Federal Financial Management System Requirements

# Office of Federal Financial Management

# Insurance System Requirements

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# Foreword

This *Insurance System Requirements* is one of a series of Federal Financial Management System Requirements (FFMSR) documents that describe financial management system requirements associated with federal programs. This document describes financial management system requirements associated with federal insurance programs. The first of the FFMSR documents was published in January 1988, i.e., *Core Financial System Requirements* (*Core*). The *Core* document is being updated for the fourth time while this document is being developed for the first time.

*Framework for Federal Financial Management Systems* (*Framework*) was published in January 1995, to describe the basic elements of a model for integrating financial management systems in the federal government. The *Framework* was updated in April 2004, to serve as a comprehensive description of the basic elements of a model for integrated financial management systems in the federal government including: system integration, data stewardship, and internal controls.

This document supports the Federal Financial Management Improvement Act (FFMIA) of 1996 and Office of Management and Budget (OMB) Circular A-127 Financial Management Systems. The FFMIA of 1996 and OMB Circular A-127 strongly affirm the need for the federal government to provide financial management systems that facilitate the effective management of government programs and the proper stewardship of public resources. This document also supports the goal of the President's Management Council (PMC) to improve the efficiency and quality of financial management in the federal government.

This document is based on government wide statutory and regulatory requirements associated with federal insurance programs. Appendix A is a list of authoritative sources that were used during the development of this document. Appendix B is a list of project contributors.

Publication of this document is a collaborative effort of many federal agencies under the leadership of Mr. Frederick S. Carns, Jr., Deputy Director, Division of Insurance and Research, Federal Deposit Insurance Corporation (FDIC). The Project Team is composed of insurance, financial, and policy professionals from across the federal government.

The FFMSR series of documents was formerly published by the Joint Financial Management Improvement Program (JFMIP). The OFFM began publishing the FFMSR series effective on December 3, 2004.

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# Table of Contents

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# Illustrations

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4-18-2006

## Acronyms

| | |
|---|---|
| CFO | Chief Financial Officer |
| C.F.R. | Code of Federal Regulations |
| COTS | Commercial Off-the-Shelf |
| EFT | Electronic Funds Transfer |
| ERISA | Employee Retirement Income Security Act |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| FCIC | Federal Crop Insurance Corporation |
| FDIC | Federal Deposit Insurance Corporation |
| FFMIA | Federal Financial Management Improvement Act |
| FFMSR | Federal Financial Management System Requirements |
| FMFIA | Federal Managers' Financial Integrity Act |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GAAS | Generally Accepted Auditing Standards |
| GAO | Government Accountability Office (formerly General Accounting Office) |
| GPEA | Government Paperwork Elimination Act |
| GPRA | Government Performance and Results Act |
| GSA | General Services Administration |
| IBNR | Incurred But Not Reported |
| ID | Identification |
| IPAC | Intragovernmental Payment and Collection |
| IT | Information Technology |
| NARA | National Archives and Records Administration |
| NCUA | National Credit Union Administration |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PBGC | Pension Benefit Guaranty Corporation |
| Pub. L. No. | Public Law |
| PMC | President's Management Council |

| | |
|---|---|
| RMA | Risk Management Agency |
| SFAS | Statement of Financial Accounting Standards |
| SFFAS | Statement of Federal Financial Accounting Standards |
| TFM | Treasury Financial Manual |
| U.S.C. | United States Code |
| U.S.SGL | United States Standard General Ledger |
| USDA | United States Department of Agriculture |

## Introduction

The United States federal government is the world's largest and most complex enterprise, involving the collection, management, and disposition of billions of taxpayer dollars. Federal insurance programs are a major component of the federal government's operations. Federal insurance programs, as we know them today, have steadily grown in size, complexity, and coverage. As a result, effective management of federal government insurance programs is critical to the American public. Federal organizations that are responsible for federal insurance programs included the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), Pension Benefit Guaranty Corporation (PBGC), Federal Crop Insurance Corporation (FCIC), Veterans' Benefits Administration (VBA), Federal Emergency Management Agency (FEMA), and others.

The President's Budget of the United States Government, FY 2005, states that the FDIC and NCUA together provide insurance for nearly $4 trillion in deposits and shares at approximately 19,000 commercial banks, savings institutions, and credit unions. The FY 2004 and 2005 budget documents categorize federal insurance programs into four primary types: (1) deposit insurance, (2) pension guarantees, (3) disaster insurance, and (4) insurance against security-related risks (terrorism).

The Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 5, "Accounting for Liabilities of the Federal Government," states that social insurance "is considered to be a different type of program not included within insurance and guarantee programs." In addition, SFFAS 5 states that "insurance and guarantee programs are federal programs that provide protection to individuals or entities against specified risks. Many of these programs were established to assume risks that private sector entities are unable or unwilling to assume, [at least at prices that beneficiaries of the program can afford (in some cases) or want to pay (in other cases)] or to subsidize the provision of insurance to achieve social objectives."

**Purpose**

The purpose of this document is to describe a set of functional requirements applicable to all insurance and financial management systems with which each agency's integrated financial management system must be consistent. These functional requirements frequently arise from federal statutes, regulations, and accounting standards, or were identified as best practices by the project participants. This document delineates requirements that are critical to the performance of both functions. These requirements are intended to be available to all users who rely on the information to carry out their responsibilities.

As a result, this document serves as a basic reference for developing new insurance systems, or improving or evaluating current systems. However, it does not describe hardware or software performance requirements for such systems; rather, it describes high-level functional requirements necessary for the insurance and financial management communities to effectively design and implement their systems.

It is also important to note that many of the requirements included in this document may be delivered or performed completely or partially by non-governmental organizations, as noted throughout the document. An example of this is Crop Insurance which is provided through reinsured companies.

**Methodology**

This document was developed by a Project Team composed of insurance, financial, policy, and other officials from across the federal government. During the Initiation Phase of the Project, the Joint Financial Management Improvement Program (JFMIP) identified a sponsoring agency and leader to support and lead the project, after which a memorandum was generated to all federal agency insurance and financial organizations for participants. The memo to agencies for participants and follow-on activities resulted in the participation of a wide variety of insurance, financial, policy, and other officials, which are listed in Appendix C. After December 2, 2004, the project continued under the auspices of the Office of Management and Budget (OMB), Office of Federal Financial Management (OFFM), in accordance with a memorandum generated by the Deputy Director for Management on that date.

The Project Team began the effort by reviewing a variety of reports, documents, publications, and other materials prepared by a variety of federal organizations, e.g., GAO reports prepared in 1997 and 1998, GAO/AIMD-97-16 and GAO/T-AIMD-98-147; Analytical Perspectives included in the Budget of the United States Government, FY 2004 and 2005; FASAB SFFAS 5 and 25; and conversations with the Congressional Budget Office, Department of the Treasury, and others relative to activities directed at the identification of federal insurance programs. Most agencies thought to have insurance programs were visited during the initiation phase of the project to identify a sponsor and leader, as well as to gain an understanding of the breadth, depth, complexity, and pervasiveness of the various programs.

The Project Team began to develop the document based on definitions for insurance contained in *Barron's Dictionary of Insurance Terms* fourth edition and *Webster's Ninth New Collegiate Dictionary*, after which definitions were crafted for federal insurance programs, as reflected in the Insurance System Overview section of this document. The definition, which establishes the scope of the programs covered by this document, were vetted among Project Team members and validated against a variety of documents and publications generated by the GAO, OMB, FASAB, and other insurance, policy, and oversight organizations with respect to federal insurance programs.

During the second phase of the project, agencies were again visited to obtain documentation, information, and other materials that were useful in identifying requirements for inclusion in this document. Certain existing FFMSR requirements documents (i.e., *Core Financial System Requirements*, *Benefit System Requirements*, and *Revenue System Requirements*) contain requirements that are similar to requirements identified for federal insurance programs. Where appropriate those requirements were extracted, referenced, or otherwise incorporated into this document. Development of this document is one of many actions directed at improving federal financial management, particularly federal financial management systems.

## Federal Financial Management Framework

*Framework for Federal Financial Management Systems* which was published in January 1995, describes the basic elements of a model for integrating financial management systems in the federal government. It provides a foundation for all systems included in the FFMSR. The Framework was republished in April 2004. This updated document description does the following:

- Explains how federal financial management supports federal agencies and the mission of government and is an inherent component of all federal programs;
- Sets forth financial management performance goals, outcomes, and desired capabilities and characteristics that future systems must be designed to meet;
- Describes financial management functions, information flows, and systems that support the federal agencies in carrying out programs;
- Describes the agency and central agency roles;
- Links financial management to program performance and describe how it supports budget and performance integration; and
- Presents the business needs, performance goals, and information architecture that drive financial system requirements.

**Federal Financial Management System Requirements**

The current model comprises the Core Financial, Managerial Cost Accounting, and thirteen subsidiary financial or mixed systems. Such systems must be able to provide consistent, standardized information for program managers, financial managers, agency executives, and oversight organizations, and meet federal statutes, regulations, and standards. Illustration 1 provides a view of the current financial management applications described by the FFMSR series.

System requirements associated with each of these model components are published in separate documents available at www.FSIO.gov (soon to be relocated). Each of these system requirements documents is organized around services and financial event processing that support various missions and programs based on laws, regulations, and standards, and developed with the consensus of financial and program stakeholders based on best practices.

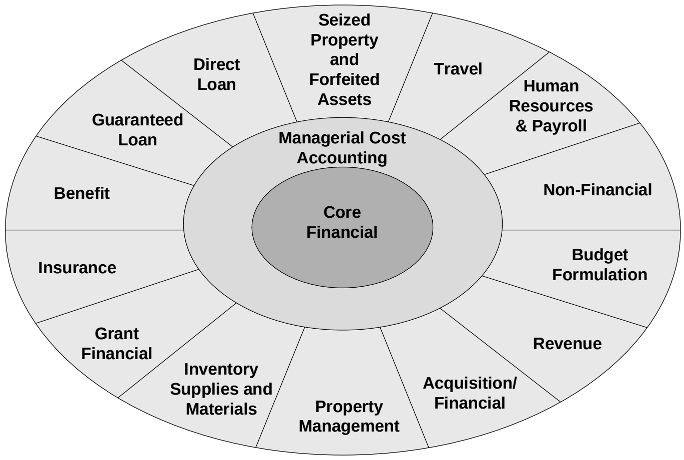
**Framework Goals**

The following financial management system performance goals, outlined in the Framework document, are applicable to all FFMSR documents. All financial management systems **must:**

- Demonstrate compliance with accounting standards and requirements,

- Provide timely, reliable, and complete financial management information for decision making at all levels of government,
- Meet downstream information and reporting requirements with transaction processing data linked to transaction engines,
- Accept standard information integration and electronic data to and from other internal, government wide, or private sector processing environments,
- Provide for "one-time" data entry and reuse of transaction data to support downstream integration, interfacing, or business and reporting requirements,
- Build security, internal controls, and accountability into processes and provide an audit trail,
- Be modular in design and built with reusability as an objective,
- Meet the needs for greater transparency and ready sharing of information, and
- Scale to meet internal and external operational, reporting, and information requirements for both small and large entities.

**Federal Financial Management System Requirements (FFMSR) Components**
**Illustration 1**



## Requirement Guidelines

Federal financial management system development and implementation efforts shall seek cost-effective and efficient solutions as required by OMB Circular No. A-130, *Management of Federal Information Resources*. Agencies are required to use COTS software to reduce costs, improve the efficiency and effectiveness of financial system improvement projects, and reduce the risks inherent in developing and implementing a new system. However, the agency has the ultimate responsibility for implementing sound financial management practices and systems.

**Applicability**

All FFMSR published requirements presented are identified as being mandatory or value-added. These requirement categories are defined as follows:

> **Mandatory** - Mandatory requirements describe what the system must do and consist of the minimum acceptable functionality necessary to establish a system or are based on federal laws, regulations and government wide consensus. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems under the FFMIA. These requirements apply to existing systems and new systems that are planned or under development.
>
> **Value-added** - Value-added requirements describe features or characteristics and may consist of any combination of the following: using state-of-the-art technology, employing preferred or best business practices, or meeting the special management needs of an individual agency. "Value-added," "optional," and other similar terminology may be used to describe this category of requirements. Agencies should consider value-added features when judging system options. The need for these value-added features in agency systems is left to the discretion of each agency head.

Within this document, mandatory insurance system requirements are indicated by the word "must" and value-added system requirements are identified by use of the words "may" or "should."

**Management Controls**

Financial and other systems must be operated with appropriate management controls to ensure the accuracy of data entry, completeness and consistency of transaction processing, and reporting, as stated in OMB Circular A-123, *Management Accountability and Control* (effective through Fiscal Year 2005) *Management's Responsibility for Internal Control* (effective beginning with Fiscal Year 2006) (revised December 21, 2004). Certain controls (for example, input edits) can be incorporated into the software application. Other controls, such as proper segregation of duties, may be implemented as a feature of software functionality, as a manual process, or both.

This document contains some specific software requirements necessary for implementing basic management controls by functional area. In addition, this document incorporates global security requirements that preclude the need to qualify other functional requirements with references to authorized users.

Implementing the system controls within this and other FFMSR documents will help to establish a stronger control environment. Ultimately, each agency is responsible for implementing adequate controls to ensure that the insurance system operates as intended.

## Insurance System Overview

This section provides a high-level overview of the functional business processes that constitute a federal insurance system.  The functional requirements described in this document are based on federal statutes, regulations, standards, or best practices identified by Project Team members. Concepts and definitions used to develop this document are based on concepts and definitions applicable to commercial private sector insurance enterprises, with appropriate modifications to address differences in the federal insurance environment.  Much of the information and many of the ideas for this document are taken from reports, publications, and documentation published by a variety of federal organizations relative to federal insurance programs, e.g. federal agencies that have an interest in federal insurance programs.

The basic definition for federal insurance for this document is based on the *Barron's Dictionary of Insurance Terms* that defines insurance as a "mechanism for contractually shifting burdens of a number of pure risks by pooling them."  Further, pure risk is defined as a "situation involving a chance of a loss or no loss, but no chance of gain.  For example, either one's home burns or it does not; this risk is insurable."

Also, insurance is defined in *Webster's Ninth New Collegiate Dictionary* as "the **act** of insuring, or assuring, against **loss** or damage by a **contingent event**, a **contract** whereby, for a stipulated consideration, called **premium**, **one party** undertakes to **indemnify** or guarantee **another** against loss by certain **specified risks**."

With regard to federal insurance, Congress passes legislation to establish federal insurance programs and frequently establishes or identifies federal agencies that are responsible for the programs and for publishing implementing regulations.  The components of federal insurance programs are identified as follows:  the **act** of insuring, assuring (e.g., two parties signing a contract or citizens depositing funds in federally insured financial institutions) against **loss** or damage (e.g., checking account deposits up to $100,000 per depositor) as the result of a **contingent event** (e.g., financial institution bankruptcy, flood, or termination of an underfunded pension plan); pursuant to a **contract** (e.g., charter or statutory promise to pay) whereby, for a stipulated consideration called a **premium**, **one party**, i.e., the **federal organization indemnifies** or guarantees **another**, i.e., the **insured party** (private sector organization or individual); against loss as the result of certain **specified risks**.

Congress also passes legislation that establishes insurance programs, such as the Federal Crop Insurance Program (FCIP), where the federal role is that of delivering the program through private sector insurance providers.  In the case of crop insurance, the Risk Management Agency (RMA) of the U.S. Department of Agriculture, via the Federal Crop Insurance Corporation (FCIC), approves the premium, administers premium and expense subsidy, approves and reimburses appropriate development costs for insurance products, and provides reinsurance to the private sector reinsured companies for the delivery of approved program policies.

Certain federal insurance programs also operate through arrangements with private sector insurance companies that are responsible for many of the day-to-day insurance policy underwriting and claims processes.  These programs are within the scope of this requirements document.

Because **premiums** associated with federal insurance programs may be insufficient to cover all contingent events, and to ensure that sufficient funds are available to supplement premiums paid by insured parties, a variety of **funding** sources are used in some cases to subsidize federal insurance programs.

