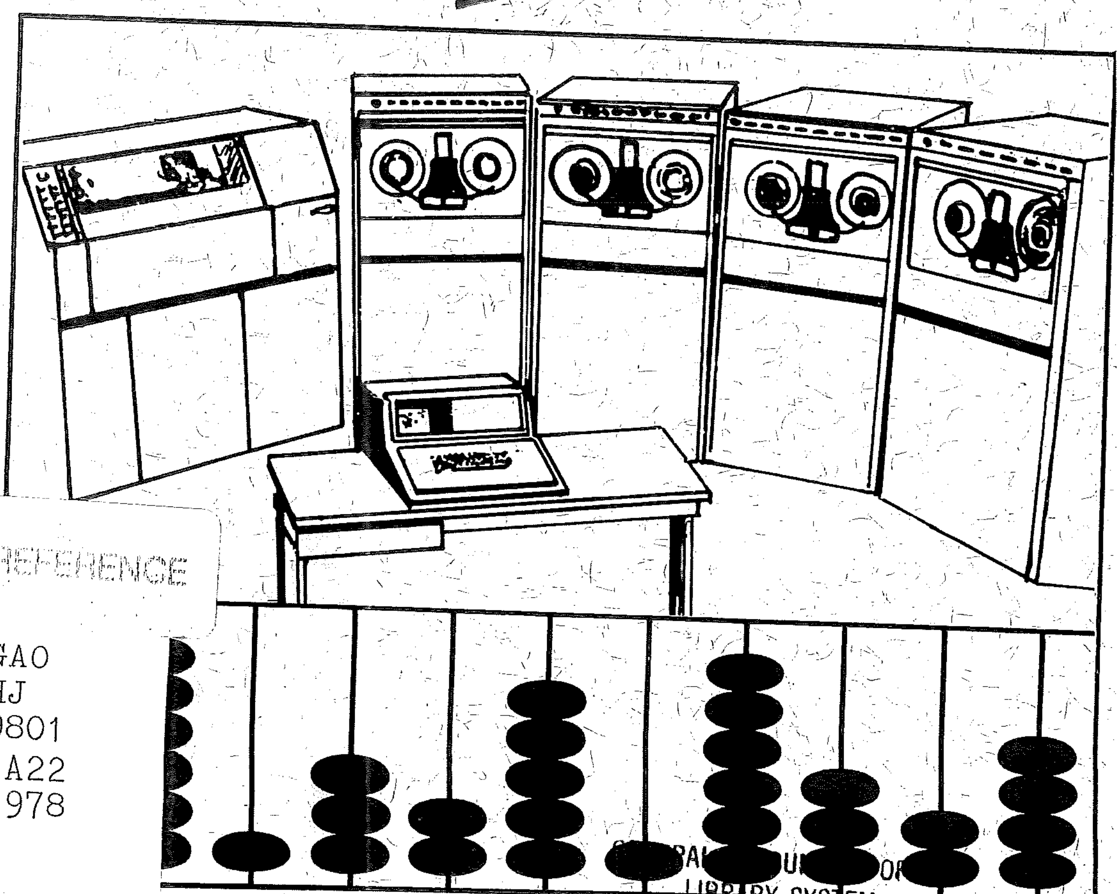
Accounting

Principles and Standards For Federal Agencies



UNITED STATES GENERAL ACCOUNTING OFFICE

The Comptroller General
Of The United States

1978

FOREWORD

Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies states the principles and standards for accounting to be observed by Federal agencies and gives instructions for obtaining the Comptroller General's approval of Federal agency accounting systems.

The title is being published in pamphlet form, in addition to the regular format for insertion in the GAO Manual, to encourage wider distribution and use of this material in the Federal agencies.

GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES
Title 2--Accounting

TRANSMITTAL SHEET NO. 2-23

Effective date: Immediately

Material transmitted: Revised Title 2.

Purpose:

Changes have been made in Title 2 to accomplish the following.

Chapter 1

1. Transfers sections on "Purposes and Objectives of Federal Agency Accounting" and "Standards for Internal Management Control" to this chapter from Chapter 2 - "Accounting Principles and Standards." Renumbers the transferred sections.

Chapter 2

1. Renumbers the section on "Authority."

2. Makes clarifying editorial change. Establishes requirement for agencies to control funds in accordance with the Impoundment Control Act of 1974. (Subsections 10.1 and 10.2).

3. Clarifies purpose of limitation of subdivision of fund authorizations. (Subsection 10.6).

4. Clarifies description of revolving funds. (Subsection 11.3(1)).

5. Provides additional information on actions to be taken with respect to cash resources. (Subsection 12.2(3)).

6. Provides for agency reporting of excess foreign currencies allocated by Treasury. (Subsection 12.3).

7. Clarifies language regarding treatment of property costs when actual costs are not available. Requires documentation of basis other than cost when used to account for property. (Subsection 12.5(c)).

8. Includes easements and rights-of-way in the basic cost of property acquired. (Subsection 12.5(d).)

9. Clarifies criteria for capitalization; establishes dollar limit if minimums are employed; provides for special treatment in cases where application of minimum would significantly distort reported costs. (Subsection 12.5(d).)

10. Provides more specific information as to capitalization of assets acquired by installment or lease-purchase contracts. (Subsection 12.5(d).)

11. Clarifies the factors to be considered in estimating the amount at which property transferred on a nonreimbursable basis will be recorded; provides that the receiving agency shall be advised of date and amount at which capitalized and accumulated depreciation; requires receiving agency to document when its estimated amount differs from depreciated cost of transferring agency. (Subsection 12.5(d).)

12. Changes the basis for establishing the amount to be capitalized when property is acquired by foreclosure processes. (Subsection 12.5(d).)

13. Establishes treatment of leasehold improvements. (Subsection 12.5(e).)

14. Clarifies definition of obligations. (Subsection 13.1.)

15. Provides more specific information on recording and reporting contingent liabilities. (Subsection 13.3.)

16. Revises subsection to provide for recording of liabilities under installment as well as under lease-purchase contracts. (Subsection 13.5.)

17. Provides that contingent revenues are not usually recorded in the accounts. (Subsection 15.1.)

18. Eliminates repetition of material covered in subsection 9.1. Also eliminates specific examples of events providing bases for recording revenues to avoid possible misinterpretation of the requirement for recording revenues at the point at which they become realizable with reasonably practicable certainty. (Subsection 15.3.)

19. Clarifies time at which property records for grantee-acquired property are to be established. (Subsection 16.8(c).)

20. Deletes specific examples of costs incurred and paid by other agencies. (Subsection 16.8(d).)

21. Clarifies information with respect to interest not required to be paid being disclosed in certain financial statements and cost comparisons, whether or not recorded in the accounts. (Subsection 16.8(e).)

22. Defines generally used accounting period. (Subsection 17.1.)

23. Modifies information as to reports required. (Subsection 17.2.)

24. Clarifies statement as to avoidance of unnecessary detail in reports. (Subsection 17.3(a)(66).)

Chapter 3

1. Changes "effected" to "affected." (Subsection 27.5.3.b.)

2. Changes "below" to "above," deletes sentence on "revisions" which are covered in Section 31. (Subsection 28.2.)

3. Provides for utilization of review guides documentation. (Subsection 28.3.)

4. Revises information on availability of review guides for agency use in designing accounting systems and in reviewing the systems before their formal submission for approval. (Subsection 29.3.)

5. Clarifies instructions as to approval requirements when agencies make changes in their statements of accounting principles and standards or accounting system designs. (Section 31.)

Elmer B. Staats

Comptroller General
of the United States

TITLE 2--ACCOUNTING

TABLE OF CONTENTS

1/ Sections 19 through 24 reserved.

TITLE 2--ACCOUNTING

CHAPTER 1--INTRODUCTION

SECTION 1--STATUTORY RESPONSIBILITIES FOR ACCOUNTING

The Budget and Accounting Procedures Act of 1950 places the responsibility for establishing and maintaining adequate systems of accounting and internal control upon the head of each executive agency. These systems must conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General of the United States in accordance with that law.

SECTION 2--CONTENTS OF TITLE 2

SECTION 3--ILLUSTRATIVE ACCOUNTING PROCEDURES

To illustrate the application of prescribed accounting principles, standards, and related requirements, special booklets are published from time to time by the General Accounting Office. The procedures so illustrated are not mandatory. They are designed to show acceptable ways of applying prescribed principles and standards.

Accounting procedures heretofore published as an integral part of this title will be superseded by the above series of separately published booklets.

SECTION 4--THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

The Joint Financial Management Improvement Program is a Government-wide cooperative effort, begun in 1947, to establish systems of financial management that are of maximum usefulness throughout the Federal Government. The Program is under the joint leadership of the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the Civil Service Commission.

Its purposes are to provide the agencies with the tools to assist in improved planning, execution, and control of operations and thus encourage better management in the executive branch; to furnish the Congress more meaningful information for acting upon appropriations and other legislation; and to enable the public to obtain a clearer picture of the financial condition and operations of the Federal Government.

4.1 AUTHORITY

The Budget and Accounting Procedures Act of 1950, as amended, states that the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget shall conduct a continuous program of improvement in the financial management field. This act amended the Budget and Accounting Act, 1921, as amended, and provided for more specific identification of the related responsibilities for budgeting, accounting, auditing, and financial reporting in Government. It also provided the central agencies with broad legal authority that would enable this improvement effort to keep abreast of new developments.

Further amendment was made in 1956 by Public Law 84-863, which specifically provided for use of accrual accounting, cost-based budgeting for internal operations and appropriation requests, and consistent classifications. This law also amended section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), to emphasize the need for simplification of allotment structures. Although the Budget and Accounting Procedures Act of 1950 contains legal authority for the Joint Program, the legislation referred to, plus similar laws applicable to particular agencies, constitutes the major legislation in this program's field of activity.

4.2 FUNDAMENTAL CONCEPTS

The fundamental concepts of the Joint Program are as follows.

(1) Maintenance of accounting systems and production of financial reports are functions of the executive branch.

(2) Financial management systems of the executive branch must give recognition to the needs and responsibilities of both the legislative and executive branches.

(3) Effective attainment of these objectives requires close working relationships among the General Accounting Office, the Office of Management and Budget, the Treasury Department, the Civil Service Commission, and the operating agencies.

(4) There must be an audit, independent of the executive branch, which will give appropriate recognition to existing features of internal control, including internal audit. Proper accounting, budgeting, and reporting systems are important factors in the effectiveness of such an independent audit.

4.3 OBJECTIVES

The basic goal of the program is the improvement of financial management practices throughout the Government in a manner that will satisfy the management needs and the legal requirements of the executive and legislative branches. The objectives include:

(1) Strengthening of agency organization and staff facilities to provide for the most effective conduct of agency financial management operations.

(2) Establishment of responsibility-oriented agency accounting systems on an accrual basis that will serve fund and cost control needs and include monetary property accounting as an integral part of the systems.

(3) Integration of programming, budgeting, and reporting practices with the accounts to provide adequate support for budget formulation and review of annual cost-based appropriation requests.

(4) Development and use of responsibility-centered, cost-based operating budgets and financial reports that will provide goal setting and cost incentives for agency managers in terms of the cost of all resources going into the job.

(5) Simplification of agency appropriation and allotment structures, and development of the most effective methods of control of appropriations, funds, obligations, expenditures, disbursements, and costs.

(6) Use of consistent classifications to bring about effective coordination of agency programming, budgeting, accounting, and reporting practices.

(7) Establishment of suitable internal control practices, including internal audit, in the agencies.

(8) Effective integration of agency accounting and reporting in management information and control systems that will satisfy the requirements of the budget process, internal management needs, and the central accounting and reporting of the Treasury Department.

(9) Development of accurate and useful agency and Government-wide reports on fiscal status, financial results of operations, and cost of agency performance of assigned functions.

(10) Education of personnel in effective maintenance and maximum utilization of these management tools to effect efficiency and economy in Government operations.

SECTION 5--PURPOSES AND OBJECTIVES OF FEDERAL AGENCY ACCOUNTING

All management officials in Federal agencies share the responsibility for economical attainment of the purposes and objectives of their agencies. The increasing magnitude of Federal expenditures requires that every reasonable means be sought to obtain full value for each taxpayer's dollar spent. Effective accounting can play an important part in the discharge of this responsibility.

Proper accounting for the financial and other resources entrusted to an agency 1/ is an inherent responsibility of the managers of that agency.

SECTION 6--STANDARDS FOR INTERNAL MANAGEMENT CONTROL

The general objective of an internal management control system of a Federal agency is to provide positive assistance

1/ The term "agency" is used throughout this statement in a general sense to refer to a department, establishment, commission, board, or an organizational entity thereof, such as a bureau.

in carrying out all duties and responsibilities as effectively efficiently, and economically as possible, considering the requirements and restrictions of all applicable laws and regulations.

The more important specific objectives of a satisfactory control system are to:

(1) Promote efficiency and economy of operations.

(2) Restrict obligations and costs, consistent with efficiently and effectively carrying out the purposes for which the agency exists, within the limits of congressional appropriations and other authorizations and restrictions.

(3) Safeguard assets against waste, loss, or improper or unwarranted use.

(4) Insure that all revenues applicable to agency assets or operations are collected or properly accounted fo

(5) Assure the accuracy and reliability of financial, statistical, and other reports.

An accounting system is an integral part of a management control system since the accounting records and related procedures can contribute significantly to attaining the objectives of the control system. For this reason, the following standards for internal management control require consideration in the design of an agency's accounting system.

