



**Federal Financial
Management
System
Requirements**

Office of Federal Financial Management

Insurance System Requirements

**EXPOSURE
DRAFT**

**OFFM - NO - 0206
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Joint Financial Management Improvement Program (JFMIP)

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1 Foreword

2
3 This *Insurance System Requirements* is one of a series of Federal Financial Management System
4 Requirements (FFMSR) documents that describe financial management system requirements as-
5 sociated with federal programs. This document describes financial management system re-
6 quirements associated with federal insurance programs. The first of the FFMSR documents was
7 published in January 1988, i.e., *Core Financial System Requirements (Core)*. The *Core* docu-
8 ment is being updated for the fourth time while this document is being developed for the first
9 time.

10
11 *Framework for Federal Financial Management Systems (Framework)* was published in January
12 1995, to describe the basic elements of a model for integrating financial management systems in
13 the federal government. The *Framework* was updated in April 2004, to serve as a comprehen-
14 sive description of the basic elements of a model for integrated financial management systems in
15 the federal government including: system integration, data stewardship, and internal controls.

16
17 This document supports the Federal Financial Management Improvement Act (FFMIA) of 1996
18 and Office of Management and Budget (OMB) Circular A-127 Financial Management Systems.
19 The FFMIA of 1996 and OMB Circular A-127 strongly affirm the need for the federal govern-
20 ment to provide financial management systems that facilitate the effective management of gov-
21 ernment programs and the proper stewardship of public resources. This document also supports
22 the goal of the President's Management Council (PMC) to improve the efficiency and quality of
23 financial management in the federal government.

24
25 This document is based on government wide statutory and regulatory requirements associated
26 with federal insurance programs. Appendix A is a list of authoritative sources that were used
27 during the development of this document. Appendix B is a Glossary of terms and definitions
28 developed during this project. Appendix C is a list of project contributors.

29
30 Agencies must use these functional requirements, in addition to agency-unique requirements, in
31 planning their financial management and insurance system improvement projects. Insurance and
32 financial management system functionality does not necessarily reside in a single software appli-
33 cation or functional system. In fact, information may reside in a number of applications or sys-
34 tems, whether automated or manual.

35
36 Publication of this document is a collaborative effort of many federal agencies under the leader-
37 ship of Mr. Frederick S. Carns, Jr., Deputy Director, Division of Insurance and Research, Federal
38 Deposit Insurance Corporation (FDIC). The Project Team is composed of insurance, financial,
39 and policy professionals from across the federal government.

40
41 The FFMSR series of documents was formerly published by the Joint Financial Management
42 Improvement Program (JFMIP). The OFFM began publishing the FFMSR series effective on
43 December 3, 2004.

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1	Table of Contents	
2		
3		
4	Foreword.....	iii
5		
6	Table of Contents.....	v
7		
8	Illustrations	vii
9		
10	Acronyms.....	ix
11		
12	Introduction.....	1
13		
14	Federal Financial Management Framework	3
15		
16	Requirement Guidelines.....	5
17		
18	Insurance System Overview	7
19		
20	Introduction to Insurance System Requirements	11
21		
22	Pre-Event Functions.....	21
23	Examination Function and Underwriting Function	
24	Funding Function and Assessment Function	
25		
26	Post-Event Functions	37
27	Assets Management Function	
28	Claims Management Function	
29	Payments Management Function	
30		
31	Operations	61
32	Core Financial System	
33	Actuarial and Estimation Modeling Activities	
34	Trust Fund and Revolving Fund Activities	
35		
36	General System Requirements.....	73
37	Records Retention	
38	Compliance and Customer Service Activities	
39		
40	Appendix A: References	75
41	Appendix B: Glossary.....	79
42	Appendix C: Contributors.....	83
43		

1
2
3
4
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5-31-2005

1 Illustrations

2		
3	1. Federal Financial Management System Requirements (FFMSR) Components	4
4	2. Federal Insurance Program Cycle	14
5	3. Federal Insurance Program Business Model.....	16
6	4. Federal Insurance System Model	17
7	5. Examination and Underwriting Decision Making Model.....	21
8	6. Funding and Assessment Functions Model	27
9	7. Federal Insurance Provider Funding Function Model	28
10	8. Federal Insurance Provider Assessment Function Model.....	30
11	9. Post-Event Function Model	37
12	10. Claims Management Function Model.....	41
13	11. Core Financial System Functional Components.....	62
14	12. Core Financial System Technical Components	63
15	13. Actuarial and Estimation Model	65
16		
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1 **Acronyms**

2		
3	CFO	Chief Financial Officer
4	CFR	Code of Federal Regulations
5	COTS	Commercial Off-the-Shelf
6	EFT	Electronic Funds Transfer
7	ERISA	Employee Retirement Income Security Act
8	FASAB	Federal Accounting Standards Advisory Board
9	FASB	Financial Accounting Standards Board
10	FCIC	Federal Crop Insurance Corporation
11	FDIC	Federal Deposit Insurance Corporation
12	FFMIA	Federal Financial Management Improvement Act
13	FFMSR	Federal Financial Management System Requirements
14	FMFIA	Federal Managers' Financial Integrity Act
15	FY	Fiscal Year
16	GAAP	Generally Accepted Accounting Principles
17	GAAS	Generally Accepted Auditing Standards
18	GAO	Government Accountability Office (formerly General Accounting Office)
19	GPEA	Government Paperwork Elimination Act
20	GPRA	Government Performance and Results Act
21	GSA	General Services Administration
22	IBNR	Incurred But Not Reported
23	ID	Identification
24	IPAC	Intragovernmental Payment and Collection
25	IT	Information Technology
26	NARA	National Archives and Records Administration
27	NCUA	National Credit Union Administration
28	OASDI	Old-Age, Survivor's and Disability Insurance, a.k.a "Social Security"
29	OIG	Office of Inspector General
30	OMB	Office of Management and Budget
31	PBGC	Pension Benefit Guaranty Corporation
32	PL	Public Law

1	PMC	President's Management Council
2	RMA	Risk Management Agency
3	SFAS	Statement of Financial Accounting Standards
4	SFFAS	Statement of Federal Financial Accounting Standards
5	TFM	Treasury Financial Manual
6	U.S.C.	United States Code
7	U.S.SGL	United States Standard General Ledger
8	USDA	United States Department of Agriculture
9		

1 Introduction

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

12
13 The Office of Management and Budget (OMB) in the Budget of the United States Government,
14 FY 2005, states that the FDIC and NCUA together provide insurance for nearly \$4 trillion in de-
15 posits and shares at approximately 19,000 commercial banks, savings institutions, and credit un-
16 ions. The FY 2004 and 2005 OMB budget documents categorize federal insurance programs
17 into four primary types: (1) deposit insurance, (2) pension guarantees, (3) disaster insurance, and
18 (4) insurance against security-related risks (terrorism).

19
20 The Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial
21 Accounting Standards (SFFAS) 5, "Accounting for Liabilities of the Federal Government,"
22 states that social insurance "is considered to be a different type of program not included within
23 insurance and guarantee programs." In addition, SFFAS 5 states that "insurance and guarantee
24 programs are federal programs that provide protection to individuals or entities against specified
25 risks. Many of these programs were established to assume risks that private sector entities are
26 unable or unwilling to assume [at least at prices that beneficiaries of the program can afford (in
27 some cases) or want to pay (in other cases) or to subsidize the provision of insurance to achieve
28 social objectives."

30 Purpose

31
32 The purpose of this document is to describe a set of functional requirements applicable to all in-
33 surance and financial management systems with which each agency's integrated financial man-
34 agement system must be consistent. These functional requirements frequently arise from federal
35 statutes, regulations, and accounting standards, or were identified as best practices by the project
36 participants. This document delineates requirements that are critical to the performance of both
37 functions. These requirements are intended to be available to all users who rely on the infor-
38 mation to carry out their responsibilities.

39
40 As a result, this document serves as a basic reference for developing new insurance systems, or
41 improving or evaluating current systems. However, it does not describe hardware or software
42 performance requirements for such systems; rather, it describes high-level functional require-
43 ments necessary for the insurance and financial management communities to effectively design
44 and implement their systems.

1 It is also important to note that many of the requirements included in this document may be de-
2 livered or performed completely or partially by non-governmental organizations, as noted
3 throughout the document. An example of this is Crop Insurance which is provided through rein-
4 sured companies.

5 6 **Methodology**

7
8 This document was developed by a Project Team composed of insurance, financial, policy, and
9 other officials from across the federal government. During the Initiation Phase of the Project, the
10 Joint Financial Management Improvement Program (JFMIP) identified a sponsoring agency and
11 leader to support and lead the project, after which a memorandum was generated to all federal
12 agency insurance and financial organizations for participants. The memo to agencies for partici-
13 pants and follow-on activities resulted in the participation of a wide variety of insurance, finan-
14 cial, policy, and other officials, which are listed in Appendix C. After December 2, 2004, the
15 project continued under the auspices of the Office of Management and Budget (OMB), Office of
16 Federal Financial Management (OFFM), in accordance with a memorandum generated by the
17 Deputy Director for Management on that date.

18
19 The Project Team began the effort by reviewing a variety of reports, documents, publications,
20 and other materials prepared by a variety of federal organizations, e.g., GAO reports prepared in
21 1997 and 1998, GAO/AIMD-97-16 and GAO/T-AIMD-98-147; Analytical Perspectives includ-
22 ed in the Budget of the United States Government, FY 2004 and 2005; FASAB SFFAS 5 and 25;
23 and conversations with the Congressional Budget Office, Department of the Treasury, and others
24 relative to activities directed at the identification of federal insurance programs. Most agencies
25 thought to have insurance programs were visited during the initiation phase of the project to
26 identify a sponsor and leader, as well as to gain an understanding of the breadth, depth, complex-
27 ity, and pervasiveness of the various programs.

28
29 The Project Team began to develop the document based on definitions for insurance contained in
30 *Barron's Dictionary of Insurance Terms* fourth edition and *Webster's Ninth New Collegiate Dic-*
31 *tionary*, after which definitions were crafted for federal insurance programs, as reflected in the
32 Insurance System Overview section of this document. The definition, which establishes the
33 scope of the programs covered by this document, were vetted among Project Team members and
34 validated against a variety of documents and publications generated by the GAO, OMB, FASAB,
35 and other insurance, policy, and oversight organizations with respect to federal insurance pro-
36 grams.

37
38 During the second phase of the project, agencies were again visited to obtain documentation, in-
39 formation, and other materials that were useful in identifying requirements for inclusion in this
40 document. Certain existing FFMSR requirements documents (i.e., *Core Financial System Re-*
41 *quirements*, *Benefit System Requirements*, and *Revenue System Requirements*) contain require-
42 ments that are similar to requirements identified for federal insurance programs. Where appro-
43 priate those requirements were extracted, referenced, or otherwise incorporated into this docu-
44 ment. Development of this document is one of many actions directed at improving federal finan-
45 cial management, particularly federal financial management systems.

1 Federal Financial Management Framework

2
3 *Framework for Federal Financial Management Systems* which was published in January 1995,
4 describes the basic elements of a model for integrating financial management systems in the fed-
5 eral government. It provides a foundation for all systems included in the FFMSR. The Frame-
6 work was republished in April 2004. This updated document description does the following:
7

- 8 • Explains how federal financial management supports federal agencies and the mission of
9 government and is an inherent component of all federal programs;
- 10
- 11 • Sets forth financial management performance goals, outcomes, and desired capabilities
12 and characteristics that future systems must be designed to meet;
- 13
- 14 • Describes financial management functions, information flows, and systems that support
15 the federal agencies in carrying out programs;
- 16
- 17 • Describes the agency and central agency roles;
- 18
- 19 • Links financial management to program performance and describe how it supports budg-
20 et and performance integration; and
- 21
- 22 • Presents the business needs, performance goals, and information architecture that drive
23 financial system requirements.
- 24

25 Federal Financial Management System Requirements

26
27 The current model comprises the Core Financial, Managerial Cost Accounting, and thirteen sub-
28 sidiary financial or mixed systems. Such systems must be able to provide consistent, standard-
29 ized information for program managers, financial managers, agency executives, and oversight
30 organizations, and meet federal statutes, regulations, and standards. Illustration 1 provides a
31 view of the current financial management applications described by the FFMSR series.
32

33 System requirements associated with each of these model components are published in separate
34 documents available at www.JFMIP.gov (soon to be relocated). Each of these system require-
35 ments documents is organized around services and financial event processing that support vari-
36 ous missions and programs based on laws, regulations, and standards, and developed with the
37 consensus of financial and program stakeholders based on best practices.
38

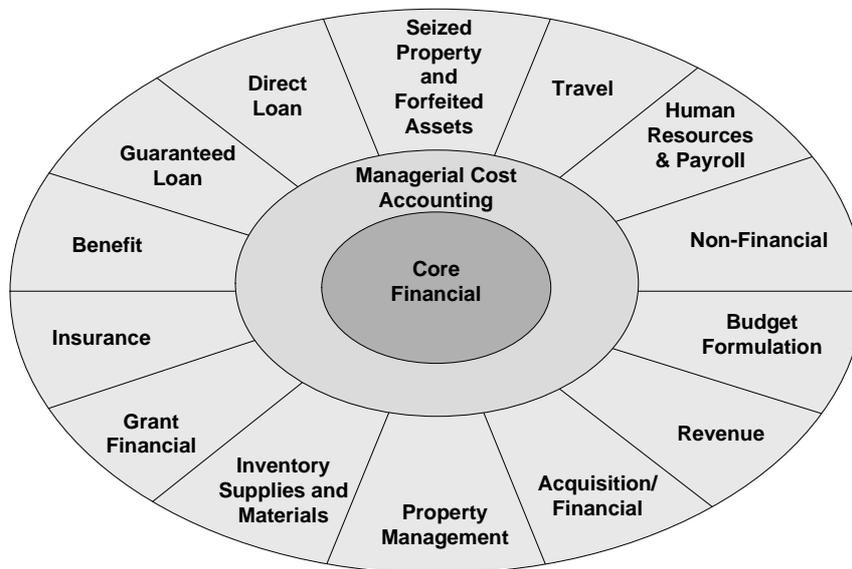
39 Framework Goals

40
41 The following financial management system performance goals, outlined in the Framework doc-
42 ument, are applicable to all FFMSR documents. All financial management systems **must**:

- 43
- 44 • Demonstrate compliance with accounting standards and requirements,
- 45

- 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**



1 Requirement Guidelines

2
3 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.

10 Applicability

11
12 All FFMSR published requirements presented are identified as being mandatory or value-added. These requirement categories are defined as follows:

13
14
15 **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.

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22 **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.

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29
30 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."

34 Management Controls

35
36 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.

40
41
42
43
44
45 This document contains some specific software requirements necessary for implementing basic management controls by functional area. In addition, this document incorporates global security

1 requirements that preclude the need to qualify other functional requirements with references to
2 authorized users.

3
4 Implementing the system controls within this and other FFMSR documents will help to establish
5 a stronger control environment. Ultimately, each agency is responsible for implementing ade-
6 quate controls to ensure that the insurance system operates as intended.

7
8

1 Insurance System Overview

2
3 This section provides a high-level overview of the functional business processes that constitute a
4 federal insurance system. The functional requirements described in this document are based on
5 federal statutes, regulations, standards, or best practices identified by Project Team members.
6 Concepts and definitions used to develop this document are based on concepts and definitions
7 applicable to commercial private sector insurance enterprises, with appropriate modifications to
8 address differences in the federal insurance environment. Much of the information and many of
9 the ideas for this document are taken from reports, publications, and documentation published by
10 a variety of federal organizations relative to federal insurance programs, e.g. federal agencies
11 that have an interest in federal insurance programs.

12
13 The basic definition for federal insurance for this document is based on the *Barron's Dictionary*
14 *of Insurance Terms* that defines insurance as a “mechanism for contractually shifting burdens of
15 a number of pure risks by pooling them.” Further, pure risk is defined as a “situation involving a
16 chance of a loss or no loss, but no chance of gain. For example, either one’s home burns or it
17 does not; this risk is insurable.”

18
19 Also, insurance is defined in *Webster's Ninth New Collegiate Dictionary* as “the **act** of insuring,
20 or assuring, against **loss** or damage by a **contingent event**, a **contract** whereby, for a stipulated
21 consideration, called **premium**, **one party** undertakes to **indemnify** or guarantee **another**
22 against loss by certain **specified risks**.”

23
24 With regard to federal insurance, Congress passes legislation to establish federal insurance pro-
25 grams and frequently establishes or identifies federal agencies that are responsible for the pro-
26 grams and for publishing implementing regulations. The law identifies the components of feder-
27 al insurance programs as follows: the **act** of insuring, assuring (e.g., two parties signing a con-
28 tract or citizens depositing funds in federally insured financial institutions) against **loss** or dam-
29 age (e.g., checking account deposits up to \$100,000 per depositor) as the result of a **contingent**
30 **event** (e.g., financial institution bankruptcy, flood, or termination of an underfunded pension
31 plan); pursuant to a **contract** (e.g., charter or statutory promise to pay) whereby, for a stipulated
32 consideration called a **premium**, **one party**, i.e., the **federal organization indemnifies** or guar-
33 antees **another**, i.e., the **insured party** (private sector organization or individual); against loss as
34 the result of certain **specified risks**.

35
36 Congress also passes legislation that establishes insurance programs, such as the Federal Crop
37 Insurance Program (FCIP), where the federal role is that of delivering the program through pri-
38 vate sector insurance providers. In the case of crop insurance, the Risk Management Agency
39 (RMA) of the U.S. Department of Agriculture, via the Federal Crop Insurance Corporation
40 (FCIC), approves the premium, administers premium and expense subsidy, approves and reim-
41 burse appropriate development costs for insurance products, and provides reinsurance to the
42 private sector reinsured companies for the delivery of approved program policies.

43
44 Certain federal insurance programs also operate through arrangements with private sector insur-
45 ance companies that are responsible for many of the day-to-day insurance policy underwriting
46 and claims processes. These programs are within the scope of this requirements document.

