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Chapter 2: Principal Authoritative Sources for Financial Policies and Accounting Standards

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330 DM 2

2.1 **Authoritative Sources.** This chapter lists and describes the principal federal laws, regulations, standards, policies, and other authoritative sources that DOI bureaus and offices must comply with when recording and reporting financial information for general purpose financial reports, i.e., those reports which are prepared from entity general ledgers in accordance with generally accepted federal accounting standards.

2.2 **Hierarchy of Accounting Standards.** The American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the body that establishes accounting principles for federal entities. The AICPA's hierarchy of generally accepted accounting principles (GAAP) in Statement of Auditing Standards (SAS) No. 91, The Federal GAAP Hierarchy, governs what constitutes GAAP for U.S. government reporting entities. The hierarchy lists the priority sequence of sources that an entity should look to for accounting and reporting guidance. See http://www.fasab.gov/accepted.html for the GAAP hierarchy for financial statements of federal governmental entities.

2.3 **Legislation.** Legislation is the foundation for most financial accounting standards in the U.S. Government. A discussion of the major laws affecting accounting and financial management follows:

A. Governing Legislation.

(1) Chief Financial Officers Act of 1990 (P.L. 101-576 (31 U.S.C. Sec. 501, et seq.) http://www.gao.gov/policy/12_19_4.pdf . This Act established a Chief Financial Officer (CFO) of the United States within OMB and a CFO in each executive Department. The legislation requires the CFO to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls which provides for (a) complete, reliable, consistent, and timely information which is prepared on a uniform basis and is responsive to the financial information needs of the agency management; (b) the development and reporting of cost information; (c) the integration of accounting and budgeting information; and (d) the systematic measurement of performance. The legislation requires an annual five-year financial management plan from each agency. The legislation also requires that agencies submit audited financial statements on each revolving fund, trust fund, and substantial

commercial function. The statements will be audited according to generally accepted Government auditing standards by the Inspector General or by an independent external auditor.

(2) The Government Performance and Results Act of 1993 (P.L. 103-62 (5 U.S.C. Sec. 306) (31 U.S.C. Secs 1115-1119) (39 U.S.C. 2801-2805). http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html. The purpose of the Act is to improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results. The Act requires agencies to initiate program performance reforms with a series of pilot projects in setting program goals, and measuring program performance against those goals, and reporting publicly on their progress. Under the Act agencies must improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Act requires that Federal managers improve service delivery, by requiring that they plan to meet program objectives and by giving them information about program results and service quality. Under the Act, Federal managers must provide to congressional decision makers objective information on the relative effectiveness and efficiency of Federal programs and spending. The Act establishes requirements for strategic plans, annual performance plans and reports, managerial accountability and flexibility, pilot projects and training.

(3) The Government Management Reform Act of 1994 (P.L. 103-356) (31 U.S.C. Sec 101, et seq.) http://www.thecre.com/fedlaw/legal1/s2170.htm. The Act requires that the head of each executive agency submit an audited financial statement to the Director of OMB each fiscal year. The financial statement must reflect the results of operations and cover all accounts and associated activity of each office, bureau and activity of the agency. The Act also requires an annual Government-wide financial statement that contains the results of operations of the executive branch.

(4) Federal Financial Management Improvement Act of 1996 (P.L. 104-208 (31 U.S.C. Sec. 801. et seq.)) http://www.dfas.mil/technology/pal/regs/ffmia.doc. This Act codifies certain financial management policies and audit procedures established by the Executive Branch. The legislation requires that each agency implement and maintain financial management systems that comply substantially with Federal Financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. In addition, auditors of an agency's financial statements are required to report on compliance with the basic requirements of the Act, and for agency heads and agency management to bring the agency's financial management systems into substantial compliance no later than three years after the date a determination is made.

(5) Budget and Accounting Procedures Act of 1950, as amended, (31 U.S.C. Subtitle III, Chapter 35, Subchapter II, Secs. 3511-3515, Subtitle III, Chapter 35, Subchapter III, Section 3521 (64 Stat. 832)) http://www.gpoaccess.gov/uscode/browse.html. This Act directs the Comptroller General of the United States, after consulting with the Secretary of the Treasury and the Director of OMB, to prescribe the principles, standards, and related requirements for accounting to be observed by executive agencies. Pursuant to the Act, the head of each executive agency has the responsibility for establishing and maintaining adequate systems of accounting and internal control, and preparing audited financial statements of agency revolving and trust

funds and other activities which involve substantial commercial functions. The use of accrual accounting, cost-based budgeting, consistent classification, simplifications of allotment structure, and adequate control of property is required to establish and maintain adequate systems of accounting and internal control. Furthermore, accrual accounting enhances the ability of agencies to execute cost-based budgeting.

