

# Policy and Procedures Manual for Guidance of Federal Agencies

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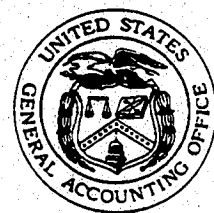
## Introduction

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Policy and Procedures Manual for Guidance of Federal Agencies

# United States General Accounting Office



# GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

## INTRODUCTION

### PURPOSE AND PLAN OF THE MANUAL

#### Purpose and Scope

This manual is the official medium through which the Comptroller General promulgates (1) accounting principles, standards, and related requirements, and material for the guidance of Federal agencies in the development of their accounting systems and internal auditing programs, (2) uniform procedures for use by Federal agencies, and (3) regulations governing the relationships of the General Accounting Office with other Federal agencies, and with individuals and private concerns doing business with the Government.

Decisions of the Comptroller General will not be published in this manual but will continue to be published in monthly pamphlets and annual volumes. Similarly, instructions in unusual cases, exceptions granted individual agencies, and instructions having limited or temporary application will not be published in this manual.

#### CONTENTS

The manual is composed of eight titles. A brief description of each title follows.

#### Title 1--The United States General Accounting Office

To provide a basic understanding of the General Accounting Office and its relationships with other Federal agencies and the general public, this title reviews its origin, status, and functions. Much of the material in this title is historical and descriptive; details on the Office's specific functions and its relationships with other Government agencies and the public can be found in the rules, regulations, and related information contained in other titles of the manual.

#### Title 2--Accounting

This title contains (1) accounting principles and standards prescribed by the Comptroller General and (2) instructions relating to the review and approval of agency accounting systems. This title has also been prepared in booklet form and is available from the Superintendent of Documents, U.S. Government Printing Office.

## GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

### Title 3--Audit

This title contains (1) reference materials pertaining to the legal authorities for the audit and investigative activities of the General Accounting Office, (2) an explanation of the types of audits employed in discharging these responsibilities of the Comptroller General, (3) a codification of regulatory material issued under the Government Corporation Control Act, (4) a codification of regulatory material which applies after the accounts have been made available for audit and before they are treated as audited records, e.g., instructions relating to audit exceptions and settlement of accounts, and (5) guidelines and principles for agencies' internal auditing programs.

### Title 4--Claims

This title applies to all claims, except those arising from freight rate and passenger fare charges, covered by the Federal Property Management Regulations (41 C.F.R. 101-41.000), and those relating to transportation services, covered by title 5 of this manual. This title contains regulatory material relating to (1) doubtful claims by and against the United States, including loss-and-damage claims, (2) claims which may be paid administratively under regulations issued by the General Accounting Office pursuant to statute, (3) claims which, because of statutory provisions, may be paid only after settlement by the General Accounting Office, (4) administratively uncollectible debt claims, including loss-and-damage claims, and (5) waiver of claims for erroneous payments of pay and certain allowances.

### Title 5--Transportation

This title (1) prescribes certain standard forms and procedures necessary to permit performance of the discretionary functions vested by statute in the Comptroller General pertaining to certain transportation services and other uniform fiscal requirements deemed necessary and (2) prescribes, with the Secretary of the Treasury, standards for advance payment of charges for transportation services furnished the United States. It also contains the procedures for review, when requested by a carrier or forwarder, of actions taken by the General Services Administration on claims for transportation and related services furnished for the account of the United States by such carrier or forwarder.

Title 6--Pay, Leave, and Allowances

This title prescribes the principles and standards and related requirements to be observed by Federal departments and agencies in the development, installation, and operation of that part of their financial management systems concerned with pay, leave, and allowances of civilian and military personnel.

Title 7--Fiscal Procedures

The principles, standards, and related requirements prescribed in this title relate to the development, installation, and operation of that part of an agency's financial management system concerned with fiscal operations, except fiscal transactions which are specifically within the scope of titles 4, 5, and 6 of the manual.

Title 8--Records Management

This title describes the responsibilities of the General Accounting Office in matters relating to the preservation and disposal of fiscal and accounting records of the Government and codifies related procedural instructions to be observed by Federal departments and agencies in regard to their accounting and fiscal records.

DISTRIBUTION

Up to 10 copies of the manual and amendments thereto will be furnished by the General Accounting Office to all departments, agencies, and instrumentalities of the Federal Government and the District of Columbia without cost. However, should an agency's needs exceed the regular distribution which is made without cost, special arrangements may be made for printing the additional supply at agency expense, or the manual may be obtained from the Superintendent of Documents on a subscription basis.

Distribution of the manual and subsequent revisions thereto will be made to a designated central control point in each department, agency, or major bureau. Therefore, all requests for manual material shall be submitted through these central control points. The name and location of each central control point and any changes in the address of the unit designated shall be furnished to:

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Washington, D.C. 20548

Each agency will furnish its own binders. The material will be delivered in punched form for use in three-ring binders.

Inquiries concerning distribution matters should be directed to the address above.

TRANSMITTAL OF MANUAL REVISIONS

A series of transmittal sheets consecutively numbered according to title will be used to promulgate and distribute new or revised manual material. Each transmittal sheet will be dated and will specify the dates on which the new or revised material will be effective.

The transmittal sheet is designed to serve the following purposes:

1. To transmit manual pages to be substituted or added; to give instructions for the insertion and removal of pages; and to indicate the pen and ink changes to be made.
2. To state the purpose of the new or revised material.
3. To state any temporary or nonrecurring instructions which are not codified in the manual.
4. To specify any regulations or published instructions which are superseded.

Each new or revised page of the manual will contain the number of the transmittal sheet and the date of issuance in the lower outside corner.

A form, "Check List of Transmittal Sheets," is furnished with each title of the manual. In addition, a list of pages currently in effect for each title will be furnished periodically.

GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

ORGANIZATION AND ARRANGEMENT OF THE MANUAL

Tables of Contents

To help you locate material, tables of contents are provided for the entire manual and for each title.

Chapter, Section, and Subsection Numbering

Chapters are numbered consecutively beginning with the numeral 1 for each title. Sections are numbered consecutively--beginning with 1--throughout each title without regard to the chapter number.

Subsections are numbered consecutively beginning with number 1. Subsection numbers are preceded by a decimal and the number of the particular section. For example, subsection 1 in section 16 is numbered 16.1.

Page Head Lines

A head line on each page shows the name of the title.

To help you find sections in the titles, the head line also contains the section number in the upper inside corner of the page. On an even page this number designates the first numbered section or subsection appearing on the page. On an odd page the number designates the last numbered section or subsection on the page.

Page Numbering

Pages throughout each title of the manual are numbered consecutively, and each page number is prefixed by the number of the related title; e.g., 1-25 denotes title 1, page 25.

CITATIONS TO MANUAL MATERIAL

Citations to a particular section or subsection of the manual may be stated as follows:

"2 GAO 16.1" denotes title 2,  
section 16, subsection 16.1.

GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

References to chapter should be written out, as:

Chapter 2 of title 2.

SUBJECT MATTER INQUIRIES

Questions concerning the subject matter of the respective titles of the manual, such as requests for interpretations of particular passages, should be addressed to U.S. General Accounting Office, Washington, D.C. 20548, attention of:

General Counsel	Titles 1, 5
Director, Financial and General Management Studies Division	Titles 2,6,7
Director, Office of Policy	Title 3
Director, Claims Division	Title 4
Director, Office of Administrative Services	Title 8



**Policy and Procedures Manual for Guidance of Federal Agencies**

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**Title 1**  
**U.S. General Accounting Office**

GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF  
FEDERAL AGENCIES

Title 1--The United States General Accounting Office

TRANSMITTAL SHEET NO. 1-9 February 13, 1985

Effective date: Immediately.

Material transmitted: Complete revision of title 1.

Purpose:

This revision reflects the codification of title 31 of the United States Code, enacted on September 12, 1982, and subsequently enacted legislation, through September 30, 1984, which affected the fundamental powers or duties of the U.S. General Accounting Office (GAO). Editorial and technical revisions have also been made to material previously included in this title. The principal revisions include:

1. Section 1. Revised to reflect statutory language.
2. Section 2.2. Revised to reflect current law concerning the appointment and term of the Deputy Comptroller General.
3. Section 5.1. Revised to include reference to the fact that GAO funding is included in the Legislative Branch Appropriations Acts.
4. Section 5.2. Revised to reflect amendments to the law (1) expanding GAO's audit authority to include the Internal Revenue Service, the Bureau of Alcohol, Tobacco and Firearms, the bank regulatory agencies and the unvouchered expenditures of the President and Vice President; (2) giving GAO the right to seek court enforcement of its right to access to agency records; (3) requiring GAO to review agency reports on internal financial controls; and (4) providing a specific statutory basis for GAO's hearing of bid protests.
5. Section 6. Revised to reflect current GAO claims settlement and debt collection activities and legal services.
6. Section 7.4. Revised to omit material relating to personal liability of accountable officers since it does not relate to the subject of this section.

7. Section 8.1. Revised to reflect activities performed concerning internal agency controls as a result of the Financial Integrity Act.
8. Sections 9 and 10. Reworded to state more clearly the current role of GAO in claims settlement and debt collection on behalf of the government.
9. Section 11.1. Revised to state that GAO also renders decisions to members of Congress.
10. Section 11.2. Revised to reflect enactment of the Competition in Contracting Act, which affected GAO's bid protest activities.
11. Section 12.2. Revised to include additional references to laws requiring GAO to assist committees of the Congress.
12. Section 12.3. Revised to reflect repeal of the law requiring the Senate to reimburse GAO for expense of personnel detailed to assist Senate committees.
13. Sections 14-18. Condensed to reduce detail relating to the internal organization of GAO. GAO's internal organization is set forth in the appendix to this title.
14. Sections 19 and 20. Combined and renumbered as section 15. Material concerning GAO regulations has been condensed to avoid constant revision.
15. Appendix (Formerly Appendix A). Revised to reflect current internal GAO organization.
16. Appendices B-E. Deleted as unnecessary because of previously described changes.

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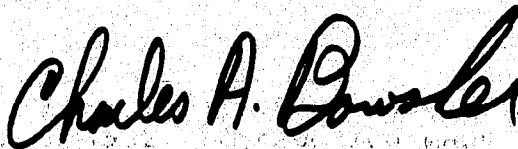
Each federal department and agency receives a limited number of copies of all revisions and updates to the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Copies are sent to agency heads, the offices of the inspectors general or other agency audit heads, and the departmental financial management offices. Additional copies are sent to other central locations in various departments and agencies and to congressional offices on the basis of specific requests. Copies are not regularly distributed to the numerous field offices of each department and agency because we have been encouraged by the Government Printing Office to limit the number of free copies we distribute.

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Comptroller General  
of the United States

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TITLE 1--THE UNITED STATES GENERAL ACCOUNTING OFFICE

TABLE OF CONTENTS

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	INTRODUCTION	1-1
1	THE GENERAL ACCOUNTING OFFICE IN BRIEF	1-1
	1 Status	1-1
	2 Officials	1-1
	2.1 The Comptroller General	1-1
	2.2 The Deputy Comptroller General	1-1
2	LEGISLATIVE CONTROL--POWER OF THE PURSE	1-2
	3 Evolution of the principle	1-2
	3.1 In England	1-2
	3.2 In the Colonies	1-2
	4 Federal financial control before 1921	1-2
	4.1 Preconstitutional financial control	1-2
	4.2 Financial control--the Constitution	1-3
	4.3 Establishment of the Treasury Department	1-3
	4.4 Financial control under the Treasury Department	1-4
	5 Federal financial controls since 1921	1-5
	5.1 Creation of the General Accounting Office	1-5
	5.2 Auditing and accounting developments since 1921--the General Accounting Office today	1-6
3	FUNCTIONS OF THE GENERAL ACCOUNTING OFFICE	1-11
	6 Principal functions of the General Accounting Office	1-11
	7 Auditing	1-13
	7.1 Statutory authority for auditing	1-13
	7.2 Extent of audit authority	1-14
	7.3 Purpose of audits	1-14
	7.4 Frequency of audits	1-15
	7.5 Place of audits	1-15
	7.6 Reporting on audits	1-15
	8 Accounting	1-16
	8.1 Accounting functions of the General Accounting Office	1-16
	8.2 Prescribing accounting principles, standards, and related requirements	1-17
	8.3 Cooperating in the development and improvement of accounting and financial management systems	1-17

8.4	Approving accounting systems	1-18
8.5	Reviewing accounting systems	1-18
9	Claims settlement	1-19
9.1	Statutory authority for settlement of claims	1-19
9.2	Claims settlement activities	1-19
10	Debt collection	1-20
10.1	Debt collection authority	1-20
10.2	Collection activities	1-20
11	Legal services	1-21
11.1	Decisions to agency officials and members of Congress	1-21
11.2	Decisions to interested parties involving procurement protests	1-22
11.3	Publication of decisions	1-23
12	Special assistance to the Congress	1-23
12.1	Specific reviews required by law	1-23
12.2	Reviews requested by committees and members of Congress	1-23
12.3	Assignment of personnel to assist congressional committees	1-24
12.4	Testifying before congressional committees	1-24
12.5	Commenting on proposed legislation	1-25
12.6	Providing informal assistance	1-25
12.7	Support of the congressional budget process	1-25
13	Records management and services	1-26
13.1	Preservation of records	1-26
13.2	Records services	1-26
<b>4</b>	<b>ORGANIZATION AND OPERATING PROCEDURES OF THE GENERAL ACCOUNTING OFFICE</b>	
14	Management and organization	1-27
15	Operations and procedures	1-27
<b>APPENDIX</b>	<b>Organization chart</b>	<b>1-29</b>

TITLE 1--THE UNITED STATES GENERAL  
ACCOUNTING OFFICE

INTRODUCTION

To provide a basic understanding of the General Accounting Office and its relationships with other federal agencies and the general public, this title reviews the Office's origin, status, and functions. Much of the material in this title is historical and descriptive; details on the Office's specific functions and its relationships with other government agencies and the public can be found in the rules, regulations, and related information contained in other titles of the manual.

CHAPTER 1--THE GENERAL ACCOUNTING OFFICE IN BRIEF

SECTION 1--STATUS

The United States General Accounting Office is described in 31 U.S.C. 702(a) (1982) as an "instrumentality of the United States Government independent of the executive departments." In other statutes, the General Accounting Office is characterized as an agency in the legislative branch of government or as an auditing agent of the Congress.

SECTION 2--OFFICIALS

2.1 THE COMPTROLLER GENERAL

The Comptroller General of the United States directs the General Accounting Office. Appointed by the President with the advice and consent of the Senate, the Comptroller General holds office for 15 years but may retire sooner or be removed. The Comptroller General may be removed only by impeachment or by joint resolution of the Congress for reasons set forth in law. The Comptroller General serves for a single term and is not eligible for reappointment (31 U.S.C. 702-703 (1982)).

2.2 THE DEPUTY COMPTROLLER GENERAL

The Deputy Comptroller General (Deputy) performs duties as assigned by the Comptroller General. During the absence or incapacity of the Comptroller General or a vacancy in that office, the Deputy acts as Comptroller General. Like the Comptroller General, the Deputy is appointed by the President with the advice and consent of the Senate. The Deputy's term of office extends from the date of appointment until the date on which an individual is appointed to fill a vacancy in the Office of Comptroller General. The Deputy may continue to serve until a successor is appointed or may retire sooner or be removed by impeachment or by joint resolution of the Congress (31 U.S.C. 703 (1982)). Pending the appointment of a Deputy, the duties of that office are being performed by the Special Assistant to the Comptroller General.

## CHAPTER 2--LEGISLATIVE CONTROL--POWER OF THE PURSE

## SECTION 3--EVOLUTION OF THE PRINCIPLE

## 3.1 IN ENGLAND

The growth of legislative power of the purse can be traced to the rise of Parliament as the effective governmental power in England. There, fiscal control began with the raising, rather than the spending, of revenue. The Magna Carta (1215) officially recognized the doctrine that certain feudal dues, taxation of a sort, might not be levied upon barons without their consent.

Not until the 17th century, however, did Parliament begin to directly control spending. In 1624 Parliament provided that an appropriation for extraordinary supplies should be paid, not to the King or to the Chancellor of the Exchequer, but into the hands of commissioners named by Parliament. From this precedent developed the practice of having a parliamentary committee manage the national finances. Later, when a very large sum was needed for the Dutch War, a clause inserted in the appropriate bill called for the money to be spent only for the purposes of that war. After the revolution of 1688, provisions limiting spending to the purpose for which funds were appropriated became the custom and then the rule.

## 3.2 IN THE COLONIES

With England's background of parliamentary control of the purse, it is not surprising that her colonial assemblies in the New World effectively used this power in their struggles with the royal governors. Apparently all of the Thirteen Colonies required a strict accounting to their assemblies for all public funds. In Virginia, for example, the treasurer was subject to annual appointment by the General Assembly and was both accounting officer and speaker of the House of Burgesses. Thus, since long before the federal government was established, the Nation has had a deeply rooted philosophy that the expenditure of public moneys should be controlled by the elected representatives of the people.

SECTION 4--FEDERAL FINANCIAL CONTROL  
BEFORE 1921

## 4.1 PRECONSTITUTIONAL FINANCIAL CONTROL

Following the Declaration of Independence, the Second Continental Congress acted as a provisional government for prosecuting the War for Independence. It was responsible for making policy and also for carrying it out. The Congress or



its designated representatives also conducted financial operations. The Congress had no specified financial powers, however, until the Articles of Confederation, adopted by the Congress on November 15, 1777, were finally ratified by the States on March 1, 1781.

In the early days of the Revolution, accounts were examined by various committees of the Congress itself. As the pressure of business increased, these committees had to employ persons who were not delegates to the Congress. Later a Superintendent of Finance was appointed, and delegates ceased examining accounts entirely. Following the cessation of hostilities, however, the Congress resumed direct control over financial matters and congressional committees continued to examine accounts until the Constitution was adopted.

#### 4.2 FINANCIAL CONTROL--THE CONSTITUTION

The financial powers of the United States Government are stated largely in article I of the Constitution, which pertains to the legislative power. There, in section 8, the Congress is specifically given, among other powers, the power to impose and collect taxes, to borrow money on the credit of the United States, and to coin money. To insure legislative control of the purse, section 9 provides, "No Money Shall be drawn from the Treasury, but in Consequence of Appropriations made by Law."

#### 4.3 ESTABLISHMENT OF THE TREASURY DEPARTMENT

When the first U.S. Congress met in 1789, it was faced with the task of organizing the new government. One of its most perplexing problems was controlling and accounting for public funds. Although the Act of September 2, 1789 (1 Stat. 65) established the Treasury Department in the executive branch, it nevertheless ordered a very close relationship with the Congress. The Secretary of the Treasury was required to report to either branch of the legislature in person or in writing "and generally to perform all such services relative to the finances as he shall be directed to perform." The act created a Treasurer, a Register, an Auditor, and a Comptroller and termed them "Officers," requiring that their appointments, along with that of the Secretary, be approved by the Senate.

Moreover, the act specifically separated duties and powers among these major officials. In addition to reporting and supervisory duties, the Secretary was required to plan for the improvement and management of the revenue and to estimate

public receipts and expenditures. The Treasurer had the duties of receiving, keeping, and properly disbursing the public funds and rendering accounts to the Comptroller. The Register was charged with accounting and related custodial duties, and the Auditor was assigned to examine the accounts and certify the balances to the Comptroller for decision.

The Comptroller supervised the adjustment and preservation of accounts, countersigned warrants, prosecuted delinquent revenue officers, and collected debts due the United States, but his principal duty was deciding the lawfulness and justice of claims and accounts. During the debate on the Act of September 2, James Madison observed that this duty partook strongly of the judicial character and that there might be strong reasons why such an officer should not serve at the pleasure of the executive branch but should have such tenure as would make him responsible to the public generally (1 Annals of Congress 636). This was not done, however, and the Comptroller remained an executive officer until 1921.

#### 4.4 FINANCIAL CONTROL UNDER THE TREASURY DEPARTMENT

Despite the Congress' pledge to keep in close touch with the new Nation's fiscal administration, the controls it had fashioned for that purpose were soon relaxed. The failure of the House of Representatives to entertain oral reports from the Secretary of the Treasury was followed by a gradual impairment of Treasury's review mechanisms and procedures.

The Congress, recognizing that fiscal controls were gradually being weakened, repeatedly enacted corrective laws. The Act of March 3, 1809 (2 Stat. 535) required officers who received public money to account for it in accordance with appropriations and to apply it solely to the purpose for which appropriated. The Act of March 3, 1817 (3 Stat. 366) required all claims against the United States to be settled in the Treasury Department. And the Act of January 31, 1823 (3 Stat. 723) prohibited the advance of public funds, except advances to disbursing officers made "under the especial direction of the President," and regulated the rendering of accounts by public officers.

To secure more adequate review, the Congress, from time to time, added additional Auditors and Comptrollers to the Treasury staff, altered the position of the Comptrollers, and, in 1868, made the balances that Auditors certified in settling accounts conclusive upon the executive branch. (See 15 Stat. 54.)

In 1894, the Dockery Act<sup>1</sup> streamlined the system and effected reforms which had long been advocated. It abolished the Comptrollers and vested their powers in a Comptroller of the Treasury who was given the power to render binding decisions as to the legality of expenditures. It assigned the Treasury Department's six Auditors to examine the accounts of designated departments and to certify balances in the accounts, which were made conclusive upon the executive branch, subject to appeal to the Comptroller.

However, the Comptroller and the Auditors remained executive officers. Independent congressional review of the legality and propriety of executive branch expenditures--essential to the effective power of the purse--was thus lacking.

#### SECTION 5--FEDERAL FINANCIAL CONTROLS SINCE 1921

##### 5.1 CREATION OF THE GENERAL ACCOUNTING OFFICE

To provide an independent review of executive expenditures, as well as to fill the need for a national budget system, the Congress enacted the Budget and Accounting Act, 1921 (42 Stat. 20).

This act established the General Accounting Office, under the direction of the Comptroller General and independent of the executive departments. It abolished the accounting officers of the Treasury and consolidated their powers and duties in the new establishment. It assigned the General Accounting Office to audit and settle all public accounts; to settle and adjust all claims by and against the government; and to prescribe the

<sup>1</sup> When the Congress enacted Title 31 of the United States Code into positive law in 1982, it repealed many of the provisions of law referred to in sections 4 and 5 of this title of the manual, although the substance of these provisions was generally carried forward into the codification. Since sections 4 and 5 of this title of the manual are mainly intended to provide a historical perspective for the evolution of the functions of this Office, references will be to the popular names of former provisions of law adopted before enactment of Title 31 of the United States Code.

forms, systems, and procedures for administrative appropriation and fund accounting. The act made final and conclusive upon the executive branch the balances certified by the General Accounting Office in settling public accounts.

Within the General Accounting Office, the Comptroller General was granted the authority to decide questions involving a payment by any agency. The Comptroller General was to investigate all matters relating to the receipt, disbursement, and application of public funds and to make regular and special reports concerning such matters.

The Comptroller General and the General Accounting Office have been expressly recognized by the Congress both as part of the legislative branch of the government and as assisting in the performance of legislative functions. For example, the Reorganization Act of 1945 (59 Stat. 616,) (which expired in 1949) declared the Comptroller General and the General Accounting Office to be a part of the legislative branch of government. In addition, the Accounting and Auditing Act of 1950 (64 Stat. 834-835) specifically designated the Comptroller General to be the auditing agent of the Congress. Appropriations for the Office are generally provided by the annual Legislative Branch Appropriations Act.

## 5.2 AUDITING AND ACCOUNTING DEVELOPMENTS SINCE 1921-- THE GENERAL ACCOUNTING OFFICE TODAY

Initially, the General Accounting Office required all vouchers supporting payments to be transmitted to Washington, D.C. In 1936, however, field audits began for some of the emergency spending programs of the Depression period. During World War II, site audits of cost reimbursement contracts were instituted to speed the audit of war expenditures. Branches were also established in several locations to audit the accounts of military disbursing officers.

In 1945, following recommendations of the Comptroller General, the Congress enacted the Government Corporation Control Act (59 Stat. 597), which subjected wholly owned and mixed-ownership government corporations to audit by the General Accounting Office.

The Legislative Reorganization Act of 1946 (60 Stat. 837) directed the Comptroller General to analyze expenditures of government agencies so the Congress could determine whether public funds were economically and efficiently administered.

In 1947, a joint program for improving financial management in the federal government was undertaken as an outgrowth of discussions between the Comptroller General, the Secretary of the Treasury, and the Director, Bureau of the Budget (now the Office of Management and Budget). The program was to improve the President's management of the executive branch, the Congress' information for acting upon appropriations and other legislation, and the public's awareness of federal financial conditions and operations. In keeping with these broad purposes, the executive agencies have cooperated with the General Accounting Office to modernize the government's accounting structure. The program affirms that if accounting is to serve the government as effectively as it serves private management, each agency's accounting system must meet its particular needs, as well as provide adequate disclosure and integration with the budgetary processes and Treasury financial reporting.

The Comptroller General adopted a comprehensive audit program in 1949 so that the Office could carry out its audit responsibilities more effectively. This program recognized that the accounting and internal control procedures of each agency are the basic points of effective management control over the government's financial operations; therefore, the Office would, as far as practical, base its audits on evaluating agency accounting systems and related controls at the operations sites.

The concept of these two programs--the joint financial management improvement program and the comprehensive audit program--was adopted by the Congress in 1950, first in the Post Office Department Financial Control Act of 1950 (64 Stat. 460) and later in the Accounting and Auditing Act of 1950 (64 Stat. 834). These acts made agency heads responsible for maintaining adequate systems of accounting and internal control fitted to the needs of the agencies and conforming to principles and standards prescribed by the Comptroller General.

In accordance with the Legislative Reorganization Act of 1970 (84 Stat. 1167), the Comptroller General, along with the Secretary of the Treasury and the Director of the Office of Management and Budget, was to develop, establish, and maintain a standardized information and data processing system for budgetary and fiscal data and standard classifications of federal agency programs, activities, receipts, and expenditures. The Comptroller General was to review and analyze the results of government programs and activities and make cost-benefit studies on a self-initiated basis, when ordered by

either house of Congress, or when requested by an appropriate committee; to employ experts in analyzing and conducting cost-benefit studies of government programs; and, upon request, to help any congressional committee or its staff in analyzing cost-benefit studies furnished by federal agencies or in conducting cost-benefit studies of programs within its jurisdiction. In addition, the General Accounting Office was to conduct special audits of the accounts of any private organization performing services or conducting activities in or on the United States Capitol buildings or grounds.

The Presidential Election Campaign Fund Act [of 1971], (85 Stat. 562) and the Federal Election Campaign Act of 1971 (85 Stat. 3) established new procedures concerning the financing and disclosure of campaign expenditures for federal elections. Both laws assigned responsibilities to the Comptroller General that concerned the disclosure of campaign contributions and expenditures for Presidential and Vice Presidential campaigns. Within the General Accounting Office, a separate Office of Federal Elections was created to carry out these responsibilities. Thereafter, all the authorities provided the General Accounting Office by the election legislation enacted in 1971 and 1972 were transferred to the newly established Federal Elections Commission by the Federal Election Campaign Act Amendments of 1974 (86 Stat. 1263).

The Congressional Budget and Impoundment Control Act of 1974 (88 Stat. 297) established a new congressional budget process and provided for congressional control over the impoundment of funds by the executive branch. It established a new Congressional Budget Office, which the General Accounting Office was to provide with information, services, facilities, and personnel, with or without reimbursement. This act also reconfirmed the Congress' intention, expressed in the 1970 Legislative Reorganization Act, that the Comptroller General evaluate the results of government programs and activities on a self-initiated basis, when ordered by either house of Congress, or when requested by the appropriate committee.

The Congressional Budget and Impoundment Control Act also required the Comptroller General to assist committees upon request in stating legislative objectives and goals, in assessing and reporting actual program performance, and in analyzing and assessing program reviews or evaluation studies prepared by or for any federal agency. In addition, the act reconfirmed the Comptroller General's authority to develop, establish, and maintain standardized data processing and information systems

for fiscal, budgetary, and program-related matters so as to meet the needs of the various federal agencies and, as far as practical, those of state and local governments.

The Comptroller General was given central responsibility for developing standard terminology, definitions, classifications, and codes for use in compiling the centralized data processing system. The Comptroller General was required to conduct a continuing program to identify the needs of the committees and members of Congress for such information and to assist committees in developing their information needs, including those expressed in legislative requirements. The Comptroller General was also required to monitor the various reporting requirements of the Congress and committees and recommend changes in their reporting requirements to better meet congressional information needs and to eliminate duplicative or unnecessary reporting.

The Comptroller General, in cooperation with the Director of the Congressional Budget Office, the Secretary of the Treasury, and the Director of the Office of Management and Budget, was further required to develop an inventory and directory of sources and information systems for fiscal, budgetary, and program-related data. Under title X of the act, the Comptroller General was assigned a central role in reviewing impoundments by the executive branch. This role includes the authority to sue for release of budget authority impounded by the executive branch if such release is compelled by congressional response to the impoundment as provided in title X of the act. In this connection, the Comptroller General is expressly empowered to employ General Accounting Office attorneys or others to bring civil action in the Federal District Court for the District of Columbia.

Under the General Accounting Office Act of 1974 (88 Stat. 1959) certain functions and duties of the Comptroller General were revised and restated. Statistical sampling procedures for examining federal vouchers were simplified; General Accounting Office authority to audit all payments for transportation of federal employees and property was transferred to the General Services Administration; the General Accounting Office was authorized to audit and review non-appropriated fund activities; and the frequency of General Accounting Office audits under the Government Corporation Control Act and related pieces of legislation was lessened.

The Energy Policy and Conservation Act (89 Stat. 956) authorized the Comptroller General to verify energy information supplied to executive departments and agencies. It also

authorized the Comptroller General, under certain circumstances, to verify the statements of persons or corporations engaged in distributing (at other than the retail level), producing, processing, refining, and piping energy resources. The act similarly authorized the Comptroller General to examine any vertically integrated petroleum company's financial information related to exploring, developing, and producing energy resources and transporting, refining, and marketing energy resources and energy products. In support of this responsibility, the Comptroller General could sign and issue subpoenas; require persons to submit written answers or books, records, papers, or other documents; administer oaths; and assess civil penalties of up to \$10,000 for violating any order issued by the Comptroller General under the act. (See also 15 U.S.C. 771.)

Such a civil penalty may be collected in the Federal District Court for the District of Columbia through any attorney employed by the General Accounting Office or designated by the Comptroller General or, upon the Comptroller General's request, the Attorney General. If the court orders compliance with the subpoena or a special or general order of the Comptroller General and the party fails to obey the order, such failure may be treated as contempt of court.

In 1977, the audit authority of the Comptroller General was specifically stated by 91 Stat. 1104 to include the Internal Revenue Service and the Bureau of Alcohol, Tobacco and Firearms of the Department of the Treasury, and the Comptroller General was given direct access to taxpayer returns subject to strict controls to preserve confidentiality in order to conduct audits. The following year, the Congress specifically placed the Federal Reserve Board, Federal Reserve banks, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Financial Institutions Examination Council under the limited audit scrutiny of the Comptroller General (92 Stat. 391, 3696).