1
2 Because **premiums** associated with federal insurance programs may be insufficient to cover all
3 contingent events, and to ensure that sufficient funds are available to supplement premiums paid
4 by insured parties, a variety of **funding** sources are used in some cases to subsidize federal in-
5 surance programs.

6
7 As the foregoing information indicates, insurance programs focus on the probable occurrence of
8 some contingent event, e.g., failure of a financial institution, termination of an underfunded pen-
9 sion plan, flood, crop failure, death of a veteran, or other covered event. From this perspective,
10 insurance programs involve two basic categories of business functions, i.e., (1) recurring day-to-
11 day activities in anticipation of a possible contingent event, and (2) activities associated with
12 claims for payment after a contingent event occurs. For purposes of this document, these two
13 categories of insurance program activities are labeled as Pre-Event Functions and Post-Event
14 Functions. In addition, insurance providers may maintain various operations to support their in-
15 surance programs, e.g., investment profile management, rate setting, financial management, hu-
16 man resources management, and facilities management.

17
18 As the following indicates, many entities are involved in federal insurance programs, including
19 the Legislative Branch, which drafts and passes legislation that authorizes and appropriates
20 funds, and the Executive Branch, which proposes programs and signs legislation into law. The
21 following text identifies and describes the major participants and their authorities and responsi-
22 bilities.

23 24 **Roles and Responsibilities**

- 25
26 • **Federal Insurance Agency**: Federal agencies are responsible for establishing and oper-
27 ating insurance programs in accordance with federal statutes. These responsibilities in-
28 clude the development, publication, and revision of insurance program regulations.
- 29
30 • **Related Federal Agencies**: A variety of federal agencies are responsible for working
31 with federal insurance agencies in carrying out their responsibilities. For example, the
32 senior level managers with the Department of Labor, Department of Commerce, and De-
33 partment of Treasury serve as members of the Board of Directors for PBGC.
- 34
35 • **Department of the Treasury**: Department of the Treasury, primarily through the Finan-
36 cial Management Service (FMS), establishes a variety of fiscal government wide re-
37 quirements and for the preparation of the federal government's annual financial state-
38 ment. FMS is also responsible for disbursing payments on behalf of those agencies that
39 do not have delegated disbursing authority. FMS issues the Treasury Financial Manual
40 (TFM), including the U.S. Government Standard General Ledger (U.S.SGL) and other
41 fiscal guidance.
- 42
43 • **Federal Accounting Standards Advisory Board (FASAB)/Financial Accounting**
44 **Standards Board (FASB)**: FASAB develops federal accounting standards applicable to
45 most federal insurance agencies through the issuance of statements, interpretations, tech-
46 nical bulletins and other guidance (most notably, Statement of Federal Financial Ac-

1 counting Standards (SFFAS) No. 5). The GAAP hierarchy for U.S. government report-
2 ing is established by the AICPA's Statement of Auditing Standards (SAS) No. 91.
3 FASAB's private-sector counterpart, FASB, develops standards applicable to private sec-
4 tor enterprises and adopted by some federal agencies. These standards often serve as
5 non-binding guidelines employed by most federal agencies and are binding for the finan-
6 cial statements of other agencies when required by law or policy if adopted by an agency
7 (notably FAS 60, 97 and 113).

- 8
- 9 • **Office of Inspector General (OIG):** OIG is an entity within each agency that is respon-
10 sible for the conduct of independent audits, investigations, and evaluations of federal
11 programs in an effort to eliminate redundancies, reduce waste, ensure compliance with
12 federal regulations.
 - 13
 - 14 • **Insured Party:** Insured party is the person(s) or entity that receives payments from a
15 federal insurance agency or reinsured company after submitting a claim to cover a loss
16 resulting from a contingent event. Often, the insured party does not directly pay premi-
17 ums to the trust fund, however the risks assumed by the insured party are indemnified by
18 a federal insurance agency.
 - 19
 - 20 • **Reinsured Company:** A company that is reinsured by the federal insurance agency.
 - 21
 - 22 • **State Regulatory Officials:** While not common to all federal insurance programs, some
23 federal insurance agencies may share information with appropriate state regulatory offi-
24 cials on matters of common concern regarding private financial institutions.
 - 25
 - 26

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1 Introduction to Insurance System Requirements

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

10
11 The essence of an insurance program is the transfer of the risk associated with a contingent
12 event, which may cause loss of life, property, or other financial [economic] harm, from an in-
13 sured party to an insuring organization, in this case a federal agency or its agent. Actuarial activ-
14 ities are at the heart of an insurance program.

15
16 The Barron's Dictionary defines actuarial science as the "branch of knowledge dealing with the
17 mathematics of insurance, including probabilities. It is used in ensuring that risks are carefully
18 evaluated, that adequate premiums are charged for risks underwritten, and that adequate provi-
19 sion is made for future payments of benefits." According to the Barron's Dictionary, actuaries
20 conduct various statistical studies; construct morbidity and mortality tables; calculate premiums,
21 reserves, and dividends for participating policies; develop products; construct annual reports in
22 compliance with numerous regulatory requirements; and in many companies oversee the general
23 financial function...." In effect, actuarial activities permeate every aspect of an insurance pro-
24 gram, and are therefore incorporated throughout this document.

25
26 The degree to which an insuring federal agency becomes involved in a particular insurance pro-
27 gram depends upon circumstances. In some programs the insuring federal agency performs vir-
28 tually all of the aspects of the program; e.g., the Veterans' Benefits Administration (VBA) func-
29 tions much the same as a private sector insurance company, performing all of the necessary in-
30 surance activities, in addition to unique ones required of federal insurance programs. Other
31 agencies, such as the USDA Risk Management Agency (RMA), regulate and deliver the crop
32 insurance program through Reinsured Companies.

33
34 Also, federal insuring agencies must be prepared to be flexible, taking into consideration chang-
35 ing economic, political, and policy environments, e.g., the savings and loan crisis in the 1980's.
36 Accordingly, a federal insurance system must be flexible to accommodate the diversity of federal
37 insurance programs, as well as changing circumstances.

38
39 The following information defines and describes Pre-Event Functions and Post-Event Functions
40 associated with federal insurance programs. These definitions, which are based on private sector
41 insurance definitions, have been modified to fit the federal insurance context.

42
43 **Pre-Event Functions.** Pre-Event Functions support recurring, day-to-day activities in anticipa-
44 tion of a contingent event, e.g. flood, drought, or financial institution failure. Pre-Event Func-
45 tions include: Examination; Underwriting; Funding; and Assessment. As indicated by the fol-

1 lowing discussion and illustrations, the Examination and Underwriting Functions are closely re-
2 lated, and the Funding and Assessment Functions are closely related.

3
4 • **Examination Function and Underwriting Function**

5
6 The Examination Function and Underwriting Function are closely related but distinguish-
7 able. Within the private sector insurance industry, both functions would be combined,
8 and Barron’s Dictionary combines the definitions. The Barron’s Dictionary defines un-
9 derwriting as the “process of examining, accepting, or rejecting insurance risks, and clas-
10 sifying those selected, in order to charge the proper premium for each. The purpose of
11 underwriting is to spread the risk among a pool of insureds in a manner that is equitable
12 for the insureds and profitable for the insurer.”

13
14 The Examination Function includes three basic processes: (1) determining the viability
15 and legality of insuring a specified risk; (2) gathering information about the risk from a
16 variety of sources (e.g., application); and, (3) evaluating the information received. Some
17 federal insurance agencies may rely on guidelines for reducing the risk that a contingent
18 event will occur, i.e., mitigating loss through up-front prevention activities.

19
20 Unlike the private sector, the Examination Function in federal insurance programs in-
21 cludes legislation establishing the program. Federal insurance providers must also con-
22 sider other matters in the Examination Function relative to accomplishing social goals
23 and objectives, as well as congressional willingness to appropriate funds.

24
25 The Examination Function must also determine whether the insurance program is accom-
26 plishing its intended goals and objectives, and if not, what corrective action is required.

27
28 The Underwriting Function includes the remaining process components identified in the
29 Barron’s definition, i.e., the “process of accepting, or rejecting insurance risks and classi-
30 fying those selected in order to charge the proper premium for each.” For purposes of
31 this document, the Underwriting Function includes four basic processes: (1) making a
32 decision to accept or reject applicants, if applicable; (2) implementing the decision to ac-
33 cept an applicant; (3) evaluating and monitoring changes and classifying assumed risk
34 profiles; and, if appropriate, (4) canceling the policy or revoking certification. As indi-
35 cated earlier, in some cases, in some programs underwriting is mandatory and cancella-
36 tion or revocation is not possible, per program legislation.

37
38 Unlike the private sector, the Underwriting Function in federal insurance programs must
39 consider the resources available to fund the program, either through the federal budget
40 process or the program’s ability to collect premiums to make the program self sustaining.

41
42 • **Funding Function and Assessment Function**

43 The Funding Function and Assessment Function are closely related but distinguishable.
44 The Funding Function includes requirements associated with identifying types of funding
45 sources available, e.g., premiums or direct appropriations. The function also includes ac-

1 activities that relate to determining the types and levels of funding that may be available to
2 cover the costs of the program, as well as the potential losses that may occur.

3 The Assessment Function includes requirements associated with obtaining funds to sup-
4 port the program, through the collection of premiums or other fees from the insured par-
5 ty; through the budgetary process in the form of direct appropriations; or from other
6 sources, e.g., income from investments.

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

17 **Post-Event Functions.** Post-Event Functions support activities that may occur after a contin-
18 gent event has occurred, e.g., flood, drought, or financial institution failure. Post-Event Func-
19 tions may include: Assets Management, Claims Management, and Payments Management.
20

21 • **Assets Management Function**

22 The Assets Management Function supports processes associated with receiving the assets
23 of a failed insured party, e.g., financial institution or defined benefit plan, along with fi-
24 duciary authorities and responsibilities. The function also supports the development of a
25 reserve fund for paying anticipated valid claims following a contingent event. Federal
26 agencies that provide insurance often serve as centers of expertise in their respective cov-
27 erage type, and offer voluntary and/or mandatory guidelines for the mitigation of losses
28 should a contingent event occur. Federal insurance programs frequently include mitiga-
29 tion of loss processes, which refers to the determination of other assets owned by the in-
30 sured, which should be used first to assist in paying down a claim. Many agencies main-
31 tain a program for keeping the public informed and verifying compliance with mitigation
32 techniques.

33 • **Claims Management Function**

34 Claims Management Function refers to determining the validity of claims and verifying
35 the actual amount of payment for which the federal agency or reinsured company, if ap-
36 plicable, is liable.

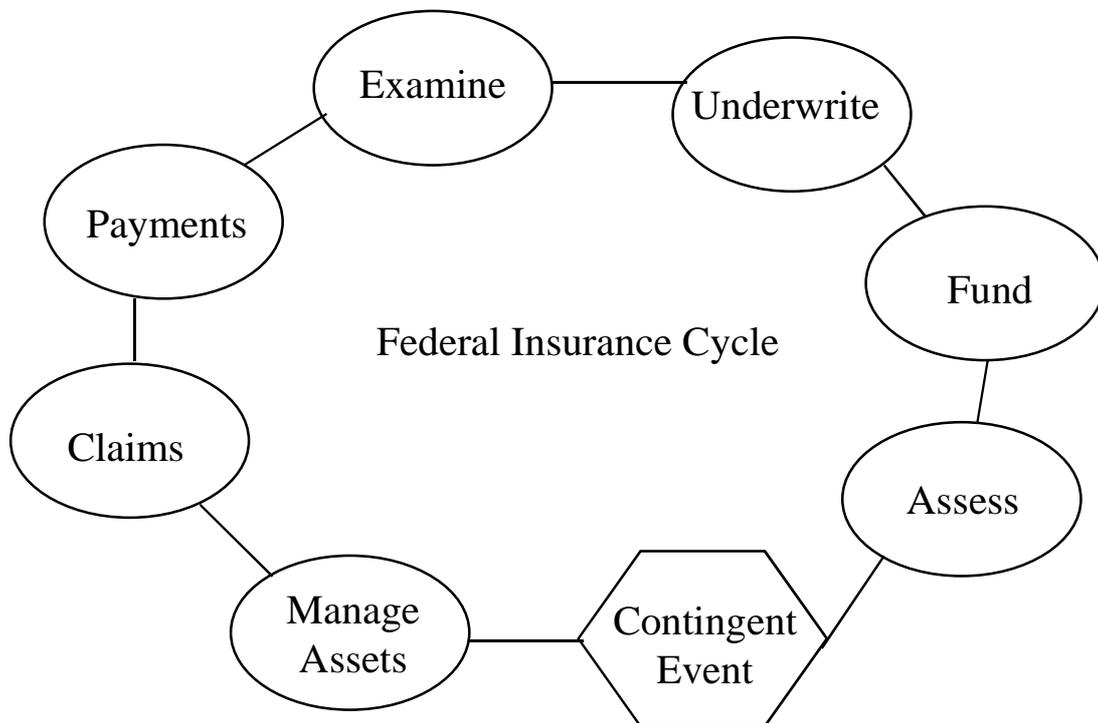
37 • **Payments Management Function**

38 Payments Management Function refers to the payment to an insured claimant who has
39 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., VA VBA life insurance programs, paying claims occurs in the near-term. Whereas, in programs which have the purpose to maximize resources available for claims, e.g., FDIC and 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

1 of the Core Financial System; Actuarial and Estimation Modeling Activities; and Trust Fund and
2 Revolving Fund Activities. As discussed earlier some of these functions, requirements and ac-
3 tivities do not apply to a particular federal insurance program at all and their applicability may
4 vary over time, depending on the area to which the particular insurance program applies. Also,
5 compliance and customer service activities are accomplished by private sector reinsured compa-
6 nies rather than RMA/FCIC.

7
8 As discussed earlier, there is a wide variety of system configurations that exist among federal
9 insurance programs as well as variations in configurations and requirements over time, again de-
10 pending on the area to which the particular insurance program applies, e.g., the core financial
11 and program insurance system may be tightly integrated, which in other instances the core finan-
12 cial system may be standalone, with appropriate interfaces.

13
14 • **Core Financial System**

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

19 • **Actuarial and Estimation Modeling Activities**

20 The development of economic forecasts, financial models, risk models, premium tables
21 and other activities which allow the agency to forecast expected benefits based on statis-
22 tical or other analyses.

23 • **Trust Fund and Revolving Fund Activities**

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

30 Some of the more prevalent activities associated with trust fund activities are revenue ac-
31 tivities, reserving activities, and maintenance of pooled assets.

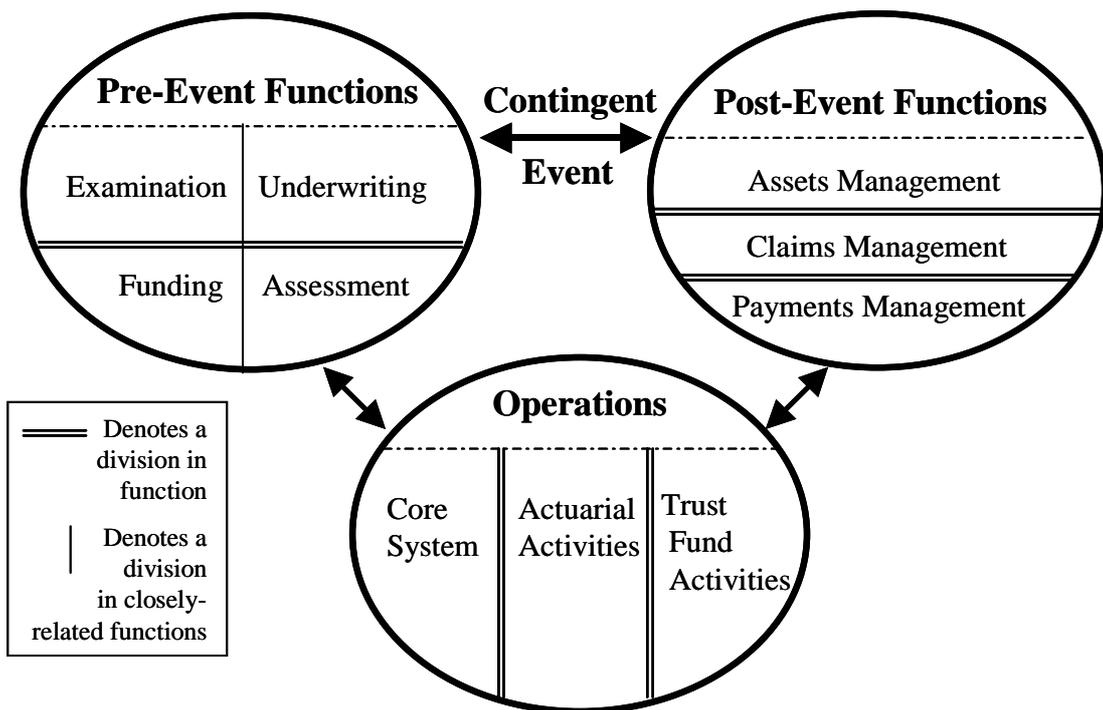
32 Revenue activities include requirements associated with cashier, deposit, cash reconcilia-
33 tion, and other related functions.

34 Reserving activities include requirements associated with known claims due but not paid,
35 known claims not yet due, and provision for incurred but not reported (IBNR) claims.
36 The critical problem facing federal insurance providers is the amount of reserves neces-
37 sary for the incurred but not reported (IBNR) losses because many of these claims and
38 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 as 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 in-

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

6
7 These alternative methods may apply to accounts receivable, accounts payable, general ledger,
8 reporting, and other functions. The insurance system’s issuance of payment information to the
9 Treasury Department, FMS, and the disbursement of that payment, may trigger the establishment
10 of the financial system’s obligation transaction by means of an electronic interface.

