

Collections and Cash Management Modernization (CCMM): Changes to How FMS Collects Revenue and Reports Transactions

Payment Management Customer Conference

August 25, 2010

Introduction

- Ongoing changes will impact how Federal agencies, agent and depository banks, and various FMS offices process deposits of public money and related activities
- These changes come under the title of Collections and Cash Management Modernization (CCMM)

Three Recurring Themes

- FMS is re-organizing its collections systems and processes to eliminate *redundant* functionality. Among other things:
 - OTCnet is replacing TGAnet, Paper Check Conversion Over The Counter (PCC OTC), and paper deposit tickets used with TGA banks in CA\$HLINK II
 - The Credit Gateway is replacing the Fedwire Deposit System (FDS) and Remittance Express (REX) programs, as well as Electronic Lockboxes that receive Fedwires and ACH credits
 - The Transaction Reporting System (TRS) is replacing reports that agencies receive from multiple collection programs and CA\$HLINK II
- FMS is changing how it performs reporting to provide agencies and other Treasury systems with detailed collections information through centralized means and in a standard format
- FMS is changing how it performs reporting to improve the accuracy of information provided to agencies and meet Governmentwide Accounting requirements

CCMM Defined

- Collections and Cash Management Modernization (CCMM) is an initiative to simplify and modernize FMS's and Treasury's collections and cash management programs
- CCMM describes the business functions that will be part of the end state architecture, the boundaries of the programs that will serve those functions (and their connections), and the path for achieving the end state
 - Emphasis is on business architecture, as opposed to technical architecture
- Re-architecting of functions and programs that have accumulated over decades

Business Scope

- Collecting the revenue
 - Channels – How we receive transactions
 - Settlement mechanisms – How we (obviously enough) settle transactions
- Cash management
 - Provide reports to agencies
 - Centralizing funds in the Treasury General Account (the Government's checking account)
 - Ensure that collections (and investments) are collateralized
 - Manage the banks that help run these programs

Business Scope

- CCMM does not address money coming in from the recovery of delinquent debts
 - Debt collections are handled by our Debt Management Assistant Commissioner area
- CCMM does not address transfers of funds between agency offices
 - Intra-governmental payments and collections are handled by our Governmentwide Accounting (GWA) Assistant Commissioner area
- CCMM does not address money paid out by the government, though it will have an impact on some of these programs
 - Disbursements are handled by our Payment Management Assistant Commissioner area
- CCMM helps to address FMS's larger accounting efforts
 - Governmentwide Accounting is handled by GWA
 - The Transaction Reporting System (TRS) in particular supports GWA efforts, as discussed later

Statistics Showing Business Scope

- \$3 trillion in annual gross revenue collections
- 400 million revenue transactions
- Hundreds of agency office customers
- Over two dozen programs, each comprised of one or more services or systems
 - Some programs serve multiple functions, especially CA\$HLINK II and TT&L

Examples of Revenue Collections

- Taxes (over \$2 trillion)
- Student loan repayments
- Customs duties
- National Park entrance fees
- Defense commissary retail sales
- U.S. Mint coin sales
- Donations to U.S. Battle Monuments Commission
- SEC filing fees
- FCC airwave auction fees

Note: In many instances, FMS collection programs deal directly with the public, not just agencies. When this is the case, they often handle agency program information, in addition to financial information.

Use of Depositories and Agents

- FMS makes extensive use of depositories and fiscal and financial agents, pursuant to statutory authorities
 - Fiscal agents = Federal Reserve Banks (FRBs)
 - Financial agents = Commercial banks
 - Depositories = Either type of bank
- Several FRBs and commercial banks serve as agents, around 100 serve as depositories, and thousands serve as TT&L depositories (especially for collections of Federal Tax Deposit coupons)
- Numbers are declining and this trend will continue

Reasons for CCMM

- Explosion of ways of doing business in the late 90's and early 00's
 - Internet, point-of-sale transactions, credit cards, check conversion & truncation
- Few defining principles or strategies for determining what the boundaries of programs should be
 - Expediency in meeting agency demand was the primary driver
 - Opportunities lost might not be recovered
 - Agency-specific and FRB-specific solutions
- Result was a multitude of new programs with sometimes overlapping functionality
 - Eight programs, 10 banks performing ACH debits
 - Five programs, nine banks accepting ACH credits / Fedwires
 - Two systems managing the Treasury General Account distinguished not so much by functionality as by user base: One for commercial banks, one for FRBs

Reasons for CCMM

- CCMM was initiated to plan the collections and cash management business architecture and ensure that we implement programs for the long run
- It establishes a principled end-state business architecture and coordinates efforts to achieve it

