



Section 1: Organization and Structure of Government

GOVERNMENTAL ENVIRONMENT

Levels of Government

- Federalism
 - Power is distributed among different levels of government and that no one level of government has complete authority over all areas of public policy
- Sovereignty
- Interrelationships among national, state, and local levels



Branches of Government

- Legislative, executive and judicial
 - Established by constitution at national and state levels
 - Municipal governments established by state statutes
- Constitutional basis
 - Article I-Legislative
 - Article II-Executive
 - Article III-Judicial
- Separation of powers
 - Legislative branch passes laws; executive implements laws; and judicial settles constitutionality & disputes of laws



Government Components

- Components in all branches
 - Legislative
 - House of Representatives
 - Senate
 - Executive
 - Judicial
- Government commissions
 - Permanent
 - Temporary



Authorities and Responsibilities of Government

- Bases and hierarchy of authority
 - U.S. Constitution supreme
 - Constitution
 - Laws
 - Executive orders – Bypass lengthy legislative process but subject to revocation
 - Rules and regulations
- Integration and cooperation among levels
- Direct-action authorities of citizens
 - Initiative
 - Referendum
 - Recall



Types of Government Entities

- **General purpose**
 - Perform multiple functions such as public works, public safety, recreation, health and law enforcement
 - Typical revenues are property taxes, income taxes, user fees, sales taxes, and state and federal aid
- **Special purpose**
 - Perform just one or two functions such as education, water supply, water and sewer, and environmental monitoring
 - Some supported by general government while others granted authority to impose taxes, charge user fees or incur debt
- **Number of governmental entities**



Focus on Local Government

- General purpose
 - County
 - Formed under provisions in state constitutions or statutes
 - Municipality
 - Usually a defined as general purpose government that is not a county or township
 - Formed to serve a concentrated geographic population
 - Township
 - Have both geographical and historical roots



Focus on Local Government

- Special purpose
 - School district
 - Most have administrative and fiscal autonomy with the power to raise taxes and issue debt
 - Special purpose district
 - Distinct entities with substantial administrative and fiscal autonomy
 - Perform single or very limited functions
 - Ability to circumvent debt and tax limits with more financing options
 - May not be subject to same personnel and procurement rules as general purpose governments



Quasi-Governmental Entities

- Blended characteristics of government and for-profit organizations
- Government corporations
 - Business like functions
 - Revenues and fees cover operating expenses
 - Given authority to issue bonds and incur debt
- Potential for fragmentation
 - Mitigate with service agreements



Tribal Governments

- Limited sovereignty
 - Direct relationship with U.S. government
- Financial status
- Intergovernmental cooperation





Section 2: Legal Foundations of Government Financial Environment

GOVERNMENTAL ENVIRONMENT

Government Sovereignty

- **Popular Sovereignty**
“Rule by the People”
- **Legal Constraints**
Borrowing Cap & Budgets
- **Separation of Powers**
Checks and Balance



Separation of Powers

- Legislative Branch – ***“power of the purse”***
 - Has the most power in budgets
- Executive Branch – required to submit a proposed budget to the legislature called **“executive budget”**
 - Executes the budget accordingly
- Judicial Branch – settles disputes between executive and legislative branches



Debt versus Deficit

DEBT

- Planned, short- or long-term borrowing to finance government objectives.
- The national government incurs debt to finance both current operations and capital investments.
- In states and localities, debt is usually restricted to capital investments (not current operations).

DEFICIT

- Occurs when government expenditures for a specific fiscal period exceed revenues.
- Often lead to borrowing and thus leads to debt.
- Most state and local governments are prohibited from deficit spending, and thus have more manageable debt levels.