As the foregoing information indicates, insurance programs focus on the probable occurrence of some contingent event, e.g., failure of a financial institution, termination of an underfunded pension plan, flood, crop failure, death of a veteran, or other covered event. From this perspective, insurance programs involve two basic categories of business functions, i.e., (1) recurring day-to-day activities in anticipation of a possible contingent event, and (2) activities associated with claims for payment after a contingent event occurs. For purposes of this document, these two categories of insurance program activities are labeled as Pre-Event Functions and Post-Event Functions. In addition, insurance providers may maintain various operations to support their insurance programs, e.g., investment profile management, rate setting, financial management, human resources management, and facilities management.

As the following indicates, many entities are involved in federal insurance programs. The following text identifies and describes the major participants and their authorities and responsibilities.

**Roles and Responsibilities**

- **Federal Insurance Agency:** Federal agencies are responsible for establishing and operating insurance programs in accordance with federal statutes. These responsibilities include the development, publication, and revision of insurance program regulations.

- **Related Federal Agencies:** A variety of federal agencies are responsible for working with federal insurance agencies in carrying out their responsibilities. For example, the senior level managers with the Department of Labor, Department of Commerce, and Department of Treasury serve as members of the Board of Directors for PBGC.

- **Department of the Treasury:** Department of the Treasury, primarily through the Financial Management Service (FMS), establishes a variety of fiscal government wide requirements and for the preparation of the federal government's annual financial statement. FMS is also responsible for disbursing payments on behalf of those agencies that do not have delegated disbursing authority. FMS issues the Treasury Financial Manual (TFM), including the U.S. Government Standard General Ledger (U.S.SGL) and other fiscal guidance.

- **Federal Accounting Standards Advisory Board (FASAB)/Financial Accounting Standards Board (FASB):** FASAB develops federal accounting standards applicable to most federal insurance agencies through the issuance of statements, interpretations, technical bulletins and other guidance (most notably, Statement of Federal Financial Accounting Standards (SFFAS) No. 5). The GAAP hierarchy for U.S. government reporting is established by the AICPA's Statement of Auditing Standards (SAS) No. 91.

FASAB's private-sector counterpart, FASB, develops standards applicable to private sector enterprises and adopted by some federal agencies. These standards often serve as non-binding guidelines employed by most federal agencies and are binding for the financial statements of other agencies when required by law or policy if adopted by an agency (notably FAS 60, 97 and 113).

- **Office of Inspector General (OIG):** OIG is an entity within each agency that is responsible for the conduct of independent audits, investigations, and evaluations of federal programs in an effort to eliminate redundancies, reduce waste, and ensure compliance with federal regulations.

- **Insured Party:** Insured party is the person(s) or entity that receives payments from a federal insurance agency or reinsured company after submitting a claim to cover a loss resulting from a contingent event. Often, the insured party does not directly pay premiums to a federal insurance fund. However the risks assumed by the insured party are indemnified by a federal insurance agency.

- **Reinsured Company:** A company that is reinsured by the federal insurance agency.

- **State Regulatory Officials:** While not common to all federal insurance programs, some federal insurance agencies may share information with appropriate state regulatory officials on matters of common concern regarding private financial institutions.

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## Introduction to Insurance System Requirements

As indicated earlier, federal insurance programs involve Pre-Event Functions and Post-Event Functions defined respectively as: (1) recurring, day-to-day functions in anticipation of a contingent event, and (2) functions associated with claims for payments and receivership of assets, if any, after a contingent event occurs. In addition to Pre-Event Functions and Post-Event Functions, federal insurance and/or reinsured company, if applicable, maintain operating functions to support their programs, e.g., financial management, actuarial activities, investment profile management, human resources management, and trust fund activities.

The essence of an insurance program is the transfer of the risk associated with a contingent event, which may cause loss of life, property, or other financial [economic] harm, from an insured party to an insuring organization, in this case a federal agency or its agent. Actuarial activities are at the heart of an insurance program.

The *Barron's Dictionary of Insurance Terms* defines actuarial science as the "branch of knowledge dealing with the mathematics of insurance, including probabilities. It is used in ensuring that risks are carefully evaluated, that adequate premiums are charged for risks underwritten, and that adequate provision is made for future payments of benefits." According to the *Barron's Dictionary of Insurance Terms*, actuaries conduct various statistical studies; construct morbidity and mortality tables; calculate premiums, reserves, and dividends for participating policies; develop products; construct annual reports in compliance with numerous regulatory requirements; and in many companies oversee the general financial function…." In effect, actuarial activities permeate every aspect of an insurance program, and are therefore incorporated throughout this document.

**Comment [W1]:** Where does this quote start?

The degree to which an insuring federal agency becomes involved in a particular insurance program depends upon circumstances. In some programs the insuring federal agency performs virtually all aspects of the program; e.g., the Veterans' Benefits Administration (VBA) functions much the same as a private sector insurance company, performing all of the necessary insurance activities, in addition to unique ones required of federal insurance programs. Other agencies, such as the USDA Risk Management Agency (RMA), regulate and deliver the crop insurance program through Reinsured Companies.

Also, federal insuring agencies must be prepared to be flexible, taking into consideration changing economic, political, and policy environments, e.g., the savings and loan crisis in the 1980's. Accordingly, a federal insurance system must be flexible to accommodate the diversity of federal insurance programs, as well as changing circumstances.

The following information defines and describes Pre-Event Functions and Post-Event Functions associated with federal insurance programs. These definitions, which are based on private sector insurance definitions, have been modified to fit the federal insurance context.

**Pre-Event Functions.** Pre-Event Functions support recurring, day-to-day activities in anticipation of a contingent event, e.g. flood, drought, or financial institution failure. Pre-Event Functions include: Examination; Underwriting; Funding; and Assessment. As indicated by the following discussion and illustrations, the Examination and Underwriting Functions are closely related, and the Funding and Assessment Functions are closely related.

- **Examination Function and Underwriting Function**

  The Examination Function and Underwriting Function are closely related but distinguishable. Within the private sector insurance industry, both functions would be combined, and *Barron's Dictionary of Insurance Terms* combines the definitions. The *Barron's Dictionary of Insurance Terms* defines underwriting as the "process of examining, accepting, or rejecting insurance risks, and classifying those selected, in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of insureds in a manner that is equitable for the insureds and profitable for the insurer."

  The Examination Function includes three basic processes: (1) determining the viability and legality of insuring a specified risk; (2) gathering information about the risk from a variety of sources (e.g., application); and, (3) evaluating the information received. Some federal insurance agencies may rely on guidelines for reducing the risk that a contingent event will occur, i.e., mitigating loss through up-front prevention activities.

  Unlike the private sector, the Examination Function in federal insurance programs includes legislation establishing the program. Federal insurance providers must also consider other matters in the Examination Function relative to accomplishing social goals and objectives, as well as congressional willingness to appropriate funds.

  The Examination Function must also determine whether the insurance program is accomplishing its intended goals and objectives, and if not, what corrective action is required.

  The Underwriting Function includes the remaining process components identified in the *Barron's Dictionary of Insurance Terms* definition, i.e., the "process of accepting, or rejecting insurance risks and classifying those selected in order to charge the proper premium for each." For purposes of this document, the Underwriting Function includes four basic processes: (1) making a decision to accept or reject applicants, if applicable; (2) implementing the decision to accept an applicant; (3) evaluating and monitoring changes and classifying assumed risk profiles; and, if appropriate, (4) canceling the policy or revoking certification. As indicated earlier, in some cases, in some programs underwriting is mandatory and cancellation or revocation is not possible, per program legislation.

  Unlike the private sector, the Underwriting Function in federal insurance programs must consider the resources available to fund the program, either through the federal budget process or the program's ability to collect premiums to make the program self sustaining.

- **Funding Function and Assessment Function**

  The Funding Function and Assessment Function are closely related but distinguishable. The Funding Function includes requirements associated with identifying types of funding sources available, e.g., premiums or direct appropriations. The function also includes activities that relate to determining the types and levels of funding that may be available to cover the costs of the program, as well as the potential losses that may occur.

The Assessment Function includes requirements associated with obtaining funds to support the program, through the collection of premiums or other fees from the insured party; through the budgetary process in the form of direct appropriations; or from other sources, e.g., income from investments.

Federal agencies use a variety of mechanisms, including risk assessments, modeling, and actuarial calculations to determine and adjust premium levels. The agencies also determine and adjust the amounts they reserve for losses; continually compare the level of funding with the expected payouts, and take budgetary actions to ensure financial stability. Federal agencies that serve as insurance providers use a variety of data gathering techniques, including on-site assessments, to identify known and potential risks. In addition to on-site assessment activities, there are periodic data collections from customers that allow agencies to identify trends and develop analyses. Risk modeling of collected data is used to identify problems and make enhancements to the examination, assessment and other functions.

**Post-Event Functions.** Post-Event Functions support activities that may occur after a contingent event has occurred, e.g., flood, drought, or financial institution failure. Post-Event Functions may include: Assets Management, Claims Management, and Payments Management.

- **Assets Management Function**

  The Assets Management Function supports processes associated with receiving the assets of a failed insured party, e.g., financial institution or defined benefit plan, along with fiduciary authorities and responsibilities. The function also supports the development of a reserve fund for paying anticipated valid claims following a contingent event. Federal agencies that provide insurance often serve as centers of expertise in their respective coverage type, and offer voluntary and/or mandatory guidelines for the mitigation of losses should a contingent event occur. Federal insurance programs frequently include mitigation of loss processes, which refers to the determination of other assets owned by the insured, which should be used first to assist in paying down a claim. Many agencies maintain a program for keeping the public informed and verifying compliance with mitigation techniques.

- **Claims Management Function**

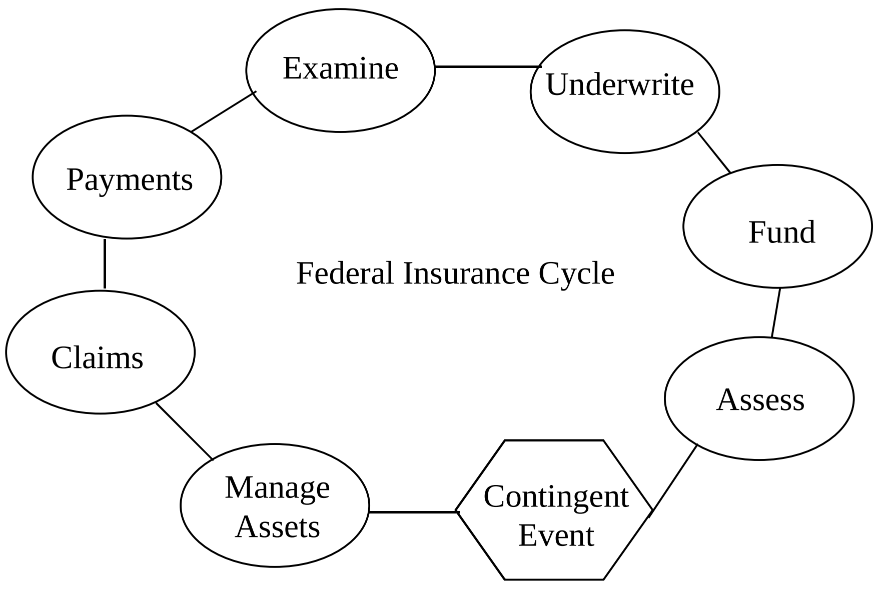
  Claims Management Function refers to determining the validity of claims and verifying the actual amount of payment for which the federal agency or reinsured company, if applicable, is liable.

- **Payments Management Function**

  Payments Management Function refers to the payment to an insured claimant who has sustained a loss that the federal insurance agency or reinsured company, if applicable, has determined is appropriate under the enabling legislation and to the function of ensuring that a payment is proper. The insuring federal agency exchanges information with a Treasury Department disbursing organization to make and receive information on a payment. The process may result in the transfer of information to the Treasury Department, Financial Management Service to execute disbursements on behalf on the agency, or the agency may execute disbursements itself, if it has delegated disbursing authority or is a trustee of private funds. Payments may result directly from an insured event (a loss), a reinsurance agreement settlement (for losses covered by reinsured companies), or for other reasons such as dividends, cancellation of insurance, or loans.

**Federal Insurance Program Cycle.** In many ways insurance programs, whether private sector or public sector can be viewed in terms of a cycle of events or functions as illustration 2 shows. The breadth and depth of the events or functions differ among federal insurance programs. In programs which are substantially pure insurance, e.g., crop insurance programs, paying claims occurs in the near-term. Whereas, in programs which have the purpose to maximize resources available for claims, e.g., PBGC, the federal agency manages assets of failed or failing entities and pays claims over a longer term.

**Federal Insurance Program Cycle**
**Illustration 2**




**Operations.** As discussed earlier federal insurance agencies require a variety of operational functions to support Pre-Event Functions and Post-Event Functions. Following are descriptions of the Core Financial System; Actuarial and Estimation Modeling Activities; and Trust Fund and Revolving Fund Activities. As discussed earlier some of these functions, requirements and activities do not apply to a particular federal insurance program at all and their applicability may vary over time, depending on the area to which the particular insurance program applies. Also, compliance and customer service activities are accomplished by private sector reinsured companies rather than RMA/FCIC.

As discussed earlier, there is a wide variety of system configurations that exist among federal insurance programs as well as variations in configurations and requirements over time, again depending on the area to which the particular insurance program applies, e.g., the core financial and program insurance system may be tightly integrated, which in other instances the core financial system may be standalone, with appropriate interfaces.

- **Core Financial System**

  Requirements for a core financial system to support the fundamental financial functions of a federal agency are identified in the *Core Financial System Requirements* document. The core document includes information in three basic sections: general; functional; and technical. All of the core requirements are incorporated into this document by reference.

- **Actuarial and Estimation Modeling Activities**

  The development of economic forecasts, financial models, risk models, premium tables and other activities which allow the agency to forecast expected benefits based on statistical or other analyses.

- **Trust Fund and Revolving Fund Activities**

  A wide variety of trust fund and revolving fund activities apply to most, but not all, federal agencies that provide insurance. In some cases, there are no trust fund and revolving fund activities involved in the program. In other cases, a single trust fund or revolving fund is used to support all activities from beginning to end, i.e., Pre-Event Functions and Post-Event Functions. In still other cases, different trust or revolving funds are used to support Pre-Event Functions and Post-Event Functions.

  Some of the more prevalent activities associated with trust fund activities are revenue activities, reserving activities, and maintenance of pooled assets.

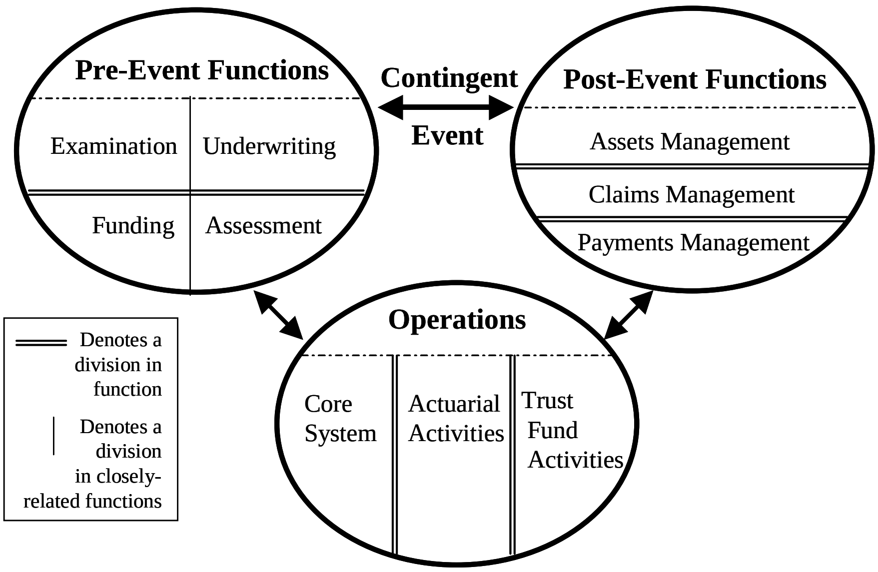
  Revenue activities include requirements associated with cashier, deposit, cash reconciliation, and other related functions.

