FINANCIAL MANAGEMENT SYSTEMS IMPROVEMENT COUNCIL (FMSIC)

FUNDS CONTROL
Functional and Operational Requirements
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FUNDSCONTROL
FUNCTIONAL & OPERATIONAL REQUIREMENTS

Introduction

Funds control is a process for managing funding allocations, costs and commitments, against defined or pre-defined funding levels. The funds control system model is a part of an initiative chartered by the Financial Management Systems Improvement Council (FMSIC). A group from various contractors was formed to develop criteria for the funds control system model. This document is the result of that effort and serves to identify the general internal control requirements of the funds control model.

Purpose of Funds Control System

The funds control system is a business tool used by Department of Energy (DOE) and its contractors to ensure prudent management of public and private funds. The funds control system model should facilitate control of costs and commitments within authorized funding levels, and enhance financial stewardship at each contractor's facility and department wide within DOE. The standards in any system do not manage funds, but identify guidelines to provide management with planning and forecasting information and provide electronic approval of funds where necessary.

Background - Reasons for Funds Control

An effective automated funds control system is necessary in order to manage funds properly within a climate of shrinking budgets, contractual requirements for controlling funds at lower levels, increased DOE oversight, and enhanced financial stewardship. Statutory requirements such as the Anti-Deficiency Act prohibit federal agencies and their contractors from making obligations and expenditures or adjustments to obligations and expenditures that exceed funding. The need for funds control is further intensified given the increased attention to financial management practices in the reimbursable area.

Objectives and Business Requirements

Any funds control system should accomplish the following objectives:

- Track obligated funds on the contract that are authorized at both the obligational

and cost control levels (e.g., Budget and Reporting classifications (B&R))

- ò Enable program and line management to establish a pro-active position with regard to their programs, ensuring proper management of expenditures and appropriate allocation of funds
- ò Ensure costs are managed within funding to prevent cost overruns and avoid administrative control violations
- ò Provide up-front verification of funds availability and edit capability to maximize the use of limited resources and avoid the need for manual intervention
- ò Provide easy access by line and program managers that allows decentralization of authority

Functional Requirements

Funding Sources

Each system should be able to accept funding data from various sources.
Funding sources are classified as direct, distributed direct, and indirect.

Direct Funds

Direct funding can be from DOE funded activity as well as federal and private sector reimbursable work. DOE direct funding should be input into the funds control system upon receipt of the Contract Modification. Other forms of official notice of the status of funds which may be input into the funds control system for informational purposes include:

0 'Approved Funding Program(AFP)-issued for operating, capital equipment, general plant projects, and construction line items
0 Work Authorization System Form (WAS)

Reimbursable Work - Federal and Private Sector

DOE and other Federal Work for Others (WFO) contract funding should be input into the funds control system upon formal acceptance of a funding document. For non-federal projects, funds should be input into the funds control system when payment is received. Other forms of official notice of

the availability of reimbursable funds which should be input into the funds

control system when accepted include:

- ò Interagency agreements including Military Interdepartmental Purchase Requests (MIPR)
- ò Bilateral Sales Agreement (purchase order)
- ò Grants both federal and non-federal
- ò Cooperative Research and Development Agreement (CRADA)
- ò Funds-in agreement (private sector orders)
- ò Approved Work Proposal (AWP)
- ò Notice of Obligation Limitation (NOL) (i.e. spending ceiling for non-federal work)
- ò State and local work agreements

Indirect and Distributed Direct Funds

Indirect and distributed direct funding is generated and applied internally and includes, General and Administrative (G&A), overheads, service centers, and distributed budget allocations.

Commitments

Each system should be able to accept commitment data from multiple sources. The source of commitments can be internal or external and include the following :

Internal Commitments

- · Service center work order or job order
- · Labor costs
- · Travel costs
- · . Memorandum of Understanding (MOU)
- · Applicable taxes - FICA and others
- · ' Indirect costs applicable to internal commitments *If,*

External Commitments

- · Purchase order
- · Purchase requisition
- * Sub-contracts including Architectural and Engineering (A&E) maintenance and Service Agreements
- · Credit card purchases
- * Indirect costs applicable to external commitments

Costs

Costs represent the uses of resources that occur by recording an expenditure at the time that the service is performed or material is delivered. Within the automated funds control system costs may be input directly from the general ledger or be input from other sub-systems and feeder systems.

External Control Levels

The funds control system should be capable of detailing costs at the reporting level and costs plus commitments at the obligational control level.

The reporting level is the level at which the contractor reports costs to DOE for each funding source and correlates to the level at which funding is received in the Contract Modification. Most typically this is the B&R level, but it may be defined in the Contract Modification at a lower level.

The Obligational Control Level (OCL) is an administrative limitation representing the upper limit placed on the amount of obligations and/or expenditures that may be incurred for a specific program, function, or activity. The OCL may be imposed by DOE, OMB, or Congress.