Central Role of the Budget

Budget represents:

1. Law
2. Policy Guidance
3. Communication



Public versus Private Sectors

PUBLIC Sector

- Government budget limits expenditures by purpose, time and amount
- May further restrict spending by fund, object class and program

PRIVATE Sector

- Private sector budgets have fewer controls with much greater flexibility
- Can be revised throughout the year



Examination of the Budget Process

- **Democratic Process**
 - ✓ Citizens are involved
 - ✓ Checks and Balance
- **Continuous Cycle**
 - ✓ Budget never sleeps
 - ✓ Debate – Objectives Prioritization – Law - Implementation
- **Strategic Planning**
 - ✓ Goals and Objectives
 - ✓ Link Budget to Performance Goals



Special Funds and Legislative Earmarks

SPECIAL FUNDS

- Usually permanent fund
- Created by Legislation
- Specific uses from designated revenues

EARMARKS

- Usually one-time provision
- Inserted into bills, usually near the end of the legislative process
- Funds to be used for highly specific purpose



Budget Objectives - Similarities

Government Finance Officers Association (GFOA) Budgeting Principles

- Establish Broad Goals
- Develop Approaches
- Develop Budget
- Evaluate Performance & Make Adjustments

Government Performance and Results Act (GPRA) Principles

- Establish Goals
- Support by Annual Performance Plan
- Measure
- Report and Adjust



Legal and Other Budgetary Controls

#1 APPROPRIATIONS

- Legal authority to spend money
- Legal constraint



Legal and Other Budgetary Controls

#2 ACCOUNT STRUCTURES

- **Object Class** – refers to the specific goods or services (also referred as line-item)
- **Reprogramming Request** must be submitted and approved to move funds from one object class to another
- **Program Class** – Refers to the purpose of spending



Legal and Other Budgetary Controls

#3 APPORTIONS and ALLOTMENTS

- **Apportionment** is the dispersal of budgetary authority to an agency or program by the central management agency to support programs.
- After the agency receives the apportionment, it **allots** budgetary authority to specific components within the agency.



Legal and Other Budgetary Controls

#4 ACCOUNTING

- Requisitioning
- Recording of encumbrances or obligations
- Invoice to Expenditures



Legal and Other Budgetary Controls

#5 AUDITING

- Internal
- External



Government Management Cycle





Section 3: Interrelationships
among Planning,
Programming, Budgeting,
Operations, Accounting,
Reporting and Auditing

GOVERNMENTAL ENVIRONMENT

Government Management Cycle

- Planning
- Programming
- Budgeting
- Operations
- Accounting
- Reporting
- Auditing



Government Management Cycle

Planning

- Keystone of public management

- Addresses the “what” and “how” of agency operations

- Planning outcomes

- Identification of mission, goals and key objectives

- Mission-ideal statement of what the organization hopes to achieve

- Goal- broad statement of purpose for a particular program within the agency, more specific than a mission statement.

- Objective-measureable accomplishment to be achieved within a specific period of time



Government Management Cycle

Programming

- Purpose of programming
 - determine the most cost-effective means to accomplishing goals and objectives
- Linking strategies and goals to resources
 - resource requirements are identified
- Outcomes of programming phase
 - specific, measureable objectives, and timeframes
 - identification of most cost-effective means to achieve objectives
 - identification of resources needed (personnel, dollars, equip)
 - level of resources that will be requested during the budgeting phase
 - resource distribution



Government Management Cycle

Budgeting

- Legal status
 - laws that reflect the priorities and objectives of the government and the citizens served
- Types of budgets
 - operating budgets
 - cash flow budget
 - capital budget
- Budgetary controls
 - program and object class
- Role of forecasting
 - identifies probabilities and likely outcomes



Government Management Cycle

Operations

- Role of financial managers
 - guide operations through financial controls and help measure outputs through performance metrics
- Internal controls
 - GAO “Standards for Internal Control in the Federal Government”
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations



Government Management Cycle

Accounting

- Purpose of accounting
 - reliability and integrity of financial information
- Financial accounting
 - tracks the effects of financial events
 - external financial reports
- Budgetary accounting
 - enables entities to remain legal as well as solvent
- Managerial accounting
 - gauge the cost-effectiveness of operations
 - combines financial and non-financial data



Government Management Cycle

Reporting

- Standard setting bodies
 - GASB, FASAB, FASB
- External reports
 - Financial (GAAP reports)
 - Non financial (performance reports and popular reports)
 - Mixed format
- Internal reports
 - Prepared as needed, management use