11
12 The principal system, however, that shares information requirements and creates two-way de-
13 pendencies with the insurance system is the core financial system. These interdependencies help
14 to ensure integrity and control in the areas of budget, program management, and delivery, exter-
15 nal reporting, and data integrity.

16 **Federal Insurance Programs – Funding Models**

17
18
19 There are fundamental differences between various insurance funding models as the following
20 discussion indicates, beginning with the most basic “traditional” insurance funding model. The
21 following discussion highlights a fundamental difference between the “traditional” model and
22 federal insurance program models, i.e. the involvement of the federal government in the relation-
23 ship between insurer and insured.

24 **Traditional Private Insurance Funding Model**

25
26
27 The “traditional” private sector insurance model includes the transfer of risk from the insured to
28 the insurer for a premium, i.e. the insured pays a premium in return for the insurers assumption
29 of risk and promise to pay for a contingent loss. The burden of loss is redistributed to all
30 insureds via pooling of similar risk. Because premiums are received before losses are paid,
31 “float” arises which the insurer invests. Premiums alone may not cover losses, so the insurer’s
32 return on investment combined with the premiums earned must exceed losses for the insurer to
33 remain viable.

34
35 As the following discussion indicates, there are also two basic federal insurance funding models,
36 i.e. those that receive appropriated funds and those that do not. In addition the federal govern-
37 ment serves as a reinsurer in at least one program, i.e. the crop insurance program, in which case
38 a hybrid funding model applies. This model is also described below. Notwithstanding the fact
39 that there are many other federal insurance programs not discussed, some more complex than
40 others, all federal insurance funding models function in a manner similar to the following discus-
41 sion.

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

43
44
45 The FDIC depositor insurance program is an example of this model. The insured financial insti-
46 tution pays a premium to FDIC, but the depositor receives the primary benefit in the form of de-

1 posit insurance. This insurance program is funded by premiums plus investment income earned
2 on premiums, but no appropriated funds are supplied. The FDIC, by law, is limited in its in-
3 vestment options to U.S. Treasury securities.

5 **Premium Plus Appropriation Federal Insurance Funding Model**

6
7 The Servicemembers' and Veterans' Group Life Insurance program is an example of this model.
8 This premium plus appropriate insurance program is funded by a combination of premiums paid
9 by the insured, appropriations from Congress, and investment income earned. Congress appro-
10 priates funds to pay increased premium during hostilities.

12 **Federal Reinsurance Funding Model**

13
14 The federal reinsurance funding model in which case the insurance program is funded and deliv-
15 ered through private insurance companies using reinsurance agreements. Federal reinsurance
16 programs have a different mission from their private-sector counterparts. For example, the mis-
17 sion of the Risk Management Agency of the USDA (which operates the FCIC) is to promote,
18 support, and regulate sound risk management solutions to preserve and strengthen the economic
19 stability of America's agricultural producers; whereas the mission of a private-sector reinsurer is
20 to profit from the risk transferred by a ceding insurance company.

21
22 Under this model the RMA, via FCIC, provides crop insurance to American agricultural produc-
23 ers (farmers). Fifteen private sector insurance companies sell and service the FCIC approved
24 policies. RMA develops and/or approves the premium rate, administers premium and expense
25 subsidy, approves and supports products, and reinsures the fifteen private sector insurance com-
26 panies.

27
28 In addition to the above insurance and reinsurance funding models, there are insurance-like pro-
29 grams that are paid out of appropriated funds only. The federal September 11th Victim Compen-
30 sation Fund of 2001 (the 9/11 Fund) is one such example. Claims for death and physical injury
31 arising out of the 9/11 tragedy were paid out of the 9/11 Fund, which was created by legislation
32 passed by Congress and signed into law by the President to provide compensation for economic
33 and non-economic loss to individuals or relatives of deceased individuals who were killed or
34 physically injured as a result of the terrorist-related aircraft crashes of September 11, 2001.

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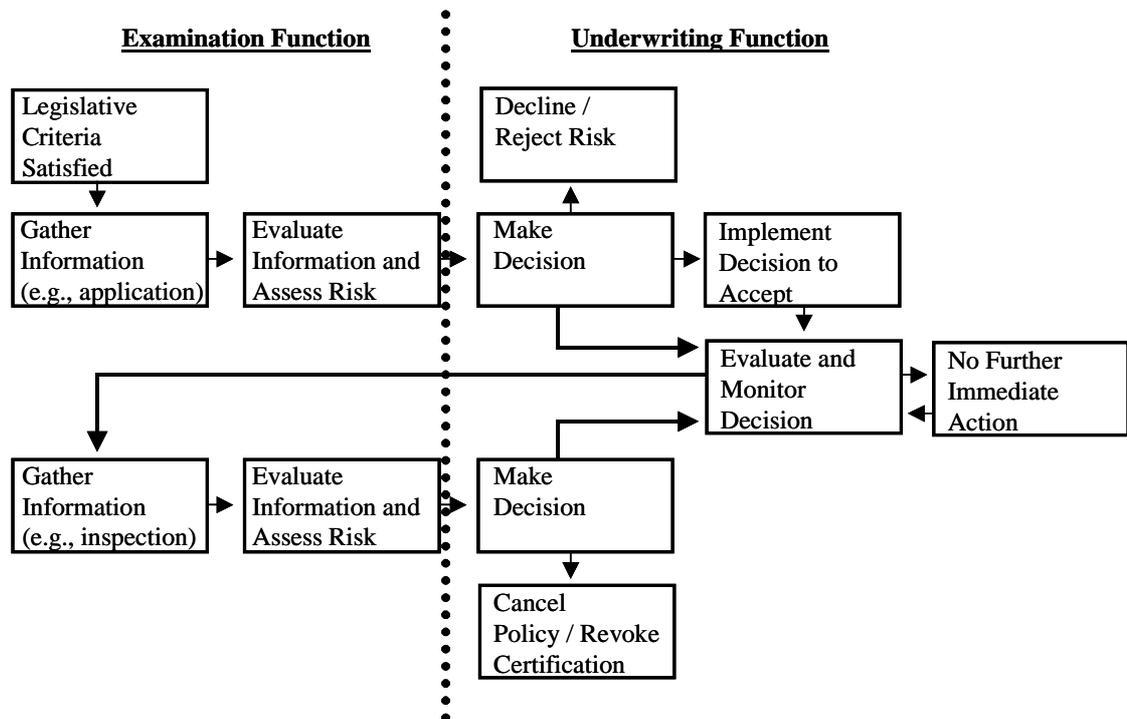
1 Pre-Event Functions

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

7 Examination Function and Underwriting Function

8
9
10 As described earlier, the Examination Function and the Underwriting Function at federal agency
11 providers of insurance are closely related but serve distinctly different processes as illustration 5
12 shows.

13
14 **Examination and Underwriting Decision Making Model**
15 **Illustration 5**
16



17 Examination Function

18
19 The Examination Function includes three processes as follows:
20
21

- 22 • Determine the viability and legality of insuring a specified risk by ensuring that the quali-
23 fication criteria set forth by the federal insurance program's enabling legislation is satis-
24 fied;
25

-
- 1 • Gather information about the overall prospective risk pool (the coverage universe), and
2 the specifics of the individual risks, from a variety of sources, including the application;
3 and
4
 - 5 • Evaluate the information gathered and assess the risk involved by relying on the federal
6 insurance agency as a center of expertise in their respective coverage universe.
7

8 Depending on the nature of the federal insurance program, an agency may impose (or suggest)
9 guidelines for the insured entity to reduce the risk that a contingent event will occur (i.e., miti-
10 gate the potential loss through up-front prevention activities such as performing on-site inspec-
11 tions (audits) of insureds). The information collected from the insured entity aids federal insur-
12 ance agencies in their supervisory function. For example, the assignment of examination ratings
13 is a useful vehicle for identifying problems at specific financial institutions, as well as categoriz-
14 ing those institutions with deficiencies in particular component or geographical areas. In addi-
15 tion, information from inspections (audits) is used by federal insurance agencies in their internal
16 portfolio risk assessment and loss reserve evaluations.
17

18 **Mandatory Requirements for the Examination Function**

19
20 To support the Examination Function, the system **must**:

- 21 • Capture information that allows the agency to determine if the risk qualifies under the en-
22 abling legislation;
23
- 24 • Capture information that allows the agency to establish a legal relationship with the in-
25 sured or reinsured party, e.g. contract, charter or agreement;
- 26 • Capture comprehensive population profile information, including insuring organization,
27 insured population (items, people, etc.);
- 28 • Quantify the risk and impose rules for accepting the risk;
- 29 • Identify how the risk fits into the entity's risk portfolio;
- 30 • Provide for the calculation of the appropriate premium;
- 31 • Provide for the identification of the appropriate funding source and level for each;
- 32 • Allow management to readily determine if other risk mitigation strategies should be used;
- 33 • Provide for comparison against program criteria;
- 34 • Capture and provide access to the following information:
 - 35 ○ Date, including FY;
 - 36 ○ On-site audits;

-
- 1 ○ Actuarial information;
 - 2 ○ Organization code;
 - 3 ○ Object classification;
 - 4 ○ Estimated amount;
 - 5 ○ Project code; and
 - 6 ○ Program code.
 - 7 ● Support the export of historical data for use in revenue forecasting.
 - 8 ● Provide program evaluation and corrective action capability (based on information gath-
 - 9 erred during the underwriting process), including the following elements
 - 10 ○ Audit sample of transactions;
 - 11 ○ Identify anomalies, errors, or discrepancies;
 - 12 ○ Analyze cause of errors, etc.;
 - 13 ○ Prepare program of corrective action;
 - 14 ○ Implement corrective action program; and
 - 15 ○ Repeat process.

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

17
18 To support the Examination Function, the system **should**:

- 19 ● Capture and provide access to the following information:
- 20 ○ Actuarial information source, e.g., industry standard;
- 21 ○ Description;
- 22 ○ Estimated amounts increased or decreased;
- 23 ○ Revenue source code; and
- 24 ○ Agency location code (ALC).
- 25 ○ Agency location code (ALC).
- 26 ● Enable electronic approvals, notification alerts, and point-of-entry automated requisition
- 27 forms;

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

6
7
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9

Underwriting Function

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

21
22 The Underwriting Function is based on a clear statement of underwriting policy. For federal in-
23 surance programs, legislation will likely be the source of the underwriting policy. After an agen-
24 cy's underwriting policy is established, it must be communicated to the underwriters and their
25 supervisors – those persons charged with making daily decisions regarding the acceptability of
26 risk – who are required by law to follow the underwriting policy of the federal insurance agency
27 they serve.

28
29 The Underwriting Function, as described above, is a decision making process, which is cyclical
30 and can be separated into the following processes:

- 31
- 32 • Make a decision to accept, accept subject to conditions, or reject applicants, if applicable;
 - 33
 - 34 • Implement decision to accept, or accept subject to conditions, including the following ac-
35 tions:
 - 36 ○ Communicate decision to relevant party or system;
 - 37
 - 38 ○ Develop appropriate certificates, records, or documentation; and
 - 39 ○ Record information for accounting, statistical, monitoring purposes.
 - 40
 - 41 ○ Record information for accounting, statistical, monitoring purposes.
 - 42
 - 43 • Evaluate and monitor the decision to ensure the risk remains acceptable to the federal in-
44 surance 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;
 - Applicant’s social security number or other taxpayer identification number;
 - Applicant’s employment information (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.), etc.); and,
 - Signature, certification, endorsement of applicant.
- Capture objective and subjective information on hazards to sound underwriting:

-
- 1 ○ Physical hazards – tangible characteristics of the property, persons, or operations to
2 be insured that affect the expected frequency and severity of loss from one or more
3 risks;
- 4 ○ Moral hazards – a condition that exists when a prospective or current policyholder
5 tries to cause a loss or exaggerates a loss that has occurred (fraud). Information re-
6 garding prospective or current policyholder’s criminal background, or evidence of
7 moral turpitude exists; and
- 8 ○ Weak financial condition – failure to maintain adequate capital structure, and history
9 and future of financial condition.
- 10 ● Capture and provide access to the following information:
- 11 ○ Date, including FY;
- 12 ○ On-site audits;
- 13 ○ Actuarial information;
- 14 ○ Organization code;
- 15 ○ Object classification;
- 16 ○ Estimated amount;
- 17 ○ Project code; and
- 18 ○ Program code.
- 19 ● Support the export of historical data for use in revenue forecasting.

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

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

- 22
- 23 ● Capture desirable information that is not absolutely necessary, but would be helpful in
24 evaluating the risk if the information can be obtained at an acceptable cost and without
25 undue delay.

26

27 **Funding Function and Assessment Function**

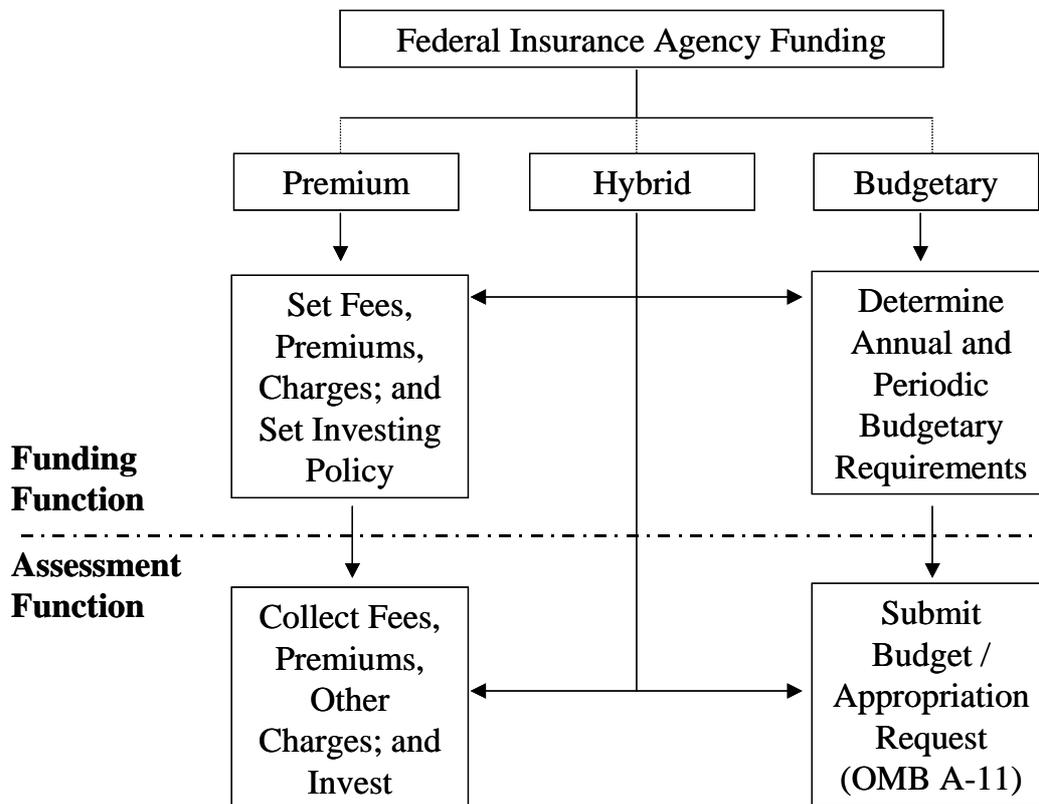
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29 Illustration 6 shows the fundamental processes and differences associated with the Funding
30 Function and with the Assessment Function. The Funding Function is concerned with the
31 source(s) of funds needed to ensure the federal insurance agency remains viable. Some federal
32 insurance agencies rely on premiums (and the associated investment income), others rely on di-
33 rect appropriations, and some rely on a combination of both the premiums (and investment in-

1 come) and appropriations to support their operations, and meet incurred and expected claims.
 2 Whatever the source of funds, the Funding Function of any insurance system must capture and
 3 record information necessary to ensure a stable insurance program by continually evaluating the
 4 level of funding relative to the level of expected program costs.

5
 6 If the Funding Function is concerned with *where* the money will come from, then the Assess-
 7 ment Function is concerned with *how* the money will be obtained, e.g., premiums collected from
 8 the insured party. Premiums or fees may be assessed, charged to, and collected from the insured
 9 entity; and appropriated funds may be obtained through the budgetary process or some combina-
 10 tion thereof. Like the Funding Function, the Assessment Function is critical to the stability of a
 11 federal insurance program.

