ADS Chapter 620

Financial Management Principles and Standards

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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 prescribes USAID's accounting and financial reporting principles and standards. The standards in this chapter are based on Federal laws and regulations published by Federal oversight agencies, including the Office of Management and Budget (OMB), the Department of the Treasury, and the Government Accountability Office (GAO), for audit and compliance issues. 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: 04/10/2009

*a. The Chief Financial Officer (CFO)

1. Oversees all financial management activities relating to USAID programs and operations and reports directly to the Administrator on 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 Management, Office of Management, Policy, Budget, and Performance (M/MPBP) to ensure timely performance information for inclusion in financial reports and statements.

***6.** Works with M/MPBP (See **ADS 620.2.e**) and the Bureau for Management, Office of Overseas Management Staff (M/OMS) (See **ADS 620.2.f**) to biennially review the fees, royalties, rents, and other charges imposed by USAID for the services and things of value that it provides and make recommendations on revising those charges to reflect the costs incurred when providing those services and things of value.

b. The Bureau for Management, Office of the Chief Financial Officer, Central Accounting and Reporting Division (M/CFO/CAR)

1. Prepares the Agency's annual financial statements.

2. Ensures that USAID accounting practices comply with applicable accounting standards and other Federal Government guidance.

***c. The Management Bureau, Officer of the Chief Financial Officer, Financial Policy and Support Division (M/CFO/FPS)** develops financial management policy for the Automated Directives System (ADS) and provides overall financial policy advice and guidance.

***d. The Management Bureau, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC)** coordinates the preparation of the Management's Discussion and Analysis section of USAID's financial statements.

***e. The Management Bureau, Office for Management, Policy, Budget, and Performance (M/MPBP)**

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

2. Reviews and provides guidance for applying indirect cost rates for the goods and services that USAID provides other agencies via interagency agreements, see **ADS 306** and **General Notice 1104**.

***f. The Management Bureau, Office of Overseas Management Staff (M/OMS)** reviews and revises the charges imposed by USAID as an alternate service provider (ASP) for the International Cooperative Administrative Support Services (ICASS) program, see **ADS 635**.

g. 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: 04/10/2009

*620.3.1 Financial Documentation Responsibilities

Effective Date: 04/10/2009

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within Controllers' or CFO operations, but includes any source material causing or resulting in a financial transaction. Contracting Officer's Technical Representatives (COTRs), Agreement Officer's Technical Representatives (AOTRs), Loans/Grants Officers, Program Area Operating Officials, etc., are responsible for retaining financial documentation and ensuring it is available for an audit.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented.
- Source documentation must be readily available for audit by either the OIG or a responsible audit entity.

The general rule for retention of financial documents is seven years; however, retention times may vary. For further details see **ADS 502, The USAID Records Management Program**. The specific financial Records Disposition Schedules are located in the mandatory reference section of **ADS 502** under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the **National Archives and Records Administration (NARA) General Records Schedules (GRS): GRS 6, Accountable Officers' Account Records, and GRS 7, Expenditure Accounting Records**.

620.3.2 Federal Accounting Standards, Policies, and Procedures

Effective Date: 09/29/2000

The Director of the OMB, the Secretary of the Treasury, and the Comptroller General established the **Federal Accounting Standards Advisory Board (FASAB)** in October 1990 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 by incorporating 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)**. USAID must implement financial management activities in accordance with the **FASAB** standards.

FASAB developed documents that describe the concepts on which the Board may rely when recommending accounting standards. These documents are called **Statements of Federal Financial Accounting Concepts (SFFAC)**. These concept statements are

not authoritative because they do not establish standards or principles, but they may help you understand a specific SFFAS.

The **Treasury Financial Manual (TFM)** is the Department of the Treasury's official publication for the financial accounting and reporting of all receipts and disbursements of the Federal Government**.** USAID must follow the policies, procedures, and instructions contained in the **TFM** when executing its fiscal responsibilities.

620.3.3 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 Standard General Ledger (USSGL) at the transaction level (see **Federal Financial Management Improvement Act of 1996 (FFMIA)**). Substantial compliance for financial management systems requires that systems provide reliable and timely financial information necessary for Federal managers.

a. Federal Financial Management Systems Requirements. USAID must meet the following to be in compliance with Federal financial management systems:

- The financial management systems requirements of **OMB Circular A-127, Financial Management Systems Requirements**.
- The financial management systems must follow the **Financial Systems Integration Office (FSIO), System Requirements Documents**.
- The security over financial information must be ensured in accordance with **OMB Circular A-130, Management of Federal Information Resources.**
- The internal controls over financial management systems must be properly designed and operate effectively (see **OMB Circular A-123, Appendix A**).