Government Management Cycle

Auditing

- External audits
 - Financial
 - Attestation
 - Performance
 - Formal process that is governed by formal auditing standards - GAAS, GAGAS
- Internal audits
 - Conducted to address any topic of concern of management

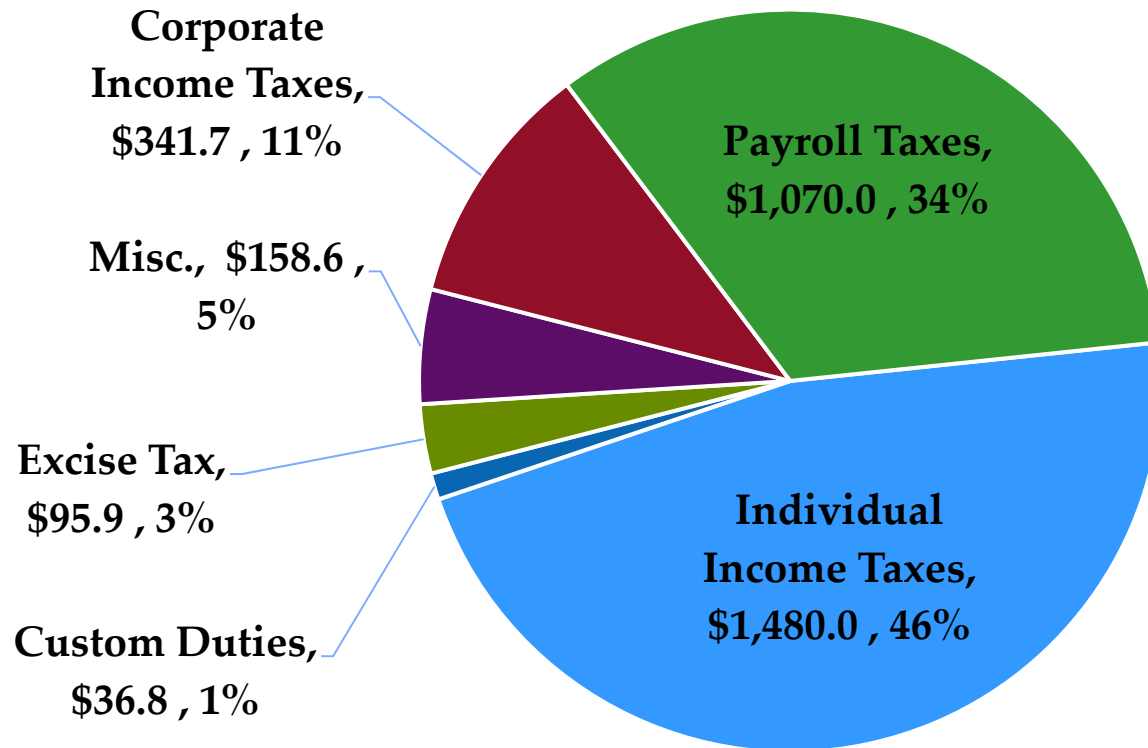




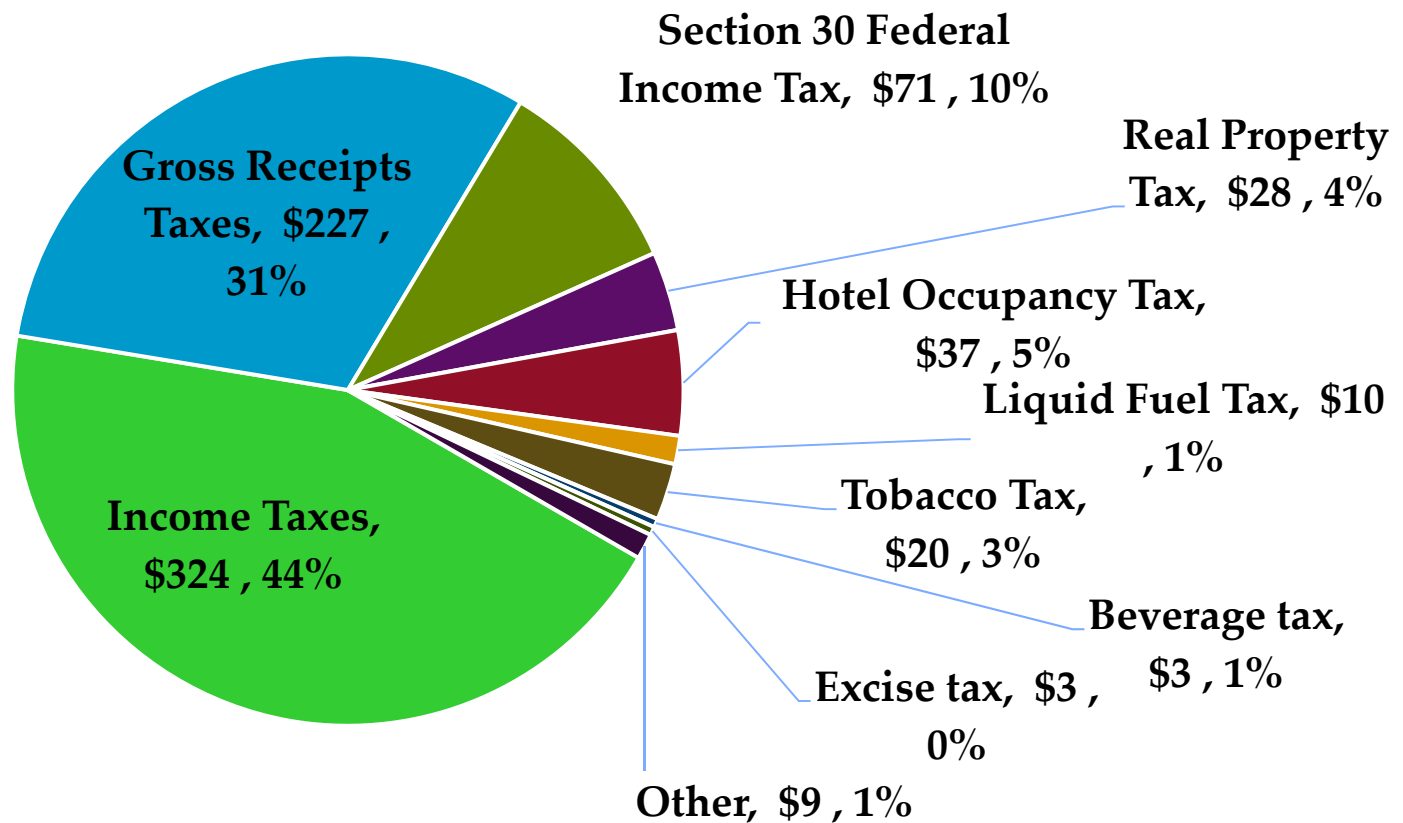
Section 4: Government Financing Process

GOVERNMENTAL ENVIRONMENT

U.S. Federal Tax Revenues- FY15 (in billions)



Gov Guam Tax Revenues (in millions)



Tax Policies

- **Tax equity** – taxpayers fair treatment, horizontal and vertical equity
- **Ability to pay**- progressive and regressive
- **Benefit received** – specific tax burden
- **Collection efficiency**- cost of collecting tax should be minimal compared to revenue
- **Socio-economic goals** – Create or limit tax burden to encourage activities
- **Tax expenditures** – Exceptions to tax laws, “cost” the public, lost revenue
- **Dedicated taxes** – specific purpose, ex. Federal payroll tax deposited in Social Security Trust Fund



Tax Types

3 Broad Categories of Taxes

1. Income
2. Wealth
3. Consumption

Tax Types

1. Income Tax

- Major source of revenue Applied to individuals & corporations
- Usually progressive and less costly to administer.

2. Wealth Tax

Real Property –

- value of property are base on sale price or income generated.
- Assessment is from 10% to 100%. After assessment, a levy rate is applied.