(1) Policies

Management policies adopted for carrying out agency functions should be clearly stated; systematically communicated throughout the organization; conformed to applicable laws and external regulations and policies; and designed to promote the carrying out of authorized activities effectively, efficiently, and economically.

(2) Organization

A carefully planned organizational structure should be established under which responsibility for the performance of all duties necessary to carry out the functions for which the agency exists is clearly defined and specifically assigned, and appropriate authority for such performance is delegated.

(3) Segregation of duties and functions

Responsibility for assigned duties and functions should be appropriately segregated, as among authorization, performance, keeping of records, custody of resources, and review, so as to provide proper internal checks on performance and to minimize opportunities for carrying out unauthorized, fraudulent, or otherwise irregular acts.

(4) Planning

A system of forward planning, embracing all significant parts of the agency, is needed for determining and justifying needs for financial, property, and personnel resources and for carrying out operations effectively, efficiently, and economically.

(5) Procedures

Procedures adopted to carry out agency operations should be as simple, efficient, and practicable as circumstances permit, considering the nature of the operations and the applicable legal and regulatory requirements. Such factors as feasibility, cost, risk of loss or error, and availability and suitability of personnel must be considered.

(6) Authorization and record procedures

An adequate system of authorization and record procedures must be devised to (1) promote compliance with prescribed requirements and restrictions of applicable laws, regulations, and internal management policies, (2) prevent illegal or unauthorized transactions or acts, and (3) provide proper accounting records for the assets, liabilities and appropriations, obligations, receipts and revenues, expenditures, costs, and disbursements of the agency.

(7) Information system

An adequate and efficiently operated information system should exist to promptly provide essential and reliable operating and financial data to decisionmakers or those reviewing performance.

(8) Supervision and review

The performance of all duties and functions should be under proper supervision. All performance should be subject to adequate review under an effective internal audit program 1/ so as to provide information as to whether performance is effective, efficient, and economical; management policies are adhered to; applicable laws and prescribed regulations are complied with; and unauthorized, fraudulent, or otherwise irregular transactions or activities are prevented or discovered.

(9) Qualifications of personnel

The qualifications of officials and other personnel as to education, training, experience, competence, and integrity must be appropriate for the responsibilities, duties, and functions assigned to them.

(10) Personal accountability

Each official and employee must be fully aware of his assigned responsibilities and understand the nature and consequences of his performance. Each person must be held fully accountable for the faithful, honest, and efficient discharge of his duties and functions, including where applicable the custody and administration of public funds and property and compliance with requirements of law, regulations, or other prescribed policies applicable to their conduct or performance.

(11) Expenditure control

Adequate control over expenditures requires that effective procedures be devised to provide assurance that needed goods and services are acquired at the lowest possible cost; that goods and services paid for are actually received; that quality, quantity, and prices are in accordance with the applicable contracts or other authorizations; that such

1/ Basic principles and concepts pertaining to internal auditing are presented in title 3.

authorizations are consistent with applicable statutes, regulations, and policies; and that effective use is made of all acquired resources.

(12) Safeguarding of resources

All funds, property, and other resources for which the agency is responsible should be appropriately safeguarded to prevent misuse, misappropriation, or unwarranted waste, deterioration, or destruction.

CHAPTER 2--ACCOUNTING PRINCIPLES AND STANDARDS

SECTION 7--AUTHORITY

This statement is issued pursuant to section 112(a) of the Budget and Accounting Procedures Act of 1950 which directs the Comptroller General of the United States--after consulting with the Secretary of the Treasury and the Director of the Office of Management and Budget concerning their accounting, financial reporting, and budgetary needs, and considering the needs of other executive agencies--to prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency (64 Stat. 835; 31 U.S.C. 66).

This statement replaces previously issued accounting principles, memorandums, and statements.

SECTION 8--STANDARDS FOR ACCOUNTING SYSTEMS

The following standards must be given recognition in the design and development of agency accounting systems.

8.1 STATUTORY REQUIREMENTS

An agency must comply with the provisions of all applicable laws relating to agency accounting and to the administration of the funds and appropriations for which it is responsible.

The resources of each separate fund and appropriation must be applied only to the purposes authorized by law or pursuant to law. Each agency's accounting system should be designed to demonstrate compliance with this requirement to the maximum extent practicable.

8.2 MANAGEMENT AND CONGRESSIONAL NEEDS

The accounting system of each agency shall be designed to meet all internal needs for cost and other financial data for planning, programming, budgeting, controlling, and reporting of agency operations.

The accounting system must provide not only a basis for control over funds, property, and other assets but also an accurate and reliable basis for developing and reporting costs of performance by (a) major organizational segments, (b) budget activities, and (c) program structures.

Each accounting system must also provide for the requirements of other organizations of the executive branch, particularly those of the Office of Management and Budget in assisting the President in the discharge of his budgetary and other management responsibilities and those of the Treasury Department in connection with its central accounting and reporting responsibilities.

Each accounting system must be capable of producing the financial information needed to keep the Congress fully informed on the financial status and operations of the agency. It must also provide such financial data as required by law or by congressional committees.

8.3 ACCOUNTING PRINCIPLES AND STANDARDS OF THE COMPTROLLER GENERAL

Each executive agency's accounting system must conform, in all material respects, to the principles, standards, and related requirements for accounting prescribed by the Comptroller General.

In the vast operations of the Federal Government, no single set of principles and standards can be devised to fit all circumstances and still provide practical guidance. However, statements of accounting principles and standards and accounting system designs reviewed for approval by the Comptroller General will be tested against the principles, standards, and related requirements set forth or referred to in this statement. The need for departures will be recognized when warranted by individual circumstances.

8.4 USEFULNESS OF FINANCIAL DATA

The financial data produced by an accounting system must be useful to the officials requiring it. Financial information is useful when it can be used in planning, in exercising financial control over resources, and in promoting greater efficiency and economy in day-to-day operations. Such data must be promptly presented, clearly reported, and properly understood in order to be of greatest use.

In the application of this standard, the kind of data produced must not be restricted to the internal needs of agency management. All proper needs must be considered, including those of the President, other executive agencies, the Congress, and the public.

8.5 ACCOUNTING FOR RESPONSIBILITIES

The accounting function is an integral part of management responsibility. It furnishes a framework which can be fitted to assignments of responsibility for specific areas of activity. It provides a method of reporting as one basis for judging performance. Decisions regarding future operations can be made with greater confidence by management and the Congress when it can be demonstrated, through information produced by an accounting system, that past performance has been consistent with planned programs and has been within established financial limits.

For the accounting function to be as useful as possible, the structure of the accounting system should be designed so that major assignments of responsibility or areas of activity can be readily reported on.

8.6 CONSISTENCY OF PROGRAMMING, BUDGETING, REPORTING, AND ACCOUNTING CLASSIFICATIONS

To the extent possible, programming, budgeting, reporting, and accounting classifications should be consistent with each other and should be synchronized with the agency's organizational structure. Such consistency is necessary so that data produced by an accounting system will be of maximum use in support of internal operating budgets and budgets that are presented to the Congress.

8.7 TECHNICAL REQUIREMENTS

An accounting system comprises the formal books and accounts; the supporting records, documents, papers, and reports; and the related procedures used to account for an agency's resources and operations.

Each accounting system shall provide complete and reliable records of the resources and operations of the entity to which it relates. Such records shall embrace all funds, property, and other assets, as well as liabilities and obligations, receipts and revenues, expenditures, disbursements, and costs. The accounting records shall be maintained primarily in monetary terms, but records on quantitative data should also be maintained as necessary or appropriate for producing useful data (including unit cost data) for planning, control, and other management purposes.

Financial transactions shall be adequately supported in agency files with pertinent documents available for audit. All transactions shall be so recorded that they can be readily traced from the originating documents to summary records and to the financial reports issued.

Interagency and interfund transactions shall be separately identified in agency records and statements so that they may be properly treated in preparing consolidated financial reports.

Agency accounts should be kept in such detail as is necessary to meet all management needs, including the furnishing of information needed by other agencies in the executive branch and by the Congress. As a general rule, transactions recorded in agency accounts should not be recopied even in summary form in the accounts of agencies at higher organizational levels. Instead, financial reports submitted by subordinate levels should be utilized in preparing summary reports. Adequate provision should, however, be made for technical supervision and interlocking accounting relationships between offices to assure the validity of consolidated agency reports.

8.8 QUALIFIED PERSONNEL

The design, implementation, and maintenance of satisfactory accounting systems require competent leadership and a capable staff. Agency officials who rely on financial information produced by the accounting system are entitled to and should demand a high degree of technical competence in accounting personnel. Technical competence is also of prime importance in continuing to improve accounting--a policy set forth by the Congress in the Budget and Accounting Procedures Act of 1950.

8.9 TRUTHFULNESS AND HONESTY

The highest standards of truthfulness and honesty must be applied in accounting for the receipt, disbursement, and application of public funds. Accordingly, financial transactions shall not be recorded in agency accounts in a manner that will produce materially inaccurate or false or misleading information. All financial transactions must be accounted for as realistically as possible and in accordance with the time and manner in which the events that are being recorded occurred.

8.10 OTHER STANDARDS

(a) SIMPLICITY

Accounting procedures shall be as simple and readily understandable as practicable. Records that serve no needed or significant purpose shall not be maintained.

Excessive details and unnecessary refinements in accounting records shall be avoided. Simplicity is important as a matter of efficiency and economy in carrying out accounting procedures and in promoting the production of reliable information.

(b) RELIABILITY AND MATERIALITY

Accounting processes require many estimates and judgments. Undue precision is not justified where judgment is a significant factor. The objective should be to expeditiously produce financial data that is useful and reasonably reliable for control, information, and accountability purposes and is not misleading.

All transactions occurring during an accounting period shall be recorded in the accounts for the period and their effect included in the financial reports. However, in determining the degree of precision to be employed in making allocations of cost and income and in computing items where estimates have to be employed, due consideration should be given to the materiality and relative significance of the items involved. Meticulous procedures which do not produce materially more reliable results or provide other offsetting benefits should be avoided.

(c) NECESSITY FOR UPDATING ACCOUNTING SYSTEMS

Agency accounting systems shall be reviewed from time to time to assure that they continue to be useful to all officials.

New organizational arrangements, shifting emphasis on program activities, revised legislation, and technological changes require appropriate changes in accounting systems so that the information produced will continue to be useful in exercising financial control over resources and in promoting efficiency and economy in Government operations.

SECTION 9--THE ACCRUAL BASIS OF ACCOUNTING

9.1 BASIC REQUIREMENT

The maintenance of accounts on the accrual basis is a basic requirement for Federal agencies.

Achieving the primary objectives of Federal agency accounting set forth in the Budget and Accounting Procedures Act of 1950 (see section 6) requires the use of the accrual basis of accounting. Public Law 84-863, approved August 1, 1956 (31 U.S.C. 66a(c)), provides specifically that the head of each executive agency shall cause the accounts of his agency to be maintained on an accrual basis. Specific provision was also made for monetary property accounting.

The accrual basis of accounting consists of recognizing in the books and records of account the significant and accountable aspects of financial transactions or events as they occur. Under this basis, the accounting system provides a current systematic record of changes in assets, liabilities, and sources of funds growing out of the incurrence of obligations, expenditures, and costs and expenses; the earning of revenues; the receipt and disbursement of cash; and other financial transactions.

This basis of accounting provides more information than the cash basis alone, under which financial transactions are recorded in the accounts only when cash is received or disbursed. It also provides more information than the obligation basis alone, under which financial transactions involving use of funds are recorded in the accounts primarily when obligations are incurred.

The accrual basis of accounting can contribute materially to effective financial control over resources and costs of operations and is essential to the development of adequate cost information.

The proper recording of the obligation and disbursement of public funds is an integral part of accrual accounting. Agency accounting systems that provide financial information primarily in terms of obligations and disbursements are incomplete if they cannot also produce the data needed to properly disclose information on financial and property resources, liabilities, revenues and expenditures, and costs of operations by major areas of responsibility or activity. They do not meet the objectives of Federal agency accounting prescribed by law.

Thus, the accrual basis is the prescribed basis of accounting to be used by Federal agencies. As part of a properly integrated accrual accounting system, appropriate records on obligations incurred and liquidated must also be kept to provide information to assist in controlling expenditures and disbursements and reporting on the status of appropriations and funds.

The techniques of applying the accrual basis may vary from agency to agency and between components of an agency. If the technique employed is that of periodically converting accounting data recorded on the cash and obligation basis to the accrual basis, such conversions should be made at least monthly.

9.2 ACCRUED EXPENDITURES

Accrued expenditures are the charges incurred during a given period requiring the provision of funds for:

(1) Goods and other tangible property received,

(2) Services performed by employees, contractors, grantees, lessors, and other payees, and

(3) Amounts becoming owed under programs for which no performance or current services are required (such as annuities, insurance claims, other benefit payments, and some cash grants).

Expenditures accrue regardless of when cash payments are made, whether invoices have been rendered, or, in some cases, whether goods or other tangible property have been physically received. The portion of any such expenditures which is unpaid at a given point in time is a liability. The portion of payments made for which the expenditure has not accrued (such as advances) is an asset.

Constructive receipt of goods or other tangible property, rather than physical receipt or the passing of legal title, is the measure of the accrual in certain cases. When a contractor provides goods to the Government which he holds himself available to sell to others, the accrual occurs when physical delivery by the contractor and receipt by the

Government take place and title passes. However, when a contractor manufactures or fabricates goods or equipment to the Government's specifications, constructive receipt occurs in each accounting period when the contractor earns a portion of the contract price, and the accrual takes place as the work is performed. Formal acceptance of the work by the Government is not the determining factor.

