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Policies, Standards, Procedures, Practices

Cornelius E. Tierney

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About the Author

The author of this practical guide to federal accounting, Cornelius E. Tierney, is a certified public accountant and for almost 25 years was the chairman and national director of Ernst & Young's (and earlier Arthur Young's) public-sector accounting and auditing practice. Since 1993, he has been a full-time professor of accountancy at The George Washington University, in Washington, D.C. During the 1960s, Professor Tierney was a federal accountant and financial management executive serving with the U.S. General Accounting Office, the Office of Economic Opportunity, and the Civil Aeronautics Board.

He chaired many national efforts of the American Institute of CPAs (AICPA), including its task force that drafted the AICPA's guide to implement the Single Audit Act of 1984. He was a principal author of the AICPA's report that was codified in 1990 by Congress as the Chief Financial Officers Act. Tierney was an original member of and served the maximum six-year term on the Federal Accounting Standards Advisory Board, having been appointed by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. Currently, he serves as a member of the GAO's Advisory Council on Government Auditing Standards.

Tierney is the author or co-author of ten other books and numerous articles on governmental accounting and auditing. The Association of Government Accountants (AGA) has honored him frequently as an outstanding author, in addition to having received the AGA's highest award, the Robert W. King Award for "distinguished service of such significance as to have importantly enhanced the Association's national prestige and stature." In 1990, the Board of Visitors of the University's School of Business and Public Management selected him as the 1999 Faculty of the Year.

Preface

Knowledge of federal budgeting, accounting, costing, and reporting is essential for all who do business with the federal government. This includes the 50 states; tens of thousands of counties, cities, municipalities, special authorities, and districts; over 100,000 prime and sub-contractors, non-profits, and college and university grantees; and the beneficiaries of federal loans and loan guarantee programs (the total probably unknown). All have a need to know what is accounted for, as well as how, when, and why, by the federal government.

The 1980s and 1990s were years of significant change in federal financial management. Federal departments and agencies were influenced by laws of Congress; by regulatory initiatives of the central agencies—the Treasury, the Office of Management and Budget, and the General Accounting Office; and by regulations and rules of individual federal departments and agencies. In particular, the Federal Accounting Standards Advisory Board, established in 1990, altered the practices of two centuries; and the Chief Financial Officers Act of 1990, which brought about the most change in federal financial management by Congress in 80 years, introduced improvements in accounting and uniform reporting that had never been practiced by the federal government.

Although hundreds of thousands of people are involved in planning, budgeting, accounting, processing, and reporting on the activities of the federal government, little has been published on this segment of financial management. Even less is taught about this financial specialty in universities, colleges, and business schools. Further mystifying is the fact that accepted and practiced federal accounting principles and procedures are not the generally accepted accounting principles of the private and non-profit sectors or of other levels of government.

This air of mystery is unfortunate, because the accounting and reporting required by federal laws, program rules and regulations, and department and agency guidelines significantly affect decisions on which individuals or organizations shall receive federal money and how it must be used. This money includes federal subsidies; federal contract and grant fundings, and the availability of advanced federal funding; limits on overruns for overhead costs; loans and loan guarantees; and determinations of allowable costs—not to mention entitlements, claim payments, reimbursements, and payments of claimed overtime.

The federal government, like other organizations and industries, has generated a financial management language all its own, much of which is defined and illustrated in this book. Most specialized are the terms relating to the budgeting, monitoring, and accounting for revenues and expenditure appropriations passed by

Introduction

Every day, tens of thousands of people work at the financial management of the federal government—planning, budgeting, accounting, processing, and reporting. Hundreds of thousands more, working for local and state governments; public-sector and nonprofit organizations; and federal contractors, subcontractors, and grantees, are also responsible for accurately accounting for and reporting on their use of federal funds.

The accepted financial management practices and accounting principles of the federal government are not, however, those generally accepted practices of the private sector; neither are they the practices of state or local governments, nor those of the nonprofit sector. Nonetheless, these entities and any other entities or individuals receiving some form of federal funding or other federal financial assistance (e.g., grants, subsidies, loans, loan guarantees, contracts, appropriations, direct cash) should be conversant with federal financial management procedures.

The nexus of federal financial management is no less than the Constitution itself, which states:

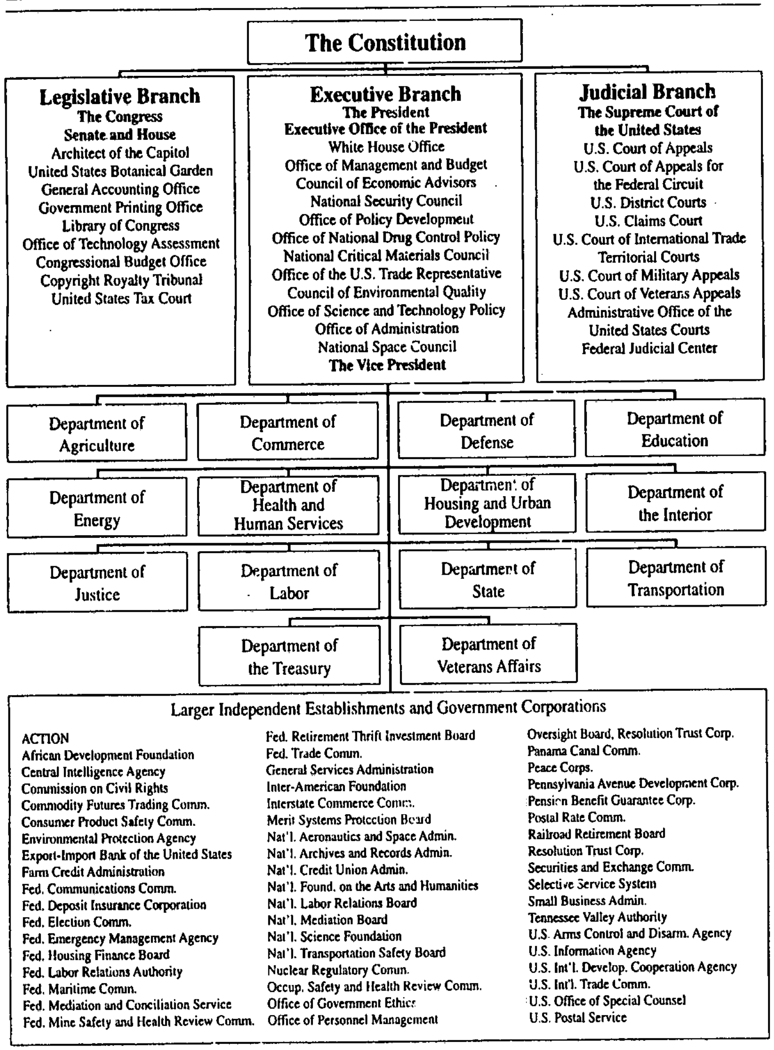
> *The Congress shall have the power to lay and collect taxes, duties, imposts, and excises, and to pay the debts and provide for the common defense and general welfare of the United States. . . . (Section 8, Clause 1)*

[and] *To borrow money on the credit of the United States . . .* (clause 2). Furthermore, the Constitution requires that

> *No money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of receipts and expenditures of all public money shall be published from time to time (Section 9, Clause 7).*

To say that the federal government is big would be an understatement. It employs millions, owns billions, and spends trillions—every year. The executive branch manages this activity, and is permitted only to implement the will of Congress, as expressed by law. Exhibit I.1 illustrates the composition of the executive branch—its several cabinet-level departments, agencies, administrations, offices, commissions, corporations, boards, systems, and so forth; the legislative branch—Congress, its responsible offices, the Library of Congress, the Government Printing Office, U.S. Tax Court, and others; and the judicial branch with its component

Exhibit I.1 The Government of the United States



Source: Consolidated Financial Statements of the United States Government, U.S. Treasury Department, Washington, D.C.

units—the Supreme Court of the United States, courts of appeal, district and other courts, and the administrative office of the U.S. Courts.

IMPACT OF THE FEDERAL GOVERNMENT

In the state of the union message, the President comments on the austerity of his (or her) budget requests; promises to hold expenditures to an absolute minimum; and then outlines programs and initiatives that seem, more often than not, to cost more than they did in prior years. Regardless, or perhaps because of, explanations and good intentions, however, the federal government's spending is now close to $2 trillion a year. The federal budget for fiscal year 1998 alone was $1.7 trillion; the country's accumulated national debt is $5.5 trillion. By any measure, the economic impact of the federal government is "big."

Annual federal outlays account for approximately 25 percent of the country's gross national product. These direct outlays do not include the expenditures and contingent liabilities of the Federal Reserve Board, several government-sponsored enterprises, and government corporations. These independent boards and hybrid corporations are responsible for various other direct expenditures and risks related to insurance programs, loans, and loan guarantees, and for federal-related guarantees and financings that are considered "off-budget" (which in federal parlance means "off the books"), but which, nonetheless, are in the trillions of dollars.

FEDERAL FINANCIAL MANAGEMENT BACKGROUND

Prior to the 1990s, government-wide efforts to improve federal financial management were sporadic and sometimes uncoordinated; at times these efforts received less than enthusiastic support from the Treasury, the Office of Management and Budget, and Congress. Today, however, several laws set overall guidelines and establish detailed uniform federal financial management policy. The executive office, particularly through efforts of the Vice President, put additional emphasis on changing and improving financial management in the federal government. The Office of Management and Budget then issued several government-wide regulations to implement and enforce newer congressional mandates.

Since the Constitution was first written, the federal budget process—from the budget preparation phase through the budget execution phase—has been the continuum on which federal financial management rests. The federal budget is simply the money and expenditure authority, given by Congress, that forms the financial corpus which must be planned, budgeted, controlled, managed, accounted for, and ultimately reported upon by departments and agencies. As noted, until 1990, laws of Congress gave the General Accounting Office, the Treasury, the Office of

Management and Budget and the heads of just about every individual agency some role in defining selected aspects of federal accounting, reporting, and controls for this budget.

Over the years the federal government has tested certain concepts to provide more precision in the estimation of budgets, monitoring of expenditures, cost accounting for programs, and so on. Concepts such as zero-based budgeting (ZBB); planning, programming, and budgeting systems (PPBS); and to a lesser degree, management by objectives (MBO); have been required by presidents, although not always with the full agreement or support, of Congress. More recently, such concepts as activity-based costing (ABC), borrowed from the private sector, and service efforts and accomplishments (SEAs), adopted from state and local governments, are being tried at the federal level, as well.

