Accounting

PRINCIPLES AND STANDARDS

FOR FEDERAL AGENCIES

THE COMPTROLLER GENERAL

OF THE UNITED STATES

1965

(WITH 1968 REVISIONS)

FOREWORD

This pamphlet consists of the three chapters of Title 2 and related explanatory transmittal sheets of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, as reconstituted as of June 30, 1965, together with revisions made in 1967 and 1968.

This material sets forth a restatement of the principles and standards for accounting to be observed by Federal agencies and instructions for obtaining Comptroller General approval of Federal agency accounting systems.

These chapters are being published in pamphlet form in addition to the regular format for insertion in the GAO Manual. The purpose of the additional publication is to encourage wider distribution and use of this material in the Federal agencies.

1968 Revisions

This edition contains changes issued in 1968:

1. To restate the objectives of the Joint Financial Management Improvement Program.

2. To clarify the prescribed accounting principles and standards to harmonize with the recommendations of the President's Commission on Budget Concepts with respect to accrued revenues and expenditures, implementing instructions for which are contained in Bureau of the Budget Bulletin No. 68-10 dated April 26, 1968.

3. To provide for a three-stage development and approval procedure for agency accounting systems.

U. S. GENERAL ACCOUNTING OFFICE

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

TRANSMITTAL SHEET NO. 2-21 July 22, 1968

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Material transmitted

Revised pages for--

Chapter 1, section 4, The Joint Financial Management Improvement Program.

Chapter 2, Accounting Principles and Standards.

Chapter 3, Review and Approval of Agency Accounting Systems.

Chapter 1, section 4, The Joint Financial Management Improvement Program

Subsection 4.3 stating the objectives of the Joint Financial Management Improvement Program has been revised to conform to the new program booklet issued in 1967.

Chapter 2, Accounting Principles and Standards

The primary purpose of these changes is to clarify the prescribed principles and standards to harmonize with the recommendations of the President's Commission on Budget Concepts with respect to accrued expenditures and revenues.

The President's approval in December 1967 of the recommendations of his Commission on Budget Concepts that budget expenditures and receipts be reported on an accrual basis rather than in terms of cash put added emphasis on the need for each Federal agency to maintain its accounts on the accrual basis.

The Commission concluded that expenditures should be reflected in the budget and Federal financial reporting when the Government incurs liabilities to pay for goods and services.

Specific instructions to the executive agencies for implementing the Commission's recommendations are contained in Bureau of the Budget Bulletin 68-10, dated April 26, 1968. The General Accounting Office was consulted in the preparation of this bulletin and we have endorsed its purpose and content.

Basic laws and our prescribed principles and standards of accounting for Federal agencies have long called for the maintenance of accounts on the accrual basis. However, some refinement in the application of our principles and standards is necessary to accommodate, primarily at the appropriation level, the reporting, in accordance with the Commission's recommendations, of revenues and expenditures in terms of accruals rather than in terms of receipts and disbursements. The principal refinements are that accrued revenue and expenditure data be obtained on a monthly basis and that, in the case of contractors performing work to the Government's specifications, accrued expenditures be recognized in Federal accounts and reports on the basis of constructive receipt of goods and services, without awaiting physical delivery to or acceptance by the Government.

To clarify our accounting principles and standards with respect to these refinements and to lend additional emphasis to the requirement that Federal agency accounting systems must be designed to produce monthly data on revenues and expenditures on the accrual basis, the following changes have been made in Chapter 2:

1. In Section 9, which prescribes the accrual basis of accounting, the paragraphs have been rearranged, some new material inserted, and a new subsection has been added under the heading "Accrued Expenditures" (subsection 9.2).

2. In subsections 10.1 and 10.2 (including the footnote thereto) insertions have been made to clarify that the use of the word "expenditures" in these subsections is synonymous with "disbursements."

3. In subsection 10.5 the words "revenues, expenditures," have been inserted and the word "income" has been deleted.

4. In Section 12, "Assets," a new subsection has been added under the heading "Advances and Prepayments" (subsection 12.6).

5. In subsection 13.2 a new paragraph numbered 6 has been added concerning funded and unfunded liabilities. This made unnecessary a similar provision in subsection 13.4, "Liabilities Determined on Actuarial Basis."

6. Subsection 13.6, "Liabilities Under Contract Work," has been revised.

7. In subsection 14.2, "Congressional Appropriations," the word "revenues" has been inserted.

8. In Section 15, "Revenues," a new subsection has been added under the heading "Reporting Revenues" (subsection 15.4).

9. In subsection 16.8(e), "Interest," changes have been made in the first paragraph to denote that cash disbursements are being discussed.

The following clarifying changes have been made which do not pertain to the recommendations of the President's Budget Commission:

1. Subsection 12.5(c) has been clarified to cover property wherever located.

2. Subsection 12.5(d) has been amended to exclude certain property items from the dollar minimum

criteria, and to amend the criteria for pricing property transferred on a reimbursable basis.

Chapter 3, Review and Approval of Agency Accounting Systems

This chapter has been revised to provide more specifically for a three-stage approval procedure.

Filing instructions

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Elmer B. Staats

Comptroller General
of the United States

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U.S. GENERAL ACCOUNTING OFFICE

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

TRANSMITTAL SHEET NO. 2-20 May 15, 1967

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For Chapter 2--
Revised sections 8.2
8.4
8.6
8.7
16.4

Chapter 3--
Complete revision

Purpose

The purpose of the changes made in sections 8 and 16 of Chapter 2 is to make it clear that the accounting systems of Federal agencies must be capable of providing adequate support in the form of cost and other financial information for the planning-programming-budgeting system prescribed by the President for executive agencies in 1965.

The principal change in Chapter 3--Review and Approval of Agency Accounting Systems--is to provide that future requests for approval of agency accounting systems are to be submitted in two stages; namely, (1) the accounting principles and standards underlying the system, and (2) the documentation representing the accounting system, or segments thereof, in operation.

Arrangements may be made in individual cases to request approval consideration in additional stages where deemed appropriate.

Transmittal Sheet No. 2-19 was issued to correct an error only. The corrected page is included in this booklet.

The purpose of this change is to recognize the desirability of giving priority to obtaining agreement on the underlying principles and standards to be followed in accounting systems development work and then carrying out such development work in the light of the approved principles and standards. A related reason for the change is to facilitate systematic and early identification and resolution of possible problem areas that might adversely affect ultimate approval of an accounting system. On the basis of experience to date, it is believed that this procedure will avoid the premature submission of requests for approval of accounting systems before they have been, in fact, properly planned and developed.

Statements setting forth principles and standards of accounting to be followed may be for an entire department, for individual systems, or for appropriate groupings of individual systems. Priority should be given to the development of this phase of each system and obtaining Comptroller General approval thereof.

Requests for approval of accounting systems currently in the General Accounting Office will be considered on the basis submitted if a statement of accounting principles and standards was included.