  Reserving activities include requirements associated with known claims due but not paid, known claims not yet due, and provision for incurred but not reported (IBNR) claims. The critical problem facing federal insurance providers is the amount of reserves necessary for the incurred but not reported (IBNR) losses because many of these claims and their resultant settlements may not manifest themselves until several years in the future.

Maintenance of pooled marketable assets provided by the funding mechanism and investment of these assets is a means of augmenting the amount of funds available to cover cash flow needs. Investing activities are regulated with limitations imposed to ensure adequate stability and liquidity of the federal agency insurance provider.

Federal insurance programs can be viewed as shown by illustration 3, which shows the processes that occur on a daily basis. Insurance providers focus on the contingent event. Entities undertake processes, such as examination and underwriting, funding and assessment to ensure that the entity will remain financially viable should the contingent event occur. Illustration 3 shows the simultaneous processes of a federal insurance program. However, these processes can be envisioned linearly by focusing on the contingent event. Entities can be envisioned to have two distinct sets of functions, Pre-Event Functions and Post-Event Functions. Pre-Event Functions are carried out to track, assess and minimize insurance risks while promoting the insurance program to prepare for the financial and administrative burden (the loss) from the eventual realization of contingent events. Post-Event Functions are carried out to fulfill program promises and minimize the financial burden.

**Federal Insurance Program Business Model**
**Illustration 3**




After a contingent event has occurred, the federal insurer or reinsured company, where applicable, must pay for losses attributable to the contingent event. This normally includes determining the extent of financial loss and paying beneficiaries. It may also include minimizing losses from the contingent event (e.g., managing a failed organization). Because these additional activities support the overall operation they are categorized as "Operations." For example, the federal insurance agency will perform core accounting for any federal funds involved. Other activities that may be included in operations are Actuarial Activities; Trust Fund Activities; and Compliance and Customer Service Activities. These activities may be delivered by the federal insurer directly, or in the case of the federal crop insurance program, these activities may be delivered by the reinsured company.

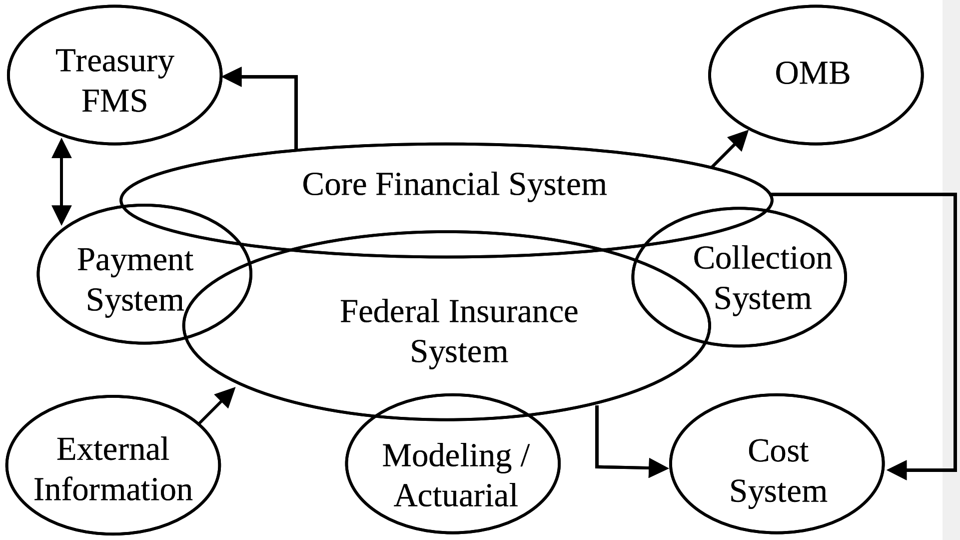
These functions form the structure for organizing shared information requirements described in detail in later sections of this document.

To begin the process of providing insurance to an entity or individual, the responsible federal agency identifies the universe of pooled interests that are candidates for insurance as mandated by legislation, e.g., all private sector defined benefit pension plans. In addition to the existence of federal legislation establishing federal insurance programs, there are other features that distinguish federal insurance programs from private sector, traditional insurance programs.

**Relationships with Other Systems**

Illustration 4 shows how a typical insurance system relates to other internal agency systems, as well as systems external to the agency. There are various ways an insurance system may be designed, configured, and operated. As Illustration 4 shows, an insurance system may include a payment component that generates payment information for the Department of the Treasury, FMS to make disbursements, and maintains detailed claimant account or reinsured company payment information, where program delivery is via reinsurance.

**Federal Insurance System Model**
**Illustration 4**



The payment component may be part of the agency's core system or the payment component may be a separate component, in which case summary level information is exchanged with the core system. Alternatively, the insurance system may interface with the core system to exchange detailed information and utilize the payment functionality of the core system. Additionally, the configuration may involve a combination of both methods.

These alternative methods may apply to accounts receivable, accounts payable, general ledger, reporting, and other functions. The insurance system's issuance of payment information to the Treasury Department, FMS, and the disbursement of that payment, may trigger the establishment of the financial system's obligation transaction by means of an electronic interface.

The principal system, however, that shares information requirements and creates two-way dependencies with the insurance system is the core financial system. These interdependencies help to ensure integrity and control in the areas of budget, program management and delivery, external reporting, and data integrity.

**Federal Insurance Programs – Funding Models**

There are fundamental differences between various insurance funding models as the following discussion indicates, beginning with the most basic "traditional" insurance funding model. The following discussion highlights a fundamental difference between the "traditional" model and federal insurance program models, i.e. the involvement of the federal government in the relationship between insurer and insured.

**Traditional Private Insurance Funding Model**

The "traditional" private sector insurance model includes the transfer of risk from the insured to the insurer for a premium, i.e. the insured pays a premium in return for the insurers assumption of risk and promise to pay for a contingent loss. The burden of loss is redistributed to all insureds via pooling of similar risk. Because premiums are received before losses are paid, "float" arises which the insurer invests. Premiums alone may not cover losses, so the insurer's return on investment combined with the premiums earned must exceed losses for the insurer to remain viable.

As the following discussion indicates, there are also two basic federal insurance funding models, i.e. those that receive appropriated funds and those that do not. In addition the federal government serves as a reinsurer in at least one program, i.e. the crop insurance program, in which case a hybrid funding model applies. This model is also described below. Notwithstanding the fact that there are many other federal insurance programs not discussed, some more complex than others, all federal insurance funding models function in a manner similar to the following discussion.

**Premium or Fee-Based Federal Insurance Funding Model**

The FDIC depositor insurance program is an example of this model. The insured financial institution pays a premium to FDIC, but the depositor receives the primary benefit in the form of deposit insurance.  This insurance program is funded by premiums plus investment income earned on premiums, but normally appropriated funds are not supplied.  The FDIC, by law, is limited in its investment options to U.S. Treasury securities.

**Premium Plus Appropriation Federal Insurance Funding Model**

The Servicemembers' and Veterans' Group Life Insurance program is an example of this model. This premium plus appropriation insurance program is funded by a combination of premiums paid by the insured, appropriations from Congress, and investment income earned.  Congress appropriates funds to pay increased premium during hostilities.

**Federal Reinsurance Funding Model**

The federal reinsurance funding model is an example where the insurance program is funded and delivered through private insurance companies using reinsurance agreements.  Federal reinsurance programs have a different mission from their private-sector counterparts.  For example, the mission of the Risk Management Agency of the USDA (which operates the FCIC) is to promote, support, and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers; whereas the mission of a private-sector reinsurer is to profit from the risk transferred by a ceding insurance company.

Under this model the RMA, via FCIC, provides crop insurance to American agricultural producers (farmers).  Private sector insurance companies sell and service the FCIC approved policies. RMA develops and/or approves the premium rate, administers premium and expense subsidy, approves and supports products, and reinsures the private sector insurance companies.

**Appropriation Only Federal Insurance Funding Model**

In addition to the above insurance and reinsurance funding models, there are insurance-like programs that are paid out of appropriated funds only, e.g., terrorism and vaccine insurance programs.

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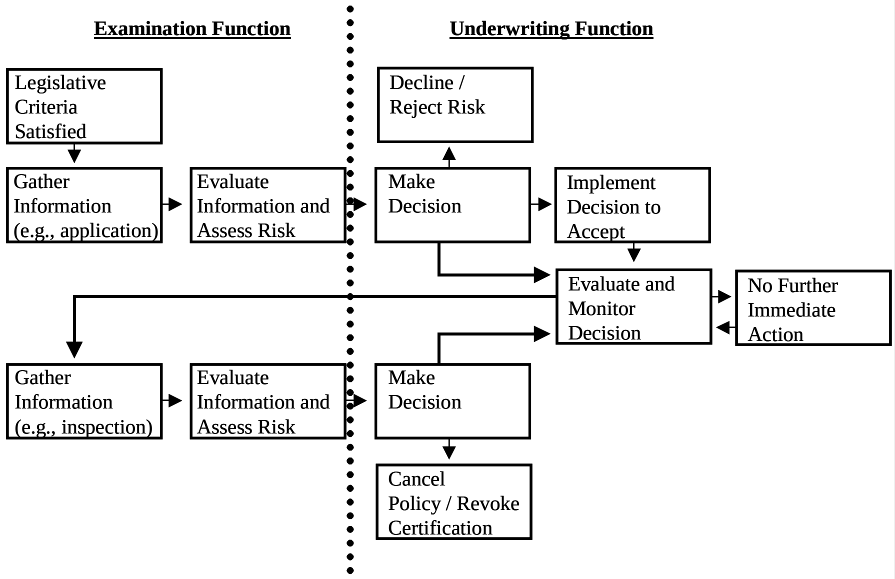
## Pre-Event Functions

Pre-Event Functions support day-to-day activities prior to a contingent event, e.g., flood, drought, or financial institution failure. Pre-Event Functions include: (1) Examination Function, (2) Underwriting Function, (3) Funding Function, and (4) Assessment Function. This section provides more detailed requirements applicable to these functions.

### Examination Function and Underwriting Function

As described earlier, the Examination Function and the Underwriting Function at federal agency providers of insurance are closely related but serve distinctly different processes as illustration 5 shows.

**Examination and Underwriting Decision Making Model**
**Illustration 5**




### Examination Function

The Examination Function includes three processes as follows:

- Determine the viability and legality of insuring a specified risk by ensuring that the qualification criteria set forth by the federal insurance program's enabling legislation is satisfied;

- Gather information about the overall prospective risk pool (the coverage universe), and the specifics of the individual risks, from a variety of sources, including the application; and

- Evaluate the information gathered and assess the risk involved by relying on the federal insurance agency as a center of expertise in their respective coverage universe.

Depending on the nature of the federal insurance program, an agency may impose (or suggest) guidelines for the insured entity to reduce the risk that a contingent event will occur (i.e., mitigate the potential loss through up-front prevention activities such as performing on-site inspections (audits) of insureds). The information collected from the insured entity aids federal insurance agencies in their supervisory function. For example, the assignment of examination ratings is a useful vehicle for identifying problems at specific financial institutions, as well as categorizing those institutions with deficiencies in particular component or geographical areas. In addition, information from inspections (audits) is used by federal insurance agencies in their internal portfolio risk assessment and loss reserve evaluations.

**<u>Mandatory Requirements for the Examination Function</u>**

To support the Examination Function, the system **<u>must</u>:**

- Capture information that allows the agency to determine if the risk qualifies under the enabling legislation;

- Capture information that allows the agency to establish a legal relationship with the insured or reinsured party, e.g. contract, charter or agreement;

- Capture comprehensive population profile information, including insuring organization, insured population (items, people, etc.);

- Quantify the risk and impose rules for accepting the risk;

- Identify how the risk fits into the entity's risk portfolio;

- Provide for the calculation of the appropriate premium;

- Provide for the identification of the appropriate funding source and level for each (if applicable);

- Allow management to readily determine if other risk mitigation strategies should be used;

- Provide for comparison against program criteria;

- Capture and provide access to the following information:

    - Date, including FY;

- On-site audits;
- Actuarial information;
- Organization code (if applicable);
- Object classification (if applicable);
- Estimated amount (if applicable);
- Project code (if applicable); and
- Program code (if applicable).

- Support the export of historical data for use in revenue forecasting.
- Provide program evaluation and corrective action capability (based on information gathered during the underwriting process), including the following elements
  - Audit sample of transactions;
  - Identify anomalies, errors, or discrepancies;
  - Analyze cause of errors, etc.;
  - Prepare program of corrective action;
  - Implement corrective action program; and
  - Repeat process.

**Value-Added Requirements for the Examination Function**

To support the Examination Function, the system **should:**

- Capture and provide access to the following information:
  - Actuarial information source, e.g., industry standard;
  - Description;
  - Estimated amounts increased or decreased;
  - Revenue source code; and
  - Agency location code (ALC).
- Enable electronic approvals, notification alerts, and point-of-entry automated requisition forms;

- Support revenue forecasting based on historical revenue data and other variables such as known current or future events (planned rate increases, market changes, etc.). For example, if regulation will increase fees, effective May 1, compute revenue for balance of fiscal year, and;
- Establish a baseline of revenue collections in comparison to potential revenue.

**Underwriting Function**

The Underwriting Function includes requirements associated with making a decision to accept or reject a particular instance (if allowed by the enabling legislation). The primary objective of the Underwriting Function is to minimize adverse selection, which is the tendency of poorer-than-average risks to seek insurance to a greater extent than do the average or better-than-average risks. Although adverse selection can never be entirely eliminated, it can be controlled in some federal insurance programs by careful adherence to underwriting policy and rigorous enforcement of federal insurance policy provisions. Other insurance programs, however, lack the ability to control, or reject/decline certain pools of risk. These programs are created because private insurers, standing alone, are unwilling or unable to serve a certain segment of the market. For example, private insurers might not write (issue) crop insurance absent federal government reinsurance.

The Underwriting Function is based on a clear statement of underwriting policy. For federal insurance programs, legislation will likely be the source of the underwriting policy. After an agency's underwriting policy is established, it must be communicated to the underwriters and their supervisors – those persons charged with making daily decisions regarding the acceptability of risk – who are required by law to follow the underwriting policy of the federal insurance agency they serve.

The Underwriting Function, as described above, is a decision making process, which is cyclical and can be separated into the following processes:

- Make a decision to accept, accept subject to conditions, or reject applicants, if applicable;
- Implement decision to accept, or accept subject to conditions, including the following actions:
    - Communicate decision to relevant party or system;
    - Develop appropriate certificates, records, or documentation; and
    - Record information for accounting, statistical, monitoring purposes.
- Evaluate and monitor the decision to ensure the risk remains acceptable to the federal insurance agency; and if necessary or possible, and

- Cancel the policy or revoke certification.

The foregoing discussion is concerned with underwriting individual risks or a group of risks.

Another important aspect of underwriting concerns the control by agency management of the underwriting process. Agency management must regularly evaluate the underwriting that is performed to ensure that it conforms to the underwriting policy of the agency.

The specific underwriting controls will vary from agency to agency and program to program, but the control process will follow a cyclical pattern similar to the underwriting process described in the Examination Function.

**Mandatory Requirements for the Underwriting Function**

To support the Underwriting Function, the system **must:**

- Capture essential information – information that is absolutely necessary to arrive at an underwriting decision – in a legal, timely and cost-effective manner such as:
  - Applicant's policy or account number, if any (including effective date and expiration date);
  - Applicant's name, mailing address, and home/business telephone numbers;
  - Applicant's previous address (if less than three years at current address);
  - Applicant's date of birth (if applicable);
  - Applicant's social security number or other taxpayer identification number;
  - Applicant's employment information (if applicable) (e.g., name of employer, address of employer, work telephone);
  - Information about the nature and quality of what applicant seeks to insure (e.g., self, home, business property, etc.);
  - Information about the type of policy (e.g., amount of coverage/benefit, deductible, waiting period, billing cycle, remarks or endorsements, etc.);
  - Information about, and status of, beneficiary (e.g., name, date of birth, social security or taxpayer identification number (ID), type of beneficiary (primary, contingent, irrevocable, joint account/policy holder, etc.), payout information (lump sum, annuity, etc.), (if applicable); and,
  - Signature, certification, endorsement of applicant.
- Capture objective and subjective information on hazards to sound underwriting:

- Physical hazards – tangible characteristics of the property, persons, or operations to be insured that affect the expected frequency and severity of loss from one or more risks;

- Moral hazards – a condition that exists when a prospective or current policyholder tries to cause a loss or exaggerates a loss that has occurred (fraud). Information regarding prospective or current policyholder's criminal background, or evidence of moral turpitude exists; and

- Weak financial condition – failure to maintain adequate capital structure, and history and future of financial condition.