(6) Accounting and Auditing Act of 1950 http://www.gpoaccess.gov/uscode/browse.html. This legislation (31 U.S.C. Subtitle III, Chapter 35, Subchapter II, Section 3512) established Government-wide policies for accounting and auditing to provide full disclosure of the results of financial operations; adequate financial information needed in the management of operations and the formulation and execution of budget; effective control over income, expenditures, funds, property, and other assets; full consideration to the needs and responsibilities of the legislative and executive branch in the establishment of accounting and reporting systems and requirements; maintenance of accounting systems and production of financial reports by the executive branch, auditing by the Comptroller General (CG); and emphasis on a continuous program for the improvement of accounting and financial reporting in the Government.

(7) Budget and Accounting Act of 1921, as amended, (31 U.S.C. Secs. 701 et seq., 1101 et seq.) http://uscode.house.gov/title_31.htm. This Act is considered the major legislation governing accounting in the Federal Government. The Act is also the enabling and descriptive legislation dealing with GAO and its general powers and duties.

(8) Single Audit Act of 1984 http://www.ignet.gov/pande/audit/mains.html. The purposes of this Act are to improve the financial management of State and local governments with respect to federal financial assistance programs; to establish uniform requirements for audits of federal financial assistance provided to State and local governments; to promote the efficient and effective use of audit resources; and to ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as added by the Act). See also OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations.

(9) Improper Payments Information Act of 2002, PL No. 107-300 http://www.dfas.mil/legislative/fy03a/PL107-300.htm. The Improper Payments Information Act of 2002 contains requirements in the areas of improper payment identification and reporting. It requires agency heads to annually review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. The legislation also required OMB to prescribe guidance for federal agency use in implementing the act. OMB published memorandum M-03-13 on May 21, 2003, in response to P.L. 107-300 requirements at http://www.whitehouse.gov/omb/memoranda/2003.html.

(10) Information Technology Management Reform Act of 1966 (ITMRA), Public Law 104-106, Division E http://www.whitehouse.gov/omb/memoranda/m96-20.html ITMRA repeals Section 111 of the Federal Property and Administrative Services Act of 1949 (popularly referred to as the "Brooks Act") and establishes a new statutory scheme for

information technology management and acquisition within the Executive branch. This act designated the chief information officer (CIO) and includes the role of the General Services Board of Contract Appeals (GSBCA) in information technology protests.

(11) Federal Information Security Management Act (FISMA) of 2002, (http://www.fedcirc.gov/library/legislation/FISMA.html to be updated to 44 U.S.C. 35, Subchapter III, Section 3541) http://www.gpoaccess.gov/uscode/browse.html)
This act provides a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets; recognizes the highly networked nature of the current Federal computing environment and provides effective governmentwide management and oversight of the related information security risks, including coordination of information security efforts throughout the civilian, national security, and law enforcement communities; provides for development and maintenance of minimum controls required to protect Federal information and information systems; provides a mechanism for improved oversight of Federal agency information security programs; acknowledges that commercially developed information security products offer advanced, dynamic, robust, and effective information security solutions, reflecting market solutions for the protection of critical information infrastructures important to the national defense and economic security of the nation that are designed, built, and operated by the private sector; and recognizes that the selection of specific technical hardware and software information security solutions should be left to individual agencies from among commercially developed products.

B. Budget Control.

(1) The Anti-Deficiency Act (31 U.S.C. Subtitle II, Chapter 13, Subchapter III, Sec. 1341 (31 U.S.C. Secs.1341, 1342, 1349-1351, and Chapter 15, Subchapter II, Sec.1511 et seq.)) http://www.gpoaccess.gov/uscode/browse.html. The portion of the Budget and Accounting Procedures Act of 1950, as amended by the Balanced Budget and Emergency Deficit Control Act of 1985, prohibits obligating or expending more than authorized ceilings, including funds to be sequestered.

(2) The Supplemental Appropriations Act of 1955 (31 U.S.C. Subtitle II, Chapter 11, Secs. 1108, Subtitle II, Chapter 15, Subchapter 1, Secs. 1501-1502) http://www.gpoaccess.gov/uscode/browse.html provides that an obligation is only enforceable when it is in writing; that the purpose is to avoid inappropriate spending based on oral obligations; and, that the balance of an appropriation limited to a definite period is available only for payment of expenses incurred during that period.