Tables for Income Tax Withholding

SINGLE Persons—BIWEEKLY Payroll Period

Vertical Equity

| And the wages are | | And the number of withholding allowances claimed is— | | | | |
|-------------------|----------|--|-----|-----|-----|-----|
| At least | But less | 0 | 1 | 2 | 3 | 4 |
| 500 | 520 | 46 | 27 | 11 | 0 | 0 |
| 1,000 | 1,020 | 121 | 97 | 74 | 51 | 30 |
| 1,500 | 1,520 | 196 | 172 | 149 | 126 | 102 |
| 1,760 | 1,780 | 258 | 219 | 188 | 165 | 141 |
| 2,000 | 2,020 | 318 | 279 | 240 | 201 | 177 |

Horizontal Equity



Income Tax (Progressive Tax)

| If Taxable Income Is Between: | The Tax Due Is: |
|-------------------------------|--|
| 0 - \$9,225 | 10% of taxable income |
| \$9,226 - \$37,450 | \$922.50 + 15% of the amount over \$9,225 |
| \$37,451 - \$75,600 | \$5,156.25 + 25% of the amount over \$37,450 |
| \$75,601 - \$115,225 | \$14,693.75 + 28% of the amount over \$75,600 |
| \$115,226 - \$205,750 | \$25,788.75 + 33% of the amount over \$115,225 |
| \$205,751 - \$232,425 | \$55,662 + 35% of the amount over \$205,750 |
| \$232,426 + | \$64,998.25 + 39.6% of the amount over \$232,425 |



Tax Type: Wealth Tax

Real Property (cont.)–

- Assessment is from 10% to 100%. After assessment, a levy rate is applied.
- After the assessed value is determined, a levy rate is applied. This rate is usually expressed in "mills." A mill is 1/10 of a cent or 1/1000 of a dollar. A property with an assessed value of \$120,000 and a levy rate of 20 mills would have an annual tax bill of \$2,400 ($\$120,000 \times .020 = \$2,400$).



Tax Type: Wealth Tax

Personal Property –

- Properties that are mobile
- high value items such as automobiles and watercraft
- difficult & expensive to administer. Taxpayer provide listing of personal property, date and purchase price.
- Tax Assessor determines the amount of tax

Intangible Tax

- stocks, bonds, savings account and trademarks
- Process is similar to property tax
- Controversial - retired people with no earned income, but have investments



Tax Type: Wealth & Consumption Tax

Inheritance tax

- levied on the person receiving the bequethal or estate

Estate tax

- levied on the estate of the deceased person before assets are distributed to heirs

3. Consumption Tax - important source of revenue for states and local government. Regressive tax.

Sales Tax

- Tax base are usually all goods and services
- Food and medicine are often exempted
- General sales tax goes to general fund while dedicated sales tax goes to special fund.

Regressive Tax

Regressive tax - tax that takes a larger percentage of lower incomes than of higher incomes.

| Description | Family 1 | Family 2 |
|-----------------------|-----------|------------|
| Yearly Income | \$ 75,000 | \$ 40,000 |
| Yearly Sales Tax Paid | \$ 7,000 | \$ 7,000 |
| % of Income | 9% | 18% |

Tax Type: Consumption Tax

Use Tax

- Tax on goods acquired from out of state
- Disadvantage is reliance on voluntary compliance