Benefits

- Save money
 - Current operations are highly effective, but not efficient
 - Duplication of data, applications, products, interfaces, and technologies
 - ACH debit example: 8 programs, 10 banks
 - Agency reconciliation issues
 - Potential for costly dependencies on particular banks
 - Not only higher cost, but potential for poorer service if there is an absence of a competitive environment
- Mitigate risk
 - Complexity of the As-Is model and systems architecture is a growing operational risk to the Government
 - As-Is model lacks economies of scale
- Improve services
 - We need to stop spreading ourselves thin; for a given business line, instead of providing good service through multiple programs, we need to provide great service through one program

Objectives

- To obtain the benefits previously described, CCMM has three objectives:
 - Simplify the architecture without sacrificing functionality
 - Centralize and standardize the accounting and forecasting information provided to agencies and other Treasury systems
 - Promote and expand the use of electronic collection of receipts

Notional Diagram

Showing Straight-Through Processing

Collect → **Report** → **Centralize** → **Forecast** → **Invest**

**Collection
Channels**

**Settlement
Mechanisms**

OTC

Card

Mail

Check

Phone

ACH Debit

Internet

ACH Credit

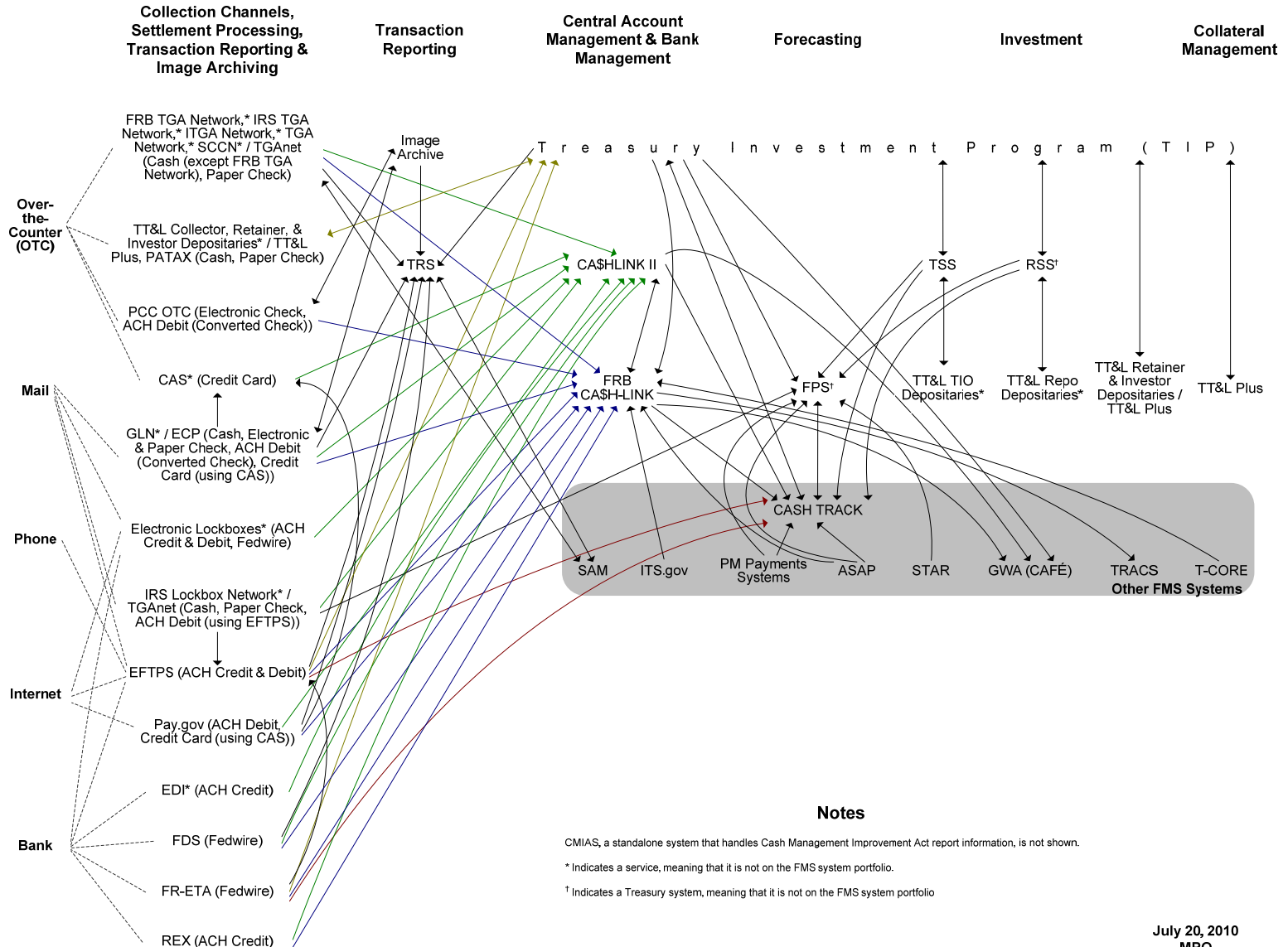
“Bank”