(3) Closing Accounts (31 U.S.C. Subtitle II, Chapter 15, Subchapter IV, Secs. 1551-1557) http://www.gpoaccess.gov/uscode/browse.html prescribes procedures to be followed in closing appropriation accounts available for definite periods of time. It establishes the availability of appropriation accounts to pay obligations. The law addresses the audit, control, and reporting requirements that remain applicable to that account after the end of the period of availability for obligation.

C. Business-like Activities and Practices.

(1) The Economy Act of 1932 (31 U.S.C. Subtitle II, Chapter 15, Subchapter III, Sec. 1535) http://www.gpoaccess.gov/uscode/browse.html prescribes the rules for the purchase of supplies, equipment, or service by one Federal Government bureau or department from another Federal Government bureau or department.

(2) Title V of the Independent Office Appropriations Act of 1952 (31 U.S.C. Subtitle VI, Chapter 97, Sec. 9701) http://www.gpoaccess.gov/uscode/browse.html authorizes Federal agencies to assess charges or fees for Government services and for the sale or use of Government property or resources. The Act requires that fees charged shall be fair and equitable, taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts. Any amount collected shall be paid into the Treasury as miscellaneous receipts. OMB Circular A-25, User Charges, provides guidance.

(3) Prompt Payment Act of 1982 (31 U.S.C. Secs. 3901 et seq. (P.L. 97-177), Prompt Payment Act Amendments of 1988 (Pub. L. 100-496), and 5 CFR Chapter III, Part 1315 http://www.gpoaccess.gov/cfr/index.html calls for payment of bills not later than due dates based on the receipt of proper invoices and satisfactory performance, as well as payment of any interest penalties. The Act also encourages the taking of cash discounts when determined to be economically beneficial.

(4) Federal Claims Collection Act of 1966 (31 U.S.C. Subtitle III, Chapter 37, Subchapter I, Secs. 3701, and Subchapter II, Secs. 3711, 3716-3719) http://www.gpoaccess.gov/uscode/browse.html (Note: also the Code of Federal Regulations, Title31, Parts 900-904) prescribe procedures for the follow-up of claims against those who owe the Federal Government money, including amounts owed as a result of audit follow-ups.

(5) Debt Collection Act of 1982 (P.L. 97-365 (31 U.S.C. Secs. 3302, 3701, 3711, 3716-3719)) http://thomas.loc.gov/cgi-bin/bdquery/z?d097:HR04613:@@@LITOM:bss/d097query.html#summary mandates an increase in the efficiency of Government-wide efforts to collect debts owed the United States and provides additional procedures for the collection of debts owed the United States.

(6) Cash Management Improvement Act of 1990 (P.L. 101-453) as amended by the Cash Management Improvement Act of 1992, (P.L. 102-589) http://www.fms.treas.gov/cmia/index.html was passed to improve the transfer of Federal funds between the Federal Government and the States, territories, and the District of Columbia. The main objective is to minimize the time of transfer of funds and the payout for program purpose. 31 CFR Subtitle B, Chapter II, Part 205 contains rules and procedures for efficient federal-state fund transfers.

(7) Federal Credit Reform Act of 1990 (P.L. 101-508, as amended by 2 U.S.C. Sec. 661, et seq.) http://www.fms.treas.gov/ussgl/creditreform/index.html enacted for the purposes of measuring more accurately the costs of Federal credit programs. The Act places the cost of credit programs on a budgetary basis, requires calculation of subsidy elements of credit

programs, encourages more cost effective delivery of benefits to beneficiaries, and seeks to improve allocation of limited financial resources among credit and other spending programs.

(8) Debt Collection Improvement Act of 1996, Chapter 10, (P. L. 104-134 (31 U.S.C. Secs. 3701, 3322, 3716, et seq.)) http://www.fms.treas.gov/debt/dmdcia.pdf enhances debt collection Government-wide, mandates the use of electronic funds transfer (EFT) for Federal payments, allows Federal Reserve Bank Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund. This law provides that any non-tax debt or claim owed to the United States that has been delinquent for more than 180 days shall be turned over to the Secretary of Treasury for appropriate action.

D. Internal Controls.

(1) Federal Managers' Financial Integrity Act (FMFIA) of 1982 (P.L. 97-255 (31 U.S.C. Secs. 1105, 1106, 1108, 1113, 3512)) http://www.ustreas.gov/offices/management/dcfo/management-controls/fmfia-legislation.pdf amends Section 113 of the Accounting and Auditing Act of 1950 as to requirements for the performance of reviews of the systems of internal controls and the annual issuances of a statement (report) as to the adequacy of the agency's internal controls to the President and Congress. This Act also amends the Budget and Accounting Act of 1921.