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.

c. United States Government Standard General Ledger (USSGL) at the transaction level. The USSGL provides a uniform chart of accounts and technical guidance used for 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 USSGL chart of accounts. The

Agency is considered in substantial compliance with the USSGL at the transaction level when the classification of financial events for the financial statements and required financial information provided to the Department of the Treasury and OMB are consistent with the account descriptions and posting rules approved by the Standard General Ledger Board and published in the TFM (see **Department of the Treasury, USSGL**).

*620.3.4 Financial Statements

Effective Date: 04/10/2009

USAID's financial statements report the Agency's financial position and results of operations. M/CFO/CAR prepares the statements in accordance with the form and content requirements of **OMB Bulletin A-136, Form and Content of Agency Financial Statements**

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

- Management's Discussion and Analysis (**MD&A**),
- Principal Statements and accompanying Notes,
- Required Supplementary Stewardship Information (**RSSI**), and
- Required Supplementary Information (**RSI**).

USAID must submit audited financial statements to the Director of OMB 45 days after the close of the fiscal year (for fiscal year 2008, see **OMB M-08-25, Guidance for Completing FY 2008 Financial and Performance Reports**) and unaudited quarterly financial statements to OMB 21 days after the close of each fiscal quarter. M/CFO/CAR has the primary responsibility for preparing the Agency's financial statements. The OIG audits the financial statements in accordance with **OMB Memorandum M-08-24, Audit Requirements for Federal Financial Statements**.

The **Government Management Reform Act of 1994** (**GMRA**) grants the Director of OMB the authority to consolidate several statutory financial management reports into a single report that streamlines the financial and program performance reporting. USAID's financial statements are a component of the Agency's Annual Financial Report.

620.3.4.1 Management's Discussion and Analysis

Effective Date: 09/29/2000

The Management's Discussion and Analysis (**MD&A**) section accompanying the statements must be in compliance with **SFFAS Number 15: Management's Discussion and Analysis**. 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/CFO/APC develops the

MD&A in consultation with M/MPBP, which provides information on the Agency's performance goals and program results.

*620.3.4.2 Financial Statements and Related Notes
Effective Date: 03/11/2009

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. USAID's principal statements include a:

- Balance Sheet,
- Statement of Net Cost,
- Statement of Changes in Net Position, and
- Statement of Budgetary Resources.

The notes related to the principal statements summarize the accounting principles and methods of applying the principles that management has concluded best presents the Agency's assets, liabilities, equity, revenues, expenses, and budgetary information. The notes provide additional details on the amounts reported in the statements.

620.3.4.3 Supplemental Financial Information
Effective Date: 09/29/2000

M/CFO/CAR must prepare a schedule that disaggregates the Statement of Budgetary Resources by major budgetary account. The schedule must be included as supplemental information to the Agency's financial statements.

620.3.4.4 Other Accompanying Information
Effective Date: 09/29/2000

M/CFO/CAR may include other 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: 04/10/2009

*620.4.1 External Mandatory References
Effective Date: 04/10/2009

a. **Chief Financial Officers Act of 1990**

b. **Department of the Treasury, Treasury Financial Manual (TFM)**

c. **Federal Accounting Standards Advisory Board (FASAB)**

d. FASAB, Statements of Federal Financial Accounting Standards (SFFAS)

e. FASAB, SFFAS Number 15: Management's Discussion and Analysis

f. FASAB, Statements of Federal Financial Accounting Concepts (SFFAC)

g. Federal Financial Management Improvement Act (FFMIA) of 1996

h. Federal Managers' Financial Integrity Act (FMFIA) of 1982

i. Financial Systems Integration Office (FSIO), System Requirements Documents

j. Government Management Reform Act of 1994 (GMRA)