In the 1950s the Comptroller General of the United States had, pursuant to law, issued federal accounting and reporting standards. Decades later, half of the federal departments and agencies had not yet complied with these guidelines, and no pressure was exerted by Congress to force compliance. Uniformity and consistency of accounting and financial reporting among other federal entities—and even within an individual federal entity—was nonexistent.

In the 1980s and 1990s, several factors influencing Congress and federal executives led to the adoption of uniform federal accounting and reporting. The adopted standards, however, were not the accounting practices of corporations, state and local governments, or governmental nonprofits. At the federal level, departmental and agency financial managers found they would have to require accounting to ensure compliance with legal conditions and limitations; to do internal costing to manage their program and functional operations; to meet externally imposed reporting requirements; to compile the information necessary to monitor programs with state and local governments, nonprofits, and even individual citizens; and more. All of this complex activity must conform to the specifics of the Constitution of the United States, the bedrock accounting guide for expending all federal monies.

Generally accepted accounting principles are the accounting rules, practices, and conventions used for decades to account for and report on financial operations of the private sector, state and local governments, and nonprofit entities. These accounting rules, with regard to corporations, have been promulgated since 1973 by the Financial Accounting Standards Board, with close oversight by the federal Securities and Exchange Commission (SEC). For state and local governments, certain public-sector nonprofit organizations, and many colleges and universities, generally accepted accounting principles have been promulgated since 1984 by the Governmental Accounting Standards Board. State and local government securities are specifically exempted from SEC oversight, unless fraudulent practices are involved with government securities. None of these widely accepted accounting and reporting guidelines were adopted to describe or report on the breadth of the federal government's financial management activities.

Further, until 1990, the responsibility for federal accounting and financial reporting was split, by several laws of Congress, among the U.S. General Accounting Office (or GAO, a legislative branch agency); the Office of Management and Budget (OMB) and the Department of the Treasury (both of which are in the executive branch); and the other federal departments and agencies (i.e., the rest of the executive branch). By laws dating back to 1921, the GAO prescribed forms, systems, procedures, and accounting standards for the federal government. By these same laws, heads of each federal department or agency were required to develop and maintain the systems of accounting, reporting, and internal controls that best met that department's or agency's needs.

The accounting and reporting that did exist was an amalgam of congressional laws and the practices of several departments and agencies, supplemented and refined by miscellaneous regulations, rules, and directives. Over many years, the GAO, the Treasury, the OMB, and scores of separate departments and agencies contributed to the body of practices that comprised federal financial management.

A CHANGING ENVIRONMENT

The more important forces of change in federal financial management were less financial in nature, but nonetheless contributed to an environment that required or permitted changes and improvements not possible in earlier decades.

In Congress

The 1980s witnessed an almost total generational change in Congress. Newer members may have been more business oriented, and unquestionably, they were younger. Older, more experienced members, who'd served in the 1960s, 1970s and into the 1990s, had grown up with a federal government that was growing ever larger. To these latter members, the 1960s were simpler; growth had happened by steady evolution. Years of experience had provided many of the senior members with an intuitive feel for the numbers. Federal finances were not yet out of control; runaway deficits and an almost unconscionable federal debt were problems for future generations.

The newer congresses of the 1980s and 1990s found there was no overall financial statement for the federal government; no enforcement of consistent accounting standards in departments and agencies; antiquated and unreliable department and agency reporting systems; and no history of annual department and agency financial statements. The newer, younger members of Congress, lacking the knowledge and history of what had gone before their elections, were aghast at the state of federal financial management.

In Individual Federal Entities

Almost at the same time, within departments and agencies, personnel changed. To reduce the federal budget and expenditures, early retirement options and buyouts were offered by Congress. These initiatives precipitated an unanticipated wholesale retirement or resignation of the federal government's financial managers. Within a very few years, the expertise of an entire generation of experienced financial managers left the federal government; it was a government-wide brain drain. The succeeding financial managers lost their mentors, those who knew what had gone before and who could make the systems work.

Like members of Congress, the senior federal appointed executives of the 1980s and 1990s were new to the higher levels of government and were both younger and less experienced. These financial executives needed data that did not exist or that could not be produced without great effort. At best, some systems generated data that was "close" or may have been "good enough" for governments of past years. These executives were now charged with the financial management of a government that, in the 1990s, was spending $1.5 trillion annually, and with overseeing a federal debt that may never be paid in full.

The failure to require or implement essential accounting standards, consistent financial reporting, program and activity cost accounting, and departmental and government-wide financial statements, all contributed to a crisis not publicly known, but one that was exacerbated by past inadequacies. Heretofore, while there had been a system of federal financial management. most of the data elements and details of that system were known to only a few executives and managers. No single manual, repository, or source existed where one could find a comprehensive description of the accounting and reporting processes of the federal government. Further, up-to-date, continual financial management training had not been a high priority of past congresses and presidencies.

With minimal formal training and few books available, even those who wanted to learn the federal system ran into considerable difficulty. Budget requests for new or improved systems, and training for more financial managers and larger staffs, were the perennial targets of congressional and executive office budget cuts. Governmental financial managers learned by doing, by living, and by being inside a federal entity. Over many years, the diligent financial executive became well versed, but in one system—his or her own.

Even with the support of later congresses and presidents, and despite the best efforts of all federal financial managers, better accounting, timely reporting, and adequate controls may not have been possible in those years. The federal government was enormous and the financial management task daunting. Managers were

faced with the challenge of budgeting, accounting, and reporting on $1.5 trillion in federal spending. To meet this challenge they needed detailed budgeting and reporting of funds by every U.S. congressional district, and at all levels of government—50 states, more than 3,000 counties, and tens of thousands of cities, towns and special government districts. This mass of information also needed to come from tens of thousands of federal contractors and grantees, and from more citizens receiving direct federal assistance than one would care to count.

This growth in size and complexity was happening at a time when computers and software technology were in their infancies. The state of the art in technology was not advanced, and almost no federal financial manager had tools to meet the data and information challenge. Slowly, the availability of more friendly computer technology increased, and more sophisticated databases and application software were developed. In the late 1980s, a series of systems improvement efforts were identified, codified, and published by teams of federal financial executives under the auspices of the government's Joint Financial Management Improvement Program. Today, with available funding, departments and agencies are acquiring the acumen—tools, software, people, training, and so on—that they have long needed.

Major Federal Initiatives

In the 1980s, three products of the Joint Financial Management Improvement Program had a significant impact on improving federal financial management: (1) a comprehensive compilation of federal financial information requirements and standard financial reporting requirements, (2) a document outlining core financial system requirements for the federal government, and (3) the Standard General Ledger for the government. Each of these initiatives was a first-time effort, and all were needed to provide the systems of accounting and controls desired by Congress and federal managers.

In 1990, the Chief Financial Officers Act (or CFO Act) gave the OMB the main responsibility for financial accounting principles and standards, reporting systems, and financial management for the federal government. At about the same time, financial managers in the Treasury began to support departments and agencies wanting to improve federal accountability. The Treasury also became a more active partner with the OMB in conducting research and experimenting with alternatives to enhance accounting and reporting within departments and agencies government-wide.

When Congress passed the CFO Act it transferred the authority for setting accounting and reporting standards, systems requirements, and other financial management responsibilities to the OMB. At about the same time, the U.S. Comptroller General (who heads the GAO), the Secretary of the Treasury, and the Director of the OMB established the Federal Accounting Standards Advisory Board (or FASAB). The FASAB was instructed to develop and recommend accounting and reporting standards for use by each federal department and agency, as well as government-wide.

With the mandate of the CFO Act, initiatives to improve financial management moved forward in the 1990s. The OMB, by more laws of Congress, was made the authoritative source for financial management, accounting, reporting, and auditing in the federal government. By 1993, the newer policy direction, uniform accounting and reporting standards, and government-wide systems requirements with which federal departments and agencies must comply, were well established.

In 1992, the FASAB began recommending accounting policy. By 1993, the OMB had directed departments and agencies to establish and maintain a single, integrated financial management system that complied with FASAB, OMB, and Treasury promulgations.[1] A regulation, OMB Circular, A-134, was one of the federal government's early attempts to define and enforce the system's methodology in federal departments and agencies. The OMB defined an agency's *financial system* as an information system comprised of one or more applications, used for any of the following data functions:

- Collecting, processing, maintaining, transmitting, and reporting data on financial events
- Supporting financial planning or budgeting activities
- Accumulating and reporting cost information
- Supporting the preparation of financial statements

Thus, the OMB required that a single financial system track financial events, provide information significant to the financial management of an agency, and generate the information required for the preparation of financial statements. This is in contrast to a long history in which the individual federal entities had multiple or partial systems that supported single functions or activities, and that had limited utility to broader department or agency financial reporting and management oversight. Such systems were, in fact, limited-purpose data files, often referred to as "stovepipe" accounting and reporting systems.

The term, *application* is used by the OMB in a somewhat different manner than that normally encountered by financial managers. In its Circular A-127, the OMB related the term to both financial and non-financial systems, referring to any group of interrelated components of financial or mixed systems which support one or more functions and have the following characteristics; for example:

- A common data base
- Common data elements

[1] *OMB Circular A-127, Financial Management Systems, 1993, which updated and, in part, revised an earlier OMB Circular A-127 of December 1984.*

- Standardized processing for similar types of transactions
- Common version control over software

Standard data classifications had to be established by federal agencies and used to record financial events uniformly. Common data elements were now to be used to meet agency reporting requirements and were to be used throughout the agency for collection, storage, and retrieval of financial information.

Later improvements such as the consolidation of delegations, designations, authorities, and responsibilities for federal financial management policy and procedures were essentially in place and functioning by about 1995; many other improvements to federal financial management were to follow.

FEDERAL ACCOUNTING AND REPORTING TODAY

The Federal Reporting Entity

Until the 1990s, there had been no uniform resolution of what constituted a federal accounting and reporting entity. There is only one overall economic entity: the federal government as a whole. But the federal government operates by a network of somewhat autonomous, subordinate departments, agencies, commissions, and other federally-funded organizations. Each entity manages activities, legally obligates the government, and spends federal monies.

The FASAB recommended that the federal accounting and reporting entity would be the organization that issued general purpose financial statements; only these organizations would be the reporting entities of the federal government. This was a long-needed clarification. Historically, many had supported the view that the congressional appropriation (i.e., the fund made available by Congress) was the accounting and reporting entity. Others, with different responsibilities, believed that budget accounts or the Treasury accounts (and they are not the same) would provide more accurate and revealing financial disclosures of the operations of the federal government. Still others thought the primary reporting entity ought to be the special funds or trust funds established pursuant to law.