Excise Tax

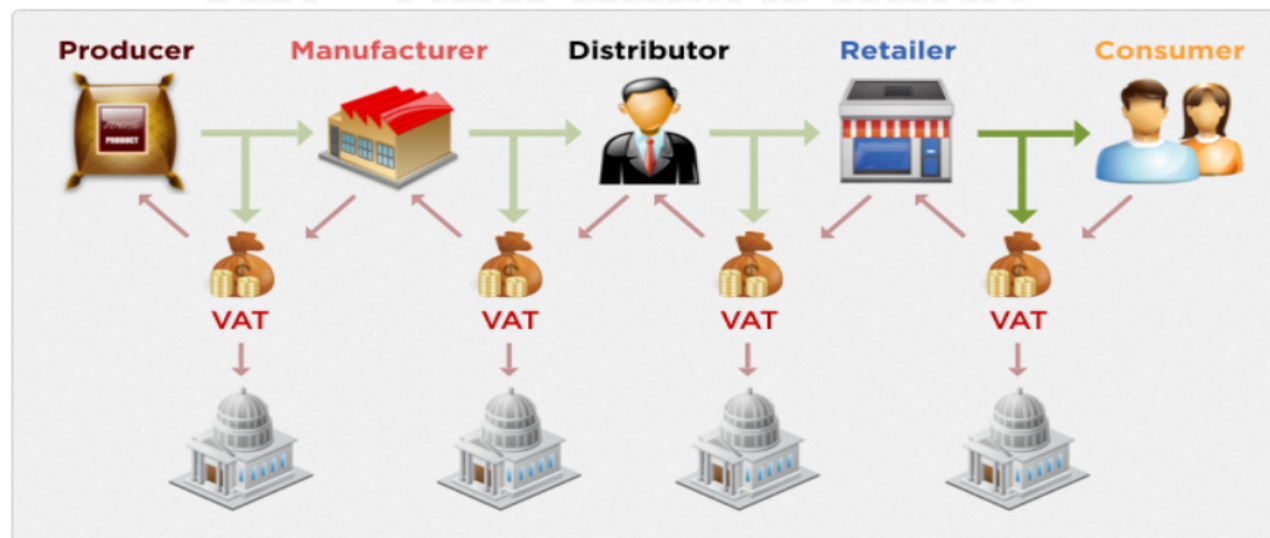
- Consumption of a particular type of good or participation in a certain type of activity
- Imposed on occupation, certain licenses and enjoyment of certain privileges.
- Deposited in special account for specific use

Tax Type: Consumption Tax

Value Added Tax (VAT)

- Widely used in Europe, Asia & Africa
- Tax is paid at each stage of development, tax on the amount by which the value increase

VAT - How does it work?



Intergovernmental Revenues

1. Contracts

- Between 2 entities to define joint use of buildings, equipment and facilities.
- Service contracts for an agreed price

2. Shared revenues

- Revenue sharing between the state and local governments. Distributed based on formula, similar to block grants.
- Ex. Gasoline taxes- revenue sharing based on miles of road per county. Occupancy tax on hotel rooms- based on population of towns and cities in its jurisdiction.



Intergovernmental Revenues

3. Grants

i. Project grants (discretionary grants)

- funding for specific purposes for limited periods of time.
- Competitive and uses discretion on award and amount

ii. Formula grants (categorical grants or block grants)

- A formula contained in law or regulations determines recipients and amounts.
- More stable and predictable than project grants
- Typical factors: population characteristics, per capita income, degree of substandard housing or rate of unemployment

Intergovernmental Revenues

iii. Grantor Expectations –

- Accountability – terms, eligibility, allowable & unallowable, matching funds are met
- Outputs and Outcomes
- Encumbered and spent according to schedule

iv. Grant Recipient Expectations -

- Grant programs that complement their other programs,
- Reasonable certainty- applies timing of awards
- Unobtrusive relationship – grantor does not micro-manage



Other Forms of Revenue

- **License Fees** - fee paid to the government for a specific privilege. Often associated with business activity, professionals and non business privileges, such as driving and fishing
- **Users Fees** - a charge imposed on the specific beneficiary of a good or service. Beneficiaries of the service pay for the service; to fully or partially recover costs; and to expand services without raising taxes.
- **Donations** – voluntary contributions that confer no rights or benefits on the giver



Other Forms of Revenue

- **Lotteries and Gambling** – Voter approval is usually required for lottery. Gov't licenses a private business to run a gambling establishment and receives a portion of the proceeds.
- **Investment Income** - cash available in a government fund should be invested wisely to safeguard principal and provide a reasonable return. Investment policies define the type and grade of investment vehicles eligible for public funds.
- **Public-Private Partnerships** - partnership is tailored to meet local circumstances. Ex. Private developer funds construction of a hospital facility and lease to gov't.