For items manufactured and services performed to the Government's specifications, agencies shall record such transactions in each accounting period, including holdbacks and requests for progress payments. When agency management finds it impractical to record unbilled contractor performance, such as from performance reports, only documented transactions need be recorded. (See section 13.6.)

(See section 15 for principles and standards for accrued revenues.)

SECTION 10--FUND CONTROL

10.1 COMPLIANCE WITH FUND LIMITATIONS

The control objectives 1/ prescribed for Federal agency accounting reflect the need to comply with such laws as section 3679 of the Revised Statutes (the Anti-Deficiency Act). The principal purposes of this Act are to prevent the incurring of obligations or the making of expenditures (disbursements) which would create deficiencies in appropriations and funds, to fix responsibility within an agency for excess obligations and expenditures, and to assist in bringing about the most effective and economical use of appropriations and funds.

Every agency is required by section 3679 to have a system of administrative control, approved by the Director of the Office of Management and Budget, which will restrict obligations or expenditures to the amounts appropriated, to the balances in the funds involved, and to the amounts of the apportionments or reapportionments made for the current fiscal period. Reserves established by the Director of the Office of Management and Budget or other authorized officials are of equal import. In addition, the system of administrative control must fix responsibility for the creation of any obligation, the incurrence of any expenditure, or the making of any disbursement in excess

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1/ See items (3) and (4) in section 6, p. 2-5.

of an apportionment, reapportionment, or other subdivision. The requirements for these systems are prescribed by the Office of Management and Budget in its Circular No. A-34, revised.

The system of administrative control of funds approved by the Director of the Office of Management and Budget, if otherwise meeting the requirements of this title, should be included in or appended to the agency's statement of accounting principles and standards.

Agencies must also control funds in accordance with the Impoundment Control Act of 1974 which prescribes guidelines and procedures for the establishment of reserves or other deferral of budget authority. Under the Act, restraint on obligations for any reason--Anti-Deficiency Act, policy, or other--must be reported by the President to the Congress as proposed rescissions or deferrals. Proposed rescissions cannot be effected without affirmative action by the Congress; proposed deferrals take effect unless disapproved by either the House of Representatives or the Senate.

The Comptroller General is required to report to the Congress on proposed or established reserves or other deferrals of budget authority that have not been reported by the President.

10.2 MEANING OF FUND CONTROL

The term "fund control" refers to management control over the use of fund authorizations to insure that (1) funds are used only for authorized purposes, (2) they are economically and efficiently used, (3) obligations and expenditures do not exceed the amounts authorized, and (4) the obligation or expenditure of amounts authorized is not reserved or otherwise deferred without congressional knowledge and approval. Each accounting system shall incorporate appropriate techniques to assist in achieving fund control.

10.3 SIGNIFICANCE OF OBLIGATION DATA

Basic statutes provide that obligations may not be incurred unless there is an appropriation or fund balance available therefor at the time the obligation is created. Also, congressional appropriations are requested, made, and administered in terms of obligation authority.

Thus it is necessary that the accounting systems of each agency accumulate data on the financial obligations of the United States for which the agency is responsible. These procedures should provide for identifying obligations with the applicable appropriation or fund at the time they are incurred. Such information is essential for providing official records and related reports on the status of appropriations and funds.

10.4 RECORDING AND REPORTING OBLIGATION INFORMATION

To adequately satisfy the need for fund control, obligation information must be reported promptly and accurately. Specific criteria governing the recording and reporting of financial transactions as obligations are prescribed in section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200; see also title 7 of this Manual). This law provides that no amount shall be recorded as an obligation unless it meets the specified criteria and that statements of obligations furnished to the Congress or to any of its committees shall include only amounts representing valid obligations as so defined.

For purposes of effective financial planning, including fund control, data on proposed expenditures may be systematically accumulated in accounting records in advance of their becoming valid obligations. When these records are used to prepare official reports on obligations incurred, appropriate corrections must be made to conform such data to the amounts representing valid obligations as defined by law.

10.5 RELATION OF ACCRUAL BASIS TO FUND CONTROL

Adoption of the accrual basis of accounting does not signify the abandonment of fund control. Proper application of the accrual basis, appropriately supplemented by procedures specifically designed for fund control purposes, will produce not only reliable information on revenues, expenditures, costs, assets, and liabilities but also the information relating to obligations incurred, liquidated, and outstanding which is needed for control, budget, and other financial management purposes.

10.6 APPORTIONMENTS AND SUBDIVISIONS OF FUND AUTHORIZATIONS

Agency accounting procedures shall provide for appropriate recognition of apportionments of appropriations made pursuant to law and for subdivisions of fund authorizations made to facilitate their management and compliance with applicable limitations.

In accordance with the Anti-Deficiency Act, 1/ subdivisions of fund authorizations for budgetary control purposes should be established at the highest practical level, consistent with assignments of responsibility, and should be limited to those essential for effective control. For example, a single allotment of funds to the head of an operating unit, within the amounts apportioned for each appropriation or fund affecting such unit, should usually provide an appropriate basis for fund control without making further subdivisions by object classes of expenditure or other categories.

Reliance on systems of multiple and detailed allotments for financial control results in primary emphasis on spending available funds and operating so as to avoid overspending the amounts allotted for various purposes rather than on the essential management objective of operating efficiently and economically, judged in terms of cost.

10.7 OTHER LIMITATIONS

Compliance with dollar limitations imposed by law within the scope of an appropriation must be effectively provided for in the accounting system. Some limitations may require the use of separate allotments.

SECTION 11--ACCOUNT STRUCTURE

The account structure is the system of general ledger and subsidiary accounts to be established and maintained.

11.1 AGENCY ACCOUNTING ENTITIES

For purposes of designing, establishing, and maintaining accounts, each agency must clearly define--in the light

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1/ Section 3679(g) of the Revised Statutes, as amended (31 U.S.C. 665(g)), provides in part as follows: "In order to have a simplified system for the administrative subdivision of appropriations or funds, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit."

of its legal authorities, assigned responsibilities, and reporting requirements--the entities for which separate groups of accounts are to be established. An accounting entity may be an entire agency, a subdivision thereof (such as an organizational unit), or one or more legally established funds.

11.2 INTEGRATION OF ACCOUNTS

The preferred account structure for agency activities is one in which accounts relating to all resources used in the conduct of such activities are incorporated into a single integrated accounting system.

Since many fund sources are separate legal entities for purposes of congressional and management authorization and review, each system must provide appropriate fund identification of financial resources and transactions. This is necessary to provide for (1) the disclosure of compliance with applicable financial authorizations and limitations and (2) the efficient and prompt preparation of financial reports on the status of funds for the Congress, the Office of Management and Budget, and the Treasury Department.

11.3 FUND ACCOUNTS

The fund accounts of the Federal Government are of two general types.

(1) Funds derived from general taxing and revenue powers and from business operations.

<u>General fund accounts</u>. These consist of receipt accounts used to account for collections not dedicated to specific purposes and expenditure accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues.

<u>Special fund accounts</u>. These consist of separate receipt and expenditure accounts established to account for receipts of the Government which are earmarked by law for a specific purpose but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts.

Revolving fund accounts. These are combined receipt and expenditure accounts established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by the Congress. Consolidated working funds under section 601 of the Economy Act of 1932 (31 U.S.C. 686) are not revolving funds (see title 7, subsection 6.9).

Management fund accounts. These are combined receipt and expenditure accounts established by law to facilitate accounting for and administration of intragovernmental operations of an agency. Working funds, which are a type of management fund, may be established in connection with each of the foregoing to account for advances from other agencies.

(2) Funds held by the Government in the capacity of custodian or trustee.

Trust fund accounts. These are accounts established to account for receipts which are held in trust for use in carrying out specific purposes and programs in accordance with an agreement or statute. The assets of trust funds are frequently held over a period of time and may involve such transactions as investments in revenue producing assets and the collection of revenue therefrom. Generally, trust fund accounts consist of separate receipt and expenditure accounts, but when the trust corpus is dedicated to a business-type operation, the fund entity is called a trust revolving fund and a combined receipt and expenditure account is used.

Deposit fund accounts. These are combined receipt and expenditure accounts established to account for receipts (1) held in suspense temporarily and later refunded or paid into some other fund of the Government or (2) held by the Government as banker or agent for others and paid out at the direction of the owner. Such funds are not available for paying salaries, expenses, grants, or other expenditures of the Government.

The type of funds available to an agency to finance its operations and the nature of the operations conducted are both determinants of the detailed account structure to be designed.

11.4 BASIC STRUCTURE OF ACCOUNTS

The basic structure of accounts for agency operations is as follows:

Accounts for assets
Accounts for liabilities
Accounts for investment of the U.S. Government
Accounts for investment of others (if applicable)
Accounts for revenues and costs

The specific accounts and their arrangement should be specifically adapted to each agency's fund structure to provide an adequate accounting for all resources, liabilities and obligations, expenditures, revenues, and costs.

SECTION 12--ASSETS

12.1 ASSET CONTROL

Effective procedures must be devised to provide assurance that assets are used properly and only for authorized purposes; that they do not leave the possession of the Government except under proper authorization; that adequate measures are taken for their care and preservation; and that no assets are written off, written down, or disposed of without proper authorization.

12.2 CASH RESOURCES

Cash resources of Federal agencies include fund balances with the U.S. Treasury, representing available expenditure authorizations granted by the Congress.

Procedures adopted by Federal agencies to account for and assist in providing effective control over such resources should have the following objectives.

(1) Complete, honest, and accurate accounting for all cash receipts, disbursements, and balances on hand or otherwise available for use.

(A) All receipts shall be deposited promptly, and appropriate records of all cash received shall be made immediately after receipt. The recording of cash receipts should not be deferred while they are transmitted to a depository.

(B) Disbursements shall be recorded promptly, on the basis of paid vouchers. However, if disbursing is performed by another agency, the disbursements may be recorded on an approved voucher basis, provided that the manner in which they are recorded facilitates periodic reconciliations with the central accounting records of the Treasury Department.

(C) Agency accounting records for cash transactions shall be closed as of the end of the periods for which reports are to be prepared so that all transactions, and only such transactions, consummated during those periods are included.

(D) Separate accounts for major categories of cash resources (cash on hand, cash on deposit in banks, fund balances with the U.S. Treasury, etc.), with further subdivision to disclose important restrictions on availability for use, should be maintained to facilitate proper disclosure in financial reports.

(2) Compliance with all applicable requirements imposed externally for the handling of cash resources, including specific requirements of law and related regulations.

(3) Minimizing the possibility of errors and the misuse or other irregularities involving cash resources and providing for the disclosure of errors or losses that may occur. This objective calls for:

(A) Appropriately dividing duties among officials and employees assigned responsibilities for handling and keeping records of cash transactions, to provide routine checks on performance.

(B) Establishing effective procedures for the preaudit and approval of vouchers before they are paid subject to the use of statistical sampling techniques, authorized by 31 U.S.C. 82b-1, in the examination of vouchers when determined to be in the interest of economy (see 3 GAO 44 and 7 GAO 23.4).

(C) Adequate controls to prevent duplicate payments.

(D) Supplementing the operation of established procedures with independent internal audit review into the effectiveness of the control system.

12.3 FOREIGN CURRENCIES

Cash resources in the form of foreign currencies, whether purchased with appropriated funds or acquired directly in connection with foreign program operations, are subject to the same accounting principles and standards that are applicable to domestic cash resources.

Pursuant to responsibilities assigned by the Foreign Assistance Act of 1961 (75 Stat. 443), the Secretary of the Treasury has prescribed procedures relating to the administration, including accounting and reporting, of all foreign currency assets; these procedures are to be observed by all Federal agencies and their disbursing officers. The law specifically vests in the Secretary of the Treasury the authority to prescribe exchange rates at which foreign currencies or credits are to be reported by all Government agencies.

Foreign currencies that exceed the needs of the Treasury may be, with the approval of the Office of Management and Budget, allocated to agencies for use in their programs. Foreign currency so allocated is part of the agency's fund balances maintained by the Treasury and is similar to an appropriation from the Congress. For total accountability the foreign currency should be included in the financial statements as part of the Fund Balances and Investment of the U.S. Government, with an explanatory footnote as to the use and availability of the currency: e.g., "not available for the payment of general obligations."

12.4 RECEIVABLES

Under the accrual basis of accounting, receivables representing amounts due from others are accounted for as assets from the time the acts giving rise to such claims are completed until they are collected, converted into other resources, or determined to be uncollectible. Accounting for receivables is an important form of control over agency resources in that it results in a systematic record of amounts due which must be accounted for.

Specific principles and standards to be observed in accounting for receivables follow:

(1) Amounts receivable shall be recorded accurately and promptly on completion of the acts which entitle an agency to collect amounts owed to it (billing for performance of services or sales of materials, loans or advances made, etc.).

(2) Amounts to be accounted for as receivables shall consist of the amounts actually due under contractual or other arrangements governing the transactions which result in receivables.

(3) Separate accounts for major categories of receivables should be maintained to facilitate clear and full disclosure of an agency's resources in its financial reports.

(4) Loans to others shall be accounted for as receivables only after the funds have been disbursed. Loans authorized but not disbursed should be disclosed in explanatory notes to financial reports; they should not be reported as assets with related liabilities representing obligations to make loans.