Wire

Business Lines

- OTC Channel – Commercial Bank (Citibank)
- Mail Channel – Commercial Bank (Citibank)
- Phone Channel – Commercial Bank (Bank of America)
- Internet Channel – Commercial Bank (Bank of America) & Federal Reserve Bank (FRB Cleveland)
- Card Processing – Commercial Bank (Fifth Third)
- Debit Processing (ACH Debit & Check) – Federal Reserve Bank (FRB Cleveland)
- Credit Processing (ACH Credit & Fedwire) – Commercial Bank (US Bank)
- Transaction Reporting & Image Archiving – Commercial Bank (PNC Bank) & In-House
- Central Account Processing – Federal Reserve Bank (FRB Boston)
- Forecasting – Federal Reserve Bank (FRB St. Louis)
- Investment – Federal Reserve Bank (FRB St. Louis) (eventually will be in-house)
- Bank Management – Federal Reserve Bank (FRB Boston)
- Collateral Management – Federal Reserve Bank (FRB Philadelphia)

Collections & Cash Management Modernization: “As Is”



Collection Channels (As-Is)

- A channel is the medium through which FMS first acquires a transaction
 - The channel refers to how FMS receives a transaction, not how the agency receives it
 - If an agency receives a call from the member of the public and the agency enters that information on an FMS web page, the channel is not “phone,” but “Internet”
- There historically has been no notion of “channels” or channel management, only “collection systems.” This has resulted in:
 - Duplication of functions
 - Each channel is served by at least two major programs
 - Collection systems performing multiple functions
 - Acquire transactions, settlement, reporting, archiving

Settlement Processing (As-Is)

- Settlement processing refers to the means by which transactions are settled (i.e., placed in an account for Treasury)
 - Specific settlement mechanisms include cash, credit card, check, ACH debits, ACH credits, Fedwire
- There historically has been little notion of having programs that handled settlement exclusively; instead, we've had multi-function "collection systems." This has resulted in:
 - Duplication of functions
 - In recent years, ACH debits have been performed by as many as eight programs and ten banks
 - Similar problems with ACH credit and Fedwire deposits
 - Collection systems performing multiple functions
 - Acquire transactions, settlement, reporting, archiving

Transaction Reporting & Image Archiving (As-Is)

- Reporting is needed to provide information to agencies about collection transactions
 - Financial details & program details
 - (Individual) transactions & (summary) deposit reports
 - Data & archived images
- There historically has been no notion of a centralized reporting service, only “collection systems.” This has resulted in:
 - Duplication of functions
 - 20+ programs providing transaction details
 - Deposit reports separately provided by CA\$HLINK II
 - Electronic Check Processing (ECP), PCC OTC, various lockboxes perform image archiving
 - Collection systems perform multiple functions
 - Acquire transactions, settlement, reporting, image archiving
- Multiple problems arise from the current approach
 - Reconciliation headaches for agencies
 - Difficult to replace banks
 - No standardization of file formats
 - Many hard-coded point-to-point connections

Central Cash Account Management (As-Is)

- Processing is needed to move funds from the many banks that collect revenue to the central account that Treasury uses for its daily financing needs, the Treasury General Account (TGA) at the FRB NY
- Processing also is needed to move funds out of this central account when payments or investments are made
- Summary deposit reporting needs to be provided to agencies and “transcript” reporting needs to go to FMS’s Governmentwide Accounting area
- Many intermediary accounts
 - Demand deposit accounts at commercial banks
 - Control accounts at Federal Reserve Banks
- Three systems
 - Commercial banks—CA\$HLINK II
 - Federal Reserve Banks—FRB CA\$H-LINK
 - Tax deposits from commercial banks—Treasury Investment Program (TIP)
 - “Pre-concentrates” paper FTD tax collections from TT&L depositories (commercial banks) to FRB St. Louis, before invoking FRB CA\$H-LINK for FRB concentration