Agencies may elect to request approval of their systems in accordance with prior procedures at any time up to June 30, 1967, without applying the two-stage concept, if systems development work has been substantially completed.

This change in approval procedures contemplates the following general pattern of continuing accounting systems development effort from the standpoint of the General Accounting Office:

1. Comptroller General consideration and approval of the principles and standards to be employed in an accounting system in advance of approval consideration of the accounting system in operation.

2. Preparation by each agency of specific work plans identifying the projects to be carried out to implement

new or revised systems to the point of Comptroller General approval. Such plans should include the establishment of realistic target dates for completing the work projects.

3. Cooperative assistance by the General Accounting Office in the preparation of work plans and in the development of accounting systems.

4. Periodic reports to the Congress on agency efforts to improve their financial management systems, including accounting systems. Such reports will be based in large part on review of progress made in relation to agency work plans.

5. More emphasis in GAO audit reports on reviews of approved accounting systems in operation with particular emphasis on the management use made of the financial data produced by the systems and opportunities for additional improvement. These reports will also devote more attention to management use of cost data in cost-based budgets for purposes of administration and operation as provided in Public Law 84-863 (August 1, 1956). Reports on such reviews will be made to the Congress and to executive agencies as appropriate.

The General Accounting Office will continue to work cooperatively with each agency to help it bring its accounting system to a point where it can be approved. This Office will also continue its assistance to agencies in their efforts to develop and use cost data and otherwise improve their financial management practices.

Filing instructions

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U. S. GENERAL ACCOUNTING OFFICE

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

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Complete revisions of the following three chapters which will make up Title 2 of this Manual as reconstituted:

Chapter	
1	Introduction
2	Accounting Principles and Standards
3	Review and Approval of Agency Accounting Systems

Purpose

Title 2 of this Manual is being completely revised to accomplish the following purposes:

1. To publish a restatement of the accounting principles and standards prescribed by the Comptroller General of the United States (see next section).
2. To publish revised procedures to be followed by the executive agencies in seeking approval of their accounting systems by the Comptroller General.
3. To eliminate from the Manual the illustrative and explanatory material previously published under the heading of Accounting Procedures. This type of material will be published in the future in the form of separate booklets.
4. To relocate the guidelines for internal auditing to Title 3--Audit.

The numbering of chapters, sections, and subsections in this title has been simplified and will gradually be applied to other titles in the GAO Manual.

Restatement of Accounting Principles and Standards

The Budget and Accounting Procedures Act of 1950 assigned to the Comptroller General the responsibility for prescribing the principles, standards, and related requirements for accounting for the guidance of the executive agencies. The initial statements in compliance with this responsibility were published in 1952. They were in the form of (a) a general letter on the contribution of accounting to better management, and (b) Accounting Principles Memorandum No. 1 representing a comprehensive statement of broad principles and standards. These statements were supplemented in subsequent years by four additional accounting principles memorandums.

The several purposes of the restatement of accounting principles and standards are:

1. To consolidate into one comprehensive statement pronouncements that over the years have been made in different documents.

2. To clarify the statement of our principles where needed, based on experience.

3. To make our stated principles and standards more specific where believed needed, based on experience.

4. To incorporate statements of principle on matters not previously covered.

5. To revamp the organization of the statement to produce a more cohesive document.

Filing instructions

Remove	Insert
Title sheet for Title 2 All of Part 1 of Title 2, consisting of Chapters 1000--Introduction 1100--The Contribution of Accounting to Better Management 1200--Statement of Accounting Principles and Standards for Guidance of Executive Agencies in the Federal Government Part 4 of Title 2, Chapter 9800--Review and Approval of Agency Accounting Systems by the Comptroller General Table of contents for Parts 1, 3, and 4	Revised title sheet New Chapters 1, 2, and 3 with revised table of contents
From Part 2 of Title 2, Chapters 2000--Accounting Procedures 2500--Accounting Organization and Records 5000--Disbursements 5500--Billings and Receipts 6000--Decentralized Accounting 7000--Property Accounting	Nothing

The above material designated for removal should be destroyed.

Part 3, Internal Auditing, consisting of Chapter 9000 should be transferred to Title 3, Audit, and temporarily filed at the end of that title. (Title 3 is also being revised

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and the internal auditing guidelines will be incorporated therein when revised.)

The following chapters in Part 2, Accounting Procedures, of Title 2 are to be retained temporarily in Title 2 until they are supplanted by separately published booklets on illustrative procedures on selected subjects:

3500--Classification of Accounts
4000--Appropriations, Apportionments, Transfers, and Allotments
4500--Obligations and Expenditures
6500--Cost Accounting
7500--Adjusting and Closing Entries
8000--Integrated Accounting for an Agency Financed from Appropriations

The table of contents for Part 2, Accounting Procedures, should also be retained until instructions are received for eliminating the rest of the chapters in this part.

Joseph Campbell
Comptroller General
of the United States

TITLE 2--ACCOUNTING

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TITLE 2--ACCOUNTING

CHAPTER 1--INTRODUCTION

SECTION 1--STATUTORY RESPONSIBILITIES FOR ACCOUNTING

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

SECTION 2--CONTENTS OF TITLE 2

This title contains:	Chapter
Accounting principles and standards prescribed by the Comptroller General	2
Instructions relating to the review and approval of agency accounting systems	3

SECTION 3--ILLUSTRATIVE ACCOUNTING PROCEDURES

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

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

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SECTION 4--THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

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

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

4.1 AUTHORITY

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

Further amendment was made in 1956 by Public Law 84-863 which specifically provided for use of accrual accounting, cost-based budgeting for internal operations and appropriation requests, and consistent classifications. This law also amended section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), to emphasize the need for

simplification of allotment structures. While the Budget and Accounting Procedures Act of 1950 contains legal authority for the Joint Program, the legislation referred to, plus similar laws applicable to particular agencies, constitutes the major legislation in this program's field of activity.

4.2 FUNDAMENTAL CONCEPTS

The fundamental concepts of the Joint Program are as follows:

(1) The maintenance of accounting systems and the production of financial reports are, and must continue to be, functions of the executive branch.

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

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

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

4.3 OBJECTIVES

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

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

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

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

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

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

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

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

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

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

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

CHAPTER 2--ACCOUNTING PRINCIPLES AND STANDARDS

SECTION 5--AUTHORITY

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

This statement replaces accounting principles memorandums Nos. 1-5 previously issued beginning in 1952.

SECTION 6--PURPOSES AND OBJECTIVES OF FEDERAL AGENCY ACCOUNTING

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

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

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

The fundamental purposes which underlie the accounting of each Federal agency are:

(1) To provide information necessary for effective and economical management of its operations and the resources entrusted to it.

(2) To enable the management to report on the discharge of its responsibilities for the resources and operations for which it is accountable.