(5) Accounting records for receivables shall be maintained so that all transactions, and only such transactions, affecting the receivables for each reporting period are included.

(6) Regular estimates shall be made from time to time of the portion of amounts receivable that

may not be collectible. Such estimates shall be accounted for and disclosed separately. (Specific procedures for handling and accounting for receivables determined to be uncollectible are prescribed in title 4 of this Manual.)

(7) Receivables that are collectible in the form of foreign currency that is not freely convertible to U.S. currency are subject to the same financial reporting standard as restricted foreign currency. (See section 12.3.)

12.5 PROPERTY

(a) IMPORTANCE OF PROPERTY ACCOUNTING

The importance of adequately accounting for property held by Federal agencies stems primarily from the fact that public funds are invested in such resources. This investment creates the management need to be able to account for these resources and to use all appropriate techniques, including reliable financial information, to procure, use, and manage them properly, efficiently, and effectively. Accurate and reliable financial and quantitative information on property resources, for use by internal management and for preparing financial reports for the Congress and others, can be obtained only from a properly designed and operated system of accounts and related procedures.

(b) CONGRESSIONAL INTEREST

The importance of adequate property accounting by Federal agencies has been specifically recognized by the Congress by its enactment into law of definite requirements. These include:

National Security Act of 1947, as amended, which requires the Secretary of Defense to have property records maintained in the military departments on both a quantitative and monetary basis, so far as practicable (10 U.S.C. 2701).

Federal Property and Administrative Services Act of 1949, section 202(b) of which requires each executive agency to maintain adequate inventory controls and accountability systems for the property under its control (40 U.S.C. 483).

Public Law 84-863, approved August 1, 1956, section 2 of which imposes the requirement that the accounting system of each agency include adequate monetary property accounting records (31 U.S.C. 66a(c)).

(c) PRINCIPLES AND STANDARDS

The purpose of financial property accounting is to provide reliable and systematically maintained records of an agency's investment in property wherever located. Each agency should adopt accounting policies appropriate for its property and establish, as an integral part of its accounting system, an adequate and reliable system of records and related procedures to provide a proper accounting for the Government's investment in the property for which the agency has management responsibility.

Significant classifications of property should be established for accounting and reporting purposes to clearly disclose the nature of the Government's property assets.

The primary basis of accounting for property is its cost to the agency responsible for its management. Where incurred costs are not measurable or not known, reasonable estimates or alternative bases, such as appraised values, may be used. Where a basis other than cost is used, that basis should be adequately documented.

Property accounting for Federal agencies must include appropriate procedures for:

(1) Recording in accounts all transactions affecting the agency's investment in property, including:

(A) All acquisitions, whether by purchase, transfer from other agencies, authorized donation, or other means, as of the date the agency takes custody of the property.

(B) The use, application, or consumption of property. For long-lived property, where such information is deemed necessary (see section 12.5(h)), the cost of consumption should be accounted for as an operating cost over the property's estimated useful life through appropriate depreciation accounting techniques.

(C) All disposals or retirements when the property leaves the custody of the agency.

(2) The keeping of appropriate records of physical quantities of Government-owned property and its location. These records should be designed to be of maximum assistance in the procurement and utilization of such property, including the identification of excess property, and its use, transfer, or disposal in accordance with statutory and regulatory requirements.

(3) Independent checks on the accuracy of the accounting records through periodic physical count, weight, or other measurement.

(d) ACQUISITION COST

The basic cost of property acquired shall include the amounts paid to acquire it, including transportation, installation, and related costs of obtaining the property in the form and place to be used or managed. Easements and rights-of-way are included in the basic cost of property acquired.

Agency accounting policies should prescribe the accumulation of all significant costs applicable to property acquisitions so that agency accounts will disclose the full extent to which public funds are applied to such purposes.

Capitalization of fixed assets

Fixed assets owned or acquired by each agency shall be capitalized in its accounts in accordance with capitalization criteria which should be established as a part of its accounting policies.

Factors to be considered in establishing capitalization criteria include:

Length of useful service life.

Repetitive use.

Frequency of replacement.

Retention of identity when placed in use.

Cost (or other accounting basis if cost is not a significant amount).

Significance of improvements in terms of increases in usefulness, productivity, service life, capacity, or other values.

Such criteria should be defined in terms of identifiable units or groupings of property. In establishing identifiable property units or groupings, due consideration should be given to materiality, and it is appropriate to establish reasonable dollar minimums as a basis for excluding certain property units from capitalization. No minimums in excess of $300 should be established.

If current costs would be distorted in a given period by charging a large quantity of items which cost less than the minimum, such items should be recorded in a separate asset account and amortized over a reasonable period of time. (An example would be where a substantial amount of office furniture is purchased with a large portion involving items which individually cost less than the minimum.) The separate account established for the items which cost less than the minimum need not be supported by individual property records.

Constructed property

Management control over the cost of assets acquired by construction should be such as to assure that the cost of the work is kept within the authorized amounts and that accurate costs are recorded and transferred to the proper fixed-property accounts when the work is finished.

Accounts for the cost of facilities constructed by or for the Government should include all material elements of cost, including those for:

Engineering, architectural, and other outside services for designs, plans, specifications, and surveys.

Acquisition of land, buildings, and other facilities.

Labor, materials and supplies, and other direct charges.

An appropriate share of the equipment and facilities used in construction work.

Applicable indirect costs.

Fixed and severable collateral equipment and its installation to complete the facility for its intended use.

Inspection, supervision, and administration of construction contracts and construction work.

Legal fees and damage claims.

Fair value of contributed or donated land, facilities, utilities, labor, materials, supplies, services, and equipment.

Regardless of financing differences, these incurred costs should be accumulated as part of the cost of each project so that reliable information on total cost will be available for management and financial reporting.

Interest costs incurred by the Federal Government during construction should be capitalized as a cost in accordance with section 16.8(e) of this title.

Property acquired under installment contracts

The property should be capitalized at the time of receipt or acceptance by the Government rather than periodically as payments are made or when title passes to the Government. The amount capitalized should include the purchase price plus related costs. For example, costs incurred for site preparation, installation, and similar costs related to making the equipment ready for use, incurred separately from the installment purchase contract or separately identified for payment in the contract, should be capitalized when incurred. (See also section 13.5.)

Property acquired under lease purchase contracts

Property acquired under lease purchase contracts should be capitalized at the time the option to purchase is exercised. The amount capitalized will normally be the purchase price stipulated in the contract less any cumulative allowances. Property acquired under lease purchase contracts which are in fact installment contracts (the decision to purchase having already been made) will be treated for capitalization purposes as installment purchases. (See also section 13.5.)

Interagency transfers of property

Property transferred on a reimbursable basis shall be accounted for by the receiving agency at the transfer price as determined by agreement or application of appropriate statutory requirements or central agency regulations, but at not less than its estimated useful value.

Property transferred on a nonreimbursable basis shall be accounted for by the receiving agency at an estimated amount taking into consideration its usefulness to the agency, condition, and market value. The receiving agency shall be advised by the transferring agency of the date and amount at which the property was capitalized and the amount of accumulated depreciation. When the receiving agency's estimated amount differs from the depreciated cost reported by the transferring agency, the basis for establishing the value of the acquired property shall be clearly documented in the records.

Transportation, installation, and related costs incurred by the receiving agency (except when estimated useful value is used) shall be added to the accounting basis.

Original cost information on transferred property needed for report purposes should be a matter of record in the accounting system.

Trade-ins

The cost of property acquired as a result of trade-ins shall be recorded as the lesser of (1) the cash paid or payable, plus the amount allowed by the seller on the traded-in property, or (2) what the purchase price would have been had there been no trade-in.

Property acquired by foreclosure processes

Property acquired by foreclosure processes shall be capitalized at the lesser of (1) the appraised (or fair market) value or (2) the amount owed by the borrower plus any other costs incurred by the agency.

Property acquired by other means

Property acquired by donation, devise, forfeiture, or confiscation should be carried in agency accounts at an estimated amount representing what the Government would have been willing to pay for it, giving due consideration to usefulness to the agency, condition, and estimated market value.

Purchase discounts

In determining cost of purchased property, discounts shall be deducted from the prices billed. Such discounts are reductions of costs, representing savings achieved through payments of bills within the vendor's stipulated time limits. They are not income and shall not be accounted for as such, since they do not produce an increase in assets based on the sale of goods or the performance of services. In determining the cost of purchased property, the amount to be recorded will be net of discount, whether or not the discount is taken.

Late payment penalties

Late payment penalties are a cost of operations incurred because of the failure to make payment within the vendor's stipulated time limits. In order to make management aware of this cost, the amount of the loss shall be established in a separate account.

Handling and storage costs

Costs of handling and storage may be prorated as a part of the cost of materials and supplies before use, or accounted for separately as operating costs. The method to be followed should be determined after considering (1) the possible benefits to be gained in the form of improved management control over such operations and (2) the administrative costs.

Usage

Materials and supplies issued for use shall be charged to using activities on the basis of cost, determined by the simplest method that produces reasonable and useful measures of cost. Acceptable methods include (1) specific identification of cost of items issued, (2) cost determined on first-in, first-out assumption, (3) computed average cost, and (4) standard cost adjusted from time to time to reflect changes in actual cost.

(e) ACCOUNTING FOR CHANGES IN FIXED ASSETS

Fixed assets owned by an agency may be changed by additions, alterations, betterments, rehabilitations, or replacements. The basic principle to be observed in accounting for such changes is to capitalize the costs incurred in making such changes, where they significantly extend the useful life of property or its capacity to render service, and to remove from the property accounts the cost of features superseded or destroyed in the process.

Repair and maintenance costs incurred to keep property in satisfactory operating condition shall be accounted for as current operating costs.

Leasehold improvements

The cost of improvements (including such improvements as carpeting, space partitions, soundproofing of ceilings or walls, and alterations) which have an estimated useful life longer than 1 year and are made to leased properties or to occupied properties owned by another Government agency should be capitalized.

Leasehold improvements should be depreciated either over the estimated period of occupancy or the life of the improvement, whichever is less. (See subsection 12.5(h).)

Retirements and transfers

The cost or other basis for accounting for property retired from service, whether by sale, reimbursable transfer to another agency, dismantlement, destruction, or other means, shall be removed from the accounts along with any depreciation that has been accumulated in the accounts. Removal costs and amounts realized from sale, reimbursable transfer, or other salvage should be considered in determining the loss or gain on the retirement.

The book value of property transferred to other agencies without reimbursement shall be accounted for as a reduction of the investment of the U.S. Government in the agency's assets.

Property retired from service but not immediately disposed of should be classified separately to disclose its status.

(f) ACCOUNTING FOR PROPERTY OF OTHERS

Adequate records shall be maintained for seized property or other property held in the custody of an agency but not owned. The system of procedures employed shall provide adequate records of the agency's accountability for such property, including its receipt, custody, and disposition in accordance with the agency's responsibilities.

The system of records used to account for such property may be integrated into the financial accounting system in conformity with the principles prescribed for owned property, if deemed necessary or desirable to achieve effective control over it. However, this procedure is not mandatory if effective control can be achieved by other means.

(g) PHYSICAL INVENTORIES

Physical inventories of both expendable materials and supplies and fixed assets shall be taken at regular intervals. This procedure is necessary as a check on the effectiveness of the accounting procedures to provide adequate and accurate information on all significant changes in the investment in property assets.

The frequency of physical inventories, which may be taken on a cycle basis over a period of time, should be determined on the basis of such factors as nature and value of property; physical security and control procedures relating to receipt, issuance, and custody; turnover; and results of previous inventories.

Differences between quantities determined by physical inspection and those shown in the accounting records shall be investigated to determine the causes of difference and identify necessary improvements in procedures to prevent errors, losses, or irregularities. Accounting records shall be brought into agreement with the results of physical inventories.

(h) DEPRECIATION

A basic responsibility of agency management is to fully and fairly account for all resources entrusted to or acquired by the agency. This responsibility extends to the consumption of those resources through use in carrying out operations and is just as applicable to long-lived physical facilities as it is to expendable materials.

Basic principles

Depreciation as an element of cost is an estimate of the portion of the total cost of a long-lived capital asset consumed through use, approaching obsolescence, or having other reason to be assigned as a cost of operation or performance over its estimated useful life.

Accounting for depreciation as a cost is an integral part of the accrual basis of accounting. The purpose of accounting for depreciation (or amortization of cost) of long-lived capital assets is to systematically allocate their cost over the period of their estimated usefulness or capacity to render service so that all significant costs will be included in total costs of performance reported to management officials, the Congress, and the public.

Although depreciation is not represented by current expenditures of funds and although there is no precise way to arrive at an accurate measure of depreciation as a current cost, it is nonetheless a real cost. However, the activities of the Federal Government are so varied that a uniform requirement to account for depreciation of capital assets cannot be justified.

Procedures shall be adopted by each agency to account for depreciation (or amortization of cost) of capital assets whenever need arises for a periodic determination of the cost of all resources consumed in performing services. This information is needed when:

(1) The financial results of operations, in terms of costs of performance in relation to revenues earned, if any, are to be fully disclosed in financial reports.

(2) Amounts to be collected in reimbursement for services performed are to be determined on the basis of the full cost of performance pursuant to legal requirements or administrative policy.

(3) Investment in fixed-property assets used is substantial and there is a need to assemble total costs to assist management and other officials in making cost comparisons, evaluating performance, and devising future plans.

(4) Total cost of property constructed by an agency is needed to determine the amount to be capitalized.