Some federal entities have a single appropriation as their primary financing resource for operations. Other federal departments and agencies may be responsible for two or more congressional appropriations. When a single department or agency is responsible for multiple appropriations, these funds may, by law, support a variety of operations or a combination of programs. There may be instances when an agency, by law, must operate programs without having received a direct appropriation, but is provided spending authority through an allocation from another agency's appropriation.

Congressionally-enacted appropriation laws have a unique status in federal accounting. The passage of revenue and expenditure appropriation legislation by Congress provides the basis for federal departments and agencies to collect taxes, revenues, and other fees from the public and to incur obligations and make expenditures from the Treasury. These laws form the legal, economic, accounting, and reporting criteria for federal entities.

To illustrate, prior to the 1990s congressional appropriations were viewed as accounting entities; the federal departments and agencies, as reporting entities. The ideal condition, of course, from an accounting, financial, and reporting point of view, would exist when all operations of a federal entity are supported by a single congressional appropriation. This considerably simplifies the budgeting, managing, accounting, and reporting. The reality is that Congress does not always consider accounting and reporting issues when it passes appropriation, budgetary or other spending authority.

Since an appropriation is an accountable happening, the recipient federal entity must record, account for, and report assets, liabilities, and investments of the government, as well as its expenditures and any revenues, by each individual appropriation. Stated another way, an integrated set of records is required to account fully for the stewardship of all funding to an entity; the details, with respect to each appropriation, must be separable in the records of the entity. On the other hand, accounting and reporting by appropriations only is not satisfactory for managing and measuring program performance. Accounting only by appropriation portrays departments and agencies in a fractured light.

Nonetheless, accounting by appropriations was the prevalent form of accounting and financial disclosure in the federal government through the 1960s, until computer technology permitted reporting on other bases and dimensions. In 1994, the FASAB recommended that federal organizations report on all of their stewardship responsibilities provided by congressional authority. The FASAB, in its federal accounting concepts, stated that a basic postulate of accounting is that federal accounting information pertains to the federal reporting organization.

Included within the federal government are other entities, such as government-sponsored enterprises. These entities, while they are federally chartered and overseen by Congress and have private stockholders, are no longer directly financed by congressional appropriations. The accounting for assets and liabilities of these entities is off the books of the federal government; such assets and liabilities include their guaranteed debt, the liability for which has never been clarified by Congress. In addition, other federal organizations, such as the Federal Deposit Insurance Corporation and the Federal Reserve Board, are subject to congressional oversight, but their operations are financed by levies on the constituencies they regulate rather than by direct appropriations of Congress.

The Federal Financial Statements

Historically, department- or agency-wide financial statements were of minimal concern to legislators and the central agencies of the federal government. These parties gave primacy to appropriation accounting. While not ideal, and not full disclosure, the primary historical system of reporting is as follows: matters related to budgetary status must be reported to the OMB; cash must be reported to the Treasury; and accounting for specific appropriations must be reported to Congress. With continuing GAO emphasis over the years and the wider introduction of computer technology, the organizational entity gained prominence as the reporting entity in the 1980s and 1990s.

Since the passage of the Chief Financial Officers Act of 1990 and later laws, annual financial statements are now compiled department- and agency-wide and are independently audited. Subsequent to the CFO Act, agencies have striven to ensure that these federal financial statements conform to the accounting and reporting standards recommended by the FASAB and promulgated by the OMB.

Financial reporting for corporations and other levels of government, academic institutions, and nonprofit organizations, is typically provided through a package of four financial statements—a statement of financial position (i.e., the balance sheet), a statement of operations (i.e., the income and expense statement), a statement of retained earnings, and a statement of cash flow. The FASAB concluded that this level of reporting would not suffice for the federal government and cited a need for other types of financial statements. The OMB, in its statement on the form and content of federal financial statements, requires federal agencies to prepare and have audited five principal annual financial statements:

- The *balance sheet* is needed to present resources, liabilities, and financial status of the entity at a specific point in time, however measured (i.e., budgetary, cash, accrual, etc.), and to show total balances of appropriate assets, liabilities, and equities of a federal organization.
- A statement of *net cost* is needed to present the various components of the net cost of a reporting entity's operations (i.e., total, gross, or full costs less any exchange revenues).
- A statement of *changes in net position* reports the beginning net financial position, the items that caused changes in the net position, and the ending net position of a federal entity.
- A statement of *budgetary resources* provides information on status of Congressional spending authority by those entities whose financing derives, wholly or in part, from Congressional budget and spending authority.
- A statement of *financing* is an accrual-based reporting as contrasted to the budget-based reporting of the statement of budgetary resources. The statement of financing reconciles the financial (or proprietary) net cost of operations with the obligational basis of budget authority.

These are statements of a different character, in greater number, and with different content than those appearing in an annual financial report of private-sector organizations or other public-sector and nonprofit entities. Other reporting is dictated by legislation and compliance criteria imposed on a department by the Treasury or the OMB. Further, there is no prohibition in the federal standards against a department or agency's having statements unique to itself, designed to provide data on performance indicators or its operations.

Parallel Accounting Bases

Laws, regulations, terminology, financial practices, and the simple enormity of federal government operations have fostered specialties that hint at a somewhat fractured system (or sets of systems). Federal laws, regulations, rules and promulgations often refer to various types of accounting—budgetary, financial (proprietary), cost, and even cash accounting. The following section is an overview of these terms, which are described, discussed, and illustrated in the chapters that follow.

Budgetary Accounting

This accounting applies to the processes, controls, monitoring, and reporting that are required to track the execution of the budget laws of Congress. Budgetary accounting in the federal government has given rise to a body of terminology descriptive of both legal and economic events and accounting procedures required of federal entities to monitor and manage the financial impact of these events. Some examples of these events and their relevant terminology include:

- Only Congress can *authorize* and *appropriate* funds or budget authority to permit the collection of revenues or expenditure of federal money. Authorization and appropriation legislation are separate legislative actions of Congress.
- Permission to *allocate* a portion of an appropriation between agencies is an exclusive prerogative of Congress, as well. Allocations must be specifically identified by Congress in its laws.
- By law, the OMB has the responsibility to *apportion* the various funds appropriated or allocated by Congress to regulate the rate of fund use by agencies. Thus, the OMB must approve all apportionment requests before a federal department and agency can obligate the government or spend federal money.
- The individual federal departments and agencies are responsible for *allotting, obligating, expending* or *disbursing,* and *costing* the funds of an appropriation or other budgetary authority as they execute and manage federal programs. The accounting and reporting of these activities must be by each congressional appropriation, and by the individual programs and activities of the federal entity, in total for the entire entity and ultimately government-wide.

By a variety of laws, department and agency accounting and financial reporting procedures must be established and used to ensure compliance with government-wide criteria and with a department's or agency's own policies and controls for proper management of funds, assets, and other federal resources. Understanding the budgetary accounting process is a prerequisite to understanding the uniqueness of federal accounting. It is the reporting for the legal, economic, and accounting events and actions, alluded to above, that distinguishes federal accounting from the accounting of private-sector and other public-sector organizations.

Financial (Proprietary) Accounting

There is also an accounting for the assets, liabilities, investments, revenues and expenditures related to an appropriation by federal entities that is somewhat similar to the accounting process used in the private sector. This basis of accounting is referred to as *proprietary accounting.*

Overall, Congress and the OMB require that systems of accounting and internal controls exist to acquire, safeguard, account for, report on, and dispose of funds and properties and settle debts of the government. This financial accounting, however, varies for two types of governmental entities. The accounting for all cabinet departments and most federal agencies is premised on an appropriation-based as well as an accrual-based accountability.

For funds established by Congress to finance certain business-type organizations, the accounting is generally conducted pursuant to the legal requirements of working capital funds, revolving funds, and more recently termed "franchised" operations. These operations, often supply and industrial funds, perform a variety of business services from wholesaling to manufacturing, and (in a sense) sell services or products to other units within their department or externally to other federal departments and agencies. For these business-type operations, business or private-sector accounting is generally applied; often cost accounting is an integral aspect of the financial management of such entities.

As with the corporate sector, the accounts of a federal entity must provide a ready reporting of activities on both a cash basis and an accrual basis. Neither basis is best; both are required to manage, but for reasons that might differ somewhat from those of the corporate sector. Ideally, a federal entity should manage and monitor its operations on the accrual basis of accounting; but the Treasury requires daily information to support its cash basis accounting. The OMB is in legal trouble if it does not require agencies to report on the basis of obligations, and Congress wants reporting by appropriations, a language it understands.

Cash Accounting

To meet the constitutional mandate to provide "*. . . a regular statement and account of receipts and expenditures of all public money . . .* ," the Treasury needs specific information. This necessitates that the Treasury maintain and operate a central cash accounting and financial reporting system for the federal government.

As the "keeper of the government's purse," the Treasury must, pursuant to the Constitution and other laws, render regular statements of receipts and expenditures of the government. While this is an important accounting and significantly impacts individual departmental and agency accounting and reporting, the accounting needed by the Treasury is essentially a cash-in, cash-out system, fulfilling a single purpose, the federal cash-balance reporting, with minimal utility for overseeing and managing the programs and activities of federal entities.

The central requirement of the Treasury automatically becomes a detailed accounting and reporting requirement of all federal entities. Information on entity programs and activities must be compiled and monitored on a cash or checks-issued basis, as well as on the other bases.

Cost Accounting

Knowledge of the costs of programs, activities, and outputs is necessary if Congress and federal executives are to make sound decisions about resource allocations, authorizing and managing programs, and evaluating performance. Industrial funds, working capital, and federal revolving funds have long been concerned with capturing and reporting costs—of activities, products, operations, and so on. Historically, though, cost accounting was not accorded a high priority in federal accounting by managers of programs that are financed by annual appropriations. Interest was generated by the executive branch's national performance review efforts, headed by the Vice President. Considerable legal impetus was also provided by several congresses with the passage of many laws impacting financial management (e.g., the Government Performance and Results Act, the Government Management Reform Act, and the Federal Financial Management Improvement Act). These initiatives, external to the federal operating entities, caused departments and agencies increasingly to examine the financing, spending, and financial monitoring of programs and operations from a cost perspective. The full cost view is in contrast to financial reportings made on the more historically popular cash, appropriation, obligation, and fund views, all of which can be characterized as providing less than a total financial accounting.

