Financial Management Service

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Payments	$150,395	$142,537	$132,868	($17,527)	(11.7%)
Collections	$21,911	$24,267	$21,265	($646)	(2.9%)
Government-wide Accounting and Reporting	$71,826	$77,328	$64,672	($7,154)	(10.0%)
Subtotal, Financial Management Service	**$244,132**	**$244,132**	**$218,805**	**($25,327)**	**(10.4%)**
Offsetting Collections - Reimbursables	$234,690	$216,730	$231,223	($3,467)	(1.5%)
Total Program Operating Level	**$478,822**	**$460,862**	**$450,028**	**($28,794)**	**(6.0%)**
Direct FTE	1,500	1,500	1,200	(300)	(20.0%)
Reimbursable FTE	483	460	460	(23)	(4.8%)
Total FTE	**1,983**	**1,960**	**1,660**	**(323)**	**(16.3%)**

Summary

FMS provides critical and essential payment, collections, debt collection and government-wide accounting and reporting functions essential to the successful operation of the federal government. These functions are far reaching. This includes issuing over 70 million benefit payments distributed monthly to the American public, the collection of all federal revenues that fund government operations and programs, processing and collecting of delinquent debts owed to the federal government including collection of past due child support, and providing financial reports to varied stakeholders. FMS touches almost every American and federal agency proving these very important and essential services.

FMS' budget reflects a strong commitment to fiscal stewardship of taxpayers funding. The FY 2011 and FY 2012 budget represents a 10% reduction from FY 2010 levels. This will bring FMS to funding levels not seen since FY 2002. Even though FMS will operate at FY 2002 operating levels, we are committed to providing continued high service levels to our customers. We believe we can fulfill this objective due to FMS' innovative modernization efforts which have been implemented and finalized over the past years.

FMS' FY 2012 budget directly addresses the Department's high priority performance goal of significantly increasing the number of paperless transactions with the public. It also addresses the Administration's priority of "going green" and consolidating data centers.

FMS supports Treasury's paperless initiative, which requires all new enrollees in federal benefit programs (*e.g.*, Social Security Administration) to receive payments electronically by March 1, 2011. Anyone currently receiving checks would be required to switch to electronic payment by March 1, 2013. A second important component of the all-electronic Treasury initiative requires all businesses currently required to use a Federal Tax Deposit (FTD) coupon to pay electronically beginning January 1, 2011.

In response to a request from the Office of the Fiscal Assistant Secretary, the Commissioners of FMS and the Bureau of the Public Debt

(BPD) determined that they could improve the efficiency and effectiveness of their collective information technology (IT) infrastructures. As a result, FMS, in partnership with BPD, initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. This effort also conforms to the Office of Management and Budget's (OMB) Data Center Consolidation Directive which requests that all federal agencies review IT spending, placing emphasis on consolidating and sharing IT services to reduce expenditures. Five data centers will be consolidated into two shared by both bureaus with one acting as a back-up to the other. This effort also includes the creation of a single corporate governing body, in-sourcing of select contractor functions, and consolidation of application development methodologies and associated infrastructure; resulting in a more "green" approach to the delivery of IT services.

FMS continues to work toward increasing operational efficiencies that streamline our four main activities of payments, collections, government-wide accounting and reporting, and debt collection. Given FMS' recent history of cost reduction, it is clear that FMS is a conscientious steward of taxpayer money. These cost saving measures do not inhibit our ability to deliver the products and services that are vital to our nation's economic security.

FMS continues to work toward increasing operational efficiencies and by implementing these initiatives will greatly facilitate the ongoing effort to modernize the Federal government's payment, collections, debt collection and central accounting and reporting systems. The end result will be greater efficiency, cost savings, and data quality improvements throughout government.

FMS FY 2012 Budget Highlights
(Dollars in thousands)

Appropriation	Amount
FY 2010 Enacted	$244,132
FY 2011 Annualized CR Level	$244,132
Changes to Base:	
Adjustment to Reach Policy Level:	($10,537)
Adjustment to Reach FY 2011 President's Policy	($10,537)
Maintaining Current Levels (MCLs):	$2,000
Maintaining Current Levels	$2,000
Efficiencies, Savings & Base Reductions:	($11,690)
Elimination of Bureau of Economic Analysis Interagency Agreement	($175)
Reduce Systems Development	($1,400)
Paperless Treasury / Payment Center Repurposing	($6,297)
Data Center Consolidation	($685)
Migration of Human Resources Operations to Shared Service Provider	($533)
Operational Efficiencies & Space Consolidation	($2,600)
Subtotal FY 2012 Changes to Base	($20,227)
Total FY 2012 Base	$223,905
Program Changes:	
Program Decreases:	($5,100)
FIRST and GWAMP Project Savings	($5,100)
Subtotal FY 2012 Program Changes	($5,100)
Total FY 2012 Request	$218,805

FY 2012 Budget Adjustments

FY 2011 Enacted

The FY 2011 enacted direct appropriation for FMS is $235,253,000.