Costs to be written off

When depreciation is to be accounted for, agency accounting policies shall provide for writing off the costs of all capitalized assets acquired and used over the estimated period of their usefulness. The amounts to be written off shall be reduced by reasonable estimates of realizable salvage values at the end of this period, particularly in the case of costs associated with land.

Estimates of useful life

The period of usefulness selected for writing off costs of capital assets should be estimated with due regard to available information on physical life; technological, social, and economic forces; and any other factors having a bearing on the probable service period of the facilities. Difficulty in estimating probable useful life of assets is not a valid reason for not accounting for depreciation as a cost.

The maximum period to be used in the Federal Government for depreciation-accounting purposes is 100 years.

The periods selected should be reviewed from time to time and improved estimates, which become possible with experience and time, should be made.

Depreciation methods

No specific method of estimating depreciation is prescribed. Undue precision and detail in maintaining depreciation-accounting records should be avoided, and simple procedures shall be devised.

Disclosure of depreciation methods

The depreciation method(s) used may have a significant effect on the financial position and results of operations. Accordingly, the financial statements or the notes thereto should contain a general description of the method(s) used in computing depreciation of major classes of depreciable assets.

12.6 ADVANCES AND PREPAYMENTS

Advances and prepayments for travel, construction contracts, grants, and other purposes shall be recorded as assets. When performance occurs, the accrued expenditure shall be recorded and the asset account reduced accordingly.

SECTION 13--LIABILITIES

13.1 NATURE

Under the accrual basis of accounting, liabilities represent amounts payable to others, usually as a result of the receipt of funds, property, or services.

In contrast, obligations in Federal accounting represent agreements or orders to acquire materials or services or to make payments under certain conditions (such as loans, grants, subsidies, and contributions). For purposes of Federal agency accounting, the Congress has specifically prescribed the kinds of transactions that may be recorded and reported as obligations of the Government of the United States. (See also section 10.)

13.2 PRINCIPLES AND STANDARDS

Specific principles and standards to be observed in accounting for liabilities follow.

(1) All liabilities relating to programs conducted by Federal agencies shall be measured and recorded in agency accounts in the period in which they are incurred and they shall be removed from the accounts in the period in which they are liquidated, so that the financial position of each agency may be fully and properly disclosed in agency reports.

(2) Amounts to be recorded as liabilities shall represent the amounts owed (in payments to be made or goods and services to be furnished) under contractual or other arrangements.

(3) Incurred liabilities shall be accounted for and reported irrespective of whether funds are available or authorized for their payment.

(4) Each agency shall maintain separate accounts for major categories of its liabilities to facilitate their clear and full disclosure. These accounts shall provide for separate identification of funded and unfunded liabilities and intragovernmental and other liabilities.

(5) Accounting records shall be maintained so that all transactions relating to liabilities are included as of the accounting period.

13.3 CONTINGENT LIABILITIES

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an agency that will ultimately be resolved when one or more future events occur or fail to occur.

Examples of loss contingencies are:

1. Collectibility of receivables.

2. Risk of loss or damage of agency property by fire, explosion, or other hazards.

3. Pending or threatened litigation.

4. Actual or possible claims and assessments.

5. Guarantees of indebtedness of others.

6. Agreements to repurchase receivables or the related property that has been sold.

A loss contingency may be recognized by either recording the accrual in the accounts or by disclosing the contingency in a footnote to the financial statements. Some costs are recognized as expenses on the basis of a presumed direct association with specific revenue, and recognizing them as expenses accompanies recognition of the revenue.

An estimated loss from contingency shall be accrued as an expense if <u>both</u> of the following conditions are met:

1. Information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

2. The amount of loss can be reasonably estimated.

If no accrual is made for a contingency because one or both of the conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss may be incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.

Appropriate records of contingent liabilities shall be maintained as part of the accounting system. Material amounts of such liabilities shall be fully disclosed and explained in financial reports.

13.4 LIABILITIES DETERMINED ON AN ACTUARIAL BASIS

The accounts and financial reports on Federal insurance, pension, and similar programs, involving the incurrence of liabilities which require measurement on an actuarial basis, shall clearly disclose the full current costs of these programs as they accrue and the estimated liability at any given time to make future payments, regardless of the degree to which funds have been appropriated or otherwise obtained to make such payments.

13.5 LIABILITIES UNDER INSTALLMENT OR LEASE-PURCHASE CONTRACTS

The purchase price included in installment or lease-purchase contracts, which are in substance installment purchases, shall be recorded as a liability when the property is received or accepted from the contractor. For lease-purchase contracts, the purchase price shall be recorded as a liability when the option to purchase is exercised.

13.6 LIABILITIES UNDER CONTRACT WORK

Under some contracts, such as when a contractor builds facilities or manufactures goods or equipment to the Government's specifications, the liability is incurred while work is performed, rather than when deliveries are made. Under such circumstances, (1) materials or services being acquired shall be recorded as accrued expenditures on the basis of reported work performance, rather than when delivery is made, invoices are received, or disbursements are made, and (2) a related liability shall be recognized. Whenever agencies find it impractical to record unbilled contractor performance, they may record documented transactions only. (See section 9.2.)

Payments in the form of advances to contractors not directly related to performance shall be accounted for as advances for materials and services to be received, rather than as materials and services received.

13.7 LIABILITIES UNDER WORKING-FUND ADVANCES

When materials or services are sold to other agencies and financed through the use of working-fund advances, the performing agency shall account for the amounts advanced as liabilities until performance occurs.

Correspondingly, the advancing agency shall account for the amounts advanced as advances until performance occurs.

13.8 ACCRUED LIABILITIES FOR EMPLOYEES' LEAVE

See section 16.8(a).

13.9 LIABILITY FOR ACCRUED ANNUAL LEAVE IN REVOLVING FUNDS

Agencies shall separate funded from unfunded accrued annual leave liability in their revolving fund accounts.

SECTION 14--INVESTMENT OF THE U.S. GOVERNMENT

14.1 COMPOSITION

The investment of the United States in the assets of a Federal agency or activity consists of the residual equity of the Government after accounting for all known liabilities and investments or equities of others.

The major elements comprising the investment of the United States are:

Additions to investment:

Congressional appropriations

Borrowings from the U.S. Treasury

Property and services obtained from other Federal agencies without reimbursement

Donations received

Accumulated net income from operations

Reductions of investment:

Funds returned to U.S. Treasury

Property transferred to other Federal agencies without reimbursement

Accumulated net loss from operations

These major elements of the Federal investment shall be separately accounted for and disclosed in financial reports. Major changes for each fiscal period should be summarized in separate financial schedules.

14.2 CONGRESSIONAL APPROPRIATIONS

Appropriate accounts shall be maintained to provide a clear showing of the status of all appropriations in terms of apportionments, allotments, obligations, disbursements and collections, and accrued expenditures, revenues, and reimbursements.

14.3 BORROWINGS FROM THE U.S. TREASURY

Where authority exists to obtain funds from the U.S. Treasury by borrowing, the amounts obtained shall be classified as a part of the Federal investment until repaid or otherwise liquidated.

14.4 PROPERTY AND SERVICES TRANSFERRED BETWEEN FEDERAL AGENCIES WITHOUT REIMBURSEMENT

Property and services received from other agencies without reimbursement shall be accounted for as an increase in the Federal investment in the assets of the agency. Similarly, transfers of property to other agencies without reimbursement shall be accounted for as a reduction of the Federal investment. (See also section 12.5(d).)

14.5 DONATIONS

Donations are contributions of cash, services, or property from States, municipal or other local governmental units, individuals, and others. For valuing other than cash donations, see section 12.5(d).

14.6 ACCUMULATED NET INCOME (OR LOSS) FROM OPERATIONS

This element of the Federal investment is mainly applicable to revenue-producing, business-type activities and represents the excess of revenues from operations over applicable expenses (or vice versa).

Net income shall reflect all costs of operations and revenues earned during the reporting period with the exception of prior-period adjustments. However, extraordinary items shall be shown separately from the results of ordinary items on the statements of operations. Direct charges to accumulated net income shall be restricted to distributions of income to the U.S. Treasury and prior-period adjustments.

SECTION 15--REVENUES

15.1 NATURE

Revenues represent the increase in assets (or decrease in liabilities) which result from operations. Revenues result from (1) services performed by the Government, (2) goods and other tangible property delivered to purchasers, and (3) amounts becoming owed to the Government for which no current performance by the Government is required.

Contingencies that <u>might</u> result in gains should not be recorded in the accounts since to do so would recognize revenue prior to its realization. Contingencies that might result in gains should be carefully explained in financial statements.

15.2 CONTROL OBJECTIVES

A specific objective of a Federal agency's system of control should be to provide all reasonable assurance that the revenues applicable to the agency's operations or its assets are collected or otherwise accounted for. Accounting procedures for revenues should be devised to assist in attaining this objective.

Adequate control over revenues includes (1) effectively recording all revenues to which the agency is entitled as soon as they are earned and (2) collecting such revenues as promptly as possible.

15.3 THE ACCRUAL BASIS OF ACCOUNTING

It is a general requirement that agency accounting systems shall provide for recording revenue transactions in accounting records as earned so as to provide official records of (1) the amounts to be collected or otherwise accounted for and (2) the revenue-producing operations of the agency in support of financial reports. In addition, the accounting system should provide classifications according to the types of revenues earned.

Agency accounting policies should establish the point when the revenues become realizable, with reasonably practicable certainty, in terms of valid claims against the persons or organizations receiving the goods or services.

Amounts received in advance of performance should be accounted for as liabilities until revenues are earned on the basis of performance.

SECTION 16--COSTS

16.1 NATURE AND IMPORTANCE OF COST INFORMATION

The term "cost" refers to the financial measure of resources consumed in accomplishing a specified purpose, such as performing a service, carrying out an activity, or completing a unit of work or a specific project.

Cost information provides a common financial denominator for the measurement and evaluation of efficiency and economy in terms of resources used in performance.

The production and reporting of significant cost information are essential ingredients of effective financial management. Such information must be available to agency management officials, the Office of Management and Budget, and the Congress for devising and approving realistic future financial plans (budgeting). It is needed in making meaningful comparisons and in keeping costs within limits established by law, regulation, or agency management policies.

Congressional policy, as expressed in law, calls for the use of cost information in budgeting and in the management of operations. Public Law 84-863 (31 U.S.C. 24) specifically provides for the use of cost-based budgets in developing requests to the Office of Management and Budget for appropriations, at such times as may be determined by the President. This law also provides that, for purposes of administration and operations, such cost-based budgets shall be used by all departments and establishments and their subordinate units and that administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

16.2 USE OF COST INFORMATION FOR CONTROL PURPOSES

The availability of reliable cost information, particularly when related to assignments of management responsibility, is also of great value in promoting in responsible officials and employees desirable attitudes of cost consciousness which are so important to conducting operations economically.

Every expenditure should be conceived as a cost of some essential, planned activity. Because costs furnish important measures of performance, they deserve the unremitting attention of management officials. To facilitate comparison as well as control, the classification of planned and actual costs must follow a like pattern.

Costs of approved programs can most readily be kept within legal as well as administratively imposed limits if the individual in charge of each activity is made responsible (within limits fixed by higher authority) for the controllable costs to be incurred because of the activity. Under this procedure, costs can, in most instances, be related to individual decisions.

This procedure requires the development and approval of a carefully devised financial plan based on the estimated cost of the objectives to be accomplished. Under such a plan, appropriate control devices fitted to the particular undertaking (such as approved rates of expenditures and control over size of staff) can be developed. Current adjustments, based upon frequent reviews of operating plans, can be made, and cost of performance can be evaluated in terms of accomplishments from period to period. Successful financial control requires clearly defined authorizations and limitations under which responsible persons can be held accountable.

Efficient use of resources is a management responsibility. The use of cost information to achieve this objective places positive emphasis on the receipt of value for resources used. In turn, this emphasis results in giving greater prominence to cost aspects in the planning of operations, as opposed to placing exclusive emphasis on not exceeding budgetary authorizations with a resulting lack of emphasis on value received.

16.3 GENERAL REQUIREMENT AS TO COST DATA

Because of the importance of cost data to good management and the emphasis placed on its use by the Congress in enacting Public Law 84-863, Federal agency accounting systems must produce appropriate data on the cost of carrying out operations.

16.4 ACCOUNTING FOR COSTS

Cost accounting is that part of an accounting system devised to systematically measure and assemble all significant elements of cost incurred in accomplishing a specific purpose, carrying out an activity or operation, or completing a unit of work or a specific job.

Agency accounting systems shall incorporate appropriate cost accounting techniques so that needed cost information will be produced for management and reporting purposes.

Accounting for costs is essential for implementing cost-based budgets. It is required where reimbursement for services performed is to be at cost or where sales prices are primarily based on cost. Adequate cost accounting is also required where full recovery of cost from customers or users of services is a statutory requirement.

To meet the statutory objectives of (1) full disclosure of the financial results of agency activities, (2) production of adequate financial information for agency management purposes, and (3) support of budget justifications with performance and program cost data, the accounting system must provide for the systematic accumulation of cost information by:

(1) Major organization segments.

(2) Budget activities.

(3) Program structure.

Cost data by program classifications may be obtained from either the accounts or by appropriate cost-analysis techniques in circumstances where the maintenance of detailed account classifications for this purpose would not be justified.

The extent to which more detailed cost information by operational cost centers, projects, or units of work or end products should be accumulated must be determined by each agency, considering its operations and the uses to be made of the data in controlling costs and in evaluating the cost of performance by responsible officials.