The General Accounting Office Act of 1980 (94 Stat. 311) authorized the Comptroller General to have access to unvouchered accounts of the President, Vice President, and the executive branch agencies. The act reaffirmed this authority with the added provision that the results of audits of the accounts are to be reported only to the President, the Vice President, or head of the agency concerned and the cognizant congressional committees.

Additionally, the act authorized the Comptroller General to subpoena records (other than those relating to unvouchered accounts) when necessary to carry out the Office's audit responsibilities.



Under the Federal Managers' Financial Integrity Act of 1982 (96 Stat. 814), internal control objectives were prescribed and the executive agencies had to establish systems of internal control in accordance with internal control standards prescribed by the Comptroller General. The Office of Management and Budget, in consultation with the Comptroller General, was required to develop guidelines for evaluations by agencies of their systems of internal control. In addition, the head of each agency was required to issue an annual statement attesting that the agency's internal control systems conformed to the objectives and standards, or where this was not the case, to identify material weaknesses together with planned corrective action. Further, the agency heads were required to report whether their accounting systems conformed to the Comptroller General's principles and standards.

The Competition in Contracting Act of 1984 codified and strengthened the bid protest function as it was previously performed by the General Accounting Office. It (1) established deadlines for Comptroller General decisions and for agencies to provide reports on protests to the Comptroller General and (2) restricted award of contracts before a Comptroller General decision and required cessation of contract performance when a protest is filed within 10 days of award, unless, in either situation, the responsible agency official determines that circumstances will not permit awaiting the decision or that contract performance is in the best interest of the United States. The act authorized the Comptroller General to recommend corrective action and require agencies to pay certain costs when a protest is sustained.

The Office of the General Counsel of the General Accounting Office has prepared a compilation entitled "Legislation Relating to the General Accounting Office." This document contains all legislation pertaining to the functions and duties of the General Accounting Office, including that which has been summarized above.

### CHAPTER 3--FUNCTIONS OF THE GENERAL ACCOUNTING OFFICE

#### SECTION 6--PRINCIPAL FUNCTIONS OF THE GENERAL ACCOUNTING OFFICE

The principal functions of the General Accounting Office are:

(1) Auditing

Auditing and evaluating the programs, activities, financial transactions, and accounts of the federal

government, and reporting the results to the Congress and the agencies.

(2) Accounting

Prescribing principles, standards, and related requirements for accounting; cooperating in the development and improvement of agency accounting and financial management systems; and reviewing and approving agency accounting systems.

(3) Claims Settlement

Settling doubtful claims by and against the federal government or appeals from agency decisions.

(4) Debt Collection

Prescribing with the Department of Justice the Federal Claims Collection Standards.

(5) Legal Services

Rendering legal decisions and advice to:

Heads of federal agencies and disbursing and certifying officers on questions of authority granted to the agencies by the Congress and the circumstances under which they may spend public funds.

Debtors and creditors of the government who are dissatisfied with the handling of their affairs by other government agencies.

Individuals and firms doing business, or seeking to do business, with the government on legal questions about the award of government contracts.

Members of Congress, congressional committees, the Attorney General, and the Office of Management and Budget, as requested.

These four categories of individuals are legally entitled to receive decisions from this Office.

Additionally, this Office renders decisions to other officials of the government upon request.

(6) Special Assistance to the Congress

Making special surveys and reviews as required by law or requested by congressional committees and members of Congress; testifying before congressional committees; preparing staff papers and providing informal briefings on federal agency programs and activities; developing questions for use during hearings; furnishing comments on proposed legislation; providing legislative drafting services; assigning personnel to assist congressional committees; reviewing and commenting upon other agencies' submissions to the Congress; and supporting the congressional budget process, including providing advice on executive branch rescissions and deferrals of budget authority.

SECTION 7--AUDITING

7.1 STATUTORY AUTHORITY FOR AUDITING

The audit authority of the General Accounting Office is granted in numerous provisions of law, principally 31 U.S.C. 712(1)&(3), 717, 3523, 3526, 3702, and 9101-9109 (1982).

The Comptroller General is required to settle all accounts of the United States 31 U.S.C. 3526(a) (1982) and all claims of or against the United States (31 U.S.C. § 3702(a) (1982)). Furthermore, the Comptroller General is required to investigate all matters related to the receipt, disbursement, and use of public money, (31 U.S.C. 712(1) (1982))<sup>2</sup>; to audit the financial transactions of each agency (31 U.S.C. 3523 (1982)); and to analyze expenditures to help the Congress decide whether public money has been used and expended economically and efficiently (31 U.S.C. 712(3) (1982)). Wholly-owned and mixed-ownership government corporations are made subject to audit by the General Accounting Office by 31 U.S.C. 9101-9109 (1982).

The law authorizes the Comptroller General, in determining auditing procedures and the extent of examination of vouchers

<sup>2</sup> In performing the duties under 31 U.S.C. 712(1) (1982), it was the intent of the Congress that the Comptroller General had the constant, unremitting duty to search for methods of economy, and in so doing, be concerned with whether public funds were economically and efficiently spent.

and other documents, to consider generally accepted principles of auditing and the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices. The law also specifically authorizes site auditing by providing that whenever the Comptroller General determines that an audit shall be made at the place where accounts and other records are kept, any executive agency may be required to retain these records (31 U.S.C. 3523 (1982)).<sup>3</sup>

The Comptroller General is required by 31 U.S.C. 717 (1982) to evaluate the results of government programs and activities when ordered by either house of Congress, when requested by the appropriate committee of the Congress, or upon the Comptroller General's own initiative.

## 7.2 EXTENT OF AUDIT AUTHORITY

Within certain limitations, the audit authority and responsibility of the General Accounting Office extend to the activities, financial transactions, and accounts of the federal government. The authority also extends--either by law or agreement--to the records of contractors having government contracts negotiated without advertising; to their subcontractors; and to certain recipients of federal financial assistance such as loans, advances, grants, and contributions.

## 7.3 PURPOSE OF AUDITS

General Accounting Office audits primarily (1) evaluate the efficiency, economy, legality, and effectiveness with which federal agencies carry out their financial, management, and program responsibilities and (2) provide the Congress and federal agency officials with objective information, conclusions, and recommendations that will help them carry out their

<sup>3</sup> Congress declared that in enacting the source provision for 31 U.S.C. 3523 (1982), its policy was that audits conducted by the Comptroller General shall determine if accounting and related financial reporting provide (1) full disclosure of the results of financial operations, (2) adequate financial information needed to manage operations and formulate and execute the budget, and (3) effective control over income, expenditures, funds, property, and other assets. Furthermore, these audits shall assess whether (1) financial transactions have been consummated in accordance with laws, regulations, or other legal requirements, (2) financial control over operations is adequate, and (3) accounts of accountable officers are settled effectively.

responsibilities. Audits also evaluate the personal accountability of certifying, collecting, and disbursing officers and other accountable officers.

#### 7.4 FREQUENCY OF AUDITS

As a general proposition, the laws do not specify the frequency of audits. However, there are exceptions. For example, corporations subject to audit under 31 U.S.C. 9105 (1982) must be audited at least once every 3 years, as must the Federal Deposit Insurance Corporation, the National Homeownership Foundation, and the Government Printing Office. On the other hand, the frequency with which some agencies, activities, or transactions are audited is left to the discretion of the General Accounting Office.

#### 7.5 PLACE OF AUDITS

Most audit work is performed at the offices of the government agencies where operations are conducted and books and other records are kept. Accordingly, the General Accounting Office maintains a number of audit sites in the Washington metropolitan area. Auditing outside of Washington, principally at field offices of departments and agencies with Washington headquarters, at businesses having negotiated contracts with the government, and at the offices of federal grant and other financial aid recipients, is performed by regional offices in principal U.S. cities and by overseas offices.

#### 7.6 REPORTING ON AUDITS

Implicit in the audit responsibilities of the General Accounting Office is a duty to report the information obtained. The Comptroller General is required by 31 U.S.C. 719(a) (1982) to report in writing on the work of the General Accounting Office at the beginning of each regular session of the Congress. This regular report, or special reports when the Congress is in session, shall make recommendations to increase economy or efficiency in public expenditures. Also, the Comptroller General is required by 31 U.S.C. 9106 (1982) to report to the Congress on each audit made of government corporations under 31 U.S.C. 9105 (1982).

The Comptroller General is required by 31 U.S.C. 719(h) (1982) to prepare monthly and annual lists of all General Accounting Office reports and to transmit a copy of each list to each committee and member of Congress. Similarly, the

Comptroller General is required by the Energy Policy and Conservation Act to report annually to the Congress on the exercise of the General Accounting Office's authorities under that act. 42 U.S.C. 6382 (1982).

The General Accounting Office reports primarily to the Congress. It reports to department or agency officials, however, when its findings, conclusions, and recommendations do not require action by the Congress and are not considered to be of particular interest to the Congress or its committees. If a report contains recommendations to the head of any federal agency, that agency must respond in writing to the Committees on Government Operations and on Appropriations within 60 days or in conjunction with the next budget request more than 60 days after the date of the report, according to 31 U.S.C. 720 (1982).

Title 3 of this manual contains more detailed information on General Accounting Office audit responsibilities and the manner in which they are carried out.

## SECTION 8--ACCOUNTING

### 8.1 ACCOUNTING FUNCTIONS OF THE GENERAL ACCOUNTING OFFICE

The accounting functions of the General Accounting Office consist of the following:

- (1) Prescribing principles, standards, and related accounting requirements to be observed by each executive agency.
- (2) Prescribing standards for internal accounting and administrative control to be observed by each executive agency.
- (3) Cooperating with the executive agencies to develop their accounting systems and improve their financial management systems.
- (4) Approving agency accounting systems when found adequate and in conformity with the prescribed principles, standards, and related requirements.
- (5) Reviewing these accounting systems from time to time.
- (6) Consulting with the Office of Management and Budget in the development of guidelines for reviews by executive agencies of their internal control systems.

- (7) Monitoring and reporting on implementation of the Financial Integrity Act.

## 8.2 PRESCRIBING ACCOUNTING PRINCIPLES, STANDARDS, AND RELATED REQUIREMENTS

The Comptroller General is authorized by 31 U.S.C. 3511 (1982) to prescribe accounting principles, standards, and related requirements for the executive agencies. The Comptroller General is also empowered by 31 U.S.C. § 3512(c) (1982) to prescribe the forms, systems, and procedures for administrative appropriation and fund accounting by the executive and judicial branch agencies (excluding the Supreme Court). Also, the Comptroller General is required by the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 486(b) (1982)) to prescribe principles and standards for accounting for property, to cooperate with the Administrator of General Services in developing property accounting systems, to approve such systems when deemed adequate, and to review such systems from time to time. Before prescribing any principles, standards, or related requirements, the Comptroller General is required to consult with the Secretary of the Treasury and the President concerning their accounting, financial reporting, and budgetary needs, and to consider the needs of the other executive agencies.

Each agency head is responsible for establishing and maintaining adequate systems of accounting and internal control, including appropriate internal audit systems. However, these systems must conform with the principles, standards, and related requirements prescribed by the Comptroller General.

The prescribed principles and standards are set forth in title 2 of this manual. Additional guidelines and requirements are contained in titles 4, 5, 6, and 7 of this manual.

## 8.3 COOPERATING IN THE DEVELOPMENT AND IMPROVEMENT OF ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEMS

The General Accounting Office is required by 31 U.S.C. 3512(e) and 3513(c) (1982) to cooperate with the executive agencies to develop their accounting systems and with the Treasury Department to develop its systems of central accounting and reporting.<sup>4</sup> The General Accounting Office

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<sup>4</sup> Also see the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 486(b) (1982)), as described in subsection 8.2.

consults with executive agencies from time to time on their accounting and related problems.

In addition, 31 U.S.C. 3511(d) (1982) requires that the Comptroller General, the Secretary of the Treasury, and the President conduct a continuous program to improve accounting and financial reporting in the government. This program, known as the Joint Financial Management Improvement Program, is conducted by the General Accounting Office, the Department of the Treasury, the Office of Management and Budget, and the Office of Personnel Management with participation by the other federal agencies. Government-wide financial management problems, as well as those concerning individual agencies, are considered under the joint program.

#### 8.4 APPROVING ACCOUNTING SYSTEMS

The Comptroller General is required by 31 U.S.C. 3512(e) and 3513(c) to approve the executive agencies' accounting systems, including the Treasury's central accounting and reporting system, when the Comptroller General finds them adequate and in conformity with the principles, standards, and related requirements prescribed by the General Accounting Office.

Title 2 of this manual contains principles and standards to be followed by the executive agencies. It also contains additional factors and criteria agencies should consider in evaluating, developing, or maintaining their accounting systems, as well as General Accounting Office policy on accounting systems approval. Title 6 of this manual contains additional principles and standards for payroll systems. Other titles contain various procedural requirements for accounting systems. Title 7 addresses fiscal procedures.

#### 8.5 REVIEWING ACCOUNTING SYSTEMS

The General Accounting Office is required to review, from time to time, the accounting systems established by the executive agencies and report its results to the agency heads concerned, to the Secretary of the Treasury, and to the Director of the Office of Management and Budget. Also, 31 U.S.C. 3512(f) (1982) requires that, to the extent deemed appropriate by the Comptroller General, reports on these reviews should be made to the Congress.



## SECTION 9--CLAIMS SETTLEMENT

## 9.1 STATUTORY AUTHORITY FOR SETTLEMENT OF CLAIMS

Except as otherwise provided by law, all claims of or against the United States Government shall be settled by the Comptroller General (31 U.S.C. 3702(a) (1982)). In addition to this general authority, other statutes provide that certain specific types of claims may be paid only after certification or settlement by the General Accounting Office.<sup>5</sup> On the other hand, claims arising under certain activities of the government are, by statute, disposed of by the administrative agency concerned.<sup>6</sup>

## 9.2 CLAIMS SETTLEMENT ACTIVITIES

In the broad sense, the General Accounting Office discharges its responsibility to settle and adjust claims and accounts by and against the United States through (1) auditing transactions after payment, (2) settling accounts of accountable officers, (3) examining administrative fiscal records, (4) adjudicating claims against the United States before payment is authorized or denied, (5) adjudicating claims by the United States when doubt exists as to their validity, and (6) collecting or otherwise settling doubtful claims.

Claims against the United States may arise from almost any government transaction. Claimants may be private citizens; business entities; government personnel, both civilian and military; or municipal, state, or foreign governments. The rights of both the claimant and the United States are considered impartially and the claimant is allowed the amount of the claim to which he or she is found legally entitled, without the expense involved in litigation. Even though under 31 U.S.C. 3526(d) (1982) settlements of the General Accounting

<sup>5</sup> See, for example, 31 U.S.C. 1304 (1982), regarding the payment of judgments, awards, and compromise settlements and 31 U.S.C. 3328 (1982), regarding claims for the proceeds of unpaid checks of the United States where there are questions of law or fact as to entitlement unresolved.

<sup>6</sup> For example, most Veterans Administration decisions on benefits for veterans, their dependents, or their survivors are made final and conclusive by 38 U.S.C. 211(a) (1982).

Office are final and conclusive upon the executive branch of the government, a claimant may request review or reconsideration of adverse settlements or take recourse to the courts or seek relief from the Congress through private legislation.

## SECTION 10--DEBT COLLECTION

### 10.1 DEBT COLLECTION AUTHORITY

The authority and responsibilities of the General Accounting Office in the field of debt collection stem from several statutes. First, under 31 U.S.C. 3526 and 3702 (1982), the Comptroller General is required to settle all claims or accounts of the United States and to supervise the recovery of all debts finally certified by the Comptroller General as owed to the government. This includes debts arising from improper, incorrect, or illegal payments, and physical losses or deficiencies in the accounts of accountable officers of the United States, unless, under 31 U.S.C. 3527, the General Accounting Office exercises its authority to grant relief from liability to the accountable officer. Second, under 31 U.S.C. 3711-3719 (1982), this Office and all federal agencies must attempt to collect all claims of the United States that are referred to, or arise out of, the activities of the agency. In addition, they can compromise, suspend, or terminate collection on claims which do not exceed \$20,000. Further, this Office and the Department of Justice can promulgate the Federal Claims Collection Standards (4 C.F.R. parts 101-105) joint regulations that must be complied with by federal agencies when collecting debts under the law. Under the joint regulations, agencies may refer doubtful claims to this Office for advice or adjudication. Third, under 31 U.S.C. 3728 (1982), this Office must collect debts owed to the government by taking administrative offset against judgments rendered against the United States. Finally, under 5 U.S.C. 5584 (1982), 10 U.S.C. 2774 (1982), and 32 U.S.C. 716 (1982), the Comptroller General and, to a limited extent, the heads of executive agencies are authorized to waive erroneous overpayments of pay and allowances to or on behalf of civilian employees and military members. Under these statutes, waiver is appropriate whenever collection would be inequitable and against the best interests of the United States. In order to implement this waiver authority, the Comptroller General has promulgated regulations which may be found in 4 C.F.R. parts 91-93.

### 10.2 COLLECTION ACTIVITIES

The Federal Claims Collection Standards require federal agencies, including the General Accounting Office, to attempt

to collect all debts which arise from their own activities or which are referred to them by other agencies.

The General Accounting Office collects debts through direct demands for payment, referrals to private debt collection and credit reporting agencies, administrative offset against amounts otherwise owed to the debtors (including judgments against the United States), and the other means available to the government under the joint regulations. The Office may also compromise, suspend, or terminate collection on those debts not in excess of \$20,000 which arise from its own activities or which are of a doubtful nature and for which it accepts referral. Except as otherwise provided by law, this Office and the other federal agencies are required to report to the Department of Justice all debts which cannot be collected, compromised, suspended, or terminated under the regulations (4 C.F.R. 105.1(a)).

## SECTION 11--LEGAL SERVICES

### 11.1 DECISIONS TO AGENCY OFFICIALS AND MEMBERS OF CONGRESS

In enacting legislation to authorize government programs and activities, the Congress frequently is faced with the impracticality of providing specifically for every situation that may arise. Consequently, provisions of law are necessarily couched in general terms. Also, in exercising its constitutional powers, the Congress frequently limits the programs and operations of government agencies and the obligation and expenditure of government funds. Therefore, numerous questions arise as to the legality of government expenditures. Some of these questions arise in the regular audit and settlement work of the General Accounting Office. Others arise in the activities of various government agencies. These questions must be answered conclusively so that the propriety of individual payments and the legality of entire programs can be established. Authority to decide these questions is vested in the Comptroller General.

The Comptroller General is required to render advance decisions at the request of disbursing officers, certifying officers, and the heads of departments or establishments of the government for their guidance in making payments (31 U.S.C. 3529 (1982)). For disbursing officers and certifying officers, the Comptroller General renders decisions only on specific vouchers before them for action. Advance decisions are binding upon the General Accounting Office in passing upon the account containing the disbursement and are also binding upon the certifying and disbursing officers.

Decisions are also rendered to disbursing and certifying officers who request reviews of settlements of their accounts and to ~~individual claimants who request reviews or reconsiderations of settlements disallowing their claims in whole or in part.~~ Decisions are also rendered to members of Congress on legal matters.

Decisions of the Comptroller General are final and conclusive upon the executive agencies, but not upon the courts (31 U.S.C. 3526(d) (1982)).

## 11.2 DECISIONS TO INTERESTED PARTIES INVOLVING PROCUREMENT PROTESTS

The Comptroller General must decide protests concerning the alleged violation of procurement statutes or regulations if filed by actual or prospective bidders or offerors whose direct economic interest would be affected by an award or by the failure to award a contract by a federal agency (31 U.S.C. 3552.<sup>7</sup> (Supp. II, 1984.)) The Comptroller General must render a decision within 90 working days from the date the protest is submitted.

According to the law, the Comptroller General may dismiss protests which are frivolous or which on their face are invalid. However, where the solicitation, proposed award, or award does not comply with a statute or regulation, the Comptroller General may recommend that the federal agency (1) refrain from exercising any of its options under the contract, (2) recompetes the contract, (3) issue a new solicitation, (4) terminate the contract, (5) award a contract consistent with the requirements of such statute or regulation, (6) implement any combination of the foregoing recommendations, or (7) implement any other recommendation the Comptroller General deems necessary in order to promote compliance with procurement statutes and orders. Then, the head of the agency must report to the Comptroller General those recommendations the agency has not complied with within 60 days of their receipt, and these in turn are transmitted to the Congress on January 31 of each year.

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<sup>7</sup> Effective as of January 15, 1985. Prior thereto, bid protests were heard under general authority to settle accounts.

When appropriate, the Comptroller General may also award an interested party protest costs, including reasonable attorney fees and bid or proposal preparation costs, which the federal agency must pay promptly from funds available to it for procurement.

### 11.3 PUBLICATION OF DECISIONS

The Office of the General Counsel of the General Accounting Office maintains a subject card index of both published and unpublished decisions and furnishes a research service to authorized government officials. Published decisions, available in annual hardbound volumes, and consolidated indexes digests may be purchased from the Superintendent of Documents, United States Government Printing Office, Washington, D.C. 20402. Unpublished decisions are available from the General Accounting Office upon request, either in writing or by telephone.

Procurement protest decisions are compiled and reprinted under the title "Comptroller General's Procurement Decisions" by Federal Publications Inc., a commercial concern.

## SECTION 12--SPECIAL ASSISTANCE TO THE CONGRESS

### 12.1 SPECIFIC REVIEWS REQUIRED BY LAW

In recent years the Congress has enacted several statutes which specifically require General Accounting Office reviews of particular programs and activities.

### 12.2 REVIEWS REQUESTED BY COMMITTEES AND MEMBERS OF CONGRESS

The General Accounting Office makes many special reviews at the request of congressional committees. That is, in accordance with 31 U.S.C. 712(4) (1982), the Comptroller General must investigate and report to either house of Congress or to any committee of either house having jurisdiction over revenue, appropriations, or expenditures upon request. In accordance with 31 U.S.C. 717(b) (1982), the Comptroller General must review and evaluate the results of government programs and activities when ordered by either house of Congress or when requested by any appropriate House, Senate, or joint committee. As required by 31 U.S.C. 717(d) (1982), the Comptroller General must assist committees in developing methods of assessing program effectiveness and in reviewing program evaluations prepared by or for federal agencies.

Furthermore, within the scope of the Energy Policy and Conservation Act, the Comptroller General must verify energy information if asked by any committee of the Congress having legislative or oversight responsibilities for energy matters. In addition, when requested by a committee having jurisdiction over a grant program, the Comptroller General must study and report on that program to determine whether it conflicts with or duplicates other grant programs; to determine whether more effective, efficient, economical, and uniform administration may be achieved by changing the requirements and procedures applicable to it; or to review its budgetary, accounting, reporting, and administrative procedures (31 U.S.C. 6508 (1982)). Furthermore, to the extent personnel are available, when requested by a committee having jurisdiction of the statute authorizing any federal education program, the Comptroller General must review and evaluate that program, (20 U.S.C. 1227 (1982)).

Special reviews are also made at the request of individual members of Congress. Many members' requests for information either can be answered on the basis of work already performed or can require specific information that can be obtained readily. Many relate to the conformance of transactions to laws or regulations. In some cases, these requests may be referred to an executive agency better equipped to supply the information. The basic policy of the General Accounting Office is to be as helpful as possible to all members of Congress, considering staff resources and work requirements, while preserving the Office's status as an independent, nonpolitical agency.

### 12.3 ASSIGNMENT OF PERSONNEL TO ASSIST CONGRESSIONAL COMMITTEES

The Comptroller General must furnish the committees having jurisdiction over revenues, appropriations, or expenditures with aid and information upon request (31 U.S.C. 712(5) (1982)). To fulfill this responsibility, General Accounting Office personnel are frequently detailed to the staffs of congressional committees. The detail is limited to 1 year by 31 U.S.C. 734 (1982); and information regarding each employee detailed to a committee must be included in the Comptroller General's annual report (31 U.S.C. 719(b)(1)(C) (1982)).

### 12.4 TESTIFYING BEFORE CONGRESSIONAL COMMITTEES

General Accounting Office representatives are frequently called upon to testify before congressional committees on the

findings and recommendations contained in audit reports, as well as on proposed legislation. At the request of any congressional committee, the Comptroller General must explain and discuss any General Accounting Office report which would help the committee in considering proposed legislation or reviewing activities of federal agencies within its jurisdiction (31 U.S.C. 719(i) (1982)).

#### 12.5 COMMENTING ON PROPOSED LEGISLATION

An important part of General Accounting Office assistance to the Congress is commenting, upon request, on proposed legislation. The Office also reviews bills introduced to ascertain whether it can provide any accounting, auditing, or legal information concerning the bills that might be useful to the congressional committees during their deliberations. When appropriate, the Office provides written comments without a formal request from a committee.

The Office of Management and Budget also asks for the General Accounting Office's comments on drafts of proposed legislation.

#### 12.6 PROVIDING INFORMAL ASSISTANCE

In many cases, the General Accounting Office can assist the Congress informally by making oral presentations and discussing audit findings. In addition, the Office provides informal staff papers containing facts, analyses of alternatives, and matters of particular interest to the committees and members of Congress.

#### 12.7 SUPPORT OF THE CONGRESSIONAL BUDGET PROCESS

In enacting the Congressional Budget and Impoundment Control Act of 1974, the Congress revised and expanded General Accounting Office duties to evaluate programs and develop standardized budgetary, fiscal, and program-related information systems and sources. These revisions were intended to enable the General Accounting Office to support congressional efforts to obtain increased control over federal financial affairs.

The General Accounting Office took on new responsibilities to aid congressional consideration of rescissions and deferrals of budget authority proposed by the President. The Comptroller General is required to advise the Congress on the impact of such proposed rescissions and deferrals. The Comptroller General's reports are designed to help the Congress decide what

action, if any, to take on the proposed executive action. The Comptroller General is also required to report if rescissions or deferrals are taking place without having been reported by the executive branch.

## SECTION 13--RECORDS MANAGEMENT AND SERVICES

### 13.1 PRESERVATION OF RECORDS

The General Accounting Office is required to "keep all settled accounts, vouchers, certificates, and related papers until they are disposed of as provided by law." However, under 31 U.S.C. 3523(c) (1982), agencies may be required to retain such records for not more than 10 years when the Comptroller General determines that an audit should be conducted where the records are normally kept.

Also, 44 U.S.C. 3309 (1982) provides that until claims, demands, and accounts have been settled and adjusted by the General Accounting Office, administrative agencies may not dispose of fiscal, property, or other pertinent records without the written approval of the Comptroller General. Under this authority, the General Accounting Office approves proposals for the disposal of fiscal and accounting records that, after the lapse of stated periods of time, have insufficient value to warrant their further preservation. Further, the General Accounting Office approves the transfer to federal records centers of records retained by agencies for on-site audits that are less than 1 year old. Records of this type that are more than 1 year old may be transferred to records centers without specific approval from the General Accounting Office.

### 13.2 RECORDS SERVICES

Records, books, papers, and other such documents stored by the General Accounting Office often contain information or evidence which individuals or government agencies require for use in public or private business. Certified or uncertified copies of such materials are furnished upon proper application, and upon payment if for private use. (See 4 C.F.R. part 81 concerning public availability of General Accounting Office records.) Certified copies are as admissible in evidence as the originals (31 U.S.C. 704 (1982) and 28 U.S.C. 1733 (1982)).

Further details concerning records management and services will be found in title 8 of this manual.



CHAPTER 4--ORGANIZATION AND OPERATING PROCEDURES  
OF THE GENERAL ACCOUNTING OFFICE

## SECTION 14--MANAGEMENT AND ORGANIZATION

The work of the General Accounting Office is directed by the Comptroller General, assisted by the Special Assistant to the Comptroller General and the Assistant Comptrollers General for Operations and for Planning and Reporting. Responsibility for performing the work of the Office is assigned to the directors of the various divisions and offices identified in the appendix.

## SECTION 15--OPERATIONS AND PROCEDURES

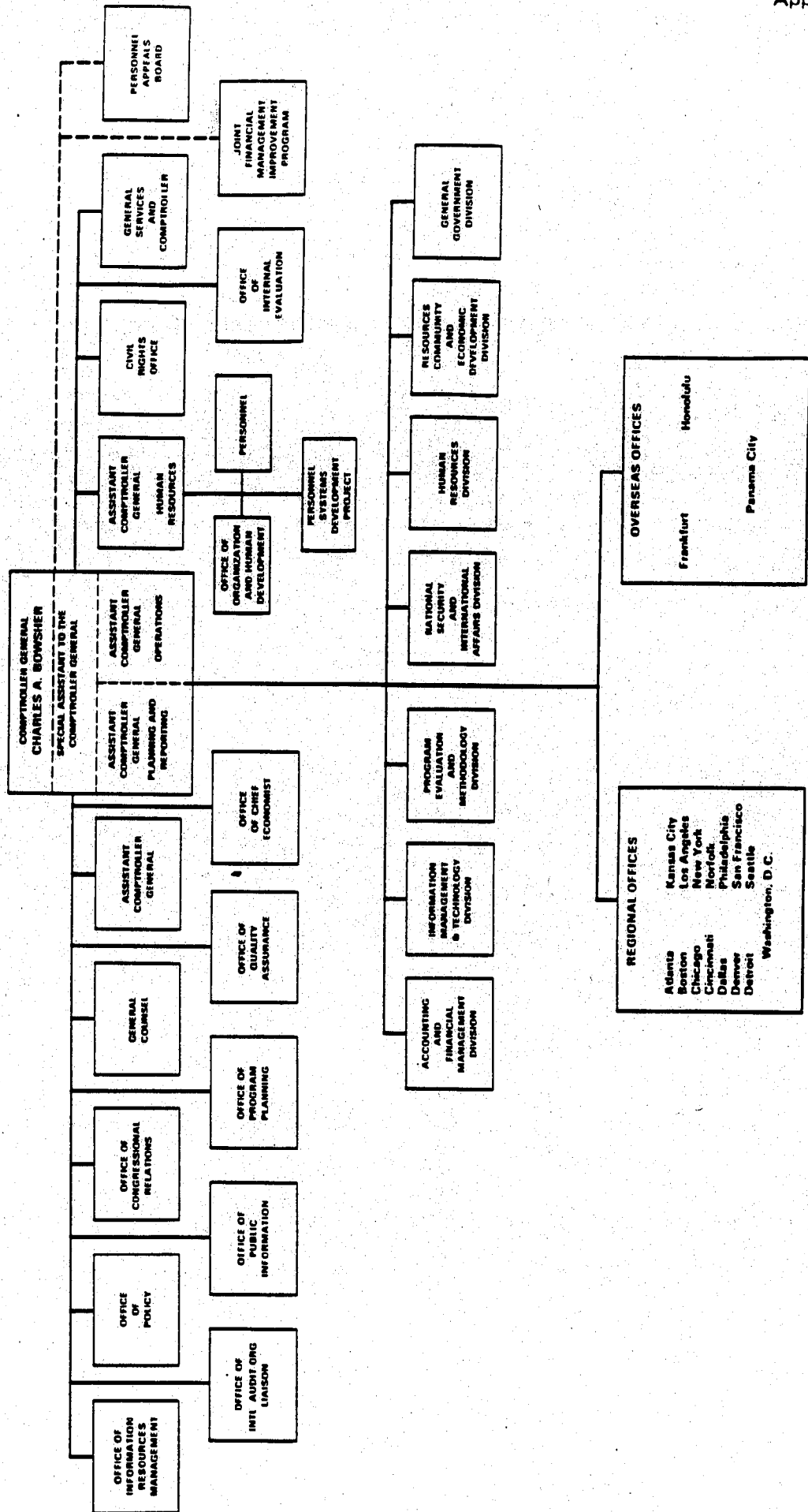
Regulations concerning procurement protests, labor-management relations, General Accounting Office Personnel Appeals Board decisions, presentation of claims to the General Accounting Office, or claims collection are set forth in title 4 of the Code of Federal Regulations. Regulations controlling the recognition of attorneys and other representatives in matters before the General Accounting Office are also included.