Adjustment to Reach Policy Level

Adjustment to Reach FY 2011 President's Policy -$10,537,000 / +0 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs)

Maintaining Current Levels +$2,000,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation.

Efficiencies, Savings & Base Reductions

Elimination of Bureau of Economic Analysis Interagency Agreement -$175,000 / +0 FTE

FMS has an interagency agreement with the Department of Commerce's Bureau of Economic Analysis for statistical analysis required each year for the International Monetary Fund. However, FMS no longer has programs or activities that benefit directly or indirectly from this expense. Elimination of this service would not hamper FMS efforts.

Reduce Systems Development -$1,400,000 / +0 FTE

FMS will reduce funding related to low priority program system development and maintenance.

Paperless Treasury / Payment Center Repurposing -$6,297,000 / -49 FTE

In FY 2012, the Paperless Treasury Initiative will not only save the government through consumable savings but will also allow FMS to move from four payment centers to three. The repurposing of the Austin Financial Center provides FMS the opportunity to expand its delinquent debt activity by targeting more of the delinquent debt referred to FMS for collection.

Data Center Consolidation -$685,000 / -121 FTE

FMS, along with BPD, will consolidate five data centers to two which will produce savings due to reductions in energy consumption, equipment, software, and staff. The consolidation of Fiscal Service data centers includes the transferring of staff from FMS to the Treasury Franchise Fund. The salary and benefit costs of those FTE will be used to pay for the resulting new contract.

Migration of Human Resources Operations to Shared Service Provider -$533,000 / -5 FTE

FMS examined the feasibility of migrating its human resources program to a shared service provider. Based on the analysis, FMS elected to transition its HR operational functions to the Administrative Resource Center of the Bureau of the Public Debt. This migration is expected to improve the quality and cost-effectiveness of FMS HR operational processes. This reduction will offset the full cost of the shared services agreement with full implementation in 2012.

Operational Efficiencies & Space Consolidation -$2,600,000 / +0 FTE

FMS will identify operational efficiencies gained through improved process and modernization efforts. Additionally, in coordination with GSA, FMS will work to consolidate space and reduce the FMS' footprint in the Hyattsville Center to accommodate changes in staffing and Data Center consolidation.

Program Decreases

FIRST and GWAMP Project Savings – $5,100,000 / +0 FTE FMS will reduce funding related to development for both the Government-wide Accounting and Modernization Project (GWAMP) and FIRST.

Explanation of Budget Activities

Salaries and Expenses

Payments ($132,868,000 from direct appropriations and $129,561,000 from reimbursable programs)

FMS is responsible for managing and operating federal payment systems and for disbursing approximately 85 percent of all federal payments. It is comprised of a headquarters staff and Regional Financial Centers (RFCs). Major payments include: social security benefits, supplemental security income, federal pension benefits, veterans' compensation, railroad retirement pensions, and tax refunds. An electronic payment is an electronic funds transfer made by direct deposit via the Federal Reserve Bank's Automated Clearing House system to more than 28,000 member financial institutions nationwide. In FY 2010, the centers disbursed over one billion payments, totaling over $2.3 trillion dollars.

Collections ($21,265,000 from direct appropriations and $198,000 from reimbursable programs)

FMS collects revenues needed to operate the federal government through the management of the federal government's collections infrastructure. The collections activity is also part of the nation's critical infrastructure. FMS collected nearly $2.94 trillion in FY 2010 through a network of more than 8,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government. The majority of dollar collections are made electronically. While 85 percent of federal revenue was collected electronically in FY 2010, the Paperless Treasury Initiative will help FMS improve the percentage of tax revenue collected electronically by requiring all businesses currently required to use a FTD coupon to pay electronically effective January 1, 2011.

Government-wide Accounting and Reporting ($64,672,000 from direct appropriations and $4,412,000 from reimbursable programs)

The Government-wide Accounting and Reporting (GWA) activity maintains the federal government's 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. It provides support, guidance, and training to assist agencies in improving their government-wide accounting and reporting responsibilities. FMS collects, analyzes, 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. 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). It is important to note, the cash reporting function of GWA supports the National Financial Critical Infrastructure.