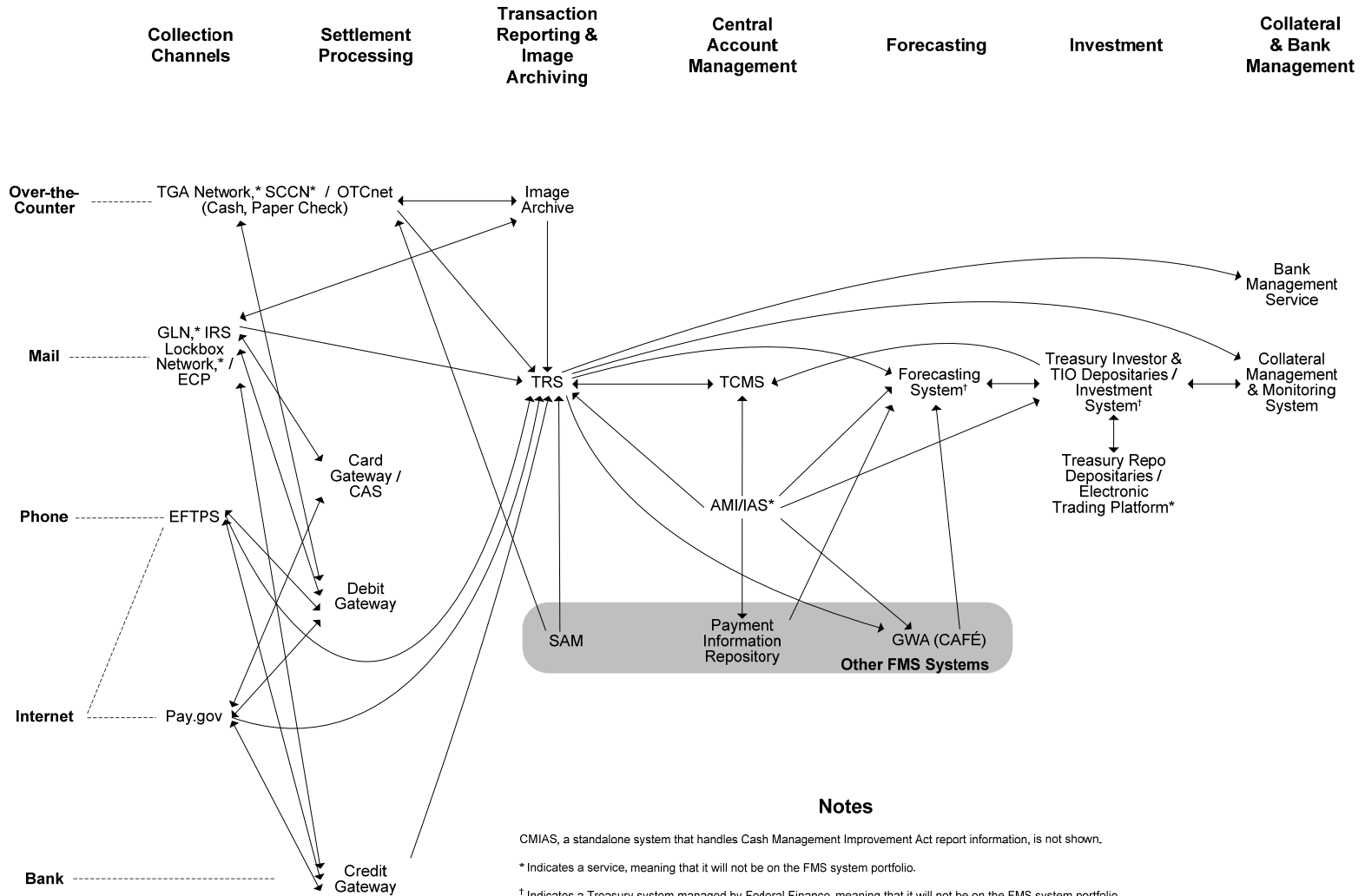
Central Cash Account Management (As-Is)

- These systems serve other business lines as well
 - CA\$HLINK II
 - Bank Management (commercial bank controls and compensation)
 - ACH credit collections through Remittance Express (for non-tax ACH credits)
 - Fedwire collections through the Fedwire Deposit System (FDS) (for non-tax wire collections)
 - TIP
 - Forecasting (through its so-called dynamic accumulator)
 - Investments
 - Collateral monitoring
- Systems use different methods for transferring funds, leading to variations in funds availability
 - CA\$HLINK II—ACH debits and Fedwires
 - FRB CA\$HLINK and TIP—Integrated Accounting System (IAS)
- Summary deposit and transcript reporting (“bank” view) currently is separate from transaction reporting (“book” view)
 - Reconciliation headaches for agencies
 - GWA historically has received only the “bank” view from FMS’s systems, requiring agencies to report “book” view
 - Agencies provide Statement of Transactions (“book” view), then FMS provides the Statement of Differences (“bank” view)
 - But FMS already has both views! (For the most part)

Collateral & Bank Management (As-Is)

- Bank management (compensating banks) and collateral management (to secure our collections and investments) is needed because of our use of depositaries and agents
- Bank management is part of CA\$HLINK II
- Collateral monitoring and management is part of TIP
 - 31 CFR 202 (Depositaries)
 - 31 CFR 203 (Investments)
 - 31 CFR 225 (Sureties)
- These business lines should be served by dedicated programs

Collections & Cash Management Modernization: “To Be”



Notes

CMIAS, a standalone system that handles Cash Management Improvement Act report information, is not shown.