This duty requires the maintenance of a suitable system of financial and related records from which needed information on resources, liabilities and obligations, expenditures, revenues, and costs can be obtained and reported for the information and control use by appropriate levels of internal management; other agencies and authorities having control responsibilities; the Congress; and, ultimately, the public.

The objectives which are applicable to Federal agency accounting are set forth in the Budget and Accounting Procedures Act of 1950, as follows:

(1) Full disclosure of the financial results of agency activities.

(2) Production of adequate financial information needed for agency management purposes.

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

(4) Reliable accounting results to serve as the basis for preparation and support of agency budget requests, for controlling the execution of the budgets, and for providing financial information required by the Bureau of the Budget.

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

The design and operation of each agency accounting system must be directed to the fulfillment of all of these broad objectives.

In the 1950 law, the Congress specifies that the head of each executive agency[1] is responsible for establishing and maintaining systems of accounting and internal control which conform to the principles, standards, and related requirements prescribed by the Comptroller General of the United States. As further clarified by Public Law 84-863, approved August 1, 1956 (70 Stat. 783), the law provides a basic framework of financial management within which an accounting system must necessarily operate in achieving these objectives.

Accounting is not an end in itself but is an important part of each agency's management control system. Satisfactory accounting systems are necessary to provide essential and reliable information to management officials for use in achieving efficient and economical operations and to enable them to satisfactorily report on the custody and use of resources under their management.

Although the head of each agency is responsible under the law for the accounting systems in his organization, authority for carrying out the accounting function is ordinarily delegated. However, the ultimate responsibility remains with him and he should satisfy himself that:

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[1] Sections 114, 116, and 119 of the cited act apply to Government corporations and agencies subject to the Government Corporation Control Act (59 Stat. 597). Sections 111, 114, and 116 of the act apply to the Post Office Department. Separate authority for the prescription of accounting principles and standards for the Post Office Department is contained in the Post Office Department Financial Control Act of 1950 (64 Stat. 460).

(1) A proper accounting system is established, based on prescribed accounting principles and standards applicable to his operations.

(2) The information provided by the accounting system lends itself to effective use.

(3) Such information is being so used by responsible officials in programming the agency's activities, in preparing budget data, and in achieving and maintaining efficient and economical operations.

SECTION 7--STANDARDS FOR INTERNAL MANAGEMENT CONTROL

The general objective of an internal management control system of a Federal agency is to provide positive assistance in carrying out all duties and responsibilities as effectively, efficiently, and economically as possible, giving due regard to the necessity for complying with the requirements and restrictions of all applicable laws and regulations.

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

(1) Promote efficiency and economy of operations.

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

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

(4) Assure that all revenues applicable to agency assets or operations are collected or properly accounted for.

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

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

(1) Policies

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

(2) Organization

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

(3) Segregation of duties and functions

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

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(4) Planning

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

(5) Procedures

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

(6) Authorization and record procedures

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

(7) Information system

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

(8) Supervision and review

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

(9) Qualifications of personnel

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

(10) Personal accountability

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

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[1] Basic principles and concepts pertaining to internal auditing are presented in Title 3.

(11) Expenditure control

Adequate control over expenditures requires that effective procedures be devised to provide assurance that needed goods and services are acquired at the lowest possible cost; that goods and services paid for are actually received; that quality, quantity, and prices are in accordance with the applicable contracts or other authorizations; that such authorizations are consistent with applicable statutes, regulations, and policies; and that effective use is made of all acquired resources.

(12) Safeguarding of resources

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

SECTION 8--STANDARDS FOR ACCOUNTING SYSTEMS

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

8.1 STATUTORY REQUIREMENTS

The provisions of all applicable laws relating to Federal agency accounting and to the administration of the funds and appropriations for which an agency is responsible must be complied with.

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

8.2 MANAGEMENT AND CONGRESSIONAL NEEDS

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

The accounting system must provide not only the basis for control over funds, property, and other assets but must provide an accurate and reliable basis for developing and reporting costs of performance in accordance with (a) major organizational segments, (b) budget activities, and (c) the program structure adopted under the planning-programming-budgeting system prescribed by the President for executive agencies.

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

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

8.3 ACCOUNTING PRINCIPLES AND STANDARDS OF THE COMPTROLLER GENERAL

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

In the vast operations of the Federal Government, no single set of principles and standards can be devised to fit

all circumstances and still provide practical guidance. However, accounting systems reviewed for approval by the Comptroller General will be tested against the principles, standards, and related requirements set forth or referred to in this statement. The need for departures will be recognized when warranted by individual circumstances.

8.4 USEFULNESS OF FINANCIAL DATA

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

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

8.5 ACCOUNTING FOR RESPONSIBILITIES

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

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

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

To the extent possible, planning, programming, budgeting, and accounting classifications should be consistent with each other and should be synchronized with each agency's organization structure.

Such consistency is necessary in order that data produced by an accounting system will be of maximum use in support of the planning-programming-budgeting system prescribed by the President for executive agencies and in support of internal operating budgets and budgets that are presented to the Congress.

8.7 TECHNICAL REQUIREMENTS

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

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

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

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

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

8.8 QUALIFIED PERSONNEL

The establishment and maintenance of satisfactory accounting systems require competent leadership and a staff possessing adequate technical training and skill. Agency officials who rely on financial information produced by the accounting system in carrying out their duties are entitled to and should demand a high degree of technical competence in selecting and retaining top accounting personnel. Technical competence is also of prime importance in attaining the orderly continuing improvements in accounting set forth as the policy of the Congress in the Budget and Accounting Procedures Act of 1950.

8.9 TRUTHFULNESS AND HONESTY

The highest standards of truthfulness and honesty must be applied in accounting for the receipt, disbursement, and application of public funds. Accordingly, financial transactions shall not be recorded in agency accounts in a manner that will produce materially inaccurate or false or misleading information. All financial

transactions must be accounted for as realistically as possible and in accordance with the time and manner the events occurred that are being recorded.

8.10 OTHER STANDARDS

(a) SIMPLICITY

Accounting procedures shall be as simple and readily understandable as practicable, consistent with the nature of the operations and resources being accounted for. Records that serve no needed or significant purpose shall not be maintained.

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

(b) RELATIVE ACCURACY, RELIABILITY, AND MATERIALITY

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

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

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(c) NECESSITY FOR UPDATING ACCOUNTING SYSTEMS

Agency accounting systems shall be reviewed from time to time to assure that they continue to meet the test of usefulness to all officials in the proper discharge of their management and control responsibilities.

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

SECTION 9--THE ACCRUAL BASIS OF ACCOUNTING

9.1 BASIC REQUIREMENT

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

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

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

earning of revenues, the receipt and disbursement of cash, and other financial transactions.