Cost accounting is viewed as a more precise recording, accumulation, accounting, and reporting of a product, service, activity, or even a program, than is the case with typical appropriation-based accounting. While later discussed separately from budgetary and financial accounting, cost information must be from the same financial and nonfinancial or statistical data bases as are used by the entity

for budgetary, accounting, and financial reporting purposes. The use of more than one system of accounting is not tolerated or permitted for federal organizations; an entity's financial information must be derived from a single official accounting system. A different set of books cannot be maintained for each basis or reporting need.

DIFFERENT VIEWS ON FEDERAL FINANCIAL MANAGEMENT

The public's views about federal financial management and data needs seems limited only by the number of views solicited. In its 1997 statement of federal accounting concepts, the FASAB provided an illustrative comment on viewpoints, such as those of an economist, a financial analyst, a federal budget analyst and program manager, and a federal accountant and auditor:

- The economist is seeking data on the national society as a whole most importantly, possibly for the National Income and Product Accounts (NIPA), a system that emerged in the 1940s in the Department of Commerce and earlier in private organizations.
- The Wall Street analyst is more likely to view federal financial reporting in terms of the "Daily Treasury Statement" or the "Monthly Treasury Statement of Receipts and Outlays" of the United States government.
- Budget formulators and analysts want data from the federal budgetary accounting system, which tracks spending authority, controls expenditures, assesses economic implications, and is used in planning for government.
- Accountants, program managers, and auditors in the federal environment want accountings of assets, liabilities, levels of revenues and expenditures, and periodic status reports of budget execution (i.e., budget versus actual).

Users of federal financial information—citizens (defined in the broadest terms), Congress, federal executives, and operating managers—all require data that assert the integrity of the federal budget and its execution, that disclose the cost of federal program operations and federal securities, and that provide an accounting on stewardship of federal assets, pensions, insurances, and many programs. Only with such information can citizens be assured, as noted in the Constitution, that no money is being drawn from the Treasury, except in compliance with a law by Congress, and that for such receipts and expenditures there is a regular statement and accounting.

2 THE CHIEF FINANCIAL OFFICERS ACT OF 1990

The federal government's financial management deficiencies had been documented for decades. And while changes had been made in earlier years, in 1987 many in and out of the government expressed the view that serious improvements had to be made. Throughout that year members of both houses of Congress attempted to halt further erosion of the existing financial structure, but as in past years their efforts were not totally successful. On September 30, the year end, the President, with the acquiescence of congressional leaders, published a budget deficit of $148 billion. Immediately, the news media and several analysts outside the government challenged the reported amount, charging that it was too low by tens of billions of dollars, or even more.

Private-sector financial analysts and the financial media accused Congress and the administration of "cooking the books" of government. The Comptroller General published a report documenting that Congress and the executive branch had resorted to forms of "cooperative accounting"; to using non-federal funds to cover up government debts and liabilities; and to delaying and rolling over 1987 costs to other fiscal years so as to misrepresent the fiscal problems of the country and understate the financial condition of the federal government. The collective furor was a loud indictment of the financial leadership of Congress as a body and of the Office of the President.

In October of that year, less than a month after the publication of the grossly understated deficit, the stock market suffered its second largest one-day decline in values ever, with securities worth 20 percent less at the close of business on October 27 than they had been six hours earlier. Serious problems were arising in connection with major federal loan and loan guarantee programs, housing and pension guarantee programs, and the many entitlement programs enacted by Congress in years past. Estimates of taxpayer bailouts of financial institutions alone were in the hundreds of billions of dollars.

The crisis of 1987 did not appear from the blue; its evolution can be traced to the Constitution, an article of which made the Treasury responsible for publishing ". . . a regular statement and account of receipts and expenditures of all public money . . ."

It was hardly the Constitution's fault that the Treasury, for many decades the designated financial manager of the federal government, did not seek out or perform this function government-wide with any real eagerness. So it was that Congress had to experiment over the years with other organizational structures and delegations of responsibility, passing various initiatives to try to impose better fiscal controls with more complete accounting and reporting practices on the government as a whole. More than once, their efforts took the form of transferring financial management functions away from the Department of the Treasury, most often to the Comptroller General, who heads the GAO, or to the OMB.

A significant study of federal financial history by the GAO[1] describes legislation from the 19th century wherein Congress attempted to bring order to federal financial systems. The Dockery Act of 1894, for example, sought to eliminate excess offices, install centralized auditing, institute a preliminary examination of records, and simplify the federal account structure. Then, as noted in Chapter 1, the Budget and Accounting Act of 1921 established the GAO as an independent legislative agency, assigning it many of the Treasury's previous functions; organized the Bureau of Budget in the Treasury; and instituted a national executive budget system. In 1939, the Treasury was relieved of this responsibility when the Bureau of Budget was transferred to the Executive Office of the President.

The Budget and Accounting Procedures Act of 1950 required more changes. This act established the Joint Financial Management Improvement Program, recentralized the financial management structure that had sprawled after World War II, and made the head of each agency responsible for establishing and maintaining the agencies' own systems of accounting and internal controls. Later, the Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Act of 1974 made further improvements to federal financial management practices.

Others outside of Congress were concerned about the government's financial habits. A comprehensive analysis by the Association of Government Accountants (or AGA) documented that federal departments and agencies were accountable to too many different agencies for financial management matters.[2] Over the years, Congress and the central agencies (the GAO, the OMB, the Treasury, the General Services Administration, and the Office of Personnel Management) had all had government wide financial management responsibilities and roles, though under somewhat conflicting and duplicative laws. Never had Congress designated a single agency as responsible for improving federal financial management, and no

[1] *U.S. General Accounting Office, **Managing the Cost of Government**, March 1984, Washington, D.C.*

[2] *Association of Government Accountants, **Strengthening Controllership in the Federal Government—A Proposal**, May 1985, Alexandria, Va.*

agency was given sole authority to make needed changes. None could set and require compliance with sound financial management policies and practices and none could be held responsible when laws and policies were not implemented or when problems arose, as they began to in the late 1980s.

The AGA study described Congress as appearing to operate as the federal government's board of directors: passing laws, setting overall policy, and authorizing taxes, spending, and debt levels. Its agent, the GAO, prescribed accounting principles and standards, and tried to obtain compliance by reviewing the entities' systems of accounting and controls. Congress was reluctant to require adherence to its own laws, and individual entities could and did ignore the recommendations and pleadings in GAO reports. The executive branch of government lacked a clear line of authority for fixing these financial problems. These and other and issues were of concern to many in and out of the federal government.

Two years after the federal financial crisis of 1987, another study, this by the American Institute of Certified Public Accountants,[3] captured the ongoing status of federal financial management:

- *"The 1950 Act [the Budget and Accounting Procedures Act] created a climate for confusion and noncompliance by giving the executive departments the responsibility for establishing and maintaining systems of accounts that conform to GAO standards and integrating those systems with the OMB's budgetary accounting requirements and the Treasury's reporting requirements.*
- *"Although the GAO, headed by the Comptroller General, had prescribed accounting principles and standards, the Treasury, the OMB, and individual departments and agencies have disagreed with GAO over the need for or applicability of a number of the GAO's accounting principles and standards. Inadequate due process and irrelevance of some standards are also cited as reasons for noncompliance.*
- *"The parties affected by the standards felt that the process by which standards were established did not provide for the free and open debate that was necessary for consensus.*
- *"Some of the prescribed standards are perceived to be irrelevant to the unique objectives and environment[al] nature of the federal government. Noncompliance has resulted."*

The AICPA study contained four major conclusions and recommendations, which would form much of the basis of the Chief Financial Officers Act of 1990:

1. *There is no single chief financial officer (CFO) charged with and held responsible for the fiscal and financial affairs of the country.* Recommendation: A full-time CFO, for the federal government—and controllers for

[3] *AICPA, "Discussion Memorandum: **Federal Financial Management—Issues & Solutions**," September 1989, New York, N.Y.*

each department and agency—to organize and execute financial management responsibilities.

2. *The current accounting and reporting practices and procedures may not be appropriate to the unique circumstances of the federal government and are not being applied consistently government-wide or within individual departments and agencies.* Recommendation: Governmental adherence to consistent accounting and reporting criteria across its many departments and agencies.
3. *The financial statements of federal departments and agencies are not uniform or comparable government-wide.* Recommendation: Annual preparation and publication of complete, consistent, and reliable financial statements of the government's financial position and results of operations.
4. *The federal government does not require annual independent audits of its financial statements, although it has legislatively imposed this requirement on many state and local governments, publicly owned companies, and others.* Recommendation: Independent audits of the government's financial statements every year.

At about the same time, the Financial Executives Institute (the professional organization of the Fortune 500 chief financial officers) published a report that reached similar conclusions. Nearly everyone seemed to agree with Congress, which had concluded the following in the CFO Act:

> *The federal government is in great need of fundamental reform in financial management requirements and practices as financial management systems are obsolete and inefficient, and do not provide complete, consistent, reliable, and timely information.*

THE CHIEF FINANCIAL OFFICERS ACT OF 1990

Passed during the waning moments of the 101st Congress and signed into law by the President on November 15, 1990, the Chief Financial Officers Act reflected the frustrations of many members of Congress and a concern that much must be done quickly to redirect the financial management practices of the federal government. Congress, in the preface to this act, outlined the extent of the problems:

- General management functions of the Office of Management and Budget needed to be significantly enhanced to improve the efficiency and effectiveness of the federal government.
- Financial management functions of the OMB needed to be significantly enhanced to provide overall direction and leadership in the development of a modern federal financial management structure and associated systems.
- Losses amounting to billions of dollars each year through fraud, waste, abuse, and mismanagement among the hundreds of programs in the federal government could be significantly decreased by improved management, including improved central coordination of internal controls and financial accounting.
- The federal government needed fundamental reform in its financial management systems, which were obsolete and inefficient, and did not provide complete, consistent, reliable, and timely information.
- Current financial reporting practices of the federal government do not accurately disclose the current and probable future cost of operating and investment decisions, including the future need for cash and other resources; do not permit adequate comparison of actual costs among executive agencies; and do not provide the timely information required for efficient management of programs.

Congress intended to create uniform department and agency systems for budgeting, accounting, reporting, internal controls, and personnel practices. The ultimate purpose of their legislation was to provide for complete, reliable, consistent (year to year), timely, and uniform (among departments) financial information, badly needed for financing, managing, and evaluating federal programs—and not least of all for citizens who wanted to know what happens with their tax monies.