- Capture and provide access to the following information:
  - Date, including FY;
  - On-site audits;
  - Actuarial information;
  - Organization code (if applicable);
  - Object classification (if applicable);
  - Estimated amount (if applicable);
  - Project code (if applicable); and
  - Program code (if applicable).

- Support the export of historical data for use in revenue forecasting.

**Value-Added Requirements for the Underwriting Function**

To support the Underwriting Function, the system **should:**

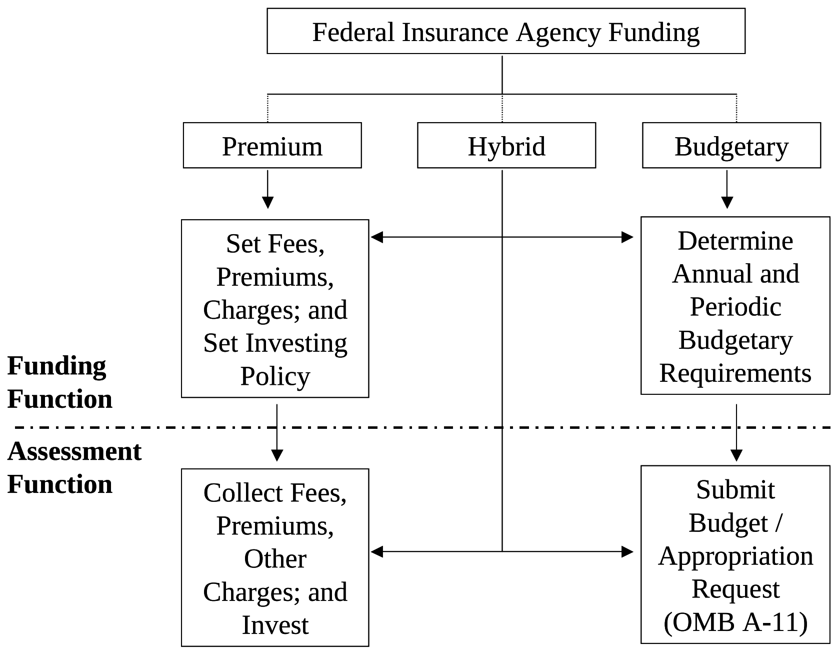
- Capture desirable information that is not absolutely necessary, but would be helpful in evaluating the risk if the information can be obtained at an acceptable cost and without undue delay.

**Funding Function and Assessment Function**

Illustration 6 shows the fundamental processes and differences associated with the Funding Function and with the Assessment Function. The Funding Function is concerned with the source(s) of funds needed to ensure the federal insurance agency remains viable. Some federal insurance agencies rely on premiums (and the associated investment income), others rely on direct appropriations, and some rely on a combination of both the premiums (and investment income) and appropriations to support their operations, and meet incurred and expected claims. Whatever the source of funds, the Funding Function of any insurance system must capture and record information necessary to ensure a stable insurance program by continually evaluating the level of funding relative to the level of expected program costs.

If the Funding Function is concerned with *where* the money will come from, then the Assessment Function is concerned with *how* the money will be obtained, e.g., premiums collected from the insured party. Premiums or fees may be assessed, charged to, and collected from the insured entity; and appropriated funds may be obtained through the budgetary process or some combination thereof. Like the Funding Function, the Assessment Function is critical to the stability of a federal insurance program.

**Funding and Assessment Functions Model**
**Illustration 6**



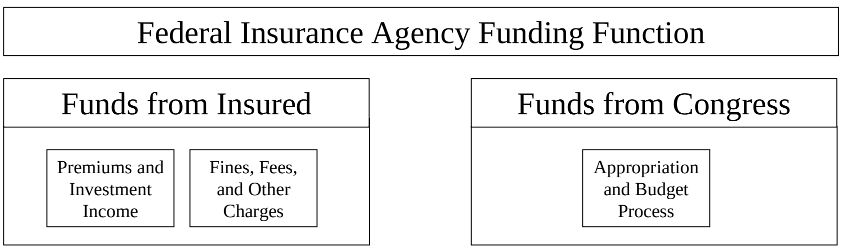

There is normally a direct relationship between the amount of risk accepted by the insurer and the premium or other funding (e.g., direct appropriations) needed. This risk pricing is normally developed with the aid of estimation models, actuarial calculations, and other evaluative information.

Federal insurance programs are designed to promote a public good (e.g., affordable insurance for soldiers in combat). Because of the higher risk profile associated with certain risks covered by federal insurance programs, the burden for the whole premium may not be placed directly on the insured. The premium for those higher-than-average risks could be subsidized through an appropriation or an assessment on the entire population of insured entities.

### Funding Function

Illustration 7 shows the three basic processes associated with the Funding Function: (1) those directed at determining charges to be imposed on the insured in the form of premiums, fees, or other charges; (2) those directed at determining amounts to be obtained through the federal budgetary process, and (3) those directed at obtaining other sources of income, e.g., interest on the investment of premiums or fees in Treasury securities in accordance with program legislation and regulation.

**Federal Insurance Provider Funding Function Model**
**Illustration 7**




### <u>Mandatory Requirements for the Funding Function</u>

To support the Funding Function the system **<u>must</u>:**

- Capture information to ensure compliance with statutory and regulatory provisions relative to assessment of premiums, fees, or other charges;
- Capture information that enables the agency to determine the appropriate premium or funding for each risk insured;
- Capture information that enables the agency to determine who will fund the premium, i.e., insured, industry, appropriation, etc.;
- Capture information that allows the agency to determine if the aggregate of all premiums collected is appropriate for the risks insured;

- Capture and provide access to the following information:
  - Date, including FY;
  - On-site program;
  - Periodic data collections from customers;
  - Risk modeling;
  - Insured losses;
  - Adjustments to reserves (if applicable);
  - Program code (if applicable); and
  - Obligation amount (if applicable).
- For federal insurance delivered directly by the federal insurance agency, provide access to a hard copy or an electronic copy (where cost effective) of the entire executed (signed) insuring document through a charter, contract, or program plan including the following information:
  - Insuring document number, e.g., contract, charter, or memorandum of understanding;
  - Premium, fee, or other payment amount; and
  - Estimated payment date.
- For insurance delivered through reinsured companies by a federal insurance agency, provide access to a hard copy or an electronic copy (where cost effective) of the entire executed (signed) reinsurance agreement, including the following information:
  - Reinsurance (underwriting gain/loss)
  - Risk subsidy
  - Administrative and operating expense reimbursement
  - Premiums, producer premiums, fees or other payment amounts; and
  - Estimated payment dates.

**Value-Added Requirements for the Funding Function**

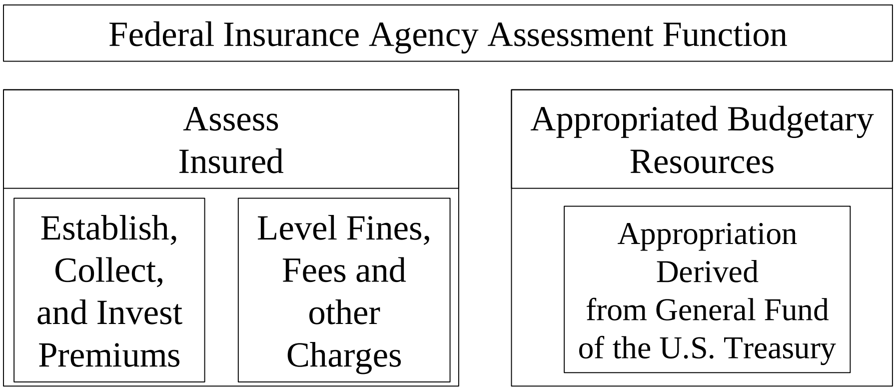
To support the Funding Function, the system **should:**

- Access information associated with changes.

**Assessment Function**

Illustration 8 shows the high level processes associated with the Assessment Function including activities whereby each insured party (entity or individual) is periodically assessed a fee or premium to pay for insurance coverage, similar to private sector commercial insurance providers. Illustration 8 also shows the high level appropriated budgetary resource processes associated with the Assessment Function, including activities whereby the insuring agency obtains resources in the form of appropriations derived from the general fund of the U.S. Treasury.

**Federal Insurance Provider Assessment Function Model**
**Illustration 8**




Federal agencies are responsible for a variety of programs that involve the collection of revenue, as described in the *Revenue System Requirements* document. The Revenue document defines two types of revenue associated with federal programs: (1) Exchange Revenue and (2) Non-Exchange Revenue.

Premiums or fees associated with federal insurance programs conform to the definition for Exchange Revenue as follows: “Exchange revenue and gains are inflows of resources to a government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises when a government entity provides something of value to the public or another government entity at a price.” This definition is taken from the “Statement of Federal Financial Accounting Standards, Number 7, Accounting for Revenue and Other Financing Sources,” paragraph 33. “Non-exchange revenue arises primarily from the exercise of the government’s sovereign power to demand payment from the public, such as taxes, duties, fines, etc.,” per SFFAS 24, footnote 10.

The Assessment Function also includes activities required to obtain revenue and other budgetary resources through the federal budget process, if necessary, allowed by law or regulation, or otherwise to ensure a financially sound program and fund. Budgetary program requirements are published in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, which is updated annually to support formulation and execution of the annual budget.

Budgetary resources must be available before obligations can be incurred. To meet this requirement, three elements must be satisfied prior to recording an obligation:

- Purpose—the obligation must be for a purpose for which the appropriation was made.
- Time—the obligation must be incurred within the time that the appropriation was made available for new obligations.
- Amount—the obligation may not exceed the amount of funds available for obligation against the appropriation.

Insurance systems must be able to record, track, and report complete obligations, whether funded by current or planned future appropriations. These elements of the obligation concept are applied to individual transactions on a case-by-case basis.

**Mandatory Requirements for the Assessment Function**

To support the Assessment Function the system **must:**

- Process, track, and maintain identification information for each insured party (individual or entity) or for each reinsured company, as applicable, e.g., crop insurance;

- Retain identification information reflecting an insured party's or for each reinsured company, as applicable, the entire history for handling inquiries and providing an audit trail;

- Provide for a full range of remittance options (all of which can be in foreign currency):
  - Cash, check, and money order;
  - Electronic, including Automated Clearing House (ACH), Electronic Funds Transfer (EFT), FedWire, Intra-governmental Payment and Collection System (IPAC), Pay.gov, and credit card;
  - Prepayment or advances, (funds advanced by insured parties or reinsured company's, if applicable, in requesting insurance coverage). Advance balances are reduced for services provided; and
  - "On account," i.e., an account receivable is established and an invoice is generated.

- Capture and provide access to the following information at the insured party or reinsured company, if applicable, and individual document level:
  - Unique insured party or reinsured company identification number;
  - Insured party or reinsured company name;
  - Taxpayer Identification Number (TIN);

- Insured party or reinsured company address, including physical, mailing, email, and billing;
- Contact information, including name, telephone number, e-mail address, etc.
- IRS 1099C indicator (for non-federal accounts receivable needed in case of debt write-off);
- Comment information;
- Date of last update;
- Amount received;
- Date of each remittance received; and
- Method of payment, e.g., check or money order.

- Support the generation of bills for amounts due the agency;
- Generate bills to customers based on accounts receivable calculation, event and time period, and type of claim. Basis used for billing may include:
  - Percentage of reimbursable obligations, accrued expenditures or costs;
  - Fee schedules; and
  - Payment schedules or other agreements with other entities.
- Provide the capability to automatically calculate additional customer charges, e.g., interest, using user-defined criteria and automatically generate separate line item to reflect charges on the bill;
- Record billings by line item in order to identify specific accounting classification codes;
- Support bills between business partners and provide supporting data to agencies billed which can be used to verify the charges;
- Reverse a bill issued non-IPAC, and reissue the bill via IPAC and vice versa;
- Print bills, accommodating the generation of standard forms. Allow for customized text and descriptive information in generating billing documents;
- Date bills with a system-generated data or with a date supplied by the user;

- Generate bills prepared manually and allow transactions to be entered onto bill by authorized personnel;

- Provide the capability to allow adjustments to billing data prior to billing;

- Record adjustments to bills and post to customer accounts;

- Provide the capability to store billing supporting information;

- Provide the capability to perform on-line “drill downs” from general ledger summary balances to detail transactions and referenced documents;

- Provide the capability to issue credit bills when appropriate;

- Provide the capability to maintain on-line all activity related to the customer including date of last update and last date customer contact made, at document level;

- Provide the capability to generate recurring billings with pre-defined customer and amount information;

- Provide the capability to record the receipt of funds either by currency (e.g., cash, EFT) check, IPAC or credit card and the deposit of such funds in accordance with Treasury and agency regulations. Also, provide for the receipt of payment offset information from Treasury and its application to the appropriate accounts receivable;

- Record the application of complete and partial payments;

- Record revenues for collections for which no receivable was previously established;

- Apply collections to the specific account to reduce or liquidate cumulative payments and expenditures, e.g., upon the refund of erroneous payments;

- Record information associated with a collection at the time funds are applied to an open receivable document, including the deposit ticket number and date, TAS/TAFS and accomplish date;

- Apply collections to more than one receivable;

- Re-open closed accounts to record collections after a waiver or write-off of a receivable has been recorded;

- Process SF-5515 debit vouchers, SF-215, charge backs, canceled payments or insufficient funds to reduce collections and re-establish a receivable;

- Provide the ability to reduce collections with a miscellaneous adjustment such as a journal voucher. A miscellaneous adjustment may also include a debit voucher or bank adjustment not related to a returned check reduced deposit total;

- Maintain customer account information for internal statement of all transactions and to support billing, reporting, and research activities, including at a minimum:

    - Account number unique to each transaction or reference (not just unique customer);
    - Account balance;
    - Associated customer ID number;
    - Date due and age of accounts receivable;
    - Accounting classification code strip; and
    - Reimbursable order number, where applicable.

- Process a receipt against an established receivable and close or liquidate the receivable if payment is in full. Leave the receivable open if not paid in full.

- Apply collections to a hierarchy of debts.

- Create a deposit record for a deposit ticket, including at a minimum:

    - Deposit ticket number (should be able to accommodate an agency assigned number and the Treasury assigned number);
    - Deposit ticket date;
    - Deposit ticket amount;
    - Agency location code (ALC);
    - Entry date;
    - Treasury confirmation date;
    - User ID for establishing ticket; and
    - User ID for closing ticket.

- Record the receipt of an advance from others and associate it with the RA.

- Provide the ability to record a receipt, part of which is revenue to the collecting agency, the remainder of the receipt is revenue to other agencies with which the receipt is shared.

- Provide system capability to automatically record collections by downloading data, i.e., lockbox, collection agency, DOJ, or Treasury.

- Provide capability to record and subsequently track collections by type, i.e., internally, externally with Treasury Offset Program, or other collection service center or agency.

**Value-Added Requirements for the Assessment Function**

To support the Assessment Function, the system **should:**

- Consolidate multiple accounts receivable for a customer onto one bill;

- Receive insured party identification information via the internet; and

- Provide an integrated insured party management relationship repository to establish a single view of insured party information;

- Utilize insured party data that has been submitted electronically in an automated fashion without manual intervention (i.e., avoid re-entering data from one component to another); and

- Have the ability to date and time stamp contracts, agreements, charters, etc., and other time sensitive correspondence that has been received through electronic mediums.