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

The accrual basis of accounting can contribute materially to effective financial control over resources and costs of operations and is essential to the development of adequate cost information. Furthermore, in accordance with the recommendations of the President's Commission on Budget Concepts in 1967, as approved by the President, this basis of accounting must be employed to measure accrued revenues and expenditures of the Federal Government to be reported monthly to the Bureau of the Budget and the Treasury Department.

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

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

The techniques of applying the accrual basis may vary from agency to agency and between components of an agency. If the technique is employed of periodically converting accounting data recorded on the cash and obligation basis to the accrual basis, such conversions should be made not less frequently than monthly.

9.2 ACCRUED EXPENDITURES

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

(1) Goods and other tangible property received,

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

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

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

Constructive receipt of goods or other tangible property, rather than physical receipt or the passing of legal title, is the measure of the accrual in certain cases. When a contractor provides goods to the Government which he holds himself available to sell to others, the accrual occurs when physical delivery by the contractor and receipt by the Government takes place and title passes. However, when a contractor manufactures or fabricates goods or equipment to the Government's specifications, constructive receipt occurs in each accounting period when the contractor earns a portion of the contract price, and the accrual takes place as the work

is performed. Formal acceptance of the work by the Government is not a test.

Each Federal agency accounting system shall incorporate procedures for obtaining on a monthly basis accrued expenditure data for each appropriation or fund being accounted for. Such data shall be available promptly for reporting monthly, in accordance with prescribed requirements, to the Bureau of the Budget and the Treasury Department for use in preparing periodic reports of budget expenditures of the Federal Government.

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

SECTION 10--FUND CONTROL

10.1 COMPLIANCE WITH FUND LIMITATIONS

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

10.2 MEANING OF FUND CONTROL

Appropriate fund control procedures must therefore be incorporated in agency financial management systems. The term "fund control" refers to management control over the use of fund authorizations to assure that (1) funds are used only for authorized purposes, (2) they are economically and

[1] See items (3) and (4) in section 6.

efficiently used, and (3) obligations and expenditures disbursements do not exceed the amounts authorized.[1]

Each accounting system should incorporate appropriate techniques to assist in achieving fund control.

10.3 SIGNIFICANCE OF OBLIGATION DATA

Basic statutes provide that obligations may not be incurred unless there is an appropriation or fund balance available therefor at the time the obligation is created. Also, congressional appropriations are requested, made, and administered in terms of obligational authority. Thus it is necessary that the accounting systems of each agency accumulate data on the financial obligations of the United States for which the agency is responsible. These procedures should provide for identifying obligations with the applicable appropriation or fund at the time they are incurred. Such information is essential for providing official records and related reports on the status of appropriations and funds.

10.4 RECORDING AND REPORTING OBLIGATION INFORMATION

To adequately satisfy the need for fund control, obligation information must be reported promptly and accurately. In addition, specific criteria that govern the recording and reporting of financial transactions as obligations are prescribed in section 1311 of the Supplemental

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[1] In this connection, every agency is required by law to have a system of administrative control which will restrict obligations or expenditures (disbursements) from exceeding the amounts appropriated therefor, the balances in the funds involved, and the amounts of the apportionments or reapportionments made for the current fiscal period. Reserves established by the Director of the Bureau of the Budget or other authorized officials are of equal import. In addition, the system of administrative control must be such as to fix responsibility for the creation of any obligation, the incurrence of any expenditure, or the making of any disbursement in excess of an apportionment, reapportionment, or other subdivision thereof determined administratively. The requirements for these systems are prescribed by the Bureau of the Budget in its Circular No. A-34.

Appropriation Act, 1955 (31 U.S.C. 200; see also Title 7 of this Manual). This law provides that no amount shall be recorded as an obligation unless it meets the specified criteria and that statements of obligations furnished to the Congress or to any of its committees shall include only amounts representing valid obligations as so defined.

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

10.5 RELATION OF ACCRUAL BASIS TO FUND CONTROL

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

10.6 APPORTIONMENTS AND SUBDIVISIONS OF FUND AUTHORIZATIONS

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

In accordance with the prescribed objectives of the Antideficiency Act,[1] subdivisions of fund authorizations for budgetary control purposes should be established at the

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

highest practical level, consistent with assignments of responsibility, and should be limited in number to those essential for effective and efficient administration. For example, a single allotment of funds to the head of an operating unit, within the amounts apportioned for each appropriation or fund affecting such unit, should usually provide an appropriate basis for fund control without making further subdivisions by object classes of expenditure or other categories.

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

10.7 OTHER LIMITATIONS

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

SECTION 11--ACCOUNT STRUCTURE

11.1 AGENCY ACCOUNTING ENTITIES

For purposes of designing and maintaining accounts, each agency must clearly define--in the light of its legal authorities, assigned responsibilities, and reporting requirements--the entities for which separate groups of accounts are to be established. An accounting entity may be an entire agency or a subdivision thereof, such as an organizational unit, or one or more legally established funds.

11.2 INTEGRATION OF ACCOUNTS

The preferred account structure for Federal agency activities is one in which accounts relating to all sources of funds used to finance such activities are incorporated into a single integrated accounting system.

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

11.3 FUND ACCOUNTS

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

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

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

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

Revolving fund accounts. These are combined receipt and expenditure accounts established by law to finance a continuing cycle of operations, with receipts derived from such operations available in their entirety for use by the fund without further action by the Congress, or to facilitate accounting for and administration of intragovernmental operations which are financed by two or more appropriations of an agency.

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

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

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

Deposit fund accounts. These are combined receipt and expenditure accounts established to account for receipts (1) held in suspense temporarily and later refunded or paid into some other

fund of the Government or (2) held by the Government as banker or agent for others and paid out at the direction of the owner. Such funds are not available for paying salaries, expenses, grants, or other expenditures of the Government.

The type of funds available to an agency to finance the operations for which it is responsible and the nature of the operations conducted are both determinants of the detailed account structure to be designed.

11.4 BASIC STRUCTURE OF ACCOUNTS

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

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

The specific accounts and their arrangement in any given case should be specifically adapted to each agency's fund structure with the objective of providing an adequate accounting for all resources, liabilities and obligations, expenditures, revenues, and costs.

SECTION 12--ASSETS

12.1 ASSET CONTROL

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

12.2 CASH RESOURCES

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

Procedures adopted by Federal agencies to account for and assist in providing effective control over such resources should be designed to attain the following objectives:

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

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

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

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

(D) Separate accounts for major categories of cash resources (cash on hand, cash on deposit in banks, fund balances with U.S. Treasury, etc.), with further subdivision to

disclose important restrictions on availability for use, should be maintained to facilitate proper disclosure in financial reports.

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

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

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

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

12.3 FOREIGN CURRENCIES

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

Pursuant to responsibilities assigned by the Foreign Assistance Act of 1961 (75 Stat. 443), the Secretary of the Treasury has prescribed procedures relating to the administration, including accounting and reporting, of all foreign currency assets; these procedures are to be

observed by all Federal agencies and their disbursing officers. The law specifically vests in the Secretary of the Treasury the authority to prescribe exchange rates at which foreign currencies or credits are to be reported by all Government agencies.