Overview of Government Debt

- Purpose of Debt – a. to fund capital improvements, b. promote inter-period equity, c. for interim (short-term) financing (TAN, RAN or GAN), d. refunding, e. current operating expenses
- Debt Limitations - established in the constitution, charter or in statutes
- Covenants – legal requirement for bond issue: revenue stream, interest rate, sinking fund, new debt conditions
- Other Considerations - financing alternatives, ability to repay the debt, the tax base
- 3 E's of Government Debt – Equity, Effectiveness, Efficiency

Long Term Financing Options

- **Bonds** - legal contract to pay face value of the bond at maturity, with fixed interest rate. Types: 1. General Obligation bonds- full faith, low interest, voter approval, term or serial 2. Revenue- specific, higher interest
- **Notes** – short or long term. Usually short term (1 year or less), issued in anticipation of other revenue (BAN, RAN) becomes available. Lower interest rates.
- **Lease-purchases** – acquire long term assets through capital leases. Asset transfers to government at the end.
- **Certificates of participation** - "participants" are financial institutions and other investors who purchase the right to participate in the income stream from the lease payments.



Credit Rating Agencies

Credit-rating agencies are independent organizations that assess the relative risk of default on the debt.

- Rating Factors – covenant, ability to repay, economic outlook, financial performance, how the entity is organized
- Rating Codes - Rating agencies assign a letter rating to debt issues. The rating indicates the likelihood of default (nonpayment) on principal and interest. Three major rating agencies are Standard & Poor's, Moody's Investor Service and Fitch Ratings. S&P – Investment grade bonds are between AAA to BBB. Below investment grade are between BB and CC. Lower ratings pay higher interest rates.



Enhancing the Security of Local Government Debt

- Bond Insurance - third-party insurance to add further security to their bonds. Potential investors are confident principal and interest will be paid. Also rated by credit rating agencies.
- Debt Guarantees - Some states provide guarantees for local government debt. Local debt becomes a contingent liability of the state. State pledges to use its full financial resources to fulfill the obligation. Collateralized guarantees are based on a particular fund or revenue stream





Section 5: Public Accountability

GOVERNMENTAL ENVIRONMENT

Objectives

- Meaning and purpose of accountability
- Legal foundations and how accountability is achieved
- Stakeholders in government accountability
- Principles, objectives, and actions for which government are held accountable
- How government accountability is demonstrated and assessed



Defining Public Accountability

- Keystone of democratic government.
- Governments must answer to the people.
- Defined in _____ and _____.
- Ways governments are held accountable:
 - Periodic Public elections
 - Free press
 - Oversight hearings
 - Reports (Financial and Performance Reports)
 - Referanda
 - Recalls



Role of Accountability

- Accountability is due at all levels of government
- Executive Branch
 - Citizens
 - Public Interest Groups
 - Legislative and Judicial Branches
 - Creditors
 - Media
- Judicial Branch
- Legislative Branch



Role of Accountability

- Financial Accountability
- Organizational Accountability
- Other Accountability Elements



Legal Foundations

- Constitutions
- Charters
- Statutes
- State Manuals
- Budget Laws
- Restrictions on debt and taxation
- Professional qualifications



FASAB and GASB Guidance

- Per FASAB, governments are accountable for:
 - Budgetary integrity
 - Operating performance
 - Stewardship
 - Internal Controls
- Per GASB, the five levels of government accountability are:
 - Probity and legal authority
 - Process accountability
 - Performance accountability
 - Program accountability
 - Policy accountability



Stakeholders in Accountability

- Citizenry- voters, taxpayers, service recipients
- Surrogates- media and other advocacy groups that represent voter interest
- Other Governmental branches and components
- Other government levels
- Investors and Creditors
- Future generations



Demonstrating and Assessing Accountability

- Oversight hearings
- Evaluations and investigations
- Reports
- Audits
- Free press





Section 6: Ethics in Government

GOVERNMENTAL ENVIRONMENT

Public employment is a Public Trust

§ 5625. Statement of Policy
Guam Code Annotated



Professional and Ethical Responsibilities

Ethical behavior is required at all levels and branches

- **Ethics**

- Set of guidelines and beliefs about appropriate behavior
- Go beyond the requirements of laws and regulations
- Self-imposed and rely on voluntary self-discipline



Professional and Ethical Guidelines

- Ethics standards and/or a code of conduct
- Guidelines point public servants to the requirements for **objectivity, due care, avoidance of conflicts of interest**
- Some guidelines will also provide more specific instructions on items such as:
 - travel arrangements for official business
 - limits on the amount of personal gifts
 - acceptance of gratuities