However, in devising cost information systems, cost accounting techniques should be integrated into each accounting system only to the extent that the value of the data produced, in terms of its usefulness, outweighs the cost of producing it.

Cost accounting techniques should include, whenever appropriate and feasible, the production of quantity data relating to performance or output so as to make it possible to compare costs of performance to accomplishments and to disclose unit cost information. Such information can be of great value in setting performance standards and managing current performance.

Other factors requiring consideration are:

(1) Any unqualified representation of cost implies that all significant elements of cost, in terms of financial, property, and personnel resources consumed in carrying out a given purpose, are included in the amount reported as total cost. Such factors as (a) differences in methods of financing the resources used, (b) prescribed requirements for obtaining reimbursement or setting prices for sales of goods or services, and (c) administrative policies relating to budgeting, accounting, and financial reporting do not constitute valid bases for excluding items of cost that are otherwise applicable.

The cost accounting system should provide for the accumulation of information on all significant elements of cost. If any elements are omitted, the cost report should disclose the nature and estimated amounts of the omissions and the reasons for them, so that users of the information will not be misled.

The system shall also distinguish costs financed by the agency's appropriations and funds from other costs.

(2) Cost data provided for management and congressional use must be reasonably reliable to be valid in making evaluations or decisions. At the same time, unnecessary precision and refinement of such data should be avoided.

(3) Cost reports prepared for internal management control purposes must be carefully designed to disclose cost information that is consistent with assignments of responsibility. Proper evaluations of cost of performance by areas of responsibility can be made only for costs that are controllable by the person being held accountable. For this reason, agency accounting practices for allocating indirect costs must be devised with care to avoid producing cost data that obscures the total costs for which responsible managers should be held accountable.

(4) Costs assigned to a given organization or purpose should not be limited to those financed by the agency. If significant elements of cost are applicable but paid or financed through other funds or agencies, provision should be made to include estimates of such costs. (See section 16.8(d).)

16.5 COST CLASSIFICATIONS

The accounting system should classify costs according to (1) acquisition of assets and (2) current expenses. In addition to meeting this requirement and satisfying the need for accumulating costs by areas of management responsibility, budget programs, activities, projects, or units of work, the accounting system should provide classifications according to the kinds of costs incurred, such as labor, materials, and contractor services.

The latter classifications should be determined in accordance with internal management needs and may vary according to the type of program, project, or activity being conducted. The amount of detail will depend upon what is necessary for planning, controlling, and appraising the efficiency of operations. The development of such data, however, should also recognize the need for providing accounting support for the analyses, by object classification, that are required in the budget process.

16.6 COST-FINDING TECHNIQUES

Cost-finding techniques involve the production of cost data by analytical or sampling methods rather than on the basis of formal cost accounts which are correlated with controlling accounts in the general accounting system.

Because of the complexities of some Government operations, it is sometimes just as satisfactory, as well as more economical, to use cost-finding techniques rather than cost accounting procedures to produce cost data needed for special purposes.

16.7 PAYROLL SYSTEMS

Principles, standards, and related requirements pertaining specifically to civilian and military pay systems are presented in title 6 of this Manual.

16.8 ACCOUNTING FOR SPECIFIC ELEMENTS OF COSTS

(a) LEAVE COSTS

When employees accrue rights to take leave with pay in the future, the Government incurs a current-cost and a liability measured by the salary cost of time that may be taken on leave.

As a minimum requirement, Federal agencies shall accrue in their accounts and disclose in their financial reports the cost and related liability for accrued annual leave as of the close of each fiscal year, regardless of whether funds have been made available to pay for such leave. Net increases or decreases in such cost should be classified as an operating cost for the year, at least at the appropriation level, in agency financial reports.

Unless specifically required by law, there is no requirement to accrue the cost of other forms of leave and record it as a liability as it is earned. When complete cost information for specific periods of time is needed for management purposes (such as determining costs to be reimbursed for services rendered, making cost comparisons, and developing greater cost consciousness within an agency), more refined techniques for accruing the cost of the various forms of leave should be incorporated in agency accounting systems.

(b) DEPRECIATION

The cost of consumption of long-lived property applicable to a given fiscal period or activity is measured by depreciation-accounting techniques.

The activities carried on in the Federal Government are so varied in nature, and the related needs for cost information are so diverse, that the prescribing of a uniform requirement to account for depreciation of long-lived property in the Federal Government cannot be justified.

However, in specific circumstances, this cost is of significance and should be accounted for and included in reports containing cost information. The principal circumstances in which depreciation should be accounted for are stated in section 12.5(h).

(c) GRANTS

Definition

Except as otherwise expressly authorized by law, Federal grants are payments in cash or in kind made to provide assistance for specified purposes.

The acceptance of a grant from the United States creates a legal duty on the part of the grantee to use the funds or property made available in accordance with the conditions of the grant. Grant payments may be made in advance of work performed or as a reimbursement for work performed or costs incurred by grantees.

The United States generally has a reversionary interest in the unused balances of advance payment grants, in any funds improperly applied whether received as an advance or a reimbursable payment, and in property or facilities purchased or otherwise made available under the conditions of the grants, unless title thereto is specifically vested unconditionally in the grantee by the terms of the grant under authority of law.

Responsibility of grantor agency

The grantor department or agency is responsible for seeing that:

Grants are applied solely in accordance with the conditions of the grants.

Unused balances of grants, including funds improperly applied, are returned to the United States.

Property or facilities purchased with such funds, or otherwise made available, are utilized and disposed of in accordance with the terms of the grant or other instructions of the grantor agency.

Advance payments made to grantees under the terms of the grants do not exceed the current or revised needs of grantees.

Accounting and reporting

Accounting for grants shall include all aspects of grant transactions, from approval of the proposed grants to final action by the grantees and grantors.

Accounting for a grant begins with the execution of an agreement or the approval of an application or similar document in which the amount and purposes of the grant, the performance periods, the obligations of the parties to the grant, and other applicable basic terms are set out. This action establishes a commitment of funds, and the agreement, application, or similar document is the obligating instrument, provided that the United States is bound thereunder to disburse the grant funds either unconditionally or under conditions solely within the control of the grantee.

Payments to grantees in advance of work performed shall be accounted for as advances of the grantor agencies until evidence of performance has been received from the grantees.

Payments to grantees as reimbursement for work performed or costs incurred shall be accounted for as reductions of liabilities to pay for such work or costs.

Payments to grantees, when no performance or reporting is required or when the payments are scheduled to correspond approximately with performance, shall be accounted for as liquidations of the obligations and as costs incurred.

Reports under advance payment grants shall be required of grantees at reasonably frequent periods and must show, as a minimum, how the funds or property were applied, details of the property acquired, and unused fund balances. Upon acceptance by the grantor agencies, such reports shall be used as the bases for liquidating obligations, reducing advance accounts, and making charges to appropriate cost and property accounts.

Reports under reimbursable grants shall also be required at reasonably frequent periods and used as support for recording the agency liability for costs incurred and for liquidating the obligation under the grant.

Estimates may be used where necessary for monthly reporting purposes.

When title to grantee-acquired property vests in the Government, appropriate property records shall be established.

At termination of a grant, unused and improperly applied funds shall be collected by the grantor agency, appropriately adjusted by offset, or otherwise utilized in accordance with the conditions of the grant, and arrangements shall be made for disposition of Government-owned property.

(d) COSTS INCURRED AND PAID BY OTHER AGENCIES

Some costs applicable to an individual agency's activities are financed by other agencies which are primarily responsible for carrying out the functions which result in such costs.

Each agency shall adopt accounting procedures to incorporate these costs into its accounting system whenever periodic determinations of total costs of performance are needed and the amounts of the costs incurred and paid by other agencies are determined to be significant in relation to the total costs of the performing agency, activity, or operation.

The principal circumstances in which such periodic determinations of total costs are needed are the same as those listed in section 12.5(h).

Reasonable estimates of costs incurred and paid by other agencies, based on information obtained from the performing agency rather than on precise and detailed measurements, should be used. Performing agencies should not be requested to provide needless and burdensome detail of these estimated costs, which should be separately identified in agency financial reports.

(e) INTEREST

Interest is a cost generally applicable to all Federal Government expenditures. This concept is based on the fact that the Government's disbursements are made from a single pool of funds in the Federal Treasury which are not earmarked as to source or use. If funds disbursed for any given purpose had not been so disbursed, they could have been applied to repay or reduce borrowings, with a consequent savings in interest costs.

Interest as a cost when required to be paid

For agency programs or activities financed by advances or borrowings from the Treasury on which interest is required by law to be paid, the interest costs incurred and paid shall be accounted for in the same manner as any other costs which are paid by the agency.

If the interest required to be paid by an agency is significantly less than the interest cost to the Treasury, the difference should be accounted for as an additional interest cost in accordance with the same principles as those applicable to agency programs to which significant interest costs apply but are not required by law to be paid.

Interest as a cost when not required to be paid

Where there is no requirement to pay the interest costs on the Government's investment and an agency is engaged in the performance of services or sale of property outside the Government for revenues, a determination should be made as to the significance of such costs. When they are significant in relation to the financial results of operation otherwise determined, their omission from the financial statements results in incomplete disclosure of the costs of performance and of the net financial results.

In such circumstances, and when an interest factor is included in revenues obtained from sales made or services rendered, the interest costs should be determined and included in the accounts or reported in footnotes to the financial statements.

(1) The interest cost for each year should be determined on the net Federal investment in the program or activity at the beginning of the year and on the net additions to such investment during the year. Accumulated net income or deficit should not be included in the interest base.

(2) The rate of interest to be used should be one which the Secretary of the Treasury annually determines to be representative of the cost to the Treasury for borrowing for such investments. If the United States has outstanding marketable obligations with maturities reasonably comparable to the estimated period for which the Federal funds are invested, the Secretary should consider the average yields on such obligations in determining the interest rates.

It is not necessary that agencies performing services or producing products mainly for use within the Government include interest in their accounts or disclose it as a cost in their financial statements. However, cost data for such activities used in making comparisons for purposes of management decisions (such as on make-or-buy alternatives) should include an interest factor, whether or not recorded in the accounts.

(f) LOSSES

All realized gains or losses on exchange transactions, representing differences between values received and the investment in materials or services exchanged, shall be clearly disclosed in agency accounts and in financial reports on operations.

Other losses which have been actually incurred or which may be reasonably expected to occur on the basis of events transpiring during the accounting period shall be recognized in agency accounts and disclosed in financial reports based thereon. The amounts of such losses should be determined or estimated by the management from the best information available.

(g) NONRECURRING COSTS OR LOSSES

Separate accounts shall be maintained for unusual costs or losses of a nonrecurring nature which are substantial in amount. Such costs or losses should be separately classified in operating statements so as to clearly disclose their occurrence and nature.

SECTION 17--FINANCIAL REPORTING

17.1 BASIC REQUIREMENTS

Federal agency accounting systems shall be designed to enable the prompt preparation of all needed financial reports. Financial reports should be prepared to clearly disclose significant financial facts about agency operations and activities. They should be prepared and issued as often as necessary to be of maximum use to management officials and to meet prescribed external requirements.

Generally the reports should be prepared to cover --or be issued as of the end of--accounting periods of 4 weeks or a calendar month.

17.2 TYPE AND CONTENT OF FINANCIAL REPORTS

Reports required of and prepared by each agency will necessarily vary with the purposes to be served. The data required for external reports will ordinarily call for less detailed information, and perhaps reported less frequently, than the data needed by the agency for its own internal reports. Both external and internal reports should ordinarily be prepared from the same-source data and should be in agreement.

Financial reports to be prepared include:

External reports required by control agencies and others.

Internal reports useful to agency management. Basic internal reports required will be (1) statements of assets and liabilities and (2) statements of operations of an agency's programs and activities.

(a) FINANCIAL POSITION

All agencies should prepare statements of assets and liabilities relating to their programs or activities. Such statements should disclose the bases on which major categories of assets are accounted for and reported, the nature of any significant restrictions on use of assets, the amount and nature of significant contingent liabilities, and such explanatory information on the assets and liabilities as is necessary to fully and clearly disclose the financial position of the entity.

(b) RESULTS OF OPERATIONS

Agencies carrying on business-type activities should prepare statements of operations disclosing revenues and costs.

Applicable costs incurred to produce revenues from sales of materials or services should be compared or matched with the amount of such revenues in preparing financial reports on revenue-producing operations. The difference between revenues and applicable costs and expenses represents the financial results of these operations as measured by the increase or decrease in the net assets of the agency or activity.

Other agencies should prepare statements showing revenues classified by source and applied costs, by budget activities, or by some other meaningful basis which is useful for management purposes.

(c) SOURCES AND APPLICATION OF FUNDS

Statements of financial position and results of operations should be accompanied by statements of sources and application of funds. For Federal activities, these statements should be presented on a gross basis (i.e., all significant sources of funds should be shown as such rather than being netted against selected applications of funds).

(d) STATUS OF APPROPRIATIONS

Agencies financed from appropriations or similar authorizations should prepare periodic reports on the status of such authorizations in accordance with prescribed requirements of the Office of Management and Budget.

(e) REPORTING ON INDIVIDUAL FUNDS

Separate statements should be prepared for each fund, such as each revolving fund or each trust fund. In addition, combined or consolidated statements covering two or more funds should be prepared if such statements will throw further light on the financial condition or financial operations of the agency.