Foreign currencies generated under some programs are not freely exchangeable for U.S. currency. Financial reports on agency programs that include transactions in foreign currencies that are not freely convertible to U.S. currency may, for purposes of financial reporting in terms of a common denominator, be stated in dollar terms based on conversion at appropriate rates. However, to avoid misinterpretation, the reports should clearly disclose that the dollar amounts shown for foreign currency transactions and balances do not represent revenues, expenditures, and assets in terms of realizable U.S. currency.

12.4 RECEIVABLES

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

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

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

(2) Amounts to be accounted for as receivables shall consist of the amounts actually due under

contractual or other arrangements governing the transactions which result in receivables.

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

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

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

(6) Regular estimates shall be made from time to time of the portion of amounts receivable that may not be collectible. Such estimates shall be accounted for and disclosed separately in financial reports. (Specific procedures for handling and accounting for receivables determined to be uncollectible are prescribed by the Comptroller General in Title 4 of this Manual.)

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

12.5 PROPERTY

(a) IMPORTANCE OF PROPERTY ACCOUNTING

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

(b) CONGRESSIONAL INTEREST

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

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

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

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

(c) PRINCIPLES AND STANDARDS

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

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

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

Property accounting for Federal agencies must include appropriate procedures for:

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

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

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

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

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

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

(d) ACQUISITION COST

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

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

Capitalization of fixed assets

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

Factors to be considered in establishing capitalization criteria include:

Length of useful service life.

Repetitive use.

Frequency of replacement.

Retention of identity when placed in use.

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

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

Such criteria should be defined in terms of identifiable property units or dollar minimums below which expenditures for acquisitions will be accounted for as current operating costs rather than as investments in property.

The use of dollar minimums for some kinds of property is a practical device that may be used to avoid unnecessarily detailed property accounting for items that are too small to warrant such accounting. No uniform minimum is prescribed for Federal agencies. This method should not be applied to property items which constitute a significant segment of the total investment in property or where the aggregate cost of such items is substantial.

Constructed property

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

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

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

Acquisition of land, buildings, and other facilities.

Labor, materials and supplies, and other direct charges.

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

Applicable indirect costs.

Fixed and severable collateral equipment and the installation thereof to complete the facility for the use for which it is intended.

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

Legal fees and damage claims.

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

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

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

Real property acquired under lease-purchase contracts

The cost of real property acquired under lease-purchase contracts which, in substance, represent installment purchasing, should include the purchase price under the contracts and other costs incurred by the Government before and during construction, such as (1) cost of site, including air rights, and expenses incidental to site acquisition, (2) architect-engineer fees, (3) any taxes payable during construction, (4) interest, and (5) administrative and other costs relating to the projects.

The total purchase price shall be capitalized upon acceptance of the property from the contractor, rather than periodically as payments are made or when title passes to the Government (see also section 13.5).

Interagency transfers of property

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

Property transferred on a nonreimbursable basis shall be accounted for by the receiving agency on the basis of estimated useful value for its operations.

Transportation, installation, and related costs incurred by the receiving agency shall be added to the accounting basis.

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

Trade-ins

The cost of property acquired as a result of trade-ins shall be measured by the cash paid or payable, plus the amount allowed by the seller on the traded-in property.

Property acquired by foreclosure processes

The cost of property acquired by foreclosure processes shall be measured by the agency's investment, through loans or other costs incurred, in the assets.

Property acquired by other means

Property acquired by donation, devise, forfeiture, or confiscation should be carried in agency accounts at

an estimated amount representing what the Government would have been willing to pay for it, giving due consideration to usefulness to the agency, condition, and estimated market value.

Purchase discounts

In determining cost of purchased property, discounts shall be deducted from the prices billed. Such discounts are reductions of cost, representing savings achieved through payment of bills within the vendors' stipulated time limits. They are not income and should not be accounted for as such, since they do not produce an increase in assets based on the sale of goods or the performance of services.

Handling and storage costs

Whether costs of handling and storage are prorated as a part of the cost of materials and supplies before use or accounted for separately as operating costs, are refinements of procedure to be determined in each case. This determination should be made after considering (1) the possible benefits to be gained in the form of improved management control over such operations and (2) the administrative costs.

Usage

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

(e) ACCOUNTING FOR CHANGES IN FIXED ASSETS

Fixed assets owned by an agency may be changed by additions, alterations, betterments, rehabilitations, or replacements. The basic principle to be observed in

accounting for such changes is to capitalize the costs incurred in making such changes, where they significantly extend the useful life of property or its capacity to render service, and to remove from the property accounts the cost of features superseded or destroyed in the process.

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

Retirements and transfers

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

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

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

(f) ACCOUNTING FOR PROPERTY OF OTHERS

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

The system of records used to account for such property may be integrated into the financial accounting system in conformity with the principles prescribed for

owned property, if deemed necessary or desirable to achieve effective control over it. However, this procedure is not mandatory if effective control can be achieved by other means.

(g) PHYSICAL INVENTORIES

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

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

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

(h) DEPRECIATION

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

Basic principles

Depreciation as an element of cost is an estimate of the portion of the total cost of a long-lived capital asset

consumed through use, approaching obsolescence, or other reason to be assigned as a cost of operation or performance over its estimated useful life.

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

Regardless of the fact that depreciation is not represented by current expenditures of funds and although there is no precise way to arrive at an accurate measure of depreciation as a current cost, it is nonetheless a real cost of carrying out operations. Accounting for depreciation as a cost is an integral part of the accrual basis of accounting. However, the activities carried on in the Federal Government are so varied in nature that the prescribing of a general requirement to account for depreciation of capital assets cannot be justified.

Procedures shall be adopted by each agency to account for depreciation (or amortization of cost) of capital assets whenever a periodic determination of the cost of all resources consumed in performing services is needed. The principal circumstances in which such information is needed include the following:

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

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

Another circumstance requiring consideration, where the investment in fixed property assets used is substantial,

is the need to assemble total costs to assist management and other officials in making cost comparisons, evaluating performance, and devising future plans.

Costs to be written off

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

Estimates of useful life

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

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

Provision should be made to review the periods selected from time to time and appropriate changes made to give effect to improved estimates that become possible with experience and the passage of time.

Depreciation methods

No specific method of estimating depreciation is prescribed. Undue precision and detail in maintaining depreciation accounting records should be avoided. Simple procedures shall be devised to provide periodic estimates of depreciation cost for accounting and financial reporting purposes.

12.6 ADVANCES AND PREPAYMENTS

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

SECTION 13--LIABILITIES

13.1 NATURE

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

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

13.2 PRINCIPLES AND STANDARDS

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

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

(2) Amounts to be recorded as liabilities shall represent the amounts actually owing under contractual or other arrangements governing the transactions which give rise to liabilities to make payments or render services.