* Indicates a service, meaning that it will not be on the FMS system portfolio.

† Indicates a Treasury system managed by Federal Finance, meaning that it will not be on the FMS system portfolio.

The diagram does not show that card terminals will communicate directly (not thru the OTC Channel Application) with the Credit Card Gateway for authorizations.

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MPO

Principles

- Separate collection channels, settlement mechanisms, reporting and image archiving into distinct business lines and systems
 - Settlement as a shared service
 - Reduction of reporting touch points to agencies
- Push toward one system per business line
 - Breaking up of conglomerate, monolithic systems that span multiple business lines
 - Consolidation of redundant systems that serve individual business lines
- Increase use of commercial processes instead of Government-specific processes

Collection Channels (To-Be)

- One system per channel
- Settlement processing separated out and handled by separate systems
- Transaction reporting separated out and moved to TRS, using XML schema, and images stored in image archive
 - Channels provide data to TRS, not agencies
 - Channels must include TAS/BETC details (or C-Key) in providing data to TRS
- Reduction of unneeded duplication and complexity

Collection Channels (To-Be)

- Over the Counter (OTC) Channel
 - Consolidate TGAnet and PCC OTC into new OTCnet
 - Eliminate use of paper-based deposit tickets
 - Agencies that do not use the systems listed above should contact FMS to begin using these systems
 - Fewer banks but more bank branches
- Mail Channel
 - Lockboxes remain, but ECP is rolled out to all of them
 - Continue to look for opportunities to make greater use of scanning and OCR
- Internet Channel
 - Pay.gov and EFTPS remain
 - Pre-Authorized Debit program, RRBLink, FEDTAX II, Electronic Lockboxes (debits) absorbed into Pay.gov and EFTPS
 - Most of this has already been done—only the Electronic Lockbox work remains
- Phone Channel—Limited to EFTPS

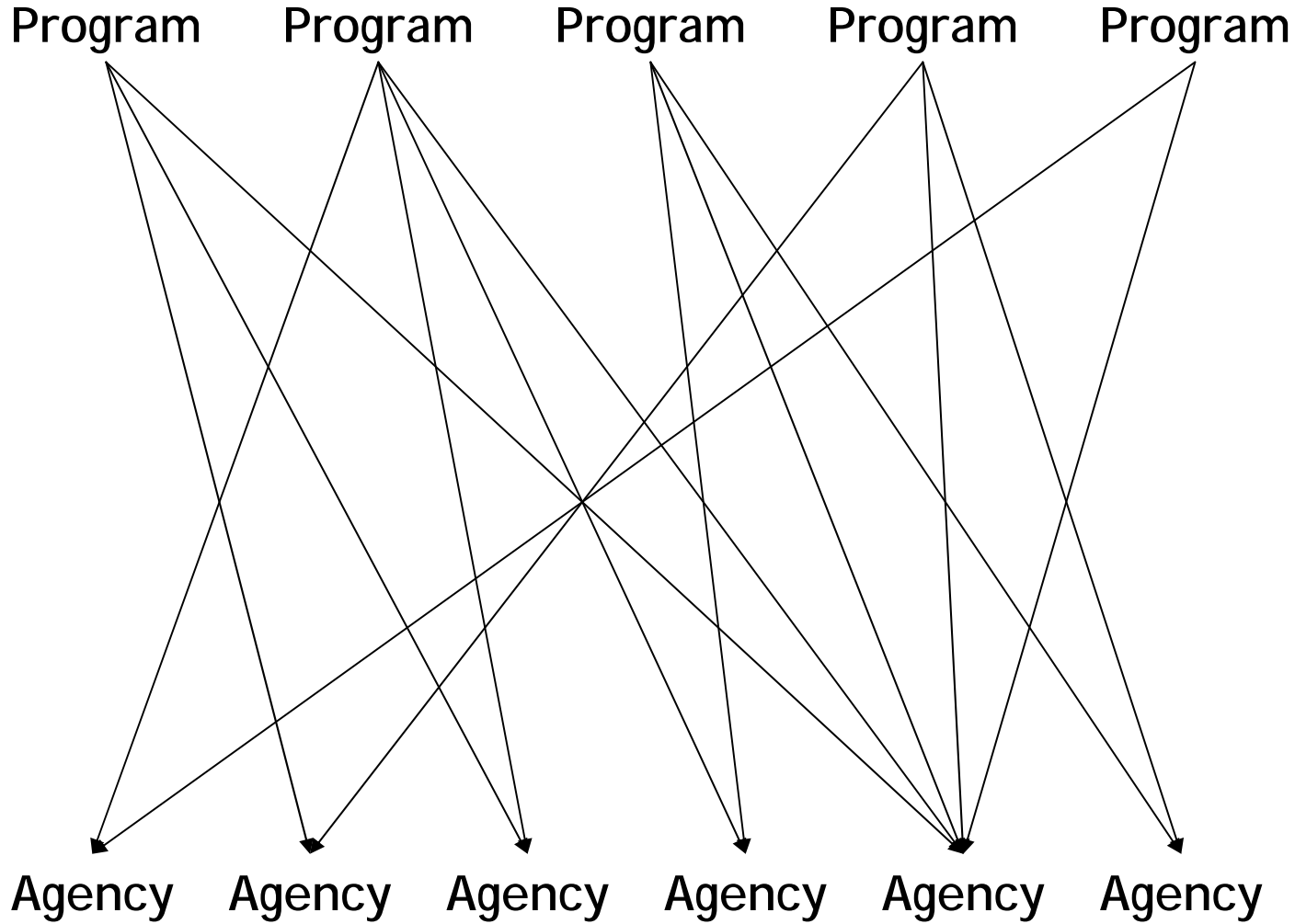
Settlement Processing (To-Be)