In addition to the Code of Federal Regulations, internal procedures involving the organization and operation of the General Accounting Office are set forth in Orders issued by the Comptroller General or a designee of the Comptroller General. These Orders are collected in the General Accounting Office Operations Manual and are indexed by subject.

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# UNITED STATES GENERAL ACCOUNTING OFFICE



UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D. C. 20535

REPORT OF INVESTIGATION  
DATE OF INVESTIGATION: [Illegible]  
TITLE OF CASE: [Illegible]  
NAME OF SUBJECT: [Illegible]  
ADDRESS OF SUBJECT: [Illegible]  
CITY AND STATE: [Illegible]

CHARACTER OF CASE: [Illegible]  
SUMMARY OF FACTS: [Illegible]

**Policy and Procedures Manual for Guidance of Federal Agencies**

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**Title 2  
Accounting**

1914 A. J. ... ..

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The Comptroller General  
of the United States

Washington, D.C. 20546

B-255473

December 1, 1993

HEADS OF DEPARTMENTS AND AGENCIES

Subject: Accounting Principles and Standards

Accounting principles, standards, and related requirements for executive agencies are published in Title 2, "Accounting," of the General Accounting Office's (GAO) Policy and Procedures Manual for Guidance of Federal Agencies, in accordance with 31 U.S.C. 3511.

Historically, the Comptroller General has issued new standards after consultation with the Secretary of the Treasury and the Director of the Office of Management and Budget (OMB), and after considering the needs of executive agencies.

Since the previous revision of Title 2, in 1984, a new process has been adopted to develop accounting standards. To facilitate the consultative process, in October 1990, the Comptroller General, the Secretary of the Treasury, and the Director of OMB agreed to establish the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB will decide upon new principles, standards, and requirements after considering FASAB's recommendations. The Comptroller General and the Director of OMB will each publish the principles, standards, and requirements.

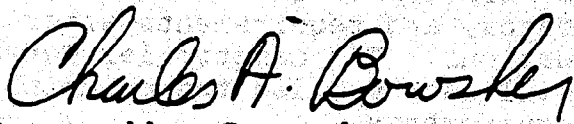
This memorandum describes the comprehensive basis of accounting to be followed by executive agencies and announces GAO's policy for revising Title 2 to reflect accounting principles, standards, and related requirements agreed upon by the three principals.

The Comptroller General, the Secretary of the Treasury, and the Director of OMB, have approved for issue FASAB's recommended statements on (1) Objectives of Federal Financial Reporting, (2) Accounting for Selected Assets and Liabilities, (3) Accounting for Direct Loans and Loan Guarantees, and (4) Accounting for Inventories and Related Property. The FASAB is currently addressing additional issues.

A comprehensive basis of accounting recognized by GAO as the appropriate basis for preparing financial statements by executive agencies includes the following hierarchy of requirements.

1. The accounting principles, standards, and requirements approved by the three principals.
2. Form and content requirements for financial statements included in OMB Bulletin 93-02, dated October 22, 1992, and subsequent issuances.
3. Other accounting standards and related disclosure requirements contained in agency accounting policy procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices. (As of March 29, 1991, most agencies' manuals and related guidance adopted the Title 2 requirements existing prior to the approval of FASAB's recommended accounting standards.)
4. Accounting principles published by authoritative standard-setting bodies or other authoritative sources (1) in the absence of other guidance listed above, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

Title 2 will be reprinted after a sufficient number of new standards are approved. The next printed version of Title 2 will include the approved standards and commentary on implementing the standards.



Comptroller General  
of the United States

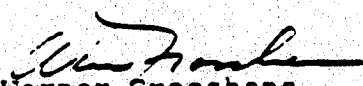


Office of Policy

May 18, 1988

TO: Requesters of Title 2, GAO Policy and Procedures  
Manual for Guidance of Federal Agencies

Because of an unforeseen demand for Title 2, a reprint became necessary. This unusual reprint of Title 2 combines transmittals 2-24, 2-25, and 2-26 so that users may have a complete document and is current as of May 1988.

  
Werner Grosshans  
Director, Office of Policy

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United States  
General Accounting Office  
Washington, D.C. 20548

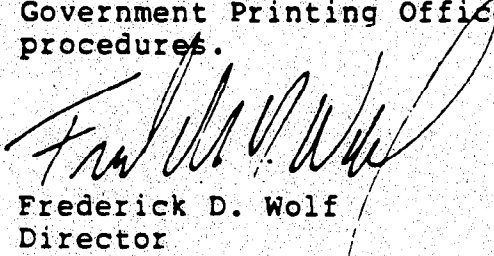
Accounting and Financial  
Management Division

September 11, 1987

**Heads of Departments and Agencies**

This is an advance copy of the revised title 2, "Accounting," and new appendix III, "Accounting System Standards," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. It is being sent to selected offices to alert agencies to the new standards. Along with the accounting and internal control standards previously published, agency heads must consider these new standards in accounting system development and maintenance and in their annual reporting on the status of systems as required by 31 U.S.C. 3512.

Additional copies will soon be available through the Government Printing Office in accordance with its normal procedures.



Frederick D. Wolf  
Director

Enclosure

GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

TITLE 2--ACCOUNTING

TRANSMITTAL SHEET NO. 2-25

August 31, 1987

Effective Date: Immediately (See Below)

Material Transmitted: Revised title 2--"Accounting" and  
appendix III--"Accounting System Standards"

Transmitted herewith is a newly developed appendix to title 2, providing accounting system standards and related guidance, along with a revised title 2 to reflect minor conforming changes related to the new appendix.

This appendix prescribes accounting system standards that agency heads must observe in establishing, maintaining, and reporting on their systems of accounting and internal controls as required by 31 U.S.C. 3512. The standards apply to all manual and/or automated systems of accounting that are under development, under major revision, or operating in all executive branch departments and agencies, as defined in 31 U.S.C. 102 and 3501.

The standards are based on applicable systems requirements from the 1978 version of title 2, certain traditional ADP system life cycle concepts, current technology, and consultation with officials in a number of federal agencies and private firms. The standards are intended to promote, to the maximum extent possible, the use of systems that will provide the information needed for effective and economical management of the government's resources and operations and to assess management's stewardship.

The various standards are relatively broad so as to survive the passage of time and changes in technology. Along with the related guidance, they are intended to be complementary to the existing accounting and internal control guidance in appendixes I and II of title 2, as well as be compatible with the financial requirements currently placed on departments and agencies by the Office of Management and Budget and the Department of the Treasury.

The discussion material included in this appendix is intended to aid in interpreting and implementing the standards. It includes references to related requirements of law or guidance published by other central management agencies as appropriate.

All provisions that are designated as standards, i.e., that are presented at the beginning of each chapter under the "standards" caption, are intended to be mandatory. Consequently, if a system does not comply with the standards, the department or agency is

expected to plan for and ensure compliance within a reasonable time, in light of economic considerations, as well as make appropriate disclosure in reports on the status of the accounting system required by 31 U.S.C. 3512(c).

Filing instructions

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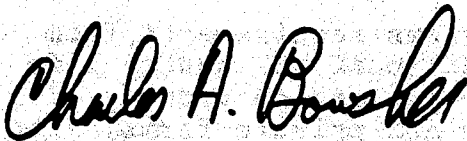
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Revised basic title 2, pages 1 through 4 and 2-1 through 2-8; and appendix III, pages i-1 through 6-4

Obtaining additional copies

Each federal department and agency receives a limited number of copies of all revisions and updates to the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Copies are sent to agency heads, the Offices of the Inspectors General or other agency audit heads, and departmental financial management offices. Additional copies are sent to other central locations in various departments and agencies, and to congressional offices, based on specific requests.

If you desire additional copies of this revision of title 2 and the new appendix III or any other title, they may be obtained from the Superintendent of Documents at the Government Printing Office by ordering them on a subscription basis.



Charles A. Bowsher  
Comptroller General  
of the United States

**Please retain this transmittal sheet. It is part of the document.**

TITLE 2 — ACCOUNTING

Table of Contents

<u>Chapter</u>	<u>Section</u>	<u>Page</u>
1	<b>INTRODUCTION</b>	2-1
	1 Statutory Responsibilities for Accounting	2-1
	2 Applicability	2-1
	3 Organization of This Title	2-2
2	<b>ACCOUNTING PRINCIPLES AND STANDARDS</b>	2-3
	4 Authority	2-3
	5 Objectives, Concepts, and Standards	2-3
	5.1 Objectives	2-3
	5.2 Concepts	2-3
	5.3 Standards	2-4
3	<b>INTERNAL CONTROL STANDARDS</b>	2-5
	6 Authority	2-5
	7 Objectives, Concepts, and Standards	2-5
	7.1 Objectives	2-5
	7.2 Concepts	2-5
	7.3 Standards	2-6
4	<b>ACCOUNTING SYSTEMS</b>	2-7
	8 Authority	2-7
	9 Objectives	2-7
	10 Standards	2-7

**TITLE 2 -- ACCOUNTING**

**Table of Contents**

	<u>Page</u>
<b>APPENDIX I - ACCOUNTING PRINCIPLES AND STANDARDS</b>	
Introduction	1
Concepts	3
Standards	14
Reference to Industry Standards	110
Topical Index	111
<b>APPENDIX II - INTERNAL CONTROL STANDARDS</b>	
Introduction	121
Concepts	123
Explanation of General Standards	125
Explanation of Specific Standards	129
Explanation of the Audit Resolution Standard	133
<b>APPENDIX III - ACCOUNTING SYSTEM STANDARDS</b>	
Introduction	1-1
Accounting System Structure and Operation	2-1
Financial Reporting	3-1
Accounting System Development and Modification	4-1
Documentation	5-1
Topical Index	6-1

**TITLE 2 -- ACCOUNTING**

**CHAPTER 1 -- INTRODUCTION**

**SECTION 1 - STATUTORY RESPONSIBILITIES FOR ACCOUNTING**

Under 31 U.S.C. 3512(a),(b), the head of each agency is responsible for establishing and maintaining adequate systems of accounting and internal control. The law requires that these systems must conform to the accounting principles, standards, and related requirements and internal control standards prescribed by the Comptroller General, which are contained in appendix I, "Accounting Principles and Standards," appendix II, "Standards for Internal Controls in the Federal Government," and appendix III, "Accounting System Standards." Agencies shall follow these standards unless otherwise specified by law.

To demonstrate that their systems of accounting and internal control are operating in conformity with the accounting principles, standards, and related requirements and internal control standards, agencies must report annually whether their accounting and internal control systems conform to GAO standards. This requirement is contained in 31 U.S.C. 3512(c), the Federal Managers' Financial Integrity Act of 1982. Agencies shall use the accounting principles, standards, and related requirements and the internal control and accounting system standards contained in this and other titles when preparing their annual statements.

The ultimate responsibility for good accounting systems for financial statements remains with management. Good financial management is dependent on strong financial management systems, including accounting systems containing sufficient discipline, effective internal controls, and reliable financial information. Financial statements prepared in accordance with these standards are part of the discipline and quality of the accounting system, and it is the primary responsibility of management to ensure that the financial statements and accounting systems comply with these standards.

**SECTION 2 - APPLICABILITY**

The requirements contained in this title apply to all federal departments, agencies, or instrumentalities in the executive branch that fall within the definition of executive agency as defined in 31 U.S.C. 102 and 3501. These requirements may be cited as "generally accepted accounting principles for the federal government." Government corporations, which are excluded from the definition, follow generally accepted accounting principles promulgated by the Financial Accounting Standards Board (FASB) and its predecessors.



Any guidelines and instructions that the Department of the Treasury may issue, setting forth policies of accounting and reporting designed to implement the standards promulgated by the Comptroller General herein, should be consistent with these standards. This includes detailed requirements Treasury may provide for agencies to follow in accounting and reporting on collections, budget authority, obligations, outlays, and budgetary resources, as well as assets, liabilities, revenues, and expenses.

### SECTION 3 - ORGANIZATION OF THIS TITLE

This title is organized to discuss three topical areas. Chapter 2, "Accounting Principles and Standards," summarizes appendix I, which details the objectives, concepts, standards, and related requirements of federal government accounting and financial reporting. Chapter 3, "Internal Control Standards," summarizes appendix II, which details the objectives and specific internal control standards for federal government internal control systems. Chapter 4, "Accounting System Standards," summarizes appendix III, which provides guidance on the design and operational objectives for agencies' accounting systems.

## CHAPTER 2 - ACCOUNTING PRINCIPLES AND STANDARDS

### SECTION 4 - AUTHORITY

Appendix I prescribes principles, standards, and related requirements for accounting to be observed by each executive agency. This appendix is issued after consulting with the Office of Management and Budget and the Department of the Treasury concerning their accounting, financial reporting, and budgetary needs and considering the needs of other executive agencies, pursuant to 31 U.S.C. 3511.

Appendix I replaces previously issued accounting principles, memoranda, and statements except the April 18, 1983, Comptroller General letter "Modification of General Accounting Office Procedures With Respect to Approval of Executive Agency Accounting Systems."

### SECTION 5 - OBJECTIVES, CONCEPTS, AND STANDARDS

Appendix I discusses accounting principles, standards, and related requirements of the federal government, which are comprised of objectives, concepts, and standards for federal government accounting and financial reporting.

#### 5.1 OBJECTIVES

Objectives are goals or aims toward which accounting and financial reporting are directed. They are derived directly from the needs of intended users. Two of the main objectives of federal government accounting and financial reporting, summarized below, are discussed in detail in appendix I:

- allocating resources and
- assessing management performance and stewardship.

Resource allocation is the process of distributing budget authority and deciding how resources will be used. Assessing management's performance and stewardship involves analyzing information to determine if management is performing its program and stewardship function as the Congress intended.

#### 5.2 CONCEPTS

Concepts provide the underlying basis for federal government accounting standards. They provide important assumptions in the federal accounting environment.

The specific concepts discussed in appendix I are:

- reporting entity,
- elements of financial reporting,
- usefulness of accounting information,
- recognition,
- measurement, and
- cost.

These concepts provide the foundation for consistent application of the accounting standards.

### 5.3 STANDARDS

Standards provide the basis for agencies to use in accounting for and reporting on the elements of financial reporting. The standards prescribed in appendix I are based on the objectives and concepts of federal government accounting and financial reporting. In addition to providing the basis for agency accounting and financial reporting, the standards in appendix I provide criteria for reviewing accounting systems in implementing the Federal Managers' Financial Integrity Act.

## CHAPTER 3 - INTERNAL CONTROL STANDARDS

### SECTION 6 - AUTHORITY

Appendix II, "Standards for Internal Controls in the Federal Government," is issued pursuant to 31 U.S.C. 3512(b) which requires the Comptroller General to prescribe internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control.

### SECTION 7 - OBJECTIVES, CONCEPTS, AND STANDARDS

The internal control standards, as specified in appendix II, are comprised of objectives, concepts, and standards for executive agency internal control systems.

#### 7.1 OBJECTIVES

The objectives of federal government internal control systems are presented in appendix II. They are to provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

#### 7.2 CONCEPTS

Concepts, along with the objectives of internal control systems, provide the basis for internal control standards. As discussed in appendix II, the concepts underlying the standards for internal control are:

1. The ultimate responsibility for good internal controls rests with management.
2. Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations.
3. Internal controls are plans of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and

policies; that resources are safeguarded against fraud, waste and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

### 7.3 STANDARDS

The Comptroller General's internal control standards are presented in appendix II. These standards cover program management as well as financial management, define the minimum level of quality acceptable for internal control systems in operation, and constitute the criteria against which systems are to be evaluated. The standards consist of General Standards, Specific Standards, and Audit Resolution Standards.

## CHAPTER 4 - ACCOUNTING SYSTEMS

### SECTION 8 - AUTHORITY

As required by 31 U.S.C. 3512(c), heads of executive branch agencies are to report annually on whether their accounting systems conform with the Comptroller General's accounting principles, standards, and related requirements as prescribed in this and relevant portions of other titles. Accounting system, in this application, is the total structure of methods and procedures used to classify and report information on the financial position and operations of a governmental unit of any of its funds, balanced account groups, and organizational components. It is comprised of the various operations involved in authorizing, recording, classifying, and reporting financial data related to financing sources and gains, expenses, losses and transfers out, assets, liabilities, and equity. It encompasses the procedures and processes from the point a transaction is authorized (initiated) through processing the data (either manually or automatically) to issuance of financial and management information statements and reports containing the data in detail or summary form.

### SECTION 9 - OBJECTIVES

In addition to conformity with accounting principles, standards, and related requirements prescribed in appendix I of this document, accounting systems must be designed and operated to:

- (1) demonstrate compliance with applicable laws;
- (2) provide information needed by the President, the Congress (including congressional committees), Treasury, Office of Management and Budget (OMB), and the General Services Administration (GSA); and
- (3) provide information required by agency managers to operate their programs efficiently and effectively.

To help in designing and operating accounting systems, GAO periodically issues illustrative supplements. The procedures they illustrate are not mandatory, but they are designed to show acceptable ways of applying the prescribed principles and standards.

### SECTION 10 - STANDARDS

The accounting system standards and related guidance are presented in appendix III.

SECTION 1 - INTRODUCTION

The purpose of this document is to provide a comprehensive overview of the current state of the project. It is intended for the use of all project stakeholders and is subject to change as the project evolves. The information contained herein is confidential and should be handled accordingly.

The project is currently in the planning phase, and the following sections describe the key components and objectives. The primary goal is to ensure that all team members are aligned with the project's mission and vision. This document serves as a central reference point for all project-related activities.

The project team consists of several key members, each with specific responsibilities. The project manager will oversee the overall progress and ensure that the project remains on track. Regular communication and collaboration are essential for the success of this initiative.

The project timeline is as follows: [Timeline details would be inserted here]. It is important to adhere to these deadlines to ensure the timely completion of the project. Any changes to the schedule must be approved by the project manager.

The project budget is also a critical factor in its success. All expenses must be tracked and reported regularly to ensure that the project remains within budget. The project manager will provide regular updates on the financial status of the project.

The project is expected to be completed by the end of the fiscal year. The final report will provide a detailed analysis of the project's performance and identify lessons learned for future projects.

SECTION 2 - OBJECTIVES

The primary objective of this project is to [Objective 1]. This objective is supported by several key goals, including [Goal 1], [Goal 2], and [Goal 3]. These goals are designed to ensure that the project meets the needs of the organization and its stakeholders.

The project will be managed using a structured approach that emphasizes communication, collaboration, and accountability. The project manager will lead the team and ensure that all tasks are completed on time and within budget. Regular status reports will be provided to keep all stakeholders informed of the project's progress.

The project team will work closely with all stakeholders to ensure that their needs and expectations are met. This includes regular meetings, open communication channels, and a commitment to transparency. The project manager will ensure that all team members are equipped with the resources and support they need to succeed.

The project is expected to result in significant benefits for the organization, including [Benefit 1], [Benefit 2], and [Benefit 3]. These benefits will be realized through the successful completion of the project and the implementation of the project's outcomes. The project manager will monitor the project's progress and ensure that it remains on track to achieve these benefits.

The project is a complex endeavor that requires the expertise and collaboration of all team members. The project manager will provide the necessary leadership and support to ensure that the project is completed successfully. The project team is committed to working together to achieve the project's objectives and deliver high-quality results.

ACCOUNTING PRINCIPLES

AND STANDARDS



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9. [Illegible]

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TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	
Authority and Purpose	1
Applicability	1
Terminology	2
Accounting Interpretations	2
Organization of This Appendix	2
<u>CONCEPTS</u>	
Objectives	3
The Reporting Entity	4
Elements of Federal Accounting and Financial Reporting	4
Usefulness of Accounting Information	8
Recognition	9
Accrual Accounting	9
Matching	10
Allocation	10
Measurement	10
Cost	10
<u>STANDARDS</u>	14

<u>Section</u>	<u>Subject</u>	
A10	Accounts Payable	15
A20	Acquisition Cost of Assets	17
A30	Advances and Prepayments	19
A40	Appropriations for Property, Plant, and Equipment	20
C10	Capitalization of Interest on Property, Plant, and Equipment	21

		<u>Page</u>
C20	Comparative Financial Statements	23
C30	Compensated Absences	24
C40	Consolidated Financial Statements	25
C50	Contingencies	28
D10	Debt Agreement Modification	32
D20	Depreciation and Amortization	35
E10	Entitlements	38
E20	Equity of the U.S. Government	41
F10	Fair Value	48
F20	Financial Reporting	49
F30	Foreign Currency	55
F40	Fund Accounting	57
F50	Fund Control	60
G10	Grants and Cooperative Agreements	64
I10	Imputed Interest	66
I20	Interest Payable and Receivable	68
I30	Inventory	69
I40	Investments	71
L10	Leases	73
L20	Liabilities Based on Actuarial Calculations	79
L30	Loan Guarantees and Commitments	83

		<u>Page</u>
L40	Long-Term Contracts	84
P10	Payroll	86
P20	Pensions	87
P30	Prior-Period Adjustments of Financial Statements	88
P40	Property, Plant, and Equipment	90
R10	Receivables	95
R20	Regulatory Accounting	100
R30	Reporting Appropriations in the Statements of Financial Position, Operations, and Changes in Financial Position	103
R40	Research and Development	105
T10	Transfers of Assets and Liabilities Between Federal Agencies	106
U10	Unusual and Infrequent Items: Statement of Operations	109
	<b>REFERENCE TO INDUSTRY STANDARDS</b>	<b>110</b>
	<b>TOPICAL INDEX</b>	<b>111</b>

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ACCOUNTING PRINCIPLESAND STANDARDSINTRODUCTIONAUTHORITY AND PURPOSE

This appendix contains the Comptroller General's accounting principles, standards, and related requirements that the head of each executive agency shall observe as required by 31 U.S.C. 3511 and 3512. These principles have been developed in consultation with the Secretary of the Treasury and the Director of the Office of Management and Budget on their accounting, financial reporting, and budgetary needs. The needs of the heads of other agencies have also been systematically considered. This appendix updates and supersedes the principles, standards, memoranda, and statements issued in the prior edition of title 2.

Under 31 U.S.C. 3511, executive agency accounting systems must conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General. Under 31 U.S.C. 3512(c), agencies must report annually on whether their accounting systems are operating in conformity with these accounting principles, standards, and related requirements. Agencies shall use the accounting principles, standards, and related requirements contained in this and other titles when preparing their annual statements.

31 U.S.C. 3511 also requires that the Comptroller General provide for integrated accounting as a method of complete disclosure of the results of the financial operations of each agency and the government, as well as provide for control needed by the President and the Congress. These requirements are accomplished by coordinating accounting principles and standards with planning, budgeting, and auditing requirements; by establishing principles embracing an integrated combination of obligation and accrual accounting; and by providing explicitly for the specific requirements levied by the President and the Congress.

APPLICABILITY

The requirements contained in this statement apply to all federal departments, agencies, or instrumentalities in the executive branch that fall within the definition of executive agency as defined in 31 U.S.C. 102 and 3501. These requirements may be cited as "generally accepted accounting principles for the federal government." Government corporations, which are excluded from the definition, follow generally accepted accounting principles promulgated by the Financial Accounting Standards Board (FASB) and its predecessors.

Any guidelines and instructions that the Treasury Department may issue, setting forth policies of accounting and reporting designed to implement the standards promulgated by the Comptroller General herein, should be consistent with these standards. This includes the Treasury Department's providing detailed requirements for agencies to follow in accounting and reporting on collections, budget authority, obligations, outlays and budgetary resources, as well as assets, liabilities, revenues, and expenses.

Justification for material noncompliance with these principles and standards needs to be disclosed in the financial statements. These standards do not apply to immaterial items.

#### TERMINOLOGY

Terms used in these standards are defined consistently, whether they are used in the budgetary, accounting, or legal sense, except as specifically noted. The terms used in this appendix are consistent with these terms as they are defined in the third edition of A Glossary of Terms Used in the Federal Budget Process, issued by GAO in March 1981 (PAD-81-27).

Unless otherwise indicated, the term "agency" is used throughout this title in a general sense to refer to the reporting entity.

#### ACCOUNTING INTERPRETATIONS

From time to time, interpretations will be issued to explain, expand, and refine these accounting standards.

#### ORGANIZATION OF THIS APPENDIX

This appendix is organized into two parts, concepts and standards. The concepts section describes the fundamentals that underlie accounting standards. The standards are arranged alphabetically by subject.

CONCEPTS

The accounting standards prescribed by the Comptroller General are based on certain objectives and fundamental concepts. These concepts, as discussed below, provide important assumptions in the federal accounting environment and provide the foundation for a consistent application of these accounting standards.

OBJECTIVES

Objectives, the goals or aims toward which agency accounting and federal financial reporting is directed, are derived directly from legal and regulatory requirements and the needs of intended users. Two of the main objectives of federal government accounting and financial reporting are to provide information which can be useful in allocating resources and in assessing management's performance and stewardship.

Resource allocation basically involves choosing among alternative uses of resources. It is the process of distributing budget authority and deciding how resources will be used. Resource allocation is based on an assessment of national needs together with an understanding of the accounting and reporting of currently controlled resources and on the prior uses of resources and accomplishments. From these perspectives, management, legislators and the public decide how current and future resources will be used, the extent to which additional resources should be obtained and the source of these resources (primarily taxes, borrowing, and other revenues).

Assessing management's performance and stewardship involves determining whether allocation decisions implemented by management are proper and whether congressional intent has been met. Making this determination requires an analysis of information which discloses

- the extent of legal compliance with applicable laws and regulations;
- the nature and extent of activities within programs, including the accomplishment of, spending for, and costs of such activities; and
- the financial viability of the federal government.

By providing this type of information in federal accounting and financial reporting, management's performance and stewardship can be evaluated objectively, and sound decisions can be made.



## THE REPORTING ENTITY

The reporting entity is the organization, component of the organization, or activity for which financial statements are prepared. In its broadest sense, the accounting and reporting entity is the entire federal government. Financial statements of the federal government are to be prepared at least annually (at the end of the fiscal year).

At a lower level, the reporting entity is a department (or its constituent agencies) or an independent agency. Financial statements are to be prepared at least annually in accordance with the Financial Reporting standard, section F20, by each of these reporting entities.

If consolidated financial statements are not prepared at the departmental level, a department may use agency-level statements. If a department prepares financial statements of its constituent agencies, it shall also include a statement on department-level organizations, such as the Office of the Secretary, Office of Inspector General, and other units which would not be included in individual agency-level statements. Footnotes shall be included as part of the financial reports when the reporting entity may be unclear to the reader.

## ELEMENTS OF FEDERAL ACCOUNTING AND FINANCIAL REPORTING

Federal accounting and financial reporting focuses on various elements, covering budget and accrual concepts: assets, liabilities, equity, expenses and losses, financing sources, and results of operations, as well as collections, budget authority, obligations, outlays, and budgetary resources. These are defined below.

### Assets

An asset is any item of economic value owned by a governmental unit. The item may be physical in nature (tangible) or a right to ownership (intangible) that is expressed in terms of cost or some other value.

An asset has three essential characteristics:

- It embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute to future operations of the government.
- The entity can obtain the benefit from it and control access to it.
- The transaction or other events giving the agency the right to or control of the asset has already occurred.

Assets benefit the entity when they can be exchanged for goods or services of value, used to provide services, or used to liquidate or reduce liabilities. The entity's future benefit from the asset can include relief from having to expend cash in the future.

Assets commonly have other identifying features. For example, assets may be acquired at a cost, and they may be tangible, exchangeable, or legally enforceable. Assets also may be acquired without cost, they may be intangible, and, although not exchangeable, they may be used in the entity's operations or for distributing other goods or services. Similarly, although the entity's ability to benefit from an asset and to control others' access to it generally rests on legal rights, legal claim to the benefit is not necessary before it qualifies as an asset if its receipt by the entity is otherwise probable.

#### Budget Authority

Budget authority is the authority provided by law to enter into obligations that will result in immediate or future outlays involving federal funds, but it does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority.

#### Budget Resources

In addition to budget authority, budgetary resources include, in the case of reimbursable work, (1) the value of entitlement to reimbursement based on goods and services furnished and as authorized by law, (2) the amount of orders received within the government that represents valid obligations of the ordering account, to the extent that reimbursements therefore, will be placed in the correct account when collected, and (3) the amount of unfilled customers' orders from the public for which advance payment has been made.

#### Collections

Collections are amounts received by the federal government during the fiscal year. Collections are classified into two major categories: budget receipts and offsetting collections. Budget receipts are collections from the public (based on the government's exercise of its sovereign powers) and from payments by participants in certain voluntary federal social insurance programs. Offsetting collections are collections from government accounts or from transactions with the public that are of a business-type or market-oriented nature.

### Government Equity

Equity is the difference between assets and liabilities of an agency and consists of five components: (1) invested capital, (2) cumulative results of operations, (3) unexpended appropriations, (4) trust fund balances, and (5) donations and other items. The Equity of the U.S. Government standard, section E20, further explains each of these components. For budgetary purposes equity also includes an additional item, unfinanced budget authority, including unfiled customer orders, contract authority, and borrowing authority.

### Expenses and Losses and Transfers Out

Expenses and losses are outflows of assets or incurrences of liabilities (or a combination of both) during a period. These can result from rendering services, delivering or producing goods, or carrying out other activities. Expenses relate to normal operating activities, while losses generally relate to all other transactions. The distinction between expenses and losses is a matter of classification in the statement of operations; expenses are commonly displayed at their gross amount, and losses are usually shown net of related revenue. Transfers out are assignments of appropriations or contributions of other assets to another agency.

### Financing Sources

Financing sources and gains are actual inflows and/or other enhancements of assets, or certain settlements of liabilities, or a combination of both. Financing sources is a term used in statements of operations to include expended appropriations and revenues. Revenues differ from gains only in that revenues generally result from normal operations, while gains usually result from nonoperating activities. The only practical difference between gains and revenues is their presentation in statements of operations; revenues are commonly shown at their gross amount, and gains are usually shown net of related expenses. (Income is a generic term which encompasses financing sources and gains.)

### Liabilities

Liabilities are amounts owed for items received, services rendered, expenses incurred, assets acquired, construction performed (regardless of whether invoices have been received), and amounts received but as yet unearned. Included are amounts owed for goods in the hands of prime contractors under the constructive delivery concept and amounts owed under grants, pensions, awards, and other indebtedness not involving the furnishing of goods and services.

A liability has three essential characteristics:

--It embodies a present obligation to others which will be settled by the probable future transfer or use of assets at (1) a specified or determinable date, (2) at the time of a specific event, or (3) on demand.

--Because of equitable or legal responsibility, the government has little or no discretion to avoid future sacrifice.

--The transaction or other event that created the liability has already happened.

Although liabilities rest generally on legal rights and duties, a legal claim is not a prerequisite for qualification as a liability if future cash or other transfer of assets in settlement is otherwise probable and estimable. The decision to record liabilities is not always affected by whether funds for payment have been provided or authorized, i.e., unfunded liabilities.

