Functional Series 600 – Budget and Finance ADS 620 – Financial Management Principles and Standards

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ADS 620 – Financial Management Principles and Standards

620.1 OVERVIEW

Effective Date: 09/29/2000

This chapter provides the overarching accounting and financial reporting principles and standards for the Agency. The standards in this chapter are based on Federal laws and regulations promulgated by Federal oversight agencies, including the Office of Management and Budget (**OMB**), the Department of Treasury, and the General Accounting Office. The policy directives and required procedures for specific financial management topics are found in ADS Series 600, Budget and Finance.

620.2 PRIMARY RESPONSIBILITIES

Effective Date: 09/29/2000

a. The Chief Financial Officer (CFO)

- 1. Oversees all financial management activities relating to the programs and operations of USAID and reports directly to the Administrator regarding financial management matters.
- **2.** Develops and maintains an integrated Agency financial management system that complies with applicable accounting principles, standards, and other requirements of Federal financial management systems.
- **3.** Directs, manages, and provides policy guidance and oversight of USAID financial management personnel, activities, and operations.
- **4.** Monitors the financial execution of the USAID budget in relation to actual expenditures.
- **5.** Works with the Bureau for Program and Policy Coordination (PPC) to ensure timely performance information for inclusion in financial reports and statements.
- **6.** Reviews on a biennial basis the fees, royalties, rents, and other charges imposed by USAID for the services and things of value that it provides and makes recommendations on revising those charges to reflect the costs incurred in providing those services and things of value.

b. The Office of Financial Management (M/FM)

- **1.** Prepares the Agency's annual financial statements.
- **2.** Ensures that USAID accounting practices comply with applicable accounting standards and other Federal guidance.

^{*} An asterisk indicates that the adjacent material is new or substantively revised.

c. The Office of Management Planning and Innovation (M/MPI)

- 1. Develops financial management policy for the Automated Directives System (ADS) and provides overall financial policy advice and guidance.
- **2.** Coordinates the preparation of the Management Discussion and Analysis for USAID's financial statements.

d. The Bureau for Program and Policy Coordination (PPC)

Provides information on the Agency's performance goals and results to meet financial reporting requirements.

e. The Office of the Inspector General (OIG)

- 1. Audits USAID's annual financial statements.
- 2. Conducts performance audits of Agency programs, activities, systems, and functions in accordance with Generally Accepted Government Auditing Standards.

620.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective Date: 09/29/2000

620.3.1 Federal Accounting Standards, Policies, and Procedures

Effective Date: 09/29/2000

The Federal Accounting Standards Advisory Board (**FASAB**) was established in October 1990 by the Director of OMB, the Secretary of Treasury, and the Comptroller General to consider and recommend accounting standards for the Federal government. The American Institute of Certified Public Accountants designated FASAB as the standard setting body for the Federal government. The Board establishes standards taking into consideration the financial and budgetary information needs of Congress, executive agencies, and other users of Federal financial information. The standards are published as Statements of Federal Financial Accounting Standards (**SFFAS**).

FASAB may also develop documents that describe the concepts on which the Board relied in recommending accounting standards. These documents are called Statements of Federal Financial Accounting Concepts (**SFFAC**). These concept statements are not authoritative in the sense that they do not establish standards or principles. However, they may be useful in understanding a specific SFFAS.

USAID must implement financial management activities in accordance with the FASAB standards. The current SFFAS and SFFAC documents are provided in 620.4.1.a, FASAB Statements of Federal Financial Accounting Concepts and Standards.

^{*} An asterisk indicates that the adjacent material is new or substantively revised.

The Treasury Financial Manual (**TFM**) is the Department of Treasury's official publication for the financial accounting and reporting of all receipts and disbursements of the Federal government. (See **Mandatory Reference**, <u>Treasury Financial Manual</u>, <u>TFM Sup 2, SGL</u>) USAID must follow the policies, procedures, and instructions contained in the TFM in carrying out its fiscal responsibilities.

620.3.2 Financial Management Systems

Effective Date: 09/29/2000

USAID must establish and maintain an integrated financial management system that substantially complies with Federal financial management systems requirements, Federal accounting standards, and the United States General Ledger at the transaction level.