- Separate channels from settlement
 - Cornerstone of the collections line EA
- One system per settlement mechanism
- Settlement as a shared service
- “Settlement gateways” will broker transactions from channel applications into settlement mechanisms, using standard XML schema
- Fedwire and ACH credit settlement applications will send many transactions to channel applications for matching
- Credit Gateway replaces FR-ETA, Federal Deposit System (FDS), Remittance Express (REX), Electronic Lockboxes (Fedwire & ACH credit)
 - Many routing numbers from expiring systems can continue to be used
 - Transactions will be reported through both TRS and CA\$HLINK II

Transaction Reporting & Image Archiving (To-Be)

- The Transaction Reporting System (TRS) is a data warehouse for collections data
 - Image Archive will store images (accessible by TRS)
- TRS is a central reporting hub that replaces the many-to-many reporting connections between agencies and agent banks
 - Single touch point for agencies
- TRS is at the heart of the new architecture

(As-Is)

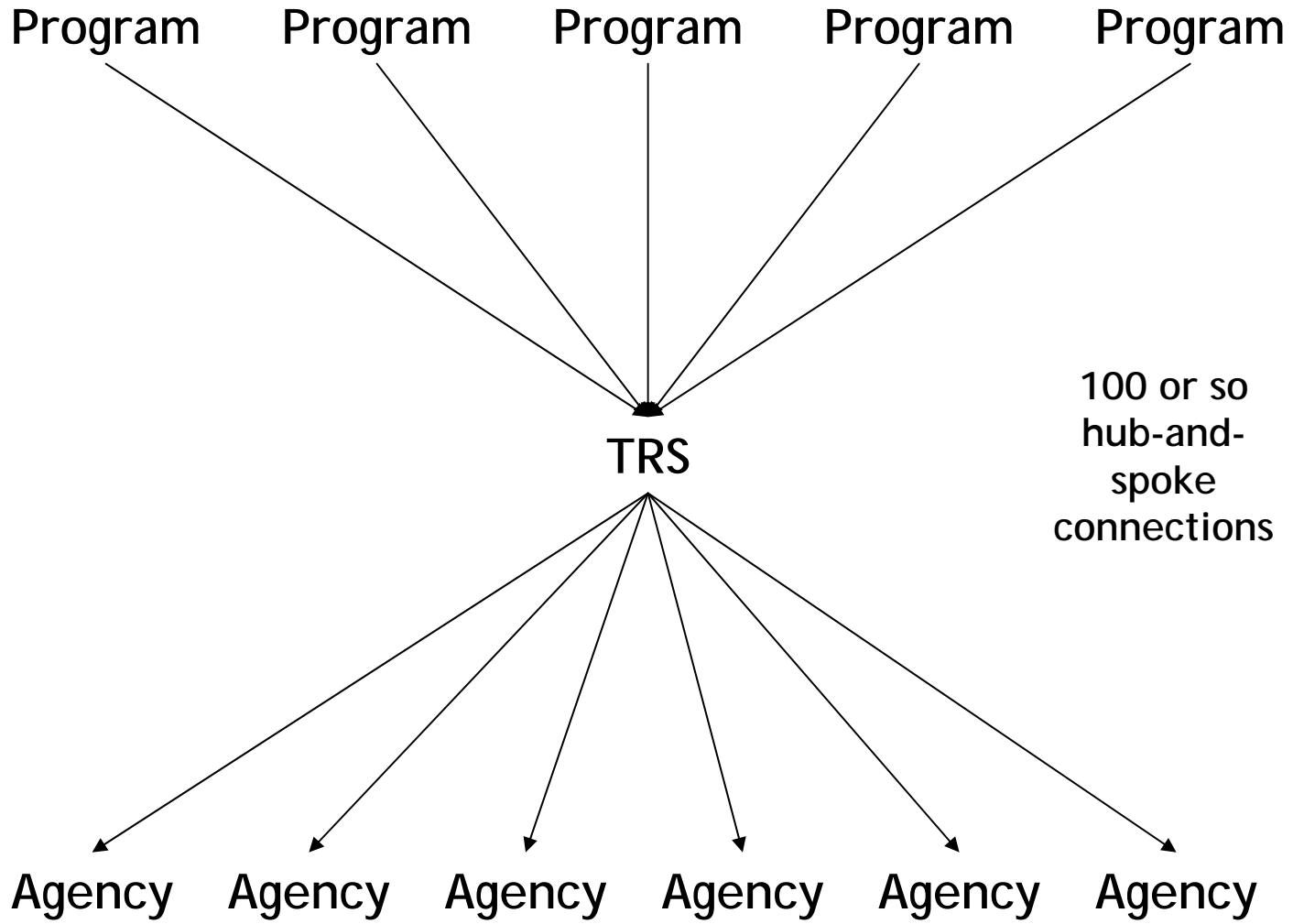


(About two dozen collection programs, some run by multiple banks)

Several hundred point-to-point connections

(About 175 agency offices)

(To-Be)



100 or so
hub-and-
spoke
connections

Transaction Reporting & Image Archiving (To-Be)

- Use of published, open standard XML schema for reporting purposes
 - Move away from proprietary file formats
 - Avoid lock-in issues
 - XML schema is designed for collections, payments, and other financial data
 - XML schema also accommodates agency-specific program data
 - XML schema includes space for agency-defined fields and allows agencies to have program data incorporated in a single block
- More information is available at: fms.treas.gov/eda

Transaction Reporting & Image Archiving (To-Be)

- TRS will consolidate transaction details from the various channel systems
- TRS also will consolidate deposit reports currently provided by CA\$HLINK II
- Together, this means that agencies no longer will have to obtain collections data from multiple systems, then reconcile amounts deposit reports in CA\$HLINK II