12
 13
 14 **Funding and Assessment Functions Model**
 15 **Illustration 6**
 16



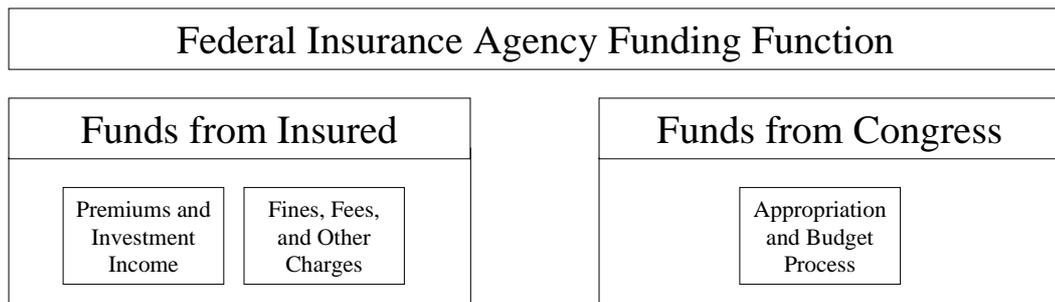
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 18
 19
 20 There is normally a direct relationship between the amount of risk accepted by the insurer and
 21 the premium or other funding (e.g., direct appropriations) needed. This risk pricing is normally
 22 developed with the aid of estimation models, actuarial calculations, and other evaluative infor-
 23 mation.
 24

1 Federal insurance programs are designed to promote a public good (e.g., affordable insurance for
2 soldiers in combat). Because of the higher risk profile associated with certain risks covered by
3 federal insurance programs, the burden for the whole premium may not be placed directly on the
4 insured. The premium for those higher-than-average risks could be subsidized through an ap-
5 propriation or an assessment on the insured entities with less risky profiles.
6
7

8 **Funding Function**

9 Illustration 7 shows the three basic processes associated with the Funding Function: (1) those
10 directed at determining charges to be imposed on the insured in the form of premiums, fees, or
11 other charges; (2) those directed at determining amounts to be obtained through the federal
12 budgetary process, and (3) those directed at obtaining other sources of income, e.g., interest on
13 the investment of premiums or fees in Treasury securities in accordance with program legislation
14 and regulation.
15

16 **Federal Insurance Provider Funding Function Model** 17 **Illustration 7** 18



19 20 21 22 **Mandatory Requirements for the Funding Function**

23 To support the Funding Function the system **must**:

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

-
- 1 • Capture and provide access to the following information:
- 2 ○ Date, including FY;
- 3 ○ On-site program;
- 4 ○ Periodic data collections from customers;
- 5 ○ Risk modeling;
- 6 ○ Insured losses;
- 7 ○ Adjustments to reserves (if applicable);
- 8 ○ Program code; and
- 9 ○ Obligation amount.
- 10 • For federal insurance delivered directly by the federal insurance agency, provide access
- 11 to a hard copy or an electronic copy (where cost effective) of the entire executed (signed)
- 12 insuring document through a charter, contract, or program plan including the following
- 13 information:
- 14 ○ Insuring document number, e.g., contract, charter, or memorandum of understanding;
- 15 ○ Premium, fee, or other payment amount; and
- 16 ○ Estimated payment date.
- 17 • For insurance delivered through reinsured companies by a federal insurance agency, pro-
- 18 vide access to a hard copy or an electronic copy (where cost effective) of the entire exe-
- 19 cuted (signed) reinsurance agreement, including the following information:
- 20 ○ Reinsurance (underwriting gain/loss)
- 21 ○ Risk subsidy
- 22 ○ Administrative and operating expense reimbursement
- 23 ○ Premiums, producer premiums, fees or other payment amounts; and
- 24 ○ Estimated payment dates.

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

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

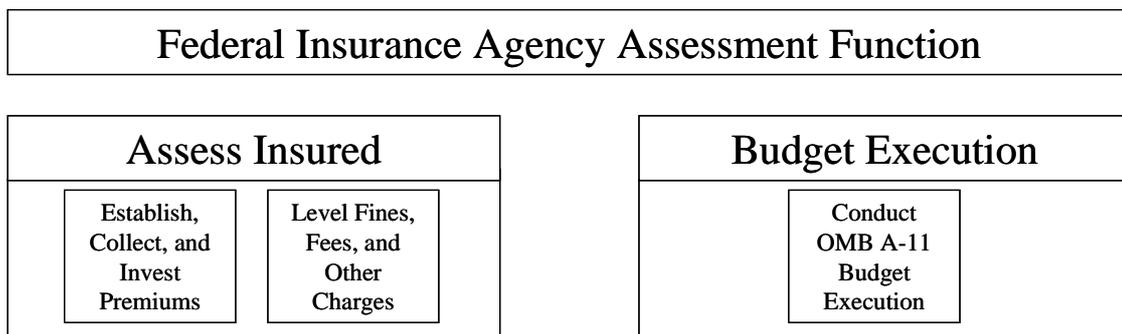
- 27 • Access information associated with changes.

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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.

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.

The Assessment Function also includes activities required to obtain 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:

-
- 1 • Purpose—the obligation must be for a purpose for which the appropriation was made.
 - 2 • Time—the obligation must be incurred within the time that the appropriation was made
 - 3 available for new obligations.
 - 4
 - 5 • Amount—the obligation may not exceed the amount of funds available for obligation
 - 6 against the appropriation.
 - 7

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

11 **Mandatory Requirements for the Assessment Function**

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

- 13 • Process, track, and maintain identification information for each insured party (individual
- 14 or entity) or for each reinsured company, as applicable, e.g., crop insurance;
- 15 • Retain identification information reflecting an insured party's or for each reinsured com-
- 16 pany, as applicable, the entire history for handling inquiries and providing an audit trail;
- 17 • Provide for a full range of remittance options (all of which can be in foreign currency):
- 18 ○ Cash, check, and money order;
- 19 ○ Electronic, including Automated Clearing House (ACH), Electronic Funds Transfer
- 20 (EFT), FedWire, Intra-governmental Payment and Collection System (IPAC),
- 21 Pay.gov, and credit card;
- 22 ○ Prepayment or advances, (funds advanced by insured parties or reinsured company's,
- 23 if applicable, in requesting insurance coverage). Advance balances are reduced for
- 24 services provided; and
- 25 ○ "On account," i.e., an account receivable is established and an invoice is generated.
- 26
- 27 • Capture and provide access to the following information at the insured party or reinsured
- 28 company, if applicable, and individual document level:
- 29 ○ Unique insured party or reinsured company identification number;
- 30 ○ Insured party or reinsured company name;
- 31 ○ Taxpayer Identification Number (TIN);
- 32 ○ Insured party or reinsured company address, including physical, mailing, email, and
- 33 billing;
- 34 ○ Contact information, including name, telephone number, e-mail address, etc.
- 35
- 36
- 37
- 38
- 39
- 40

-
- 1 ○ IRS 1099C indicator (for non-federal accounts receivable needed in case of debt
2 write-off);
3 ○ Comment information;
4
5 ○ Date of last update;
6
7 ○ Amount received;
8
9 ○ Date of each remittance received; and
10
11 ○ Method of payment, e.g., check or money order.
12
13 • Support the generation of bills for amounts due the agency;
14
15 • Generate bills to customers based on accounts receivable calculation, event and time pe-
16 riod, and type of claim. Basis used for billing may include:
17
18 ○ Percentage of reimbursable obligations, accrued expenditures or costs;
19
20 ○ Fee schedules; and
21
22 ○ Payment schedules or other agreements with other entities.
23
24 • Provide the capability to automatically calculate additional customer charges, e.g., inter-
25 est, using user-defined criteria and automatically generate separate line item to reflect
26 charges on the bill;
27
28 • Record billings by line item in order to identify specific accounting classification codes;
29
30 • Support bills between business partners and provide supporting data to agencies billed
31 which can be used to verify the charges;
32
33 • Reverse a bill issued non-IPAC, and reissue the bill via IPAC and vice versa;
34
35 • Print bills, accommodating the generation of standard forms. Allow for customized text
36 and descriptive information in generating billing documents;
37
38 • Date bills with a system-generated data or with a date supplied by the user;
39
40 • Consolidate multiple accounts receivable for a customer onto one bill;
41
42 • Generate bills prepared manually and allow transactions to be entered onto bill by author-
43 ized personnel;
44
45 • Provide the capability to allow adjustments to billing data prior to billing;
46

-
- 1 • Record adjustments to bills and post to customer accounts;
2
3 • Provide the capability to store billing supporting information;
4
5 • Provide the capability to perform on-line “drill downs” from general ledger summary
6 balances to detail transactions and referenced documents;
7
8 • Provide the capability to issue credit bills when appropriate;
9
10 • Provide the capability to maintain on-line all activity related to the customer including
11 date of last update and last date customer contact made, at document level;
12
13 • Provide the capability to generate recurring billings with pre-defined customer and
14 amount information;
15
16 • Provide the capability to record the receipt of funds either by currency (e.g., cash, EFT)
17 check, IPAC or credit card and the deposit of such funds in accordance with Treasury and
18 agency regulations. Also, provide for the receipt of payment offset information from
19 Treasury and its application to the appropriate accounts receivable;
20
21 • Record the application of complete and partial payments;
22
23 • Record revenues for collections for which no receivable was previously established;
24
25 • Apply collections to the specific account to reduce or liquidate cumulative payments and
26 expenditures, e.g., upon the refund of erroneous payments;
27
28 • Record information associated with a collection at the time funds are applied to an open
29 receivable document, including the deposit ticket number and date, TAS/TAFS and ac-
30 complish date;
31
32 • Apply collections to more than one receivable;
33
34 • Re-open closed accounts to record collections after a waiver or write-off of a receivable
35 has been recorded;
36
37 • Process SF-5515 debit vouchers, SF-215, charge backs, canceled payments or insufficient
38 funds to reduce collections and re-establish a receivable;
39
40 • Provide the ability to reduce collections with a miscellaneous adjustment such as a jour-
41 nal voucher. A miscellaneous adjustment may also include a debit voucher or bank ad-
42 justment not related to a returned check reduced deposit total;
43
44 • Maintain customer account information for internal statement of all transactions and to
45 support billing, reporting, and research activities, including at a minimum:

-
- 1
- 2 ○ Account number unique to each transaction or reference (not just unique customer);
- 3
- 4 ○ Account balance;
- 5
- 6 ○ Associated customer ID number;
- 7
- 8 ○ Date due and age of accounts receivable;
- 9
- 10 ○ Accounting classification code strip; and
- 11
- 12 ○ Reimbursable order number, where applicable.
- 13
- 14 • Process a receipt against an established receivable and close or liquidate the receivable if
- 15 payment is in full. Leave the receivable open if not paid in full.
- 16
- 17 • Apply collections to a hierarchy of debts.
- 18
- 19 • Create a deposit record for a deposit ticket, including at a minimum:
- 20
- 21 ○ Deposit ticket number (should be able to accommodate an agency assigned number
- 22 and the Treasury assigned number);
- 23
- 24 ○ Deposit ticket date;
- 25
- 26 ○ Deposit ticket amount;
- 27
- 28 ○ Agency location code (ALC);
- 29
- 30 ○ Entry date;
- 31
- 32 ○ Treasury confirmation date;
- 33
- 34 ○ User ID for establishing ticket; and
- 35
- 36 ○ User ID for closing ticket.
- 37
- 38 • Record the receipt of an advance from others and associate it with the RA.
- 39
- 40 • Provide the ability to record a receipt, part of which is revenue to the collecting agency,
- 41 the remainder of the receipt is revenue to other agencies with which the receipt is shared.
- 42
- 43 • Provide system capability to automatically record collections by downloading data, i.e.,
- 44 lockbox, collection agency, DOJ, or Treasury.
- 45

-
- 1 • Provide capability to record and subsequently track collections by type, i.e., internally,
2 externally with Treasury Offset Program, or other collection service center or agency.
3

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

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

- 6
- 7 • Receive insured party identification information via the internet; and
- 8 • Provide an integrated insured party management relationship repository to establish a
9 single view of insured party information;
- 10 • Utilize insured party data that has been submitted electronically in an automated fashion
11 without manual intervention (i.e., avoid re-entering data from one component to another);
12 and
- 13 • Have the ability to date and time stamp contracts, agreements, charters, etc., and other
14 time sensitive correspondence that has been received through electronic mediums.

15

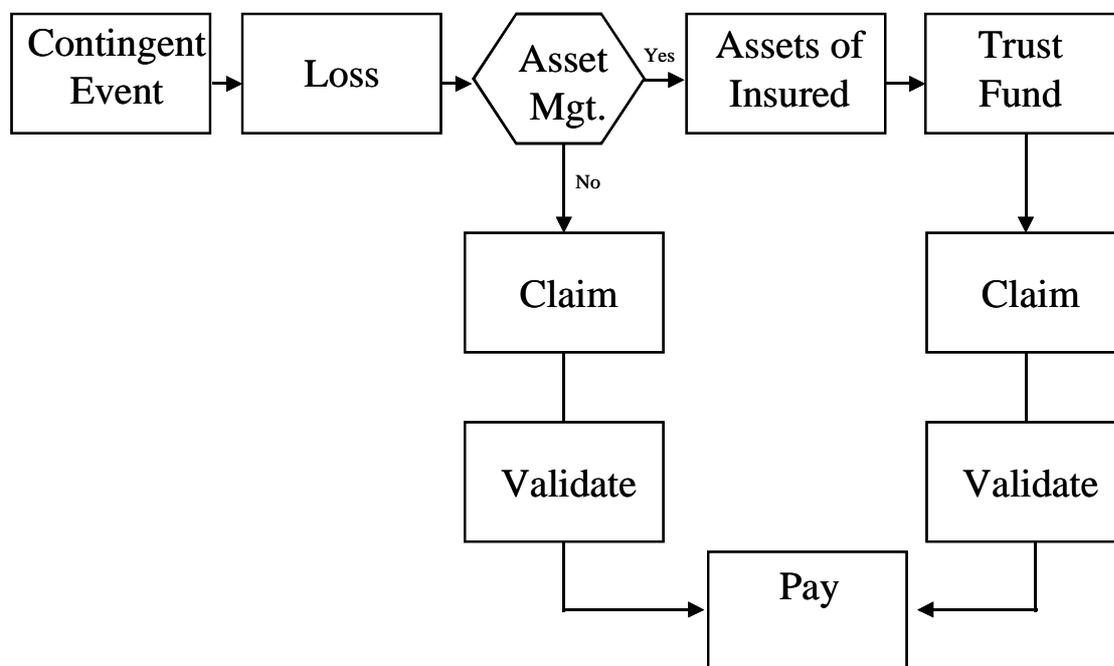
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1 Post-Event Functions

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

11
12 **Post-Event Function Model**
13 **Illustration 9**



15
16
17
18 Federal insurance system requirements are circumstantial after a contingent event has occurred,
19 depending on the extent to which the federal insurance provider must become involved in
20 providing insurance type services, and the method under which they become involved. In some
21 cases, the insurance provider carries out all insurance type services from beginning to end. In
22 other cases, the federal insurance provider manages the dissolution process that is carried out by
23 others. In still other cases, e.g., failure of a financial institution or defined benefit pension plan,
24 the federal agency must become a fiduciary with full responsibilities for orderly dissolution of
25 the assets through the establishment of trusts. In still other cases, e.g., crop insurance, the federal
26 agency delivers Post-Event Functions through reinsured companies, except for financial settle-

1 ment and payment, if applicable, to the reinsured company under the terms of the reinsurance
2 agreement.

3
4 In the case of underfunded pension plans, the follow-on trust and other activities may last for
5 years, while for others, insurance program activities are completed quickly, after the contingent
6 event occurs.

7
8 The insurance system must be sufficiently flexible and comprehensive to accommodate all of
9 these circumstances, as any program over time has the potential for changing and perhaps requir-
10 ing more extensive involvement in providing insurance services.

11
12 As discussed several places in this document, the insurance system must be flexible for Post-
13 Event Functions, due to the various delivery choices used for federal insurance programs. For
14 example, only the Payment Function, insofar as it relates to settlement payments with reinsured
15 companies may be applicable to the crop insurance program. The Assets Management Function
16 includes processes that provide support when the federal agency must “step-in” and become a
17 fiduciary. Claims may or may not need to be submitted. These requirements are intended to
18 document the system capabilities to make a determination of the appropriate process(es) and ac-
19 tivity(ies) in any set of circumstances.

20 21 22 **Assets Management Function**

23
24 In certain instances, federal insurance providers perform asset management functions. Certain
25 federal insurance providers are given powers to take entities into receivership in order to facili-
26 tate the distribution of benefits to the ultimate beneficiaries.

27
28 For failed or failing defined benefit pension plans insured by PBGC, PBGC takes over the man-
29 agement and operations of the plan. It assumes the assets and liabilities of a plan in order to
30 marshal such resources to minimize the loss to the insurance fund and provide long-term retire-
31 ment benefits to the plan’s participants. PBGC administers the plan until all participants are paid
32 out.

33
34 For failed or failing financial institutions insured by FDIC and NCUA, the federal agency may
35 take such financial institutions into receivership if a merger partner cannot be found. At such a
36 point, the federal agency manages the assets and liabilities of the financial institution, as well as
37 its daily operations, in order to minimize the loss to the insurance fund and to fund payment of
38 insured deposits.

39
40 Although these agencies deal with different insurable risks, their processes are similar and activi-
41 ties are fiduciary in nature.

42
43 The Assets Management Function includes processes whereby the federal insurance provider
44 assumes full responsibility for the insured parties’ activities, including fiduciary responsibilities
45 to manage assets and liabilities of the failed entity to either minimize the loss or maximize the
46 returns to the insured parties.

