

GAO

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September 2001

# GRANT FINANCIAL SYSTEM REQUIREMENTS

## Checklist for Reviewing Systems Under the Federal Financial Management Improvement Act



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## PREFACE

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September 2001

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These requirements are detailed in the Federal Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP), in Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, and in OMB's *Revised Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*, issued January 4, 2001. JFMIP intends for the requirements to promote understanding of key financial management systems concepts and requirements, to provide a framework for establishing integrated financial management systems to support program and financial managers, and to describe specific requirements of financial management systems.

We are issuing this checklist which reflects JFMIP's first functional requirements document issued for grant financial systems, *Grant Financial System Requirements* (June 2000) to assist (1) agencies in implementing and monitoring agency grant financial systems and (2) managers and auditors in reviewing their grant financial systems to determine if they substantially comply with FFMIA. This checklist is not required to be used in assessing grant financial systems. Rather, it is provided as a tool for use by experienced staff and is one in a series of documents we have issued to assist agencies in improving or maintaining effective operations. (See the last page of this document for a list of related products.) This checklist, the JFMIP source document, and the two previously mentioned OMB documents should be used concurrently. Those using this tool must apply experienced judgment in its interpretation and application. They must consider the impact of the completed checklist on an entire grant financial system and whether the system, as a whole, substantially complies with requirements.

Additional copies of the checklist can be obtained from the U.S. General Accounting Office, 700 4th Street NW, Room 1100, Washington, DC 20548, or by calling (202) 512-6000, or TDD (202) 512-2537. This checklist replaces GAO's previously issued exposure draft of the *Grant Financial System Requirements Checklist* (GAO-01-238G, January 2001) and is available on the Internet on GAO's Home Page ([www.gao.gov](http://www.gao.gov)) under "Other Publications" and the subheading "Accounting and Financial Management." Hard copies of the JFMIP document also can be obtained from GAO or can be downloaded from the JFMIP website at *JFMIP.gov* under "JFMIP Documents" and the subheading "System Requirements."



Jeffrey C. Steinhoff  
Managing Director  
Financial Management and Assurance

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Figure 1: Agency Systems Architecture

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## Abbreviations

AP	accrual process
ASAP	Automated Standard Application for Payment System
CFDA	<i>Catalog of Federal Domestic Assistance</i>
CFO	Chief Financial Officer
CMIA	Cash Management Improvement Act
DPPS	Defense Procurement Payment System
FASAB	Federal Accounting Standards Advisory Board
FCTR	federal cash transaction report
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMS	Financial Management Service
FR	financial reports
FRP	financial report process
FSR	financial status report
HHS	Health and Human Services

IT	information technology
JFMIP	Joint Financial Management Improvement Program
NARA	National Archives and Records Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PMS	Payment Management System
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
TFM	<i>Treasury Financial Manual</i>

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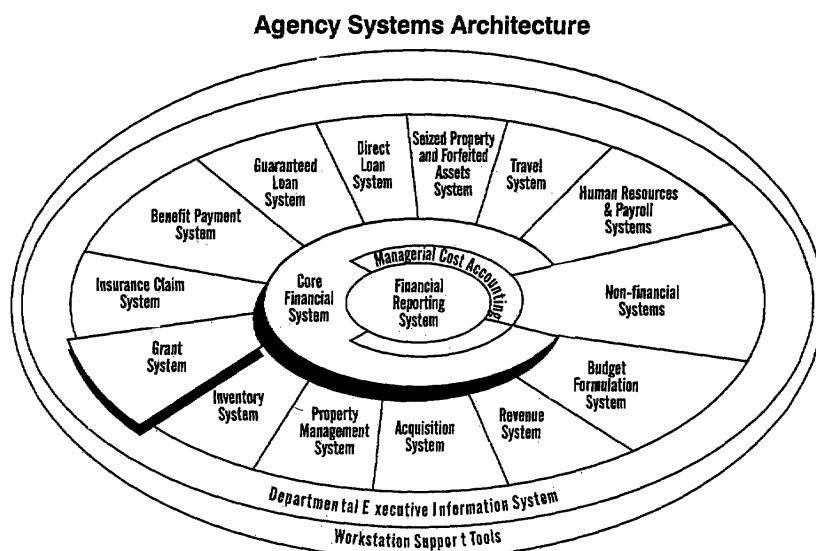
## OVERVIEW

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The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP)<sup>1</sup> and Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*. JFMIP requirements documents describe the federal financial system architecture as

(1) core financial systems, (2) managerial cost accounting, and (3) 13 subsidiary or mixed systems supporting agency operations, not all of which are applicable to all agencies.<sup>2</sup> Figure 1 is the JFMIP model that illustrates how these systems interrelate in an agency's overall systems architecture.

Figure 1: Agency Systems Architecture



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<sup>1</sup>JFMIP is a joint cooperative undertaking of the Office of Management and Budget (OMB), the General Accounting Office, the Department of Treasury, and the Office of Personnel Management (OPM), working in cooperation with each other and with operating agencies to improve financial management practices throughout the government. The program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget (now OMB), and the Comptroller General and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Civil Service Commission, now the Office of Personnel Management, joined JFMIP in 1966.