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

(4) Separate accounts for major categories of liabilities should be maintained to facilitate clear and full disclosure of the nature of the liabilities which remain unpaid in connection with each agency's operations.

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

(6) Each accounting system shall provide for separate identification of funded and unfunded liabilities.

13.3 CONTINGENT LIABILITIES

A contingent liability is one which is related to a transaction or event which may or may not become an actual liability in consequence of a future event. The uncertainty as to whether there will be a legal liability differentiates a contingent liability from an actual liability.

Appropriate records of contingent liabilities shall be maintained as part of the accounting system. Material amounts of such liabilities shall be disclosed and explained in financial reports in accordance with the general reporting standard of full disclosure of financial results of agency activities.

13.4 LIABILITIES DETERMINED ON ACTUARIAL BASIS

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

13.5 LIABILITIES UNDER LEASE-PURCHASE CONTRACTS

The purchase price included in lease-purchase contracts for real property (see section 12.5(d)) shall be recorded as a liability on acceptance of the property from the contractor. Such liability shall be reduced on the basis of periodic payments.

13.6 LIABILITIES UNDER CONTRACT WORK

Under some contracts, such as where a contractor builds facilities or manufactures goods or equipment to the Government's specifications, the liability to pay for work is incurred as it is performed by the contractors rather than when deliveries are made. Under these circumstances, materials or services being acquired shall be recorded as accrued expenditures on the basis of reported performance of work, rather than as invoices are received or as disbursements are made, and a related liability shall be recognized.

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

13.7 LIABILITIES UNDER WORKING FUND ADVANCES

When materials or services are sold to other agencies and financed through the use of working fund advances, the performing agency shall account for the amounts advanced as a liability until it has completed its performance.

Correspondingly, the advancing agency shall account for the amounts advanced as advances until the materials or services ordered are received.

13.8 ACCRUED LIABILITIES FOR EMPLOYEES' LEAVE

See section 16.8(a).

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

14.1 COMPOSITION

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

The major sources of funds comprising the investment of the United States are:

Additions to investment:

- Congressional appropriations
- Borrowings from the U.S. Treasury
- Property and services obtained from other Federal agencies without reimbursement
- Accumulated net income from operations

Reductions of investment:

- Funds returned to U.S. Treasury
- Property transferred to other Federal agencies without reimbursement
- Accumulated net loss from operations

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

14.2 CONGRESSIONAL APPROPRIATIONS

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

14.3 BORROWINGS FROM THE U.S. TREASURY

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

14.4 PROPERTY AND SERVICES TRANSFERRED BETWEEN FEDERAL AGENCIES WITHOUT REIMBURSEMENT

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

14.5 ACCUMULATED NET INCOME (OR LOSS) FROM OPERATIONS

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

All normal costs of operations shall be accounted for as current charges to be compared with revenues earned. Direct charges to accumulated net income shall be restricted to such transactions as distributions of income to the U.S. Treasury and unusual costs of significance such as disaster losses.

SECTION 15--REVENUES

15.1 NATURE

Revenues represent the increase in assets (or decrease in liabilities) which result from carrying out operations.

15.2 CONTROL OBJECTIVES

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

Adequate control over revenues includes (1) effectively carrying out the procedures adopted for recording in the accounting system all revenues to which the agency is entitled as soon as they are earned and (2) collecting such revenues as promptly as possible.

15.3 THE ACCRUAL BASIS OF ACCOUNTING

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

The accrual basis of accounting for revenues is the primary basis to be used in Federal Government accounting. Agency accounting policies should identify the key events that should take place or the circumstances that should exist as the basis for recording revenues earned (e.g., delivery of materials or performance of services sold, formal billing or imposition of charges, or passage

of time). Generally, these events or circumstances should be those which establish the point in revenue-producing transactions when the revenues become realizable, with reasonably practicable certainty, in terms of valid claims against the persons or organizations receiving the goods or services rendered.

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

15.4 REPORTING REVENUES

Each Federal agency accounting system shall incorporate procedures for obtaining monthly data on accrued revenues for which it is accountable. Such data shall be available promptly for inclusion in monthly reports required by the Bureau of the Budget and the Treasury Department.

SECTION 16--COSTS

16.1 NATURE AND IMPORTANCE OF COST INFORMATION

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

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

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

Congressional policy, as expressed in law, calls for the use of cost information in budgeting and in the management of operations. Public Law 84-863 (31 U.S.C. 24) specifically provides for the use of cost-based budgets in

developing requests to the Bureau of the Budget for appropriations, at such times as may be determined by the President. This section also provides that, for purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units and that administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets.

16.2 USE OF COST INFORMATION FOR CONTROL PURPOSES

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

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

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

This procedure requires the development and approval of a carefully devised financial plan based on the estimated cost of the objectives to be accomplished. Under such a plan, appropriate control devices fitted to the particular undertaking (such as approved rates of expenditures

and control over size of staff) can be developed. Current adjustments, based upon frequent reviews of operating plans, can be made and cost of performance can be evaluated in terms of accomplishments from period to period. Successful financial control requires clearly defined authorizations and limitations under which responsible persons can be held accountable.

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

16.3 GENERAL REQUIREMENT AS TO COST DATA

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

16.4 ACCOUNTING FOR COSTS

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

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

Accounting for costs is essential for implementing cost-based budgets and supporting the planning-programming-budgeting system. It is required where reimbursement for services performed is to be at cost or where sales prices

are primarily based on cost. Adequate cost accounting is also required where full recovery of cost from customers or users of services is a statutory requirement.

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

(1) Major organizational segments.

(2) Budget activities.

(3) The program structure adopted under the planning-programming-budgeting system prescribed by the President for executive agencies.

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

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

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

Cost accounting techniques should include, wherever appropriate and feasible, the production of quantity data relating to performance or output so as to make it possible to relate costs of performance with accomplishments and to disclose unit cost information. Such information is essential in implementing the planning-programming-budgeting system prescribed by the President for executive agencies and can be of great value in setting performance standards and managing current performance.

Other factors requiring consideration:

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

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

The system also should permit identification of the costs financed by the agency's appropriations and funds, as distinguished from other costs.

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

(3) Cost reports prepared for internal management control purposes must be carefully designed to disclose cost information that is consistent with assignments of responsibility. Proper evaluations of cost of performance by areas of responsibility can be made only with respect to costs that are controllable by the person being held accountable. For this reason, agency accounting practices for

allocating indirect costs must be devised with care so as to avoid producing cost data that obscures the total costs for which responsible managers should be held accountable.

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

16.5 COST CLASSIFICATIONS

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

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

16.6 COST-FINDING TECHNIQUES

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

Because of the complexities of some Government operations, it is sometimes just as satisfactory, as well as more economical, to use cost-finding techniques to produce cost data needed for special purposes as to incorporate detailed cost accounting procedures into the accounting system for the purpose of obtaining such information.