1
2 Barrons' dictionary defines fiduciary responsibilities as the "holding of property, or otherwise
3 acting on behalf of another in trust. The fiduciary must exercise due care in safeguarding proper-
4 ty left under personal care, custody, and control. Insurance coverage is available for this expo-
5 sure." With regard to insurance coverage, federal agencies self insure.
6

7 Insurance agencies often serve as centers of expertise in their respective coverage type and offer
8 voluntary or mandatory guidelines for the mitigation of losses should a contingent event occur.
9 Many agencies are required to maintain a program for keeping the public informed and verifying
10 compliance with mitigation techniques.
11

12 Processes associated with the Assets Management Function may also support the determination
13 of other assets owned by the insured, which should be used first to assist in paying down the
14 claim. The Assets Management Function also supports the development of a reserve fund for
15 paying anticipated valid claims following a contingent event. Federal agencies that provide in-
16 surance must also take a variety of actions to maintain the value of assets and mitigate further
17 loss or damage, or ensure that others do so, especially the insured party. Within the context of
18 the Assets Management Function, the federal insuring agency becomes liable or as stated, "in the
19 shoes of the insured party," e.g., an employer that has terminated a pension plan or a financial
20 institution that has failed.
21

22 The following cycle usually occurs in the Assets Management Function once an entity has been
23 taken into receivership.
24

- 25 • Legal procedural process to allow seizure or acquisition of entity's property, assets and
26 operations.
27
- 28 • The entity's operations are suspended or transferred to the insurer's control. In the case
29 of banks, current employees continue their duties, but under control of the insurer or its
30 agent.
31
- 32 • All assets and liabilities are catalogued. Assets may include loans, property, and equip-
33 ment. Liabilities may include depositor or participant's accounts, borrowings, and ac-
34 counts payable.
35
- 36 • Books and records of the entity are compiled into an accounting system maintained by
37 the insurer. Such accounting system is able to maintain separately the transactions of the
38 entity as well as to aggregate them with other entities in receivership in order to facilitate
39 the management at both an individual and aggregate level.
40
- 41 • Analysts review the entity to determine the value of all claims and the resources available
42 to fulfill them, thus determining the loss to the insurance fund.
43
- 44 • Management of assets and investments; management may include liquidation of items to
45 minimize losses or provide liquidity to pay claims.
46

-
- 1 • Ongoing communications with actuaries and financial reporting to report losses. Such in-
2 formation is used to report losses in the financial statements and build reserves for future
3 losses.
4

5 **Mandatory Requirements for the Assets Management Function**

6
7 To support the Assets Management Function, the system **must**:

- 8 • Provide the capability to determine if the insuring agency must assume fiduciary respon-
9 sibilities;
10
11 ○ Establish trust fund to support management and dissolution activities.
12
13 • Provide the capability to inventory potential insured party claimants and payees;
14
15 • Provide the capability to perform calculations which may be actuarial in nature to deter-
16 mine potential losses and claims resulting from those losses;
17
18 • Provide for entity level reporting;
19
20 ○ Benefit statements for claimants/plan participants;
21
22 ○ Investments (cost, market value, rate of return, maturities, cash flows) for liquidity
23 planning to meet claims;
24
25 ○ Liabilities (amount, terms, status, and priority of such claim; and
26
27 ○ Specific reserve for losses.
28
29 • Provide for aggregation of assets and liabilities for financial reporting and management;
30
31 ○ Aggregation of investments (cost basis, market value, rate of return) of entities in or-
32 der by multiple categorizations for such investments to be managed by the investment
33 committee; and
34
35 ○ Reporting of assets and liabilities, including reserves (specific and general), for finan-
36 cial statement reporting.
37

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

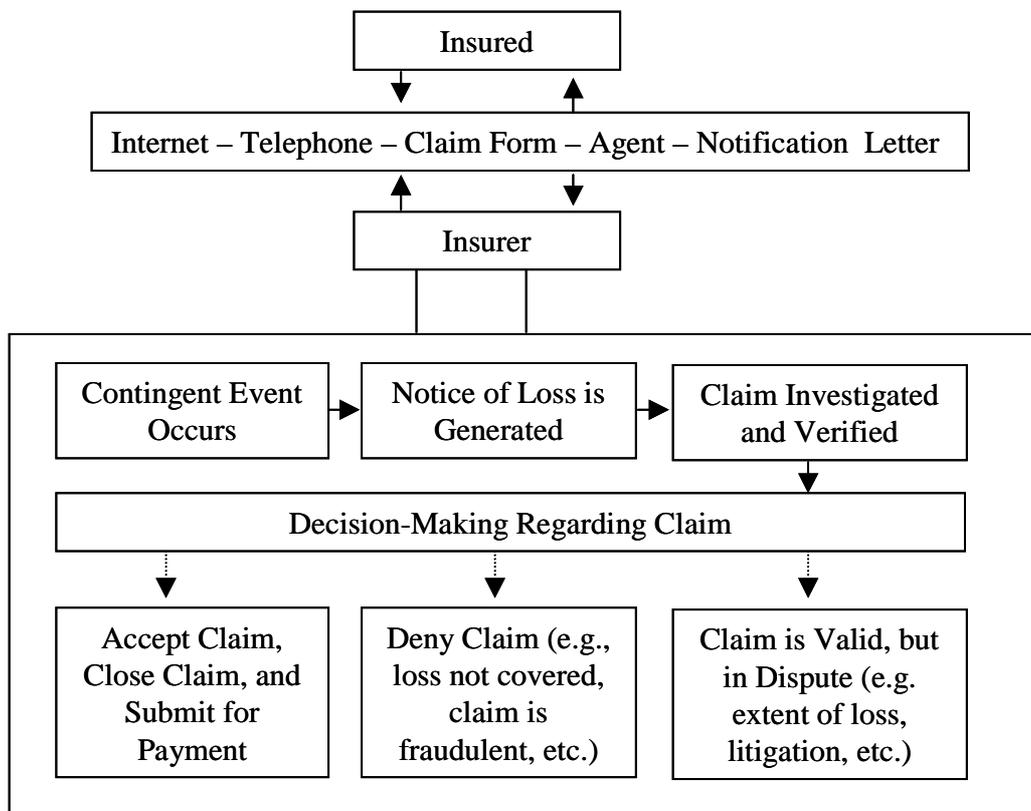
39
40 To support the Assets Management Function, the system **should**:

- 41
42 • Provide specialized accounting systems and processes to manage certain types of invest-
43 ments, e.g., servicing consumer loans and managing rental real estate; and
44
45 • Provide liquidation capabilities.

1
2 **Claims Management Function**
3

4 The Claims Management Function includes those processes that support the identification or ac-
5 ceptance and validation of claims that result from a contingent event death of a veteran, natural
6 disaster, terminated pension plan, or failure of a financial institution. Illustration 10 shows the
7 major processes associated with the Claims Management Function. This function does not apply
8 when the processes are performed by a reinsured company under the crop insurance program.
9

10 **Claims Management Function Model**
11 **Illustration 10**
12



13
14
15
16 There is usually a period of time between the loss and the insurance claim. (The liability here is
17 sometimes referred to as incurred but not reported (IBNR), which based on historical experience,
18 Actuarial Services determine the liability to be recorded in general accounting.)
19

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

1
2 Once the claim is submitted or identified, the financial impact of the claim is then determined.
3 Also, beneficiaries may need to be determined, e.g., depositors of an insured financial institution.
4

5 Depending on the type of claim, if there are assets of the insured that can be used to pay claims,
6 such assets are taken into receivership, after which a reserve is determined and established to
7 cover the loss or damage; claims are identified or accepted and validated; valid claims are paid;
8 and the reserve is reduced.
9

10 Claim losses are reported to Actuarial Services for a determination of the impact on Underwrit-
11 ing, Funding, and Reserving.
12

13 The Claims Management Function includes four basic processes: Claims Acceptance and Track-
14 ing Process, Claims Administration Process, Claims Eligibility Determination Process, and
15 Claims Computation Process. The Claims Management Function includes activities for deter-
16 mining the validity of claims and verifying the actual amount of payment the insurance agency is
17 liable to pay the insured party (or a third party), as well as mitigating losses, and providing in-
18 formation for making payments to insured parties (or third parties).
19

20 The Claims Management Function includes activities associated with the input and processing of
21 data provided by claimants on applications. This document does not require the complete auto-
22 mation of the activities associated with the Claims Management Function. It provides for flexi-
23 bility in implementing agency specific processing requirements. The functional requirements
24 listed herein are intended to promote efficient data exchange (i.e., reduce data entry) among sys-
25 tem components and optimize the use of technology. However, agencies should have a goal to
26 keep manual processes to a minimum and automate claims processing to the maximum extent
27 possible within the legal framework of the program.
28

29 The following information provides additional detailed requirements applicable to the four pro-
30 cesses that comprise the Claims Management Function.
31

32 **Claims Acceptance and Tracking Process**

33

34 The Claims Acceptance and Tracking Process provides claimants with mechanisms for submit-
35 ting claims, and for receiving, recording and tracking both properly completed and incomplete
36 applications (claims) for insurance payments. Various insurance programs contain provisions
37 requiring payments that are retroactive to the claimant's initial filing date. Therefore, the system
38 must be able to track claims from point of receipt to final approval or denial. Various programs
39 also may include the identification of claims through an inventory of assets and liabilities pro-
40 cess, rather than through a formal submission process on the part of a claimant
41

42 **Mandatory Requirements for Claims Acceptance and Tracking**

43

44 To support the Claims Acceptance and Tracking Process, the system **must:**
45

-
- 1 • Provide the capability to record claims in the system based on applications from the in-
2 sured party (or a third party), or based on an inventory of assets and liabilities;
- 3 • Capture, maintain, and provide access to the following information, in accordance with
4 The Privacy Act of 1974, 5 U.S.C. 552a (as amended):
- 5
- 6 ○ Name and address of insured entity with whom the agency has an agreement under
7 which the agency assumes risk and under which a loss has occurred;
- 8
- 9 ○ Name and address of claimant (person or entity on whose record insurance is provid-
10 ed and loss occurred);
- 11
- 12 ○ Social Security Number (SSN), TIN, or other identifier of claimant;
- 13
- 14 ○ Birth date of the claimant (if applicable);
- 15
- 16 ○ Date of initial claim;
- 17
- 18 ○ Claimant information, if other than the insured party, including:
- 19
- 20 ➤ Name, address, SSN, TIN, and birth date; and
- 21
- 22 ➤ Claimant’s relationship to insured party, when different from the insured party,
23 e.g., self, spouse, child, or dependent parent;
- 24
- 25 ○ Name and relationship of a representative payee, including estate executors or legal
26 guardians, when applicable;
- 27
- 28 ○ Specific insurance coverage for which the claim is made;
- 29
- 30 ○ Bank information for direct deposit, if applicable, including American Banking Asso-
31 ciation (ABA) routing number, claimant bank account number, and bank account
32 type;
- 33
- 34 ○ Type of evidence or proofs required and submitted when applicable;
- 35
- 36 ○ Status of the claim, e.g., approved, pending, or denied;
- 37
- 38 ○ Information needed to determine withholding amount, such as withholding status,
39 number of withholding allowances, back-up withholding, and additional voluntary
40 amount of tax withholding; and
- 41
- 42 ○ Types and amounts of assets owned by the insured party, which may need to be con-
43 sidered for payment of the claim.
- 44

-
- 1 • Capture and maintain all information so it is readily accessible through standard online
2 queries or reports, until the claim is approved and a master record is established, or until a
3 final determination is made denying the claim.
- 4
- 5 • Provide for electronic acceptance of claim applications. If an agency anticipates receipt
6 by electronic means of 50,000 or more submittals of a particular form, the system must
7 allow multiple methods of electronic signatures for the submittal of such form, whenever
8 feasible and appropriate. The system must provide for the electronic acknowledgement
9 of electronic forms that are successfully submitted.
- 10
- 11 • Capture various correspondence, including due process requests submitted by various
12 electronic mediums and automatically associate the correspondence with the specific
13 claim for the required action. For manually submitted correspondence, provide for asso-
14 ciating the correspondence with the specific application or existing claimant master rec-
15 ord for the required action.
- 16
- 17 • When electronic methods (e.g., web based, telecommunications) are used to facilitate
18 claim form acceptance, the system must incorporate controls to ensure only accurate and
19 complete applications are accepted by the system.
- 20
- 21 • The user shall have the ability within the system to flag a claimant's paper-based applica-
22 tion as incomplete and to suspend further processing of the application until it is properly
23 completed as specified by program requirements.
- 24
- 25 • Store incomplete applications in accordance with agency policies, and provide for auto-
26 matic purging of incomplete applications after a time period specified by the agency.
- 27
- 28 • For each claim, associate a unique identifier (e.g. user code) of the employee assigned to
29 review the claim.
- 30
- 31 • Accommodate an alternative application procedure that accommodates persons with dis-
32 abilities (e.g., blind, missing limbs).
- 33
- 34 • Provide the capability to track the status of due process or other appeal proceedings when
35 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:**

-
- 1 • Maintain a record of pending claims and the status of other information including:
- 2
- 3 ○ where in the process an ongoing claim is located;
- 4
- 5 ○ who is holding claim;
- 6
- 7 ○ what actions are needed to complete the claim;
- 8
- 9 ○ whether additional information is needed; and
- 10
- 11 ○ accommodation of explanation codes to indicate the reason why the claim is pending.
- 12
- 13 • Allow the user to update the status items above.

14

15 **Claims Administration Process**

16

17 The Claims Administration Process includes general features needed to effectively handle

18 claims.

19

20 **Mandatory Requirements for the Claims Administration Process**

21

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

- 23
- 24
- 25 • Utilize claimant data that has been submitted electronically in an automated fashion
- 26 without manual intervention (i.e., avoid re-entering data from one component to another).
- 27
- 28 • Have the ability to date and time stamp due process requests and other time sensitive cor-
- 29 respondence that has been received through electronic mediums.
- 30
- 31 • Accommodate automated case workload distribution by providing for various claim rout-
- 32 ing options as determined and maintained by the system administrator. For example,
- 33 provide for the ability to route claims for manual validation.
- 34
- 35 • Indicate if the insurance claim payment calculation or verification thereof occurred man-
- 36 ually.
- 37
- 38 • Provide the user with the ability to update a claimant's master record with the results of a
- 39 manual claim validation or manual verification of the payment amount, or create a new
- 40 master record if none exists.
- 41

-
- 1 • Have the ability to capture what information is needed from the claimant in order to
2 complete an incomplete claim.
- 3
- 4 • Provide for electronic approvals of claims at all levels of the approval process, whenever
5 feasible.
- 6
- 7 • Incorporate a notification mechanism that informs users (claim evaluators and supervi-
8 sors) when an application has not completed processing within a time frame that can be
9 specified by the agency.
- 10
- 11 • Facilitate user queries on individual claims. Specifically, for all claims that have been re-
12 ceived and recorded in the system, the system must be able to retrieve data maintained in
13 the application information stores by querying the claim holders' (or claimant if different)
14 information. For example, data must be retrievable by query on full name, and Social
15 Security Number (SSN) or taxpayer identification number.
- 16
- 17 • For denied claims, accommodate explanation codes to indicate the reason why the claim
18 has been denied.
- 19
- 20 • Automatically create a claimant master record using the claimant information for initial
21 claims that are approved, when a master record for the claimant did not previously exist.
- 22
- 23 • Automatically update an existing claimant master record (i.e., claimant already receives a
24 different type of benefit administered by the agency) to reflect the status (pending, ap-
25 proved, or rejected) of additional claims for other benefits the agency administers that are
26 sought by the claimant.
- 27
- 28 • Automatically merge the mandatory claimant data maintained in the application infor-
29 mation stores into the appropriate master record after a claim has been approved and a
30 claimant master record has been established.
- 31
- 32 • Provide capability to generate statistics on approved and rejected claim applications.
- 33
- 34 • Provide capabilities to accept, identify, track, and report manual overrides of system-
35 generated acceptance/rejection recommendations.
- 36
- 37 • Allow a user who has the proper access to reverse or affirm an initial decision regarding
38 the denial of a benefit, and process the claim accordingly.
- 39
- 40 • Provide capabilities to review all prior employee notations or decisions made while pro-
41 cessing a claim.

-
- 1
- 2
- Provide capabilities to record an estimated completion date for pending claims.
- 3
- Have the ability, where multiple claims exist for the same claimant, to process the claims sequentially based on order of precedence.
- 4
- 5

6

7 **Value-Added Requirements for Claims Administration**

8

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

10

- 11
- None.
- 12

13 **Claims Eligibility Determination Process**

14

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

19

20 **Mandatory Requirements for Claims Eligibility Determination**

21

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

23

- 24
- Have the ability to automatically compare information contained in application(s) that
25 have been submitted by claimants against agency program eligibility criteria (i.e., screen
26 applications for eligibility).
- 27
- Have the ability to accept manual validation of a claim.
- 28
- Provide for maintaining separate eligibility criteria and processing routines by type of
29 claim.
- 30
- Provide for establishment of various age limitations depending on the type of insurance
31 for automatic verification of program eligibility. For example, the system should allow
32 for age attainment verification (e.g., generally a claimant must be at least 60 years of age
33 to be eligible for SSA retirement benefits).
- 34
- Provide the ability to cross-validate applicant information against data maintained for
35 other insurance programs that are internal to the administering agency to ensure compli-
36 ance with all program requirements (e.g., ensure that applicant has not filed for multiple
37 conflicting benefits).
- 38
- 39
- 40
- 41
- 42

-
- 1 • Provide features to indicate that applicant submitted required evidence. For example, al-
2 low user to record receipt of a school certification pertaining to a claimant or his/her de-
3 pendent child.
- 4
- 5 • Provide features to create and maintain a system record of accepted and rejected claim
6 applications.
- 7
- 8 • Provide tools to check the appropriate data files to determine whether the applicant has
9 submitted a duplicate application or had a recent benefit application rejected.
- 10
- 11 • Provide features to determine whether payments being made to the claimant in relation to
12 other internal benefit payment programs affect the claimant's eligibility or payment
13 amount for the benefit under consideration, whenever legally permitted (i.e., permitted by
14 statute or regulation).
- 15
- 16 • Allow the user to put the processing of a claim on hold (suspend) while verifying ques-
17 tionable information, and to release hold (suspended) status as appropriate.

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

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

- 20
- 21
- 22
- 23 • Provide ability to inform applicant of potential eligibility for other internal benefit pay-
24 ment programs.
- 25
- 26 • Have the ability to automatically validate survivor applicant information against infor-
27 mation about the deceased spouse or related former guardian that is maintained in a mas-
28 ter record database.
- 29
- 30 • Automatically validate dates of employment, earnings and other claimant-specific data
31 provided on the application for benefits against the work history and earnings information
32 reported to central agencies such as the Internal Revenue Service (IRS), SSA, and OPM
33 when permitted by statute, or against other verified claimant-specific information main-
34 tained by the agency.

35 **Claims Computation Process**

36 **Mandatory Requirements for Claims Computation Process**

37

38

39

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

41

-
- 1 • Have the ability to determine if the effective date of the claim has been reached (e.g., the
2 effective date of a retirement claim), and initiate subsequent processing.
- 3
- 4 • Provide features to compute the amount of both recurring and non-recurring payments
5 based on all available information (e.g., applicant data, and specific insurance program
6 criteria).
- 7
- 8 • Determine the ending date for recurring payments of limited duration.
- 9
- 10 • When processing an approved claim such as retirement calculate the amount of recurring
11 payment, or capture the amount of the claimant's recurring payment that has been deter-
12 mined externally.
- 13
- 14 • Provide features to calculate the claimant's and or related dependent's age based on the
15 birth date provided in an application or other verified source for subsequent use in deter-
16 mining claimant eligibility.
- 17
- 18 • Provide for user defined reasonableness/tolerable limit checks on the amounts of benefit
19 payments that are calculated by the system.
- 20
- 21 • Flag or suspend processing of a claim that fails reasonableness edits to facilitate manual
22 verification of the amount computed.
- 23
- 24 • Enable approved users to have the ability to resume the processing of a claim that was
25 suspended for failing a reasonableness edit, and subsequently verified as accurate.
- 26
- 27 • Allow a user to initiate the calculation of a claimant's amount, at any time, based on
28 claimant data that exists when the request is made.
- 29
- 30 • Have the ability to record the amount of manually computed payments.
- 31
- 32 • Provide for automatic system initiated calculation and or recalculation of amount by
33 claim type, based on a specific user defined event such as claim validation and approval,
34 court order, claimant initiated withholding change, etc.
- 35
- 36 • Provide for automated routines that access claimant master record data to facilitate calcu-
37 lating the amounts due claimants.