<sup>2</sup>JFMIP has also issued the *Framework for Federal Financial Management Systems* (FFMSR-0, January 1995) that defines the framework for establishing and maintaining financial management systems to support management and deliver programs of the federal government. GAO published a companion checklist, *Framework for Federal Financial Management System Checklist* (GAO/AIMD-98-21.2.1, May 1998).

Source: JFMIP *Grant Financial System Requirements* (June 2000).

To date, JFMIP has issued 10 of the 15 functional requirements. (See figure 1.)<sup>3</sup>

We are issuing this checklist—which reflects JFMIP’s first functional requirements document issued for grant financial systems, *Grant Financial System Requirements* (June 2000)—to assist (1) agencies in implementing and monitoring their grant financial systems and (2) managers and auditors in reviewing agency grant financial systems to determine if they are in substantial compliance with FFMIA. This checklist is not a requirement. However, it is provided as a tool for use by experienced staff. This checklist; the JFMIP source document; OMB Circular A-127, *Financial Management Systems*; and OMB’s *Revised Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*, issued January 4, 2001, should be used concurrently. Staff members who use this tool must apply experienced judgment in its interpretation and application. They must consider the impact of the completed checklist on the entire grant financial system and whether the system, as a whole, substantially complies with requirements.

### **Authoritative Guidance**

OMB Circular A-127 and OMB’s implementation guidance provide the basis for assessing compliance with the FFMIA requirements so the agencies can implement and maintain financial management systems that comply substantially with federal requirements. The implementation guidance identifies various criteria that an agency must meet to substantially comply with these requirements. One set of criteria listed in the OMB guidance is the JFMIP systems requirements series.

The source of all the questions in this checklist is the JFMIP *Grant Financial System Requirements* (JFMIP-SR-00-3, June 2000). This JFMIP document is intended to identify financial system requirements necessary to support grants programs. It does not intend to identify the full scope of functional program requirements associated with grants management programs. It should be noted that the checklist is based on the existing published JFMIP standards and that changes in laws, regulations, and standards and practices since the standards were issued are not included in the checklist.

The revised JFMIP document segregates functional requirements into two general categories—mandatory and value-added. The mandatory requirements describe what the system must do. They consist of the minimum acceptable functionality necessary to establish a system and are based on federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with system requirements under FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.

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<sup>3</sup>Thus far, the series includes the (1) *Core Financial System Requirements*, (2) *Inventory System Requirements*, (3) *Seized Property and Forfeited Assets System Requirements*, (4) *Direct Loan System Requirements*, (5) *Guaranteed Loan System Requirements*, (6) *Travel System Requirements*, (7) *Human Resources & Payroll Systems Requirements*, (8) *System Requirements for Managerial Cost Accounting* (9) *Grant Financial System Requirements* and (10) *Property Management Systems Requirements*. In early 1998, JFMIP decided to initiate projects to update system requirements documents that were not current with regulations and legislation. JFMIP also planned to initiate projects to complete the remaining systems requirements.

The checklist uses “(M)” immediately following the question to indicate that the item is a mandatory system function.

The value-added requirements describe optional features and may consist of any combination of the following: (1) using state-of-the-art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Agencies should consider value-added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head. The checklist uses “(V)” immediately following the question to indicate that the item is value-added and not mandatory.

### **How to Use This Checklist**

OMB’s 2001 implementation guidance provides chief financial officers (CFO) and inspectors general with a means for determining whether their agencies’ financial management systems substantially comply with federal financial management systems requirements. The annual reporting required by 31 U.S.C. 3512(d) is one means of assisting agencies in the determination of substantial compliance. Agencies can also use this checklist as a tool to help determine compliance with federal financial management systems requirements.

Filling out this checklist will allow agencies to systematically determine whether specific systems requirements are being met. In determining substantial compliance, agencies should assess the results of the completed checklist on the grant financial system requirements taken as a whole.

The checklist contains three columns with the first citing the question. Use the second column to answer each question “yes,” “no,” or “na.” Use the third column to explain your answer. A “yes” answer should indicate that the agency’s grant financial system provides for the capability described in the question. For each “yes” answer, the third column should contain a brief description of how the grant financial system satisfies that capability and should also refer to a source that explains or shows the capability.

A “no” answer indicates that the capability does not exist. For a “no” answer, the third column should provide an explanation and, where applicable, a reference to any related supporting documentation (e.g., the agency is working on modifying or implementing its grant financial system to have the capability available in subsequent years; management believes the capability is not cost effective and will not enhance the grant financial system’s ability to manage operations). Cost-benefit studies, or other reasoning, that support a “no” answer should be identified in the explanation column. If there are no cost-benefit studies or other support, a full explanation should be provided.

“No” answers should not be viewed individually or taken out of context. Rather, “no” answers should be assessed as to their impact on the overall grant financial system and the extent to which they inhibit the entire grant financial system from meeting substantial compliance.