#### Obligations

Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions for bona fide needs existing during a given period that will require payments during the same or a future period and that comply with applicable laws and regulations. Such amounts will include outlays for which obligations had not been previously recorded and will reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.

#### Outlays

Obligations are generally liquidated when checks are issued or cash disbursed. Such payments are called outlays. In lieu of issuing checks, obligations may also be liquidated (and outlays occur) by the maturing of interest coupons, in the case of some bonds, or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding).

#### Results of Operations

Results of operations are the net difference between (1) expenses and losses of an agency or activity, and (2) financing sources and gains of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) for the operating period reported. The results of operations are sometimes referred to as "net income" or "net loss" in revolving funds or business-like activities.

## USEFULNESS OF ACCOUNTING INFORMATION

The overall goal of accounting and financial reporting in the federal government is to provide information that is useful. Accounting information is useful when it is timely, relevant, reliable, cost beneficial, material, comparable, and consistent. These qualities are described as follows:

Timeliness refers to the prompt reporting of financial information to its users when it will be of maximum benefit. Financial data should be recorded as soon as practicable after the occurrence of a transaction.

Relevance is "the capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations." <sup>1</sup>

Reliability is "the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent." <sup>2</sup>

Cost Benefit refers to measuring the expense of obtaining certain information against the benefits to be derived by having the information. Information should not be provided if the costs of providing it exceed the benefits to be derived, unless it is required to meet legal or other specified purposes.

Materiality refers to whether the information is significant enough to make a difference to a reasonable person relying on the information. A decision not to disclose information in the financial statements may be made because the amounts involved are too small to make a difference or to affect the reliability of the information. In addition to magnitude, the nature of the item must be considered when making a materiality judgment. Any information which is material shall be reported in financial statements.

Comparability relates to the similarity and consistency of information produced by an entity from period to period and by others operating in similar circumstances. The value and usefulness of information depends greatly on the degree to which it is comparable to information from prior periods and to similar information reported by others.

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<sup>1</sup> Statement of Accounting Concepts No. 2, Financial Accounting Standards Board.

<sup>2</sup> Ibid.

Consistency pertains primarily to information produced by one accounting entity using essentially the same methods over periods of time.

### RECOGNITION

Periodic recognition of the effects of transactions in financial statements is fundamental to the accounting process. Recognition governs when the results of an event are to be included in the financial statements and ensures that the effects of similar events and transactions are accounted for similarly within the federal government. The three principles that form the basis of the recognition requirements in the federal government accounting standards are accrual accounting, matching, and allocation.

#### Accrual Accounting

The standards contained in this title are based on accrual accounting as prescribed by 31 U.S.C. 3512(d) and allow obligation accounting where required for budgetary purposes. That law states that the head of each executive agency shall cause the accounts of that agency to be maintained on an accrual basis while providing for suitable integration of agency accounting with the central accounting and reporting responsibility of the Secretary of the Treasury. Thus, the accrual basis is the prescribed basis of accounting to be used by federal agencies. When the differences between the results of cash and accrual accounting are insignificant, the cash basis of accounting can be followed.

The accrual basis of accounting recognizes the significance and accountable aspects of financial transactions, events, or allocations as they occur. Generally, accrual accounting can contribute materially to effective financial control over resources and costs of operations and is essential to develop adequate cost information. The reporting standards contained herein focus on accrual accounting. However, these standards also require complete financial information, including budgetary information to be captured and maintained in agency accounts.

#### Matching

In the typical appropriated fund activity, matching involves identifying and recording costs in the proper period, i.e., the period in which the cost is incurred rather than the period in which the disbursement is made. For commercial-type activities, matching is the simultaneous recognition of the revenues and expenses that result directly and jointly from the same transactions or other events.

### Allocation

Allocation is a concept of distributing an amount between periods (interperiod) or to different elements within a period (intrapperiod). Interperiod allocation is necessary because many assets yield their benefits to an entity over several periods. A common example of allocation is spreading the cost of a building or equipment to two or more accounting periods by depreciating it.

### MEASUREMENT

Measurement principles are the bases for assigning numeric values to the elements of financial reports. The data reported in the financial statements required by these standards should be based on historical costs to maintain dollar compatibility with budget authority. Historical data are measured in terms of money agreed upon in transactions to which the entity was a party when the transactions first occurred. Thus, they are comparable to the dollar authorizations and limitations initially granted through budget authority. Therefore, financial reports must be based on historical costs.

### COST

The standards contained in this statement are also based on the concept of cost. The term cost refers to the financial measurement of resources used in accomplishing a specified purpose, such as performing a service, carrying out an activity, acquiring an asset, or completing a unit of work or a specific project.

Reporting significant cost, obligation, and outlay information that is derived from an effective accounting system facilitates effective financial management. Such information must be available to agency management officials, the Office of Management and Budget (OMB), and the Congress for devising and approving realistic future financial plans (budgeting). It is needed in making meaningful comparisons and in keeping spending within limits established by law, regulation, or agency management policies. Finally, this information provides several common financial denominators for measuring and evaluating efficiency and economy in terms of the resources used in the various activities.

Accounting for activities on a cost basis means that all significant elements should be included in the amounts reported as total cost. Cost, in this context, is the value of goods and services used by a government agency within a given period, regardless of when they were ordered, received, or paid for. For example, cost may be the value of resources put into or removed from inventory. It may be the amount of depreciation or

amortization on an asset. It may be the amount of contractor or grantee performance under a contract or grant (accrued expenditure). It may be fully allocated or direct. Such factors as (a) differences in methods of financing the resources used, (b) prescribed requirements for reimbursement or setting prices for sales of goods or services, and (c) administrative policies relating to budgeting, accounting, and management reporting are not valid bases for excluding items of cost from agency financial reports.

In any given year, the obligations incurred may be less, equal to, or greater than the costs recognized for that period. The differences, which must be precisely tracked in the agency accounting system, are due to such things as increases or decreases in inventories, undelivered orders, depreciation, amortization, or other changes in certain resources. The difference in concept lies in the distribution of these different measures (costs and obligations) over a period of time. The following chart, using the purchases of inventory materials, illustrates these timing differences. These stages can occur in a different sequence; however, this example is typical.



<u>Transaction</u>	<u>When order is placed</u> (Obligation)	<u>When materials are delivered</u> (Accrued Expenditure)	<u>When materials are used</u> (Expense)	<u>When bill is paid</u> (Outlay)
Order for materials is placed.	Obligation is recorded as an undelivered order and a decrease to budgetary resources.			
Materials are received or constructively received.		This is recorded as a liability (accounts payable), as a charge to inventory, and as a decrease in undelivered orders.		
Materials are used or consumed.			Cost is recorded as a decrease in inventory and a charge to program or administrative activity.	
Payment is made for the materials.				Outlay is recorded as a reduction of a liability and a reduction to cash.

Constructive receipt involves accruing an expenditure and the recording of a liability at some time other than when goods are received. If materials are to be delivered to an agency other than the ordering agency, the contractual date of delivery determines when the liabilities are recorded. Liabilities under a long-term contract are established in the same manner. No goods are actually delivered, but a liability is established for portions of work estimated to have been completed at contractually established times.

Cost-finding techniques, including standard cost systems, can be used to produce cost data when the expense to provide a detailed cost accounting system outweighs the benefits of having such data.

STANDARDS

In this document, the standards cover typical agency operations. The standards are intended to cover all types of federal transactions; however, their application may vary depending on the unique needs of specific federal activities. To the extent that guidance is not provided in these standards, agencies are to follow other guidance provided by GAO, the Treasury, the Office of Management and Budget (OMB), and FASB. A reference to FASB industry-specific statements is provided on page 110. In addition, for guidance on specialized cost accounting issues, agencies shall refer to the Cost Accounting Standards issued by the former Cost Accounting Standards Board (CASB). Agencies shall also refer to OMB Circulars A-11 (budget formulation), A-25 (user charges), A-34 (budget execution), A-76 (cost comparisons), A-121 (cost principles for ADP operation); the Treasury Financial Manual; and other GAO guidance.

ACCOUNTS PAYABLEINTRODUCTION

.01 Accounts payable are liabilities, amounts owed for goods and services received, and amounts received but not yet earned. Accounts payable include amounts for the following:

- goods and other property purchased and received;
- services performed by employees, contractors, grantees, and lessors;
- amounts received in advance (received but as yet unearned);
- OR
- amounts owed at the end of the accounting period under programs for which no further performance of services by payee is required (such as annuities, insurance premiums, and some cash grants).

ACCOUNTING STANDARD

.02 Accounts payable for goods and services shall be recorded as a liability when the goods are received. (See the liability definition in "Concepts".) The liability reported in annual financial statements shall reflect both invoices received and estimated amounts for invoices not yet received.

.03 Under certain circumstances, accounts payable arise before the physical receipt of goods or the passing of formal legal title. When a contractor provides the government goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor manufactures or fabricates goods or equipment to the government's specifications, constructive or de facto receipt occurs in each accounting period, in accordance with paragraph .04 below. Formal acceptance of the products by the government is not the determining factor.

.04 For items manufactured to the government's specifications, agencies shall record the appropriate payable, including contract retentions, for each accounting period based on requests for progress payments or on reasonable estimates of unbilled contractor performance.

.05 Accounts payable for services performed by employees, contractors, and others shall be determined based on performance as evidenced by payroll records, progress billings, grant reimbursement requests, or other available data. Reasonable estimates of the cost of services performed before the end of a reporting period

A10

shall be made for annual financial reporting purposes in the absence of invoices or other available data.

.06 Amounts due for annuities, claims, and benefit payments as of the end of the period shall also be recorded based on available information, provided that the payment is probable and the amount estimable.

.07 Agencies issuing monetary credits as compensation for property or services received from nonfederal entities shall report a liability equal to the value of the monetary credit.

**ACQUISITION COST OF ASSETS****INTRODUCTION**

.01 This standard provides the accounting to be followed for all assets acquired by expenditure of funds, except as noted in paragraph .08. See "Concepts" for the definition of assets, and section C-10, "Capitalization of Interest on Property, Plant and Equipment."

**ACCOUNTING STANDARD**

.02 All assets acquired shall be recorded at full cost.

.03 The full cost of assets acquired shall include the amounts paid to acquire them, including transportation, installation, and related costs of obtaining the assets in their current form and place.

.04 Consequently, cost includes the following:

- amounts paid to vendors;
- transportation charges;
- handling and storage costs;
- labor and other direct or indirect production costs (for goods produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of land, buildings, and other facilities;
- labor, materials, supplies, and other direct charges;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed and movable equipment and related installation costs required for activities in a building or facility;
- inspection, supervision, and administration of construction contracts and construction work;

A20

- legal and recording fees and damage claims;
- fair value of land, facilities, utilities, labor, materials, supplies, services, and equipment donated to the government; and
- material amounts of interest costs paid. (See paragraph .07 below.)

.05 Cost is to be recorded net of purchase discounts taken. Purchase discounts lost and late payment penalties should not be included as costs of assets, but should be recognized as operating expenses.

.06 Accounting for assets acquired by donation and by other methods that do not require the expenditure of funds is covered in the Equity of the U.S. Government standard, section E20, paragraphs .10 through .12. Accounting for assets acquired by foreclosure is covered in the Property, Plant, and Equipment standard, section P40, paragraph .11. Accounting for assets acquired by transfer from other federal entities is included in the Transfers of Assets and Liabilities Between Federal Agencies standard, section T10.

.07 Accounting for the interest cost incurred during the acquisition of certain assets is covered in the Capitalization of Interest on Property, Plant, and Equipment standard, section C10.

#### Seized Property

.08 Assets acquired by seizure should be recorded as an asset at their fair market value or other reasonable estimate, with an offsetting liability until such time as a determination about their disposition has been made.

ADVANCES AND PREPAYMENTSINTRODUCTION

.01 Advances and prepayments are transfers of assets to cover future expenses or acquisition of other assets. Advances are prepayments in contemplation of the later receipt of goods, services, or other assets. Advances are ordinarily made only to payees to whom an agency has an obligation and not in excess of the amount of the obligation. A common example is travel advances which are amounts made available to employees prior to the beginning of a trip for costs to be incurred in accordance with the Travel Expense Act of 1949 and in accordance with standardized government travel regulations.

ACCOUNTING STANDARDAdvances and Prepayments as Made

.02 Agencies making advances or prepayments shall record them as assets until receipt of the goods or services involved or until contract terms are met. When goods or services have been received or contract terms met, the expense or acquired asset shall be recognized and the advances or prepayments reduced. For example, an advance for travel is recognized as an asset when made, and is recorded as an expense, with a corresponding reduction in the asset when travel is performed.

.03 For advance payments to award recipients, see the Grants and Cooperative Agreements standard, section G10.

Advances and Prepayments Received

.04 An agency receiving an advance or prepayment shall record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the agency shall record the appropriate amount as revenue or a financing source and reduce the liability accordingly.

Disclosure

.05 Advances and prepayments both made and received should be aggregated but not netted against each other and, if the amounts are material, shown as a separate line item on the financial statements instead of being included in accounts receivable or accounts payable.

.06 Agencies shall report or disclose separately the amount of advances, and prepayments, associated with (1) nonfederal entities and (2) federal agencies if material.



APPROPRIATIONS FOR PROPERTY,  
PLANT, AND EQUIPMENT

INTRODUCTION

.01 This standard provides guidance in accounting and reporting appropriations for property, plant, and equipment.

ACCOUNTING STANDARD

.02 The amounts of appropriations for property, plant, and equipment are reflected as part of the unexpended appropriations in the equity section of the agency's Statement of Financial Position until expended. When expended, the amounts are transferred from the Unexpended Appropriations account in the equity section to the Invested Capital account in the equity section. The transfer shall be reported in the Statements of Changes in Financial Position.

.03 If property, plant, and equipment acquired with appropriations are depreciated, it will be reported as a nonoperating cost in the Statement of Operations. An amount equal to each year's depreciation expense shall be removed from the Invested Capital account and reported as a financing source in the Statement of Operations. (A like amount is also reported as an operating cost in the Statement of Operations.)

.04 When property, plant, and equipment are retired, the assets shall be removed from the accounting records, including any related amounts of depreciation. Gains or losses must be recognized on retirement of depreciated property, plant, and equipment. (See the Property, Plant, and Equipment standard, section P40, paragraph .14-.17.) An amount equal to the net book value of assets retired should be removed from the Invested Capital account.

.05 The application of this standard is similar to the illustration included in the Equity of the U.S. Government standard, section E20, paragraph .15.

CAPITALIZATION OF INTEREST ON  
PROPERTY, PLANT, AND EQUIPMENT

INTRODUCTION

.01 This standard provides guidance for capitalizing interest cost as a part of the historical cost of acquiring certain pieces of property, plant, or equipment (specified in paragraph .03).

.02 The objective of capitalizing interest is to obtain a measure of acquisition cost that more closely reflects the agency's total investment in the asset.

ACCOUNTING STANDARD

.03 Interest cost paid by the agency shall be capitalized as part of the historical cost of acquiring certain pieces of property, plant, or equipment where it is material. To qualify for interest capitalization, property, plant, or equipment must require an acquisition period (specified in paragraph .07) to prepare them for use in agency operations or for sale outside of the federal government. The interest cost to be capitalized is based on the interest rate that the agency is charged by Treasury.

.04 Interest cost shall not be capitalized for inventories. In addition, interest cost shall not be capitalized for property, plant, or equipment that (a) is in use or ready for its intended use or (b) is not being used by the agency and is not undergoing the activities necessary to get it ready for use.

.05 Imputed interest cost shall not be capitalized for property, plant, and/or equipment constructed for use in agency operations or to be sold outside the federal government. The imputed interest cost, however, shall be included in the selling price of the property, plant, or equipment. (See the Imputed Interest standard, I10, for guidance on including imputed interest cost in the selling price.)

.06 The amount of interest cost capitalized for qualifying assets is intended to be that portion of the interest incurred by the agency during the asset acquisition period that theoretically could have been avoided (for example, by avoiding additional borrowings) if the expenditures for the assets had not been made.

C10

.07 The interest capitalization period begins with the first expenditure for a qualifying asset and ends when the asset is substantially complete and ready for its intended use. The interest cost shall be capitalized when two conditions are present:

- (a) Expenditures for the asset have been made.
- (b) Activities that are necessary to get the asset ready for its intended use are in progress.

Interest capitalization shall continue as long as those two conditions are present. The term "activities" is to be construed broadly. It encompasses more than physical construction; it includes all the steps required to prepare the asset for its intended use.

#### Disclosure

.08 The total amount of interest costs, if any, that have been capitalized during the period shall be disclosed in the notes to the financial statements.

COMPARATIVE FINANCIAL STATEMENTSINTRODUCTION

.01 This standard requires the presentation of financial information from the preceding year in annual financial statements issued in accordance with the Financial Reporting standard, section F20.

ACCOUNTING STANDARD

.02 The annual financial statements (as required by F20.02) are to include consolidated comparative financial data from the immediate prior year if the department, independent agency, or other governmental unit was in operation during the prior year. Data shall be reported in a format consistent with the current year's. Reclassification of significant prior-year amounts to achieve comparability shall be explained in the footnotes.

.03 Footnotes and other explanations from prior-year statements necessary to disclose information regarding the prior-year data properly are to be included in the current-year statements.

Transition Policy

.04 In implementing this standard, agencies comparative financial statements need not be included when the initial set of financial reports are issued. Thereafter, agencies must issue comparative financial statements in accordance with this standard.

COMPENSATED ABSENCESINTRODUCTION

.01 A compensated absence is an employee absence, for vacation or illness, for which the employee will be paid. When employees accrue rights to take leave with pay, the government incurs an expense and liability measured by the salary cost of the time that may be taken.

ACCOUNTING STANDARD

.02 The accrual of annual leave in the federal government is material and needs to be recognized annually in agency accounting records and financial statements. Federal employers, therefore, shall recognize the expense and related liability for annual leave (including home leave) as it accrues. Sick leave need not be accrued unless such information is needed for budget and management purposes. The expense and related liability for annual leave shall initially be recorded at the wage rates at which the leave is earned. Use of a fringe benefit rate is also acceptable for calculating accrued annual leave.

.03 The liabilities for annual leave shall be adjusted to reflect all pay increases and unused leave balances at least annually for financial statement purposes.

CONSOLIDATED FINANCIAL STATEMENTS  
OF THE U.S. GOVERNMENT

INTRODUCTION

.01 This standard applies to the accounting and reporting for the consolidated financial statements of the United States government. These statements present the financial position and operating results of the various components of the federal government (departments and independent agencies) as a single entity, and are sometimes referred to as "business-type" statements. This standard does not apply to "cash based" Treasury combined statements, budget reports, or the national accounts.

ACCOUNTING STANDARD

.02 The accounting principles and standards presented in other sections of appendix I to title 2 are applicable to the consolidated financial statements of the United States government. The standards discussed in this section are those of particular importance to the process which produces the consolidated financial statements of the United States government.

Presentation of the Consolidated Financial Statements

.03 The consolidated financial statements of the United States government shall be prepared at least annually and shall include the following financial statements, including footnotes thereto:

- (1) Statement of Financial Position (Balance Sheet),
- (2) Statement of Operations,
- (3) Statement of Changes in Financial Position, and
- (4) Statement of Reconciliation to Budget Reports.

.04 The general format of these statements shall be specified by the Treasury, consistent with GAO principles and standards. The above financial statements shall be prepared in accordance with the Financial Reporting standard, section F20, paragraphs .04 through .10. The consolidation policy shall be fully disclosed in the notes to the consolidated financial statements.

Consolidated Entity

.05 The reporting entity for the consolidated financial statements of the United States government shall be comprised of all departments, independent agencies, and other governmental units of the executive branch (referred to throughout this standard as departments or independent agencies). Also, in the interest of providing a more complete and accurate presentation of the government's financial position and results of operations, the consolidated

C40

financial statements should also include the legislative and judicial branches of the federal government, as well as the federally-owned government corporations. This concept of entity includes the United States Postal Service but excludes the Federal Reserve System as well as privately-owned government corporations.

#### Support Base for the Consolidated Financial Statements

.06 The financial position, operation results, and reconciliations reported by each department or independent agency comprising the reporting entity for the consolidated financial statements shall be the basis for the financial information presented in the consolidated financial statements of the United States government.

.07 The amounts presented in the consolidated financial statements shall agree with the total of like amounts reported in the financial statements of the departments or independent agencies comprising the consolidated entity less of any required adjustments and eliminations.

#### Reconciliation to Budgetary Amounts

.08 The financial data presented in the consolidated financial statements shall be consistent with similar amounts presented in budgetary reports. Differences shall be reconciled in the Statement of Reconciliation to Budget Reports (required by paragraph .03). This statement shall reconcile the information presented in the consolidated financial statements to that reported in the Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government.

.09 Material items of reconciliation shall be fully disclosed in either the Statement of Reconciliation or the notes thereto.

#### Interagency Transactions

.10 During the consolidation process, interdepartmental and/or interagency balances and transactions shall be eliminated. This includes interdepartmental and/or interagency open account balances, security holdings, sales and purchases, interest, etc.

.11 All interdepartmental and/or interagency profit or loss on assets remaining within the government shall be eliminated. This applies to inventory as well as property, plant, and equipment.

### Depreciation

.12 The depreciation reported in the consolidated financial statements shall be based on the detailed property and accounting records of each individual department or independent agency (for those that do report depreciation). If a department or independent agency does not normally depreciate its assets, amounts of depreciation shall be calculated by the Treasury and reported for the consolidation process in accordance with these standards.

### Federal Benefit Programs

.13 The consolidated financial statements shall include a liability for federal benefit programs that represents the government's responsibility under these programs. Amounts shall be determined in a systematic, rational, and consistent manner and in accordance with the Liabilities Based on Actuarial Calculations standard, section L20, or the Pension standard, section P20, as applicable. For the federal old-age and survivors disability insurance programs, the consolidated financial statements shall include the liability for the actuarial present value of accumulated benefits determined in accordance with the Liabilities Based on Actuarial Calculations standard, section L20, paragraphs .07 through .14.<sup>3</sup>

.14 For the year in which the liability is initially recorded, the corresponding charge shall be made to the accumulated results of operations. Each year thereafter, the net change in the liability shall be charged to expense.

.15 The accrued liability for accumulated benefits shall be presented in full. The assets available within each program to pay for the benefits shall not be netted against the liability. The assets shall be shown separately and subjected to the consolidation adjustments and eliminations.

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<sup>3</sup> The federal old-age and survivors disability insurance programs (administered by the Social Security Administration) are complex programs involving significant amounts. Because of this, a final decision on the accounting and reporting standard for these programs in the consolidated financial statements has not been reached, but rather is still being studied. Until a final decision is made, the actuarial liabilities for these programs shall be calculated and reported in accordance with paragraphs .07 through .14 of the Liabilities Based on Actuarial Calculations standard, section L20, or the Pension standard, section P20.



CONTINGENCIESINTRODUCTION

.01 Contingencies are existing conditions, situations, or circumstances involving uncertainty about possible gains or losses. These uncertainties will be resolved in the future when one or more events occur or fail to occur, e.g., an asset is acquired, a liability is reduced, an asset is lost or impaired, or a liability is incurred.

.02 "When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. This section uses the terms probable, reasonably possible, and remote to identify three areas within that range, as follows:

- (a) Probable: The future event or events are likely to occur.
- (b) Reasonably possible: The chance of the future event or events occurring is more than remote but less than likely.
- (c) Remote: The chance of the future event or events occurring is slight." <sup>4</sup>

.03 Events that could cause an asset to be impaired or a liability to be incurred may occur after the date of an agency's financial statements, but before those financial statements are issued. Such events may not meet the criteria for accrual (see paragraph .04), but may require disclosure under this standard.

ACCOUNTING STANDARDAccrual of Loss Contingencies

.04 Accrual and disclosure of contingencies varies depending on their probability of occurrence. Estimated losses shall be recorded in agency financial systems and reported in their financial statements if (1) information available before the financial statements are issued indicates that an asset probably has been impaired or a liability probably has been incurred as of the date of the financial statements and (2) the amount can be reasonably estimated.

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<sup>4</sup> PASB Current Text, section C59, paragraph .104

C50

.05 The estimated loss associated with probable contingencies may be a specific amount or a range of amounts. If an agency can determine a reasonable estimate or if the reasonable estimate of the loss is a range, an amount shall be recorded for the loss. If some amount within the range appears, at the time to be a better estimate than any other amount within the range, that amount shall be recorded. If no amount within the range appears to be a better estimate than any other amount, the minimum amount in the range shall be recorded. (See the illustration in paragraph .12.) Even though the minimum amount in the range is not necessarily the exact amount of loss that will ultimately exist, it is not likely that the ultimate loss will be less than the minimum amount.

.06 Disclosure of the nature of an accrual made pursuant to paragraph .04 is necessary if without such disclosure the financial statements would be misleading. The decision to disclose shall be based on the materiality of the loss contingency and its possible impact on the agency's financial statements and operations.

#### Disclosure of Loss

.07 If no accrual of a loss contingency is recognized because one or both of the conditions in paragraph .04 are not met, or if the possible loss to which the agency is exposed exceeds the amount accrued and there is at least a reasonable possibility that a loss or an additional loss may have been incurred, the contingency shall be disclosed. Minimum disclosure includes the nature of the contingency and an estimate of the possible loss, an estimate of the range of the possible loss, or a statement that such an estimate cannot be made. For example, an agency may know that an asset probably has been impaired or a liability probably has been incurred, but it may be unable to estimate the amount of the liability within reason. In these cases, the agency shall disclose the contingency in the footnotes to the financial statements, describing its nature and stating that no firm estimate is available. An example of this type of contingency may be certain loan guarantees when the guaranteeing agency believes it is reasonably possible that losses will be incurred as a result of events that occurred before the date of the financial statements, but the magnitude of the losses cannot be estimated.

.08 After the financial statement date but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements, or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. If an asset was not impaired or a liability was not incurred as of the date of the financial

C50

statements, then the conditions for accrual have not been met. Those kinds of losses or loss contingencies shall be disclosed, however, if such disclosure is needed to keep the financial statements from being misleading. If disclosure is necessary, it shall indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss (or possible loss) or state that such an estimate cannot be made.

#### Gain Contingencies

.09 Contingencies which might result in significant gains shall not be included in income but shall be disclosed in the footnotes to the financial statements. When an agency discloses a gain contingency, it should exercise due care to avoid misrepresenting the likelihood of realization. Gain contingencies include claims against contractors.

#### Funding of Contingencies

.10 Contingencies that meet the criteria of this standard shall be reported regardless of whether they are funded. The notes to the financial statements shall disclose whether funds have been obligated. This standard does not address when funds should be obligated. Refer to the Fund Control standard, section F50. An example of a contingency which may be funded is a loan guarantee, when a certain percentage of debtors are expected to default. An example of a contingency which may not be funded is pending litigation.

#### Claims Settled by Agency or Other Body

.11 When claims against the U.S. government arise, they are generally filed with the agency where the claim arose. The agency shall assemble and maintain information relevant to settling the claim. The claim is then settled based on governing statutes or regulations, which may provide for the agency to resolve the claim or for referral to another agency or body for settlement. Accountability for the contingent claim shall be maintained by the agency where the claim originated until settlement occurs, in accordance with paragraphs .04-.10 above. Settlement is determined either by the originating agency, the Department of Justice, the General Accounting Office, or other responsible body as specified by statute or regulation.

#### Illustration of Contingencies

.12 Assume that an agency has a lawsuit filed against it before the statement date. When the financial statements are prepared,

C50

the agency estimates the potential loss to be between \$10 million and \$12 million, depending on the outcome. Based on a legal opinion that such a loss is probable, the best estimate is an \$11.5 million loss. In this case, the agency shall record an \$11.5 million contingent liability and disclose the nature of the contingency in the notes to the financial statements. A statement should also be included that final disposition of the case is still pending. If the agency is unable to determine a best estimate, then it shall record a \$10 million contingent liability and disclose the nature of the contingency in the notes to the financial statements. Other examples of contingencies include the following:

- risk of loss of or damage to property, regardless of age, by fire, explosion, flood, or other hazards; and
- claims filed against the government.

Examples of estimates that are not contingencies include depreciation and estimated utility bills. These are not contingencies because, in the case of depreciation, eventual expiration of the asset is certain and, in the case of utility bills or similar items, the existence of the liability is certain, but its exact amount is not.

D10

DEBT AGREEMENT MODIFICATIONINTRODUCTION

.01 This standard specifies the accounting to be followed by creditor federal agencies when they have agreed to modify debt agreements because of the debtor's financial difficulties. Normally, debt modification includes the creditor accepting, in full satisfaction of the debt, cash and/or assets with a fair value less than the recorded value of the debt, or the creditor agreeing to modify the debt terms, such as the interest rate or the payment period. This standard also addresses the accounting to be followed when the fair value of the assets received in satisfaction of the debt exceeds the recorded value of the debt. (See paragraph .04.)

ACCOUNTING STANDARD

.02 Creditor federal agencies shall account for modifications to debt agreements in accordance with the following paragraphs.

Acceptance of Assets in Full Satisfaction of Debt

.03 When a federal agency accepts cash and/or assets in full satisfaction of a debt even though the total fair value received is less than the agency's recorded value, the excess recorded value shall be recognized as a loss in the current operating period. The fair value of the assets received shall be determined in accordance with the Fair Value standard, section P10, paragraphs .02 and .03.

.04 When the appraised (or fair market) value of the assets received (including assets acquired through foreclosure) exceeds the total of unpaid loan and interest owed by the borrower, the excess asset value shall be credited to a loan recovery account. This loan recovery account shall be combined with the provision for uncollectible loan expense on the statement of operations to show the net loss on loans.

Modification of Debt Terms

.05 Changes to debt terms shall generally be accounted for prospectively. The total future cash receipts (both principal and interest) under the modified agreement are to be compared to the current recorded amount of the receivable. If total principal and interest payments under the agreement exceed the recorded amount, no adjustment shall be made to the recorded amount. To the extent that the total future cash receipts exceed the recorded amount,

D10

interest income shall be recognized by the interest method. Under this method, a constant effective interest rate is applied to the recorded investment in the receivable each accounting period between the modification date and the maturity date. The new effective interest rate shall be the discount rate that equates the present value of the future cash receipts specified by the new terms (excluding amounts contingently receivable) with the recorded investment in the receivable.

.06 If total future cash receipts (principal and interest) are less than the debt receivable originally recorded, the receivable amount shall be reduced accordingly and the reduction recognized as a current-period loss. If such a reduction is made, all future cash receipts (principal or interest) shall be used to reduce the receivable amount, and interest income shall not be reported in future periods.

.07 Total future cash receipts include estimated minimum future cash receipts. If changes in estimates of amounts to be received in later periods cause total probable future cash receipts to be less than the then-recorded receivable amount, the recorded amount shall be reduced accordingly and the reduction recognized as a loss.

#### Acceptance of Assets and Modification of Terms

.08 In a transaction involving the receipt of assets and modification of terms, the fair value of assets received shall first be used to reduce the recorded value of the debt. The remaining balance of the debt shall be compared to total probable future cash receipts and accounted for in accordance with paragraphs .05 to .07 above.

