Maintain Current Levels</b>	\$6,643
Pay Annualization	1,183
Proposed Pay Raise	3,496
Non-Pay Inflation Adjustment	1,964
<b>Non-recurring Costs</b>	(\$1,219)
Non-recur FY 2005 Accounting Architecture	(840)
Non-recur FY 2006 Mail Presort Equipment	(379)
<b>Program Reductions</b>	(\$5,695)
Debt Fee Revenue	(5,311)
Realize Mail presort efficiencies	(384)
<b>Current Services Level</b>	<b>\$239,305</b>
<b>Program Adjustments</b>	
<b>Program Increases</b>	\$44
FASAB Increase	44
<b>FY 2007 President's Budget Request</b>	<b>\$233,654</b>

### FY 2007 Budget Adjustments

#### FY 2006 Enacted

The FY 2006 FMS enacted appropriation is \$233,881,000.

#### Current Services

*Adjustments to Maintain Current Levels +\$6,643,000/0 FTE* Funds are requested for the FY 2006 cost of January pay increase of \$1,183,000; the proposed January 2007 pay raise of \$3,496,000; other labor related benefits; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of \$1,964,000.

#### Non-Recurring Costs

*Non-recur FY 2005 Accounting Architecture -\$840,000/0 FTE* FMS has identified funds for prior-year initiatives in the Government-wide Accounting activity that can be non-recurred.

**Non-recr FY 2006 Mail Presort Equipment -\$379,000 /0 FTE** FMS can non-recr \$379,000 from the FY 2006 Pre-Sort initiative. As a result of the purchase of this equipment, FMS is able to sort payment files according to zip codes, which qualifies the daily mail pieces for a discount postage rate.

### Program Reductions

FMS reviews its operations to identify opportunities to realign resources to fund priority requirements, meet mission objectives and support Treasury's Goal of managing the government's finances effectively within its budgetary constraints. For the FY 2007 Budget Cycle, FMS identified low-value efforts, non-recurring costs, and opportunities to re-engineer business processes to seek optimal use of resources.

**Debt Fee Revenue -\$5,311,000/-57 FTE** This budget includes legislative proposals to increase and enhance debt collection opportunities. As a result of projected increased revenues, FMS is able to reduce the amount of direct funding for the debt program.

**Realize Mail Presort Efficiencies -\$384,000/0 FTE** FMS anticipates a postage rate savings as a result of its investment in mail pre-sort equipment in FY 2006.

### Program Increases

**Federal Accounting Standards Advisory Board (FASAB) Increase +\$44,000/0 FTE** This increase funds the rise in costs expected in FY 2007 for Treasury and OMB's payment to the FASAB.

### Legislative Proposals

**Allow offsets of past-due, legally enforceable state unemployment compensation debts against overpayments (26 U.S.C. 6402):** This proposal is part of a recommended follow-up action to the Program Assessment Rating Tool (PART) review of the Debt Collection activity, and is included as a part of the Department of Labor's Unemployment Insurance Integrity proposal. It would allow FMS to offset federal tax refunds to collect past-due state unemployment compensation debts. Presently, FMS offsets federal tax refunds to collect delinquent debt owed to federal agencies, delinquent child support obligations, and delinquent state income tax debt. FMS would match information about state

unemployment compensation debts with federal tax refunds, deduct amounts due from federal income tax refunds, and credit those amounts to the appropriate state unemployment insurance trust fund maintained by Treasury. This proposal will enable FMS to collect an estimated \$482 million in the first year after enactment and approximately \$3.8 billion over 10 years.

**Eliminate the 10-year Limitations Period on Offset (31 U.S.C. 3716).** This proposal is part of a recommended follow-up action to the Program Assessment Rating Tool (PART) review of the Debt Collection activity and would eliminate the 10-year limitation on the collection of delinquent non-tax federal debts by administrative offset. This would ensure that delinquent debts can be collected by offset without regard to any statutory, regulatory or administrative limitation on the period within which debts may be collected. The proposed change would allow for the collection by offset of other federal debts consistent with the current law for student loans. This proposal will enable FMS to collect an estimated \$11 million in the first year after enactment and approximately \$6 million per year thereafter.

**The proposal to amended 31 U.S.C. 3333, a decades-old statute relieving Treasury from liability for payments it makes, in due course and without negligence, of U.S. Treasury checks and other items.** Specifically, the proposal (1) updated the statute to include payments which Treasury makes via electronic funds transfer (EFT); and (2) provided a funding source to charge payments for which the statute relieves Treasury from liability, i.e., the Check Forgery Insurance Fund (CFIF) (31 U.S.C. 3343). In proposing the amendment, Treasury's intent was to provide a funding source for such administrative errors (both disbursing and post-presentment) made in the normal course of business during the check and EFT payment processes. While the justification accompanying the amendment contained a similar reference, the amendment itself did not specifically so state.