Certain questions within the checklist may not be applicable to the agency. Answer such nonapplicable question(s) with “na” and provide an appropriate explanation in the third column.

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## **GRANT FINANCIAL SYSTEM REQUIREMENTS**

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The grant financial system requirements document provides an overview of grant system requirements (there are no checklist questions drawn from pages 7–8 of the JFMIP source document); an introduction to functional requirements (there are no checklist questions drawn from pages 9–12 of the JFMIP source document); and functional requirements for the eleven functions described below: (1) commitments, (2) decommitments, (3) obligations, (4) payments, (5) cost accruals, (6) financial reports, (7) interest collections, (8) grant closeout, (9) records retention, (10) general system requirements, and (11) information technology in the grants process.

1. **Commitments**. A commitment is the administrative reservation of a specific amount of an agency's available funds that provides for a later issuance incurring a grant award and incurring the related obligation. (The checklist questions for this area are drawn from pages 13–15 of the JFMIP source document.)
2. **Decommitments**. A decommitment is the act of reversing a commitment of funds previously recorded in an agency's financial system. (The checklist questions for this area are drawn from pages 16–17 of the JFMIP source document.)
3. **Obligations**. An obligation occurs when an obligating official makes an award to an entity on behalf of a federal awarding agency, thereby obligating that agency to fund a project that relates to a federal grant program administered by that agency. (The checklist questions for this area are drawn from pages 18–20 of the JFMIP source document.)
4. **Payments**. Funds are paid to grantees as either advances or reimbursements. (The checklist questions for this area are drawn from pages 21–24 of the JFMIP source document.)
5. **Cost accruals**. Accrual accounting is the method of accounting in which an entity's financial position and operating results are measured by the flow of economic resources. Transactions are recorded in the accounting period in which they occur, or according to whose operations they benefit, regardless of when the related cash receipts and disbursements take place. (The checklist questions for this area are drawn from pages 25–29 of the JFMIP source document.)
6. **Financial reports**. Grantees are required to periodically report the financial results of their grant-supported activities. (The checklist questions for this area are drawn from pages 30–32 of the JFMIP source document.)
7. **Interest collections**. Interest earned on advances of federal funds must be handled in accordance with administrative requirements based on the cost principles established for the grantee organization involved. (The checklist questions for this area are drawn from page 33 of the JFMIP source document.)
8. **Grant closeout**. The grantee's authority to incur new obligations against the grant expires at the end of the grant period. The grantee and its federal awarding agency

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## Grant Financial System Requirements

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must then wind up all grant-related business through a process known as closeout. (The checklist questions for this area are drawn from page 34 of the JFMIP source document.)

9. **Records retention.** Agency systems must maintain, store, and permit ready retrieval of grant financial data. (The checklist questions for this area are drawn from page 35 of the JFMIP source document.)
10. **General system requirements.** The grant financial system, at the standard and/or agency level, must be able to accept, process, and report on transactions with other internal and external systems. (The checklist questions for this area are drawn from page 36 of the JFMIP source document.)
11. **Information technology in the grants process.** This section describes a framework for introducing information technology (IT) into the external grants process. (There are no checklist questions drawn from pages 37–39 of the JFMIP source document.)

The checklist questions follow the JFMIP source document. It should be noted that not all questions apply in all situations and, as with the use of any checklist, professional judgment should be exercised. Using the JFMIP source document and its “Appendix B: Glossary/Dictionary,” which defines terms used, along with OMB Circular A-127, *Financial Management Systems*, and OMB *Revised Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*, issued January 4, 2001, will help ensure that the user is cognizant of the background information necessary to fully understand the questions.

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## **Grant Financial System Requirements**

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<b>System overview</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
Note: There are no checklist questions drawn from this section of the JFMIP source document (pages 7–8).		

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## **Grant Financial System Requirements**

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<b>Introduction to functional requirements</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
Note: There are no checklist questions drawn from this section of the JFMIP source document (pages 9–12).		

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## Grant Financial System Requirements

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Commitments	Yes/no/ na	Explanation
<p><b>Commitment process flow</b></p> <p>1. Does the system support the following major steps associated with processing a commitment for agencies with a commitment process?</p> <p>Decide to fund a grant. Occurs after a proposal application process (involving application receipt, review, and selection) has been completed. The steps or procedures that an agency follows before the funding decision are dependent on the specific requirements established by the agency based on the nature of the agency's grant programs. (V)</p> <p>Initiate commitment request; input budgetary/program data into the system. Examples of financial data elements include the following:</p> <p>commitment request identifier, requisition date, corresponding proposal identifier, funding dollar amount, fund code(s)/appropriation code(s), accounting code, budget year(s) of funding, name of the individual initiating the commitment,</p>	na	

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## Grant Financial System Requirements

