Federal CFO Insights
Tie-Point Analytics

Accounting systems in the Federal government have been through many directional changes since their inception. The primary focus of Federal accounting systems was originally to track budgetary sources and status of funds. This tracking helped Congress and the public understand where agencies got their money and how much of it they have obligated and spent. Traditionally, this usually was adequate for financial reporting as far as agencies were concerned. However the release of the Chief Financial Officers Act of 1990 (CFO Act) and the Federal Financial Management Improvement Act of 1996 (FFMIA) necessitated a change in scope of the many agencies' accounting systems. These acts required a shift in federal financial accounting focus to account for the agencies' financial activities more in line with traditional commercial accounting, which required agencies to track proprietary accounting information in addition to the budgetary accounts.

At this point, agencies were faced with adding a new proprietary accounting requirement well after their accounting systems had been designed and implemented. This shift in breadth of agencies' financial systems led to a new government-wide challenge: the lack of a financial system that can properly record all activity in accordance with Generally Accepted Accounting Principles (GAAP). This challenge was heightened by the new requirement in the aforementioned Acts for all Federal government agencies to obtain clean audit opinions. The new mix of proprietary and budgetary accounting at each Federal agency created both a burden and a blessing in disguise.

With the creation of a new link between budgetary and proprietary accounts came the ability and requirement for agencies to maintain relationships between the balances. Every agency shares the same balance relationships between accounts due to the standardized United States Standard General Ledger (USSGL) transaction codes for federal accounting. The standardized codes create a link between budgetary and proprietary accounting called tie-points. These relationships are required for reporting to the Department of Treasury, and they are also helpful for identifying root causes of financial reporting errors and posting logic deficiencies.

Tie-points and the accompanying analytics create a check to validate that accounting transactions are not improperly recording certain transactions. Tie-points represent inherent links between the budgetary and proprietary types of accounting transactions where the impact on certain budgetary accounts must equal the impact on certain related proprietary accounts. When tie-points are not in balance, this indicates potential posting logic issues. Please refer to the image below for a graphical display of a common methodology of using tie-points to help address potential financial reporting issues.

Practitioners would typically use the following four step tie-point methodology to address potential financial reporting issues:

First, the user would calculate a tie-point imbalance at two points in time (for example, the beginning of the year and the end of a quarter).

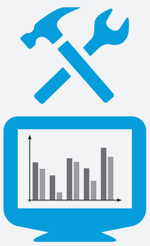
Next, the difference is calculated between those two tie-point imbalances, which gives the tie-point activity during that period.

Next a data analysis tool is used to identify the specific transactions causing the change in tie-point balance.

Finally, a detailed transaction code analysis is performed to determine the root cause and craft a corrective action plan to prevent future tie-point imbalances from this specific root cause.

Using tie-point analytics also helps agencies to support and perform root cause analyses for Federal agencies' posting logic issues. These issues, once found, can be permanently fixed using a combination of the knowledge gained from finding an agency's tie-point discrepancies and any tie-point methodology used by the agency's financial reporting team members. The correction to the historical tie-point issues is made by determining the manual adjustments necessary to change the original posting to the general ledger. This results in the intended, accurate transaction being posted rather than the original, inaccurate transaction. The adjustment to the original posting would reverse the impact of the tie-point, and result in a net posting that creates the same impact as if the original transaction was posted correctly. To correct future postings and implement a permanent fix, the posting logic for the transaction would need to be changed within the accounting system.

What's the fix?



Short-term: manual adjustments in the system to get to the appropriate net impact to equal what Treasury provides

Long-term: Correct or replace underlying incorrect posting logic

System posting logic will continue to be an area of significance within Federal financial reporting as agencies move to new systems and shared services environments for financial management. Each new system or shared services change will most likely introduce potential risk for errors related to posting logic and tie-point entries. The risk may increase as agencies begin to map their current business processes to their future systems, and as this risk increases, it will become even more important for agencies to maintain proper controls to prevent and detect tie-point issues impacting financial reporting.

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