(f) ADDITIONAL REPORTS

Specially designed additional reports should be prepared to disclose fully the financial aspects of each agency's operations. In addition, special financial reports required by the Congress, its committees, or the central agencies of the Federal Government should be prepared in accordance with prescribed instructions.

17.3 REPORTING STANDARDS

Four general categories of standards are applicable to the preparation of financial reports in the Federal Government:

(1) Fairness of presentation

(2) Compliance with prescribed requirements

(3) Timeliness

(4) Usefulness

(a) FAIRNESS OF PRESENTATION

Fairness of presentation of financial reports refers to their overall propriety in disclosing financial information. Disclosure is the process of communication by which information on financial status, flow of funds, and financial results of operations relating to the activities conducted and the funds administered by an agency is made known.

Full disclosure of the financial results of operations is one of the primary objectives of Federal agency accounting prescribed by the Congress in enacting the Budget and Accounting Procedures Act of 1950.

Achievement of fair presentation through full disclosure in financial reports requires observance of the following standards:

(1) Completeness and clarity

All essential financial facts relating to the scope and purpose of each report and the period of time involved shall be included and clearly displayed.

(2) Accuracy, reliability, and truthfulness

All financial data presented shall be accurate, reliable, and truthful. The requirement for accuracy does not rule out the inclusion of reasonable estimates when the making of precise measurements is impracticable, uneconomical, unnecessary, or conducive to delay. All appropriate steps should be taken to avoid bias, obscurement of significant facts, and presentation of misleading information.

(3) Accounting support

Financial reports shall be based on official records maintained under an adequate accounting system that produces information objectively disclosing the financial aspects of all events or transactions taking place. Where financial data or reports based on sources other than the accounting system are presented, their basis should be clearly explained.

(4) Excluded costs

If significant amounts of costs applicable to an activity for which a statement of operations is being presented are excluded by reason of their being financed by other agencies or funds, such exclusions shall be clearly explained in accompanying notes along with estimates of the amounts involved.

(5) Form, content, and arrangement

The form, content, and arrangement of each report shall be as simple as possible and designed to clearly communicate significant financial information to the users of the report.

(6) Extent of detail

The amount of detailed information shown, including explanatory notes as to unusual items, graphic presentations where appropriate, and accompanying interpretative comment, shall be sufficient to provide a clear and complete report. However, unnecessary detail shall be avoided, particularly where the effect of its inclusion would be to obscure significant financial data.

(7) Performance under limitations

Financial performance in relation to statutory or other limitations prescribed by higher authority shall be specifically reported.

(8) Consistency

The financial data reported shall be derived from accounts that are maintained in all material respects on a consistent basis from period to period; material changes in accounting policies or methods and their effect shall be clearly explained.

(9) Terminology

Consistent and nontechnical terminology shall be used in financial reports to promote clarity and usefulness.

(b) COMPLIANCE WITH PRESCRIBED REQUIREMENTS

Financial reports prepared by Federal agencies must comply with:

1. The specific requirements of applicable laws and regulations as to nature, accounting basis, content, frequency, and distribution.

2. All applicable restrictions pertaining to information that is classified for national security purposes.

Such reports should be based on official accounting records that are maintained in accordance with principles, standards, and related requirements for accounting prescribed by the Comptroller General.

(c) TIMELINESS

All needed reports must be produced promptly to be of maximum usefulness. Reports should not be delayed, and cost and effort should not be incurred to produce relatively minor refinements of data.

(d) USEFULNESS

Financial reports should be carefully designed to present information that is needed by and useful to the persons to whom the reports are sent. The preparation and distribution of reports that are unnecessary, not useful, or excessively detailed should be avoided, as this causes an unnecessary expenditure of public funds.

The basic pattern followed in the preparation and submission of internal financial reports should conform to assignments of responsibility to organizational units.

Each agency's financial reporting policies and practices should be reviewed from time to time to insure that they properly reflect changes in organization, programs or activities, and assignments of responsibility. Financial reports should also be reviewed from time to time to determine the continued usefulness of and necessity for preparing the reports.

SECTION 18--TREASURY DEPARTMENT CENTRAL ACCOUNTING AND FINANCIAL REPORTING

The system of central accounts maintained by the Treasury Department to comply with statutory requirements for central accounting and the production of overall financial reports for the Federal Government shall be consistent with the overall principles, standards, and related requirements for accounting prescribed by the Comptroller General. Except for financial transactions handled directly by the Treasury, such accounts shall be maintained on the basis of financial information reported by other Federal agencies.

The Treasury Department will obtain from each agency such reports and information relating to financial condition and operations as the Treasury Department may require for the effective performance of its responsibilities of central financial reporting. Federal agency accounts relating to cash and other financial transactions shall be maintained in such manner to facilitate the prompt and accurate preparation of reports required by the Treasury.

Reports prepared by the Treasury Department for the information of the President, the Congress, and the public will present the results of the financial operations of the Government and will include such financial data as the Director of the Office of Management and Budget may require.

CHAPTER 3--REVIEW AND APPROVAL OF AGENCY ACCOUNTING SYSTEMS

SECTION 25--RESPONSIBILITY OF AGENCY HEADS FOR ACCOUNTING SYSTEMS

Section 113 of the Budget and Accounting Procedures Act of 1950 specifies that the head of each executive agency is responsible for establishing and maintaining systems of accounting and internal control which conform to the principles, standards, and related requirements prescribed by the Comptroller General.

SECTION 26--REQUIREMENT FOR APPROVAL

Section 112(b) of the Budget and Accounting Procedures Act of 1950 requires that executive agency accounting systems and the central accounting system of the Treasury Department be approved by the Comptroller General, when deemed by him to be adequate and in conformity with the principles, standards, and related requirements prescribed by him.

The accounting systems of all executive agencies are subject to approval by the Comptroller General, except those of corporations or agencies subject to the Government Corporation Control Act (59 Stat. 597) and similar laws.

SECTION 27--IMPROVEMENT OF ACCOUNTING SYSTEMS

27.1 NEED FOR OVERALL PLAN

As an integral part of its total financial management system, each agency must devise an accounting system which conforms, in all material respects, with prescribed principles, standards, and related requirements.

Each agency should develop an overall plan for a financial management system which will satisfy the requirements of its management, applicable laws and regulations, and the accounting principles and standards prescribed by the Comptroller General. Such a plan, which should be devised before undertaking major systems development work, can serve as the framework for the subsequent development of specific parts of the system.

It is important that all financial management improvement projects be developed within the concepts and objectives of the overall plan. This will insure adherence to established objectives and compatibility of results and will prevent extensive revisions to policies and procedures, which are likely to result when individual projects are pursued independently of an overall plan.

The head of each executive agency is responsible for bringing about the necessary improvements in the accounting systems within his agency so that they may be approved.

27.2 GENERAL ACCOUNTING OFFICE ASSISTANCE

Representatives of the General Accounting Office will cooperate with the agencies in the development and improvement of their accounting systems. Cooperative assistance will include (1) discussing problem areas and working with agency staffs in their solution, (2) informally reviewing drafts of accounting principles and standards or system designs, (3) providing technical advice and suggestions when appropriate, and (4) identifying specific areas in which improvements are believed to be needed.

The cooperative assistance of the General Accounting Office, to be effective, must be on the basis of a joint effort with the agencies. A good working relationship throughout all stages of accounting system development facilitates timely identification and resolution of issues and provides the best assurance that the agency's principles and standards or system design will be approved.

To further assist agencies in improving their financial management through better accounting, GAO representatives will provide cooperative assistance in the implementation of approved systems design, including their automation, upon request and to the extent staff resources permit.

27.3 STAGES OF SYSTEM DEVELOPMENT

Approval by the Comptroller General of agency accounting systems will be requested in two stages.

1. Statements of principles and standards established to govern agency accounting systems.

2. Designs of the accounting systems.

The first step of system development and improvement is a thorough study of the total financial needs of an operating entity (see subsection 11.1) and the establishment of an overall plan for a financial management system (see subsection 27.1). The next step should crystallize

(1) the manner of application of GAO principles and standards to the particular operational features of the entity and (2) the design concept of an accounting system that will integrate with the overall financial management plan and be responsive to the financial management needs of that entity.

It is also essential that the method of information processing be carefully considered at this and later stages of accounting systems development. The actual design development may be so closely wedded to automated data processing that many essential design elements, especially in the control and audit trail areas, exist only in the automation of the system.

In such situations, the machine application constitutes an essential part of the accounting system design and involves the establishment of all important elements of the system design in the ADP environment, as described in item 6, under subsection 27.5, below. Under these conditions, early cooperative identification and resolution of issues regarding the application of principles and standards and design concepts become doubly important because of the necessity of translating the decisions into the machine application.

Accomplishment of these actions should permit the agency to obtain approval of its principles and standards while providing the framework for the second-stage accounting system design. The specific pattern of development to be followed in each agency should be worked out with the GAO Financial Management Staff.

27.4 STATEMENTS OF ACCOUNTING PRINCIPLES AND STANDARDS

Statements setting forth the accounting principles and standards to be applied should be (1) consistent with the principles and standards set forth in chapter 2 which are applicable broadly to all executive agencies and (2) expressed in terms which adequately show how those principles and standards apply to the individual management entities of the agency. The statements should include references to pertinent provisions of laws, executive orders, Office of Management and Budget and Treasury Department instructions, and other applicable regulations.

Agency statements must be sufficiently definitive and explicit to insure that the distinctive financial management aspects are provided for specifically. Guides that provide for accounting recognition of financial events only "if needed," "as appropriate," "if considered significant," or "if useful to management" should be avoided.

The accounting principles and standards may be for an entire department or agency, for individual systems within a department or agency, or for appropriate groupings of individual systems. The point of diminishing return for definition and specification in a single set of principles and standards should be determined by the extent to which entities having distinctively different financial management aspects exist in the department or agency. However, there may be instances in which a substantially homogeneous group of activities lends itself to a single set of basic principles and standards with relatively few variations requiring specification.

Submission of agency principles and standards may be in the form of statements of (1) complete principles and standards or (2) amendment of previously approved principles and standards. All such statements should identify choices made among alternatives that are permitted by the principles and standards prescribed by the Comptroller General. These choices may include (1) variations in methods of substantive accounting for such matters as depreciation, annual leave, and other unfunded costs, and handling and storage costs, and (2) the use of devices, such as cost-finding or estimating techniques and analyses and periodic summations of documentary data, in lieu of formally recording in the accounting system each significant and accountable aspect of financial transactions.

All accountable aspects of transactions--recording revenues, receipts, obligations, accrued expenditures (including asset acquisitions), disbursements, and applied costs--are significant in principle. From the practical standpoint, however, significance is a relative term. If exceptions to the basic requirements are proposed, they must be supported by explanations, such as:

1. Why the difference in the financial information results is inconsequential, and how formally recording each accountable aspect of transactions as it occurs would substantially increase the workload with no commensurate benefits.

2. How the proposed alternative methods reasonably provide for complete, accurate, timely, and reliable data for management needs on a basis

affording an adequate equivalent, in the particular circumstances, of controls and other disciplines of more conventional accounting methods.

The importance of the principles and standards phase of system development cannot be overstated. A definitive and specific statement, prepared with careful planning and forethought, can resolve many problems at this early stage and thus avoid difficulties at the design stage.

27.5 GENERAL SYSTEM DESIGN

System design presentations to the Comptroller General for approval should consist of a concise but comprehensive exposition, by combination of description, chart, diagram, and example, of all of the essential elements of the system design. The term "general system design," as applied to accounting systems, excludes detail of procedures and instructions for use by employees in operating an accounting system.

The design presentation should demonstrate that the system, in all of its essential elements, conforms to the agency's approved principles and standards and should include the items listed below. (Each item should be considered as invoking all of the principles and standards pertinent to it and as requiring demonstration that it is appropriately applied to the entity involved.)

1. <u>A general description of the accounting system</u>

   a. The overall design concept of the accounting system.

   b. The relationship of the accounting system to:

      (1) The agency's program, budget, and organizational structure.

      (2) The missions, functions, and financial management needs of the entity.

      (3) The agency's total management information system.

   c. A summary of the classification coding to be used.

d. The interface of the accounting system with other accounting systems in operation or under development in the agency.

2. <u>The financial reports to be produced</u>

a. A description, supported by a chart, of the overall recurrent reporting plan of the entity (e.g., pyramidal reporting) in regard to:

(1) Its internal operations, including lower management echelons.

(2) External reporting responsibilities.

b. A listing by title (and form number, if assigned) of recurring internal reports prescribed by the system, including for each report the frequency and the period covered, or "as of" dates.

c. Each recurring internal report prescribed by the system should include:

(1) The types of financial information to be provided to the various levels of management.

(2) A sample of the format showing illustrative data elements (columnar headings and stub captions), with pro forma data inserted.

d. A listing by title and form number of external reports to be produced by the system.

3. <u>The accounting records to be maintained</u>

a. A listing of the general ledger accounts by title and number.

b. A definition of each general ledger account, including the intended account content, control functions in respect to subsidiary ledgers, and identification of each affected account.

c. A listing or an outline of the subsidiary accounts to be maintained.

d. A description of the books of original entry (transaction files in the case of ADP applications) and their functions in regard to the agency's general ledger and subsidiary account structure.

e. A description of the locations and organizational levels at which accounts and supporting documentation will be maintained and at which accounting activities will be performed.