16.7 PAYROLL SYSTEMS

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

16.8 ACCOUNTING FOR SPECIFIC ELEMENTS OF COST

(a) LEAVE COSTS

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

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

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

accruing the cost of the various forms of leave should be incorporated in agency accounting systems.

(b) DEPRECIATION

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

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

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

(c) GRANTS

Definition

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

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

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

Responsibility of grantor agency

The grantor department or agency is responsible for seeing that:

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

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

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

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

Accounting and reporting

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

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

Payments to grantees in advance of work performed shall be accounted for as advances of the grantor agencies

until evidence of performance has been received from the grantees.

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

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

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

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

Estimates may be used in lieu of reports where necessary for monthly reporting purposes.

Where title to grantee-acquired property vests or may vest in the Government, appropriate property records shall be established.

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

(d) COSTS INCURRED AND PAID BY OTHER AGENCIES

Some costs applicable to an individual agency's activities are financed by other agencies that are primarily responsible for carrying out the functions that result in such costs. Important types of costs incurred and paid by other agencies to be considered include:

Interest on the investment of the U.S. Government (see section 16.8(e)).

Cost of office or other space obtained and managed by the General Services Administration.

Accounting procedures should be adopted by each agency to incorporate these costs into its accounting system whenever periodic determinations of total costs of performance are needed and the amounts of the costs incurred and paid by other agencies are determined to be of significance in relation to the total costs of the agency, activity, or operation on which financial reports are being prepared.

The principal circumstances in which such periodic determinations of total costs are needed are the same as those set out in section 12.5(h) with regard to depreciation.

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

These costs should be separately identified in agency financial reports.

(e) INTEREST

Interest is a cost generally applicable to all Federal Government expenditures. This concept is based on the

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

Interest as a cost when required to be paid

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

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

Interest as a cost when not required to be paid

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

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

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

(2) The rate of interest should be as determined by the Secretary of the Treasury, taking into consideration the current average yields on outstanding marketable obligations of the United States having maturities reasonably comparable to the estimated period for which Federal funds are invested.

(3) Interest determined to be applicable to an investment in property being constructed should be added to construction costs as interest during construction; the interest cost after such property is placed in service should be classified as an operating cost.

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

(f) LOSSES

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

Other losses which have been actually incurred or which may be reasonably expected to occur on the basis of events transpiring during the accounting period shall be

recognized in agency accounts and disclosed in financial reports based thereon. The amounts of such losses should be determined or estimated by the management from the best information available.

(g) NONRECURRING COSTS OR LOSSES

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

SECTION 17--FINANCIAL REPORTING

17.1 BASIC REQUIREMENTS

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

17.2 TYPE AND CONTENT OF FINANCIAL REPORTS

Reports required of and prepared by each agency will necessarily vary with the purpose to be served. Needs on the part of others will ordinarily call for less detailed information than the data needed by the agency for its own purposes and should be met by a summarization of the detailed data made available for internal management purposes.

Basic financial reports to be prepared include:

Statements of assets and liabilities (balance sheets)

Statements of operations of programs and activities conducted

Statements of sources and application of funds

Statements of changes in investment of the United States

(a) FINANCIAL POSITION

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

(b) RESULTS OF OPERATIONS

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

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

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

(c) SOURCES AND APPLICATION OF FUNDS

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

(d) STATUS OF APPROPRIATIONS

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

(e) REPORTING ON INDIVIDUAL FUNDS

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

(f) ADDITIONAL REPORTS

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

17.3 REPORTING STANDARDS

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

(1) Fairness of presentation
(2) Compliance with prescribed requirements
(3) Timeliness
(4) Usefulness

(a) FAIRNESS OF PRESENTATION

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

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

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

(1) Completeness and clarity

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

(2) Accuracy, reliability, and truthfulness

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

(3) Accounting support

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

(4) Excluded costs

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

(5) Form, content, and arrangement

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

(6) Extent of detail

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

(7) Performance under limitations

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

(8) Consistency

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

(9) Terminology

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

(b) COMPLIANCE WITH PRESCRIBED REQUIREMENTS

Financial reports prepared by Federal agencies must comply with:

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

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

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

(c) TIMELINESS

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

(d) USEFULNESS

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

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

Each agency's financial reporting policies and practices should be reviewed from time to time for the purpose of assuring that they properly reflect changes in organization, programs or activities, and assignments of responsibility.

SECTION 18--TREASURY DEPARTMENT CENTRAL ACCOUNTING AND FINANCIAL REPORTING

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

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

Reports prepared by the Treasury Department for the information of the President, the Congress, and the public will be such as to present the results of the financial operations of the Government and will include such financial data as the Director of the Bureau of the Budget may require of the Treasury in connection with the preparation of annual budgets or for other purposes of the Bureau.

CHAPTER 3--REVIEW AND APPROVAL OF AGENCY ACCOUNTING SYSTEMS

SECTION 25--RESPONSIBILITY OF AGENCY HEADS FOR ACCOUNTING SYSTEMS

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

SECTION 26--REQUIREMENT FOR APPROVAL

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

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

SECTION 27--IMPROVEMENT OF ACCOUNTING SYSTEMS

27.1 NEED FOR OVERALL PLAN

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

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

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

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

27.2 GENERAL ACCOUNTING OFFICE ASSISTANCE

Representatives of the General Accounting Office will cooperate with the agencies in the development of their accounting systems. Such cooperative assistance will include discussing problem areas and working with agency staffs in their solution, reviewing advance drafts of policies and procedural instructions, providing technical advice and suggestions as appropriate, and identifying specific areas in which improvements are believed to be needed.

27.3 STAGES OF SYSTEMS DEVELOPMENT

Accounting systems may be developed and Comptroller General approval requested in three stages:

1. The first stage, which is mandatory, would apply to the principles and standards of accounting to be followed. Priority should be given to the development of this phase of each system and obtaining Comptroller General approval thereof.

2. The second stage would apply to the design of the accounting system.

3. The third stage would apply to the accounting system in operation.

The specific pattern of development and approval to be followed in each agency should be worked out with the GAO site staff. Arrangements may be made in individual cases to request approval consideration in additional stages where deemed appropriate.

27.4 STATEMENTS OF ACCOUNTING PRINCIPLES AND STANDARDS

Statements setting forth the accounting principles and standards to be applied may be for an entire department or agency, for individual systems within a department or agency, or for appropriate groupings of individual systems.

Such statements should be consistent with the principles and standards set forth in chapter 2 of this title which are applicable broadly to all executive agencies. However, in each case they must be as definitive and specific as possible for application in the individual agency concerned. Guides that provide for accounting recognition of financial events only "if needed," "if considered significant," or "if useful to management" should be avoided as being too vague and indecisive to be useful.