#### Allowances for Uncollectibles

.09 Losses determined under the above sections may be charged to allowances for uncollectibles established before the debt modification agreement. For guidance on estimating uncollectibles, see the Receivables standard, section R10. However, the allowances, after the reduction for debt modifications, must adequately provide for any further receivable losses that are probable and estimable. If it does not, the allowance must be corrected by recording an expense in the amount needed to make the allowance adequate in the period the correction was made.

D10

Recoveries of Amounts  
Previously Written Down

.10 Cash receipts in excess of the estimated amount collectible (based on total probable future cash receipts) shall be accounted for as interest income in the period received and deposited as miscellaneous receipts with Treasury (unless otherwise specified by law).

Substitution or Addition of Debtors

.11 Modification of debt agreements by substitution of another party's debt or by addition of debtors shall be accounted for in accordance with the appropriate preceding paragraphs in this standard based on the substance of the change.

Delinquent Interest Receivable

.12 In accordance with the Interest Payable and Receivable standard, section I20, paragraph .03, interest receivable is to be recorded even if interest payments are delinquent. Delinquent interest receivable may not be added to the principal debt amounts due unless the debt agreement is legally modified to reflect the change in principal amounts due. If delinquent interest is added to principal amounts due in a debt modification, the resulting amounts due must be evaluated for collectibility, and the guidance in paragraph .05 of this standard should be followed.

Disclosures

.13 The creditor financial statements or footnotes shall disclose, for material modified debt agreements: the total amount receivable; the interest that would have been recorded in the current year if the debt agreement had not been modified; the amount of interest recorded, if any; and future commitments to lend additional funds to the debtor. Similar agreements may be aggregated for purposes of disclosure.

DEPRECIATION AND AMORTIZATIONINTRODUCTION

.01 Depreciation accounting recognizes the cost of depreciable property, plant, or equipment as an operating expense over the period in which the assets are expected to provide benefits. Amortization recognizes the cost of intangible assets as an operating expense over the benefited period.

ACCOUNTING STANDARD

.02 Reporting depreciation and amortization is required for financial statements of (a) business-like operations, such as revolving or industrial funds, and (b) activities that recover costs from reimbursements or user charges. Depreciation accounting and amortization are encouraged for financial reporting purposes by all federal functions and activities.

Depreciation

.03 If depreciation expense is provided for depreciable assets (see paragraph .04 below), that expense is calculated by allocating the asset's depreciable cost (see paragraph .05 below) to the asset's estimated useful life (see paragraph .06 below) in a systematic and rational fashion (see paragraphs .07 and .08 below).

.04 Depreciable property, plant, and equipment are individual tangible assets, not including inventory or historical monuments and statues that

- (a) are acquired at a specific point in time, for a determinable cost of \$5,000 or more;
- (b) are used over some period (useful life), the length of which is 2 years or greater, but characteristically needs to be estimated; and
- (c) generally become economically worthless (except for any salvage value) at the end of their estimated useful lives.

.05 Depreciable cost is equal to the cost of the depreciable asset less the estimated future salvage value, if significant. If the asset is acquired in a monetary exchange, cost is the amount of monetary consideration given. (See the Acquisition Cost of Assets



D20

standard, section A20, paragraphs .02 through .05.) If the asset is acquired by donation or other means in which cash is not exchanged with nonfederal entities, the asset's fair market value shall be determined as specified in the Equity of the U.S. Government standard, section E20, paragraphs .10 through 12, except for seized property covered in Acquisition Cost of Assets, section A20, paragraph .08. If the asset is acquired from another federal agency, cost shall be determined as specified in the Transfers of Assets and Liabilities Between Federal Agencies standard section T10.

.06 Useful life is that period during which the asset provides benefit. Estimates of useful life consider such factors as physical wear and tear and technological change that bear on the economic usefulness of the asset. Estimated useful life must be 2 years or greater.

.07 Depreciation expense shall be calculated using a systematic and rational method. If a specific method is required by law, it must be utilized.

.08 Estimates of useful lives and residual values may be revised, based on information that becomes available after the initial estimates are made. Such changes affect future depreciation only and shall not result in the modification of previously recorded depreciation.

.09 The following information should be disclosed in the financial statements or footnotes:

- depreciation expense for all periods presented,
- accumulated depreciation (either in total or by category of asset),
- depreciation method (i.e., straight-line) and range of lives assigned to categories of depreciable assets, and
- original cost of fully depreciated assets.

Assets for which depreciation is recorded shall be disclosed separately from depreciable assets for which depreciation is not being recorded.

#### Amortization

.10 Amortization accounting for intangible assets shall be determined in accordance with paragraphs .03 through .09 above. Intangible assets are items that have economic value but lack physical

substance, such as assets leased under a capital lease agreement and leasehold improvements. Agencies shall not amortize for periods longer than 40 years even if the useful life of the asset is greater than 40 years. The useful life of an asset leased under a capital lease agreement or a leasehold improvement is the shorter of the estimated lease term (including renewals--see Leases, section L10) or the useful life of the asset or improvement. Agencies shall also be alert to possible changes in the future benefit of intangible assets.

ENTITLEMENTSINTRODUCTION

.01 Entitlements are legally established payments of benefits to any person or unit of government meeting eligibility requirements established by law. Authorizations for entitlements constitute a binding obligation on the part of the federal government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds, and thus the subsequent enactment of appropriations may be necessary.

.02 The following programs, though they may be called entitlements, use actuarial computations in developing financial data and are covered by the Liabilities Based on Actuarial Calculations standard, section L20:

- Social Security,
- Medicare,
- Veterans Compensation and Pensions,
- Unemployment Assistance,
- Workers' Compensation, and
- Social Security Disability.

.03 Pension programs, which have some of the characteristics of entitlement programs, are accounted for in accordance with the Pensions standard, section P20.

ACCOUNTING STANDARD

.04 The accounting treatment to be followed by entitlement programs is dependent on the type of entitlement programs and the nature and other circumstances surrounding the requirements to pay benefits. Generally, the unexpended appropriation shall be reduced by the amount of the liability and recorded as a financing source when the liability and expense are recognized.

.05 For purposes of this standard, entitlement programs are divided into three categories, according to the events that give rise to benefit payments. The accounting for these categories-- identified as (1) payments based on individual eligibility,

(2) payments required by law, and (3) reimbursable events--is discussed below.

#### Payments Based on Individual Eligibility

.06 In cases where the program is administered by a federal agency, entitlement benefits based on individuals meeting a program's eligibility requirements shall be recorded as a liability and an expense when the eligibility requirements are met (as determined by program officials). The liability and expense shall cover all payments expected to be made during the current period of eligibility. Payments made to recipients shall reduce the recorded liability. Programs that are administered by the states with reimbursements from federal agencies based on the states' performance reports shall be accounted for in accordance with the Grants and Cooperative Agreements standard, section G10.

#### Payments Required by Law

.07 For entitlement programs such as revenue sharing where payments are authorized (through appropriation and allotment of funds) for disbursement pursuant to legal requirements with no specific action required of the recipients, a liability and expense for the amount to be disbursed shall be recorded when the funds are appropriated and allotted. The liability shall be reduced as payments are made.

#### Reimbursable Events

.08 When payments are based on the occurrence of a specific event whose costs are reimbursable under an entitlement program, such as Medicaid, a liability (unless funds were advanced) and an expense shall be recorded when the event occurs. If the reimbursement is based on end-of-period reports from program administrators (such as state agencies), an estimated amount shall be accrued at the end of a reporting period.

.09 When the expense for payments made under an entitlement program exceeds the appropriation, which is permissible for certain programs under special statutory authority, the source of the related funds shall be clearly identified. If the funds were borrowed, the appropriate liability account shall be established.

.10 This standard applies to the following programs, among others:

--Medicaid,

--Food Stamps,

--Aid to Families with Dependent Children,

- Supplemental Security Income,
- Child Nutrition, and
- Veterans Readjustment Benefits.

EQUITY OF THE U.S. GOVERNMENTINTRODUCTION

.01 Equity of the U.S. government is the difference between assets and liabilities of an agency. This standard is based on accrual accounting concepts incorporating the expended/unexpended budget authority principle. It is intended to account for unexpended and applicable expended budget authority. All budgetary characteristics of equity, however, (including unfinanced budget authority not required by this standard to be specifically reported on the face of the Statement of Financial Position) shall be accounted for within agencies' accounting systems. Equity, reported in the Statement of Financial Position, consists of five components:

- (1) Invested Capital,
- (2) Cumulative Results of Operations,
- (3) Unexpended Appropriations,
- (4) Donations and Other Items, and
- (5) Fund Balance, for trust funds only.

ACCOUNTING STANDARDInvested Capital

.02 Invested Capital appears in both appropriated and nonappropriated activities. It represents amounts invested in certain property and the initial investments to commence operations or new activities of revolving funds or business-like activities, where periodic revenue and/or cost determination is essential. Property includes inventory, property, plant, and equipment, and other capitalized assets such as leasehold improvements and books and materials purchased for permanent retention in libraries.

.03 Additions to Invested Capital occur in activities financed from appropriations in the following circumstances:

- Property, plant, and equipment purchased are received and accepted or, in the case of property, plant, and equipment constructed or manufactured to government specifications, constructive receipt occurs (in substance title has passed).
- Other property meeting the capitalization criteria is purchased, received, and accepted.

E20

- Property, plant, and equipment or other property meeting the capitalization criteria is permanently transferred in from other federal agencies without reimbursement of cost.

Additions to Invested Capital occur in revolving funds or business-like activities in the following circumstances:

- Property, plant, and equipment or other property meeting the capitalization criteria is permanently transferred in from other federal agencies without reimbursement of cost.
- Initial investments are made to commence operations or begin a new activity.
- Appropriations subsequent to initial investments are expended for property, plant, and equipment.

The amount of the additions to Invested Capital for property acquisitions shall equal the amount recorded for the property acquired.

.04 Decreases in Invested Capital occur in the following circumstances:

- Property permanently transferred in is used or depreciated, sold or exchanged, transferred out without required reimbursement, donated, or otherwise disposed of.
- Property purchased in activities financed by appropriations (or otherwise purchased with appropriations that are not an initial investment in revolving funds or business-like activities) is used or depreciated, sold or exchanged, transferred out without reimbursement, donated, or otherwise disposed of.
- Amounts representing initial investments to commence operations or begin a new activity in revolving funds or business-like activities are returned to the investor (an agency or entity other than the reporting agency) or otherwise transferred to another agency or revolving fund, as is the case when a major function or activity is assumed by another agency.

The reductions in Invested Capital for related asset costs or losses charged to expense during the period should be credited to Financing Sources in the Statement of Operations. The Statement of Operations includes all financing sources (including expended appropriations of prior periods that provided funds for the prior-year purchase of property) for those costs and expenses recognized

E20

on the statement. See the Financial Reporting standard, section F20, paragraph .05. The amounts of Invested Capital reduced when property is sold, transferred out, donated, or otherwise disposed of shall equal the net book value of the property. See paragraph .15 for an illustration.

.05 Amounts of Invested Capital in which a transferor agency retains a reversionary interest--such as property reverting back to the transferor if certain conditions occur--shall be disclosed in the notes to the financial statements.

#### Cumulative Results of Operations

.06 Cumulative Results of Operations is the net difference between (1) expenses, losses, and transfers out from the inception of an agency or activity and (2) financing sources (i.e., appropriations and revenues) and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) to the reporting date (when financial statements are prepared). The Cumulative Results of Operations is sometimes referred to as "retained earnings" or "loss" in revolving funds or business-like activities.

.07 The Cumulative Results of Operations is adjusted at least annually by the results of operations (reported in the Statement of Operations) and by other items. Increases occur when the results of operations show an excess of financing sources and gains over expenses, losses, and transfers out. Decreases occur when an excess of expenses, losses, and transfers out exists. In revolving funds or business-like activities, the excess is sometimes referred to as "net income" or "loss." Adjustments to Cumulative Results of Operations may also arise from such things as prior period adjustments and distributions of the excess financing sources and gains, in accordance with law, regulation, or administrative designation. See the Prior-Period Adjustments of Financial Statements standard, section P30.

#### Unexpended Appropriations

.08 Unexpended Appropriations represents amounts of authority at the reporting date that are either (1) unobligated and have not lapsed, been rescinded, or been withdrawn or (2) obligated, but not yet expended (e.g., undelivered orders). (Unexpended Appropriations includes, but is not limited to, combinations of the unobligated allotment and unliquidated obligation accounts.) The Reporting Appropriations in the Statements of Financial Position, Operations, and Changes in Financial Position standard, section R30, discusses budgetary accounting. The budgetary accounting



E20

discussed in that section is necessary for effective budgetary control; however, the only equity account that shows existing budgetary authority for purposes of the Statement of Financial Position is Unexpended Appropriations.

.09 Decreases in Unexpended Appropriations occur in the following circumstances:

- Unobligated amounts lapse, are withdrawn, or are rescinded.
- Obligations representing undelivered orders are canceled (deobligated) after the related appropriation has lapsed, been withdrawn, or been rescinded.
- Undelivered orders are received and accepted.

Increases occur when funding (or obligation) authority is made available.

#### Donations and Other Items

.10 Donations are nonreciprocal transfers of assets or services from state, local, or foreign governments; individuals; or others not considered a related party to the federal government. Other items include (1) assets acquired by discovery, adverse possession, exercised right of eminent domain (when the fair market value exceeds the cost), results of war, or receipt of escheat property (property whose title is vested in or reverted to the government because it was not claimed by the owner or heirs to a deceased owner) and (2) unrealized gains and losses from investments. (See Investments standard, section I40, paragraph .02.)

.11 Donations should be recorded at the fair market value plus any costs incurred to place the donated item(s) in use. Such costs include, for example, title search or recording, shipping, installation and rearrangement, and major repairs. Increases in the Donations and Other Items account occur when assets or services are received that meet the agency's capitalization criteria. Donations that are either (1) cash or (2) other assets or services used, consumed, sold, transferred out, or donated that do not meet the agency's capitalization criteria shall be credited to Financing Sources in the Statement of Operations for that period.

.12 Decreases in the Donations and Other Items account occur when the donated assets or services are either (1) sold, transferred out, donated, or otherwise disposed of or (2) used or consumed in operations. The dollar amounts of donated assets or services used or consumed (including recognition of depreciation on donated assets) in operations shall be reflected as part of the cost of operations. Also, the Donations and Other Items account shall be

reduced accordingly and credited to Financing Sources in the Statement of Operations. For example, property, plant, and equipment donated to an agency will result in recognition of the assets on the agency's books and a corresponding increase in the Donations and Other Items account for the same amount. In later periods, if the agency follows the policy of depreciating its assets, the Donations account shall be reduced for the amount of the depreciation expense and the reduction recognized as a Financing Source in the Statement of Operations.

#### Trust Fund Balances

.13 Fund balance in trust funds represents the net difference between trust fund assets and liabilities. Since the nature of trust funds is to account for assets and liabilities held or serviced in a trust capacity, the equity of the fund is shown as a single item in the Statement of Financial Position.

#### Disclosure of Unfinanced Budget Authority

.14 Unfinanced budget authority consisting of unfilled customer orders, contract authority, and borrowing authority shall be disclosed in the notes to the financial statements.

#### Illustration

.15 This paragraph contains a brief illustration of the journal entries related to the purchase of, and related depreciation recognized on, an asset in an activity financed through appropriations. The illustration also shows how the equity accounts in the Statement of Financial Position are affected. This illustration assumes that the agency recognizes depreciation. Also, for purposes of this illustration, the budgetary accounts as discussed in the Reporting Appropriations in the Statements of Financial Position, Operations, and Changes in Financial Position standard, section R30, are omitted for simplicity. Also, the Unexpended Appropriations account in this illustration would need a further subdivision of accounts to provide for effective budgetary control.

#### Assumptions:

--Agency X for fiscal year ended September 30, 19X1, has been awarded a \$100,000 appropriation for the purchase of asset Y.

--Asset Y has an estimated 10-year life with no salvage value.

E20

(1)	10/1/X0	Funds with U.S. Treasury	\$100,000	
		Unexpended Appropriations		\$100,000
		(Equity account)		
		(to record availability of obligation authority)		
(2)	4/1/X1	Asset Y	\$100,000	
		Funds with U.S. Treasury		\$100,000
		Unexpended Appropriations	\$100,000	
		Invested Capital (Equity account)		\$100,000
		(to record receipt and acceptance of asset Y and reduction of unexpended appropriations)		
(3)	9/30/X1	Depreciation Expense	\$5,000	
		Accumulated Depreciation		\$5,000
		(to recognize depreciation cost, in accordance with agency policy, for six months) (\$100,000 - 10 years x 1/2 year (or 6 months) = \$5,000)		
(4)	9/30/X1	Invested Capital	\$5,000	
		Financing Sources		
		(Statement of Operations)		\$5,000
		(to recognize the funding sources of depreciation in the Statement of Operations and the reduction of the investment in asset Y because of its use)		
(5)	9/30/X2	Depreciation Expense	\$10,000	
		Accumulated Depreciation		\$10,000
		(to recognize depreciation expense for the first full year)		
(6)	9/30/X2	Invested Capital	\$10,000	
		Financing Sources		\$10,000
		(to reduce Invested Capital and credit Financing Sources for the annual depreciation on asset Y)		

E20

(7)	3/31/X3	Depreciation Expense	\$5,000	
		Accumulated Depreciation		\$5,000
		(to recognize six months of depreciation in the year asset Y is transferred out)		
(8)	3/31/X3	Invested Capital	\$5,000	
		Financing Sources		\$5,000
		(to reduce Invested Capital and credit Financing Sources to the extent of recognized depreciation)		
(9)	3/31/X3	Invested Capital	\$80,000	
		Accumulated Depreciation	\$20,000	
		Asset Y		\$100,000
		(to recognize the transfer of asset Y to another agency)		

If, instead of being transferred to another agency ((9) above), the asset was sold outside of the federal government for \$75,000, the following entries would be made.

(10)	3/31/X3	Cash	\$75,000	
		Accumulated Depreciation	\$20,000	
		Loss on Sale of Capitalized Assets	\$5,000	
		Asset Y		\$100,000
		(to recognize the sale of asset Y)		
(11)	3/31/X3	Invested Capital	\$80,000	
		Miscellaneous Receipts Due Treasury		\$75,000
		Transfer of Equity for Loss on Sale of Capitalized Assets <sup>5</sup>		\$5,000
		(to remove the recorded value of asset Y from invested capital and recognize a liability to Treasury for cash received (This entry could have been incorporated in entry (8) above.)		

<sup>5</sup> This account should appear as a financing source on the Statement of Operations.

FAIR VALUEINTRODUCTION

.01 This standard defines fair value and provides guidance on the determination of fair value for use in applying other standards.

ACCOUNTING STANDARD

.02 The fair value of an asset is the monetary value that an agency could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller other than in a forced or liquidation sale.

.03 Fair value of an asset or liability (debt agreement) can usually be determined by reference to

- cash realized in transactions involving the same or similar assets,
- quoted market prices,
- fair value of other assets or services received in exchange of property,
- expected cash flows discounted at the U.S. Treasury Average Interest Rate for Marketable Interest-Bearing Debt, and
- independent appraisals.

FINANCIAL REPORTINGINTRODUCTION

.01 This standard prescribes the financial reporting standards for agencies to follow.

ACCOUNTING STANDARDRequired Reports

.02 Financial statements are to be prepared and issued in accordance with these standards to the Department of the Treasury at the end of each fiscal year by each department or independent agency. These statements shall be the culmination of the entity's systematic accounting process. A full set of financial statements of constituent agencies of a department shall be submitted when a department does not prepare departmentwide consolidated financial statements. When this occurs, the department must also provide a full set of financial statements of department-level units which are not a part of an individual agency, such as the Office of the Secretary and the Office of Inspector General, and other units which would not be included in individual agency-level statements. The necessary financial statements are as follows:

- (1) Statement of Financial Position (Balance Sheet),
- (2) Statement of Operations,
- (3) Statement of Changes in Financial Position, and
- (4) Statement of Reconciliation to Budget Reports.

.03 The above financial statements shall result from an accounting and budgeting system that is an integral part of its total financial management system and one that contains sufficient discipline, effective internal controls, and reliable data. The financial statements and underlying financial system shall report on the total operations of the reporting entity and shall comply with the Comptroller General's principles, standards, and related requirements. When comprehensive financial statements are prepared by a reporting entity within a constituent agency of a department, those financial statements shall also comply with the Comptroller General's principles, standards, and related requirements.

Statement of Financial Position (Balance Sheet)

.04 All departments and independent agencies shall prepare a Statement of Financial Position. Such a statement, including footnotes thereto, shall disclose the bases on which major categories of assets are accounted for and reported, the nature of any significant restrictions on the use of assets, the amount and

nature of significant contingent liabilities, and such explanatory information on the assets, liabilities, and equity as is necessary to fully and clearly disclose the financial position of the agency. Other standards in this document contain specific requirements for various asset, liability, and equity accounts.

#### Statement of Operations

.05 Departments and independent agencies shall prepare a Statement of Operations reporting expenses, losses, transfers out, and financing sources (i.e., appropriations and revenues) and gains. Other standards in this document discuss specific transactions that flow through the Statement of Operations.

#### Statement of Changes in Financial Position

.06 A Statement of Changes in Financial Position shall be a part of the financial statements. This statement shall show the changes on a cash basis and shall present all significant sources and uses of resources. Related sources and uses shall not be netted.

.07 The statement shall begin with the results of operations before unusual and infrequent items, and add back (or deduct) items recognized in determining operating results that did not use or provide resources (depreciations, amortization on intangible assets, etc.). The statement shall also include all significant changes in the elements of financial position.

.08 Unusual and/or infrequent items affecting operations or changes in elements of financial position shall be reported separately.

.09 The totals of sources and uses of resources shall be shown with the net change in "Funds with the U.S. Treasury and Cash" from the beginning of the period to the end of the period.

#### Statement of Reconciliation to Budget Reports

.10 Department and independent agencies shall prepare a Statement of Reconciliation to Budget Reports to ensure that the financial information presented in the financial statements is consistent with similar amounts presented in budget reports. This statement shall reconcile the information presented in financial statements to that reported in its Year-End Closing Statements (TFS Form 2108). Material items of reconciliation shall be disclosed in either the financial statements or notes thereto.

Footnote Disclosures

.11 A description of all significant accounting policies of a reporting entity shall be included in the footnotes of the financial statements as the Summary of Significant Accounting Policies. Examples of accounting policies to be disclosed in this footnote are recognition of revenue and other financing sources, depreciation methods, and related-party transactions.

.12 Significant transactions between federal entities that materially impact the information presented in financial statements shall be separately disclosed. Such disclosures will enable users of the financial statements to assess the impact of related party transactions on agency operations and compare the results obtained to what would have resulted if the transactions had been conducted as arm's-length transactions between unrelated parties. Disclosures about material related party transactions in the statements or footnotes shall include the following:

- (a) the nature of the relationship(s) involved,
- (b) a general description of the transactions, including significant transactions to which no dollar amounts or nominal dollar amounts were ascribed and any other information necessary to understand the effects of the transactions on the financial statements,
- (c) the dollar amounts of transactions,
- (d) the effects of any changes in the terms of the related party transactions from those in the preceding year, and
- (e) amounts due from or to related parties and the terms and manner of settlement, if not otherwise apparent.

.13 All significant changes in their equity accounts during the period for which the Statement of Operations is prepared shall be disclosed in the footnotes to the financial statements.

.14 Additionally, the following standards contained in this appendix also discuss disclosures to be made in footnotes to the financial statements.

--Advances and Prepayments, section A30, paragraphs .05 and .06.

--Capitalization of Interest, section C10, paragraph .08.



F20

- Comparative Financial Statements, section C20, paragraphs .03 and .04.
- Consolidated Financial Statements of the U.S. Government, section C40, paragraphs .04 and .09.
- Contingencies, section C50, paragraphs .03 and .06 through .11.
- Debt Agreement Modification, section D10, paragraph .13.
- Depreciation and Amortization, section D20, paragraph .09.
- Equity of the U.S. Government, section E20, paragraph .05.
- Foreign Currency, section F30, paragraphs .07 and .09.
- Fund Control, section F50, paragraph .09.
- Funds With the Treasury and Cash, section F60, paragraphs .06. and .07.
- Grants and Cooperative Agreements, section G10, paragraph .07.
- Inventory, section I30, paragraphs .05, .07, and .08.
- Investment, section I40, paragraph .06.
- Leases, section L10, paragraphs .09 through .12.
- Liabilities Based on Actuarial Calculations, section L20, paragraphs .16 and .18.
- Loan Guarantees and Commitments, section L30, paragraphs .03 and .04.
- Payroll, section P10, paragraph .02.
- Pensions, section P20, paragraph .03.
- Prior-Period Adjustments of Financial Statements, section P30, paragraphs .06, .07, and .09.
- Property, Plant, and Equipment, section P40, paragraphs .19 and .21.

--Receivables, section R10, paragraphs .04, .05, .06, .07, .08, and .11

--Unusual and Infrequent Items: Statement of Operations, section U10, paragraphs .02 and .04.

#### Presentation of Statements

.15 The above statements are to be prepared on a consolidated basis, reflecting all activities at each federal department or independent agency. In addition, each agency having more than one significant fund type (e.g., general fund, special fund, revolving fund, etc.) shall prepare financial statements reflecting the activities for each major fund type. If an agency has numerous funds, it shall group related or similar funds into the major fund types. Information by individual fund within fund types, however, may be necessary for complete disclosure.

.16 The financial statements of each department or independent agency shall include all funds and appropriations for which the agency is responsible, as well as all funds and appropriations transferred in from another department or independent agency. Appropriations for reimbursements or transfers to other federal departments or independent agencies shall include the offsetting expenses or transfers out in financial statements. Reimbursements or transfers from other federal departments or independent agencies shall be included with appropriations in the financial statements, and the reimbursement shall be recorded to offset expenses incurred. Transfers of organizational units between departments or independent agencies shall be reflected as transferred in the year in which the transfer takes place for budget purposes.

.17 In the preparation of consolidated statements, all intra-department or intra-agency balances for independent agencies and transactions, such as receivables, payables, sales, purchases, reimbursements, and transfers, and material intra-departmental and (for independent agencies) intra-agency profits or losses remaining in assets (such as inventory, fixed assets, etc.) that were transferred between revolving funds and other components shall be eliminated in consolidation. Appropriate accounting records must be maintained to determine these eliminations. The eliminations are made to avoid duplication when adding such items. Such eliminations neither carry nor imply legal status.

P20

.18 Financial information for federal retirement plans shall be included in the financial statements of the administering department or independent agency in accordance with this standard even though a different reporting format may be used by the plans to meet other reporting requirements. (See the Pensions standard, section P20.) The differences in the required reports reflect differences in format but not in accounting theory.

FOREIGN CURRENCYINTRODUCTION

.01 This standard prescribes the accounting and financial reporting requirements for federal agencies' financial transactions when differing currencies are involved.

ACCOUNTING STANDARD

.02 Because the U.S. dollar is the basic measurement unit of the federal government's financial position, financial statements required by the Financial Reporting standard, section F20, shall be stated in U.S. dollars.

.03 Federal departments may need to translate or remeasure foreign currency transactions into U.S. dollars for departmental financial reports when (1) foreign currency transactions occur and/or (2) financial statements for use by component operating units (lower than departmental or independent agency level) are not in U.S. dollars. For further guidance on remeasurement and/or translation, refer to FASB Current Text F60.146 and F60.118, respectively.

Foreign Currency Transactions

.04 Foreign currency transactions are those financial events involving a monetary unit different than the currency in the primary economic environment (functional currency) of a (1) federal department or (2) component operating unit of a federal department. Gains or losses resulting from the settlement of foreign currency receivables or payables shall be included in the results of operation for the period when settlement occurs. This financial accounting requirement should not be construed to supersede the accounting requirement concerning gains or losses in foreign currency transactions as set forth in 31 U.S.C. 3342.

Financial Statements

.05 All federal departments shall report in U.S. dollars for departmental financial statement, budgetary reporting, and fund control purposes. Component operating units of federal department may prepare financial statements for their own use, which may or may not be in the U.S. dollar. These lower-level statements, however, shall be translated into U.S. dollars when used to prepare departmental financial statements.

.06 When a component operating unit of a federal department prepares financial statements for its own use, these statements shall be in the operating unit's functional currency, as determined in coordination with departmental management and in accordance with FASB Current Text, section F60. The functional currency may or may

F30

not be the U.S. dollar. Translation adjustments which result from translation from component operating units' financial statements to departmental statements shall be reported in a separate section of invested capital with a corresponding increase or decrease to the asset or liability.

#### DISCLOSURE

.07 Any restrictions on the use or actual conversion of assets denominated in foreign currencies shall be disclosed in the financial statements. The financial statements shall also disclose the effects of exchange-rate changes on the agency's financial position that occur after the end of the period but before the financial statements are issued if the effects are significant.

#### TREASURY REQUIREMENTS

.08 Pursuant to responsibilities assigned by 22 U.S.C. 2363, the Secretary of the Treasury has prescribed procedures in the Treasury Financial Manual, parts 2, 4, and 5, (formerly the Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies) relating to the administration of all foreign currency assets; these procedures are to be observed by all federal agencies and their disbursing officers. The law specifically vests the Secretary of the Treasury with the authority to prescribe exchange rates at which foreign currencies or credits are to be reported by all government agencies. Reports of foreign currency holdings are also prescribed by the Treasury.

.09 Foreign currencies that exceed the needs of the Treasury may be allocated to agencies for use in their programs, with the approval of OMB. Foreign currency so allocated is part of the agency's fund balances maintained by the Treasury and is accounted for in a manner similar to the accounting for an appropriation from the Congress. These foreign currency transactions will be recorded, using the Treasury current exchange rate, on the date Treasury allocates the currencies. For total accountability, the foreign currency shall be included in the financial statements as Foreign Currency Holdings and credited to a gain as a financing source in the Statement of Operations, with explanatory footnote disclosure as to the use and availability of the currency, i.e., "not available for the payment of general obligations" (in another currency).

.10 Agencies may also purchase foreign currencies with U.S. dollars from Treasury. These foreign currency transactions shall be recorded using the current exchange rate on the date of purchase.

FUND ACCOUNTINGINTRODUCTION

.01 Fund accounting is a fundamental requirement for federal agencies to demonstrate compliance with legislation. This standard contains the fund accounting requirements that agencies must follow.

ACCOUNTING STANDARD

.02 Agencies shall establish the following two fund types as required by their operations and in accordance with those funds established by the Treasury: (1) funds derived from general taxation and revenue powers and from business operations and (2) funds held by the government in the capacity of custodian or trustee.

.03 Funds derived from general taxation and revenue powers and from business operations include the following:

- General fund accounts. These consist of (1) receipt accounts used to account for collections not dedicated to specific purposes and (2) expenditure accounts 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 that are ear-marked 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 usually available in their entirety for use by the fund without further action by the Congress. Consolidated working funds under 31 U.S.C. 1536 are not revolving funds. See title 7, subsections 3.8 and 5.6, of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.

F40

--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 account types to account for advances from other agencies.

.04 Funds held by the government in the capacity of custodian or trustee include the following:

--Trust fund accounts. These are accounts established to account for receipts that 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-like operation, the fund entity is called a trust-revolving fund, and a combined receipt and expenditure account is used.