Internal System Control Levels

Each contractor may customize the system's internal control level according to the business unit's management practices, the internal Work Breakdown Structure (WBS) for projects, and method of internal organizational tracking, or Organization Breakdown Structure (OBS).

It is understood that individual contractor systems will vary with respect to final cost objectives and cost elements as defined in the chart of accounts. The fun& control system should be capable of accommodating combinations of control levels, such as organization and cost account combinations and distinguishing between fiscal years under each control level.

Other system control options to be considered include, removal and extension of funds control across fiscal years, on-line messages for funds control violations (i.e. costs and/or commitments in excess of funding), audit trail documentation, override capabilities for authorized persons and electronic approval of requests for funds.

Internal Controls

Basic internal control features and computer system security features are necessary to any funds control system. The following is a listing of the most critical items.

- Electronic input of cost and commitment data into the feeder system, line/program organizations should have read only access
  Limit/control ability to update/import DOE funding information; typically restricted to the Controller's/Chief Financial Officer's (CFO) Organization
- Appropriately authorized override capability
- Reconciliation with DOE funding and other original funding sources

Computer System Security
* Compliance with DOE guidelines
* Compliance with other site specific guidelines
0 Provision for data base security
0 Write access to authorized persons only

Reporting and Downloading Capabilities

Funds control reporting should accommodate summarizing the financial system data in a manner that meets the needs of the many customers who will use the product. The primary customers would include the M&O contractor, the various M&O programs, the DOE field office and the DOE headquarters office.

The funds control system should provide ad-hoc as well as system/batch reporting, 'Capabilities. All data elements should be available with sort and break (sub-totaling) capability at defined levels. All reports should be available on-line and in hard copy format.

'Me point at which funds are considered "official" may vary at each contractor's site. Contractors may use notification of Budget Authority (BA) or Budget Outlay (BO) as the official funding notice. If this is the case, system/batch reporting should be provided for Budget Authority (BA)

and Budget Outlay (BO) at each control level as required.

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Other necessary system reports include fabrication commitment reports identifying the amount of capital equipment funds allocated and committed to capital equipment projects by B&R and account number, notification letters (e.g. when a B&R is X% costed), contractually obligated performance measurement reports, uncosted and unobligated balances reports, including calculation of uncosted obligations carryover for the next fiscal year goods and services on order (GSO).

The system should provide download capability on all data elements and reports in a format easily imported to spreadsheets or other databases. Easy access via personal computer and Macintosh is desirable.

Integration with Other Business Systems

In order to provide the "big picture", the funds control system should be integrated with various contractors' internal and DOE business systems.

The system should be integrated in order to provide for input of the following:

System Inputs

- Funding from DOE and other sources
- Costs from the ledger
- Commitments (liens/preliens) from Procurement
- Interim costs from other systems (e.g. Accounts Payable, Accounts Receivable)
- Commitments from other sources (i.e. credit card purchases)
- Work orders and job orders from service centers
- Distributed direct and indirect rates and basic rate structures for ; calculation of indirect costs applied to commitments Labor costs from the operating plan
  Funding control levels from DOE and other sources Internal control levels maintained within the funds control system

  or other site-specific system

Each site may not be capturing all of the costs and commitments identified above. If not, a reservation of funds could be incorporated into the system to account for the costs and commitments not captured. Accounting for all costs and commitments increases reliability and accuracy. See data flow diagram at the end of this document.

Definitions

Budget Authority (BA) - Authority provided by law to enter into obligations that will result in immediate or future outlays of Government funds. The basic forms of budget authority are appropriations, contract authority, borrowing authority, and authority to obligate and expend offsetting receipts and collections. Budget authority may be classified by the period of availability (one-year, multiple-year, no-year); by the timing of Congressional action (current or permanent); by the manner of determining the amount (definite or indefinite); or by its availability for new obligations.

Budget Outlay (BO) - The dollar amounts of checks issued, letter-of-credit withdrawals, or other payments made (including advances to others), and net of refunds and reimbursements. The total budget outlay consists of the sum of the outlays from appropriations and funds, less offsetting receipts.

Budget and Reporting Classification (B&R) - Classifications that parallel DOE activities and are prescribed for the formulation of budgets; the reporting of obligations, costs, and revenues; and for the control and measurement of actual execution versus budgeted performance. B&R codes are defined by DOE and used in the Financial Information System/ Management Analysis and Reporting System (FIS/MARS).

Obligational Control Level (OCL) - OCL is an administrative limitation that represents an upper limit placed on the amount of obligations or expenditures that may be incurred for a specific program, function, activity, or element of expense. An OCL can be imposed on DOE by Congress, the Office of Management and Budget (OMB), or internal Department management (e.g., ceilings on travel).

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