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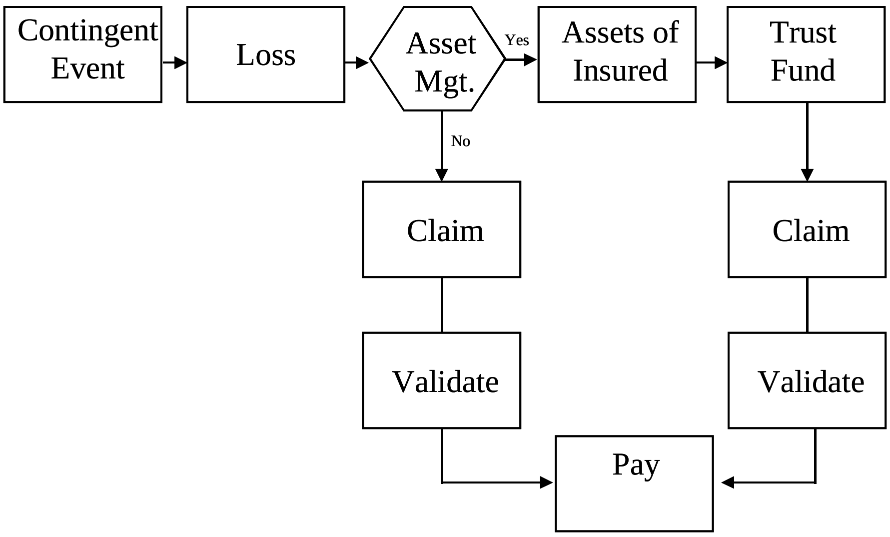
## Post-Event Functions

Post-Event Functions may include activities that occur after a contingent event has occurred, e.g., flood, drought, or financial institution failure. Post-Event Functions may include: (1) Assets Management Function, (2) Claims Management Function, and (3) Payments Management. Illustration 9 is a high level model for federal insurance providers of support processes and activities that typically apply after a contingent event has transpired. For federal insurance delivered through reinsured companies, e.g., crop insurance, Post-Event Functions are delivered by the non-federal reinsured company, and only the payment function requirements apply to the federal insurance agency, RMA/FCIC, regarding its payments made to the reinsured company.

**Post-Event Function Model**
**Illustration 9**




Federal insurance system requirements are circumstantial after a contingent event has occurred, depending on the extent to which the federal insurance provider must become involved in providing insurance type services, and the method under which they become involved. In some cases, the insurance provider carries out all insurance type services from beginning to end. In other cases, the federal insurance provider manages the dissolution process that is carried out by others. In still other cases, e.g., failure of a financial institution or defined benefit pension plan, the federal agency must become a fiduciary with full responsibilities for orderly dissolution of the assets through the establishment of trusts. In still other cases, e.g., crop insurance, the federal agency delivers Post-Event Functions through reinsured companies, except for financial settlement and payment, if applicable, to the reinsured company under the terms of the reinsurance agreement.

In the case of underfunded pension plans, the follow-on trust and other activities may last for years, while for others, insurance program activities are completed quickly, after the contingent event occurs.

The insurance system must be sufficiently flexible and comprehensive to accommodate all of these circumstances, as any program over time has the potential for changing and perhaps requiring more extensive involvement in providing insurance services.

As discussed several places in this document, the insurance system must be flexible for Post-Event Functions, due to the various delivery choices used for federal insurance programs. For example, only the Payment Function, insofar as it relates to settlement payments with reinsured companies may be applicable to the crop insurance program. The Assets Management Function includes processes that provide support when the federal agency must “step-in” and become a fiduciary. Claims may or may not need to be submitted. These requirements are intended to document the system capabilities to make a determination of the appropriate process(es) and activity(ies) in any set of circumstances.

**Assets Management Function**

The Assets Management Function includes processes whereby the federal insurance provider assumes full responsibility for the insured parties’ activities, including fiduciary responsibilities to manage assets and liabilities of the failed entity to either minimize the loss or maximize the returns to the insurance program or maximize the returns to the insured parties. This activity does not reduce the distribution of benefits to the ultimate beneficiaries; rather it allows for the program to mitigate losses, and on rare occasions, allows for the the partial recovery of uninsured losses by beneficiaries. Certain federal insurance providers are given powers to take entities into receivership in order to facilitate the distribution of benefits to the ultimate beneficiaries.

For failed or failing defined benefit pension plans insured by PBGC, PBGC takes over the management and operations of the plan. It assumes the assets and liabilities of a plan in order to marshal such resources to minimize the loss to the insurance fund and provide long-term retirement benefits to the plan’s participants. PBGC administers the plan until all participants are paid out.

For failed or failing financial institutions insured by FDIC and NCUA, the federal agency may take such financial institutions into receivership if a merger partner cannot be found. At such a point, the federal agency manages the assets and liabilities of the financial institution, as well as its daily operations, in order to minimize the loss to the insurance fund and to fund payment of insured deposits.

Although these agencies deal with different insurable risks, their processes are similar and activities are fiduciary in nature.

*Barron's Dictionary of Insurance Terms* dictionary defines fiduciary responsibilities as the "holding of property, or otherwise acting on behalf of another in trust. The fiduciary must exercise due care in safeguarding property left under personal care, custody, and control. Insurance coverage is available for this exposure." With regard to insurance coverage, federal agencies self insure.

Insurance agencies often serve as centers of expertise in their respective coverage type and offer voluntary or mandatory guidelines for the mitigation of losses should a contingent event occur. Many agencies are required to maintain a program for keeping the public informed and verifying compliance with mitigation techniques.

Processes associated with the Assets Management Function may also support the determination of other assets owned by the insured, which should be used first to assist in paying down the claim. The Assets Management Function also supports the development of a reserve fund for paying anticipated valid claims following a contingent event. Federal agencies that provide insurance must also take a variety of actions to maintain the value of assets and mitigate further loss or damage, or ensure that others do so, especially the insured party. Within the context of the Assets Management Function, the federal insuring agency becomes liable or as stated, "in the shoes of the insured party," e.g., an employer that has terminated a pension plan or a financial institution that has failed.

The following cycle usually occurs in the Assets Management Function once an entity has been taken into receivership.

- Legal procedural process to allow seizure or acquisition of entity's property, assets and operations.

- The entity's operations are suspended or transferred to the insurer's control. In the case of banks, current employees continue their duties, but under control of the insurer or its agent.

- All assets and liabilities are catalogued. Assets may include loans, property, and equipment. Liabilities may include depositor or participant's accounts, borrowings, and accounts payable.

- Books and records of the entity are compiled into an accounting system maintained by the insurer. Such accounting system is able to maintain separately the transactions of the entity as well as to aggregate them with other entities in receivership in order to facilitate the management at both an individual and aggregate level.

- Analysts review the entity to determine the value of all claims and the resources available to fulfill them, thus determining the loss to the insurance fund.

- Management of assets and investments; management may include liquidation of items to minimize losses or provide liquidity to pay claims.

- Ongoing communications with actuaries and financial reporting to report losses. Such information is used to report losses in the financial statements and build reserves for future losses.

**Mandatory Requirements for the Assets Management Function**

To support the Assets Management Function, the system **must:**

- Provide the capability to determine if the insuring agency must assume fiduciary responsibilities;
  - Establish separate accounting of funds to support management and dissolution activities.
- Provide the capability to inventory potential insured party claimants and payees;
- Provide the capability to perform calculations which may be actuarial in nature to determine potential losses and claims resulting from those losses;
- Provide for entity level reporting;
  - Benefit statements for claimants/plan participants;
  - Investments (cost, market value, rate of return, maturities, cash flows) for liquidity planning to meet claims;
  - Liabilities (amount, terms, status, and priority of such claim; and
  - Specific reserve for losses.
- Provide for aggregation of assets and liabilities for financial reporting and management;
  - Aggregation of investments (cost basis, market value, rate of return) of entities in order by multiple categorizations for such investments to be managed by the investment committee; and
  - Reporting of assets and liabilities, including reserves (specific and general), for financial statement reporting.

**Value Added Requirements for the Assets Management Function**

To support the Assets Management Function, the system **should:**

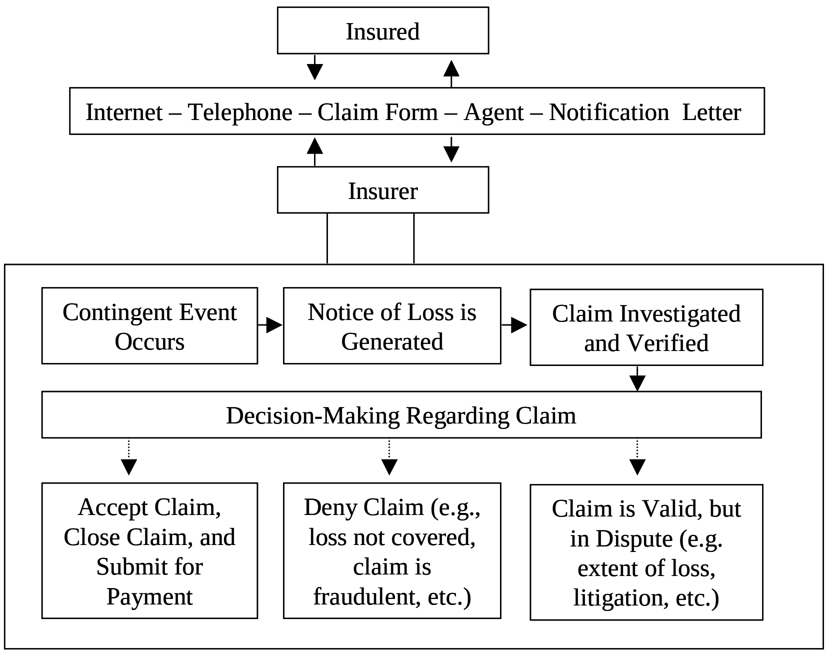
- Provide specialized accounting systems and processes to manage certain types of investments, e.g., servicing consumer loans and managing rental real estate; and

- Provide liquidation capabilities.

**Claims Management Function**

The Claims Management Function includes those processes that support the identification or acceptance and validation of claims that result from a contingent event, e.g., death of a veteran, natural disaster, terminated pension plan, or failure of a financial institution. Illustration 10 shows the major processes associated with the Claims Management Function. This function does not apply when the processes are performed by a reinsured company under the crop insurance program.

**Claims Management Function Model**
**Illustration 10**




There is usually a period of time between the loss and the insurance claim. (The liability here is sometimes referred to as incurred but not reported (IBNR), which based on historical experience, Actuarial Services determine the liability to be recorded in general accounting.)

In some cases, the insurance program does not require the insured party that has sustained a loss, following a contingent event, to submit a claim i.e. claims are identified when the insuring agency conducts an inventory of the assets owned and liabilities owed by the insured party. Insured party records are used to identify valid claims.

Once the claim is submitted or identified, the financial impact of the claim is then determined. Also, beneficiaries may need to be determined, e.g., depositors of an insured financial institution.

Depending on the type of claim, if there are assets of the insured that can be used to pay claims, such assets are taken into receivership, after which a reserve is determined and established to cover the loss or damage; claims are identified or accepted and validated; valid claims are paid; and the reserve is reduced.

Claim losses are reported to Actuarial Services for a determination of the impact on Underwriting, Funding, and Reserving.

The Claims Management Function includes four basic processes: Claims Acceptance and Tracking Process, Claims Administration Process, Claims Eligibility Determination Process, and Claims Computation Process. The Claims Management Function includes activities for determining the validity of claims and verifying the actual amount of payment the insurance agency is liable to pay the insured party (or a third party), as well as mitigating losses, and providing information for making payments to insured parties (or third parties).

The Claims Management Function includes activities associated with the input and processing of data provided by claimants on applications. This document does not require the complete automation of the activities associated with the Claims Management Function. It provides for flexibility in implementing agency specific processing requirements. The functional requirements listed herein are intended to promote efficient data exchange (i.e., reduce data entry) among system components and optimize the use of technology. However, agencies should have a goal to keep manual processes to a minimum and automate claims processing to the maximum extent possible within the legal framework of the program.

The following information provides additional detailed requirements applicable to the four processes that comprise the Claims Management Function.

**Claims Acceptance and Tracking Process**

The Claims Acceptance and Tracking Process provides claimants with mechanisms for submitting claims, and for receiving, recording and tracking both properly completed and incomplete applications (claims) for insurance payments. Various insurance programs contain provisions requiring payments that are retroactive to the claimant's initial filing date. Therefore, the system must be able to track claims from point of receipt to final approval or denial. Various programs also may include the identification of claims through an inventory of assets and liabilities process, rather than through a formal submission process on the part of a claimant

**<u>Mandatory Requirements for Claims Acceptance and Tracking</u>**

To support the Claims Acceptance and Tracking Process, the system **must:**

- Provide the capability to record claims in the system based on applications from the insured party (or a third party), or based on an inventory of assets and liabilities;
- Capture, maintain, and provide access to the following information, in accordance with The Privacy Act of 1974, 5 U.S.C. 552a (as amended):
    - Name and address of insured entity with whom the agency has an agreement under which the agency assumes risk and under which a loss has occurred;
    - Name and address of claimant (person or entity on whose record insurance is provided and loss occurred);
    - Social Security Number (SSN), TIN, or other identifier of claimant;
    - Birth date of the claimant (if applicable);
    - Date of initial claim;
    - Claimant information, if other than the insured party, including:
        - Name, address, SSN, TIN, and birth date; and
        - Claimant's relationship to insured party, when different from the insured party, e.g., self, spouse, child, or dependent parent;
    - Name and relationship of a representative payee, including estate executors or legal guardians, when applicable;
    - Specific insurance coverage for which the claim is made;
    - Bank information for direct deposit, if applicable, including American Banking Association (ABA) routing number, claimant bank account number, and bank account type;
    - Type of evidence or proofs required and submitted when applicable;
    - Status of the claim, e.g., approved, pending, or denied;
    - Information needed to determine withholding amount, such as withholding status, number of withholding allowances, back-up withholding, and additional voluntary amount of tax withholding; and

- Types and amounts of assets owned by the insured party, which may need to be considered for payment of the claim.

- Capture and maintain all information so it is readily accessible through standard online queries or reports, until the claim is approved and a master record is established, or until a final determination is made denying the claim.

- Provide for electronic acceptance of claim applications. If an agency anticipates receipt by electronic means of 50,000 or more submittals of a particular form, the system must allow multiple methods of electronic signatures for the submittal of such form, whenever feasible and appropriate. The system must provide for the electronic acknowledgement of electronic forms that are successfully submitted.

- Capture various correspondence, including due process requests submitted by various electronic mediums and automatically associate the correspondence with the specific claim for the required action. For manually submitted correspondence, provide for associating the correspondence with the specific application or existing claimant master record for the required action.

- When electronic methods (e.g., web based, telecommunications) are used to facilitate claim form acceptance, the system must incorporate controls to ensure only accurate and complete applications are accepted by the system.

- The user shall have the ability within the system to flag a claimant's paper-based application as incomplete and to suspend further processing of the application until it is properly completed as specified by program requirements.

- Store incomplete applications in accordance with agency policies, and provide for automatic purging of incomplete applications after a time period specified by the agency.

- For each claim, associate a unique identifier (e.g. user code) of the employee assigned to review the claim.

- Accommodate an alternative application procedure that accommodates persons with disabilities (e.g., blind, missing limbs).

- Provide the capability to track the status of due process or other appeal proceedings when applicable, after an initial claim has been denied.

**Value-Added Requirements for Claims Acceptance and Tracking**

To support the Claims Acceptance and Tracking Process, the system **should:**

- Maintain a record of pending claims and the status of other information including:
  - where in the process an ongoing claim is located;
  - who is holding claim;
  - what actions are needed to complete the claim;
  - whether additional information is needed; and
  - accommodation of explanation codes to indicate the reason why the claim is pending.
- Allow the user to update the status items above.

**Claims Administration Process**

The Claims Administration Process includes general features needed to effectively handle claims.

**Mandatory Requirements for the Claims Administration Process**

To support the Claims Administration Process, the system **must:**

- Utilize claimant data that has been submitted electronically in an automated fashion without manual intervention (i.e., avoid re-entering data from one component to another).
- Have the ability to date and time stamp due process requests and other time sensitive correspondence that has been received through electronic mediums.
- Accommodate automated case workload distribution by providing for various claim routing options as determined and maintained by the system administrator. For example, provide for the ability to route claims for manual validation.
- Indicate if the insurance claim payment calculation or verification thereof occurred manually.
- Provide the user with the ability to update a claimant's master record with the results of a manual claim validation or manual verification of the payment amount, or create a new master record if none exists.