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Commitments	Yes/no/ na	Explanation
<p>object classification, and catalog of federal domestic assistance (CFDA) number. (V)</p> <p>Direct requested commitment to approving official. Approving official(s) have the authority to commit funds. They review and approve or reject the commitment request. As part of their review, they must verify funds availability. Commitment requests should be transmitted electronically to the approving official(s). (V)</p> <p>Review approved commitment request against edits; system performs following edit checks. Approved commitments are processed through a series of edit checks. For example,</p> <ul style="list-style-type: none"><li>verify authority of approving official(s),</li><li>validate commitment data input by requestor,</li><li>verify accounting code(s),</li><li>verify funds availability, and</li><li>provide controls to prevent processing a duplicate document.</li></ul> (V) <p>Commit funds and post transactions to Standard General Ledger (SGL). Transactions are recorded in</p>		

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## Grant Financial System Requirements

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Commitments	Yes/no/ na	Explanation
<p>the financial system as commitments against budget accounts. Committed dollars are matched against budgetary resources.</p> <p>A requirement to use U.S. Standard General Ledger (SGL) accounts at the transaction level is contained in the Federal Financial Management Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems</i>. Accounts and entries are identified in the <i>Treasury Financial Manual</i> (TFM), Supplement No. 2, that is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a>. (V)</p> <p>Notify procurement/grants office to start negotiation of grant with potential grantee. Outstanding commitments must be reviewed and reconciled continuously throughout the year to ensure that they are converted to valid obligations. Funds not obligated should be decommitted no later than the date on which funds expire. (V)</p>		

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## Grant Financial System Requirements

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Decommitments	Yes/no/ na	Explanation
<p>(All requirements in the “Decommitments” chapter of the JFMIP source document are value-added. However, decommitment requirements are mandatory when commitment requirements are adopted by the agency.)</p> <p><b>Decommitment process flow</b></p> <ol style="list-style-type: none"><li>1. Does the system support the following major steps associated with processing a decommitment?<p>Initiate the decommitment request. The decommitment action is initiated by the individual requesting decommitment. This request should be transmitted electronically to the proper financial official(s). Organization-specific budgetary and program data are entered into the system regarding the request. (V)</p><p>Perform edit checks. Approved decommitments are processed through a series of edit checks:</p><p>Verify authority of approving official(s). Validate data input by requestor, including CFDA number. (V)</p><p>Decommit funds and post to SGL. The transaction should be recorded in the financial system as a</p></li></ol>		

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## Grant Financial System Requirements

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Decommitments	Yes/no/ na	Explanation
<p>decommitment against the budgeted accounts.</p> <p>The requirement to use SGL accounts at the transaction level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems</i>. Accounts and entries are identified in the <i>Treasury Financial Manual</i>, Supplement No. 2, which is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a>. (V)</p> <p>Notify program staff. Decommitments are confirmed with program staff. (V)</p> <p>Convert outstanding commitments. Outstanding commitments must be converted to valid obligations or decommitted before the expiration date of the funds committed. (V)</p>		

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## Grant Financial System Requirements

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Obligations	Yes/no/ na	Explanation
<p><b>Obligation process flow</b></p> <p>1. Does the system support the following major steps associated with processing an obligation?</p> <p>Review grant proposal. The proposed grant action is reviewed. The grant is negotiated with the grantee, and a grant agreement document is prepared. The applicant may review and approve or reject the grant agreement document. <b>(M)</b></p> <p>Direct grant agreement document to obligating official. Obligating official(s) have the authority to legally bind the federal government to provide funds for a specific project or purpose. Obligating officials review and approve or reject grant agreement documents. They also provide for approval or disapproval of grant obligation. <b>(M)</b></p> <p>Perform edit checks. Approved obligations are processed through a series of edit checks:</p> <p>Verify authority of obligating official(s). Validate grant obligation against edits in the core financial system. Verify funds availability. Validate input data, including the <i>Catalog of</i></p>		

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## Grant Financial System Requirements

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Obligations	Yes/no/ na	Explanation
<p><i>Federal Domestic Assistance (CFDA)</i> number.</p> <p>Provide controls to prevent a duplicate obligation. <b>(M)</b></p> <p>Obligate funds. Record transactions into the grants financial management system. Provide the capability of maintaining the chronological order of commitments, obligations, and payments. Provide the capability of citing multiple appropriations or other funding sources. Record obligations or federal funds authorized based on grant awards and liquidate related commitment(s). <b>(M)</b></p> <p>Capture data elements. Examples of financial data elements are:</p> <p>grant number; grantee or recipient name; grantee identifier; grant purpose; dollar amount; accounting classification data, e.g.: appropriation, object classification, project, and program; tax payer identification; and CFDA number. <b>(M)</b></p> <p>Post transaction to the SGL. A requirement to use SGL accounts at the transaction</p>		

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## Grant Financial System Requirements

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Obligations	Yes/no/ na	Explanation
level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems</i> . Accounts and entries are identified in the <i>Treasury Financial Manual</i> , Supplement No. 2, which is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a> . <b>(M)</b>		

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## Grant Financial System Requirements

