

## Financial Management Service

### Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2009 Enacted	FY 2010 Enacted	Request	FY 2011 \$ Change	% Change
Payments	\$147,717	\$150,395	\$142,537	(\$7,858)	(5.2%)
Collections	\$21,521	\$21,911	\$21,690	(\$221)	(1.0%)
Government-wide Accounting and Reporting	\$70,547	\$71,826	\$71,026	(\$800)	(1.1%)
<b>Subtotal, Financial Management Service</b>	<b>\$239,785</b>	<b>\$244,132</b>	<b>\$235,253</b>	<b>(\$8,879)</b>	<b>(3.6%)</b>
Offsetting Collections - Reimbursables	\$228,010	\$234,690	\$216,730	(\$17,960)	(7.7%)
<b>Total Program Operating Level</b>	<b>\$467,795</b>	<b>\$478,822</b>	<b>\$451,983</b>	<b>(\$26,839)</b>	<b>(5.6%)</b>

\*The FY 2009 figure does not include \$7 million received from the American Recovery and Reinvestment Act.

### Explanation of Request

The Financial Management Service (FMS) FY 2011 President's Budget request focuses on continued implementation of modernization initiatives in FMS' payments, collections, debt collection, and government-wide accounting functions. One such initiative is the Financial Information Reporting Standardization (FIRST), which will enhance and improve operations by improving accuracy and integrating budgetary and government-wide accounting with proprietary information. Another initiative is the Collections and Cash Management Modernization (CCMM) program, which is streamlining, modernizing and improving the process of Treasury's collections and cash management programs.

The Department is committed to moving to paperless processing throughout its bureaus and programs, including increasing the number of payments and collections made electronically. FMS will play a critical role through an increasing use of electronic benefit payments and collections. This will help streamline intergovernmental processes and enhance service to the general public.

FMS strives to consistently look for ways to increase the number of payments and collections made electronically. The Paperless Treasury initiative will move FMS closer to an all-electronic organization. Two important

components of this initiative include: the phasing in of government benefit check recipients to electronic deposit and requiring all businesses with \$2,500 or more in quarterly tax liability to pay electronically. The use of electronics will allow FMS to improve the accuracy and efficiency of transactions and operations, eliminate paper-based processes, and contribute to increasing electronic transactions within government and with the public.

Total resources required to support FMS activities for FY 2011 are \$451,983,000, including \$235,253,000 from direct appropriations, and \$216,730,000 from offsetting collections and reimbursable programs.

### Purpose of Program

The Financial Management Service (FMS) plays a key role in supporting the Department of the Treasury's strategic goal of managing the United States Government's finances effectively by operating as the financial manager and principal fiscal agent for the Federal Government. This role includes managing the nation's finances by collecting money due to the United States, disbursing its payments, and performing central accounting functions.

As the Government's financial manager, FMS oversees a daily cash flow in excess of \$60 billion, disbursing 85 percent of the Federal Government's payments. These payments include income tax refunds, Social Security benefits, veterans' benefits and other Federal payments to individuals and businesses. FMS also administers the world's largest collection system, collecting over \$2.8 trillion in FY 2009. FMS provides cash management guidance to Federal Program Agencies (FPAs), maintains the Government's accounting books, and compiles and publishes government-wide financial information used to monitor the Government's financial status. Finally, FMS serves as the Government's central debt collection agency for delinquent non-tax debt.

January 2010 pay increase of \$933,000; proposed January 2011 pay raise of \$2,415,000; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$843,000.

### Efficiencies Savings

#### *Payment Modernization/Operational Efficiency -\$3,020,000 / -60 FTE*

The Payment Application Modernization (PAM) Project streamlines the FMS payments. PAM will replace the current mainframe-based software applications used to disburse approximately one billion federal payments annually, which along with other modernization efforts will result in operational efficiencies savings.

#### *Realignment PM/DMS -\$3,390,000 / -30 FTE*

Consolidation of Debt Management and Payment Management business processes will allow FMS to assure operational continuity and maximize use of its call centers.

#### *Elimination of Paper-Based Process -\$4,429,000 / -35 FTE*

The implementation of several IT systems will eliminate current paper processes. For example, the implementation of the Judgment Fund Internet Claims System (JFICS) allows federal agencies to submit their claims for payment electronically to the Judgment Fund. FMS is in the process of rolling out JFICS to federal agencies which will eliminate paper and result in savings to FMS. Additionally, FMS plans to analyze its administrative needs and redistribute resources to critical areas.

#### *IT Efficiency Savings -\$2,600,000 / +0 FTE*

FMS will consolidate several software contracts and move applications from the Bureau of Public Debt server and expects to gain efficiency savings from its transition to broadband.