(2) Federal Property and Administrative Services Act of 1949, (40 U.S.C. Chapter 10, Subchapter II, Sec. 483) http://www.gpoaccess.gov/uscode/browse.html requires each executive agency to maintain adequate inventory controls and accountability systems for the property under its control. The Legislation Section provides reference to the particular statute, or where appropriate, pertinent sections of the statute dealing with accounting requirements can be found. Although the Office of Financial Management (PFM) will attempt to keep the material on accounting-related statutes current, these statutes are continuously amended. Bureau and office accounting and finance officials are therefore encouraged to reference the most recent Act.

2.4 **Other Federal Agency Issuances.** The central agencies provide overall direction and guidance to departments and agencies on financial management policies and practices. Independent boards or committees provide standards and recommendations developed jointly by representatives of the central agencies and departments. The issuances promulgated by these organizations establish government-wide standards that must be followed by all executive agencies. They serve as the framework for DOI's business functions and financial information systems. The central agencies include: Office of Management and Budget (OMB), Department of the Treasury (Treasury), General Accounting Office (GAO), Office of Personnel Management (OPM), General Services Administration (GSA), Department of Labor (DOL), Department of Justice (DOJ). The independent boards and committees include the: Federal Accounting Standards Advisory Board (FASAB) and Joint Financial Management Improvement Program (JFMIP).

A. Office of Management and Budget's (OMB's) Bulletins and Circular**.** The following key OMB directives contribute to the basis for the general Government-wide standards used for finance and accounting activities. The full bulletins and circulars can be found at http://www.whitehouse.gov/omb/circulars/.

(1) OMB Bulletin 01-09. Form and Content of Agency Financial Statements

(2) OMB Bulletin 01-02. Audit Requirements for Federal Financial

(3) OMB Circular A-11. Preparation, Submission, and Execution of the Budget

(4) OMB Circular A-25. User Charges

(5) OMB Circular A-50. Audit Followup

(6) OMB Circular A-76. Performance of Commercial Activities

(7) OMB Circular A-97. Specialized or Technical Services for State and Local Governments

(8) OMB Circular A-102. Grants and Cooperative Agreements with State and Local Governments

(9) OMB Circular A-123. Management Accountability and Control

(10) OMB Circular A-127. Financial Management Systems

(11) OMB Circular A-129. Managing Federal Credit Programs

(12) OMB Circular A-130. Management of Federal Information Resources

(13) OMB Circular A-133. Audits of States, Local Governments, and Non-Profit Organizations

(14) OMB Circular A-134. Financial Accounting Principles & Standards

B. Department of the Treasury. Treasury prescribes the financial management activities involving receipts, debt collection, and disbursing funds. Treasury also prescribes certain reporting requirements by obtaining from each agency such summary-level account information as may be necessary for carrying out it central banking, accounting, and financial reporting responsibilities. The Treasury Financial Manual is the principal directives manual for financial accounting and reporting of all receipts and disbursements of the Federal government. The manual, along with the Federal Account Symbols and Titles (FAST Book) and the Unites States Standard General Ledger (Uniform Chart of Accounts) can be found at: http://www.fms.treas.gov/tfm/.

C. General Accounting Office (GAO). A substantial portion of the general guidance issued by GAO to executive agencies was first codified into the GAO *Policy and Procedures*

Manual for Guidance of Federal Agencies in 1957. Over the years the manual was updated to incorporate current changes in laws, regulations, and practices. However, in recent years changes in certain laws; the creation of the Federal Accounting Standards Advisory Board (FASAB); the establishment of the Advisory Council on Government Auditing Standards; and the different medium GAO has used to publish guidance (e.g., the Yellow Book and the Green Book on internal control standards) have superseded most of the manual titles. Guidance, previously found in the GAO Policy and Procedures Manual for Guidance of Federal Agencies, which cannot be found elsewhere, can be found in Accounting Principles, Standards, and Requirements: Title 2 Standards Not Superceded by FASAB issuances. GAO-02-248G, November 2001. Refer to http://www.gao.gov for current guidance.

D. Office of Personnel Management (OPM). This office administers the federal personnel system. OPM supports government program managers in their personnel management responsibilities and provides benefits to employees and to retired employees and their survivors.