--Deposit fund accounts. These are 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 other entity 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, grants, or other expenses of the government. Expenditures are often offset by receipts within this fund.

.05 Agencies shall establish, for each reporting entity, general ledger accounts for all

- assets,
- liabilities,
- equity of the U.S. government,
- expenses, losses, and transfers out, and
- financing sources and gains.

Agencies shall also establish budgetary general ledger accounts for each appropriation fund account for selected assets, liabilities, and equities.

.06 For financial statements, agencies shall report information from their fund accounts established as required above in accordance with the Financial Reporting standard, section F20, paragraph .05 through .10. In addition, agencies shall report information from their fund accounts as required by the Treasury and OMB. Differences between an agency's financial statements and budgetary reports shall be explained in the Statement of Reconciliation to Budget Reports as required by the Financial Reporting standard, section F20.



FUND CONTROLINTRODUCTION

.01 The term "fund control" refers to control over use and management of fund appropriations to ensure that (1) funds are used only for authorized purposes, (2) they are economically and efficiently used, (3) obligations and expenditures do not exceed the amounts authorized and available, and (4) the obligation or disbursement of funds is not reserved or otherwise withheld without congressional knowledge and approval. Each accounting system shall incorporate appropriate techniques to assist in achieving fund control objectives.

ACCOUNTING STANDARD

.02 Every agency is required by 31 U.S.C. 1514 to have a system of administrative control of funds, approved by the President, that will restrict obligations or expenditures to the amounts appropriated to applicable fund balances and to the amounts of apportionments or reapportionments made for the current fiscal period. Reserves established by the Director of OMB or other authorized officials are also to be controlled. In addition, the system of administrative control of funds must fix responsibility for the creation of any obligation, the making of any expenditure, or the making of any disbursement in excess of an apportionment, reapportionment, or other subdivision of authority. The requirements for these systems are prescribed by OMB in its Circular A-34, and the related guidelines.

.03 Agency systems must also control funds in accordance with 2 U.S.C. 681, et seq., which prescribes limitations on the establishment of reserves or other withholdings (title 7, section 23.4) of budget authority. Restraints on obligations or expenditures must be reported by the President to the Congress as proposed rescissions or deferrals. The Comptroller General is required under 2 U.S.C. 685 and 686 to report to the Congress on proposed rescissions or deferrals of budget authority, including those reported by the President and those which should have been but were not reported by the President.

.04 To control funds adequately, there must be an effective verification of available funds (positive knowledge) before creating an obligation, and obligation information must be accumulated and reported promptly and accurately. Specific criteria governing the recording and reporting of financial transactions as obligations are prescribed in 31 U.S.C. 1501. (See also title 7, section 16.5 of this manual.) That 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.

.05 For purposes of effective financial planning, including fund management, data on proposed expenditures must be systematically accumulated in accounting records in advance of becoming valid obligations, but only valid obligations as defined by law or regulation (and disbursements, in the case of advances and prepayments) are to be reported as obligations incurred.

.06 Agency accounting procedures shall provide for appropriate recognition of apportionments made pursuant to law and for divisions of fund authorizations made to facilitate their management and compliance with applicable limitations. In accordance with 31 U.S.C. 1514(b), divisions of fund authorizations for budgetary control purposes shall be established at the highest practical level, consistent with assignments of responsibility, and shall be limited to those essential for effective control. For example, a single allotment of funds to the head of an agency within the amounts apportioned for each appropriation or fund affecting such agency can usually provide an appropriate basis for fund control without making further subdivisions by object classes of expenditure or other categories.

.07 The accounting system must effectively provide for compliance with dollar limitations imposed by law within the scope of an appropriation. Such limitations ordinarily require the use of separate allotments or agency limitations.

#### Relation of Fund Control to Financial Reporting

.08 As discussed above, administrative control of funds is required by law. The status of funds and related transactions must be reported to the Department of the Treasury and OMB in accordance with laws and regulations, and as required by these standards. For further details on the requirements of these standards, see the Financial Reporting standard, section F20 (paragraph .10) and the Reporting Appropriations in the Statements of Financial Position, Operation, and Changes in Financial Position standard, section R30.

.09 In addition, any violations of appropriations or other fund limitations shall be disclosed in the notes to the financial statements required by these standards. Any major restrictions or limitations on the use of funds (such as limitations on amounts which can be spent for certain types of expenditures, e.g., travel) contained in the appropriation acts shall also be disclosed, as well as any violations of such restrictions.

FUNDS WITH THE TREASURY  
AND CASH

INTRODUCTION

.01 Normally, agencies' cash resources are fund balances with the U.S. Treasury representing available expenditure authorizations. In certain situations, however, an agency may have authority to maintain cash balances in bank accounts or accounts in other financial institutions, and to collect and deposit cash into these accounts as well as make payments from these accounts.

.02 Cash resources not part of the fund balances with the U.S. Treasury consist of

- a. coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit and
- b. amounts on deposit with banks or other financial institutions.

ACCOUNTING STANDARD

.03 Fund balances with the U.S. Treasury shall be reported as an asset on the Statement of Financial Position. (The remainder of the standard sets forth the reporting requirements for cash resources not part of the fund balances with the U.S. Treasury.)

.04 All cash meeting the definition in .02 shall be reported as an asset in the Statement of Financial Position. However, the specific disclosure requirements depend upon:

- a. Whether restrictions as to the use of cash, or the availability of cash for disbursements, exist or not.
- b. The need for certain information on balances to show compliance with laws and regulations.

.05 Unrestricted cash amounts are those free from encumbrances and readily available for payment of debts. Cash in savings accounts shall also be reported as unrestricted cash so long as banks or other financial institutions who have the right to demand notice before withdrawal rarely exercise this right. Unrestricted cash includes amounts in imprest funds--petty cash, change funds, and custodial funds.

.06 Restricted cash amounts are considered such when restrictions are externally imposed on an agency through law, regulation, or

agreement. Examples of restricted cash include amounts on deposit as compensating balances, certificates of deposit, and cash in escrow or other special accounts. Restricted amounts shall be reported separately from unrestricted amounts in the Statement of Financial Position, and the reasons and nature of the restrictions shall be disclosed in the notes to the financial statements.

.07 Certain disclosures of cash and cash investments, in addition to restricted amounts, are required if such information is necessary to show compliance with laws and regulations or otherwise fully disclose stewardship. Examples of such disclosures include amounts in certificates of deposits or repurchase agreements.

CRITICAL DISCLOSURES

The following disclosures are required for all entities, regardless of their size, and are critical to the understanding of the financial statements. These disclosures are required to be included in the notes to the financial statements, and are not to be presented in a separate schedule or appendix. The disclosures are:

G10

GRANTS AND COOPERATIVE AGREEMENTSINTRODUCTION

.01 Except as otherwise expressly authorized by law, federal grants and cooperative agreements are federal assistance agreements under which payments in cash or in kind are made to provide assistance for specified purposes. Grants and Cooperative Agreements are accounted for in a similar manner. Entitlements are covered under the Entitlements standard, section E10.

.02 The acceptance of an assistance award from the federal government creates a legal duty on the part of the recipient to use the available funds or property in accordance with the terms and conditions of the assistance agreement. Assistance payments may be made in advance or as reimbursement either for work performed or for costs incurred by recipients. The award recipients are generally required to return to the federal government (1) the unused balances of advance payment awards (plus earned interest unless recovery is prohibited by statute), (2) any funds improperly applied, whether received as an advance or a reimbursement, and (3) property or facilities purchased or otherwise made available under the conditions of the awards (or the appropriate federal share, relative to the disposition or sale of property acquired with federal funds), unless legal title thereto is vested unconditionally in the recipient by the terms of the award.

ACCOUNTING STANDARD

.03 Accounting for a federal assistance award 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 award, and other terms are set out. A legal obligation to disburse the assistance funds, in accordance with the terms of the agreement, generally occurs with an executed agreement or an approved application or similar document.

.04 Advance payments to award recipients (including amounts drawn against letters of credit) shall be accounted for as advances of the assisting agency until the recipient has performed under the award or contract.

.05 Once the recipient has performed under the grant or agreement, the assisting agency shall record an expense in an amount equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

.06 Payments to award recipients as reimbursement for work performed or costs incurred shall be accounted for as expenditures and as expenses incurred or as reductions of liabilities if the expenses were recorded previously.

.07 Amounts of assistance awards to be made in future periods shall be disclosed in the footnotes to the financial statements.

.08 When title to assets acquired by award recipients vests in the government, appropriate property records shall be established, and the capital assets should be included in the financial statements of the federal agency that has the title. Such assets shall be recorded at their cost to the award recipient, and the agency's Invested Capital account shall be increased by a like amount. The agency shall follow its normal depreciation policy.

.09 At the termination of a grant or cooperative agreement, funds unused and/or improperly applied by the recipient shall be established as a receivable by the assisting agency.

IMPUTED INTERESTINTRODUCTION

.01 The federal government incurs significant interest costs in financing its debt. This standard discusses the inclusion of this interest cost in the selling price of products when (1) the agencies do not pay the Treasury for the full or partial amount of interest costs that the Treasury incurs and (2) the agencies are engaged in selling goods or services outside the government. Agencies making loans should refer to the Interest Payable and Receivable standard, section I20, for guidance on imputing interest on those loans. Agencies constructing property, plant, and/or equipment for sale outside the federal government must also consider imputed interest.

ACCOUNTING STANDARD

.02 To ensure that proper costs are recovered when agencies are engaged in selling services or goods to outsiders, the imputed interest costs to the government shall be determined as part of the cost of providing a service or the cost of an asset to be sold to a nonfederal entity.

--The interest cost for each year shall be based on a weighted average of the federal investment in the activity engaged in selling services or goods to nonfederal entities. Accumulated net income or deficit shall not be included in the interest calculation base.

--The rate of interest used shall be the Average Interest Rate for Marketable Interest-Bearing Debt determined by the Secretary of the Treasury.

.03 The imputed interest on the government's investment shall be included when determining the prices of services or goods sold or to be sold outside the federal government on a systematic and rational basis. For example, if the government's investment can be specifically identified solely for the activity of producing and selling services or goods outside the federal government, then that portion of the total government investment so identified would provide a rational basis for such determination. On the other hand, when agencies cannot specifically identify the government's investment solely for the activity of producing and selling services or goods outside the federal government, some other basis (e.g., the percentage of total agency effort devoted to this activity) shall be used for such determination.

.04 When agencies are required to pay interest to the Treasury at a substantially lower rate than the rate determined by the Secretary of the Treasury, the imputed interest is the difference between the stated rate and the Treasury's rate.

.05 Unless otherwise specified by law, that portion of the payments received by agencies that covers the imputed interest must be returned to Treasury together with the other revenue as Interest on Public Debt.



INTEREST PAYABLE AND RECEIVABLEINTRODUCTION

.01 Interest is a service charge for the use of money and is commonly computed as an annual percentage of outstanding principal. Interest expense results from an agency using others' funds, such as late payment of bills by the agency and capital lease obligations. Interest revenue results from others using agency funds, such as delays in payment for agency services.

ACCOUNTING STANDARD

.02 Interest expenses of an agency shall be accrued as incurred. These expenses typically will arise from late payment of bills (as prescribed by 31 U.S.C. 3901, et seq.) and on capital lease obligations.

.03 Interest receivable shall be recorded in the accounts when interest income is earned but not yet received. Interest shall continue to be recorded, even when regular loan payments are not made, until the related debt is officially declared to be in default or a debt agreement modification action is taken. See the Debt Agreement Modification standard, section D10, paragraph .12, for further guidance. In addition, 31 U.S.C. 3717 generally requires all agencies to charge interest (as well as administrative costs and penalties) on delinquent debts. This law specifies that the minimum rate will be the average investment rate on Treasury's Tax and Loan account for the 12-month period ending September 30 of each year, as prescribed by the Treasury Department. The Federal Claims Collection Standards, 4CFR Part 103, paragraph .04, should be referred to for guidance on assessing this interest.

INVENTORYINTRODUCTION

.01 Inventory of the federal government consists of tangible personal property (goods) (1) to be consumed in normal operations, (2) to be incorporated in production of goods for later consumption in normal operations, or (3) in process or finished that will ultimately be sold. Included are goods in the hands of others, yet owned by the government.

.02 Inventory excludes goods (raw materials, in-process, or completed) issued for use in the construction of equipment or real property. Goods to be incorporated in equipment for use in agency operations or in real property are to be accounted for and controlled as construction in process. Also excluded are assets, such as equipment, that are to be accounted for as property, plant, and equipment. See the Property, Plant, and Equipment standard, section P40, for further guidance.

ACCOUNTING STANDARD

.03 Goods to be consumed in normal operations (including raw materials or goods in process that will be completed for later consumption), as well as goods held for resale to entities outside the federal government, shall be reported in the Statement of Financial Position at the lower of cost or market value.

.04 Cost of inventories includes all amounts paid or payable, except interest, to bring the goods to their present condition and location. See the Acquisition Cost of Assets standard, section A20, paragraphs .02 through .05, for further guidance.

.05 The method of applying costs to inventory items shall be determined using an acceptable method that reasonably reflects the costs in the inventory. The methods used to cost the inventory shall be disclosed in the footnotes to the financial statements.

.06 Standard costs or standard prices is one method of valuing inventory. Where standard costs or standard prices are used, such standards must be adjusted periodically to reflect a reasonable approximation of costs that would be developed in accordance with paragraphs .03 through .05 of this standard. Inventory already valued shall be adjusted for the new standard cost or price. Any resulting write-up or write-down shall be recorded in an allowance account and amortized over some reasonable period, either based on estimated inventory turnover or a one year period.

.07 Inventories shall be disclosed on the Statement of Financial Position in the following inventory categories:

- inventory to be consumed in agency operations,
- inventory for sale to other federal entities, and
- inventory for sale to outsiders.

Where it is impractical to identify inventory for sale to federal agencies from inventory for sale to outsiders, this shall be stated in the footnotes.

.08 Any restrictions as to the use inventory shall be disclosed in the footnotes to the financial statements.

INVESTMENTSINTRODUCTION

.01 This standard provides the accounting and reporting requirements for investments in marketable securities and the related income. These investments normally are in marketable equity securities and marketable debt (nonequity) securities. An equity security is an instrument which represents ownership shares or the right to acquire or dispose of ownership shares in an enterprise at a fixed or determinable price. Since marketable equity securities generally are not held by federal agencies, they are not discussed further in this standard. A marketable debt (nonequity) security is an instrument representing a liability to the issuer with a known maturity date and value. In general, securities not qualifying under the definition of marketable equity securities are marketable debt (nonequity) securities. This standard does not apply to investments held for pension plans.

ACCOUNTING STANDARD

.02 The marketable debt securities shall be recorded in the accounts at face amount (par) of the instrument. A valuation account shall be established when the securities are purchased at a premium or a discount. (See paragraph .03.) The valuation account is neither an asset nor a liability but is a contra (offsetting) account that must be netted against the related asset account.

.03 The income derived from these securities shall be the interest stated on the face of the securities adjusted for the amortized premium or discount. (See paragraph .04.) A premium exists when marketable debt securities are purchased for more than par. Conversely, a discount exists when marketable debt securities are purchased for less than their par value.

.04. Premiums and discounts shall be amortized over the life of the securities using the effective interest method or other method if similar results are obtained. Under this method, the effective interest rate (the actual interest yield on amounts invested) multiplied by the carrying amount of the marketable debt securities at the start of the accounting period equals the interest income recognized during the period (the carrying amount changing each period by the amount of the amortized discount or premium). The amount of amortization of discount or premium is the difference between the effective interest recognized for the period and the actual interest received (or receivable).

**.05 Marketable debt securities shall be carried net of the unamortized premium or discount in the investment section of the Statement of Financial Position.**

**.06 Agencies shall disclose the following information on marketable debt securities in the financial statements or footnotes.**

- (a) Description of the securities.**
- (b) Securities' face amount and stated rate.**
- (c) Market value at the date of the financial statements.**
- (d) Method of amortization of the premium or discount when securities are purchased at more than the face amount (premium) or less than the face amount (discount).**
- (e) Any restrictions as to use or convertibility of securities.**

LEASESINTRODUCTION

.01 A lease agreement is an agreement to convey the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have either capital or operating leases while lessors have either sales-type, direct financing, or operating leases. Capital, sales-type, and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee. All other leases should be accounted for as operating leases, i.e., rental of property. (The FASB Current Text, section L10, contains accounting guidance for specific areas of lease transactions, such as real estate, related parties, and subleases.)

ACCOUNTING STANDARD

.02 When the lease agreement is essentially equivalent to an installment purchase of property, an agency shall record the appropriate asset and liability. See paragraph .03 below. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. The following paragraphs provide criteria to use for guidance in assessing the substance of lease arrangements. Paragraphs .14 through .22 contain definitions of some of the terms used in this standard.

Capital Leases

.03 Lessees shall classify a lease as a capital lease if the lease agreement is essentially equivalent to an installment purchase of property. If any of the following criteria is met, the lease agreement is presumed to be equivalent to an installment purchase:

- (a) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (b) The lease contains an option to purchase the leased property at a bargain price.
- (c) The noncancelable lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- (d) The present value of rental and other minimum lease payments, excluding that portion of the payments that represents executory costs, such as insurance, maintenance, and

L10

taxes to be paid by the lessor, equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of minimum lease payments using the Treasury Average Interest Rate for Marketable Interest-Bearing Debt unless (a) it is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor and (b) the implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest-Bearing Debt.

The last two criteria do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. An agency's "rental" of space from GSA does not meet these criteria.

.04 Agencies with capital leases shall treat capital leases as the acquisition of an asset and the incurrence of a liability. The asset shall be recorded at its fair market value, with a like amount shown in the liabilities section. The difference between the total lease payment and the fair market value is interest. The property shall be accounted for in accordance with the Acquisition Cost of Assets standard, section A20; Appropriations for Property, Plant, and Equipment standard, section A40; Property, Plant, and Equipment standard, section P40; and Depreciation and Amortization standard, section D20; reported in the Statement of Financial Position as a component of property, plant, and equipment; and depreciated in accordance with the agency's policies.

.05 Interest shall be computed and recognized periodically. The effective interest method shall be used to produce a constant rate of interest on the remaining lease liability. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability. The amount allocated to interest expense shall be computed based on the interest rate used to compute the present value of minimum lease payments. (See paragraph .03.) The interest expense shall appear on the Statement of Operations. The portion of the appropriation used to cover the interest expense shall also appear on the Statement of Operations as a Financing Source. Illustrative journal entries are provided in paragraph .23.

.06 In leases containing a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the above method of amortization will result in a balance of the liability at the end of the lease term that will equal the amount of the guarantee or penalty at that date. In the event that a renewal or other extension of the lease term or a new lease under

L10

which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

#### Sales-Type Leases or Direct Financing Leases

.07 If the need should arise for guidance on accounting for sales-type and direct financing leases, reference should be made to the FASB Current Text, section L10.

#### Operating Leases

.08 Any lease that is not a capital, sales-type, or direct financing lease is an operating lease. Lessees shall treat the payments and accruals for operating leases as expenses; lessors shall treat the payments and accruals as current revenue and depreciate the asset in accordance with its depreciation policy. The asset shall be reported on the lessor's Statement of Financial Position as a component of Property, Plant, and Equipment.

#### Disclosures - Lessees

.09 For all leases treated as capital leases, lessees shall report assets, accumulated amortization, and liabilities arising from the leases separately in the Statement of Financial Position. In addition, current amortization charges to income must be disclosed clearly along with (1) gross assets leased as of each balance sheet date in aggregate and by major property categories and (2) minimum future lease payments, in total and for each of the next 5 years, showing deductions for executory costs, including any profit thereon, and the amount of imputed interest to reduce the net minimum lease payments to present values.

.10 For all operating leases having noncancelable lease terms in excess of 1 year, lessees must disclose (1) minimum future rental payments, in total and for each of the next 5 years, and (2) a schedule of total rental expense.

.11 In addition, lessees must provide a general description of all leasing arrangements. Refer to the FASB Current Text, section L10, for general information about which matters should be included.



L10

Disclosures - Lessors

.12 In general, lessors shall also provide a full description of the leasing arrangements. In addition, agencies that do a significant amount of leasing must disclose the following for operating leases:

- (1) A schedule of property held for lease, less accumulated depreciation, as of each balance sheet date presented. These schedules should be broken down by major categories.
- (2) A schedule of minimum future rentals on noncancelable operating leases, in total and for the next 5 years.
- (3) The amount of contingent rentals included in each operating statement presented.

.13 Similar lease agreements shall be aggregated for purposes of the required disclosures.

Definitions

.14 The following paragraphs contain brief and general definitions of several of the terms used in this standard. The FASB Current Text, Section L10, should be referred to for more specific guidance.

.15 For nonoperating leases, the lease term is the fixed noncancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease which can reasonably be expected to be taken.

.16 Noncancelable means the lease is cancelable only on the occurrence of a remote contingency. Funds not being appropriated by the Congress in future years to cover the lease is considered a remote contingency.

.17 A bargain purchase option is a lessee's option to purchase the leased property at a bargain price that makes the exercise of the option almost certain.

.18 The estimated economic life is the estimated remaining useful life of property for the purpose for which it was intended, regardless of the term of the lease.

.19 The minimum lease payments are the payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from minimum lease payments.)

.20 The fair value of the leased property is the price for which the property could be sold in an arm's-length transaction between unrelated parties.

.21 The interest rate implicit in the lease is the discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

.22 The renewal or extension of a lease is the continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

### Illustration of Lease Accounting

.23 The following is an illustration of the accounting entries made by an appropriated activity in a capital lease situation.

Company XYZ, as lessor, enters into a lease agreement with Agency A, as lessee, on January 1, 19X1, for equipment. Agency A, although not required to, does follow the policy of amortizing its intangible assets. The following data are relevant to the agreement:

1. The term of the noncancelable lease is 11 years, with no renewal option. Payments of \$10,000 are due on January 1 of each year, beginning with January 1, 19X1.
2. The fair value of the equipment on January 1, 19X1 is \$60,000. The equipment has an economic life of 20 years with no salvage value.
3. Agency A receives title to the equipment at the end of the 11th year.
4. Agency A pays all executory costs.
5. Agency A is aware that Company XYZ used an implicit interest rate of 15 percent in computing the lease payments. (The present value factor for 11 periods at 15 percent is 6.0188. Thus, the present value of the minimum lease payment is \$60,188, which is also Company XYZ's fair value at the commencement of the lease. For simplicity, we are rounding the \$60,188 down to \$60,000.)

L10

<u>Agency A's Lease Amortization Schedule</u>				
<u>Date</u>	<u>Annual lease payment</u>	<u>Interest on unpaid amount</u>	<u>Reduction of total lease obligation</u>	<u>Balance of lease obligation</u>
				\$60,000
1/1/X1	\$10,000		\$10,000	50,000
1/1/X2	10,000	\$7,500	2,500	47,500
1/1/X3	10,000	7,125	2,875	44,625

(For simplicity in this illustration, the remaining years are omitted from this schedule.)

Lessee (Agency A) Accounting  
January 1, 19X1

(1) Equipment under capital lease	\$60,000	
Obligations under capital lease		\$60,000
(to record the signing of the lease agreement.)		
(2) Obligations under capital lease	\$10,000	
Cash		\$10,000
Unexpended appropriations	\$10,000	
Invested capital		\$10,000
(to record the first lease payment.)		

December 31, 19X1

(3) Amortization expense	\$3,000	
Accumulated amortization		\$ 3,000
Invested capital	\$3,000	
Financing sources		\$ 3,000
(to record the amortization expense and the funding of that expense. If the agency does not amortize intangible assets, this entry will not be made.)		

January 1, 19X2

(4) Obligations under capital lease	\$2,500	
Interest expense	\$7,500	
Cash		\$10,000
Unexpended appropriations	\$10,000	
Invested capital		\$2,500
Financing source		\$7,500
(to record the second year's lease payment.)		

LIABILITIES BASED ON  
ACTUARIAL CALCULATIONS

INTRODUCTION

.01 This standard applies to federal benefit programs that determine their liabilities by making actuarial calculations (e.g., using demographic, economic, probability, and other factors to determine the value today of payments expected to be made in the future). These programs may be financed through trust funds (e.g., Federal Old-Age and Survivors Insurance, federal life and health insurance programs, etc.), or they may receive their funds through annual appropriations (e.g., Veterans' Compensation, Workers' Compensation, etc.). In either of these cases, a federal agency acts in a stewardship or trust capacity for others and is therefore responsible for maintaining accountability for these federal benefit programs and reporting their financial positions and the results of their operations. This standard does not apply to federal retirement plans (which are covered by the Pension standard, section P20).

ACCOUNTING STANDARD

.02 The accounting standards presented in the other sections of title 2 are also applicable to the financial accounting and reporting of federal benefit programs that determine their liabilities by making actuarial calculations. The accounting standards discussed in this section are those of particular importance to these programs or those that differ from the accounting standards for other types of entities because they focus on liabilities based on actuarial calculations.

.03 In general, for these federal benefits programs, responsible agencies shall recognize in the accounting records, and report in the financial statements, a liability for unpaid claims for benefits as of the date of the financial statements. This liability should include estimated claims that have been incurred but not yet reported. Also, a liability for future program benefits (as defined in subsequent paragraphs) shall be accrued at the end of a reporting period when payment is reasonably certain and the amount can be estimated. More specific guidance on computing these liabilities under various types of programs is discussed below.

Insurance Programs

.04 Federal agencies that administer programs that engage in insurance activities (e.g., life and health insurance programs, Workers' Compensation, Unemployment Insurance, etc.) shall follow,

L20

to the extent practicable, the accounting principles and standards prescribed by the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB), and the actuarial standards of the American Academy of Actuaries. The accounting principles and standards are presented in the AICPA's industry audit and accounting guides for insurance companies and employee benefit plans and in the FASB's Statement of Financial Accounting Standards No. 60, Accounting and Reporting by Insurance Enterprises.

.05 The liability for claims incurred (both reported and unreported) shall be determined by use of accepted actuarial principles and reported in the program's financial statements. If existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies), then the estimated amount to be recovered shall be reported as a receivable with the sources of expected repayments clearly indicated.

.06 The future long-term inflation rate assumed when making actuarial calculations in accordance with this standard shall be the future average long-term inflation rate determined by OMB to be most appropriate for federal pension plans that report under Public Law 95-595 (31 U.S.C. 9503). Other economic actuarial assumptions regarding future rates of interest and salaries shall be consistent with the assumed inflation rate.

#### Annuity Programs

.07 Agencies that administer programs that provide annuity benefits to eligible participants (e.g., Old-Age and Survivors Disability Insurance, Veterans' Compensation, Veterans' Pensions, etc.) shall recognize, for reporting purposes, a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date (the date as of which benefit information is presented) but will not be paid until a later date.

.08 Accumulated benefits for a given program shall be comprised of benefits expected to be paid to (1) persons who have met the program's conditions and will receive benefits in the future, (2) persons who have met enough of the program's conditions to be considered probable recipients of future benefits, and (3) the survivors of both groups as applicable.

.09 Accumulated benefits shall be based on participants' history of earnings, work or service, and other appropriate factors as of the benefit information date. Projected years of work or service shall be a factor only in determining a person's expected eligibility for particular program benefits.

.10 Automatic benefit increases specified by the program's provisions that are expected to occur after the benefit information date shall be recognized when computing program benefits. The long term inflation rate assumed shall be determined in accordance with paragraph .06.

.11 The actuarial present value of accumulated benefits is that amount, as of the benefit information date, that results from applying actuarial assumptions to the benefit amounts determined pursuant to paragraphs .08-.10, with the actuarial assumptions being used to adjust those amounts to reflect the time value of money (through discounts for interest) and the probability of payment between the benefit information date and the date of payment.

.12 The significant assumptions used in determining actuarial present values shall, in the aggregate, be reasonable and reflect the best estimate of each program's anticipated experience.

.13 The benefit information date shall be the end of the fiscal year being reported on. If, for the sake of timeliness, agencies prefer to determine accumulated benefits as of a date within the fiscal year, the use of estimates to project this information to the end of the fiscal year is permissible, provided the results obtained are substantially the same as the results contemplated by this standard. Additionally, changes in benefit rules during a year shall be reflected in that year's computation of accumulated benefits.

.14 For the year in which the liability for the present value of accumulated benefits is first recorded, the initial amount of the liability shall be reported as an accounting change (see the Prior Period Adjustments of Financial Statements standard, section P30, paragraph .03 and .04), i.e., a charge to equity and an accrued liability. Thereafter, changes in the liability each year shall be charged or credited to expense.

#### Federal Old Age and Survivors Disability Insurance

.15 Because of the significance of the amounts that are involved in the old-age and survivors disability insurance programs and the complexities of these programs, a final position on the accounting and reporting treatment has not been reached, but rather is being studied. This standard provides the interim guidance for reporting by the Social Security Administration until final decisions are made on the accounting and reporting presentation.

L20

.16 For the federal old-age and survivors disability insurance programs, the Social Security Administration shall report the actuarial liabilities specified in paragraph .11 above, calculated in accordance with paragraphs .06 through .13, in the notes to their financial statements.

#### Veterans' Compensation

.17 The actuarial assumptions and methods used in computing the liability for the Veterans' Compensation program shall be consistent with the actuarial assumptions and methods used for the Military Retirement System in reporting under Public Law 95-595 (31 U.S.C. 9503).

#### Footnote Disclosure

.18 The notes to the financial statements shall include a description of the methods and significant assumptions used in computing the actuarial present value of future program benefits. Additionally, if the actuarial liability computed in accordance with this standard is different from the actuarial liability computed for funding purposes, the liability used for funding purposes shall be disclosed in the footnotes along with adequate explanations of any significant differences between the two liabilities.

LOAN GUARANTEES AND COMMITMENTSINTRODUCTION

.01 Loan guarantees are agreements by which an agency, as an instrumentality of the government, pledges to pay part or all of the loan principal and interest to lenders or holders of securities in the event of default by third-party borrowers. Commitments are defined as agreements by an agency, as an instrumentality of the government, to either make loan guarantees in the future or to provide the loans directly in the future. These guarantees and commitments expose the government to potential payouts (losses) up to the extent of the amounts guaranteed.

ACCOUNTING STANDARDS

.02 Agencies shall accrue estimated losses resulting from loan guarantees and commitments if (1) information available before the financial statements are issued indicates that an asset probably has been impaired or a liability probably has been incurred as of the date of the financial statements and (2) the amount can be reasonably estimated. For further guidance on the accrual of anticipated losses on loan guarantees and commitments, refer to the criteria set forth in the Contingencies standard, section G50, paragraphs .02 - .06.

.03 In addition, all loan guarantees and commitments (the total exposure) shall be disclosed in the notes to the financial statements. Additional disclosures required include (1) the amount and nature of the loan guarantees and commitments, (2) the period of such guarantees and commitments, (3) any collateral provisions, and (4) such other information as is necessary to understanding the magnitude and nature of the government's guarantees and commitments.

.04 Loan guarantees and commitments shall be reported whether they are funded or not. The notes to the financial statements shall disclose whether funds have been obligated. This standard does not address when funds should be obligated. Refer to the Fund Control standard, section F50.



L40

LONG-TERM CONTRACTSINTRODUCTION

.01 This standard includes the requirements for long-term contract accounting by federal agencies for the following:

- long-term contracts for the purchase or sale of goods or services, and
- long-term contracts for the purchase or sale of property manufactured or constructed.