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Payments	Yes/no/ na	Explanation
<p><b>Payment process flows</b></p> <p>1. Does the system support the following major steps?</p> <p>Receive payment request from grantee. The grantee submits a request for cash. If the awarding agency and the grantee have agreed to use a pooled payment procedure, the grantee requests a single dollar amount covering all its grants with the awarding agency. Otherwise, the grantee identifies the amount of cash needed for each grant. <b>(M)</b></p> <p>Include optional data elements. Requirements in the request include</p> <p>grantee name and identifier, amount requested, grantee official authorized to submit request, authorized grantee's information, amount of funds authorized, amount approved, amount disallowed, program funding codes, and appropriation code(s). <b>(M)</b></p> <p>Review request. <b>(M)</b></p> <p>Perform edit checks. Screen the request for missing data</p>	na	

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## Grant Financial System Requirements

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Payments	Yes/no/ na	Explanation
<p>elements, clerical errors, internal logic (e.g., request not in excess of federal funds authorized). Perform nonroutine edit checks installed by the federal awarding agency, such as:</p> <p>Verify whether the grantee is delinquent in submitting financial reports if financial reports are required.</p> <p>Verify funds availability.</p> <p>Provide controls to prevent processing a duplicate payment. <b>(M)</b></p> <p>Flag record. The record may be flagged if the grantee is subject to sanctions requiring the withholding of payments. Verification of Work Performed requests for reimbursement are forwarded to the appropriate personnel for verification of the work completed. <b>(M)</b></p> <p>Transfer cash to designated payee and post transactions to SGL. The federal awarding agency transfers the approved amount to the grantee's financial institution and the transaction is posted to SGL. Payments may be recorded in SGL as an advance or as an expenditure, depending on agency program requirements.</p> <p>The values posted to these SGL accounts depend on</p>		

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## Grant Financial System Requirements

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Payments	Yes/no/ na	Explanation
<p>whether the grantee requested the payment advance by the pooling or grant-by-grant method. If the grant-by-grant method was used, the portion of the disbursement designated by the grantee for each grant is posted to a subsidiary account corresponding to that grant. If the grantee used the pooling method, the entire payment advance is distributed among grant subsidiary accounts by algorithm. Regardless of the method used, additional operations must be performed to further distribute the payment advance among the contributing sources on a reasonable basis for any grant funded by multiple sources.</p> <p>SGL accounts are required for advance payments and for reimbursement payments from appropriated funds for current operating expenses only. A requirement to use SGL accounts at the transaction level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems</i>. Accounts and entries are identified in the TFM, Supplement No. 2, which is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a>.</p> <p>(M)</p>		

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## Grant Financial System Requirements

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Payments	Yes/no/ na	Explanation
<p>The following value-added requirements will become mandatory upon issuance of governmentwide system standardization policy. (Note: In June 1998, the CFO Council released a report endorsing the use of one of three existing systems by the federal government for grant payments by October 1, 2002. The report is available on the World Wide Web at: <a href="http://www.financenet.gov/financenet/fed/cfo/grants/cd0618.htm">www.financenet.gov/financenet/fed/cfo/grants/cd0618.htm</a>.</p> <p><b>Initiative to streamline grant payment systems in the federal government</b></p> <p>2. If the entity is a Department of Defense organization, is it using the Defense Procurement Payment System (DPPS)? (V)</p>		
<p>3. If the entity is a civilian federal department or agency, is it using one of the following two systems?</p> <p>The Automated Standard Application for Payment System (ASAP) provided by the Financial Management Service (FMS) of the U.S. Department of the Treasury and the Federal Reserve Bank of Richmond. (V)</p> <p>The Payment Management System (PMS) provided by the Department of Health and Human Services (HHS). (V)</p>		

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## **Grant Financial System Requirements**

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<b>Payments</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
<p>It should be stressed that the CFO Council endorsed these systems for the grant payment process only. Individual agencies may elect to use these systems for additional grant processes. The Council's goal is to significantly reduce the number of federal cash drawdown systems used throughout the federal government and reduce the costs associated with the development and maintenance of multiple systems.</p>		

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## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
<p><b>Overview</b></p> <p>1. Is a liability (i.e., an account payable to the grantee) recognized for any unpaid amounts due as of the reporting date in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards Number 5, <i>Accounting for Liabilities of the Federal Government?</i></p> <p>Generally, this is a two-step process. The first step is to recognize as an expense and as a payable the amount of allowable expense that the grantees have incurred as of the end of the period but have not collected from the agency. That amount may include amounts claimed by the grantee or amounts incurred but not reported by the grantee. This will require the agency to estimate the amounts not reported to it by the grantee but due the grantee.</p> <p>The second step occurs after the grantee has submitted financial reports giving its actual costs. At that time, the agency should make any entries needed to adjust the expense amounts previously recognized.</p> <p>In addition to accruing expenses, the agency may be required to accrue a receivable related to improper payments. In some, but not all cases, agencies may request reimbursement from grantees</p>	na	

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## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
for amounts improperly expended. (M)		
2. Does the grant accrual system generally maintain various data such as the following?  internal historical financial data, criteria/structure of agency programs, and relevant external information on the timing and nature of recipients' cash flows. (M)		
3. Does the grant system maintain the amounts disbursed to grantees during each year and the amounts of expenses reported by the grantee? (M)		
4. In addition, are other data such as grant award amounts and remittances included in this information database? (M)		
5. Do these data include the amounts disbursed to grantees during each year and the amounts actually expended by the grantees? (M)		
6. Does the system have either a format structured to facilitate accrual accounting or provide an alternate process that will calculate an accrual estimate? (M)		
7. When faced with the dilemma of estimating year-end accruals, is one of the following several alternate processes used?		