The CFO Act reaffirmed the intent of Congress. It required, for the first time, department controls, adherence to applicable accounting and reporting standards, annual financial statements by federal entities, and independent audits of those financial statements. To accomplish these goals, the CFO Act, among other things, centralized authority and responsibility for better accounting, controls, and financial management into one agency—the OMB.

Financial Management—Responsibilities of the OMB

With the CFO Act, Congress established two separate deputy directors at the OMB—one for budget and one for management. The act also caused changes both within the OMB and between the OMB and the operating departments and agencies. A senior executive position, the Deputy Director of OMB for Management, was established and the role of the "M" in OMB—federal financial "M"anagement—was significantly expanded.

Setting Financial Management Policy

By section 503 of the act, the "M" of OMB was now responsible for establishing the general management policies for all executive branch entities, and for performing all functions of the Director of OMB and those functions delegated by the President.

The OMB was given the continuing role of facilitating congressional and executive branch actions to improve management of government operations and remove impediments to effective administration. The OMB was required to perform rather specific financial management oversight and operational responsibilities, including:

- Settling differences arising among agencies regarding implementation of financial management policies
- Issuing those policies and directives necessary to carry out the CFO Act
- Providing for complete, reliable, and timely information to the President, Congress, and the public regarding management activities of the executive branch
- Chairing the new Chief Financial Officers Council, established by Section 302 of the CFO Act

Additionally, the OMB was to communicate directly with financial officers of states and local governments and foster the exchange of information concerning financial management standards, techniques, and processes. The congressional objects of having the OMB work with state and local governments were to improve and strengthen intergovernmental relations and to provide assistance to these governments with respect to intergovernmental programs and cooperative agreements. Exhibit 2.1 summarizes the authority and responsibilities conferred on the OMB by the CFO Act.

Determining Budgets for Systems

Congress, to correct perceived and existing federal financial management deficiencies, made the OMB responsible for providing complete, reliable, and timely information to the President, Congress, and the public regarding the management activities of the executive branch. Among the specific responsibilities were that the OMB must:

- Establish, direct and give leadership for financial management policies and requirements, and monitor the establishment and operation of federal government financial systems.
- Review agency requests for financial management systems and operations and advise on required resources for developing, effectively operating, maintaining, and correcting, federal financial management systems.
- Establish the general management policies for executive agencies and perform several general management functions relating to managerial systems; systematic measurement of performance; procurement policy; grants, cooperative agreements, and assistance management; information and statistical policy; property management; human resource management; and regulatory affairs.[4]

[4] *In October 1999 the auditing profession formally recognized the Federal Accounting Standards Advisory Board as the official promulgator of generally accepted accounting principles. While some realignment of federal responsibilities will result and a future law may codify this recognition, the substance of federal accounting is not likely to vary significantly.*

Exhibit 2.1 Sequence and Sources of Generally Accepted Accounting Principles for the Federal Government

Priority Sources for Federal GAAP

1. Individual standards agreed to by the Director of the OMB, the Comptroller General, and the Secretary of the Treasury and published by the OMB and the General Accounting Office
2. Interpretations related to OMB statements of federal financial accounting standards, issued by the OMB in accordance with the procedures outlined in OMB Circular A-134, titled, *Financial Accounting Principles and Standards*
3. Requirements contained in the OMB's *Form and Content* Bulletin in effect for the period covered by the financial statements
4. Accounting principles published by authoritative standard setting bodies and other authoritative sources:
   (a) in the absence of other guidance in the first three parts of this hierarchy, and
   (b) if the use of such accounting principles improves the meaningfulness of the financial statements

Source: Federal government's Office of Management and Budget, Publication OMB Bulletin 97-101, *Form and Content of Agency Financial Statements,* Washington, D.C.

The OMB was also made responsible for conducting organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation / demonstration programs.

Tracking and Costing Budgets

For decades, the tracking of, accounting for, reporting on, and costing of congressional appropriations was not done to the satisfaction of Congress or others interested in what the federal government was doing and spending. Federal financial information was not uniform within units of the same department or with other departments or across the government; nor was it consistent from one fiscal year to another. Financial information was not timely for managing and was neither complete nor accurate. For these and other reasons, Congress, by the CFO Act, required that the OMB also:

- Oversee, periodically review, and recommend changes to entities with respect to their legislative proposals and budgets, their budget execution and performance reports, and their administrative structure with respect to financial management activities
- Review and recommend changes to budgets and legislative proposals of agencies to ensure consistency with financial management plans of the OMB

- Monitor execution of the federal budget in relation to actual expenditures, including timely performance reports

Improving Competence of Financial Managers

The CFO Act is unique among federal laws in requiring that the persons appointed to senior federal financial management positions be competent and possess relevant experience—a matter which had been of concern to many during the 1980s and before. This act gave the OMB further important responsibilities in this area to:

- Develop and maintain qualification standards for agency CFOs and deputy CFOs appointed under the act, and advise departments and agencies with respect to the selection of their CFOs and deputy CFOs
- Advise agencies on the qualifications, recruitment, performance, and retention of other financial management personnel
- Assess the adequacy of professional qualifications and capabilities of financial management staffs throughout government, and recommend ways to correct problems impairing the efficiency of those staffs
- Advise agencies on the qualification, recruitment, performance and retention of managerial personnel

Controllership Responsibilities: Another New Role

Among other things, the CFO Act placed leadership responsibility and the authority to improve federal financial management with two newly appointed OMB executives: a deputy Director of the OMB, and a Controller of the federal government. These executives were to provide leadership, advice, review, oversight, and maintenance support of a myriad of financial management areas. Just a partial listing of the OMB's new controllership roles and responsibilities, to be led by its two new executives, includes:

- Establish financial management policies and requirements related to monitoring, establishing, and operating federal government financial systems
- Review financial budgets and requests for funding to more effectively operate and maintain or improve federal financial management systems
- Monitor the financial execution of the federal budget in relation to actual expenditures, including timely reporting
- Develop and maintain the qualifications standards for all federal department and agency chief financial officers, and advise on the recruitment, performance monitoring, and retention of these executives
- Arbitrate differences among agencies regarding the implementation of financial management policies

- Prescribe the form and content of entity financial statements required under the CFO Act in accordance with applicable accounting principles, standards, and requirements

As to the specific position of OMB Controller, for 200 years, Congress had seen no need to make a single office or individual responsible for the federal government's accounting, reporting, and overall financial management. But in 1983, organizations and individuals both within and outside of the federal government called for the establishment of a Controller of the United States, to be established within the executive branch. (In 1987 the OMB had administratively added the Controller title and some financial management responsibilities to an existing OMB position.)

By the CFO Act of 1990, the Controller position was more than an administrative adjustment—it was law. Section 203 of the act established within the OMB an office of federal financial management, to be headed by a Controller. This federal executive is to be appointed by the President and serve with the advise and consent of the Senate. Congress required that the Controller be qualified and that he or she possess relevant financial management experience. For example, the act required that the Controller be appointed from among "... individuals who possess

> (1) *demonstrated ability and practical experience in accounting, financial management, and financial systems; and*
> (2) *extensive practical experience in financial management in large governmental or business entities."*

It is the OMB Controller who is directed by Congress to carry out the financial management functions and exercise those responsibilities under the direction of the OMB's deputy director for Management.

Department and Agency CFOs

The Chief Financial Officers Act (as amended) required the appointment of a chief financial officer in operating departments and agencies and in some independent offices.

By Section 205 of the CFO Act, each chief financial officer, for cabinet and larger agencies, was to be appointed by the President; serve with the advice and consent of the Senate; or be designated by the President, in consultation with agency heads, from among officials of the agency who are required by law to be so appointed. For the smaller agencies and offices, the chief financial officers, or CFOs, were to be appointed by the head of the agency, to be in federal career competitive service or the senior executive service, and to be career appointees.

Congress mandated that these executives be experienced and possess a certain level of competence to serve in these positions. For example, the Chief Financial Officers Act of 1990 stated that the CFOs for both large and small federal entities were to be appointed or designated "... from among individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities."

The duties for department and agency CFOs were specific in several different management areas and included financial as well as nonfinancial roles, such as: financial and nonfinancial systems, monitoring and accounting for budget execution, all aspects of all entity personnel having financial responsibilities, and certain department-wide reporting and budget-type responsibilities.

The following sections provide a partial listing of those financial management responsibilities imposed on departmental and agency CFOs by the Chief Financial Officers Act of 1990.

Department and Agency CFOs

Congress had found that the financial management functions of the OMB, departments, and agencies needed to be significantly enhanced to provide direction and leadership for the development of a modern federal financial management structure with associated supporting systems.

Prior to the CFO Act, the financial management function was not organized in a uniform manner across the government. Additionally, responsibilities for financial management were dispersed among several senior executives. At larger departments and agencies, these responsibilities were dispersed among several executives at the assistant secretary level. In no federal entity did a single official have the full range of financial management functions. Further, the average tenure of these executives was about 18 months—a term of service that produced constant turnover and that was too short to permit these executives to preside over the entire design, development, and installation of a new accounting system for a federal entity, often a several-year undertaking.

Furthermore, the program and operational managers and heads within departments and agencies often had their own financial personnel reporting to them. Financial managers had little or no responsibility for these program and operational financial staffs.

After the CFO Act, however, these senior financial executives—now CFOs—were to report directly to the heads of their federal establishments on financial management matters, and would oversee all financial management activities relating to the programs and operations in their organizations. The responsibilities of the CFOs and deputy CFOs also extended to developing and maintaining inte-

grated agency accounting and financial management systems, including reporting and internal controls to:

- Comply with applicable accounting principles, standards, and requirements, and internal control standards
- Comply with policies and requirements prescribed by the OMB
- Comply with other requirements applicable to systems
- Provide for (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the systematic measurement of performance
- Develop and support agency financial management budgets
- Approve and manage agency financial management systems design and enhancement projects
- Implement agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control

Congress chose specifically to place financial and nonfinancial systems responsibilities with the department and agency CFOs. Previously, delegation of these responsibilities was determined by the head of individual federal establishments, and they were often dispersed among various support-function executives and program executives, many of them with neither management, systems, nor financial experience.

Agency CFO Systems Responsibilities

The CFOs of the federal entities were directed to develop and maintain integrated agency accounting and financial management systems, including financial reporting and internal controls. These systems had to comply with applicable accounting principles, standards, and requirements; internal control standards, policies, and requirements of the OMB; and with other systems requirements.