### FMS FY 2011 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2010 Enacted	244,132
Changes to Base:	
Maintaining Current Levels (MCLs):	\$4,560
FERS % Change	369
Non-Pay Inflation Adjustment	843
Pay Annualization	933
Pay Inflation Adjustment	2,415
Efficiencies Savings:	(\$13,439)
Payment Modernization/Operational	(3,020)
Realignment PM/DMS	(3,390)
Elimination of Paper-Based Process	(4,429)
IT Efficiency Savings	(2,600)
Subtotal FY 2011 Changes to Base	(\$8,879)
Total FY 2011 Base	235,253
Total FY 2011 Budget Request	235,253

### FY 2011 Budget Adjustments

#### FY 2010 Enacted

The FY 2010 enacted direct appropriation for FMS is \$244,132,000.

#### Maintaining Current Levels (MCLs)

##### *Adjustments Necessary to Maintain Current Levels +\$4,560,000 / +0 FTE*

Funds are requested for: A FERS percentage rate change of \$389,000, FY 2011 cost of the

## Explanation of Budget Activities

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### Salaries and Expenses

*Payments (\$142,537,000 from direct appropriations and \$131,060,000 from reimbursable programs)*

FMS issues and distributes payments, develops and implements Federal payment policy and procedures, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This activity also includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. Included in this activity is the claims activity which settles claims against the United States. These claims result from Federal Government checks that have been forged, lost, stolen, or destroyed. FMS collects monies from those parties liable for fraudulent or otherwise improper negotiation of Government checks. It also includes processing claims and reclamations for EFT payments.

*Collections (\$21,690,000 from direct appropriations and \$1,419,000 from reimbursable programs)*

FMS collects revenues needed to operate the Federal Government through the management of the Federal Government's collections infrastructure. In FY 2009, FMS collected \$2.86 trillion, of which 83 percent was collected electronically, through a network of more than 9,000 financial institutions. It also manages the collection of Federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, and fines and proceeds from leases.

*Debt Collection (\$80,036,000 from reimbursable programs)*

The Debt Collection activity collects delinquent Government and child support debt by providing centralized debt collection,

oversight, and operational services to FPAs and states as required by the Debt Collection Improvement Act (DCIA) of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through Cross-Servicing and offsetting Federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies towards improving debt management, and referrals to the Department of Justice.

*Government-wide Accounting and Reporting (\$71,026,000 from direct appropriations and \$4,215,000 from reimbursable programs)*

The Government-wide Accounting and Reporting activity maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing the Government's central accounting and reporting system. It also works with Federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance, and training to assist FPAs in improving their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the Government's financial status. These publications include: the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the Financial Report of the United States Government (FR).

### Legislative Proposals

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*Debt Collection*

*Authorize Post-Levy Due Process*

This proposed amendment to 26 U.S.C. § 6330 would allow the IRS to levy the payment of a

federal contractor who owes delinquent taxes, and provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review, within a reasonable time after the levy. The IRS currently has this authority for levies against state tax refunds and to collect federal employment taxes.

Under the automated Federal Payment Levy Program, Treasury matches federal tax liabilities against federal payments to contractors. When a match occurs, IRS issues the CDP notice but cannot levy the payment until the CDP requirements are complete. By this time the payment has already been made and the opportunity for levy is lost. This proposal would remedy this situation by allowing the IRS to levy the payment at the time the payment is identified.

#### *Allow IRS to Levy 100 Percent of All Vendor Payments*

This proposed amendment to 26 U.S.C. § 6331(h)(3) would allow IRS to continuously levy up to 100% of federal payments made to all federal vendors who owe delinquent taxes, not only vendors of “goods or services.” Currently, continuous levies of payments made to vendors of “goods or services” allow for collection from up to 100% of the levied payment, whereas continuous levies of other payments attach to no more than 15% of the payment.

The current law excludes from the 100 percent continuous levy authority a sizable number of federal vendor payments, most notably payments related to the purchase or lease of real estate by the Federal Government, but also payments for other purchases such as intellectual property or software. As an operational matter, without this legislative change, it is not feasible for FMS to automate the continuous levy of vendor payments because of the significant changes to systems

and accounting practices required across a wide array of agencies to allow for the differentiation between payments to vendors of “goods or services” versus other vendor payments. To identify vendor real estate payments, for example, would require more than 30 agencies to change the manner in which they code payments certified to FMS, as well as months of testing and verification of agency compliance. In addition, IRS would be relying upon the ability of agencies to accurately classify vendor payments in order to avoid improper seizure.

#### *Authorize FMS to Deduct Fees from Amounts Collected from Levies of Federal Payments Rather Than Have Fees Paid Out of IRS's Appropriation*

This proposal improves the way FMS collects fees from IRS to cover FMS’s costs in developing and operating the Federal Payment Levy Program (FPLP), which utilizes the Treasury Offset Program (TOP) to process levies of federal payments to collect delinquent tax debts. Rather than IRS paying fees from its annual discretionary appropriation pursuant to the Economy Act, this proposal would allow FMS to retain directly a portion of the levied funds. The proposal would ensure that sufficient funds are available to cover the costs of the program, and it is consistent with how other federal agencies reimburse FMS for collecting nontax debts through TOP. The proposal would modify the way that FMS recovers its transaction fees for processing IRS levies by permitting FMS to add the fee to the liability being recovered, thereby shifting the cost of collection to the delinquent taxpayer. The offset amount would be included within the 15-percent limit on continuous levies against income.