- **a.** Federal Financial Management Systems Requirements. USAID must meet the following requirements to be in compliance with Federal financial management systems requirements:
 - The financial management systems must meet the requirements of OMB Circular A-127, Financial Management Systems Requirements. (See Mandatory Reference, OMB Circular A-127)
 - The financial management systems must follow the series of requirements documents issued by the Joint Financial Management Improvement Program (JFMIP) titled the Federal Financial Management System Requirements (FFMSR). (See Mandatory Reference, <u>Joint Financial Management Improvement Program Federal Financial Management System Requirements</u>)
 - Security over financial information must be ensured in accordance with OMB Circular A-130, Management of Federal Information Resources. (See Mandatory Reference, OMB Circular A-130)
 - Internal controls over financial management systems must be properly designed and must operate effectively.
- b. Federal Accounting Standards. The Agency must be able to prepare audited financial statements in accordance with applicable accounting standards. Substantial compliance does not require that transactions be in full compliance with financial accounting standards at the point of original entry. It does require that the financial information used in the preparation of financial statements based on such transactions be adequately supported by detailed financial records (automated or manual).
- c. United States Government Standard General Ledger (SGL) at the transaction level. The U.S. Standard General Ledger (SGL) provides a uniform

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chart of accounts and technical guidance to be used in standardizing Federal agency accounting. The general ledger management function of the Agency's financial system must be in full compliance with the descriptions and posting rules contained in the SGL chart of accounts. The Agency is considered in substantial compliance with the SGL at the transaction level when the classification of financial events for the financial statements and required financial information provided to the Department of Treasury and OMB are consistent with the account descriptions and posting rules approved by the Standard General Ledger Board and published in the Treasury Financial Manual. (See Mandatory Reference, Treasury Financial Manual TFM Sup 2, SGL)

620.3.3 Financial Statements

Effective Date: 07/08/2003

USAID's financial statements report the Agency's financial position and results of operation. M/FM prepares the statements in accordance with OMB form and content requirements. OMB Bulletin 01-09, Form and Content of Agency Financial Statements, provides these requirements. (See **Mandatory Reference**, **OMB Bulletin 01-09**)

The Agency's financial statements must include the following major sections:

- a. Management Discussion and Analysis (MD&A),
- **b.** Basic Statements and Related Notes,
- c. Required Supplementary Stewardship Information (RSSI), and
- **d.** Required Supplementary Information (**RSI**).

USAID must submit audited financial statements to the Director of OMB by the required deadlines each fiscal year. (See Memorandum for Chief Financial Officers and Inspectors General) M/FM has the overall responsibility for preparation of the Agency's financial statements. The OIG is responsible for auditing the financial statements in accordance with OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements.

The Government Management Reform Act of 1994 (**GMRA**) grants the Director of OMB the authority to consolidate certain statutory financial management reports into a single Performance and Accountability Report. (**See Mandatory Reference**, **GMRA**) This report is intended to streamline reporting by providing critical financial and program performance information in a single document. USAID's financial statements are a component of the Agency's Performance and Accountability Report.

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620.3.3.1 Management Discussion and Analysis

Effective Date: 09/29/2000

The Management Discussion and Analysis (MD&A) accompanying the statements must be in compliance with SFFAS Number 15, Management's Discussion and Analysis. (See Mandatory Reference, SFFAS 15 – Management's Discussion and Analysis - Standards in FASAB Statements of Federal Financial Accounting Concepts and Standards The MD&A provides a clear and concise description of the Agency's mission, activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition. M/MPI develops the MD&A in consultation with PPC, which provides information on the Agency's performance goals and results.

620.3.3.2 Financial Statements and Related Notes

Effective Date: 09/29/2000

The principal financial statements and related notes summarize financial information for individual funds and accounts. The amounts reported on the principal statements are based on specific general ledger account balances. The principal statements must include

- a. Balance Sheet.
- **b.** Statement of Net Cost,
- Statement of Changes in Net Position,
- d. Statement of Budgetary Resources, and
- **e.** Statement of Financing.

The notes related to the principal statements summarize the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Agency's assets, liabilities, equity, revenues, expenses, and budgetary information. The notes also provide further details of the amounts reported on the statements.

620.3.3.3 Supplemental Financial Information

Effective Date: 09/29/2000

Budgetary information that is aggregated in the Statement of Budgetary Resources must be separated out by M/FM for each of the Agency's major budget accounts and reported as supplemental information. In addition, intragovernmental assets, liabilities, revenues, and related cost must be broken out by Federal partners and reported as supplementary information by M/FM.

^{*} An asterisk indicates that the adjacent material is new or substantively revised.