Chief Financial Officers were also tasked with approving and managing agency-wide design or enhancement projects for financial management systems. Congress also extended to the CFOs' systems responsibility specifically to include implementing the agency's asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management control. Another major systems task cited in the act was that CFOs were to provide complete, reliable, consistent, and timely information, prepared on a uniform basis, and responsive to the financial information needs of agency management.

be ascertained by a previous law. The public security is complete in this particular, if no money can be expended, but for an object, to an extent, and out of a fund, which the laws have prescribed.[1]

The Treasury, founded in 1789, is among the oldest of federal agencies and is the principal fiscal agent of the government. It is charged by law with the responsibility for maintaining the central accounts of the government. The central accounts, in practice, include those relating to the collection, accounting, and disbursing of cash, which together prescribe a uniform system of fiscal reporting for all federal entities. In 1994, the Government Management Reform Act further required the Treasury, for the first time in the country's history, to prepare and submit to Congress an annual audited financial statement reflecting the overall financial position of the United States government.

The Treasury also has numerous other functions, some of which include: managing the federal public debt (i.e., borrowing, managing the federal cash flow, repaying federal principal and interest); serving as the government's banker for a system of commercial depository banks and the Federal Reserve Banks; and printing currency and minting coin.

The Treasury's responsibilities for central accounts and reporting are distinct from its responsibilities related to accounting and reporting for its appropriations and for the fiscal management of its operations. As a federal entity, the Treasury is still responsible for managing and costing its own performance in the same manner and subject to the same federal laws and regulations for congressional appropriations and stewardship as all other federal entities.

Many laws since the Constitution have defined the Treasury's fiscal responsibilities. Some of the older and more notable (and a few of the more recent) include:

- *House of Representatives Order*—The U.S. House of Representatives has long required, by standing order, an annual report on receipts and outlays of the federal government.

  On the first day of each regular sessions of Congress, the Secretary [of the Treasury] shall submit to Congress a report for the prior fiscal year on the total amount of public receipts and public expenditures listing receipts and public expenditures, when practicable, by ports, districts, and states and the expenditures by each appropriation. [31 USC 331 (c)]

[1] *Powell, F. W., "Control of Federal Expenditures—A Documentary History." Brookings Institution, Washington, D.C., 1939, p. 133 as quoted by Committee on Government Operations, U.S. Senate in* ***Financial Management in the Federal Government****, Washington, D.C., 1971.*

The Secretary of the Treasury shall prepare reports that will inform the President, Congress, and the public on the financial operations of the United States Government. [31 USC 351 (a)][2]

- *Dockery Act of 1894*—The Dockery Act was more specific with respect to the Treasury's reporting. This act stated that it was now the duty of

  . . . the Secretary of Treasury annually to lay before Congress, on the first day of the regular session thereof, an accurate combined statement of the receipts and expenditures during the last preceding fiscal year of all public moneys. . . .

- *Budget and Accounting Procedures Act of 1950*—The Treasury's responsibilities continued to be refined into the late 20th century. For example, the Budget and Accounting Procedures Act of 1950 provided that

  . . . the Secretary of the Treasury shall prepare such reports for the information of the President, the Congress, and the public as will present the results of the financial operations of the Government. . . .

- *Government Management Reform Act of 1994*—A recent refinement of the Treasury's accounting responsibility appears in the Government Management Reform Act of 1994. In the 200-year existence of the country, neither congresses nor presidents encouraged the development of an annual financial statement for the federal government as a whole. This 1994 act [section 3515(c)] now requires that

  . . . the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, shall annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year. . . . The financial statement shall reflect the overall financial position, including assets, liabilities, and results of operations. . . of the United States Government. . . in accordance with the form and content requirements set forth by the Director of the Office of Management and Budget.

THE CENTRAL ACCOUNTS SYSTEM

The central system of accounts is a consolidated record on the fiscal position of the government for which a legal reporting must be made by the Treasury to the

[2] *H.R. standing order, dated December 31, 1791, later superseded by 31 USC 331 (c) and 351 (a) noted in Chapter 6,* ***Annual Report of United States Government****, by U.S. Treasury Department, Washington, D.C., December 23, 1994.*

Congress, the President and the public. The central accounts are *not* the government's overall general ledger for all assets, liabilities, receipts, and expenditures nor the operating, subsidiary, and support data accounts for federal programs. Further, the central accounts are of minimal or no utility to department and agency heads and their financial and program managers.

The central accounts reflect only the cash, receivables, liquid assets, and liabilities of the United States, publicly reported by the Treasury on a daily, monthly, and yearly basis. The information in the Treasury's central accounts does not originate from and cannot be documented at the Treasury. Rather, this information is passed monthly or more frequently by federal entities to the Treasury which posts it into the central accounts. The federal entity gets its information from reported collections or deposits recorded on statements submitted to (or by) federal disbursing and collecting officers.

Accounting Activities in the Central Accounts System

Supporting the central accounts is a receipts and expenditures fund coding system of government-wide fund symbols, published annually. This coding structure must be used by all federal establishments when reporting receipts and disbursements to Congress, the OMB, the GAO, and the Treasury.

Though the term "appropriation" is most often used in reference to federal obligation and expenditure transactions, it applies equally to federal receipts. Receipt and expenditure symbols assigned by the Treasury identify several key facts about congressional appropriations and other budget authorities: (1) the department or agency, (2) the fiscal year, (3) years of fund availability, and (4) the appropriation number. This account symbol structure is similar for both receipts and expenditure appropriations.

Accounting for Receipts

Statements are rendered monthly to the Treasury by many federal disbursing officers and collection officers showing both funds disbursed and funds collected and deposited on behalf of the government. Collections arise from several sources and are classified accordingly. When they are classified by the *nature* of the receipt, one of the following titles would generally be used. Note that these titles are not mutually exclusive, but rather serve different reporting objectives.

- *Governmental receipts*—collections from the sovereign right to levy and collect taxes (e.g., income taxes and duties)
- *Proprietary receipts*—collections resulting from business-type operations of various agencies (e.g., licenses, sales of publications, fees)
- *Intrabudgetary receipts*—collections resulting from activities between various federal accounts that do not increase the net funds of the federal government

Other classifications are used to identify receipts by the *type of fund* into which they will be added. This classification would define receipts in the following manner:

- *General fund receipts*—all receipts not earmarked by law for specific purposes (e.g., internal revenue taxes, custom duties, and several types of miscellaneous receipts)
- *Special fund receipts*—receipts from specific sources that are earmarked by law to finance specific programs of the government.

It is the general fund receipts that comprise the appropriations used to finance the discretionary programs set forth in the President's budget request, pursuant to review and approval of Congress.

Receipts might also be referred to by their *source*. In this instance, internal revenue receipts, alcohol and tobacco taxes, and custom receipts, for example, would be collected by agencies within the Treasury.

As mentioned, none of these classification groupings or terms are mutually exclusive and, in practice, some confusion exists.

Once the receipts are classified by either their nature, their source, or the type of fund, the vast majority of receipts or collections are recorded in two general fund accounts: 0100–Taxes; and 0300–Customs Duties. Exhibit 6.1 illustrates some of the principal receipt appropriation fund symbols established by the Treasury. Historically, the symbol used by the federal collection agency has consisted of a six-digit code: the first two digits identify the collecting department or agency; the next four digits identify the fund type or type of receipt.

Over the years, the Treasury has identified over 1,000 separate appropriation receipt accounts; however, only a few are applicable to most departments and agencies. In fact, the GAO once noted that nearly 80 percent of the federal government's resources are related to less than 5 percent of the budget accounts; conversely, 85 percent of all budget accounts contain about 6 percent of the federal total budgetary resources.[3]

Accounting for Disbursements/Outlays

A congressional appropriation is required to provide an agency with the authority to obligate and expend funds. These appropriations could be related to general, special, or trust fund appropriations and other budget authority, all of which can be conferred only by Congress. Once funding is appropriated, the Treasury must inform the responsible agency of the amounts available for obligation and expenditure by way of a Treasury warrant, as discussed in Chapter 5 and illustrated in Exhibit 5.1.

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[3] *U.S. General Accounting Office, report GAO/AIMD-95-179,* ***Budget Account Structure—A Descriptive Overview,*** *p. 369, Washington, D.C., 1995.*

Exhibit 6.1 Account Symbols and Titles for Major Classes of Receipts by Fund

Type of Fund	*Account Symbol*
General Fund	
Governmental Receipts	
Taxes	0100
Custom duties	0300
Receipts from monetary power	0600
Fees for regulatory and judicial services	0800
Fines, penalties, and forfeitures	1000
War reparations and recoveries under military occupations	1100
Gifts and contributions	1200
Clearing accounts	3800
Proprietary Receipts	
Interest	1400
Dividends and other earnings	1600
Rent	1800
Royalties	2000
Sale of products	2200
Fees and other charges for services and special benefits	2400
Sale of government property	2600
Realization upon loans and investments	2800–2900
Recoveries and refunds	3000
Special Fund	5000
Trust Fund	
Departments and agencies	7000–8999
District of Columbia	9000–9999

Source: Adapted from *Treasury Fiscal Requirements Manual,* U.S. Treasury Department, Washington, D.C.

Treasury account symbols for expenditure appropriations may contain varying numbers of digits, possibly up to ten. As with the receipt appropriations, there is an agency identifier—the same code as used for receipts. For expenditure account symbols, however, four more digits have been assigned to designate the type of fund from which the expenditure is to be made. Additionally, the expenditure symbol describes the duration for which obligational authority exists, by identifying the date the authority expires:

- A *one-year appropriation* is available for obligation for a period of one fiscal year, and is designated by the last digit in the fiscal year. Years ending on September 30, 1999 and 2000 would be shown as "9" and "0."
- A *multiple-year appropriation* is available for obligation for more than one fiscal year and is designated by showing the first and last years for which obligational authority exists. A three-year appropriation beginning in fiscal year 1999 and ending in 2002 would be shown as "9/2."
- An *expired appropriation* is no longer available for obligation, the authority to obligate these funds having expired at least five fiscal years earlier. Any obligated balances, still unliquidated five years after the expiration date of an appropriation, are transferred to the Treasury. At the Treasury, these unliquidated obligation balances are merged into the central accounts. Particular Treasury accounts are designated by the letter "M" in lieu of a fiscal year digit to signify merged accounts.