ACCOUNTING STANDARDLong-Term Contracts for the Purchase or Sale of Goods (Excluding Property, Plant, and Equipment) or Services

.02 Agencies shall recognize the liability for goods and services purchased under a long-term contract in the period in which the goods or services (or a portion thereof) are received or accepted by the agency. The related asset (i.e., inventory, materials and supplies, or work in process) or expense, as appropriate, shall be recorded at the same time as the liability.

.03 Agencies shall recognize the revenue and costs of goods and services sold under a long-term contract in the period in which the goods or services are delivered or constructively delivered to the purchaser. Constructive delivery occurs when an agency (the seller) meets the obligations of the long-term contract.

Long-Term Contracts for the Purchase or Sale of Property, Plant, and Equipment

.04 For financial reporting purposes, agencies shall compute the liability for property, plant, and equipment manufactured or constructed for them under long-term contracts on the basis of verified estimates of work completed (percentage-of-completion method) per contractor reports or invoices received during each accounting period, rather than on disbursements made. Appropriate liabilities for contract retainages, if any, shall also be recorded. The appropriate property, plant, and equipment accounts (including construction in progress) shall also be adjusted based on liabilities recorded. See the Property, Plant, and Equipment standard, section P40, paragraph .09.

**Advances Under Long-Term Contracts**

.05 Payments by agencies to contractors under any long-term contract in excess of related liabilities at the end of an accounting period shall be accounted for as advance payments under long-term contracts. For accounting guidance, see the Advances and Prepayments standard, section A30.

.06 Receipts by an agency from purchasers under any long-term contract in excess of revenues earned as of the end of an accounting period shall be reported as revenues received in advance (a liability account). The liability amount shall be decreased as the revenues are earned and recognized.

PAYROLLINTRODUCTION

.01 Personnel compensation and related personnel benefits constitute a major portion of federal government operating expenses. These expenses are to be accounted for in accordance with the following standard.

ACCOUNTING STANDARD

.02 Personnel compensation and employee-benefit (e.g., health insurance, workers' compensation, etc.) expense for each year shall be reported or disclosed separately in the financial statements issued by each agency. Unpaid personnel compensation and benefits which have been earned by the employee as of the end of each year (and interim period where interim reports are prepared) shall be accrued in full or in part, in accordance with the Compensated Absences standard, section C30, of this manual.

PENSIONSINTRODUCTION

.01 Pension plans are the method(s) adopted by an agency or other entity for the payment of annuities or pensions to retired or disabled federal employees.

ACCOUNTING STANDARD

.02 Agencies shall report in the Statement of Operations the amount of federal contributions (including accrued amounts), if any, made to the pension plan(s) on behalf of their employees. The agency contribution shall not include amounts withheld from employees' compensation for submission to the plan(s).

.03 The footnotes to the financial statements shall disclose the nature and amount of required agency contributions, if any, and the agency responsible for the pension plan and, thus, responsible for reporting the unfunded liability.

.04 Agencies that administer federal employee pension plans, such as OPM, shall comply with requirements established by 31 U.S.C. 9501, et seq., and the accounting guidance issued pursuant to that law. This accounting guidance contains pension plan reporting requirements. In addition, pension plans' financial information shall be reported in the annual financial statements of the administering agencies in accordance with the Financial Reporting standard, section F20. The differences in the required reports reflect differences in format but not in accounting theory.

PRIOR-PERIOD ADJUSTMENTS  
OF FINANCIAL STATEMENTS

INTRODUCTION

.01 This standard prescribes guidance for the situations in which events are recognized as adjustments to prior-period financial statements.

ACCOUNTING STANDARD

.02 Expenses, losses, gains, transfers out, and financing sources (e.g., appropriations and revenues), related to the correction of an error in the financial statements of a prior period, and changes in agency components shall be reported as adjustments to previously reported results, when material. All other expenses, financing sources, gains, losses, and transfers recognized in an accounting period shall be reported in the operations of that period in accordance with the applicable standard.

Correction of Errors

.03 Errors in prior-period financial statements include the following:

- mathematical errors in statement preparation or information supporting the statements,
- errors in the application of accounting principles, or
- errors using or interpreting information that existed at the time the prior-period statements were developed.

.04 A change from an unacceptable accounting principle to a principle included in these standards shall also be reflected in an agency's financial statements as an adjustment to prior periods when the unacceptable principle was used.

.05 A change in an accounting estimate, as opposed to an error, results from new information that did not exist or was not known at the time the prior-period statements were developed. The use of estimates is inherent in the accounting process (for example, an estimate of uncollectible receivables). Recurring corrections and adjustments are the natural results of the use of estimates. Therefore, changes in estimates (to reflect actual data, for example) shall be reported as normal operating items, not as prior-period adjustments.

.06 The nature of a material error in prior-period financial statements shall be disclosed in the financial statements of the period in which it is discovered. If financial statements for only the current period are presented (in the year of transition to comparative statements, as required by the Comparative Financial Statements standard, section C20), the correction of the error shall be reported as an adjustment to the Accumulated Results of Operations as of the beginning of the current period. The impact on the excess of costs over financing sources (excess of financing sources over costs) in the period that the error occurred shall also be disclosed. If the prior-period data containing the error are included in comparative financial statements, the amount of the correction applicable to the prior period presented shall be added to or subtracted from previously reported amounts, and the impact disclosed in a footnote to the statements. The amount of the correction, if any, applicable to periods before the prior period presented shall be applied to the Accumulated Results of Operations at the beginning of the earliest period presented. The impact on the excess of costs over financing sources (excess of financing sources over costs) for each prior period affected shall be disclosed.

#### Changes in Reporting Entity

.07 Transfers of the organizations, appropriations, or funds included in the financial statements that materially affect the comparability of the current financial statements to those of prior periods shall be reflected by restatement of any prior period financial information presented in the current financial statements. The impact of the transfer of major programs shall be disclosed in the financial statements.

.08 The restatement shall be reflected by combining the assets, liabilities, operations, and accumulated results of the new entity with those of the old, or by deleting those items in the case of entities that are transferred out.

.09 Financial statements shall disclose the impact of any material change in assets, liabilities, operations, and accumulated results of operations for all periods presented.

PROPERTY, PLANT, AND EQUIPMENTINTRODUCTION

.01 This standard applies to property, plant, and equipment including land, structures and facilities, equipment, and related improvements that have a service life of 2 years or greater. Property, plant, and equipment also includes assets acquired by capital leases (see the Leases standard, section L10) as well as leasehold improvements. These assets may also be discussed in terms of accountability units which are of concern when a tangible capital asset is a component of plant and equipment. Each component is an accountability unit if it is capitalized when acquired or if its replacement is capitalized when the unit is removed, transferred, sold, abandoned, demolished, or otherwise disposed of.

ACCOUNTING STANDARD

.02 All property, plant, and equipment with an initial acquisition cost of \$5,000 or more and an estimated service life of 2 years or greater must be capitalized and reported in the financial statements. However, these limits do not affect an agency's responsibility for proper control of property. Agencies shall establish appropriate internal controls over all assets, particularly those sensitive items that are subject to theft.

.03 Purchased or constructed property, plant, and equipment shall be accounted for at cost, which includes all amounts paid to acquire and install the assets in their current form and place. The Acquisition Cost of Assets standard, section A20, paragraphs .02 through .05, provides further guidance on determining acquisition costs. Donated fixed assets received from nonfederal entities shall be accounted for at estimated fair value at the date of acquisition. Statues and monuments shall be reported at their historical cost or other rational basis, with depreciation not applied.

.04 ADP software (programs, routines, or subroutines) valued at \$5,000 or more, with a useful life of 2 years or greater, shall be capitalized as property, plant, and equipment. For ADP software used in research and development activities, whether purchased or developed by agency personnel, refer to the Research and Development standard, section R40.

.05 When initially recording property, plant, and equipment that was previously acquired, the cost shall be recorded or, if cost cannot be estimated, the fair value of the fixed asset at the date acquired shall be estimated from available records or evidence. See the Fair Value standard, section F10 for guidance on fair value determinations.

.06 Costs of additions, alterations, betterments, rehabilitations, or replacements that extend the useful life of the asset or its service capacity shall be capitalized as property, plant, and equipment. Costs of assets installed in or added to another asset shall be capitalized either individually or as part of the other asset. Costs of assets or components removed, superseded, or destroyed in the improvement process shall be expensed, net of accumulated depreciation, if any.

.07 Expenses incurred to maintain property, plant, and equipment in satisfactory operating condition (repair and maintenance expenses) shall be accounted for as operating expenses.

.08 If current costs would be distorted in a given period by charging to expense a large quantity of items, such as the initial complement of equipment of a building, that individually cost less but collectively cost more than the \$5,000 capitalization criterion, such items shall be grouped in a separate asset group account. (An example would be a substantial amount of purchased office furniture, involving many pieces that individually cost less than \$5,000.) See paragraph .13 for further discussion of property records. Such items shall be depreciated if the agency adopts depreciation accounting.

.09 Property, including assets acquired through installment contracts and lease purchases, shall be capitalized when placed in service. All costs associated with preparing property, plant, and equipment for service shall be recorded in the Construction in Progress account and reported in the financial statements. (See the Long-Term Contracts standard, section L40, paragraph .04.) When assets are placed in service, the accumulated costs shall be transferred to the appropriate asset account.

.10 The cost of property acquired as a result of trade-ins shall be recorded at the lesser of (1) the cash paid and/or liability incurred plus the net book value of the traded-in property or (2) the amount that the purchase price would have been without trade-in.

.11 Property acquired by foreclosure shall be recognized at the appraised (or fair market) value. The difference between amounts due and costs incurred and assets recorded at the appraised or fair market value shall be recognized as a current period loss or gain in the Statement of Operations when the foreclosure occurs. (See Debt Agreement Modification, section D10, paragraph .03 and .04.)

.12 Property acquired by donation, devise (bequeath), forfeiture, or confiscation shall be carried in agency accounts at a fair value plus any costs incurred to place the property in use.



**.13 Agency property records must:**

- (1) capture all transactions affecting the agency's investment in property, including:
  - (a) all acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the agency takes custody of the property;
  - (b) the cost of use as an operating cost over the property's estimated useful life accounted for as depreciation or amortization, where provided by the standard on Depreciation and Amortization, section D20; and
  - (c) all disposals or retirements when the property leaves the custody of the agency;
- (2) control 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 and, therefore, should include the identification of excess property and its use, transfer, or disposal in accordance with statutory and regulatory requirements;
- (3) enable periodic independent verifications of the accuracy of the accounting records through periodic physical counts;
- (4) identify property, plant, and equipment which were capitalized and reported in financial statements and those assets that do not meet the capitalization criteria and that were charged as expenses in prior periods but are included in the records for control purposes;
- (5) be integrated with or reconciled with the accounting systems;
- (6) accumulate costs of construction in progress projects as costs are incurred for comparison with authorized amounts;
- (7) include all government-owned property (even if held by others) as well as property of others held by the government;
- (8) identify leased property (even if not capitalized); and

(9) account for capitalized additions and improvements.

Retirement of Property, Plant, and Equipment

.14 When nondepreciated property, plant, and equipment are retired, agencies shall remove the assets from the property account and an equal amount from the Invested Capital account. Unless otherwise specified by law, any proceeds received shall be accounted for as Cash and Miscellaneous Receipts Due Treasury (a liability) or used to replace similar assets when permitted by law. Also, contracts may authorize the proceeds from the sale of property in a contractor's or subcontractor's custody to be credited to the cost of work, in accordance with the contract or subcontract, pursuant to 40 U.S.C. 485(e). When the proceeds are deposited with the Treasury, agencies shall remove the amounts from the Cash and Miscellaneous Receipts Due Treasury accounts. Refer to the illustration in the Equity of the U.S. Government standard, section E20, paragraph .15.

.15 When depreciated property, plant, and equipment are retired, agencies shall recognize gains or losses on retirement if the assets were disposed of outside of the federal government. For assets transferred to other federal agencies, see Transfers of Assets and Liabilities Between Federal Agencies standard, section T10, and Equity of the U.S. Government standard, section E20, paragraph .14.

.16 When retiring depreciated property, plant, and equipment, agencies shall remove the net book value (difference between the amount at which the asset is recorded and its related accumulated depreciation) from the Invested Capital account, the related depreciation from the Accumulated Depreciation account, and the amount of the assets from the property account upon retirement. Any proceeds received shall be accounted for as in paragraph .14 above. The difference between the proceeds received and the net book value of the assets shall be accounted for as gains or losses on the retirement of property, plant, and equipment. See the Equity of the U.S. government standard, section E20, paragraph .15.

.17 The gains or losses shall be recognized in the accounts as a financing source or an expense as applicable and as a charge to the Cumulative Results of Operations account. In addition, the gains or losses shall be shown on the agencies' financial statements as an adjustment to the accumulated results of operations at the beginning of the year. See the Equity of the U.S. government standard, section E20, paragraph .15.

**Disclosure**

.18 Property, plant, and equipment reported in the financial statements are to be classified into the following categories (separated for depreciated and nondepreciated assets):

- (a) land and improvements;
- (b) structures, facilities, and improvements;
- (c) furniture and equipment, including ADP equipment;
- (d) construction in progress;
- (e) ADP software; and
- (f) statues and monuments.

.19 The basis for determining asset values, i.e., actual costs, fair value, and estimated cost, are to be disclosed in the financial statements. Disclosure shall also include the lives and depreciation methods used, if any. Similar assets can be grouped for purposes of these disclosure requirements.

.20 Each fiscal year, additions to and retirements of property, plant, and equipment shall be disclosed in the financial statements. Fully depreciated assets still in use, if any, shall be disclosed. Agencies shall periodically review the remaining useful life of assets and adjust per period depreciation charges to prevent full depreciation of assets still in use.

.21 Any restrictions as to the use or convertibility of property, plant, or equipment shall be disclosed in the footnotes to the financial statements.

RECEIVABLESINTRODUCTION

.01 Under the accrual basis of accounting, receivables representing amounts due from others are accounted for as assets from the time the events giving rise to such claims are completed until the time they are collected, converted into other resources, or determined to be uncollectible in whole or in part.

ACCOUNTING STANDARD

.02 Amounts receivable by an agency from others shall be recorded at the time the events occur that entitle an agency to collect funds. Such events include passage of the due date for collection of taxes (an estimate shall be accrued when the exact amount due is unknown), delivery of goods and services, or an advance of cash. Amounts receivable shall be reduced upon collection of such funds or other settlements (e.g., submission of a travel voucher). Unless otherwise specified by law, all funds collected must be paid to the Treasury as Miscellaneous Receipts.

.03 Receivables shall be categorized in the agency accounting records under the fund, appropriation, or receipt account where the receivable is to be deposited when collected and disclosed in the agency financial statements under the following headings.

--Accounts Receivable.from individuals

- for taxes

- for goods and services provided

.from corporations

- for taxes

- for goods and services provided

.from other federal government entities.from other countries.from state and local governments--Advances.to individuals.to corporations.to other federal government entities.to other countries.to state and local governments--Loans and/or Notes Receivable.from individuals.from corporations.from other federal government entities.from other countries.from state and local governments

R10

Allowance for Uncollectible Amounts

.04 Receivables shall be reduced by an allowance for estimates of amounts that are uncollectible. The estimated uncollectible amounts, if material, and the agency policies and procedures for determining the estimates shall be disclosed. Such estimates shall be based on past experiences, present market conditions, and an analysis of the outstanding balances. The establishment of an allowance for uncollectible receivables does not eliminate the requirement for agencies to comply with procedures for the disposition of receivables in accordance with title 4 of this manual on claims.

.05 Accounts receivable that will not be collectible within 1 year of the date of the financial statements and are included in the receivable amount shall be disclosed in the footnotes to the financial statements.

Loans and Notes Receivable

.06 Loans and notes shall be accounted for as receivables only after the funds have been disbursed. Loans and notes authorized but not disbursed shall be disclosed in the footnotes to the financial statements.

.07 Paragraphs .04 to .06 are equally applicable to loans and notes. Amounts scheduled for collection in each year of the next 5 years following the date of the financial statements, if material, shall be disclosed in explanatory notes. Maturities after the 5 years shall be disclosed in total for each subsequent 5-year period. Similar loans can be aggregated for purposes of disclosure. Estimates of uncollectible amounts shall reflect any additional risks of collections resulting from the long collection period.

.08 The total of loans and notes which are in default (e.g., principal or interest payments have not been made within a specified period of time or other events of default have occurred) shall be disclosed in footnotes, if material, along with total related allowances for estimated uncollectible amounts. Adequate allowances shall be established for interest and penalties, if any, accrued on delinquent payments of principal and interest.

Valuation of Receivables When Interest Rates Differ From Market

.09 When the interest rate for receivables from loans or contracts with nonfederal parties or receivables otherwise acquired is not stated or the stated interest rate is significantly less than the U.S. Treasury Average Interest Rate for Marketable Interest-Bearing Debt, the additional cost to the government of providing the money for the loan shall be determined and recognized in the accounts and in the financial statements in the year in which the loan is made. The Average Interest Rate for Marketable Interest-Bearing Debt shall be obtained from the Secretary of the Treasury. The additional cost to the government shall be determined based on the difference between the stated rate of the loan and the Treasury Average Interest Rate for Marketable Interest-Bearing Debt. This requirement does not apply to short-term trade and other receivables with an original term of less than 1 year.

.10 As the receivable is paid (monthly, quarterly, etc.), any discount shall be reduced and interest credited. See the illustration in paragraph .12.

.11 A full description of the receivables, determination of the additional interest, and the face amount of the debt shall be disclosed in the financial statements or footnotes.

.12 An illustration of this standard is shown below.

A loan for \$10,000 is made by a federal agency funded by an appropriation for a 5-year period at an interest rate of 5 percent. The Treasury Average Interest Rate for Marketable Interest-Bearing Debt determined by the Secretary of the Treasury is 10 percent. The agency will be repaid the \$10,000 at the end of the 5th year, which is the face amount of the loan plus \$2,500 of interest at the stated rate of 5 percent (\$500 due at the end of each of 5 years). All payments received from the loan must be returned to Treasury as Miscellaneous Receipts. Also, the agency will recognize in its accounting records an additional \$1,896 (which is the discount on the Loan Receivable) of interest (based on the difference in the stated rate and the federal government borrowing rate) illustrated and accounted for as follows.

R10

Schedule of Loan Discount Amortization  
Using the Effective Interest Method  
5% Loan Discounted at 10% (Imputed)

<u>Year</u>	<u>Coupon stated interest (5%)</u>	<u>Effective interest (10%)</u>	<u>Discount amortization</u>	<u>Net book value of loan receivable (loan receivable less discount)</u>
beginning balance				\$ 8,104
1	\$ 500	\$ 810	\$ 310	8,414
2	500	842 <sup>a</sup>	342	8,756
3	500	876	376	9,132
4	500	913	413	9,545
5	500	955	455	10,000
<b>Total</b>	<b>\$2,500</b>	<b>\$4,396</b>	<b>\$1,896</b>	

<sup>a</sup>Adjusted by \$1 due to rounding.

(1) On the date the loan is made:

Unexpended appropriations	\$10,000	
Funds in the U.S. Treasury (to record disbursement of loan)		\$10,000

Loan receivable	10,000	
Loan expense	1,896	
Discount on loan receivable		1,896
Invested capital		10,000

(to record discount on loan (computed as follows)):

Present value of \$10,000 due in 5 years discounted at 10% (\$10,000 x .62092)	6,209
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Present value of annual interest payments (\$500 for 5 years at 10% = \$500 x 3.79075)	<u>1,895</u>
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Present value of loan receivable	<u>\$8,104</u>
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(\$10,000 less \$8,104 = \$1,896 discount on loan)

(2) At the end of the first year:

Funds in the U.S. Treasury	\$ 500	
Discount on loan receivable	310	
Interest earned		\$810
(to recognize interest earned)		

Cumulative results of operation	500	
Miscellaneous receipts due Treasury (to remit interest revenue to Treasury)		500

(3) On the date loan is paid (with final interest payment):

Funds in the U.S. Treasury	\$10,000	
Loan receivable		\$10,000
Invested capital	10,000	
Miscellaneous receipts due Treasury		10,000
(to record repayment of the loan and the remittance of the funds received to Treasury)		
Funds in the U.S. Treasury	500	
Discount on loan receivable	455	
Interest earned		955
(to recognize interest earned)		
Cumulative results of operations	500	
Miscellaneous receipts due Treasury		500
(to remit interest revenue to Treasury)		



REGULATORY ACCOUNTINGINTRODUCTION

.01 A rate-regulated agency generally is an agency involved in a business-like activity to provide certain regulated goods or services, such as electricity or water, to customers where the prices charged (rates) are established or approved, in whole or in part, by an entity (a rate regulator) that is independent of the agency. This external setting of rates may be imposed by law or regulation. Because the rates charged to customers are not within the control of the agency to the same extent as in most other business-like activities, certain accounting treatments are allowable, such as the recognition of costs which are not usually accepted in the present framework of accounting for nonregulated activities. This standard provides guidance on the accounting treatments to be applied by certain rate-regulated agencies that may differ from accounting practices required for nonregulated activities.

ACCOUNTING STANDARD

.02 This statement applies to the accounting treatments of an agency involved in a business-like activity that has regulated operations that meet all of the following criteria:

- a. The rates charged to customers for regulated services or products are established by or subject to approval by a third-party regulator or by its governing board empowered by statute or regulation to set rates.
- b. The rates set are designed to recover specific costs of providing the service or product.
- c. The rates set for services or products to recover costs are based on consideration of anticipated changes in levels of demand during the recovery period for capitalized costs and can be reasonably assumed to be collectible from customers.

.03 Accounting treatments of rate-regulated activities which may differ from those for a nonregulated activity fall under three general categories: (1) capitalizing costs or losses incurred (paragraph .04), (2) reducing the carrying amount of reported assets (paragraph .05), and (3) recognizing a liability or reducing the carrying amount of a liability (paragraph .06).

R20

.04 A rate-regulated agency shall capitalize all or part of an incurred cost or loss that would otherwise be charged to expense if both of the following criteria are met:

- a. Future revenue in an amount at least equal to the capitalized cost or loss will result from inclusion of that cost or loss in the rate-making process.
- b. Future revenue will be provided to permit recovery of that previously incurred cost or loss rather than to provide for expected levels of similar future costs or losses.

.05 Actions of a rate regulator can reduce or eliminate the value of an asset if a rate regulator excludes all or part of the cost of an asset as being recoverable from future revenues through the rate-making process. The carrying amount of the asset shall be reduced accordingly and charged to an expense in the period the asset has been impaired, since that portion of the cost reduced is not expected to contribute to future revenues.

.06 Actions of a rate regulator can impose a liability on a regulated agency or reduce or eliminate the carrying amount of an existing liability originally imposed by the regulator. Examples include the following:

- a. A rate regulator may require refunds to customers, in which case the regulated agency shall record a liability and a corresponding reduction of revenue or an expense until the amount is paid or otherwise settled.
- b. A rate regulator can set current rates intended to recover future costs with the understanding that if those future costs are not incurred, future rates will be reduced by corresponding amounts. Those amounts shall be recognized as liabilities when received and credited to revenues only when the associated costs are incurred.
- c. A rate regulator can require that a rate-regulated agency's gain be distributed to customers over future periods. Ordinarily, gains would be recognized in the period of occurrence. However, if a rate regulator required that gains be returned to customers by reducing future rates, the regulated agency shall record the gain as a liability and amortize it into revenue over the future periods in which the rates are reduced because of the gain.

R20

.07 There are obviously many other situations in which the required accounting treatment for rate-regulated agencies differs from that required for nonregulated agencies. The accounting treatment for most situations is discussed in FASB Statement 71, "Accounting for the Effects of Certain Types of Regulation," December 1982.

REPORTING APPROPRIATIONS IN THE  
STATEMENTS OF FINANCIAL POSITION, OPERATIONS, AND CHANGES  
IN FINANCIAL POSITION

INTRODUCTION

.01 This standard defines the reporting of appropriations by agencies in their financial statements. The Fund Control standard, section F50, paragraphs .02, .03, and .04, provides further details on the legal requirements for control of funds.

ACCOUNTING STANDARD

.02 Available appropriations shall be reported in the agency's financial statements (in the Statement of Changes in Financial Position) for the fiscal year for which the appropriations are made. Appropriations withdrawn shall be reported as reductions to available appropriations in the financial statements for the period in which the appropriations are withdrawn. Restorations shall be reported in the financial statements in the period in which the restoration is made.

.03 Unexpended Appropriations are appropriations which are either (1) unobligated and available for future periods or (2) obligated but not yet expended (e.g., undelivered orders). Unexpended Appropriations shall be reported in the equity section of the Statement of Financial Position. Obligated but unexpended appropriations shall be reported separately from unobligated appropriations.

.04 Expended Appropriations (other than appropriations expended for property, plant, and equipment) for a given period shall be reported in the Statement of Operations for that period as an item of financing of operations and shall be differentiated from reimbursements, transfers-in, donations, revenues, and gains. Appropriations expended for property, plant, and equipment initially shall be recorded as assets and an increase in Invested Capital. If the asset is depreciated, a portion of the Invested Capital account equal to depreciation expense shall be removed from the Invested Capital account and reported as a financing source in the Statement of Operations.

.05 Outlays representing checks issued or cash disbursed to liquidate obligations shall be reported as (1) Costs of Operations in the period in which made, unless a liability was established at the prior period end, or (2) the cost or part of the cost of assets acquired that will be used in future periods, such as inventory or property, plant, and equipment. (See paragraph .06.) This reporting shall be followed even if the disbursement represents the liquidation of a prior-year obligation.

R30

.06 Expenditures shall be accrued at each period end for liabilities incurred for (1) services performed by employees, contractors, vendors, and others; (2) goods and other tangible property received; and (3) amounts periodically owed, such as annuities, insurance claims, and other benefit payments. Such expenditures shall be recorded as assets or included in operating costs in the Statement of Operations, as applicable.

RESEARCH AND DEVELOPMENTINTRODUCTION

.01 Research and development represents the search for new or refined knowledge and ideas and the application or use of this knowledge. This standard prescribes the accounting to be followed for research and development expenses by federal agencies.

ACCOUNTING STANDARD

.02 Expenses incurred by research and development programs described as research and development budget items, or related to the search for knowledge and the conversion of knowledge into use, shall be reported as operating costs in the period incurred. Costs for property, plant, or equipment acquired or constructed for a particular research and development project with no alternative future uses are to be depreciated or amortized over the life of the specific project.

.03 Property, plant, and equipment acquired or constructed for research and development activities that have alternative future uses (in research and development activities or others) shall be capitalized over the estimated useful life of the property, plant, or equipment with the associated costs and depreciation reported as research and development expenses.

.04 For additional guidance on research and development refer to FASB Current Text, "Research and Development," section R50.

T10

TRANSFERS OF ASSETS AND LIABILITIES  
BETWEEN FEDERAL AGENCIES

INTRODUCTION

.01 This standard specifies the accounting to be followed by federal agencies for transactions that involve the receipt or disposition of assets and liabilities between federal agencies but do not involve cash disbursements. Assets covered include accounts and loans receivable, inventory, and property. Liabilities covered include payables, accruals, loans, and debts.

ACCOUNTING STANDARD

.02 Assets and liabilities transferred without a monetary exchange between federal agencies shall, except as provided below, be accounted for at the amount recorded on the transferor's books. No gains or losses shall be recognized on such transactions.

.03 This standard does not apply to sales and other transactions that occur in the normal operation of business-like activities (e.g., revolving and stock funds). It does apply to transfers of property that are not part of the normal operation of such business-like activities.

.04 Federal agencies purchasing assets for cash from other federal agencies shall follow the accounting provided by the Acquisition Cost of Assets standard, section A20. Federal agencies selling assets for cash to other federal agencies shall follow paragraphs .14 through .17 of the Property, Plant, and Equipment standard, section P40.

Nonreciprocal Transfers Within  
the Federal Government

.05 When a federal agency transfers assets and/or liabilities to another agency without any offsetting transfer from the other agency, the transferor's asset, liability, and equity accounts shall be reduced for the items transferred and the transferee's asset, liability, and equity accounts increased accordingly. The transferee shall record the items received at the net book value on the transferor's books.

Reciprocal Transfers Within  
the Federal Government

.06 When two or more federal agencies exchange assets and/or liabilities (offsetting transfers), each transferee agency shall record the assets and/or liabilities received at the amount the asset

T10

and/or liability was carried at in the transferor's records. In effect, the agencies are transferring net book values as well as assets or liabilities, and, consequently, no gains or losses shall be recognized by either agency although a change in equity occurs, where net book values are not identical.

**Transfers of Depreciated  
or Depreciable Assets**

.07 Differences in depreciation policies complicate transfer accounting. Accounting for such transfers shall be as follows:

- (a) If, under the transferor's depreciation policy, the asset has been depreciated, the asset shall be recorded by the transferee at the transferor's net book value even if the transferee's policy is not to depreciate such assets or the transferee has different depreciation policies.
- (b) If, under the transferee's depreciation policy, the asset will be depreciated but the transferor has not recorded depreciation on the asset, the transferee shall record the asset at the transferor's original book value. The transferee shall then record accumulated depreciation (reducing the equity account by a like amount) equal to the amount it would have recorded if it had originally acquired the asset and had depreciated it based on its depreciation policy. Depreciation after the transfer shall be calculated based on the net asset amount recorded.

.08 An example of accounting under the above standard follows. Agency A exchanges an asset carried at \$10,000 (not depreciated) for an asset from Agency B that is carried at \$5,000 (original cost of \$10,000 less depreciation of \$5,000).

(1) Invested Capital	\$10,000	
Asset		\$10,000
(Agency A records transfer to B.)		
(2) Asset	\$5,000	
Invested Capital		\$5,000
(Agency A records receipt of asset.)		
(3) Invested Capital	\$5,000	
Accumulated Depreciation	\$5,000	
Asset		\$10,000
(Agency B records transfer to A.)		



T10

(4) Asset	\$10,000	
Invested Capital		\$10,000
(Agency B records receipt of asset.)		
(5) Invested Capital	\$5,000	
Accumulated Depreciation		\$5,000
(Agency B records accumulated depreciation based on its policies. One-half of the useful life of the asset would have passed. Agency B uses straight-line depreciation.)		

U10

UNUSUAL AND INFREQUENT ITEMS:  
STATEMENT OF OPERATIONS

INTRODUCTION

.01 This standard requires separate presentation in the financial statements for unusual and infrequent material items that are unrelated to the agency's ordinary activities.

ACCOUNTING STANDARD

.02 A material event or transaction that is unusual in nature and occurs infrequently shall be reported as a separate line item of costs or financing sources. The nature of the item shall be fully reported in the statement or disclosed in the footnotes to the statement. Similar items shall be aggregated.

Unusual Nature and Infrequent Occurrence

.03 The individual characteristics of the agency's environment, operations, operating policies, programs, and the probability of recurrence of an event or transaction shall be considered in determining the agency's ordinary and typical activities. The environment of an entity includes such factors as the characteristics of its mission, the geographical location of its operations, and the nature and extent of regulations over operations. An event or transaction may be unusual in nature and infrequent for one agency but not for another because of differences in their respective environments. Unusual nature and infrequent occurrence shall not be determined by the fact that an event or transaction is not controlled by management.