E. General Services Administration (GSA). This agency establishes policy and provides a system for the management of government property and records including: building construction and operation, supplies procurement and distribution, and property utilization and disposal. GSA provides regulations controlling transportation, travel, and communications management; and administers a government-wide information resource management program.

F. Department of Labor (DOL). This agency operates the unemployment compensation for Federal Employees Program that provides benefits for eligible unemployed former civilian Federal employees. States administer the program as agents of the Federal government. There is no payroll deduction from a Federal employee's wages for unemployment insurance protection. In addition, DOL pays workmen's compensation for federal employees injured on the job. The DOL provides estimates of these unpaid amounts to DOI for accrual accounting and requests reimbursement for paid amounts.

G**.** Department of Justice (DOJ). DOJ handles legal matters for DOI. Refer to the **Financial Statement Preparation Guidance Handbook,** Appendix F at http://www.doi.gov/pfm/fs_guidance/index.html for guidance on accruing amounts for DOJ contingent liabilities.

H. Federal Accounting Standards Advisory Board (FASAB) Statements on Federal Financial Accounting Standards (SFFAS). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB will decide upon new principles, standards, and requirements after considering FASAB's recommendations.

(1) Statements on Federal Financial Accounting Standards and Interpretations. The Comptroller General and the Director of OMB may each publish the principles, standards, and requirements after a 45-day period of Congressional review. To date, only OMB has issued the approved standards as official regulations, in the form of "Statements of Federal Financial Accounting Standards" (SFFAS). The SFFAS's issued in final or in final recommendation are

listed in http://www.fasab.gov/standards.html and Interpretations in http://www.fasab.gov/interprt.html.

(2) FASAB Technical Bulletins. The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems of federal financial reporting entities. The Technical Bulletins are listed in http://www.fasab.gov/tchbl.html.

(3) Accounting and Auditing Policy Committee of the Federal Financial Accounting Standards Board Technical Releases. The FASAB will author technical releases based on issues presented for their consideration and further discussion. Refer to http://www.fasab.gov/aapc/technicl.html for technical releases.

(4) Statements on Federal Financial Accounting Concepts. The Comptroller General and the Director of OMB may each publish "Statements of Federal Financial Accounting Concepts" (SFFAC) after a 45-day period of Congressional review. SFFAC differs from SFFAS in that they represent a conceptual logical framework around which the SFFAS may be developed. Both the SFFAS and their application in individual agencies or entities must conform to the concepts and principles delineated in the approved SFFACs. To date, only OMB has issued the approved SFFACs. The SFFACs issued to date are listed in http://www.fasab.gov/concepts.html.

I. Joint Financial Management Improvement Program (JFMIP). http://www.jfmip.gov/jfmip/

(1) Legislation codified at 31 U.S.C. Subtitle III, Chapter 35, Subchapter II, Section 3511(d) requires that the Comptroller General, the Secretary of the Treasury, and the President conduct a continuous program to improve accounting and financial reporting in the government. This program, known as the Joint Financial Management Improvement Program (JFMIP), is conducted jointly by the General Accounting Office, the Department of the Treasury, the Office of Management and Budget, and the Office of Personnel Management with participation by the other federal agencies and private sector companies. Government-wide financial management problems, as well as those concerning individual agencies, are considered under the joint program.

(2) JFMIP is a cooperative working with operating agencies to improve financial management practices throughout the Government. Improving federal financial management involves establishing uniform requirements for financial information, financial systems, reporting, and financial organization. To accomplish this objective, JFMIP has created a series of financial management system requirement documents called the Federal Financial Management Systems Requirements (FFMSR). The following FFMSRs contribute to the basis for the general government-wide standards used for finance and accounting activities.

(a) Grant Financial System Requirements
(b) Property Management Systems Requirements
(c) Core Financial System Requirements

(d) Human Resources & Payroll Systems Requirements
(e) Travel System Requirements
(f) Direct Loans System Requirements
(g) Guaranteed Loan System Requirements
(h) Inventory System Requirements
(i) Seized Property and Forfeited Assets System Requirements
(j) System Requirements for Managerial Cost Accounting
(k) Revenue System Requirements Document
(l) Acquisition Financial System Requirements
(m) Benefits Systems Requirements

For a complete list of FFMSRs see: http://www.jfmip.gov/jfmip/systemrequirements.htm

2.5 **Compliance with Financial Accounting Standards**. Bureaus and offices must comply with the Departmental financial policies and standards listed in 330 DM 1.3.

2.6 **Other DOI Authority Sources.** The Departmental Manual 328 DM 1 provides instruction for administrative control of funds. The DM policy can be found at: http://elips.doi.gov/.

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