-
- 1
2 • Provide features to calculate and send overpayment information (date of occurrence,
3 claimant name, and overpayment amount) to Receivables/Collections subsidiary ledger.

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

5
6 To support the Claims Computation Process, the system **should**:

- 7
8 • None

9
10
11 **Payments Management Function**

12
13 The Payments Management Function includes all of the processes and controls associated with
14 payments made by or on behalf of an agency, including payments associated with federal insur-
15 ance programs. Agencies that administer insurance programs make payments to insured individ-
16 uals, organizations, designated payees, and others. Federal insurance programs are usually sup-
17 ported by systems that maintain detailed information on payees and generate payment infor-
18 mation directly from those systems rather than generating insurance payment information from
19 the core financial system. Summary data is then passed to the core financial management system
20 for financial reporting and other purposes. If this situation exists, insurance systems must meet
21 the requirements listed here for payment management.

22
23 Federal insurance programs may also support activities that lead to the payment stage, but rely
24 on the core financial system to manage the payment process itself. For example, an insurance
25 system, subsystem, or component might calculate the amount to be paid to each payee and send
26 transactions to the core financial system to record the expenses and related payable and cash out-
27 lays to the payee. The core financial system would then schedule the payment for disbursement
28 and confirm that the payment occurred. If this situation exists, only the payee information
29 maintenance and payment warehousing functional requirements listed herein would apply to the
30 insurance or reinsurance system, subsystem, or component. However, in this alternative situa-
31 tion, once the detailed information is passed to the core system for scheduling for payment, funds
32 control, payment execution, payment confirmation, and follow-up would also apply to payments
33 made directly from the core system. The payment management function consists of the follow-
34 ing processes:

- 35
36 • Payee Information Maintenance;
37 • Payment Warehousing;
38 • Funds Control;
39 • Payment Execution; and
40 • Payment Confirmation and Follow-up.

41
42 Payments may not be the direct result of an insured contingent event (a loss), i.e., payments may
43 include the return of premiums paid by the insured party, dividends, cancellation of insurance
44 (return of premium), loans, or settlement of a reinsurance agreement. Some or all of these may
45 be handled through the insuring agency's core financial system.

1
2
3 **Payee Information Maintenance Process**
4

5 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.
14

15
16 **Mandatory Requirements for Payee Information Maintenance**
17

18 To support the Payee Information Maintenance Process, the system **must**:
19

- 20 • Maintain payee information that includes data to support obligation, accounts payable, and disbursement processes.
21
22
- 23 • 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.
24
25
26
- 27 • 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).
28
29
- 30 • 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.
31
32
33
34
35
- 36 • 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.
37
38
39
- 40 • At a minimum, accumulate actual payments for each payee on an annual basis.
41
- 42 • Provide search capability for payee information (e.g., payee name).
43
- 44 • Produce payee listings based on agency-defined criteria (e.g., payee name and SSN).
45

-
- 1 • Maintain as part of the payee’s master record a complete history of all financial transac-
2 tions executed for each payee receiving benefits under the payee holder’s master record.
3 This includes payments, and collections, waivers, or offsets resulting from overpayments.
4
5 • For all active “payees,” make the financial transaction history data of the most recent 18
6 months available for online query and review.
7

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

9
10 To support the Payee Information Maintenance Process, the system **should:**

- 11
12 • Allow for maintaining deposit account information on at least two financial institutions
13 for a single payee.
14

15 **Payment Warehousing Process**

16
17 The Payment Warehousing Process supports the storage of payments that are due to payees in
18 the near term. After a claim has been approved, whether the payment is lump-sum or recurring,
19 the system must be able to “hold” or store properly approved payments and automatically release
20 payments for scheduling based on payment due dates.
21

22 **Mandatory Requirements for Payment Warehousing**

23
24 To support the Payment Warehousing Process, the system **must:**

- 25
26 • Have the ability to determine whether the payment is a non-recurring payment.
27
28 • Automatically determine the due date and amount of payment(s).
29
30 • Reestablish payables for voided checks, or electronic funds transfers (EFTs) that were not
31 successful. Allow for reversing the accounting transaction leading to the disbursement
32 and reestablishment of a payable, as appropriate.
33

34 **Value-Added Requirements for Payment Warehousing**

35
36 To support the Payment Warehousing Process, the system **should:**

- 37
38 • Allow anticipated obligation or expenditure transactions so that documents may be en-
39 tered early, stored, and posted at the appropriate date. Subject these documents to edit
40 and validation procedures prior to posting. If the anticipated obligation does not occur,
41 permit the user to delete the transaction without posting it.
42

43 **Funds Control Process**

44
45 Federal agencies are responsible for establishing systems for ensuring that funds are not obligat-
46 ed or disbursed in excess of those appropriated and or authorized. The Anti-Deficiency Act pro-

1 vides legal requirements regarding obligating federal funds. The Funds Control Process within
2 an agency's core financial system is the primary tool for carrying out this responsibility.
3

4 However, depending on an agency's financial system architecture, insurance systems or other
5 components of an agency's enterprise system, may also require funds management capability.
6 For example, typically insurance systems generate transactions that obligate and expend funds,
7 and may also maintain detailed receivable information. Insurance systems may access data and
8 rely on functions of the core financial system to verify that funds are available before allowing
9 an obligation to be incurred and recorded in the insurance system. Under certain circumstances,
10 however, such two-way interfacing may not be feasible or necessary. Accordingly, any insur-
11 ance payment system that does not interface with the agency's core financial system to utilize
12 funds control features of the core system must perform activities associated with the following
13 funds control processes: Funds Availability Editing Process; Commitments Process; Obligations
14 and Expenditures Process; and Analysis Process.
15

16 **Funds Availability Editing Process**

17
18 This activity verifies that sufficient funds are available at the various control levels specified in
19 the funds allocation process for each transaction processed which may affect available funds bal-
20 ances. If sufficient funds are not available, notification is provided so that appropriate action
21 may be taken.
22

23 **Mandatory Requirements for Funds Availability Editing**

24
25 To support the Funds Availability Editing Process, the system **must**:

- 26
27 • Allow for recording of funding transactions. This includes recording internal allocations
28 or allotments within the agency.
- 29
30 • Include adequate controls to prevent the recording of obligations or expenditure transac-
31 tions that exceed available balances. The system must also support recording obligations
32 or expenditures that exceed available balances based on proper management approval
33 (i.e., provide the capabilities and controls for authorized users to override funds availabil-
34 ity edits).
- 35
36 • Provide for designated authorities to establish and modify the system's response (either
37 reject transaction or provide warning) to the failure of a funds availability edit.
- 38
39 • Record the financial impact of all transactions that affect the availability of funds, such as
40 commitments, obligations, expenditures and the establishment of, and collections against
41 recovery receivables.
42

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

4
5 **Value-added Requirements for Funds Availability Editing**

6
7 To support the Funds Availability Editing Process, the system **should:**

- 8
9 • Provide for designated authorities to establish and modify the level of funds control using
10 elements of the classification structure, including object class, program, organization,
11 project, and fund.
- 12
13 • Provide the ability to produce an on-line status of funds report down to the lowest level of
14 the organizational structure. The report should include: amounts available/allotted, open
15 commitments, open obligations, expenditures, and balance available.

16
17 **Commitments Process**

18
19 Commitments are an optional stage prior to the establishment of an obligation. Commitments
20 can be a useful tool in funds management by helping users to anticipate future outlays. They
21 should be used when helpful to an agency's management process, but are not necessary, or even
22 appropriate, for all obligations.

23
24 **Mandatory Requirements for Commitments**

- 25
26 • None.

27
28 **Value-added Requirements for Commitments**

29
30 To support the Commitments Process, if commitment accounting is utilized, the system **should:**

- 31
32 • Allow commitment transactions to be entered on-line and from multiple locations;
- 33
34 • Maintain information related to each commitment transaction. At a minimum, the system
35 should capture accounting classification elements, and estimated amounts;
- 36
37 • Provide for modifications to commitment transactions, including ones that change the
38 dollar amount or the accounting classification elements cited;
- 39
40 • Allow for commitment transactions to be future-dated, stored, and posted at the appropri-
41 ate date;
- 42

-
- 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.

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

2
3 To support the Obligations and Expenditures Process, the system **should:**

- 4
5 • Allow multiple commitments to be combined into one obligation or expenditure docu-
6 ment and one commitment document to be split into various obligating or expenditure
7 documents.

8
9 **Analysis Process**

10
11 The Analysis Process provides information necessary to support analysis of the Funds Manage-
12 ment function. It provides information on funds availability at the levels defined and compares
13 data in the Funds Management function to data in other functions to ensure consistency.

14
15 **Mandatory Requirements for Analysis**

16
17 To support the Analysis Process, the system **must:**

- 18
19 • Maintain current information on obligations according to the classification elements es-
20 tablished by the agency, on a fund by fund basis.
- 21
22 • Sort and provide on-line access to both summary level and detailed information, based on
23 the defined level of funds control for those transactions that represent obligations and ex-
24 penditures.
- 25
26 • Provide control features that ensure the amounts reflected in the fund control structure
27 agree with the general ledger account balances at the end of each update cycle.

28
29 **Value-added Requirements for Analysis**

30
31 To support the Analysis Process, the system **should:**

- 32
33 • Track the use of funds against operating or financial plans.

34
35 **Payments Execution Process**

36
37 The Payment Execution Process includes activities associated with making and recording pay-
38 ments and disbursements. Two basic models exist within the federal government for making
39 disbursements to payees, including recipients for insurance payments as follows: (1) Agencies
40 prepare requests for disbursements that are transmitted to the Department of the Treasury, Finan-
41 cial Management Service, who generates the disbursement, or (2) Agencies make their own dis-
42 bursements, under delegated disbursing authority from the Secretary of the Treasury in accord-
43 ance with Title 31, U.S.C. 3321(b).

1 **Agencies with Delegated Disbursing Authority**

2
3 To support the Payment Execution Process in agencies with delegated disbursing authority, the
4 system **must**:

5
6 **Mandatory Requirements for Payment Execution in Agencies with Delegated Disbursing**
7 **Authority**

8
9 If an agency has delegated disbursing authority, certain requirements below relating to Treasury
10 specific payment processing and reporting may not be applicable.

- 11
- 12 • Support the reporting and other requirements specified in I TFM Part 4. For example, the
13 system must enable the agency to:
 - 14 ○ Report all disbursements made under the delegation in the agency's payment account-
15 ing reports to the Financial Management Service (FMS), using the appropriate agency
16 accounting codes, as authorized by FMS. As stated in Section 10025, the agency must
17 submit immediately to the CDO any irregularity in accounts involving disbursement
18 activity. Furthermore, the agency is responsible for resolving any irregularities or
19 discrepancies associated with such reports.
20
 - 21 ○ Submit check issuance data in a timely and accurate manner to FMS no later than the
22 close of business of the week in which the issue dates occur and at month's end. See I
23 TFM 4-6025.10. FMS must receive this information within the required timeframe to
24 carry out properly its check reconciliation responsibilities to decline final payment
25 and or reclaim payment on certain improperly negotiated Treasury checks or counter-
26 feit checks. See generally 31 CFR Part 240.
27
 - 28 ○ Comply with applicable Treasury offset guidelines established under the authority of
29 31 U.S.C. § 3716(c).
30
 - 31 ○ Comply with FMS guidelines concerning applicable requirements to include a payee's
32 taxpayer identifying number on payment vouchers in accordance with 31 U.S.C. §
33 3325(d).
34
 - 35 ○ Comply with all applicable EFT system requirements including those related to mes-
36 sage authentication and enhanced security, unless explicitly waived in writing by the
37 CDO.
38
- 39

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

- 42
- 43 • None.
- 44
45

1 **Agencies without Delegated Disbursing Authority**

2
3 **Mandatory Requirements for Payment Execution in Agencies without Delegated Disbursing Authority**

4
5
6 To support the Payment Execution Process in agencies without delegated disbursing authority,
7 the system **must**:

- 8
- 9 • Automatically identify and select payments to be disbursed in a particular payment cycle
10 based on their due dates. Provide a function for review and certification by an authorized
11 certifying officer.
 - 12
 - 13 • Calculate totals by TAFS for inclusion on the payment schedule.
 - 14
 - 15 • Sort individual payment detail by TAFS to enable SF-224 reconciliation.
 - 16
 - 17 • Provide for various forms of payment to be used, i.e., check or electronic funds transfer
18 (e.g., ACH, wire).
 - 19
 - 20 • Support Treasury-specific standards for format of check and EFT payment requests.
 - 21
 - 22 • Automatically update payment records based on updates recorded in the payee's master
23 record, such as change of address, changes in deposit account information, etc.
 - 24
 - 25 • Allow a payment request to be removed from the automated scheduling stream and
26 scheduled as a manual payment by an authorized official.
 - 27
 - 28 • Allow the user to trigger an immediate benefit payment for emergency situations.
 - 29
 - 30 • Provide the capability to schedule and make payments in various forms (e.g., ACH, SF-
31 1166) as required by an agency's disbursing offices, including physical media (e.g., tape,
32 electronic transfer).
 - 33
 - 34 • Prepare reports to Treasury on disbursements made by an agency with its own disbursing
35 authority.
 - 36

-
- 1 • After payments are scheduled and prior to actual disbursement by Treasury, allow for
2 cancellation of an entire payment schedule or a single payment within a payment sched-
3 ule.
 - 4
 - 5 • Provide features to reduce the payment amount due a claimant, in order to offset an out-
6 standing receivable owed by the claimant, in accordance with applicable laws, regula-
7 tions, and provisions of the Treasury Offset Program (TOP). However, the system must
8 properly record the impact of the entire amount of the transaction in both budgetary and
9 proprietary (i.e., entire amount is expensed, payables or cash accounts reflect net outlay,
10 budgetary resources increased by amount of nonfederal receivable collected, etc.)
 - 11
 - 12 • Provide for reissuing payments for misplaced payments, lost or stolen checks.

13 **Value-Added Requirements for Payment Execution in Agencies without Delegated Dis-** 14 **bursing Authority**

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

- 17
- 18
- 19
- 20 • Automatically consolidate amounts due insurance claimants when the claimant is entitled
21 to more than one benefit administered by the same agency, and itemize all payments cov-
22 ered by the one check or EFT on a payment advice or addendum to the EFT file per
23 Treasury specifications.
- 24
- 25 • Allow for the splitting of a single insurance payment into separate bank accounts (i.e., al-
26 lotments) as indicated on the claimants direct deposit request form. Allow for a mini-
27 mum of one allotment in addition to the primary deposit account.
- 28
- 29 • Provide for making payments in a foreign currency.

30 **Payment Confirmation and Follow-up Process**

31 The Payment Confirmation and Follow-up Process includes activities to confirm that disburse-
32 ments were made as anticipated and supports inquiries from payees regarding payments, and re-
33 porting requirements relating to the Payment Management function.

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

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

- 36
- 37
- 38
- 39 • Update master record information resulting from payments made by the core system (if
40 applicable).

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15
16

- 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.

1 Operations

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

12 Core Financial System – General

13
14
15 Government wide requirements for a core financial system to support the fundamental financial
16 functions of a federal agency are identified in *Core Financial System Requirements*. The Core
17 document includes information in three basic sections, i.e., general, functional, and technical.
18 The functional and general information is highlighted in the following two subparagraphs. As
19 indicated in the Core document, federal agencies control and disburse over two trillion dollars in
20 appropriated funds annually. Financial and program managers, including those responsible for
21 managing insurance programs, are fiscally responsible for these resources and for the program
22 results they achieve. To do their jobs, they need readily accessible detailed financial information
23 essential to formulate agency budgets, monitor program operations, and perform reporting as
24 maintained in proper and reliable financial management systems.

25
26 As indicated, and further described in the Core document, such systems must support or enhance
27 accountability, efficiency, effectiveness, and decision-making. Furthermore, all core financial
28 systems, whether they are being designed, implemented or currently in use, must operate in ac-
29 cordance with laws, regulations, and judicial decisions. The Core document establishes a set of
30 comprehensive functional requirements for a proper and reliable core financial management sys-
31 tem.