 - Instead, this information will be consolidated and reconciled before going to agencies

Transaction Reporting & Image Archiving (To-Be)

- TRS also will include TAS/BETC details for transactions and forward this information to GWA.
 - In so doing, TRS will facilitate a new, simplified GWA process
 - TRS will provide data on collection to GWA so that agencies no longer have to do so
 - In other words, TRS helps:
 - Eliminate the two-step classification process (statement of transactions and statement of differences) and use of GOALS II
 - Capture the Treasury Account Symbol (TAS) and Business Event Type Code (BETC), so that agencies no longer need to provide this information to FMS
 - Allow agencies to become GWA reporters
 - Allow agencies to use the Partial 224
 - Allow agencies to use the GWA Account Statement

Central Cash Account Management (To-Be)

- New model
 - Direct settlement to the TGA for transactions settled by Federal Reserve Banks (large majority of dollars)
 - Elimination of FRB control accounts
 - Demand deposit accounts at commercial banks will remain
 - Earlier availability of funds
 - Faster transmission of settlement information to forecasting system
- Replace CA\$HLINK II & FRB CA\$H-LINK cash management functions with Treasury Cash Management System (TCMS)
 - Transfer funds to/from commercial banks
- Use Federal Reserve's commercial reporting tool (AMI) for "bank" view of cash

Central Cash Account Management (To-Be)

- Other CA\$HLINK II and TIP functionality will be disaggregated; this presents the biggest challenge in CCMM, given the amount of functionality involved
 - CA\$HLINK II functionality disaggregated
 - Bank management is separated out and becomes its own application
 - Remittance Express and the Fedwire Deposit System are subsumed by new Settlement Applications
 - TIP functionality disaggregated
 - TIP's concentration functions will be unnecessary after the elimination of paper FTD collections in the TT&L program
 - Forecasting functions replaced by new forecasting system
- Facilitate goals of GWA initiative
 - TRS provides “book” view (with TAS/BETC); TCMS provides “bank view”
 - Help facilitate proof of cash

Collateral & Bank Management (To-Be)