27.5 SYSTEMS DESIGN

The design of an accounting system should include a listing of the general ledger accounts by number and title, a clear definition of each account, a listing or an outline of the subsidiary accounts to be maintained and a summary of the classification coding to be used.

The design should also include descriptions of:

The accounting records to be maintained and the principal accounting processes (by flow chart or otherwise);

Internal controls to be applied to financial, manpower, and property resources;

Relationship of the accounting system to organization, program, and budget structure;

Planned use of electronic computers and other equipment;

Organization level(s) or location(s) at which accounts would be maintained;

Extent and nature of cost accounting to support cost-based budgets and the program structure under PPBS;

Method(s) of accrual of revenues, expenditures, and costs;

Types and frequency of reports to make the system responsive to the needs of management;

Any other major aspects necessary to an understanding of the design of the system.

Detailed operating procedures and instructions for use of employees in maintaining the system are not required at this stage. Although a fully developed manual is not required when approval of the system design is requested, if such a manual has been prepared and includes the required design information, it will be acceptable.

SECTION 28--REQUIREMENT FOR ACCOUNTING MANUALS

Each accounting system shall be documented in an organized manual of instructions which should be formally

prescribed by the head of the agency for the guidance of officials and employees responsible for operating the system. These manuals should be comprehensive in character and should not be limited to general guidelines or to general statements of principles, concepts, and practices.

The development and approval by the head of the agency of an adequate and comprehensive accounting manual for the specific guidance of accounting personnel engaged in all phases of the accounting and financial control work is a prerequisite to final approval of an accounting system.

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

(1) Separate sections to describe in nonprocedural terms:

The general functions of the organization.

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

The accounting principles and standards employed.

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

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

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

The financial reporting system.

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

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

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

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

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

SECTION 29--REQUESTING APPROVAL

29.1 AGENCY DETERMINATION OF CONFORMITY

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

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

29.2 FORMAL REQUESTS FOR APPROVAL

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

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

The letter may make reference to additional documentation relating to the accounting system referred to the General Accounting Office staff at the headquarters site of the agency (see next section).

In submitting approval requests, the following factors should also be considered:

1. Requests for approval may encompass an entire accounting system of a department, agency, bureau, service, or other major organizational entity, or individual segments of a system, such as property accounting. Either approach is acceptable. However, where the segmented approach is taken, requests for approval should show the relationship of the particular segment to the agency's overall plan for its financial management system.

2. An accounting system need not be in complete operation before final approval is requested. However, it should be adequately tested by the agency

or be in regular use to the extent necessary to demonstrate its effectiveness.

29.3 SUPPORTING DOCUMENTATION

A request for approval of a statement of accounting principles and standards should be accompanied by a supporting memorandum explaining how the principles and standards proposed to be applied conform to those prescribed by the Comptroller General. Significant departures should be identified and justified.

A request for approval of a proposed design of an accounting system should be accompanied by an explanatory memorandum which clearly describes the essential features (see section 27.5). Such memorandum should be supported by copies of flow charts, charts of accounts, and such other documentation needed to facilitate the review and approval of the proposed design.

The following materials relating to a formal request for approval of an accounting system in operation should be referred to General Accounting Office staff at the headquarters site of the agency at the time the formal request is submitted.

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

(2) A statement of the principles and standards employed in the system, if this information is not included in the agency's accounting manual.

(3) A copy of the agency's manual of instructions prepared for the use of its employees in maintaining the accounting system.

(4) A statement of the agency's evaluation as to how the system meets the following objectives

prescribed in section 113 of the Budget and Accounting Procedures Act of 1950:

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

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

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

(d) Reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget.

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

(5) A copy of the agency evaluation as to the compliance of its system with prescribed principles, standards, and related requirements. See section 30.3 concerning separately published review guide to assist agencies in their review of accounting systems.

SECTION 30--REVIEW OF ACCOUNTING SYSTEMS

When a formal request for approval is received, representatives of the General Accounting Office will undertake such review and testing of the operation of the system as are deemed necessary to determine whether the system conforms, in all material respects, with prescribed principles and standards.

30.1 BASIC CRITERIA FOR REVIEW OF ACCOUNTING SYSTEMS

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

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

Title 4: Claims - General
Title 5: Transportation
Title 6: Pay, Leave, and Allowances
Title 7: Fiscal Procedures
Title 8: Records Management and Services

30.2 OTHER PERTINENT REQUIREMENTS

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

(1) Statutory requirements relating to accounting.

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

(3) Findings and recommendations in joint GSA-GAO property accounting and management survey reports.

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

(5) Other requirements of the Bureau of the Budget such as those included in its Circulars Nos. A-11

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

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

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

30.3 REVIEW GUIDE

To assist agencies in devising their accounting systems and reviewing them in relation to the prescribed principles and standards of the Comptroller General and other applicable requirements, a review guide has been published separately in pamphlet form by the General Accounting Office.

This guide is intended primarily for agency use before formal requests for approval of accounting systems are made.

SECTION 31--APPROVAL OF ACCOUNTING SYSTEMS

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

On the basis of appropriate review and testing of the operation of an agency's accounting system, formal approval will be granted by the Comptroller General when the system is deemed to be adequate and in conformity with prescribed principles, standards, and related requirements for accounting.

If review work reveals deficiencies in the principles and standards applied or the practices employed in an accounting system that are of sufficient significance to preclude approval, the head of the agency will be notified accordingly.

31.1 RELATION TO COST-BASED BUDGETING

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

The objectives of law clearly require that accrual accounting be employed in contemplation of the adoption of internal cost-based budgeting practices. However, approval of an accounting system need not await the actual installation of such cost-based budget practices.

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

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

SECTION 32--CHANGES IN ACCOUNTING SYSTEMS

Approval of an accounting system by the Comptroller General is not intended to signify that the system must remain unchanged. Continuing efforts should be devoted by the agency to the development of improvements and the institution of necessary changes to keep the system adapted to the needs of the management, the Bureau of the Budget, the Treasury, and the Congress.

Changes in an accounting system may be made without formal approval of the Comptroller General, provided the basic accounting principles and standards underlying the system are not changed. For example, approval need not be obtained for changes in procedures which are intended to bring about greater effectiveness or increased economy in the mechanics of the system, but which do not change the accounting basis or the end product of an accounting operation.

Changes in an accounting system which significantly affect the underlying principles and standards applied will require approval. For example, approval should be obtained for changes in the basis on which accounting data is accumulated or for revisions that will result in significant differences in the content of accounts. Such changes should be discussed with representatives of the General Accounting Office before approval is requested.

SECTION 33--GENERAL ACCOUNTING OFFICE EXAMINATIONS

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

As a part of these examinations, specific attention will be devoted to the effectiveness of the accounting systems in producing useful cost and other financial information, in assisting in the control of resources, and in otherwise

achieving the objectives for Federal agency accounting prescribed by the Congress.

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

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

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

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