- Have the ability to capture what information is needed from the claimant in order to complete an incomplete claim.

- Provide for electronic approvals of claims at all levels of the approval process, whenever feasible.

- Incorporate a notification mechanism that informs users (claim evaluators and supervisors) when an application has not completed processing within a time frame that can be specified by the agency.

- Facilitate user queries on individual claims. Specifically, for all claims that have been received and recorded in the system, the system must be able to retrieve data maintained in the application information stores by querying the claim holders' (or claimant if different) information. For example, data must be retrievable by query on full name, and Social Security Number (SSN) or taxpayer identification number.

- For denied claims, accommodate explanation codes to indicate the reason why the claim has been denied.

- Automatically create a claimant master record using the claimant information for initial claims that are approved, when a master record for the claimant did not previously exist.

- Automatically update an existing claimant master record (i.e., claimant already receives a different type of benefit administered by the agency) to reflect the status (pending, approved, or rejected) of additional claims for other benefits the agency administers that are sought by the claimant.

- Automatically merge the mandatory claimant data maintained in the application information stores into the appropriate master record after a claim has been approved and a claimant master record has been established.

- Provide capability to generate statistics on approved and rejected claim applications.

- Provide capabilities to accept, identify, track, and report manual overrides of system-generated acceptance/rejection recommendations.

- Allow a user who has the proper access to reverse or affirm an initial decision regarding the denial of a benefit, and process the claim accordingly.

- Provide capabilities to review all prior employee notations or decisions made while processing a claim.

- Provide capabilities to record an estimated completion date for pending claims.

- Have the ability, where multiple claims exist for the same claimant, to process the claims sequentially based on order of precedence.

**Value-Added Requirements for Claims Administration**

To support the Claims Administration Process the system **should:**

- None.

**Claims Eligibility Determination Process**

Determination of eligibility to submit a claim, or identification of an individual entitled to an insurance payment to cover a loss, is generally agency specific, based on criteria that are unique to individual programs. However, certain activities pertaining to determining claimant eligibility are common to insurance systems, in general.

**Mandatory Requirements for Claims Eligibility Determination**

To support the Claims Eligibility Determination Process the system **must:**

- Have the ability to automatically compare information contained in application(s) that have been submitted by claimants against agency program eligibility criteria (i.e., screen applications for eligibility).

- Have the ability to accept manual validation of a claim.

- Provide for maintaining separate eligibility criteria and processing routines by type of claim.

- Provide for establishment of various age limitations depending on the type of insurance for automatic verification of program eligibility. For example, the system should allow for age attainment.

- Provide the ability to cross-validate applicant information against data maintained for other insurance programs that are internal to the administering agency to ensure compliance with all program requirements (e.g., ensure that applicant has not filed for multiple conflicting benefits).

- Provide features to indicate that applicant submitted required evidence.  For example, allow user to record receipt of a school certification pertaining to a claimant or his/her dependent child.

- Provide features to create and maintain a system record of accepted and rejected claim applications.

- Provide tools to check the appropriate data files to determine whether the applicant has submitted a duplicate application or had a recent benefit application rejected.

- Provide features to determine whether payments being made to the claimant in relation to other internal benefit payment programs affect the claimant's eligibility or payment amount for the benefit under consideration, whenever legally permitted (i.e., permitted by statute or regulation).

- Allow the user to put the processing of a claim on hold (suspend) while verifying questionable information, and to release hold (suspended) status as appropriate.

**Value-Added Requirements for Claims Eligibility Determination**

To support the Eligibility Determination Process the system **should:**

- Provide ability to inform applicant of potential eligibility for other internal benefit payment programs.

- Have the ability to automatically validate survivor applicant information against information about the deceased spouse or related former guardian that is maintained in a master record database.

- Automatically validate dates of employment, earnings and other claimant-specific data provided on the application for benefits against the work history and earnings information reported to central agencies such as the Internal Revenue Service (IRS), SSA, and OPM when permitted by statute, or against other verified claimant-specific information maintained by the agency.

**Claims Computation Process**

**Mandatory Requirements for Claims Computation Process**

To support the Claims Computational Processes the system **must:**

- Have the ability to determine if the effective date of the claim has been reached (e.g., the effective date of a retirement claim), and initiate subsequent processing.

- Provide features to compute the amount of both recurring and non-recurring payments based on all available information (e.g., applicant data, and specific insurance program criteria).

- Determine the ending date for recurring payments of limited duration.

- When processing an approved claim such as retirement calculate the amount of recurring payment, or capture the amount of the claimant's recurring payment that has been determined externally.

- Provide features to calculate the claimant's and or related dependent's age based on the birth date provided in an application or other verified source for subsequent use in determining claimant eligibility.

- Provide for user defined reasonableness/tolerable limit checks on the amounts of benefit payments that are calculated by the system.

- Flag or suspend processing of a claim that fails reasonableness edits to facilitate manual verification of the amount computed.

- Enable approved users to have the ability to resume the processing of a claim that was suspended for failing a reasonableness edit, and subsequently verified as accurate.

- Allow a user to initiate the calculation of a claimant's amount, at any time, based on claimant data that exists when the request is made.

- Have the ability to record the amount of manually computed payments.

- Provide for automatic system initiated calculation and or recalculation of amount by claim type, based on a specific user defined event such as claim validation and approval, court order, claimant initiated withholding change, etc.

- Provide for automated routines that access claimant master record data to facilitate calculating the amounts due claimants.

- Provide features to calculate and send overpayment information (date of occurrence, claimant name, and overpayment amount) to Receivables/Collections subsidiary ledger.

**Value-Added Requirements for Claims Computation Process**

To support the Claims Computation Process, the system **should:**

- None

**Payments Management Function**

The Payments Management Function includes all of the processes and controls associated with payments made by or on behalf of an agency, including payments associated with federal insurance programs. Agencies that administer insurance programs make payments to insured individuals, organizations, designated payees, and others. Federal insurance programs are usually supported by systems that maintain detailed information on payees and generate payment information directly from those systems rather than generating insurance payment information from the core financial system. Summary data is then passed to the core financial management system for financial reporting and other purposes. If this situation exists, insurance systems must meet the requirements listed here for payment management.

Federal insurance programs may also support activities that lead to the payment stage, but rely on the core financial system to manage the payment process itself. For example, an insurance system, subsystem, or component might calculate the amount to be paid to each payee and send transactions to the core financial system to record the expenses and related payable and cash outlays to the payee. The core financial system would then schedule the payment for disbursement and confirm that the payment occurred. If this situation exists, only the payee information maintenance and payment warehousing functional requirements listed herein would apply to the insurance or reinsurance system, subsystem, or component. However, in this alternative situation, once the detailed information is passed to the core system for scheduling for payment, funds control, payment execution, payment confirmation, and follow-up would also apply to payments made directly from the core system. The payment management function consists of the following processes:

- Payee Information Maintenance;
- Payment Warehousing;
- Funds Control;
- Payment Execution; and
- Payment Confirmation and Follow-up.

Payments may not be the direct result of an insured contingent event (a loss), i.e., payments may include the return of premiums paid by the insured party, dividends, cancellation of insurance (return of premium), loans, or settlement of a reinsurance agreement. Some or all of these may be handled through the insuring agency's core financial system.

**Payee Information Maintenance Process**

The Payee Information Maintenance Process includes requirements associated with the maintenance of information on payees for whom claims or reinsurance agreement settlement, as applicable, has been validated and payment is appropriate. The term payee includes any entity to which a disbursement may be made. For example, individuals or entities that fulfill a fiduciary responsibility, such as a professional services entity that is acting as trustee for an incapacitated beneficiary. Payee information needed to make payments should be coordinated with information needed for other purposes and in other systems, subsystems, and components. For example, occasionally overpayments produce recovery receivables. If a centralized debt collection system is utilized, information in that system should be coordinated with detailed payee information.

**Mandatory Requirements for Payee Information Maintenance**

To support the Payee Information Maintenance Process, the system **must:**

- Maintain payee information that includes data to support obligation, accounts payable, and disbursement processes.

- Support payments made to parties that act as an agent for the payee without changing permanent payee information that is maintained in the payee's master record, such as the payee's name, address or financial institution.

- Allow the user to capture the current tax status, number of exemptions, and other information requested on applicable IRS withholding forms (i.e., W-4P, W-4S, and W-4V).

- Maintain detailed information for each payee to comply with IRS reporting requirements. For example, information needed for 1099 reporting, including SSN or taxpayer identification number (TIN). In cases where payments are made to third parties who are serving in a fiduciary capacity, maintain 1099 information for the principal party rather than the agent.

- Provide the capability to automatically update payee records to reflect automated clearinghouse (ACH) or electronic funds transfer (EFT) related changes. These updates may be supplied periodically by Treasury, financial institutions or other sources.

- At a minimum, accumulate actual payments for each payee on an annual basis.

- Provide search capability for payee information (e.g., payee name).

- Produce payee listings based on agency-defined criteria (e.g., payee name and SSN).

- Maintain as part of the payee's master record a complete history of all financial transactions executed for each payee receiving benefits under the payee holder's master record. This includes payments, and collections, waivers, or offsets resulting from overpayments.

- For all active "payees," make the financial transaction history data of the most recent 18 months available for online query and review.

**Value-added Requirements for Payee Information Maintenance**

To support the Payee Information Maintenance Process, the system **should:**

- Allow for maintaining deposit account information on at least two financial institutions for a single payee.

**Payment Warehousing Process**

The Payment Warehousing Process supports the storage of payments that are due to payees in the near term. After a claim has been approved, whether the payment is lump-sum or recurring, the system must be able to "hold" or store properly approved payments and automatically release payments for scheduling based on payment due dates.

**Mandatory Requirements for Payment Warehousing**

To support the Payment Warehousing Process, the system **must:**

- Have the ability to determine whether the payment is a non-recurring payment.

- Automatically determine the due date and amount of payment(s).

- Reestablish payables for voided checks, or electronic funds transfers (EFTs) that were not successful. Allow for reversing the accounting transaction leading to the disbursement and reestablishment of a payable, as appropriate.

**Value-Added Requirements for Payment Warehousing**

To support the Payment Warehousing Process, the system **should:**

- Allow anticipated obligation or expenditure transactions so that documents may be entered early, stored, and posted at the appropriate date. Subject these documents to edit and validation procedures prior to posting. If the anticipated obligation does not occur, permit the user to delete the transaction without posting it.

**Funds Control Process**

Federal agencies are responsible for establishing systems for ensuring that funds are not obligated or disbursed in excess of those appropriated and or authorized. The Anti-Deficiency Act provides legal requirements regarding obligating federal funds. The Funds Control Process within an agency's core financial system is the primary tool for carrying out this responsibility.

However, depending on an agency's financial system architecture, insurance systems or other components of an agency's enterprise system, may also require funds management capability. For example, typically insurance systems generate transactions that obligate and expend funds, and may also maintain detailed receivable information. Insurance systems may access data and rely on functions of the core financial system to verify that funds are available before allowing an obligation to be incurred and recorded in the insurance system. Under certain circumstances, however, such two-way interfacing may not be feasible or necessary. Accordingly, any insurance payment system that does not interface with the agency's core financial system to utilize funds control features of the core system must perform activities associated with the following funds control processes: Funds Availability Editing Process; Commitments Process; Obligations and Expenditures Process; and Analysis Process.

**Funds Availability Editing Process**

This activity verifies that sufficient funds are available at the various control levels specified in the funds allocation process for each transaction processed which may affect available funds balances. If sufficient funds are not available, notification is provided so that appropriate action may be taken.

**<u>Mandatory Requirements for Funds Availability Editing</u>**

To support the Funds Availability Editing Process, the system **<u>must</u>:**

- Allow for recording of funding transactions. This includes recording internal allocations or allotments within the agency.

- Include adequate controls to prevent the recording of obligations or expenditure transactions that exceed available balances. The system must also support recording obligations or expenditures that exceed available balances based on proper management approval (i.e., provide the capabilities and controls for authorized users to override funds availability edits).

- Provide for designated authorities to establish and modify the system's response (either reject transaction or provide warning) to the failure of a funds availability edit.

- Record the financial impact of all transactions that affect the availability of funds, such as commitments, obligations, expenditures and the establishment of, and collections against recovery receivables.

- Automatically update all appropriate budgetary tables and ledger account balances (when applicable) to ensure that the system always maintains and reports the current status of funds for all open accounting periods.

**<u>Value-added Requirements for Funds Availability Editing</u>**

To support the Funds Availability Editing Process, the system **<u>should:</u>**

- Provide for designated authorities to establish and modify the level of funds control using elements of the classification structure, including object class, program, organization, project, and fund.

- Provide the ability to produce an on-line status of funds report down to the lowest level of the organizational structure. The report should include: amounts available/allotted, open commitments, open obligations, expenditures, and balance available.

**Commitments Process**

Commitments are an optional stage prior to the establishment of an obligation. Commitments can be a useful tool in funds management by helping users to anticipate future outlays. They should be used when helpful to an agency's management process, but are not necessary, or even appropriate, for all obligations.

**<u>Mandatory Requirements for Commitments</u>**

- None.

**<u>Value-added Requirements for Commitments</u>**

To support the Commitments Process, if commitment accounting is utilized, the system **<u>should</u>:**

- Allow commitment transactions to be entered on-line and from multiple locations;

- Maintain information related to each commitment transaction. At a minimum, the system should capture accounting classification elements, and estimated amounts;

- Provide for modifications to commitment transactions, including ones that change the dollar amount or the accounting classification elements cited;

- Allow for commitment transactions to be future-dated, stored, and posted at the appropriate date;

- Close open commitments under the following circumstances: (1) by the system upon issuance of an obligating document, (2) by an authorized user, and (3) as part of the year-end closing if the commitment is in an annual appropriation or in the last year of a multi-year appropriation; and

- Provide the capability to support commitment accounting based on agency needs.

**Obligations and Expenditures Process**

OMB Circular A-11 defines obligations as transactions during a given period that will require payments during the same or a future period.  Such amounts include outlays for which obligations had not been previously recorded and reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.

**Mandatory Requirements for Obligations and Expenditures**

To support the Obligations and Expenditures Process, the system **must:**

- Update budgetary tables to reflect obligations based on obligating documents and liquidate, at the user's request, the related commitments, either partially or fully.

- Update budgetary tables to reflect obligations for which there is no related commitment.

- Maintain information related to each obligation document, including amendments.  At a minimum, the system must capture the obligating document number and type; and other identification, including benefit payee SSN or TIN, accounting classification elements as appropriate; referenced commitment (if applicable); and dollar amounts.

- Allow obligation documents to be entered on-line and from multiple locations.

- Allow authorized modifications and cancellations of posted obligation documents.

- Provide on-line access to all unliquidated obligations by selection criteria, (e.g., document number.)

- Maintain an on-line history file of closed-out documents for a user-defined period of time.

- Close open obligating documents to accommodate both of the following circumstances: (1) automatically when reclassifying an unliquidated obligation to an expenditure, or (2) by an authorized user.

**Value-added Requirements for Obligations and Expenditures**

To support the Obligations and Expenditures Process, the system **should:**

- Allow multiple commitments to be combined into one obligation or expenditure document and one commitment document to be split into various obligating or expenditure documents.

**Analysis Process**

The Analysis Process provides information necessary to support analysis of the Funds Management function. It provides information on funds availability at the levels defined and compares data in the Funds Management function to data in other functions to ensure consistency.

**Mandatory Requirements for Analysis**

To support the Analysis Process, the system **must:**

- Maintain current information on obligations according to the classification elements established by the agency, on a fund by fund basis.

- Sort and provide on-line access to both summary level and detailed information, based on the defined level of funds control for those transactions that represent obligations and expenditures.

- Provide control features that ensure the amounts reflected in the fund control structure agree with the general ledger account balances at the end of each update cycle.

**Value-added Requirements for Analysis**

To support the Analysis Process, the system **should:**

- Track the use of funds against operating or financial plans.