Legislative Proposals

Technical Correction to Allow IRS to Levy 100 percent of all Vendor Payments, Including Payments for the Purchase and Lease of Real Estate, to Collect Delinquent Taxes

Section 6331(h) of the Internal Revenue Code was amended in 2005 to allow the IRS to levy up to 100 percent of federal vendor payments. Before this change, the maximum was 15 percent. The current language, which was intended to cover all federal vendor payments, refers to payments for "goods and services." This has been interpreted to exclude payments for the purchase or lease of real estate. Therefore, a technical correction is needed to ensure that all federal vendor payments are covered.

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.

Increase Levy Authority for Payments to Medicare Providers with Delinquent Tax Debt

The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes.

FMS Performance by Budget Activity

Budget Activity	Performance Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Payments	Percentage of Treasury Payments and Associated Information Made Electronically (Oe)	79%	81%	82%	83%	85%
Revenue collected	Amount of Delinquent Debt Collected Through All Available Tools ($ billions) (Ot)	4.41	5.03	5.45	4.84	5.03
Revenue collected	Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (Oe)	80.0	84.0	85.0	82.0	82.0
Financial information	Percentage of Government-Wide Accounting Reports Issued Timely (%) (Oe)	100.0	100.0	100.0	100.0	100.0

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, DISC - Discontinued, and B – Baseline

Description of Performance

Payments: FMS disburses payments to a wide variety of recipients, such as those who receive Social Security Administration payments, Internal Revenue Service tax refunds, and the Department of Veterans Affairs benefits. In FY 2010, FMS issued more than one billion non-Defense payments, with a dollar value of over $2.34 trillion. More than 82 percent of these transactions were issued by Electronic Funds Transfer (EFT). In FY 2012, FMS is projecting the percentage of electronic payments to be 84 percent.

Collections: In FY 2010, FMS collected $2.94 trillion through a network of more than 9,000 financial institutions. Slightly more than 85 percent of the funds was collected electronically. While FMS continued to promote and convert collections from paper to the more efficient electronic media in FY 2010, there are a number of factors that have adversely affected the unit cost metric. It is projected that the unit cost metric for collections will increase over the next three years due to two primary factors: 1) The current economic conditions; and 2) Increased expenses during the transition to a fully implemented Collections and Cash Management Modernization (CCMM) initiative.

The economic climate has had a major influence on the unit cost for collections. Recessionary business failures and job losses have caused fewer employers to report withholding transactions to the Electronic Federal Tax Payment System (EFTPS). Similarly, small business failures and job losses reduced the number of tax filers using the IRS Lockbox Network. For example, during the Spring 2009 tax season, tax transaction receipts were down by 22 percent. Since some of the costs of EFTPS and the IRS Lockbox Network are fixed, the unit cost per item increased.

Government-wide Accounting and Reporting: FMS issues 100 percent of its government-wide accounting reports accurately and timely. Annually, FMS releases the *Financial Report of the United States Government (FR)*. The FR has been audited by the Government Accountability Office (GAO) since 1997, and has received a disclaimer of opinion each year. For fiscal year ended September 30, 2010, the report was released on December 21, 2010, with a disclaimer of opinion. GAO acknowledge that while significant progress has been made in improving federal financial management since the federal government began preparing the consolidated financial statements 14 years ago, three major impediments continued to prevent them from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial management problems at the Department of Defense (DoD) that prevented DoD's financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intergovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. GAO also acknowledged that: (1) Treasury continues to take steps to help resolve differences in intragovernmental activity and balances; and (2) during fiscal year 2010, Treasury, in coordination with the Office of Management and Budget, continued implementing corrective action plans and made progress addressing certain internal control deficiencies that they have previously reported.

Debt Collection: In FY 2010, FMS collected \$5.45 billion in delinquent debt including \$12.8 million from Economic Recovery Payments. The amount collected includes \$2.10 billion in past due child support, \$2.30 billion in federal nontax debt, and over \$1.05 billion in federal tax levies and state tax debt offsets. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2010. As a result of the continued program improvements, cumulative collections since enactment of the Debt Collection Improvement Act of 1996 are \$48.2 billion. In calendar year 2010, the Internal Revenue Service referred an additional \$54 billion of tax debts for continuous levy, a 15 percent increase over calendar year 2009.