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## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
<p>Poll all grantees as of September 30 of each fiscal year.</p> <p>Take a statistical sample of grantees and base projections on the sample.</p> <p>Perform a linear regression or other appropriate statistical analysis as of the end of each fiscal year, using amounts disbursed to grantees versus amounts expensed in previous years to arrive at an algorithm to estimate current year-end status of accruals.</p> <p>Forecast the fourth quarter expenditures using a forecasting model such as the autoregressive forecasting model or the exponentially weighted moving-average forecasting model.</p> <p>Estimate and post a grant accrual based on an analysis of the aggregate amount of disbursements and not on individual grantee file reviews. (V)</p>		
<p><b>Accrual Process Flows</b></p> <p>8. Does the system support the following major process steps?</p> <p>Initiate the accrual process (AP). The accrual process must have the ability to</p> <p>review electronic files of grant and grantee records including program and financial files and</p>		

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## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
<p>select and retrieve specific items (data) from these files and compare that data to data stored in other programs. (M)</p> <p>Update AP program accrual file. Data available for selection during the AP accrual process should include the grantee's identification number, types of grants received, grant numbers, dollar amounts, time periods, grantee's financial history by fiscal quarters, and other data considered pertinent to the agency. (M)</p> <p>Run AP program accrual file. The accrual process uses the information collected to recognize liabilities for any unpaid amounts due at a specific time, e.g., the end of a month, quarter, or fiscal year.</p> <p>Two situations can exist:</p> <p>Negative cash balance: Grantee liabilities exceed advances, i.e., there is a negative cash balance, which indicates there is a receivable to the grantee and an accounts payable to the agency.</p> <p>Positive cash balance: Advances exceed grantee liabilities, i.e.,</p>		

## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
<p>there is a positive cash balance, which indicates there is a payable to the grantee and an accounts receivable to the agency. (M)</p> <p>Review/approve program results/approve. The information produced from the accrual process allows an agency to reasonably estimate the amount of funds listed as an advance to grantees that should be expensed and the amount of unreported grantee expenses to record as a liability at the end of a fiscal period. (M)</p> <p>Post the grant accrual amount. A requirement to use Standard General Ledger (SGL) accounts at the transaction level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems</i>. Accounts and entries are identified in the TFM, Supplement No. 2, that is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a>. (M)</p>		
<b>Validation of accrual estimates</b> <ol style="list-style-type: none"> <li>9. If the grantee reports components of the accrual (e.g., where the grant reports cash expenditures) have the data for cash expenditures been</li> </ol>		

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## Grant Financial System Requirements

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Cost Accruals	Yes/no/ na	Explanation
entered into the agency's files, compared to the cash portion of the accrual, and adjustments made to the accrual if material differences are identified? (V)		
10. Does the system support the following major steps?  Verification process begins. The verification process begins after the grantee's financial reports, for the end of the fiscal period involved, are received and the data from these reports have been entered into the agency's files. (M)  Review/approve program results. The agency analyzes the data input from these reports, compares them to the estimated expenditures projected by the AP, and posts the SGL entries. After comparing the projected expenditures with those of the financial report, the required adjustments are calculated and made so that the estimated expenditures equal the actual expenditures. (M)		

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## Grant Financial System Requirements

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Financial Reports	Yes/no/ na	Explanation
<b>Financial report process (FRP) flow</b>  (Note: Process steps from initiating the financial report process through sending financial reports (FR) to grantees are not applicable to agencies that do not prepare FRs. Their systems begin with the step "Receive financial report.")  1. Does the system support the following major steps associated with processing financial reports?  Initiate FRP. Update FRP file. Run RFP file/prepare financial report. Receive financial report. Perform edit checks. Prepare transaction and post to SGL. Reconcile. (M)	na	
<b>Initiate the financial report process</b>  2. Does FRP have the ability to do the following?  review electronic files of the grant and grantee, including program and financial files, select and review specific items (i.e., data) from these files, and compare the selected data to data previously stored in FRP. (M)		

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## Grant Financial System Requirements

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Financial Reports	Yes/no/ na	Explanation
<b>Update FRP file</b>  3. Do data selected by FRP include the following grantee items?  grantee's identification number, types of grants received, grant identifying number, dollar amounts, time periods of performance, grantee's financial history by grant, and other data considered pertinent by the granting agency. (M)		
<b>Run FRP file. Prepare financial report.</b>  4. Does FRP use the information collected to prepare financial reports for the grantees at a specific time, e.g., the end of a month or a quarter? (M)		
5. Does FRP have the ability to prepare the reports in both electronic and hard copy formats? (M)		
<b>Receive financial report</b>  6. Do financial reports received electronically from the grantees feed automatically into the grants financial report process? (M)		
7. Are reports received in hard copy manually input to the report process? (M)		