**Payments Execution Process**

The Payment Execution Process includes activities associated with making and recording payments and disbursements. Two basic models exist within the federal government for making disbursements to payees, including recipients for insurance payments as follows: (1) Agencies prepare requests for disbursements that are transmitted to the Department of the Treasury, Financial Management Service, who generates the disbursement, or (2) Agencies make their own disbursements, under delegated disbursing authority from the Secretary of the Treasury in accordance with Title 31, U.S.C. § 3321(b).

**Agencies with Delegated Disbursing Authority**

To support the Payment Execution Process in agencies with delegated disbursing authority, the system **must:**

**Mandatory Requirements for Payment Execution in Agencies with Delegated Disbursing Authority**

If an agency has delegated disbursing authority, certain requirements below relating to Treasury specific payment processing and reporting may not be applicable.

- Support the reporting and other requirements specified in I TFM Part 4. For example, the system must enable the agency to:
    - Report all disbursements made under the delegation in the agency's payment accounting reports to the Financial Management Service (FMS), using the appropriate agency accounting codes, as authorized by FMS. As stated in Section 10025, the agency must submit immediately to the CDO any irregularity in accounts involving disbursement activity. Furthermore, the agency is responsible for resolving any irregularities or discrepancies associated with such reports.
    - Submit check issuance data in a timely and accurate manner to FMS no later than the close of business of the week in which the issue dates occur and at month's end. See I TFM 4-6025.10. FMS must receive this information within the required timeframe to carry out properly its check reconciliation responsibilities to decline final payment and or reclaim payment on certain improperly negotiated Treasury checks or counterfeit checks. See generally 31 C.F.R. Part 240.
    - Comply with applicable Treasury offset guidelines established under the authority of 31 U.S.C. § 3716(c).
    - Comply with FMS guidelines concerning applicable requirements to include a payee's taxpayer identifying number on payment vouchers in accordance with 31 U.S.C. § 3325(d).
    - Comply with all applicable EFT system requirements including those related to message authentication and enhanced security, unless explicitly waived in writing by the CDO.

**Value-added Requirements for Payment Execution in Agencies with Delegated Disbursing Authority**

- None.

**Agencies without Delegated Disbursing Authority**

**Mandatory Requirements for Payment Execution in Agencies without Delegated Disbursing Authority**

To support the Payment Execution Process in agencies without delegated disbursing authority, the system **must:**

- Automatically identify and select payments to be disbursed in a particular payment cycle based on their due dates. Provide a function for review and certification by an authorized certifying officer.
- Calculate totals by TAFS for inclusion on the payment schedule.
- Sort individual payment detail by TAFS to enable SF-224 reconciliation.
- Provide for various forms of payment to be used, i.e., check or electronic funds transfer (e.g., ACH, wire).
- Support Treasury-specific standards for format of check and EFT payment requests.
- Automatically update payment records based on updates recorded in the payee's master record, such as change of address, changes in deposit account information, etc.
- Allow a payment request to be removed from the automated scheduling stream and scheduled as a manual payment by an authorized official.
- Allow the user to trigger an immediate benefit payment for emergency situations.
- Provide the capability to schedule and make payments in various forms (e.g., ACH, SF-1166) as required by an agency's disbursing offices, including physical media (e.g., tape, electronic transfer).
- Prepare reports to Treasury on disbursements made by an agency with its own disbursing authority.

- After payments are scheduled and prior to actual disbursement by Treasury, allow for cancellation of an entire payment schedule or a single payment within a payment schedule.

- Provide features to reduce the payment amount due a claimant, in order to offset an outstanding receivable owed by the claimant, in accordance with applicable laws, regulations, and provisions of the Treasury Offset Program (TOP). However, the system must properly record the impact of the entire amount of the transaction in both budgetary and proprietary (i.e., entire amount is expensed, payables or cash accounts reflect net outlay, budgetary resources increased by amount of nonfederal receivable collected, etc.)

- Provide for reissuing payments for misplaced payments, lost or stolen checks.

**Value-Added Requirements for Payment Execution in Agencies without Delegated Disbursing Authority**

To support the Payment Execution Process in agencies without delegated disbursing authority, the insurance system **should:**

- Automatically consolidate amounts due insurance claimants when the claimant is entitled to more than one benefit administered by the same agency, and itemize all payments covered by the one check or EFT on a payment advice or addendum to the EFT file per Treasury specifications.

- Allow for the splitting of a single insurance payment into separate bank accounts (i.e., allotments) as indicated on the claimants direct deposit request form. Allow for a minimum of one allotment in addition to the primary deposit account.

- Provide for making payments in a foreign currency.

**Payment Confirmation and Follow-up Process**

The Payment Confirmation and Follow-up Process includes activities to confirm that disbursements were made as anticipated and supports inquiries from payees regarding payments, and reporting requirements relating to the Payment Management function.

**Mandatory Requirements for Payment Confirmation and Follow-up**

To support the Payment Confirmation and Follow-up Process, the system **must:**

- Update master record information resulting from payments made by the core system (if applicable).

- Provide on-line access to claimant and payment information.

- Provide on-line access to open documents based on agency selection criteria, (e.g., SSN).

- Produce IRS 1099s in IRS acceptable form (hard copy or magnetic tape) when required by IRS regulations (e.g., miscellaneous payments to individuals over $600).

- Automatically liquidate the related liability or the in-transit amount when payment confirmation updates the system.

**Value-Added Requirements for Payment Confirmation and Follow-up**

To support the Payment Confirmation and Follow-up Process, the system **should:**

- None.

## Operations

The third and final major component of an agency's insurance system is Operations. The Operations component includes (1) core accounting; (2) actuarial and estimation modeling activities and (3) trust fund and revolving fund activities (if applicable). Although some of these types of requirements and activities are included within one or more of the Pre-Event Functions and Post-Event Functions, some of them are program wide, especially actuarial activities and estimation modeling. These components are included in this section, along with those aspects of the cross-cutting requirements and activities that are reflected in the various functions within the document. Wherever possible, requirements relative to cross-cutting functions and processes are included within the specific sections.

**Core Financial System – General**

Government wide requirements for a core financial system to support the fundamental financial functions of a federal agency are identified in *Core Financial System Requirements*. The Core document includes information in three basic sections, i.e., general, functional, and technical. The functional and general information is highlighted in the following two subparagraphs. As indicated in the Core document, federal agencies control and disburse over two trillion dollars in appropriated funds annually. Financial and program managers, including those responsible for managing insurance programs, are fiscally responsible for these resources and for the program results they achieve. To do their jobs, they need readily accessible detailed financial information essential to formulate agency budgets, monitor program operations, and perform reporting as maintained in proper and reliable financial management systems.

As indicated, and further described in the Core document, such systems must support or enhance accountability, efficiency, effectiveness, and decision-making. Furthermore, all core financial systems, whether they are being designed, implemented or currently in use, must operate in accordance with laws, regulations, and judicial decisions. The Core document establishes a set of comprehensive functional requirements for a proper and reliable core financial management system.

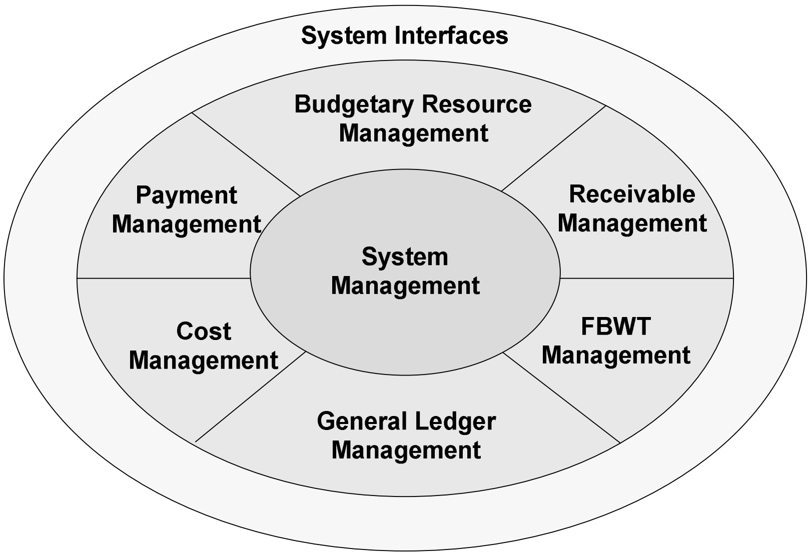
**Core Financial System – Functional Components**

Core financial management systems provide specific functional capabilities necessary to manage a general ledger, funds control, make payments, manage receivables, measure costs, reconcile cash, and report on operations. Illustration 11 shows the major functions within the core financial system as follows: (1) System Interfaces; (2) General Ledger Management; (3) Cost Management; (4) Payment Management; (5) Budgetary Resource Management; (6) Receivable Management; (7) Fund Balance with Treasury Management; and (8) System Management.

These functions provide the basic information and control needed to carry out financial management functions, manage the financial operations of any agency, and report on the agency's financial status to central agencies, Congress, and the public. This includes data needed to prepare the principal financial statements for federal agencies in accordance with the current OMB

Bulletin 01-09, *Form and Content of Agency Financial Statements*, as of the publication date of this document.

**Core Financial System Functional Components**
**Illustration 11**



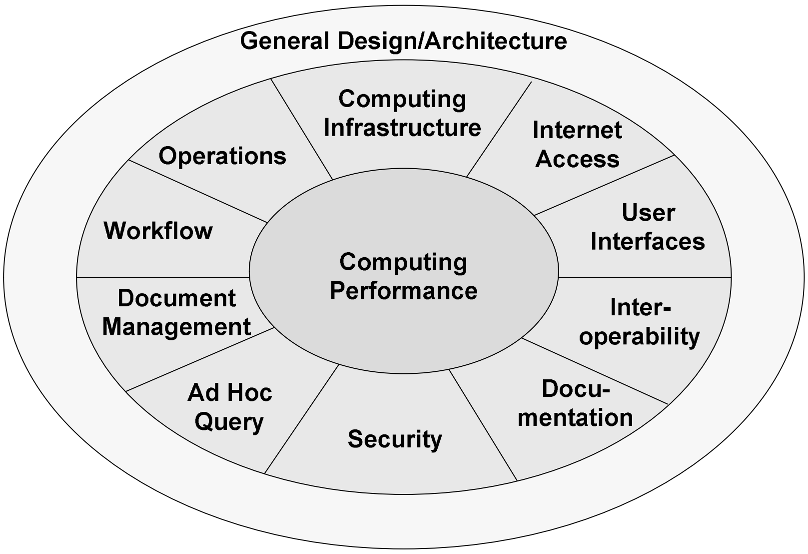

**Core Financial System – Technical Components**

Technical requirements have been established in the Core document to help ensure that a core financial system is fully supported and capable of processing the workload required. It must provide transaction processing integrity and general operating reliability; use standard procedures for installation, configuration, and operations; provide seamless integrated workflow processing; have the ability to query, access, and format information; and be well documented. It must not conflict with other administrative or program systems or with other agency-established information technology (IT) standards.

Core financial systems that are subject to qualification testing must meet the mandatory technical requirements specified in the Core document. In addition, they should strive to include the functionality listed as value-added requirements. Illustration 12 depicts the major technical requirements groupings identified in the Core document as follows: (1) General Design/Architecture; (2) Computing Performance; (3) Computing Infrastructure; (4) Internet Access; (5) User Interfaces; (6) Interoperability; (7) Documentation; (8) Security; (9) Ad Hoc Query; (10) Document Management; (11) Workflow; and (12) Operations.

Most technical requirements are stated in general terms to allow vendors maximum flexibility in designing compliant financial systems.  Individual agencies are encouraged to add specific work-load and interoperability requirements considered unique to their respective IT environments when evaluating packages for acquisition.

**Core Financial System Technical Components**
**Illustration 12**



Federal insurance program agencies focus particular attention on specific reports that are generated in the frequency, on the due dates, and for the recipients as follows:

| Report Title | Frequency/Due Date | Recipient |
|---|---|---|
| **Weekly Report(s)** | | |
| Six-Week Cash Forecast | Due Every Friday | Department of the Treasury Financial Management Service |
| **Monthly Report(s)** | | |
| FMS 224 Reporting | | Department of the Treasury Financial Management Service |
| 6652 Disbursements Reconciliation | | Department of the Treasury Financial Management Service |
| 6652 Reports Reconciliation | | Department of the Treasury Financial Management Service |
| **Quarterly Report(s)** | | |
| Quarterly Report on Receivables – All Funds | | Department of the Treasury Financial Management Service |
| FRF/RTC Quarterly Report to Congress | | U.S. Congress |
| OMB A-11 Quarterly Cash Flow Updates | | OMB & Department of the Treasury Financial Management Service |
| FACTS II Budgetary Resources Report | | Department of the Treasury Financial Management Service |
| Intragovernmental Fiduciary Confirmation System Reconciliation | | Department of the Treasury Financial Management Service |
| **Annual Report(s)** | | |
| OMB A-11 Budget Submission | Due in December | OMB |
| Annual Financial Statement | Due November 15th | OMB & Department of the Treasury Financial Management Service |

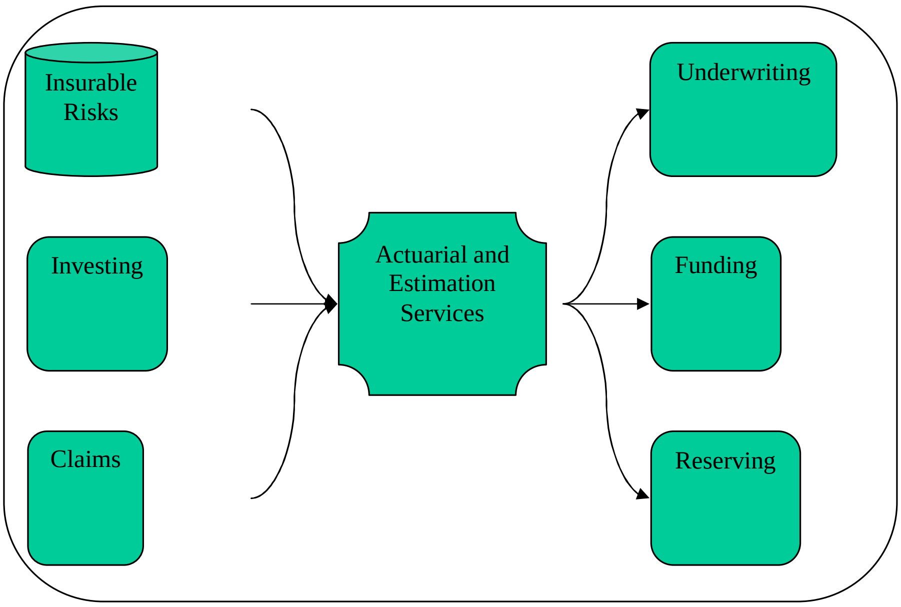
**Actuarial and Estimation Modeling Activities**

This section is included to focus attention on the critical importance of actuarial activities in federal insurance programs from inception throughout all Pre-Event Functions, Post-Event Functions, and Operations aspects of an agency's programs and processes.

*Barron's Dictionary of Insurance Terms* defines actuarial science as the "branch of knowledge dealing with the mathematics of insurance, including probabilities. It is used in ensuring that risks are carefully evaluated, that adequate premiums are charged for risks underwritten, and that adequate provision is made for future payments of benefits." According to *Barron's Dictionary* *of Insurance Terms*, actuaries conduct various statistical studies; construct morbidity and mortality tables; calculate premiums, reserves, and dividends for participating policies; develop products; construct annual reports in compliance with numerous regulatory requirements; and in many companies oversee the general financial function…." Some or all of these tools are used throughout some or all of the Pre-Event Functions and Post-Event Functions described in this document.

With regard to federal insurance programs, actuarial tools are used from the time that legislation and implementing regulations are developed. Using past experience, and economic forecasts, models are developed to determine: risks the entity can take; funding necessary for the risks; and reserves necessary to offset the financial burden of future losses, as shown by illustration 13.

**Actuarial and Estimation Model**
**Illustration 13**




Premium or funding estimation provides agencies with a prediction of how revenue will change from the current baseline and what premium should be collected. Typically, estimates are approximations taken from existing data on premiums, supplemented with additional data sources as necessary.