*k. National Archives and Records Administration (NARA), General Records Schedules

l. OMB Circular A-123, Management Accountability and Control

*m. OMB Circular A-127, Financial Management Systems Requirements

n. OMB Circular A-130, Management of Federal Information Resources

o. OMB Circular A-134, Financial Accounting Principles and Standards

p. OMB Circular A-136, Financial Reporting Requirements

*q. OMB Memorandum M-08-24, Audit Requirements for Federal Financial Statements

*r. OMB Memorandum M-08-25, Guidance for Completing FY 2008 Financial and Performance Reports

s. Revised Implementation Guidance for the Federal Financial Management Improvement Act

t. United States Government Standard General Ledger (USSGL)

*620.4.2 Internal Mandatory References

Effective Date: 04/10/2009

*a. ADS 306, Interagency Agreements

b. ADS 502, USAID Records Management Program

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

c. **ADS 594, Audit of USAID's Annual Financial Statement**

d. **ADS 596, Management Accountability and Control**

***e.** **ADS Series 600, Chapters 621-637**

***f.** **General Notice 1104, Cost Reimbursement Rates for Interagency Agreements under the Economy Act, FAA 632(a), and FAA 632(b) Authority, November 3, 2008**

*620.5 ADDITIONAL HELP

Effective Date: 04/10/2009

The following is a list (in chronological order) of major legislation governing accounting and financial management activities:

a. **Economy Act of 1932 (31 USC 1535)**

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

b. **Federal Property and Administrative Services Act of 1949**

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

c. **Budget and Accounting Procedures Act of 1950 (31 USC Sections 3511-3515, 3521)**

This Act directed 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 the Treasury and the Director of the 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.

d. **Federal Claims Collection Act of 1966**

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

e. Prompt Pay Act of 1982

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

f. Federal Managers' Financial Integrity Act of 1982

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

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

g. Federal Credit Reform Act of 1990

This Act enabled the Federal Government to more accurately measure the cost of its credit programs. The Act required 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.

h. 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 required the CFO to develop and maintain an integrated Agency accounting and financial management system that provides for

- Complete, reliable, consistent, and timely information that is responsive to the financial information needs of Agency management;
- Integration of accounting and budgeting information;
- Development and reporting of cost information; and
- Systematic measurement of performance.

The legislation also required 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.

i. The Government Performance and Results Act of 1993

The purpose of this Act was 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 established requirements for Agency strategic plans, annual performance plans, and annual performance reports.

j. Government Management Reform Act of 1994

This Act required the head of each executive agency to submit audited financial statements to the Director of the 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 agency. The Act also required an annual government wide financial statement that contains the results of operations of the executive branch.

k. Federal Financial Management Improvement Act of 1996

This Act codified certain financial management policies and audit procedures established by the Executive Branch. The legislation required each agency to 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 were required to report on compliance with the requirements of the Act, and agencies must establish a remediation plan to correct deficiencies.

***l. Debt Collection Improvement Act of 1996**

This Act enhanced debt collection government wide and mandated 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 the Treasury for appropriate action.

***m. Reports Consolidation Act of 2000**

This Act required that agencies prepare a combined Performance and Accountability Report (PAR) that consolidates financial and performance management information.

***n. Improper Payments Information Act of 2002 (IPIA)**

This Act required agency heads to annually review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities.

***o. Federal Funding Accountability and Transparency Act of 2006 (FFATA)**

This Act required all agencies to provide information on federal awards to OMB. Federal awards include grants, subgrants, loans, awards, cooperative agreements, and other forms of financial assistance as well as contracts, subcontracts, purchase orders, task

orders, and delivery orders. OMB is responsible for making this information available to the general public via a website.

*620.6 DEFINITIONS

Effective Date: 04/10/2009

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**)

***core financial system**
A core financial system may perform all financial functions, including general ledger management, funds management, payment management, receivable management, and cost management. The core financial system is the system of record that maintains all transactions resulting from financial events. (**OMB Circular A-127**)

Federal Accounting Standards Advisory Board (FASAB)
The Federal Accounting Standards Advisory Board established 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 the 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
See core financial system.

***financial management system**
A financial management system includes the core financial systems and the financial portions of mixed systems necessary to support financial management. (**OMB Circular A-127**) (**Chapter 620**)

***The Financial Systems Integration Office (FSIO)**
The Financial Systems Integration Office is responsible for developing, testing, and certifying core financial systems requirements; supporting the Federal financial community on priority projects; and conducting outreach through various activities. (**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**)

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**)

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

Statements of Federal Financial Accounting Standards (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 the OMB, the Secretary of the Treasury, and the Comptroller General. (**Chapter 620**)

U.S. Standard General Ledger (USSGL)
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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