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## Grant Financial System Requirements

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<b>Financial Reports</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
<b>Edit process</b>  8. Does the edit process review the report and verify for  completeness, mathematical correctness, validity of information such as grant numbers and award numbers, proper certification, assurance that amounts reported as expenditures do not exceed the balance of funds available, controls to prevent the processing of duplicate reports, and the return of reports failing the edit process to the grantee. <b>(M)</b>		
<b>Transactions prepared and posted to SGL</b>  9. If the federal department/agency uses other agency systems for processing grantee's financial reports (e.g., HHS' Payment Management System), does it have a reconciliation process in place between the other agency's financial systems and the agency's SGL? <b>(M)</b>		
10. Are SGL entries used to expense advance payments? A requirement to use SGL accounts at the transaction level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127,		

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## Grant Financial System Requirements

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<b>Financial Reports</b>	Yes/no/ na	<b>Explanation</b>
<i>Financial Management Systems.</i> Accounts and entries are identified in TFM, Supplement No. 2, which is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a> . (M)		
11. Are SGL entries also used to adjust for differences between the grant expenditures previously posted to these accounts when reimbursement payments were made to the grantees and the grant expenditures reported on the grantee's financial reports?  A requirement to use SGL accounts at the transaction level is contained in the Federal Financial Management Improvement Act (FFMIA) of 1996 and OMB Circular A-127, <i>Financial Management Systems.</i> Accounts and entries are identified in TFM, Supplement No. 2, which is available on the SGL website at <a href="http://www.fms.treas.gov/ussgl">www.fms.treas.gov/ussgl</a> . (M)		
<b>Reconciliation</b>  12. Is sufficient and appropriate information maintained for reconciliation with the agency's core financial system? (M)		

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## Grant Financial System Requirements

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Interest Collections	Yes/no/ na	Explanation
<b>Overview</b>  1. Is the interest earned on advances of federal funds handled in accordance with the prescribed administrative requirements based on the cost principles established for the grantee organization involved? (M)		
2. Does the system support the following major steps?  State governments: Interest earned on advances of federal funds by state agencies, instrumentalities, and fiscal agents is governed by the Cash Management Improvement Act (CMIA) of 1996, (i.e., Public Law 101-453). State organizations and/or representatives not subject to CMIA and its implementing regulations are treated as "other organizations." (M)  Other organizations: Interest earned on federal advances by other grantee organizations is subject to OMB Circular A-110, <i>Grants Management Common Rule</i> , or program regulations as applicable. In accordance with Section .22 of OMB Circular A-110 concerning entities that earn interest earned on federal advances in excess of \$250 per year in the aggregate this interest must be remitted annually to HHS,		

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## **Grant Financial System Requirements**

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<b>Interest Collections</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
Payment Management System, Rockville, Maryland 20852. This office acts as the governmentwide agent for all collections of interest generated from grant advances. (M)		

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## Grant Financial System Requirements

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Grant Closeout	Yes/no/ na	Explanation
<b>Financial processes</b>  1. Does the system support the following major processes?  financial status report (FSR) closing process, federal cash transaction report (FCTR) process, posting of closing collections, reconciliation. (M)		
<b>Financial status report (FSR) closing process</b>  2. Does the amount reported as expense agree with the cash disbursed on FCTR? (M)		
3. Are unobligated balances deobligated in the accounting system? (M)		
4. Is a closing transaction recorded/issued to close out the grant in the accounting system? (M)		
5. Are procedures established to identify grantees who are delinquent in submitting final reports? (M)		
<b>Federal cash transaction report process</b>  6. Does the granting agency monitor accounts that have expired grants and that have not been reported as closed by the recipient? (M)		
7. Does the agency track open grants funded from		

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## **Grant Financial System Requirements**

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<b>Grant Closeout</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
appropriations that are expiring within the next 12 months? <b>(M)</b>		
<b>Post closing collections</b>  8. Does the agency have accounting procedures to collect receivables and liquidate payables due after the closeout of the grant? <b>(M)</b>		
<b>Reconciliation</b>  9. Is sufficient information maintained to reconcile with the agency's core financial system? <b>(M)</b>		

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## Grant Financial System Requirements

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Records retention	Yes/no/ na	Explanation
1. Does the agency system(s) maintain, store, and permit ready retrieval of grant financial data? The time frames for various parts of this requirement differ depending on the subject matter. <b>(M)</b>		
2. Is the system sufficiently flexible to retain and purge data consistent with varying recordkeeping requirements? <b>(M)</b>		
3. Is the destruction of agency records, created within the federal government, approved by the National Archives and Records Administration (NARA) per 36 CFR 1228?  Expenditure accounting records are currently authorized for disposal by General Records Schedule 7, <i>Expenditure Accounting Records</i> , and General Records Schedule 20, <i>Electronic Records</i> . Copies may be obtained from the agency's records officer or from NARA. For expenditure records not covered by this authority or for any questions regarding the disposition of federal records, contact:  National Archives and Records Administration 7th Street and Pennsylvania Avenue, NW Washington, DC 20408.  The telephone number is (202) 501-5400. <b>(M)</b>		