Exhibit 6.2 includes the coding that might be used for a multiple-year appropriation. Exhibit 6.3 lists the nature of major expenditure fund appropriation account symbols used by the Treasury in its central accounts for past years.

Accounting for Expired Receipt and Expenditure Appropriations

Concerned about abuses and certain unintended practices by some subcommittees and executive agencies, Congress passed and the President approved Public Law 101-510. This law changed the historical practices with respect to the use of and accounting for expired appropriations.

Public Law 101-510 requires that all federal entities may expend their remaining budget authority for five years after the expiration of a definite (as to the time availability, purpose, or amount) appropriation to pay unliquidated obligations and liabilities still on the books. At the end of that five-year period, all authority to spend, both obligated and unobligated, is canceled. The unused budget authority is withdrawn from federal entities and transferred to the Treasury, and any receivables and payables on the book are canceled for the expired appropriation.[4]

Treasury guidance now provides that at the time of cancellation, an accounts receivable is established in a miscellaneous receipt account of the Treasury for future collection efforts. Upon collection, the funds are deposited in the miscellaneous receipt account of the Treasury. With respect to obligations and payables, if these claims prove valid, the Treasury will pay the claim, providing two tests are met:

1. The first test is applied to the old appropriation—in other words, the now-expired appropriation. There must be unused canceled appropriation or budgetary authority sufficient to have funded the payments if such payments had been made from the old appropriation. The failure to meet this test will probably result in a violation of the Anti-Deficiency Act, pro-

[4] *Accounting for Expired Appropriation Authority Under Requirements of P. L. 101-510, Financial Management Service, Department of the Treasury, Washington, D.C., 1991.*

Exhibit 6.2 Illustration of Treasury Receipt and Expenditure Appropriation Account Symbols

RECEIPT APPROPRIATION ACCOUNT SYMBOL

3 6 4 2 2 0

Agency identifier (in this case, the Veterans Administration) — 36

Summary fund group in which receipt is recorded (in this case, fees for services) — 42

Subsidiary account (of the Veterans Administration) — 20

EXPENDITURE APPROPRIATION ACCOUNT SYMBOL

2 0 0- 1 1 8 0 1

Agency identifier (in this case, the Treasury) — 20

Period available for obligation (in this case, multiple fiscal years of 1980 and 1981) — 0-1

Fund-purpose of the appropriation (in this case, the specific accounts for Salaries and Expenses, Bureau of Governmental Financial Operations) — 1801

Source: Adapted from *Treasury Fiscal Requirements Manuals, Receipts, Appropriations, and Other Fund Account Symbols and Titles*, U.S. Treasury Department.

hibiting obligations and expenditures in excess of an apportionment approval of the OMB or an appropriation of Congress

2. The second test is applied to the new appropriation of the department or agency. The total payments from the new appropriation for obligations and payables of the old appropriation cannot exceed 1 percent of the new appropriation. This 1 percent amount will be separately apportioned. Unused amounts from the 1 percent may be transferred back to the remaining 99 percent and used to fund new transactions. If such payments to be made exceed the 1 percent limitation, additional budgetary authority must be sought from Congress.

Under OMB guidance, the liabilities may not be recorded on the books of a subsequent appropriation until (1) valid bills are received for payment, and (2) it is certain payment will be made from that subsequent appropriation.

Exhibit 6.3 Appropriation and Other Expenditure Account Symbols by Fund

TYPE OF FUND	ACCOUNT SYMBOL
General fund	0000–3899
Management, including consolidated working fund	3900–3999
Revolving fund	
Public enterprises	4000–4499
Intragovernmental	4500–4999
Special fund	5000–5999
Deposit fund	6000–6999
Trust fund	
Departments and agencies (exclusive of the District of Columbia)	7000–8999
District of Columbia	9000–9999

Source: Adapted from *Treasury Fiscal Requirements Manual*, U.S. Treasury Department, Washington, D.C.

With respect to an appropriation that is available for obligation or expenditure for an indefinite period, the obligational or expenditure authority will be canceled only if the head of the department or agency concerned or the President determines that the purpose for which the appropriation was made has been carried out and no disbursements have been made for two consecutive fiscal years. If an indefinite appropriation is canceled, all status accounts for that appropriation are closed.

Note that with respect to both indefinite and expired definite appropriations, the emphasis is on existing unliquidated obligations and existing liabilities. A federal establishment is not permitted to enter into new obligations or incur new liabilities once an appropriation has expired.

Reporting for the Central Accounts

Reporting to the Treasury by Federal Entities

Within federal departments and agencies, the reporting given to the Treasury is viewed as an external reporting function with minimal utility to most executives of individual federal entities. Most departmental program managers are oblivious to their entity's reporting for central accounts purposes, and even if they were interested, they would not be able to use the reported data for any operational or management purpose.

The receipts and expenditures of the United States government and related budget surplus or deficits are published monthly by the Treasury, based on the information submitted to it by federal disbursing and collecting officers. A monthly

Treasury statement reconciles the central accounts and the accounts of the various reporting agencies.

In these Treasury reports, expenditures are shown on a checks-issued basis and include both cash payments and withdrawals or advances made under federal letters of credit. Receipts are shown on the basis of cash collected, as reported by the many federal disbursing and collecting officers.

This central reporting is fairly streamlined, involving minimal forms and documents, and will vary for each federal entity depending on whether its receipt and expenditure transactions are handled directly by the Treasury or it is an exempted entity that makes its own collections and directly disburses funds. Entities such as the Department of Defense, some other offices, and certain government corporations are exempted. For such an entity, the reporting of collections and disbursements is done directly through its disbursing officer without separate reporting by that entity to the Treasury.

Those entities that are not exempted, however, must subscribe to the reporting forms and procedures that follow.

Statements of Transactions and Accountability. Reporting by most federal entities includes the monthly submission of a statement of transactions showing total receipts and disbursements for the month. This reporting (for years done on government-wide Standard Forms) must be accompanied with details showing lists of confirmed deposits and debit vouchers shortly after the end of the month (historically no more than three days).

Receipts and disbursements must be reported by related appropriation, fund type, and symbol. There are three types of disbursements that each require their own specific statements: (1) disbursements from foreign service accounts, (2) disbursements made by agencies on their own behalf, and (3) disbursements made by federal Treasury disbursing officers at the request of individual departments and agencies.

Statement of Obligations. Reports of obligations are submitted by most federal entities to the Treasury not later than 20 calendar days after the close of each month. Such a reporting is made for each general fund, management fund (as well as consolidated working funds), revolving fund, special fund, and trust fund when it is anticipated that the reportable obligations of the fund will exceed $1 million in a fiscal year. Amounts on these reports must agree with the related obligational data also submitted to the OMB.

Statement of Unexpended Appropriation Balances. A year-end closing statement on the unexpended balances of appropriations shown on department and agency records must reconcile to those shown in the central accounts of the Treasury. This reconciliation takes into consideration several events that might have previously

been unknown to the Treasury, such as transfers of amounts or balances to the M-accounts; withdrawals of appropriated amounts; reimbursements; and receivables, outstanding undelivered orders and contracts, payables, and other liabilities.

This statement is used to monitor compliance with the provisions of the Anti-Deficiency Act relating to the validity of reported obligations and the possible need for supplemental appropriations.

Financial Condition and Income, and Retained Earnings Reporting. A statement of financial condition (i.e., a balance sheet) and related statement of income and retained earnings are submitted by fiscal quarters, semiannually, and annually to the Treasury by any revolving fund or business-type activity operating within the federal general fund or special funds.

Reporting by the Treasury

The central accounts of the Treasury have as their principal purpose the support of several financial reportings that the Treasury must make to Congress, the President, and the general public. These financial reports are an accounting, essentially on a cash basis, for the operations of the federal government as a whole, and include:

- The daily statement of the United States Treasury
- The monthly statement of receipts and outlays of the United States Government
- Combined statements of receipts, expenditures, and balances of the United States Government

Daily Treasury Statement. Each day, the Treasury releases a report of transactions affecting the central accounts of the Treasury. The Daily Statement of the United States Treasury includes information on the fiscal position of the government, such as:

- Statement of assets and liabilities concerning only the central accounts of the Treasury
- Summary of changes in the balance of the central accounts, for the month, year-to-date, and the corresponding periods of the prior year
- Summary of cash deposits and withdrawals for the month, year-to-date, and the corresponding periods for the prior year
- Summary of certain transactions reflecting increased value of outstanding public debt securities sold at a discount during the period

At month end, certain additional information is published to supplement the Daily Statement. The additional content issued on the last day of each month relates to:

- A detailed statement of public debt receipts and expenditures for the month, year to date, and the corresponding periods for the prior year
- A summary of public debt and guaranteed debt outstanding for the current date and the corresponding date for the prior year
- A detailed statement of outstanding public debt, showing the amount of each obligation issued, both retired and outstanding
- A statement of guaranteed debt of the government, at the end of the month
- A summary of direct and guaranteed debt outstanding at certain dates
- A summary of the amount of savings bonds issued and retired for the month, year-to-date, and the corresponding periods for the prior year
- A statement of securities of government corporations and other agencies held by the Treasury at month-end

Monthly Treasury Statement of Receipts and Outlays of the United States. The Treasury's Monthly Statement of Receipts and Outlays reflects the budget surplus or deficit on a cash receipts and disbursement basis, not on a full accrual basis of accounting. Receipts are reported as collected; outlays are reported on the basis of checks issued and cash payments made. The exception is the public debt, which is reported on an accrual basis. This monthly statement is comprised of several tables containing such information as:

- Budget receipts, outlays, and related surplus or deficit for the prior year, current year to date, and estimates for the full current year as well as the means of financing the budget
- Budget receipts for the current year to date, classified by major sources and budget outlays and by departments, agencies, and other organizations, and compared to budget estimates for the year
- Budget receipts and outlays for the current month, year to date, and the corresponding period for the prior year by divisions in the budget document to permit comparison to budget estimates
- Means of financing the budget classified by assets and liabilities directly related to the budget, showing net transactions for the month and for current and prior fiscal years to date, as well as account balances at the beginning of the current year and month and the balances at the close of the month
- Budget receipts and outlays for each month of the current year, cumulative totals year-to-date, and a comparison to the prior year to date
- Summary of trust fund receipts and outlays for the current month and year to date, and securities held as investments at the beginning of the current year and month and at the end of the month
- Summary of net receipts by source and outlays by function for the month, current year to date, and the corresponding period of the prior year

This monthly report is published on a preliminary basis shortly after the close of the year. At this time, not all receipts and disbursements have been included in the accounts. But, it is the balance of this preliminary statement that is used to announce the budget surplus or deficit for the year. A final statement, issue some four months later, will contain the official financial position for the fiscal year, and will vary slightly from the earlier preliminary statement.