- Systems/services dedicated exclusively to bank management and collateral monitoring and management
 - Removed from CA\$HLINK II, Treasury Tax and Loan Plus (TT&L Plus), and Treasury Investment Program (TIP)
- Improved agency access to collateral information through the new Treasury Collateral Monitoring and Management (TCMM) system

Other Changes

- Update CFR, Treasury Financial Manual, and Federal Reserve Operating Circulars
- Standardize electronic records retention policies
- Clarify policies on when agencies should be charged for services
- Implement “holistic approach” for dealings with agencies

Enterprise Impact

Remaining Systems

- EFTPS (but it will not perform settlement)
- Pay.gov (but it will not perform settlement)
- TRS
- CASH TRACK (but its forecasting functionality may be moved)
- ECP

New Systems

- OTCnet
- Card Gateway (may be a service)
- Debit Gateway
- TCMS
- Forecasting System
- Investment System
- TCMM
- Image Archive (TWAJ system)

There also will be new *services* (Credit Gateway, BMS, and potentially the Card Gateway)

Expiring Systems

- EBS (done)
- RRBLink (done)
- TERMLink (done)
- FEDTAX II (done)
- PAD (done)
- TERMLink (done)
- REX (part of CASH-LINK II)
- FDS (part of CASH-LINK II)
- FR-ETA
- PATAX
- TGAnet
- PCC-OTC
- TT&L Plus
- CASHLINK II
- FRB CASH-LINK
- FPS
- TIP
- FPS
- TSS
- RSS

Timeline of Changes by Business Line

- **Over the Counter (OTC) Channel:** If you use TGAnet or PCC OTC, OTCnet will replace them
 - OTCnet will replace TGAnet early next year
 - OTCnet will replace PCC OTC over the next two years, beginning next year
- **OTC Channel:** If you use paper deposit tickets in CA\$HLINK II, OTCnet will replace them
 - OTCnet will replace paper deposit tickets over the next two years, beginning next year
- **Internet Channel:** If you use an Electronic Lockbox for ACH debit deposits, Pay.gov will replace it
 - Pay.gov will replace Electronic Lockboxes (ACH debits) over the next year

Timeline of Changes by Business Line

- **Credit Processing:** If you use the Fedwire Deposit System (FDS), Remittance Express (REX), or an Electronic Lockbox for Fedwire or ACH credit deposits, the Credit Gateway will replace them
 - The Credit Gateway will replace FDS and REX next month
 - The Credit Gateway will replace Electronic Lockboxes (Fedwire and ACH credit) over the next two years
- **Collateral Management:** If you use the Treasury Tax & Loan Plus (TT&L Plus) system for collateral monitoring, the Treasury Collateral Monitoring and Management (TCMM) system will replace it
 - TCMM will replace this TT&L Plus functionality by the end of next year

Timeline of Changes by Business Line

- **Transaction Reporting:** If you receive reporting (especially activity files) provided by the various collection channel applications and access, TRS will consolidate this information over the next several years, beginning this fall
 - For transition purposes, both TRS and the channel applications will provide the same information, for a time
- **Transaction Reporting:** If you access CA\$HLINK II to confirm deposits, TRS will replace this functionality over the next two years
 - For transition purposes, both TRS and CA\$HLINK II will provide the same information, until CA\$HLINK is decommissioned at the end of 2012
- **Transaction Reporting:** TRS will capture Classification Keys (C-Keys) that can be associated with Treasury Account Symbols & Business Event Type Codes (TAS/BETCs) needed for Government-wide accounting requirements
 - TRS will capture C-Key information from all channel applications by the middle of next year
- **Transaction Reporting:** TRS will begin providing files of information using a standard XML format over the next several years, beginning this fall

Agency Preparation

- Convert to the end-state systems sooner rather than later
- Work with FMS to determine the C-Keys or TAS/BETCs that channel applications should capture when processing revenue collections
- Sign and implement Strategic Cash Management Agreements with FMS that are designed to address the mix of FMS programs needed to meet each agency's collections needs
- Increase the use of electronic funds transfers for collections
- Recognize that the re-architecting of existing functionality likely will slow down development of new functionality

Agency Benefits

- An easier-to-understand mix of revenue collection programs
- Consolidation of transaction and deposit reporting
- Elimination of daily reconciliations to deposit reports (CA\$HLINK II)
- Capturing of TAS/BETC information at the time of transaction
- Standardization of file format for transaction details
- Improved access to collateral data
- Better service

Agencies should have to spend less time, effort and money to do business with FMS while receiving better service than they have previously

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CCMM Web Site
www.fms.treas.gov/ccmm

Agency Customer Relationship Managers
www.fms.treas.gov/crm/contacts.html