## <u>Mandatory Requirements for Actuarial and Estimation Modeling Activities</u>

To support Actuarial and Estimation Modeling Activities, the system **<u>must</u>**:

- Provide for the export of historical data for use in premium forecasting;

- Ensure that an independent actuarial analysis can measure the economic net worth and soundness of the insurance fund;

- Generate an actuarial report that provides the status of the insurance fund;

- Generate a report that can also measure sources of change in the status of the fund. Changes can be measured in economic value and other activities such as claims;

- Ensure that estimates reflect projections of events into the future;

- Must utilize mortality and interest assumptions to derive insurance policy factors; and

- Incorporate claim and investment experience factors to derive dividend rates for each class of policies.

**Value-added Requirements for Actuarial and Estimation Modeling Activities**

To support Actuarial and Estimation Modeling Activities, the system **should**:

- Support premium forecasting based on historical premium data and other variables such as known current or future events (planned rate increases, market changes, etc.). For example, if regulation will increase fees, effective May 1, compute revenue for balance of fiscal year.

- Establish a baseline of premium collections in comparison to potential revenue.

**Trust Fund and Revolving Fund Activities**

This section is included to focus attention on the complexity and flexibility that a system must provide to accommodate trust fund and revolving fund activities for federal insurance programs where applicable.

The system must provide for the use of multiple funds to support various aspects of an insurance program, particularly with regard to the underwriting, funding, and assessment functions and processes, including investment of premiums in Treasury securities, and with regard to the management of insured's remaining assets, including fiduciary responsibilities, after a contingent event has occurred, e.g., failure of a financial institution or termination of an underfunded defined benefit pension plan.

The system must support investing activities that are part and parcel of the daily operations of the entity by providing income from the investment portfolio. This income helps to fund personnel costs and other general costs to do business. In addition, this income is used to fund claims.

Agencies may elect to use revolving funds, which include working capital funds and franchise funds, for their organizations. These funds require separate legislation and have charters that focus on specific purposes. Such charters have the potential to make program management much more flexible by lifting apportionment controls while adding operational safeguards. If an agency uses revolving funds, the core system must be able to track service level agreements, verify funds availability, bill customers, and measure costs.

**Mandatory Requirements for Trust Fund and Revolving Fund Activities**

To support Trust Fund and Revolving Fund Activities, the system **must**:

- Use cost management in revolving funds, including working capital programs.
- Allocate working capital and revolving fund costs across organization and program lines and generate appropriate journal entries.
- Create and track the funding associated with cost objects (e.g., contracts, work-orders, projects, reimbursable agreements) and provide funding status on fiscal year-to-date and project inception-to-date bases.
- Support the aggregation of project cost and funding information to a higher level, for example linking the costs of a set of related projects for a particular customer on one report.
- Verify funds availability for orders placed against a specific contract, work-order or agreement for a particular customer of the revolving fund operation.
- Support funding of revolving fund contracts, work-orders, and projects through the use of advances, prepayments or reimbursements.
- Record the application of complete and partial payments made by the debtor on a delinquent debt to administrative fees, penalties, interest, and then to principal, unless otherwise stated in program statute.
- Record revenues for collections for which no receivable was previously established.
- Apply collections back to the specific account, contract, or purchase order award to reduce "or liquidate" cumulative payments and expenditures (e.g., upon the refund of erroneous payments).
- Record information associated with a collection at the time funds are applied to an open receivable document, including the deposit ticket number and date, ALC code, TAS/TAFS and accomplish date.
- Apply collections to more than one receivable.
- Re-open closed accounts to record collections after a waiver or write-off of a receivable has been recorded.

- Process SF-5515 debit vouchers, SF 215, charge backs, canceled payments or insufficient funds, to reduce collections and re-establish a receivable.

- Provide the ability to reduce collections with a miscellaneous adjustment (i.e., journal voucher). For example, a debit voucher/bank adjustment not related to a returned check reduced deposit total.

- Maintain customer account information for internal statement of all transactions and to support billing, reporting and research activities, including at a minimum:

    - Account number unique to each transaction or reference (not just unique to customer);

    - Account balance;

    - Associated customer ID number;

    - Date due and age of accounts receivable;

    - Accounting classification code strip; and

    - Reimbursable order number, where applicable.

- Process a receipt against an established receivable and close or liquidate the receivable if payment is in full. Leave the receivable open if not paid in full.

- Apply collections to a hierarchy of debts.

- Create a deposit record for a deposit ticket.  Info must include:

    - Deposit ticket number (should be able to accommodate an agency assigned number and the Treasury assigned number);

    - Deposit ticket date;

    - Deposit ticket amount;

    - ALC;

    - Entry date;

    - Treasury confirmation date;

    - User ID – for establishing ticket; and

    - User ID – for closing ticket.

- Record the receipt of an advance from others and associate it with the RA.
- Provide the ability to record a receipt, part of which is revenue to the collecting agency, the remainder of the receipt is revenue to other agencies with which the receipt is shared. For example, INS collects fees for H-1B visas and retains a small percentage and shares with other agencies.
- Provide system capability to automatically record collections by downloading data.
- (Lockbox, collection agency, DOJ, and Treasury).
- Provide capability to record and subsequently track collections by type (i.e., internally, externally with Treasury Offset Program, or other collection service center or agency).

**Value-added Requirements for Trust Fund and Revolving Fund Activities**

- None.

**Reserving**

Information is presented here on reserve requirements associated with federal insurance programs to emphasize the importance of the matter to establishing and maintaining stable programs. Within the private sector insurance industry, reserves must be sufficient to cover claims and provide for a profit margin in order for the business to remain viable. Within the federal government sector, reserving may not apply to a particular program, although it is a major part of most federal programs.

Within the public sector, premiums from insured entities, and income from investments are available in some circumstances to ensure a stable program. However, it is just as likely that premiums and investment income do not provide sufficient revenue to make the program self-sustaining. Also, federal insurance and reinsurance program agencies are generally required by statute to invest in conservative, low risk, low income Treasury securities.

Never-the-less, federal insurance providers must use actuarial and other tools to estimate reserve requirements and maintain those reserves to the maximum extent possible to cover claims and maintain a stable program.

In addition, federal providers must use actuarial and other tools to estimate premium requirements, reserve requirements, budgetary requirements, and future funded, unfunded, and unknown liabilities. All of these are required to contribute to a stable program and to prepare financial statements in accordance with generally accepted accounting principles.

In short tail business (insurance for a one year cycle), there is the possibility that an insurable event will have occurred during the year but will not have been reported by the end of the year. Liabilities are normally set up for this and are called Incurred But Not Reported (IBNR).

Monitoring is required:

- To match claims with reserves;

- To analyze the claims run-off in order to assess that premiums charged have been appropriate for risk assumed; and

- To avoid concentrations of risk (e.g., regional or industry).

Reserving takes place on both the individual and pooled level. In underwriting the insurable risk, an initial reserve is determined for adding that risk. Additionally, an entity must continually assess its portfolio of risk, its income from investing, and its claims experience and determine if the total reserves are adequate for the entities continued viability. Actuaries sometimes refer to this as the valuation process; that is, the process to place a value on risk portfolio so that the appropriate liability is recorded in the financial statements.

**Revenue Accounting – General**

Information is presented here on revenue requirements, including accounting to emphasize the importance of revenue (or the lack thereof) to federal agency providers of insurance and reinsurance, i.e., while the legislation for some programs include provisions for collecting revenue, it is just as likely that programs must be supported based on budgetary resources. When allowed by statute, programs may have access to revenue through the assessment of premiums, and through the investment of those premiums in Treasury securities. Additional information is available in FFMSR Revenue System Requirements.

**Revenue Accounting – Cashier Function**

- Provide cashier capabilities to support the following steps:

    - Batch/group/process collections by payment type;

    - Prepare a deposit slip, i.e., Standard Form (SF) 215 or equivalent;

    - Direct the accompanying insured party or reinsured company information and documentation to the program office for action;

    - Record and maintain accounting and insured party or reinsured company tracking system data; and

- Perform daily reconciliation with the U.S. Treasury via the CashLink System to ensure that funds are deposited promptly in the appropriate financial institution.

- Provide the following capabilities to support a cashier function:

    - Identify the Treasury Account Fund Symbol (TAFS) for which the deposit is being made;

    - Recognize and classify collections in the proper budgetary categories. Record and control all prescribed types of budgetary authorities relative to earned and unearned revenue or cash collections (both cash and accrual basis), including spending authority from offsetting collections;

    - Recognize and record advance payments received;

    - Recognize and record cash donations as non-exchange revenue;

    - Perform transaction cross-referencing in which a user can perform a query to locate the details of associated transactions in the processing "chain," e.g., querying on a receivable would provide any associated cash receipts); and

    - Track funds at various levels based on required elements of the accounting classification and project/program accounting structure.

**Revenue Accounting – Deposit Function**

- Provide deposit capabilities:

    - Create a new deposit account (escrow account) record with data element fields required in RO-1 (p. 21) to record account history and activity.

    - Provide access to update deposit account records for both active and inactive deposit accounts. Modifications to any deposit account data will be date effective.

    - Close a deposit account. The system will record the disposition of any remaining balance. Closed deposit account records will be archived.

    - Process remittances to and charges against a deposit account. Remittances will be processed in the same record format as a payment.

    - Provide monthly statements of transaction activity in paper and/or electronic form.

    - Notify customers (if specified) if their deposit account balance drops below a certain dollar amount.

- Validate accounts by not accepting a transaction for a charge against a deposit account until the system has determined that the account number is valid, not delinquent, and has a sufficient balance to cover the charge. If the balance is not sufficient to cover the charge, the system must send notification to the customer and a notice permitting/delaying service to be rendered. Any deposit account transaction that causes an overdrawn balance without notification shall be rejected by the system.

- Apply penalty charges for deposit account balances that fall below a predetermined level at any point in time or at a predetermined point, such as at the end of a month. The predetermined level and assessment date may vary by deposit account type. These penalty charges shall be automatically assigned by the system. (DAS-8)

## General System Requirements

**Records Retention**

Agency systems **must** maintain, store, and permit ready retrieval of financial information. The time frames for various parts of this requirement differ depending on the subject matter. The single integrated financial management system must be sufficiently flexible to retain and purge information consistent with varying record keeping requirements. The National Archives and Records Administration (NARA) must approve the destruction of records created within the federal government per 36 C.F.R 1228. General Records Schedule 7, Expenditure Accounting Records, and General Records Schedule 20, Electronic Records, are the current authorities for disposal of Expenditure Accounting Records. (Copies may be obtained from an agency's records officer or from NARA.) For expenditure records not covered by this authority, or for any questions regarding the disposition of federal records, please contact:

National Archives and Records Administration (NARA)
7th Street and Pennsylvania Avenue NW
Washington, DC 20408

**Compliance and Customer Service (policy servicing)**

Change in address, payments, etc.

Overall, sales, training, advertising and record keeping are adhered to
Implement systems and controls in relation to regulatory system matters to ensure adherence.

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3-15-2006

# Appendix A: References

**Federal Insurance Program Statutes**

- Pub. L. No. 73-66, Federal Deposit Insurance Act of 1933
- 48 Stat.1216 Federal Credit Union Act of 1934
- Federal Crop Insurance Act of 1938, 7 U.S.C. §1501 et seq
- Pub. L. No. 93-406, Employee Retirement Income Security Act (ERISA) of 1974
- Pub. L. No. 103-355, Federal Insurance Streamlining Act of 1994

**Federal Financial Management Statutes**

- Pub. L. No. 93-344, Anti-Deficiency Act of 1974
- Pub. L. No. 97-177, Prompt Payment Act of 1982
- Pub. L. No. 97-255, Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Pub. L. No. 100-235, Computer Security Act of 1987
- Pub. L. No. 101-576, Chief Financial Officers (CFO) Act of 1990
- Pub. L. No. 103-62, Government Performance and Results Act (GPRA) of 1993
- Pub. L. No. 103-356, Government Management Reform Act (GMRA) of 1994, as amended
- Pub. L. No. 104-13, Paperwork Reduction Act of 1995
- Pub. L. No. 104-106, National Defense Authorization Act for Fiscal Year 1996
- Pub. L. No. 104-106, Division E, Information Technology Management Reform Act (ITMRA) of 1996, as amended (also known as Clinger-Cohen Act of 1996)
- Pub. L. No. 104-134, Debt Collection Improvement Act of 1996
- Pub. L. No. 104-134, Omnibus Consolidated Rescissions and Appropriations Act of 1996, as amended
- Pub. L. No. 104-208, Federal Financial Management Improvement Act (FFMIA) of 1996
- Pub. L. No. 105-277, Title XVII, Government Paperwork Elimination Act (GPEA)
- Pub. L. No. 106-229, Electronic Signatures in Global and National Commerce Act

- Pub. L. No. 106-398, National Defense Authorization Act for Fiscal Year 2001

**United States Code**

- 5 U.S.C. §552a, The Privacy Act of 1974 (as amended)
- 26 U.S.C. §6041, Information at Source
- 26 U.S.C. §6050M, Returns relating to persons receiving contracts from Federal executive agencies
- 26 U.S.C. §6941A, Returns regarding payments of remuneration for services and direct sales
- 31 U.S.C. §1501, Money and Finance—Documentary evidence requirement for government obligations
- 31 U.S.C. §1517, Money and Finance —Prohibited obligations and expenditures
- 31 U.S.C. §3901-3908, Money and Finance—Prompt payment
- 31 U.S.C. §7701, Money and Finance—Taxpayer identifying number
- 41 U.S.C. §11, Public Contracts—No contracts or purchases unless authorized or under adequate appropriation; report to the Congress
- 44 U.S.C. §3504, Coordination of Federal Information Policy—Authority and functions of Director

**Office of Management and Budget Publications**

- OMB Bulletin 01-09, Form and Content of Agency Financial Statements
- OMB Circular A-11, Preparation, Submission, and Execution of the Budget
- OMB Circular A-123, Management Accountability and Control (Effective through Fiscal Year 2005), Management's Responsibility for Internal Control (Effective beginning with Fiscal Year 2006) (Revised 12/21/2004)
- OMB Circular A-127, Financial Management Systems, including Transmittal Memorandum No. 2 and Transmittal Memorandum No. 3
- OMB Circular A-130, Management of Federal Information Resources

**Code of Federal Regulations**

- 5 C.F.R., Administrative Personnel

- 26 C.F.R., Internal Revenue
- 31 C.F.R., Money and Finance: Treasury

**Treasury Financial Manual**

- TFM Announcement A 2001-02 (FAST Book)
- TFM Release S2-01-02 (FACTS I & FACTS II Reporting)
- TFM SGL Section V
- I TFM 2-1500, Description of Accounts Relating to Financial Operations (T/L 598)
- I TFM 2-4000, Federal Agencies' Centralized Trial-Balance System (FACTS I) (T/L 593)
- I TFM 6-5000, Administrative Accounting Systems Requirements in Support of the Debt Collection Improvement Act of 1996

**Federal Financial Management System Requirements (FFMSR)**

- Core Financial System Requirements Exposure Draft (OFFM – NO – 0105) February 2005
- Framework for Federal Financial Management Systems (SR-01-04)
- Revenue System Requirements (SR-03-01)
- Core Financial System Requirements (SR-02-01)
- Benefit System Requirements (SR-01-01)

**Statements of Federal Financial Accounting Standards (SFFAS)**

- SFFAS 4, Managerial Cost Accounting Concepts and Standards
- SFFAS 5, Accounting for Liabilities of the Federal Government
- SFFAS 6, Accounting for Property, Plant and Equipment
- SFFAS 7, Accounting for Revenue and Other Financing Sources
- SFFAS 8, Supplementary Stewardship Reporting
- SFFAS 10, Accounting for Internal Use Software
- SFFAS 11, Amendments to Accounting for PP&E: Definitions (amends SFFAS 6 and 8)

- SFFAS 16, Amendments to Accounting for PP&E: Multi-use Heritage Assets (amends SFFAS 6 and 8)

- SFFAS 17, Accounting for Social Insurance

**Statements of Financial Accounting Standards (SFAS)**

- SFAS 60, Accounting and Reporting by Insurance Enterprises

- SFAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments

- SFAS 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts

# Appendix B: Contributors

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