620.3.3.4 Other Accompanying Information

Effective Date: 09/29/2000

M/FM may include other accompanying information if it provides users of the financial statements with relevant information that is useful in obtaining a better understanding of the Agency's programs and the extent to which they are achieving their objectives.

620.4 MANDATORY REFERENCES

Effective Date: 09/16/2003

*620.4.1 External Mandatory References

Effective Date: 09/16/2003

- a. <u>FASAB Statements of Federal Financial Accounting Concepts and</u>
 Standards
- b. Chief Financial Officers Act of 1990
- c. Federal Managers' Financial Integrity Act of 1982
- d. Federal Financial Management Improvement Act of 1996
- e. Government Management Reform Act of 1994 (GMRA)
- f. <u>Joint Financial Management Improvement Program Federal Financial</u>
 <u>Management System Requirements</u>
- g. OMB Bulletin 01-09, Form and Content of Agency Financial Statements
- h. OMB Circular A-123, Management Accountability and Control
- i. OMB Circular A-127, Financial Management Systems Requirements
- j. OMB Circular A-130, Management of Federal Information Resources
- k. OMB Circular A-134, Financial Accounting Principles and Standards
- I. OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements
- m. Memorandum for Chief Financial Officers and Inspectors General
- *n. Treasury Financial Manual TFM Sup 2, SGL
- o. <u>SFFAS 15 Management's Discussion and Analysis Standards in FASAB</u>
 Statements of Federal Financial Accounting Concepts and Standards

^{*} An asterisk indicates that the adjacent material is new or substantively revised.

*p. Revised Implementation Guidance for the Federal Financial Management Improvement Act

620.4.2 Internal Mandatory References

Effective Date: 09/29/2000

- a. ADS 594, Audit of USAID's Annual Financial Statement
- b. ADS 596, Management Accountability and Control
- c. ADS 621, Obligations
- d. ADS 623, Financial Management of Credit Programs
- e. ADS 627, Local Currency Trust Fund Management
- f. ADS 628, Gifts and Donations and Dollar Trust Funds Management
- g. ADS 629, Accounting for USAID-Owned Property and Internal Use Software
- h. ADS 630, Payables Management
- i. ADS 631, Accrued Expenditures
- j. ADS 633, Financial Management Aspects of Temporary Duty Travel Policy
- k. ADS 634, Administrative Control of Funds
- I. ADS 636, Program Funded Advances

620.5 ADDITIONAL HELP

Effective Date: 09/29/2000

The following is a list of major legislation governing accounting and financial management activities:

a. Chief Financial Officers Act of 1990

This Act established a Chief Financial Officer (**CFO**) of the United States within the Office of Management and Budget (**OMB**) and a CFO in each executive department. The legislation requires the CFO to develop and maintain an integrated Agency accounting and financial management system that provides for

- 1. Complete, reliable, consistent, and timely information that is responsive to the financial information needs of Agency management;
- **2**. Integration of accounting and budgeting information;

^{*} An asterisk indicates that the adjacent material is new or substantively revised.

- 3. Development and reporting of cost information; and
- **4.** Systematic measurement of performance.

The legislation also requires that agencies submit audited financial statements. The Inspector General or an independent external auditor must audit the statements according to generally accepted government auditing standards.

b. The Government Performance and Results Act of 1993

The purpose of this Act is to improve the confidence of the American people in the capability of the Federal Government by systematically holding Federal agencies accountable for achieving program results. The Act establishes requirements for Agency strategic plans, annual performance plans, and annual performance reports.

c. Government Management Reform Act of 1994

This Act requires the head of each executive agency to submit audited financial statements to the Director of OMB each fiscal year. The financial statement must reflect the results of operations and cover all the accounts and associated activities of each office, bureau, and activity of the agency. The Act also requires an annual government-wide financial statement that contains the results of operations of the executive branch.

d. <u>Federal Financial Management Improvement Act of 1996</u>

This Act codifies certain financial management policies and audit procedures established by the Executive Branch. The legislation requires that each agency implement and maintain financial management systems that comply with Federal financial management systems requirements, the applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the auditors are required to report on compliance with the requirements of the Act, and agencies must establish a remediation plan to correct deficiencies.

e. <u>Budget and Accounting Procedures Act of 1950</u>

This Act directs the Comptroller General of the United States to prescribe the principles, standards, and related requirements for accounting to be observed by executive agencies after consulting with the Secretary of Treasury and the Director of OMB. Pursuant to the Act, the head of each executive agency has responsibility for establishing and maintaining adequate systems of accounting and internal control. The use of accrual accounting, cost-based budgeting, consistent classification, simplifications of allotment structure, and adequate control of property is required to establish and maintain adequate systems of accounting and internal control.