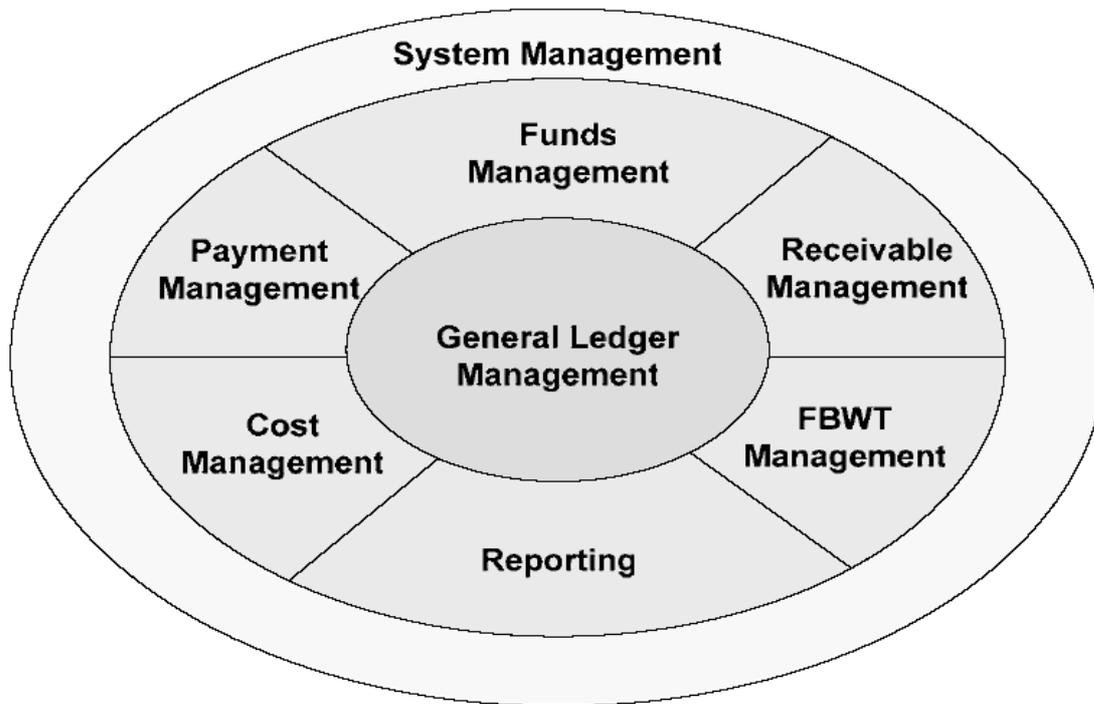
32 Core Financial System – Functional Components

33
34
35 Core financial management systems provide specific functional capabilities necessary to manage
36 a general ledger, funds control, make payments, manage receivables, measure costs, reconcile
37 cash, and report on operations. Illustration 11 shows the major functions within the core finan-
38 cial system as follows: (1) System Management; (2) General Ledger Management; (3) Funds
39 Management; (4) Receivable Management; (5) Fund Balance with Treasury Management; (6)
40 Reporting; (7) Cost Management; and (8) Payment Management.

41
42 These functions provide the basic information and control needed to carry out financial man-
43 agement functions, manage the financial operations of any agency, and report on the agency's
44 financial status to central agencies, Congress, and the public. This includes data needed to pre-
45 pare the principal financial statements for federal agencies in accordance with the current OMB

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

3
4 **Core Financial System Functional Components**
5 **Illustration 11**
6



7
8
9
10 **Core Financial System – Technical Components**

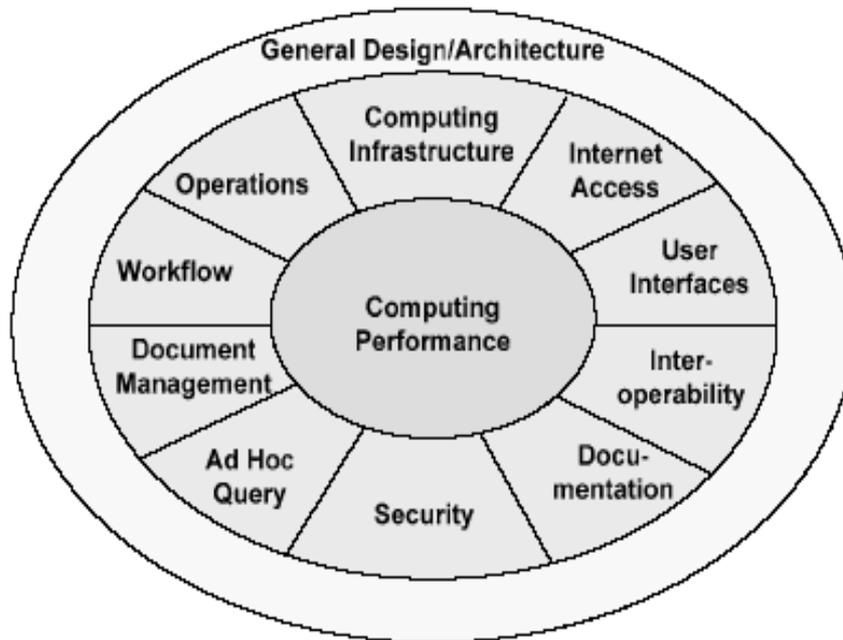
11
12 Technical requirements have been established in the Core document to help ensure that a core
13 financial system is fully supported and capable of processing the workload required. It must
14 provide transaction processing integrity and general operating reliability; use standard proce-
15 dures for installation, configuration, and operations; provide seamless integrated workflow pro-
16 cessing; have the ability to query, access, and format information; and be well documented. It
17 must not conflict with other administrative or program systems or with other agency-established
18 information technology (IT) standards.

19
20 Core financial systems that are subject to qualification testing must meet the mandatory technical
21 requirements specified in the Core document. In addition, they should strive to include the func-
22 tionality listed as value-added requirements. Illustration 12 depicts the major technical require-
23 ments groupings identified in the Core document as follows: (1) General Design/Architecture;
24 (2) Computing Performance; (3) Computing Infrastructure; (4) Internet Access; (5) User Inter-
25 faces; (6) Interoperability; (7) Documentation; (8) Security; (9) Ad Hoc Query; (10) Document
26 Management; (11) Workflow; and (12) Operations.

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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 workload and interoperability requirements considered unique to their respective IT environments when evaluating packages for acquisition.

Core Financial System Technical Components
Illustration 12



11
12
13
14

1 Federal insurance program agencies focus particular attention on specific reports that are gener-
 2 ated in the frequency, on the due dates, and for the recipients as follows:
 3

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 15 th	OMB & Department of the Treasury Financial Management Service

4
 5
 6 **Actuarial and Estimation Modeling Activities**

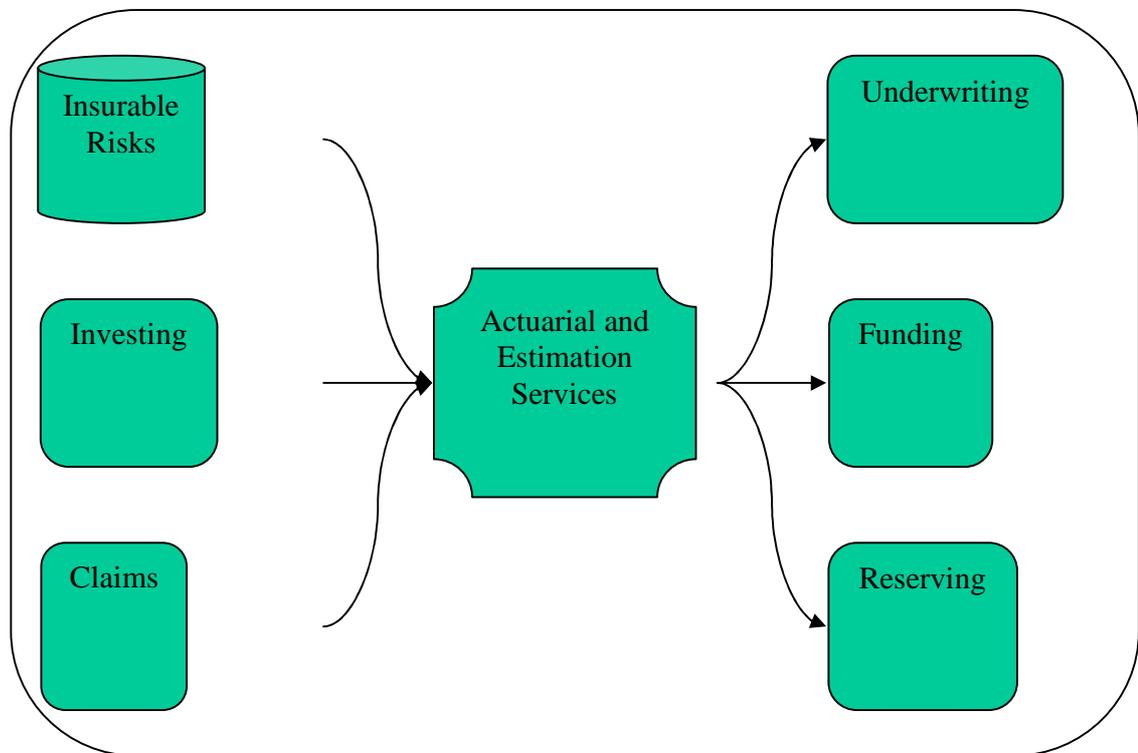
7
 8 This section is included to focus attention on the critical importance of actuarial activities in fed-
 9 eral insurance programs from inception throughout all Pre-Event Functions, Post-Event Func-
 10 tions, and Operations aspects of an agency’s programs and processes.

11
 12 Barron’s Dictionary defines actuarial science as the “branch of knowledge dealing with the
 13 mathematics of insurance, including probabilities. It is used in ensuring that risks are carefully
 14 evaluated, that adequate premiums are charged for risks underwritten, and that adequate provi-
 15 sion is made for future payments of benefits.” According to Barron’s Dictionary, actuaries con-

1 duct various statistical studies; construct morbidity and mortality tables; calculate premiums, re-
2 serves, and dividends for participating policies; develop products; construct annual reports in
3 compliance with numerous regulatory requirements; and in many companies oversee the general
4 financial function....” Some or all of these tools are used throughout some or all of the Pre-
5 Event Functions and Post-Event Functions described in this document.
6

7 With regard to federal insurance programs, actuarial tools are used from the time that legislation
8 and implementing regulations are developed. Using past experience, and economic forecasts,
9 models are developed to determine: risks the entity can take; funding necessary for the risks; and
10 reserves necessary to offset the financial burden of future losses, as shown by illustration 13.
11

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



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38 Premium or funding estimation provides agencies with a prediction of how revenue will change
39 from the current baseline and what premium should be collected. Typically, estimates are ap-
40 proximations taken from existing data on premiums, supplemented with additional data sources
41 as necessary.
42

43 **Mandatory Requirements for Actuarial and Estimation Modeling Activities**

44
45 To support Actuarial and Estimation Modeling Activities, the system **must**:
46

-
- 1 • Support the export of historical data for use in premium forecasting;
2
3 • An independent actuarial analysis can measure the economic net worth and soundness of
4 the insurance fund;
5
6 • The actuarial report provides a status of the insurance fund;
7
8 • The report can also measure sources of change in the status of the fund. Changes can be
9 measured in economic value and other activities such as claims;
10
11 • Estimates reflect projections of events into the future;
12
13 • Utilize mortality and interest assumptions to derive insurance policy factors; and
14
15 • Incorporate claim and investment experience factors to derive dividend rates for each
16 class of policies.
17

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

19
20 To support Actuarial and Estimation Modeling Activities, the system **should**:

- 21
22 • Support premium forecasting based on historical premium data and other variables such
23 as known current or future events (planned rate increases, market changes, etc.). For ex-
24 ample, if regulation will increase fees, effective May 1, compute revenue for balance of
25 fiscal year.
26
27 • Establish a baseline of premium collections in comparison to potential revenue.
28

29 **Trust Fund and Revolving Fund Activities**

30
31 This section is included to focus attention on the complexity and flexibility that a system must
32 provide to accommodate trust fund and revolving fund activities for federal insurance programs
33 where applicable.

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

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

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

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

9
10 To support Trust Fund and Revolving Fund Activities, the system **must**:

- 11
12 • Use cost management in revolving funds, including working capital programs.
- 13
14 • Allocate working capital and revolving fund costs across organization and program lines
and generate appropriate journal entries.
- 15
16 • Create and track the funding associated with cost objects (e.g., contracts, work-orders,
17 projects, reimbursable agreements) and provide funding status on fiscal year-to-date and
project inception-to-date bases.
- 18
19 • Support the aggregation of project cost and funding information to a higher level, for ex-
ample linking the costs of a set of related projects for a particular customer on one report.
- 20
21 • Verify funds availability for orders placed against a specific contract, work-order or
agreement for a particular customer of the revolving fund operation.
- 22
23 • Support funding of revolving fund contracts, work-orders, and projects through the use of
advances, prepayments or reimbursements.
- 24
25 • Record the application of complete and partial payments made by the debtor on a delin-
26 quent debt to administrative fees, penalties, interest, and then to principal, unless other-
wise stated in program statute.
- 27
28 • Record revenues for collections for which no receivable was previously established.
- 29
30 • Apply collections back to the specific account, contract, or purchase order award to re-
duce “or liquidate” cumulative payments and expenditures (e.g., upon the refund of erro-
neous payments).
- 31
32 • Record information associated with a collection at the time funds are applied to an open
33 receivable document, including the deposit ticket number and date, ALC code,
TAS/TAFS and accomplish date.
- 34
35 • Apply collections to more than one receivable.
- 36
• Re-open closed accounts to record collections after a waiver or write-off of a receivable
has been recorded.

-
- 1 • Process SF-5515 debit vouchers, SF 215, charge backs, canceled payments or insufficient
2 funds, to reduce collections and re-establish a receivable.
- 3 • Provide the ability to reduce collections with a miscellaneous adjustment (i.e., journal
4 voucher). For example, a debit voucher/bank adjustment not related to a returned check
5 reduced deposit total.
- 6 • Maintain customer account information for internal statement of all transactions and to
7 support billing, reporting and research activities, including at a minimum:
- 8 ○ Account number unique to each transaction or reference (not just unique to custom-
9 er);
- 10 ○ Account balance;
- 11 ○ Associated customer ID number;
- 12 ○ Date due and age of accounts receivable;
- 13 ○ Accounting classification code strip; and
- 14 ○ Reimbursable order number, where applicable.
- 15
- 16
- 17
- 18
- 19
- 20
- 21 • Process a receipt against an established receivable and close or liquidate the receivable if
22 payment is in full. Leave the receivable open if not paid in full.
- 23 • Apply collections to a hierarchy of debts.
- 24 • Create a deposit record for a deposit ticket. Info must include:
- 25 ○ Deposit ticket number (should be able to accommodate an agency assigned number
26 and the Treasury assigned number);
- 27 ○ Deposit ticket date;
- 28 ○ Deposit ticket amount;
- 29 ○ ALC;
- 30 ○ Entry date;
- 31 ○ Treasury confirmation date;
- 32 ○ User ID – for establishing ticket; and
- 33 ○ User ID – for closing ticket.
- 34
- 35
- 36
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-
- 1 • Record the receipt of an advance from others and associate it with the RA.
 - 2 • Provide the ability to record a receipt, part of which is revenue to the collecting agency,
3 the remainder of the receipt is revenue to other agencies with which the receipt is shared.
4 For example, INS collects fees for H-1B visas and retains a small percentage and shares
5 with other agencies.
 - 6 • Provide system capability to automatically record collections by downloading data.
 - 7 • (Lockbox, collection agency, DOJ, and Treasury).
 - 8 • Provide capability to record and subsequently track collections by type (i.e., internally,
9 externally with Treasury Offset Program, or other collection service center or agency).

10

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

12

- 13 • None.

14

15 **Reserving**

16

17 Information is presented here on reserve requirements associated with federal insurance pro-
18 grams to emphasize the importance of the matter to establishing and maintaining stable pro-
19 grams. Within the private sector insurance industry, reserves must be sufficient to cover claims
20 and provide for a profit margin in order for the business to continue. Within the federal govern-
21 ment sector, reserving may not apply to a particular program, although it is a major part of most
22 federal programs.

23

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

29

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

33

34 In addition, federal providers must use actuarial and other tools to estimate premium require-
35 ments, reserve requirements, budgetary requirements, and future funded, unfunded, and un-
36 known liabilities. All of these are required to contribute to a stable program and to prepare fi-
37 nancial statements in accordance with generally accepted accounting principles.

38

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

4
5 Monitoring is required:

- 6
- 7 • To match claims with reserves;
- 8
- 9 • To analyze the claims run-off in order to assess that premiums charged have been appro-
10 priate for risk assumed; and
- 11
- 12 • To avoid concentrations of risk (e.g., regional or industry).
- 13

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

21 22 **Revenue Accounting – General**

23
24 Information is presented here on revenue requirements, including accounting to emphasize the
25 importance of revenue (or the lack thereof) to federal agency providers of insurance and reinsur-
26 ance, i.e., while the legislation for some programs include provisions for collecting revenue, it is
27 just as likely that programs must be supported based on budgetary resources. When allowed by
28 statute, programs may have access to revenue through the assessment of premiums, and through
29 the investment of those premiums in Treasury securities. Additional information is available in
30 FFMSR Revenue System Requirements.