Combined Statement of Receipts, Expenditures, and Balances of the United States Government. Annually, the Treasury issues the Combined Statement of Receipts, Expenditures, and Balances of the United States Government in book form. This statement contains tabulations of financial data, segregated into several parts:

- Three financial statements for the federal government: the balance sheet, a statement of receipts and outlays, and a financing statement that shows when and what type financing was provided and applied to the operations of the federal government.
- One part concerning internal revenues, customs, and miscellaneous receipts for the fiscal year. This information is shown by source, category, and organizational entity. Data are also provided on individual income collections for social insurance programs, capital transfers, customs collections by district and ports, and internal revenue receipts by states and districts.
- A detailed statement of appropriations, outlays, and balances for the fiscal year by (1) budget expenditure accounts, (2) deposit fund accounts, and (3) a summary of budget authority, appropriations, outlays, and balances.
- Informational tables of data on appropriations and authorizations, public debt, and status of special and trust fund receipts.
- Information relating to each foreign current account for currencies acquired by the government without payment of dollars or other means.

Some of this information (e.g., the financial statements, details on receipts and appropriations, and outlays and balances) are compiled from the central accounts maintained by the Treasury. Other information in this annual statement is reported as received by the Treasury from individual departments and agencies.

Consolidated Financial Statements of the United States Government. Since 1975, the Treasury has issued prototype consolidated financial statements for the federal government in an attempt to provide a comprehensive financial reporting on the full range of federal government activities, structured in a manner similar to annual commercial or corporate financial statements. A recent refinement of the Treasury's accountability report was the Government Management Reform Act of 1994. The 1994 act requires:

. . . the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, shall annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year. . . . The financial statement shall reflect the overall financial position, including assets and liabilities, and results of operations of the executive branch of the United States Government and shall be prepared in accordance with the form and content requirements set forth by the Director of the Office of Management and Budget.

Types of Accounts in the Central Accounts System

The central accounts maintained by the Treasury (with the exception of the accounts the Treasury must maintain to keep track of its own appropriations and budget authority) is essentially a cash-basis, government-wide reporting system. The Treasury's central accounts consist of financial information reported by other federal departments and agencies. Within this central system, the Treasury has established receipt and outlay accounts that are further identified by (1) budget accounts and (2) other accounts.

Budget Accounts

Essential to the Treasury's central accounts is an elaborate appropriation and fund accounting coding system. The federal budget accounts are numerous and include both receipt and expenditure accounts.

General Fund Receipts Accounts. These accounts are credited with all receipts not earmarked by law for a specific purpose. General fund receipts include primarily Internal Revenue Service collections—income, excise, estate, gift, and employment taxes. Also included in this category are collections of duties through the Customs Service and a variety of other legally mandated collections.

Special Fund Receipts Accounts. These receipts accounts are credited with cash from different sources earmarked by law for specific purposes, but which is not generated from a cycle of government operations. Examples include rents and royalties under the Mineral Leasing Act, visitor revenues at Yellowstone National Park, and proceeds from sale of timber from federal lands. Congress may appropriate these receipts for use by the collecting federal establishment on an annual basis for indefinite periods of time.

General Fund Expenditure Accounts. These expenditure accounts are maintained by federal entities to record amounts appropriated by Congress to be spent for the general support of activities and programs of the federal government. The department and agency general fund expenditure accounts are classified according to

(1) limitations established by Congress as to the period of availability for obligations (e.g., one-year, multiple-year, no-year) and (2) the department or agency that is authorized to enter into obligations and approve outlays.

Special Fund Expenditure Accounts. These accounts are established to record appropriated amounts of special fund receipts that are to be expended for special programs in accordance with specific provisions of law.

Revolving Fund Accounts. Revolving funds are authorized by law to finance a continuing cycle of operations in which outlays generate receipts that are available for further outlay, generally with no further action of Congress. Such funds may be classified as public enterprise funds (i.e., receipts coming from outside the government), or intragovernmental funds (i.e., receipts coming from other appropriations or funds within the federal government).

Franchised Fund Accounts. In 1994, by the Government Management Reform Act, Congress established a number of franchise funds, which are financed in a manner similar to revolving funds. The franchise funds are reimbursed fees for services rendered. The reimbursed fees are set at a level to cover total estimated costs of the services and are deposited in the agency's accounts to remain available until expended to carry out the purposes of the fund. These types of funds are generally no-year type funds that may be expended with limitation as to period of availability.

Consolidated Working Fund Accounts. Consolidated working fund accounts are established by Congress to receive and disburse advance payments from agencies pursuant to Section 601 of the Economy Act of 1932, as amended, and other laws. Under this act, advances may be made by some agencies to the receiving entity, which is then responsible for accounting for the advance in a consolidated working fund account.

Such a fund can be established for the period of appropriation availability applicable to the purpose for which the advances were received. The supporting subsidiary accounts must be maintained by the receiving agency to differentiate the several appropriations from which the funds were received. Thus, the account symbols and titles assigned to these funds must be those published by the Treasury.

Consolidated working funds may be credited with advances received from more than one appropriation for procurement of goods and services. The goods and services would then be furnished by the performing federal entity in the same fiscal year. This type of working arrangement permits one federal agency to procure goods or services from another agency that might have a prior existing capability, thus saving the buying agency from establishing a duplicate capability.

Monies in consolidated working fund accounts are subject to the same fiscal-year limitations of the appropriations or funds from which they were advanced.

7 SYSTEMS REQUIREMENTS FOR ACCOUNTING AND INFORMATION

With the mandate of the CFO Act, initiatives to improve financial management began in earnest. As of 1990, the Federal Accounting Standards Advisory Board was recommending accounting policy. In 1993, there were new issuances with respect to financial policy direction, uniform accounting and reporting standards, and government-wide systems requirements. By 1994, the OMB had directed departments and agencies to establish and maintain a single, integrated financial management system that complied with FASAB, OMB, and Treasury promulgations.[1] Office of Management and Budget Circular A-134 was one of the federal government's earlier attempts to define systems concepts and methodology for federal entities. In Circular A-134 the OMB defined an agency's *financial system* as an information system comprised of one or more applications, used for any of the following data functions:

- Collecting, processing, maintaining, transmitting, and reporting data about financial events
- Supporting financial planning or budgeting activities
- Accumulating and reporting cost information
- Supporting the preparation of financial statements

Thus, the OMB required that a single integrated financial system track financial events, provide financial information significant to the financial management of the entity, and generate the information required for the preparation of financial statements and a variety of other financial-type reportings. This is in contrast to a long history of federal systems whereby multiple or partial systems supported only single functions and activities, and had limited utility to broader entity financial reporting and management oversight. Although described as systems, they were essentially limited-purpose data files, often referred to as stovepipe systems.

[1] *OMB Circular A-127, Financial Management Systems, 1993, updated and in part revised an earlier OMB Circular A-127 of December 1984.*

The term "application" is used by the OMB in a somewhat different manner than that normally encountered by financial managers and systems analysts. In Circular A-127, the OMB related the term to both financial and non-financial systems and included within the definition of an application any group of interrelated components of financial or mixed systems which supports one or more functions and has the following characteristics:

- A common data base
- Common data elements
- Standardized processing for similar types of transactions
- Common version control over software

The noted common data elements were now to be used to meet all federal entity reporting requirements and throughout the agency for the collection, storage, and retrieval of financial information. Until Circular 134, there had been neither the policy mandating the use of uniform data elements nor the expression of willingness to mandate uniformity within and between federal entities.

FEDERAL ACCOUNTING AND FINANCIAL REPORTING CRITERIA

Over many years, those involved with federal accounting standards have generally agreed that federal accounting and reporting systems must meet several criteria. Some or all of these have been cited at one time by the GAO, the OMB, the Treasury, and the Joint Financial Management Improvement Program (JFMIP); several appear in the CFO Act and the mission statement and objectives of the FASAB. Generally, all feel that federal accounting standards should include or permit the attainment of the following several criteria:

- Understandability
- Reliability
- Usefulness
- Consistency
- Timeliness
- Relevancy

Some of these criteria have unique significance with respect to the federal government.

Financial Data Must Be Understandable

Users of financial information tend to have different levels of knowledge and sophistication about government operations and its accounting and reporting requirements. Many federal executives are political appointees with non-management and

non-financial backgrounds. In addition, the temporary tenure of these senior appointed federal executives, approximating on average less than 18 months in office, places a premium on having data that is comprehensible to managers with non-financial backgrounds. Further, the enormity of the public's monies involved ($1.7 trillion on an annual basis), plus the largest debt in the country's history (some $5 trillion), make it critically important that government accounting and financial reports be readily understood, be free of jargon, and yet be as descriptive as possible. Financial data should be self-descriptive or user friendly to the maximum extent.

Financial Data Must Be Reliable

Financial data must be verifiable and free from bias, and must faithfully represent what it purports to communicate. Financial data must be complete, in that nothing should be omitted from the data that is necessary to faithfully represent the events, conditions, activities, functions, and so on that are reported upon.

Reliability does not imply absolute precision. All financial reporting requires estimates, judgments, and allocations. The degree of precision must always consider reality and the significance of the subject being reported upon. In many instances, properly reported estimates are meaningful, even essential, particularly if the alternative is no reporting at all.

Financial Data Must Be Useful

Financial data must present needed information that is useful to recipients. Usefulness should not be confused with detail. Unnecessary or excessively detailed reporting and accounting should be avoided since it tends to confound and confuse rather than enlighten.

Historically, federal reporting was directed towards fiscal accountability—that is, tracking the financial execution of appropriations and budgets and checks issued. Obligation-based and cash-based information demanded by the OMB, the Treasury, and Congress was the priority. The increasing complexity of federal programs, however, demonstrated this information had minimal utility to the executives and managers in federal entities who were responsible for overseeing or operating major operations. Today, there is a greater recognition that useful financial data must provide information to a variety of users on a variety of bases—budget, accrual, cost, cash—and each basis is itself unique and needed for specific purposes.

Financial Data Must Be Consistent

Consistently compiled financial data leads to uniformity and comparability of information, both of which are crucial to federal overseers and managers, particularly at the highest levels. Consistency of data, primarily capturing data at the lowest