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f. Economy Act of 1932

This Act prescribes the rules for the purchase of supplies, equipment, or services from another Federal agency.

g. Prompt Pay Act of 1982

This Act calls for the payment of bills no later than due dates based on the receipt of proper invoices and satisfactory performance. It also establishes the requirement to pay interest penalties.

h. Federal Claims Collection Act of 1966

This Act prescribes procedures for the follow-up of claims against those who owe the Federal government money, including amounts owed as a result of audits.

i. Federal Credit Reform Act of 1990

This Act was enacted for the purpose of measuring more accurately the cost of Federal credit programs. The Act requires the calculation of subsidy elements of credit programs, encourages more cost-effective delivery of benefits to beneficiaries, and seeks to improve the allocation of limited financial resources among credit and other spending programs.

i. Collection Improvement Act of 1996

This Act enhances debt collection government-wide and mandates the use of electronic funds transfer for Federal payments. This law establishes that any nontax debt or claim owed to the U.S. that has been delinquent for more than 180 days must be turned over to the Secretary of Treasury for appropriate action.

k. Federal Managers Financial Integrity Act of 1982

This Act requires agency heads to establish controls that provide reasonable assurance that

- 1. Obligations and costs comply with applicable laws;
- **2.** Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- **3.** Revenues and expenditures are properly recorded and accounted for.

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I. Federal Property and Administrative Services Act of 1949

This Act requires agencies to maintain adequate inventory controls and accountability systems for the property under their control.

620.6 DEFINITIONS

Effective Date: 09/29/2000

The definitions listed below have been included into the ADS Glossary. See the ADS Glossary for all ADS terms and definitions.

Accounting Standards and Principles

Those conventions, rules, and procedures necessary to define acceptable accounting practice. Accounting standards include broad guidelines of general application and may also include detailed practices and procedures. (OMB Circular A-134) (Chapter 620)

FASAB

The Federal Accounting Standards Advisory Board establishes accounting standards for the Federal government. Statements of Federal Financial Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS) are approved by the Secretary of Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Once approved, FASAB standards apply across the Federal government unless excluded by legislation. (Chapter 620)

financial system

An information system comprised of one or more applications that is used for any of the following: a) collecting, processing, maintaining, transmitting, and reporting data about financial events; b) supporting financial planning and budgeting activities; c) accumulating and reporting cost information; or d) supporting the preparation of financial statements. (OMB Circular A-127) (Chapter 620)

financial management system

The financial system and financial portions of mixed systems that are necessary to support financial management. (Chapter 620)

Information System (IS)

The entire infrastructure, organization, personnel, and components for the collection, processing, storage, transmission, display, and dissemination of information. This term includes both automated and manual information systems; its acronym is "IS." (source: NSTISSI 4009) (Chapters 502, 545, 550, 552, 562, 620)

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JFMIP

The Joint Financial Management Improvement Program defines financial management system requirements in a series of documents called the Federal Financial Management System Requirements. (Chapter 620)

mixed financial system

An information system that supports both financial and nonfinancial functions. (OMB Circular A-127) (Chapter 620)

Non-financial system

An information system that supports nonfinancial functions or components. Any financial data included in the system are insignificant to Agency financial management and/or not required for the preparation of financial statements. (OMB Circular A-127) (Chapter 620)

SFFAC

Statements of Federal Financial Accounting Concepts are documents that describe the concepts used by the Federal Accounting Standards Advisory Board in recommending standards. Concept statements are not authoritative, but may be useful in understanding specific Statements of Federal Financial Accounting Standards. (Chapter 620)

SFFAS

Statements of Federal Financial Accounting Standards are accounting standards for the Federal government recommended by the Federal Accounting Standards Advisory Board and approved by the Director of OMB, the Secretary of Treasury, and the Comptroller General. (Chapter 620)

single integrated financial management system

A unified set of financial systems and the financial portion of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage the financial operations of the Agency, and report on the Agency's financial status to central agencies, Congress, and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide the Agency-wide financial system support necessary to carry out the Agency's mission and support the Agency's financial management needs. (OMB Circular A-127) (Chapter 620)

U.S. Standard General Ledger

The U.S. Standard General Ledger provides a uniform chart of accounts and technical guidance to be used in standardizing Federal agency accounting. (Chapter 620)

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