#### *Allow The Offset of Certain Federal Benefit Payments to Collect Delinquent Child Support Debts.*

This proposal would authorize the collection of delinquent, state-enforced child support debts from Social Security, Black Lung, and Railroad Retirement benefit payments in the same way that such payments are currently offset to collect federal nontax debts. Under current law, FMS offsets up to 15% of a benefit payment to collect nontax debts, and the amount of \$750 per month is exempt from offset. Although States may directly request a benefit agency to garnish benefit payments to collect delinquent child support debts, this proposal provides a cost-efficient way for States to collect support from payments that States have been unable to identify as a source of funding from the delinquent child support obligor.

While many federal benefit payments are statutorily protected from collection actions, the Debt Collection Improvement Act of 1996, as codified at 31 U.S.C. § 3716(c)(3)(A)(i),

expressly waived any statutory limitation for purposes of offset under section 3716 to collect federal nontax debts. Section 3716(h)(3), however, provides that the statutory waiver does not apply to collection of debts owed to States, which includes child support. The proposed language amends 3716(h)(3) to include child support debts in the waiver.

*Allow Offset of Federal Income Tax Refunds to Collect Delinquent State Income Taxes for Debtors Who Currently Reside in Other States*

Under current law, federal tax refunds may be offset to collect delinquent state income tax obligations only if the delinquent taxpayer resides in the state collecting the tax. This proposal will allow FMS to offset federal income tax refunds to collect delinquent state tax obligations regardless of where the debtor resides.

75 days after the fiscal year-end. However, for FY 2009, some agencies that were significantly impacted by the substantial reporting requirements of the American Recovery and Reinvestment Act were granted reporting deadline extensions, which consequently impact the timing of the FR, now scheduled for February 16, 2010. The FR presents a picture of government-wide finances that complements the traditional Federal Government budget information. Additionally, FMS issued 100 percent of its government-wide accounting reports

accurately and timely. FMS will continue to revamp and implement government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from FPAs. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance.



## FMS Performance by Budget Activity

Budget Activity	Performance Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
		Actual	Actual	Target	Actual	Target Met?	Target	Target
Payments	Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (Oe)	100	100	100	100	Y	100	100
Collections	Percentage collected electronically of total dollar amount of Federal government receipts (Oe)	79	80	80	84	Y	80	82
Debt Collection	Amount of delinquent debt collected through all available tools (\$ billions) (Ot)	3.76	4.41	3.90	5.03	Y	4.65	4.84
Government-wide Accounting and Reporting	Percentage of Government-wide accounting reports issued accurately (Oe)	100	100	100	100	Y	100	100
Government-wide Accounting and Reporting	Percentage of Government-wide accounting reports issued timely (E)	100	100	100	100	Y	100	100

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B – baseline

### Description of Performance

*Payments:* In FY 2009, FMS issued nearly 1 billion non-Defense payments worth almost \$2.7 trillion to a wide variety of recipients, such as those who receive Social Security benefits, IRS tax refunds, and veterans' benefits. Nearly eighty-one percent of all payments disbursed were issued via direct deposit. Additionally, in FY 2009, FMS disbursed over 54.9 million Economic Recovery Act Payments (ERP) totaling \$13.7 billion dollars with 85 percent of the payments made by EFT. FMS expects total ERP payments disbursed will be over 55 million valued at over \$13.8 billion.

In FY 2011, FMS will continue to expand the use of electronic media to deliver Federal payments. Electronic media provides a safer, more secure and reliable method of payment for recipients. It also decreases the number of paper checks issued, which minimizes costs and inefficiencies associated with the delivery of non-electronic benefits.

*Collections:* In FY 2009, FMS collected \$2.86 trillion, of which 83 percent was collected

electronically, through a network of more than 9,000 financial institutions. FMS is in the process of developing a comprehensive effort to streamline, modernize, and improve the processes and systems supporting Treasury's collections and cash management program. This effort, Collections and Cash Management Modernization, will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

*Debt Collection:* In FY 2009, FMS collected \$5.07 billion in delinquent debt, which includes \$239,162,817 from Economic Recovery Payments to satisfy delinquent Child Support, Federal Non Tax and State Debt. As a result of FMS continued program improvements, total debt collections since the enactment of the DCIA are over \$42.5 billion through FY 2009. FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS existing collection programs: Cross-Servicing and the Treasury Offset Program.

*Government-wide Accounting and Reporting:* FMS has consistently released the Financial Report of the United States Government (FR)