31 32 **Revenue Accounting – Cashier Function**

- 33
- 34 • Provide cashier capabilities to support the following steps:
 - 35 ○ Batch/group/process collections by payment type;
 - 36
 - 37 ○ Prepare a deposit slip, i.e., Standard Form (SF) 215 or equivalent;
 - 38
 - 39 ○ Direct the accompanying insured party or reinsured company information and docu-
40 mentation to the program office for action;
 - 41
 - 42 ○ Record and maintain accounting and insured party or reinsured company tracking
43 system data; and
 - 44

-
- 1 ○ Perform daily reconciliation with the U.S. Treasury via the CashLink System to ensure that funds are deposited promptly in the appropriate financial institution.
- 2
- 3
- 4 ● Provide the following capabilities to support a cashier function:
- 5
- 6 ○ Identify the Treasury Account Fund Symbol (TAFS) for which the deposit is being made;
- 7
- 8
- 9 ○ 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;
- 10
- 11
- 12
- 13
- 14 ○ Recognize and record advance payments received;
- 15
- 16 ○ Recognize and record cash donations as non-exchange revenue;
- 17
- 18 ○ 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
- 19
- 20
- 21
- 22 ○ Track funds at various levels based on required elements of the accounting classification and project/program accounting structure.
- 23
- 24

25 **Revenue Accounting – Deposit Function**

- 26
- 27 ● Provide deposit capabilities:
- 28 ● Create a new deposit account (escrow account) record with data element fields required in RO-1 (p. 21) to record account history and activity.
- 29
- 30
- 31 ● Provide access to update deposit account records for both active and inactive deposit accounts. Modifications to any deposit account data will be date effective.
- 32
- 33
- 34 ● Close a deposit account. The system will record the disposition of any remaining balance. Closed deposit account records will be archived.
- 35
- 36
- 37 ● Process remittances to and charges against a deposit account. Remittances will be processed in the same record format as a payment.
- 38
- 39
- 40 ● Provide monthly statements of transaction activity in paper and/or electronic form.
- 41
- 42 ● Notify customers (if specified) if their deposit account balance drops below a certain dollar amount.
- 43
- 44

-
- 1 • Validate accounts by not accepting a transaction for a charge against a deposit ac-
2 count until the system has determined that the account number is valid, not delin-
3 quent, and has a sufficient balance to cover the charge. If the balance is not sufficient
4 to cover the charge, the system must send notification to the customer and a notice
5 permitting/delaying service to be rendered. Any deposit account transaction that
6 causes an overdrawn balance without notification shall be rejected by the system.
7
8 • Apply penalty charges for deposit account balances that fall below a predetermined
9 level at any point in time or at a predetermined point, such as at the end of a month.
10 The predetermined level and assessment date may vary by deposit account type. The-
11 se penalty charges shall be automatically assigned by the system. (DAS-8)
12

1 **General System Requirements**

2 **Records Retention**

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

13 National Archives and Records Administration (NARA)
14 7th Street and Pennsylvania Avenue NW
15 Washington, DC 20408

16
17

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

19

20 Change in address, payments, etc.

21

22 Overall, sales, training, advertising and record keeping are adhered to

23 Implement systems and controls in relation to regulatory system matters to ensure adherence.

24

25

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1 **Appendix A: References**

2 **Federal Insurance Program Statutes**

- 3 ♦ PL 73-66 Federal Deposit Insurance Act of 1933
- 4 ♦ 48 Stat.1216 Federal Credit Union Act of 1934
- 5 ♦ PL 93-406 Employee Retirement Income Security Act (ERISA) of 1974
- 6 ♦ PL 103-355, Federal Insurance Streamlining Act of 1994

7 **Federal Financial Management Statutes**

- 8 ♦ PL 93-344, Anti-Deficiency Act of 1974
- 9 ♦ PL 97-177, Prompt Payment Act of 1982
- 10 ♦ PL 97-255, Federal Managers' Financial Integrity Act (FMFIA) of 1982
- 11 ♦ PL 100-235, Computer Security Act of 1987
- 12 ♦ PL 101-576, Chief Financial Officers (CFO) Act of 1990
- 13 ♦ PL 103-62, Government Performance and Results Act (GPRA) of 1993
- 14 ♦ PL 103-356, Government Management Reform Act (GMRA) of 1994, as amended
- 15 ♦ PL 104-13, Paperwork Reduction Act of 1995
- 16 ♦ PL 104-106, National Defense Authorization Act for Fiscal Year 1996
- 17 ♦ PL 104-106, Division E, Information Technology Management Reform Act (ITMRA) of
- 18 1996, as amended (AKA Clinger-Cohen Act of 1996)
- 19 ♦ PL 104-134, Debt Collection Improvement Act of 1996
- 20 ♦ PL 104-134, Omnibus Consolidated Rescissions and Appropriations Act of 1996, as
- 21 amended
- 22 ♦ PL 104-208, Federal Financial Management Improvement Act (FFMIA) of 1996
- 23 ♦ PL 105-277, Title XVII, Government Paperwork Elimination Act (GPEA)
- 24 ♦ PL 106-229, Electronic Signatures in Global and National Commerce Act
- 25 ♦ PL 106-398, National Defense Authorization Act for Fiscal Year 2001

1 ♦ Economy Act (FAR 17.502, 17.503, 17.504)

2 **United States Code**

3 ♦ 5 USC 552a, The Privacy Act of 1974 (as amended)

4 ♦ 26 USC 6041, Information at Source

5 ♦ 26 USC 6050M, Returns relating to persons receiving contracts from Federal executive
6 agencies

7 ♦ 26 USC 6941A, Returns regarding payments of remuneration for services and direct sales

8 ♦ 31 USC 1501, Money and Finance—Documentary evidence requirement for government
9 obligations

10 ♦ 31 USC 1517, Money and Finance —Prohibited obligations and expenditures

11 ♦ 31 USC 3901-3908, Money and Finance—Prompt payment

12 ♦ 31 USC 7701, Money and Finance—Taxpayer identifying number

13 ♦ 41 USC 11, Public Contracts—No contracts or purchases unless authorized or under ade-
14 quate appropriation; report to the Congress

15 ♦ 44 USC 3504, Coordination of Federal Information Policy—Authority and functions of
16 Director

17 **Office of Management and Budget Publications**

18 ♦ OMB Bulletin 01-09, Form and Content of Agency Financial Statements

19 ♦ OMB Circular A-11, Preparation, Submission, and Execution of the Budget

20 ♦ OMB Circular A-123, Management Accountability and Control (Effective through Fiscal
21 Year 2005), Management’s Responsibility for Internal Control (Effective beginning with
22 Fiscal Year 2006) (Revised 12/21/2004)

23 ♦ OMB Circular A-127, Financial Management Systems, including Transmittal Memorand-
24 um No. 2 and Transmittal Memorandum No. 3

25 ♦ OMB Circular A-130, Management of Federal Information Resources

26 **Code of Federal Regulations**

27 ♦ 5 CFR, Administrative Personnel

28 ♦ 26 CFR, Internal Revenue

-
- 1 ◆ 31 CFR, Money and Finance: Treasury
- 2 **Treasury Financial Manual**
- 3 ◆ TFM Announcement A 2001-02 (FAST Book)
- 4 ◆ TFM Release S2-01-02 (FACTS I & FACTS II Reporting)
- 5 ◆ TFM SGL Section V
- 6 ◆ I TFM 2-1500, Description of Accounts Relating to Financial Operations (T/L 598)
- 7 ◆ I TFM 2-4000, Federal Agencies' Centralized Trial-Balance System (FACTS I) (T/L
- 8 593)
- 9 ◆ I TFM 6-5000, Administrative Accounting Systems Requirements in Support of the Debt
- 10 Collection Improvement Act of 1996
- 11 **Federal Financial Management System Requirements (FFMSR)**
- 12 ◆ Core Financial System Requirements Exposure Draft (OFFM – NO – 0105) February
- 13 2005
- 14 ◆ Framework for Federal Financial Management Systems (SR-01-04)
- 15 ◆ Revenue System Requirements (SR-03-01)
- 16 ◆ Core Financial System Requirements (SR-02-01)
- 17 ◆ Benefit System Requirements (SR-01-01)
- 18 **Statements of Federal Financial Accounting Standards (SFFAS)**
- 19 ◆ SFFAS 4, Managerial Cost Accounting Concepts and Standards
- 20 ◆ SFFAS 5, Accounting for Liabilities of the Federal Government
- 21 ◆ SFFAS 6, Accounting for Property, Plant and Equipment
- 22 ◆ SFFAS 7, Accounting for Revenue and Other Financing Sources
- 23 ◆ SFFAS 8, Supplementary Stewardship Reporting
- 24 ◆ SFFAS 10, Accounting for Internal Use Software
- 25 ◆ SFFAS 11, Amendments to Accounting for PP&E: Definitions (amends SFFAS 6 and 8)

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

3 ◆ SFFAS 17, Accounting for Social Insurance

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

5 ◆ SFAS 60, Accounting and Reporting by Insurance Enterprises

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

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

10

11

12

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1 Appendix B: Glossary

2 **Act:** Performance of a deed or function. Source: Barron's Dictionary of Insurance Terms,
3 Fourth Edition.

4 **Agency:** The term "agency" means any executive department, military department, government
5 corporation, government controlled corporation, or other establishment in the executive branch
6 of the federal government, or any independent regulatory agency. Within the Executive Office
7 of the President, the term includes only OMB and the Office of Administration. Source: OMB
8 Circular A-130.

9 **Allotment:** A subdivision of an apportionment made by an agency. Source: OMB Circular A-
10 11.

11 **Appropriation:** A provision of law (not necessarily an appropriations act) authorizing the ex-
12 penditure of funds for a given purpose. Usually, but not always, an appropriation provides budg-
13 et authority. Source: OMB Circular A-11.

14 **Beneficiary:** Designation by the owner of a life insurance policy indicating to whom the pro-
15 ceeds are to be paid upon the insured's death or when an endowment matures. A *primary benefi-*
16 *ciary* is the first-named beneficiary, who must survive the death of the insured in order to collect
17 the proceeds. A *contingent* or *secondary beneficiary* will receive the proceeds if the primary
18 beneficiary does not survive the insured. Source: Barron's Dictionary of Insurance Terms,
19 Fourth Edition.

20 **Cash Management:** Practices and techniques designed to accelerate and control collections,
21 ensure prompt deposit of receipts, improve control over disbursement methods, and eliminate
22 idle cash balances. Source: TFM, Volume 1, Part 6, Section 8000.

23 **Claim:** A written demand or written assertion by one of the contracting parties seeking, as a
24 matter of right, the payment of money in a sum certain, the adjustment or interpretation of con-
25 tract terms, or other relief arising under or related to the contract. Source: FAI Glossary of Ac-
26 quisition Terms.

27 **Claim:** A demand for money or property. Source: Appropriations Law Manual, Chapter 12.

28 **Claimant:** One who submits a claim for an incurred loss. Source: Barron's Dictionary of In-
29 surance Terms, Fourth Edition.

30 **Collection:** Money collected by the government that the budget records as a receipt, an offset-
31 ting collection or an offsetting receipt. Source: OMB Circular A-11.

32 **Contingency:** An event that may or may not occur in a given time period. Source: Barron's
33 Dictionary of Insurance Terms, Fourth Edition.

34 **Contract:** An agreement between an insurer and an insured under which the insurer has a legal-
35 ly enforceable obligation to make all benefit payments for which it has received payments.
36 Source: Barron's Dictionary of Insurance Terms, Fourth Edition.

1 **Core Financial System:** An integral part of an agency's single integrated financial management
2 system. It controls and supports the key functions of an agency's financial management, includ-
3 ing general ledger management, funds management, payment management, receipt management,
4 cost management, and reporting. The core financial system receives data from all other financial
5 and mixed systems and from direct user input, and it provides data and supports processing for
6 those systems that need it. Source: FFMSR Core Financial System Requirements.

7 **Cost Center:** A logical grouping of one or more related activities or organizational units into a
8 common pool for the purpose of identifying the cost incurred for performing all of those activi-
9 ties. Source: FFMSR Core Financial System Requirements.

10 **Credit:** Any transaction that reduces the government's amount due. Source: GSA Smart-Pay
11 Contract definitions.

12 **Defined Benefit Pension Plan:** Pension plan other than an individual account plan; except that
13 a pension plan which is not an individual account plan and which provides a benefit derived from
14 employer contributions which is based partly on the balance of the separate account of a partici-
15 pant. Source: 29 USC 1002.

16 **Defined Contribution Pension Plan:** Pension plan which provides for an individual account
17 for each participant and for benefits based solely upon the amount contributed to the participant's
18 account, and any income, expenses, gains and losses, and any forfeitures of accounts of other
19 participants which may be allocated to such participant's. Source: 29USC 1002.

20 **Disbursement:** Payment made using cash, check, or electronic transfer. Disbursements include
21 advances to others as well as payments for products and services received and other types of
22 payments made. Source: FFMSR Core Financial System Requirements.

23 **Disbursing Authority:** Authority to disburse public money to officers and employees of other
24 federal agencies in accordance with 31 U.S.C. § 3321(b). Source: TFM, 4-1000.

25 **Electronic Funds Transfer:** Any method used to transfer funds electronically, such as wire,
26 Automated Clearing House (ACH), Credit or Debit Card, or FMS' Online Payment and Collec-
27 tion (OPAC) system. Source: TFM 1, Part 6, Chapter 8000.

28 **Expense:** The outflow of assets or incurrence of liabilities during a period resulting from ren-
29 dering services, delivering or producing products, or carrying out other normal operating activi-
30 ties. Source: FFMSR Core Financial System Requirements.

31 **Financial Event:** Any occurrence having financial consequences to the federal government re-
32 lated to the receipt of appropriations or other financial resources; insurance of goods or services;
33 payments or collections; recognition of guarantees, benefits to be provided, or other potential
34 liabilities; or other reportable financial activities. Source: OMB Circular A-127.

35 **Financial Management System:** Financial systems and the financial portions of mixed systems
36 necessary to support financial management, including manual or automated processes, proce-
37 dures, controls, hardware, software and support personnel. Financial systems include an infor-
38 mation system, comprised of one or more applications, that is used for (A) collecting, processing,

1 maintaining, transmitting or reporting data about financial events; (B) supporting financial or
2 budgeting activities; (C) accumulating and reporting cost information, or: (D) supporting the
3 preparation of financial statements. Source: FFMIA of 1996, PL 104-208, and OMB Circular
4 A-127.

5 **Financial System:** An information system, comprised of one or more applications, that is used
6 for any of the following:

- 7 ➤ collecting, processing, maintaining, transmitting, and reporting data about financial
8 events;
- 9 ➤ supporting financial planning or budgeting activities;
- 10 ➤ accumulating and reporting cost information; or
- 11 ➤ supporting the preparation of financial statements.

12

13 A financial system supports the financial functions required to track financial events, or provide
14 financial information significant to the financial management of the agency, or is required for the
15 preparation of financial statements. A financial system encompasses automated and manual pro-
16 cesses, procedures, controls, data, hardware, software, and support personnel dedicated to the
17 operation and maintenance of system functions. A financial system may include multiple appli-
18 cations that are integrated through a common database or are electronically interfaced, as neces-
19 sary, to meet defined data and processing requirements. Source: OMB Circular A-127.

20 **Indemnity:** Compensation for a loss. Source: Barron's Dictionary of Insurance Terms, Fourth
21 Edition.

22 **Liability:** A liability for federal accounting purposes is a probable future outflow or other sacri-
23 fice of resources as a result of past transactions or events. Source: FASAB SFFAS 5.

24 **Loss:** Damage to an insured's property.

25 **Outlay:** Outlay means a payment to liquidate an obligation (other than the repayment of debt
26 principal). Outlays generally are equal to cash disbursements but also are recorded for cash-
27 equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest
28 accrued on public issues of the public debt. Outlays are the measure of Government spending.
29 Source: OMB Circular A-11.

30 **Party:** Individual or entity who enters into a contract or other legal proceeding, such as a law-
31 suit. Source: Barron's Dictionary of Insurance Terms, Fourth Edition.

32 **Payment:** A government disbursement of monies to any payee, including vendors, employees,
33 private citizens, state government, local government, and foreign government, in accordance
34 with contract terms. Source: TFM.

35 **Pension Benefit Plan:** Any plan, fund, or program which was heretofore or is hereafter estab-
36 lished or maintained by an employer or by an employee organization, or by both, to the extent
37 that by its express terms or as a result of surrounding circumstances such plan, fund, or program.
38 Source: 29 USC 1002.

1 **Premium:** The rate that an insured is charged, reflecting his or her expectation of loss or risk.
2 The insurance company will assume the risks of the insured in exchange for a premium payment.
3 Source: Barron's Dictionary of Insurance Terms, Fourth Edition.

4 **Program:** Generally defined as an organized set of activities directed toward a common purpose
5 or goal, undertaken or proposed by an agency in order to carry out its responsibilities. In prac-
6 tice, however, the term has many uses and thus does not have a well-defined, standard meaning
7 in the legislative process. It is used to describe an agency's mission, programs, functions, activi-
8 ties, services, projects, and processes.

9 **Receipts:** Collections that result from the government's exercise of its sovereign power to tax or
10 otherwise compel payment, and gifts of money to the government. They are compared to outlays
11 in calculating a surplus or deficit. (See section 20.7) (Compare to offsetting collections and off-
12 setting receipts.) Source: OMB Circular A-11.

13
14 **Reinsurance:** Form of insurance that insurance companies buy for their own protection, "a
15 sharing of insurance." An insurer (the reinsured) reduces its possible maximum loss on either an
16 individual risk (facultative reinsurance) or a large number of risks (automatic reinsurance) by
17 giving (ceding) a portion of its liability to another insurance company (the reinsurer). Source:
18 Barron's Dictionary of Insurance Terms, Fourth Edition.

19
20 **Treasury Appropriation Fund Symbol:** A summary account established in the Treasury for
21 each appropriation and fund showing transactions to such accounts. Each such account provides
22 the framework for establishing a set of balanced accounts on the books of the agency concerned.
23 As used in OMB Circular No. A-11, this phrase refers to general fund expenditure accounts, spe-
24 cial fund expenditure accounts, public enterprise revolving funds, intragovernmental revolving
25 funds, management funds, trust fund expenditure accounts, and trust revolving fund accounts.
26 Also known as Treasury Appropriation Symbol (TAS). Source: TFM.

27
28 **Trust Fund:** Funds held by an insured depository institution as trustee pursuant to any irrevocable
29 trust established pursuant to any statute or written trust agreement. Source: 12 CFR 330.1.

30
31 **Underwriting:** The process of examining, accepting, or rejecting insurance risks, and classify-
32 ing those selected, in order to charge the proper premium for each. Source: Barron's Dictionary
33 of Insurance Terms, Fourth Edition.

34
35 **United States Standard General Ledger:** A uniform list of accounts that support transactions
36 that standardizes federal agency accounting and supports the preparation of standard external re-
37 ports. The U.S. Government Standard General Ledger Chart of Accounts (1) provides control
38 over all financial transactions and resource balances, (2) satisfies basic reporting requirements of
39 OMB and Treasury, and (3) integrates proprietary and budgetary accounting. Source: TFM,
40 Volume 1.

1 **Appendix C: Contributors**

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28 ***Department of Veterans Affairs- Veterans Benefits Administration***

30 Tom Buffington
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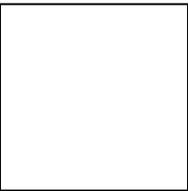
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1

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