4. The major accounting processes

a. Charts depicting the flow of documentary data through the principal accounting processes, supplemented by sufficient description to enable relating the actions charted to the accounting objectives, records, internal controls, and financial reporting requirements included in the design presentation.

b. An explanation of methods to be used in determining and recording the amounts of and the accounting for accrued expenditures, revenues, and costs.

5. Accounting for costs

A description of the manner in which costs are accounted for in accordance with section 16, in regard to each functional area, including:

a. The role of cost accounting, in terms of resources consumed (whether funded or unfunded), in relation to the program and operation.

b. The degree of refinement of operational classifications for cost accounting purposes.

c. The rationale and criteria by which accrued expenditures for personal services, materials and supplies, equipment, and other purposes will be charged as costs in the operational classifications.

d. The role of cost centers or other accounts for allocating, charging, and accumulating costs.

e. An explanation of the coding structure used as a basis for distributing and summarizing costs by activity.

f. The extent of association of quantitative data with costs.

g. The relationship of the cost accounts to the agency's cost-based budgeting.

h. Whether all or only significant elements of cost are included and, if the latter:

(a) What elements of funded and unfunded cost will be included and excluded.

(b) Whether distinction will be made between controllable and uncontrollable costs.

i. The areas where cost-finding techniques will be used in lieu of cost accounts.

6. The extent and nature of mechanization and automation

In a system employing ADP equipment, adequate documentation varies according to the circumstances involved but is necessary for the success of any operation. The types of documentation specified below are deemed necessary to provide an understanding of the design of the system and to enable an evaluation of the adequacy of system controls and audit trails. Programmed instructions and operator instructions are not required to be submitted.

Required documentation includes:

a. The planned use of ADP and other mechanical equipment, including the following.

(1) A statement of objectives for the use of automation and for the degree to which the system will be automated.

(2) An overall narrative description and accompanying flowchart of the general flow of information through the system. This should tie in with the general description of the accounting system.

(3) A description of the equipment configuration and capabilities, and the computer language(s) which will be utilized in programming the processing operations. When specific equipment has not been selected, the description should include a statement of the general equipment requirements for processing, storage, and associated

peripheral operations, and a statement of the primary computer language to be used.

b. The design specifications which describe the logic of the proposed ADP system, including:

(1) Flow charts showing the sequence of operations to be performed by each proposed computer process.

(2) For each proposed computer program, a brief description of the functions to be performed, processing frequency, type of input, and the resulting product(s).

(3) Descriptions of the physical characteristics of the data elements to be contained in the transaction records and data files, including the media (punched card, magnetic tape, etc.) to be used.

(4) Descriptions of controls to be provided over data:

(a) Inputs, including the types and purposes of edit and other purification or validation routines.

(b) Processing, including the plan for backup operations.

(c) Storage, including the plans for reconstruction of the data files.

(d) Outputs.

(5) Identification of audit trails in the automated system with special attention given to systems in which conventional audit trails (see item 7 below) will be obscured in the processing operations and alternative procedures will be necessary.

7. <u>The internal controls to be maintained</u>

a. A description of the manner in which financial, manpower, and property resources are controlled and safeguarded by the regular authorization, approval, documentation, recording, reconciling, reporting, and related accounting processes.

b. An outline of controls over quantity, timeliness, reliability, and accuracy of inputs, processing, and outputs (whether for manual, automated, or mechanical systems), sufficient to demonstrate reasonable assurance of accurate recording of transactions and reporting of their effects in the accounting period in which they occur.

c. A statement of the basis for auditability of the system in terms of results of operation and current condition, and identification of the audit trails throughout the system. This includes a description of the manner in which a particular element of data existing in the files can be traced backward to its source and forward to its position in a report.

8. <u>The plans for implementing the accounting system</u>

a. The proposed conversion process, including plans for training and a tentative schedule for implementation.

b. A brief description of the planned methods for testing the logic and reliability of the system.

SECTION 28--REQUESTING APPROVAL

28.1 AGENCY DETERMINATION OF CONFORMITY

Heads of executive agencies whose accounting systems are required to be approved should formally request approval of the Comptroller General after they have specifically determined that the principles and standards or designs of such systems, or the segments for which approval is sought, conform to the principles, standards, and related requirements for accounting prescribed by the Comptroller General.

No requests for approval should be submitted until the head of the agency has made this determination.

28.2 FORMAL REQUESTS FOR APPROVAL

Requests for approval will be submitted for each of the stages listed in section 27.3.

The system design should be submitted for approval when the agency, in addition to making the major decisions regarding the application of principles and standards to its activities, has established all of the important elements of the system design as described above.

System designs may be submitted for complete accounting system entities (see section 11.1) or for individual segments of a system, such as property accounting or payroll accounting. When the segmented approach is taken, the design presentation should show the relationship of the particular segment to the agency's overall accounting system.

System designs may be submitted in the form of either system design packages or fully developed manuals. Use of the system design package will facilitate review and approval processes. A manual is acceptable provided (1) the material is arranged to distinguish between and segregate, insofar as practical, the design information and the detailed operating procedures and instructions and (2) it is accompanied by a document that lists the design requirements as detailed below and identifies the section of the manual that corresponds to each requirement.

A request for approval should be made in the form of a brief letter addressed to the Comptroller General and signed by the head of the agency. Such letter shall contain a specific statement that the head of the agency has determined that the statement of accounting principles and standards submitted, or the system design of the accounting system or segment thereof for which approval is requested, conforms in all material respects to the prescribed principles, standards, and related requirements of the Comptroller General. Significant departures, if any, should be identified and justified.

The letter may make reference to additional documentation relating to the accounting principles and standards or design referred to the financial management representatives of the General Accounting Office. (See next subsection.)

28.3 SUPPORTING DOCUMENTATION

When a formal request for approval of an accounting system design is submitted, the following related materials should be referred to the financial management representatives of the General Accounting Office.

(1) A copy of the formal request for approval.

(2) A copy of the approved accounting principles and standards.

(3) A statement of the agency's evaluation of how the system design meets the following objectives, prescribed in section 113 of the Budget and Accounting Procedures Act of 1950.

(a) Full disclosure of the financial results of activities covered by the system.

(b) Adequate financial information needed for the agency's management purposes.

(c) Effective control over and accountability for all funds, property, and other assets for which the agency is responsible.

(d) Reliable accounting results to serve as the basis for (1) preparing and supporting the agency's budget requests, (2) controlling the execution of its budget, and (3) providing financial information required by the Office of Management and Budget.

(e) Suitable integration of the accounting of the agency with the central accounting and reporting of the Treasury Department.

(4) A copy of the agency evaluation of the compliance of its system design with prescribed principles, standards, and related requirements.

NOTE: Requirements (3) and (4) can be satisfied by submitting filled-in review guides (subsection 29.3) indicating that the design is in accordance with the prescribed principles and standards of the Comptroller General and other applicable requirements.

SECTION 29--REVIEW OF ACCOUNTING PRINCIPLES AND STANDARDS OR SYSTEM DESIGNS

When a formal request for approval is received, representatives of the General Accounting Office will undertake such review as is deemed necessary to determine whether the accounting principles and standards or system designs conform, in all material respects, to prescribed principles, standards, and related requirements of the Comptroller General.

29.1 BASIC CRITERIA FOR REVIEW OF ACCOUNTING PRINCIPLES AND STANDARDS OR SYSTEM DESIGNS

The basic criteria for review and evaluation of agencies' accounting systems by the General Accounting Office, in connection with approval of the systems by the Comptroller General, are the prescribed principles, standards, and related requirements contained in chapter 2 of this title.

The following titles of this Manual also contain requirements to be followed in the establishment and maintenance of accounting systems. Conformance with these requirements is also considered in the approval of accounting systems.

Title 4: Claims - General

Title 5: Transportation

Title 6: Pay, Leave, and Allowances

Title 7: Fiscal Procedures

Title 8: Records Management and Services

29.2 OTHER PERTINENT REQUIREMENTS

In devising suitable accounting systems, and in reviewing them, consideration must also be given to:

(1) Statutory requirements relating to accounting.

(2) Findings and recommendations in General Accounting Office audit reports and correspondence.

(3) Findings and recommendations in joint General Services Administration-General Accounting Office property accounting and management survey reports.

(4) Agency financial management improvement plans being carried out in response to the Office of Management and Budget directives.

(5) Other requirements of the Office of Management and Budget, such as those included in its

Circulars Nos. A-11 on preparation and submission of annual budget estimates and A-34 on apportionments and reports on budget status.

(6) Requirements of the Treasury Department, such as those included in the Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies and in related issuances.

(7) Requirements of the Civil Service Commission and the General Services Administration as they affect accounting and related fiscal procedures.

29.3 REVIEW GUIDE

To assist agencies in designing accounting systems and in reviewing their statements of principles and standards or accounting system designs in relation to the prescribed principles and standards of the Comptroller General and other applicable requirements, a series of review guides has been developed by the General Accounting Office.

These guides are available to agencies and are intended primarily for use before formal requests for approval are made.

SECTION 30--APPROVAL OF ACCOUNTING SYSTEMS

Statements of principles and standards governing agency accounting systems and system designs, as described in section 27, will be approved when deemed adequate and in conformity with the overall principles, standards, and related requirements prescribed by the Comptroller General.

Design approval is given with the understanding that if the system has not already been implemented, it will be expeditiously installed. Approval may be withdrawn for failure to implement the system promptly or consistently.

30.1 RELATION TO COST-BASED BUDGETING

The Comptroller General's approval of an accounting system does not encompass all elements of an agency's financial management system and accordingly does not extend to budget formulation and administration techniques.

The law clearly requires that accrual accounting be employed in contemplation of the adoption of internal cost-based budgeting practices.

The basic concern of the General Accounting Office for budgeting, in relation to an agency's accounting system, is whether the planned framework of financial management in an agency will permit the accounting system to function properly in support of the budget formulation and execution processes, as intended by law and by the principles and standards prescribed by the Comptroller General.

An informed management should regularly have significant cost information available in a form suitable for internal management use. It should correspond to detailed budget classifications and the program structure adopted. Such information makes possible the comparison of approved financial plans with actual financial results. If this kind of cost information will be produced by an agency's accounting system and all other important requirements are met, the policy of the General Accounting Office is to approve that accounting system design without awaiting actual implementation of internal cost-based budget procedures.

SECTION 31--CHANGES IN APPROVED STATEMENTS OF PRINCIPLES AND STANDARDS OR SYSTEM DESIGNS

Approval of statements of accounting principles and standards or of accounting system designs by the Comptroller General does not signify that they must remain unchanged. Agencies should continually develop improvements and institute necessary changes in both to keep the basis for the accounting system adapted to the needs of management, the Office of Management and Budget, the Treasury Department and the Congress.

Significant changes in statements of principles and standards or system designs will require Comptroller General approval to maintain the approved status.

Planned changes in statements or designs should be discussed with representatives of the General Accounting Office to determine whether or not they are significant.

SECTION 32--REQUIREMENTS FOR ACCOUNTING MANUALS

Each accounting system shall be documented in an organized manual of instructions. This manual should be formally prescribed by the head of the agency for the guidance of officials and employees responsible for operating the system. The manual should be comprehensive and should not be limited to general guidelines or to general statements of principles, concepts, and practices.

No particular organization pattern for accounting manuals is prescribed, but the following suggestions should be considered.

(1) Separate sections to describe in nonprocedural terms:

The general functions of the organization.

The organizational arrangements and related assignments of responsibility for programming, budgeting, accounting, reporting, and internal auditing.

The accounting principles and standards employed.

The accounting system design.

The financial planning and fund and cost control concepts employed, and the levels at which each of the latter is applied.

The financial controls employed for receivables, loans, equipment, inventories, and other assets.

The application of internal controls, including separation of duties and timely processing of transactions.

The financial reporting system.

The relationship of accounts and reports to the annual budget presentation and internal operating budgets.

(2) Subsequent sections to describe the system in detail, display the forms used, state the procedural steps, and illustrate the reports issued. These sections, which should be developed in such manner that the instructions are adequate for day-to-day use by accounting and other personnel in the actual maintenance of the system, should include:

A chart of accounts, narrative statements regarding account content, timing of entries and source of data, and identification of related subsidiary accounts maintained.

Prescribed procedures relating to the consummation and recording of financial transactions and related accruals, classified by major categories of assets, liabilities, investment of the United States, revenues, and costs.

Whatever arrangement is adopted for codification of the instructions, it is desirable that each section be as complete as possible to facilitate its use by the accounting and other personnel assigned to the specialized areas of work.

SECTION 33--GENERAL ACCOUNTING OFFICE EXAMINATIONS

In carrying out its audit responsibilities, the General Accounting Office will, from time to time, examine selected aspects of executive agency financial management systems, including their accounting systems.

As a part of these examinations, specific attention will be devoted to the effectiveness of the accounting systems in (1) producing useful cost and other financial information, (2) assisting in the control of resources, and (3) otherwise achieving the objectives for Federal agency accounting prescribed by the Congress.

Reports on these examinations will include increased attention to agency management's use of cost data produced by an accounting system, particularly in cost-based budgets for purposes of administration and operation, as provided in Public Law 84-863.

If previously approved agency accounting systems are found by these examinations to be deficient in material respects, the approvals will be withdrawn until appropriate changes are made.

Reports on General Accounting Office reviews of agency financial management systems, including accounting systems, will be submitted to the Congress, if deemed appropriate in the light of the significance of the findings. Otherwise, such reports will be addressed to the head of the agency concerned. Copies of all reports will be transmitted to the Director of the Office of Management and Budget and the Secretary of the Treasury.

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