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## Grant Financial System Requirements

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General System Requirements	Yes/no/ na	Explanation
1. Is the system, at the standard and/or agency level, able to accept, process, and report on transactions with other internal and external systems? (M)		
2. Does the system record and track such transactions and related information in order to provide the basis for central control? This may require a custom interface to properly identify and format the transactions. (M)		
3. Does the system provide flexibility in accepting data input from multiple media so that it can recognize the unique data input requirements of interface systems? (M)		
4. Does the system subject all transactions from interfacing systems to the grant financial system edits and validations? (M)		
5. Does the system provide the capability of customizing data input, processing rules, and edit criteria? (M)		
6. Does the system provide flexibility in defining internal operational procedures and in supporting agency requirements? (M)		
7. Does the system provide the capability of identifying and processing information from other systems that interface with and update the standard grant financial system? (M)		

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## Grant Financial System Requirements

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<b>General System Requirements</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
8. Does the system provide the capability of allowing users to customize output for reporting and providing interfaces to other systems necessary to meet agency requirements for external processing (e.g., general ledger posting, budget formulation, budget reconciliation, and budget execution)? <b>(M)</b>		
9. Does the system capture the transaction dates in order to ensure compliance with the Cash Management Improvement Act? <b>(M)</b>		
10. Does the system capture information to comply with the reporting and referral requirements of the Debt Collection Improvement Act of 1996? <b>(M)</b>		
11. Does the system capture information necessary for reporting on property, plant, and equipment in the hands of grantees as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 6, <i>Accounting for Property, Plant, and Equipment</i> ? <b>(M)</b>		
12. Does the system capture financial information necessary to comply with OMB Circular A-110, <i>Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i> (11/19/93, amended 9/30/99)? <b>(M)</b>		

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## Grant Financial System Requirements

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General System Requirements	Yes/no/ na	Explanation
<b>Other general systems issues</b>  13. Does the agency use the variety of general systems requirements—including data stewardship, systems architecture, systems integration, internal control, and others—contained in the JFMIP Federal Financial Management System Requirements (FFMSR) document entitled <i>Framework for Federal Financial Management Systems (FFMSR-0)</i> issued January 1995? The framework document along with all other JFMIP requirements documents can be found at <a href="http://www.financenet.gov/jfmip/jfmp.htm">www.financenet.gov/jfmip/jfmp.htm</a> . (M)		

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## **Grant Financial System Requirements**

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<b>Information technology in the grants process</b>	<b>Yes/no/ na</b>	<b>Explanation</b>
Note: There are no checklist questions drawn from this section of the JFMIP source document (pages 37–39).		

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## **Related Products**

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These related products address three main categories: internal control, financial management systems, and financial reporting (accounting standards). We have developed these guidelines and tools to assist agencies in improving or maintaining effective operations and financial management.

### **Internal Control**

*Standards for Internal Control in the Federal Government, Internal*  
GAO/AIMD-00-21.3.1, November 1999.

*Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP, November 2000.

*Streamlining the Payment Process While Maintaining Effective Control*, GAO/AIMD-00-21.3.2, May 2000.

*Internal Control Management and Evaluation Tool*, GAO-01-1008G, August 2001.

### **Financial Management Systems**

*Framework for Federal Financial Management System Checklist*, GAO/AIMD-98-21.2.1, May 1998.

*System Requirements for Managerial Requirements*  
*Cost Accounting Checklist*, GAO/AIMD-99-21.2.9, January 1999.

*Human Resources and Payroll Systems Requirements Checklist*, GAO/AIMD-00-21.2.3, March 2000.

*Travel System Requirements Assets*  
*Checklist*, GAO/AIMD-00-21.2.8, May 2000.

*Guaranteed Loan System Requirements Checklist*, GAO-01-371G, March 2001

*Inventory System Checklist*, GAO/AIMD-98-21.2.4, May 1998.

*Core Financial System Checklist*, GAO/AIMD-00-21.2.2, February 2000.

*Direct Loan System Requirements Checklist*, GAO/AIMD-00-21.2.6, April 2000.

*Seized Property and Forfeited Requirements Checklist*, GAO-01-99G, October 2000.

### **Financial Reporting (Accounting Standards)**

“*Checklist for Reports Prepared Under the CFO Act*,” (Section 1004 of the GPO/PCIE *Financial Audit Manual (FAM)*, July 2001). This is a checklist containing agency financial statement reporting requirements.

These documents are available on the Internet on GAO’s home page ([www.gao.gov](http://www.gao.gov)) under the heading “Other Publications” and the subheading “Accounting and Financial

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## **Related Products**

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Management." They can also be obtained from GAO, 700 4<sup>th</sup> Street NW, Room 1100, Washington DC 20548, or by calling (202) 512-6000 or TDD (202) 512-2537.