AGA Code of Ethics

- AGA's Code of Ethics requires government financial managers to observe certain fundamental principles
 - Integrity
 - Objectivity
 - Professional Competence & Due Care
 - Confidentiality
 - Professional Behavior
 - Technical Standards



Keys to Ethical Behavior

#1. OBJECTIVITY

- Uphold fairness
- Make decisions on merit
- Unbiased or impartial
- Obligation to be impartial, intellectually honest and free of conflicts of interest



Keys to Ethical Behavior

#2. INDEPENDENCE

- To be free of relationships that may impair, or appear to impair, one's ability to act with objectivity
- Being free of any obligation to particular parties or interests



Keys to Ethical Behavior

#3. AVOIDANCE OF CONFLICTS OF INTEREST

- Conflicts of interest arise when one has a personal interest in matters relating to official duties or activities
- Can destroy objectivity and independence— even the appearance of a conflict of interest can destroy the public trust



Keys to Ethical Behavior

#4. DUE CARE

- To discharge professional responsibilities with competence and diligence
- Requires one to perform professional services to the best of one's ability
- To act in the best interest of those served



Ethics Case Studies



What is your Ethical Action?

CASE #1

- You are a purchasing agent buying pharmaceuticals.
- You meet with manufacturers' representatives in your office during lunch hours.
- Manufacturers' representatives bring sandwiches and soft drinks
- You need to meet with manufacturers' representatives to obtain information about new products.
- The market value of lunches is \$5, with an aggregate value for the year of less than \$50.



What is your Ethical Action?

CASE #2

- You are employed by the Guam Power Authority.
- You want to buy a 15,000 BTU air conditioning unit.
- You participated in the GPA Energy Sense Program and received \$300 rebate.



What is your Ethical Action?

CASE #3

- You are asked to serve in the technical evaluation panel for a new financial system.
- A closely held company that employs your spouse, from whom you are currently separated, submits a proposal.
- You are the only person in your agency knowledgeable of the financial system.



What is your Ethical Action?

CASE #4

- You have recently become the Controller.
- The finance division is currently using a financial system that you have no knowledge and has no idea of how to navigate the system.
- Your responsibilities require skills that you do not have.





Section 7: Electronic Services in Government

GOVERNMENTAL ENVIRONMENT

Electronic Delivery of Government Services (E-Gov)

- E-Government Act of 2002
 - Requires federal agencies to use Internet-based information technology
 - Established Office of Electronic Government (OEG)
 - Established e-Government Fund
- Interconnectivity across platforms



Electronic Delivery of Government Services (E-Gov)

- E-Gov at work: practical examples
 - Filing tax returns electronically
 - USAspending.gov for information on government contracts
 - State level initiatives
 - City level initiatives



Real-Time Access to Financial & Other Information

- Data versus usable information
 - “Drowning in data but starved for information”
- Varied formats
- Real-time financial information
 - Financial statements, budgets, grant expenditures, etc.
- Other real-time information
 - Listserv & RSS



Collaboration Through Social Media

- Selecting optimal social media
 - Facebook, LinkedIn, Twitter, etc.
- Establishing social media policies
- Practical applications of social media
 - Reporting problems & concerns
 - Communicate urgent information



E-Government Ethics

- Preventing inappropriate postings
 - Web monitor
- Policies and guidance for employee conduct
 - No sensitive, proprietary, or classified information
 - No vulgar or abusive language
 - No endorsement of commercial products



Security and Privacy Controls

- Tension between national security and personal privacy
 - Eric Snowden
- Section 208 of the E-Government Act
 - OMB Memorandum 03-22



Security and Privacy Controls

- Privacy impact assessments
 - Assessments are required before new systems procured
 - Assessments must be made publicly available
 - Persistent tracking technology (cookies) not allowed
 - Personally identifiable information (PII)
 - Encryption
 - Privacy notices on websites



Security and Privacy Controls

- Technical security standards (NIST)
 - Risk based approach where risk and associated security levels depend on the interaction of
 - Confidentiality
 - Integrity
 - Availability



Security and Privacy Controls

- Technical security standards (NIST)
 - An assessment will determine the impact of a security breach
 - Low impact
 - High impact