Adjustment of Amounts Reported in Prior Periods

.04 Unusual and infrequent events often require estimates (for example, of associated costs and occasionally of associated financing sources, such as revenues) based on judgment and evaluation of the facts known at the time. Separate footnote disclosure of each adjustment made in the current period for an unusual event reported in a prior period shall be made. If the adjustment is the correction of an error, the provisions of the Prior-Period Adjustments of Financial Statements standard, section P30, paragraphs .03 through .06, shall be applied.

REFERENCE TOINDUSTRY STANDARDS

The following FASB industry standards discuss accounting for specific industry operations which have relevance for significant federal operations or activities. To the extent that an accounting issue is not covered by title 2, these standards shall be referred to when guidance is needed for an agency's operations. However, because of inherent differences between federal government and private enterprise in these industries, not all FASB pronouncements will be applicable, and care must be exercised in using these standards. Specific questions on special industry practices can also be addressed to GAO for guidance.

FASB Current TestSection NumberIndustry

Bt7	--Banking Industry
De4	--Development Stage Enterprises
Ed8	--Educational Organizations: Colleges and Universities
Em6	--Employee Benefit Funds; Employee Health and Welfare Benefit Funds
Fi4	--Finance Companies
He4	--Health Care Industry: Hospitals
In6	--Insurance Industry
Mo4	--Mortgage Banking Activities
No5	--Nonbusiness Organizations
Pe5	--Pension Funds: Accounting and Reporting by Defined Benefit Pension Plans
Re2	--Real Estate
Re6	--Regulated Operations

## A

- Absences for which employee will be paid: C30.01 - C30.04
- Accountability units: P40.01
- Accounting for the Effects of Certain Types of Regulation: R20.07
- Accounting information: determining usefulness p. 8
- Accounting principles and standards: errors in application of P30.03; to whom they apply p. 1
- Accounts payable: A10.01 - A10.06
- Accounts receivable: as a category of receivables R10.03 as transfers of assets T10.01
- Accumulated benefits: L20.08, L20.09, L20.13, L20.14; additional liability for old-age and survivors insurance and disability insurance programs L20.15
- Accumulated net income: not included in interest calculation base I10.02
- Accrual accounting: p. 9; for receivables as assets R10.01
- Accrual basis of accounting for receivables as assets: R10.01
- Accrual of losses: anticipated on loan guarantees L30.02; loss contingencies C50.04
- Accruals: as transfers of liabilities T10.01
- Accrued expenditures: recording p. 12
- Acquisition: of assets P40.03, A20; of assets by award recipients G10.08; of assets as capital leases L10.04; of land or facilities as assets A20.04
- Actuarial assumptions: L20.11
- Actuarial computations: use of in developing financial data for some entitlement programs E10.02; liabilities based on L20.01 - L20.18
- Actuarial present value of accumulated benefits: L20.11
- Additions to invested capital: E20.03
- Adjustments: to Cumulative Results of Operations E20.07; to prior period financial statements P30.01 - P30.10; see also Changes
- Administrative control of funds: F50.02
- ADP software: P40.04
- Advance payments: to grant or cooperative agreement award recipients A30.03; under long-term contracts L40.05
- Advances: A30.01 - A30.06; as a category of receivables R10.03; under long-term contracts L40.05, L40.06; when to report as obligations incurred F50.05
- Agency(ies): property records P40.13; transfer of assets and liabilities between A20.06
- Aggregate costs: used in determining marketable equity securities cost I40.02
- Aid to Families with Dependent Children: as an entitlement program E10.10
- Allocation: p. 10
- Allowance for uncollectible amounts: R10.04, R10.05
- American Academy of Actuaries: L20.04
- American Institute of Certified Public Accountants (AICPA): L20.04
- Amortization: D20.01, D20.02, D20.10
- Annual appropriations: benefit programs financed through L20.01
- Annual financial statements: presentation of related information from previous years C20.01
- Annual leave accrual: C30.01-C30.04
- Annuities and annuity programs: A10.01, A10.06, L20.07-L20.17, P20.01 see also Pensions, Retirement plans and programs
- Apportionments of appropriations made pursuant to law: F50.06
- Appropriated activities: invested capital appearing in E20.02
- Appropriations: as example of financing source p. 6; for property, plant and equipment A40.01-A40.05; withdrawn R40.02; reporting R30.01-R30.06
- Architectural and engineering service costs: included in costs of acquiring assets A20.04
- Arm's-length transactions: R30.02, R30.05
- Assessment of management's performance and stewardship: p. 3
- Asset acquisition period: and interest costs capitalized C10.06, C10.07
- Assets: acquired by capital leases P40.01; acquired by expenditure of funds A20.01-A20.08; advances and prepayments as A30.02; defined p. 1; transfers between agencies T10.01-T10.08; see also Acquisition of assets

Asset account: contra account netted against I40.02  
 Assistance: agreements G10.01-G10.09; payments in advance or reimbursements G10.02  
 Assumptions, significant actuarial: L20.11, L20.12  
 Automatic benefit increases: L20.10  
 Available expenditure authorizations: F60.01  
 Average investment rate: I20.03

## B

Balance Sheet (Statement of Financial Position) see Statement of Financial Position  
 Bank deposits: not part of U.S. Treasury fund balance F60.02  
 Benefit information date: L20.07, L20.11, L20.13  
 Benefit payments: A10.06  
 Benefit programs: included as liabilities in consolidated financial statements C40.13-C40.15; determining liabilities by actuarial calculations L20.01  
 Budget authority: defined p. 5; unfunded p. 6, E20.14  
 Budget authority for entitlements: E10.01  
 Budget resources: defined p. 5  
 Budgetary accounting: and unexpended appropriations E20.08  
 Business-like activities/operations: depreciation and amortization D20.02; new activities and invested capital E20.02, E20.03; rate-changing R20.01-R20.03  
 Business-type statements: C40.01

## C

Capital leases: L10.03-L10.06; assets leased under D20.10  
 Capitalization: of costs or losses and rate-regulated activities R20.03; interest costs for agencies selling outside government C10.05; interest on property, plant and equipment C10.01-C10.08; property, plant and equipment P40.06  
 Carrying amount: I40.04; R20.05  
 Cash: grants A10.01; purchasing with or selling for T10.04; reporting as asset in

Statement of Financial Position F60.04; resources when part of fund balances of Treasury F60.01, F60.02; unrestricted amounts F60.05  
 Cash basis of accounting: when to utilize p. 9  
 Categories of receivables: R10.03  
 Certificates of deposit: as restricted cash amounts F60.06  
 Change funds: as unrestricted cash F60.05  
 Changes: from unacceptable to acceptable accounting principles P30.04; in accounting estimates P30.05; in reporting entity; see also Adjustments; Modifications  
 Child Nutrition: as an entitlement program E10.10  
 Claims: A10.06; against contractors C50.09; against U.S. Government C50.11  
 Coins: not part of U.S. Treasury fund balance F60.02  
 Collection of revenue: F40.04  
 Collections: defined p. 5  
 Commercial-type activities: matching costs and revenues p. 9-10  
 Comparability of accounting information: p. 8, P30.07  
 Comparative financial statements: C20.01-C20.04  
 Compensated absences: C30.01-C30.04  
 Compensating balances: as restricted cash amounts F60.06  
 Confiscation: property acquired by P40.12  
 Congress: see U. S. Congress  
 Congressional policy for using cost information: p. 10 see also U.S. Congress  
 Consistency of accounting information: p. 9  
 Consolidated working funds: not revolving funds F40.03  
 Consolidation of financial statements: p. 4, C40.01-C40.15; E20.12  
 Constructed property, plant and equipment: P40.03  
 Construction contract and work included in costs of acquiring assets A20.04  
 Construction equipment and facilities: used in costs of acquiring assets A20.04

Construction in progress accounts: P40.09  
 Construction of equipment or property:  
   goods issued for use in: I30.02  
 Constructive delivery: L40.03  
 Contingencies: C50.01-C50.12; defined  
   C50.01; examples of C50.12  
 Contingent rentals: excluded from  
   minimum lease payments L10.19  
 Contracts and contractors: authorizing  
   proceeds from sale of property to  
   P40.14; claims against C50.09; goods  
   and services provided A10.03, A10.05;  
   long-term L40.01-L40.06; retainages  
   L40.04; retentions A10.04  
 Contributions by agencies to pension  
   plans: P20.02  
 Convertibility of assets: restrictions on  
   in regard to inventory I30.08  
 Cooperative agreements: G10.01-G10.09;  
   difference with grant G10.01; termina-  
   tion G10.09  
 Correction of errors in prior period  
   financial statements: P30.03; see also  
   Changes; Modifications  
 Cost Accounting Standards: guidance  
   from p. 14  
 Cost basis of securities: I40.05  
 Cost(s): defined p. 8; information p. 10,  
   11; of acquiring assets A20.01-A20.08,  
   R40.05; of changes that extend useful  
   life P40.06; of inventories I30.04;  
   placing a donated item in use E20.11  
 Cost-based budgets: when to use p. 10  
 Cost-basis accounting: p. 10  
 Cost/benefits of accounting information:  
   p. 8  
 Cost-finding techniques: p. 13  
 Creditor federal agencies: D10.01  
 Cumulative results of operations: E20.06,  
   E20.07; as a component of equity p. 7,  
   E20.01, E20.06, E20.07  
 Custodial funds: as unrestricted cash  
   F60.05  
 Custodian or trustee capacity, funds held  
   by: F40.02, F40.04

## D

Damage claims: included in costs of  
   acquiring assets A20.04  
 Debt agreement modifications: D10.01-  
   D10.13  
 Debt (nonequity) security: defined I40.01

Debtor: and financial difficulties D10.01  
 Debts: as transfers of liabilities T10.01  
 Decreases: in cumulative results of  
   operations E20.07; in donations and  
   other items E20.12; in invested capital  
   E20.04; in unexpended appropriations  
   E20.09  
 Default: by third party borrowers L30.01  
 Deferrals: restraints on obligations  
   reported to the Congress F50.03  
 Deficit: not included in interest calcula-  
   tion base I10.02  
 Definitions: p. 2; on leasing L10.14-  
   L10.22  
 Department of Treasury: reporting on  
   fund accounts required by F40.06;  
   reporting of funds and related transac-  
   tions F50.08; requirements on foreign  
   currency F30.08; use of standards to  
   form its own p. 1  
 Deposit fund accounts: F40.04  
 Depreciable cost: defined D20.05  
 Depreciation: D20.01-D20.09; as in con-  
   solidated financial statements C40.12;  
   expense, defined D20.07; example of  
   non-contingency expense C50.12; of  
   asset transfers T10.07; of property,  
   plant, and equipment A40.03, P40.15,  
   P40.16  
 Describing leasing agreements: L10.11,  
   L10.12  
 Devise: property acquired by P40.12  
 Differences: between required reports  
   on pensions P20.04; between trans-  
   feror's and transferee's depreciation  
   policy T10.07  
 Direct financing leases: L10.07  
 Disabled federal employees: P20.01  
 Disbursements: when to report as obli-  
   gations incurred F50.05  
 Disclosing or disclosure of: advances and  
   prepayments A30.05, A30.06; assets  
   F60.04; cash investments, F60.07; cash  
   restrictions F60.06; depreciation  
   D20.09; interest costs C10.08, I10.02;  
   loan guarantees L30.03, L30.04; losses  
   C50.07-C50.08; modified debt agree-  
   ments D10.13; property, plant, and  
   equipment P40.18-P40.21; restrictions  
   on use or conversion of assets denomi-  
   nated in foreign currencies F30.07;  
   transfer of major programs P30.07; see  
   also Reporting

**Disclosure by lessors:** L10.12, L10.13  
**Disclosure by lessees:** L10.09-L10.11  
**Discount(s):** I40.04  
**Distortion of current costs:** P40.08  
**Dollar limitations imposed by law:**  
 accounting system must allow compliance F50.07  
**Donated fixed assets:** P40.03  
**Donations:** as a component of equity p. 6, E20.01, E20.10-E20.12; assets acquired by A20.04, A20.06, D20.05; property acquired by P40.12  
**Electricity:** as a regulated good or service R20.01  
**Eligibility for benefits:** L20.09  
**Engineering services** see Architectural and engineering services  
**Entitlements and entitlement programs:** categories E10.05; defined E10.01-E10.10; liabilities for A10.06  
**Equipment:** P40.01-P40.21; and inter-agency transaction C40.11; appropriations A40.01-A40.05; depreciable D20.04; excluded from inventory I30.02; long-term contracts for purchase or sale of L40.04  
**Equity:** E20.01-E20.11; defined p. 6; securities, defined I40.01-I40.07  
**Error corrections:** P30.03  
**Escrow accounts, cash in:** as unrestricted cash amounts F60.06  
**Estimated losses:** C50.04  
**Estimates:** changes in P30.05; claims incurred but not yet reported L20.03; economic life L10.18; service life P40.02  
**Excess foreign currency:** allocation to agencies F30.09  
**Exchange rates:** effects on agency's financial position F30.07  
**Expenditure accounts:** F40.03, F40.04  
**Expenses:** p. 5, p. 12

## F

**Fair market value:** recording of donations E20.11; used in determining cost of marketable equity securities I40.02  
**Fair value:** F10.01-F10.03; and debt agreement modification D10.03, D10.04; determinations P40.05; of leased property L10.20

**FASB:** FASB Current Text for translation of foreign currency F30.03; industry standards p. 110; see also Financial Accounting Standards Board  
**Federal Claims Collection Standards:** I20.03  
**Federal Reserve System:** excluded as reporting entity for consolidated financial statements C40.05  
**Financial Accounting Standards Board (FASB):** L20.04 see also FASB  
**Financial institution deposits:** not part of U.S. Treasury fund balance F60.02  
**Financial reporting:** F20.01-F20.17; financial reporting standard p. 4  
**Financial statements:** comparative C20.01-C20.05; consolidated C40.01-C40.15; foreign currency F30.05, F30.06; required issuance p. 4; presentation F20.15-F20.17  
**Financial transactions:** as obligations F50.04  
**Financing federal government debt:** interest incurred I10.01  
**Financing sources:** p. 6  
**Food Stamps:** as an entitlement program E10.10  
**Footnotes:** p. 4, F20.11-F20.14  
**Foreclosure:** assets acquired through A20.06; property acquired through P40.11  
**Foreign currency:** F30.01-F30.10; receivables R10.06  
**Forfeiture:** property acquired by P40.12  
**Format of financial statements:** F20.15-F20.17  
**Functional currency:** defined F30.04; in financial statements F30.06  
**Fund accounting:** F40.01-F40.06  
**Fund authorization subdivisions:** made to facilitate their management: limiting to highest practical level F50.06  
**Fund control:** A30.01, F50.01-F50.09  
**Fund type(s):** comparative information by this need not be reported C20.04; establishment of F40.02; financial statements F20.10  
**Funding of contingencies:** C50.10  
**Funds improperly applied by award recipients:** G10.02  
**Funds with the Treasury:** F60.01-F60.07

Future long-term inflation rate assumed when making actuarial calculations: L20.06  
 Future revenue: R20.04

## G, H

Gain contingencies: C50.09  
 Gains: p. 6; retirement of property P40.17  
GAO Policy and Procedures Manual for Guidance of Federal Agencies: R10.04  
 General fund accounts: F40.03  
 Generally accepted accounting principles for the federal government: p. 2-1, App. I p. 1  
 Goods or services: how reported I30.03; long-term contracts for purchase or sale of L40.02, L40.03  
 Government corporations: accounting principles p. 1  
 Government equity: defined p. 6  
 Grants: G10.01-G10.09; difference with cooperative agreements G10.01; termination G10.09  
 GSA rental of space: not a capital lease L10.03  
 Handling and storage charges: included in costs of acquiring assets A20.04  
 Historical costs: measurement of p. 10; of acquiring certain assets C10.01  
 Historical monuments: not included as depreciable property, plant and equipment D20.04  
 Holders of securities: L30.01

## I

Illustration(s): activities financed through appropriations p. 45-p. 47; lease accounting p. 77, p. 78; receivables p. 98, p. 99; transfers p. 107, p. 108  
 Imprest funds: as unrestricted cash F60.05  
 Imputed interest: I10.01-I10.05; cost(s) C10.05; standard A20.07  
 Income: defined p. 6  
 Increases in cumulative results of operations: E20.07  
 Increases in unexpended appropriations: E20.09  
 Incurrence of liability: p. 6; treating capital leases as L10.04

Individual eligibility: E10.06  
 Industrial funds: D20.02  
 Industry standards (FASB): p. 110  
 Inflation rate: and benefit increases L20.10  
 Information: accounting p. 8; cost p. 10  
 Infrequent and unusual items: statement of operations U10.01  
 Initial acquisition cost of \$5,000 or more: P40.02  
 Initial complement of equipment of a building: P40.08  
 Installation costs: included in costs of acquiring assets A20.04  
 Installation of assets: P40.03  
 Installment contracts: property acquired through P40.09  
 Installment purchase of property: L10.02  
 Insurance premiums: A10.01  
 Insurance programs: L20.04-L20.06  
 Intangible assets: amortization accounting for D20.10; defined D20.10  
 Interagency balances and transactions: elimination from consolidated financial statement C40.10, C40.11  
 Interest and capital leases L10.04; capitalization on property, plant and equipment C10.01-C10.08; capitalization period C10.07; costs when assets not capitalized C10.04; on public debt I10.05; payable I20.01; rates L10.21, R10.11; receivable D10.12, I20.01, I20.03, I20.04; see also Imputed interest  
 Interest method: used for computing interest on capital leases L10.05  
 Interest payable and receivable: I20.01-I20.03  
 Interim financial statements: F20.14, F20.15  
 Internal controls: P40.02  
 Inventory(ies): I30.01-I30.08; and interagency transactions C40.11; as transfers of assets T10.01; interest costs not capitalized for C10.03; not included as depreciable property, plant and equipment D20.04  
 Invested capital: A40.02; accounts A40.03, A40.04, R40.04; as a component of equity p. 5, E20.01-E20.05  
 Investments: I40.01-I40.06; in revenue-producing assets F40.04  
 Invoices: absence of A10.05



## J, K, L

**Labor costs:** included in costs of acquiring assets A20.04  
**Labor, material and supplies:** included in costs of acquiring assets A20.04  
**Late payment:** interest from I20.01, I20.02; penalties A20.05  
**Law required entitlement payments:** E10.07  
**Lease agreements:** L10.01-L10.23  
**Lease liability:** L10.05  
**Lease purchases:** assets acquired through P40.09  
**Leasehold improvements:** P40.01; assets leased under D20.10  
**Leave with pay:** C30.01  
**Legal and recording fees:** included in costs of acquiring assets A20.04  
**Legal claims:** not a prerequisite to qualify as liability p. 5  
**Lenders of securities:** L30.01  
**Lessees:** L10.01  
**Liability(ies):** advances and prepayments as A30.02; based on actuarial calculations L20.01-L20.18; defined p. 6, p. 7; for claims incurred L20.05; on a regulated agency R20.06; transfers between agencies T10.01-T10.08  
**Loan guarantees and commitments:** L30.01-L30.04; example of contingency C50.07, C50.10  
**Loans:** as a category of receivables R10.03; as transfers of liabilities T10.01  
**Loans and notes receivable:** R10.06-R10.08  
**Loans receivable:** as transfers of assets T10.01  
**Long-term contracts:** L40.01-L40.06  
**Long-term inflation rate:** L20.10  
**Loss contingency:** C50.02; accrual of C50.04-C50.06  
**Loss(es):** p. 5; in revolving funds or business-like activities E20.07; resulting from loan guarantees L30.01; retirement of property P40.17

## M, N

**Maintenance expenses accounted for as operating expenses:** P40.07  
**Management fund accounts:** F40.03

**Market value:** decline of I40.05 see also  
**Fair market value**  
**Marketable securities:** I40.01  
**Matching:** p. 9  
**Material error in prior period financial statements:** P30.06  
**Materiality of accounting information:** p. 8  
**Maturities of loans and notes receivable:** R10.08  
**Measurement principles:** p. 10  
**Medicaid:** as an entitlement program E10.10  
**Medicare:** use of actuarial computations E10.02  
**Minimum interest rate:** I20.03  
**Minimum lease payments:** L10.19  
**Miscellaneous receipts:** reporting funds collected to Treasury R10.02  
**Modifications:** of debt terms D10.01-D10.13 see also Changes; Correction  
**Monetary credits:** A10.07  
**Monetary exchange between federal agencies:** accounting for transfers without T10.02  
**Negotiable instruments:** not part of U.S. Treasury fund balance F60.02  
**Net income:** in revolving funds or business-like activities E20.07  
**Noncancelable:** defined L10.16; lease terms disclosure L10.10  
**Nondepreciated property, plant and equipment:** retirement P40.14  
**Nonfederal entities:** donated fixed assets received from P40.03; reporting advances, prepayments and liabilities p. 19  
**Nonreciprocal transfers:** E20.10, T10.05  
**Notes receivable:** as a category of receivable R10.03

## O, P, Q

**Objectives of capitalizing interest:** C10.02  
**Obligations, reporting:** F50.04; defined p. 7; recorded p. 12  
**Old-age and survivors insurance and disability insurance programs:** C40.13; annuity benefits L20.07, L20.15; as benefit program financed through trust fund L20.01

OMB: administrative control of funds system approval by F50.02; reporting information on fund accounts required by F40.06; reporting status of funds and related transactions F50.08; circulars p. 14

Operating costs: expenses incurred by research and development recorded as R40.02

Operating leases: L10.03

Other items and donations: "other items" defined E20.10

Outflow of assets: p. 6

Outlays representing checks issued or cash disbursed: R40.05; defined p. 7, recorded p. 12

Paper currency: not part of U.S. Treasury fund balance F60.02

Pay increases: reflecting in liabilities for sick and annual leave C30.04

Payables: as transfers of liabilities T10.01

Payments in excess of related liabilities: L40.05

Payouts (losses): exposure to through loan guarantees L30.01

Payroll: P10.01, P10.02

Penalty for failure to renew lease: L10.06

Pensions: P20.01-P20.04, E10.03; see also Annuities and annuity programs, Retirement plans and programs

Percentage-of-completion method: L40.04

Performance and stewardship of management: assessing p. 3

Personnel compensation and benefits: payroll P10.01

Petty cash: as unrestricted cash F60.05

Physical receipt of goods versus constructive or de facto receipts p. 15

Plant: P40.01-P40.21; and interagency transaction C40.11; appropriations A40.01-A40.05; capitalizing interest on C10.01-C10.08; depreciable D20.04; excluded from inventory I30.02; long-term contracts for purchase or sale of L40.04

Postal Service: see U. S. Postal Service

Potential recipients: L20.08

Premium(s): I40.06

Prepayments: A30.01-A30.06; when to report as obligations incurred F50.05

Present value of accumulated benefits: L20.14

Previously acquired property, plant and equipment: P40.05

Prior period adjustments of financial statements: P30.01-P30.10

Privately-owned government corporations: excluded as reporting entity for consolidated financial statements C40.05

Probable loss contingency: C50.02

Progress billings: A10.05

Progress payments: A10.04

Property: P40.01-P40.21; and interagency transactions C40.11; as transfer of assets T10.01; capitalizing interest on C10.01-C10.08; defined in relation to invested capital E20.02; depreciable D20.04; excluded from inventory I30.02; research and development R40.03; long-term contracts for purchase or sale L40.04; records P40.13; seized A20.08

Proposed expenditures: systematic accumulation before becoming valid obligations F50.05

Property appropriations: A40.01

Public debt: interest on I10.05

Purchase discounts: A20.05

Purchase of: goods or services, long-term contracts for L40.02, L40.03; property, plant and equipment L40.04

Purchased property, plant and equipment: P40.03

Purchasing: assets for cash from other agencies T10.04; foreign currencies F30.10

Qualification for interest capitalization: C10.03

## R

Rate charging: R20.01-R20.03

Rate of interest: I10.02, I20.03, I20.04

Rate-regulated agencies: R20.01-R20.03, R20.04

Rate regulator: R20.05, R20.06

Reasonably possible loss contingency: C50.02

Receipt accounts: F40.03, F40.04

Receipts in excess of revenues: L40.06

Receivables: R10.01-R10.12

Reciprocal transfers with the Federal Government: T10.06  
 Recognition standards: p. 9  
 Recognizing a liability: as category of accounting rate-regulated activities R20.03  
 Reconciliation: of differences in budgetary amounts C40.08  
 Recording on financial statements see Disclosure; Reporting  
 Reducing carrying amount of reported assets: as category of accounting rate-regulated activities R20.03  
 Reducing carrying amount of a liability: as category of accounting rate-regulated activities R20.03  
 Reduction of amounts receivable upon collection: R10.02  
 Regulatory accounting: R20.01-R20.07  
 Reimbursable events as entitlement payments: E10.08  
 Reimbursement(s): reporting depreciation and amortization D20.02; to award recipients G10.06  
 Relevance of accounting information: p. 8  
 Reliability of accounting information: p. 8  
 Remote loss contingency: C50.02  
 Renewal or extension of a lease: L10.06, L10.22  
 Reporting: advances and prepayments A30.05, A30.06; amounts receivable R10.02; appropriations in Statements of Financial Position, Operations, and Changes in Financial Position R30.01-R30.06; budgetary amounts by agencies R30.01-R30.06; goods I30.03; obligations F50.03, F50.04; modified debt agreement D10.13; pension plans P20.02; unusual and infrequent items U10.01-U10.04; see also Disclosing  
 Reporting entity: changes in P30.07-P30.09; determining p. 4; for the consolidated financial statement C40.05  
 Required reports: F20.02  
 Rescissions: restraints on obligations reported to the Congress F50.03  
 Research and developments: R40.01-R40.04

Reserves: limitations on the establishment of F50.03  
 Residual guarantee by lessee: L10.06  
 Residual values: estimates of D20.08  
 Resource allocations: p. 3  
 Restricted cash amounts: F60.06  
 Results of operations: defined p. 7  
 Retained earnings: E20.06  
 Retired federal employees: P20.01  
 Retirement of property, plant and equipment: A40.04, P40.14-P40.17  
 Retirement plans and programs: F20.13, E10.03; see also Annuities and annuity programs, Pensions  
 Revenues: as example of financing source p. 6; how they differ from gains p. 6  
 Revenue powers, funds derived from: F40.02, F40.03  
 Reversionary interest in invested capital by a transferor agency: E20.05  
 Revolving fund(s): accounts F40.03; new activities and invested capital E20.02, E20.03; reporting of depreciation and amortization D20.02

## S

Sale: of assets for cash T10.04; goods or services with long-term contract L40.02, L40.03; goods or services outside government, interest on I10.01, I10.02, I10.03; not applying to transfer standard T10.03; of inventory to federal agency or outsiders I30.08; of property, plant and equipment L40.04  
 Sales-type leases: L10.07  
 Savings accounts: cash in F60.05  
 Seized property: accounting for assets acquired by A20.08  
 Services, cost of: A10.05 see also Goods and services  
 Settlements of liabilities: p. 6, p. 7  
 Sick leave accrual: C30.02, C30.03  
 Social Security: use of actuarial computations E10.02  
 Social Security Disability: use of actuarial computations E10.02  
 Special fund accounts: F40.03  
 Standard costs or prices: method of valuing inventory I30.06

**Statement of Changes in Financial Position:** F20.06-F20.09, as a required report F20.02; reporting amounts of appropriations for property, plant and equipment A40.02

**Statement of Financial Position:** F20.04; as a required report F20.02; as part of consolidated financial statement C40.03; reporting advances and prepayments A30.05; reporting fund balances with U.S. Treasury F60.03, F60.04; reporting leases L10.09; reporting unexpended appropriations R30.03; separating restricted and unrestricted cash amounts F60.06

**Statement of Operations:** F20.05; as required report F20.02; as part of consolidated financial statement C40.03; crediting invested capital to financing sources E20.04; depreciation of property, plant and equipment A40.03; donations credited to financing sources E20.11, E20.12; reporting expenditures R30.04, R30.06; reporting interest expense on capital lease L10.05; reporting on property acquired by foreclosure P40.11; reporting pension plans P20.02; reporting unusual and infrequent items U10.01-U10.04

**Statement of Reconciliation to Budget Reports:** C40.08-C40.10; as a required report F20.02; as part of consolidated financial statement C40.03; explaining differences between financial statements and budgetary reports F40.06

**Statements of Financial Position, Operations, and Changes in Financial Position:** appropriations R30.01-R30.06; unexpended appropriations E20.08

**Stewardship function of management:** assessing p. 3

**Supplemental security income:** as an entitlement program E10.10

**Subsequent events:** C50.08

**Survivors' benefits:** L20.08

## T

**Tangible capital asset:** as a component of plant and equipment P40.01

**Tangible personal property (goods):** 130

**Taxation, funds derived from:** F40.02, F40.03

**Terminology:** on leasing L10.14-L10.22; used in standard p. 2

**Timeliness of accounting information:** p. 8

**Trade-ins:** property acquired through P40.10

**Transfer(s):** p. 5; from unexpended appropriations to invested capital A40.02; of assets and liabilities A20.06, T10.01-T10.08; of assets to cover future expenses or acquisition of other assets A30.01; of organizations, appropriations or funds in financial statements that affect comparability P30.07; of property T10.03

**Transferor agency retaining a reversionary interest in invested capital:** E20.05

**Transportation charges:** included in cost of acquiring assets A20.04

**Travel advances:** A30.02

**Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government:** reconciliation with consolidated financial statement C40.08

**Treasury Department:** see Department of Treasury

**Treasury Financial Manual:** F30.08, p. 14

**Treasury incurred interest costs:** I10.01

**Treasury's tax and loan account:** 120.03

**Treasury (U.S.):** see U.S. Treasury

**Trust fund(s):** accounts F40.04; balances p. 6, E20.13; benefit programs financed through L20.01; equity E20.01

## U

**Unacceptable accounting principle:** changing to acceptable P30.04

**Uncollectibles:** allowance for D10.09

**Undelivered orders:** as decreases in unexpended appropriations E20.09

**Unemployment assistance:** use of actuarial computations E10.02

**Unexpended appropriations:** A40.02; as a component of equity p. 6, E20.01, E20.08, E20.09; reporting R40.03

**U.S. Congress:** reporting rescissions or deferrals of budget authority F50.03

**U.S. Postal Service:** included as reporting entity for consolidated financial statement C40.05

**U.S. Treasury funds and cash:** F60.01

Unobligated amounts that lapse, are withdrawn, or are rescinded; as decreases in unexpended appropriations E20.09

Unpaid personnel compensations P10.02

Unpaid claims for benefits L20.03

Unrestricted cash amounts: F60.05

Unusual and infrequent items: statement of operations U10.01-U10.04

Unused balances: return to government G10.02

Unused leave: C30.03

Useful life: defined D20.06; estimates of D20.08; extended P40.06

User charges: reporting depreciation and amortization D20.02

Utility bills: example of estimates that are not contingencies C50.12

### V, W, X, Y, Z

Valid obligations: F50.05

Valuations allowance I40.02; inventory I30.06; of receivable when interest rates differ from market R10.09-R10.12

Vendors, amounts paid to: included cost of acquiring assets A20.04

Verification of available funds before creating obligation: F50.04

Veterans' compensation and pensions: as benefit program financed through annual appropriations L20.01; annuity benefits L20.07; actuarial assumptions and computations E10.02, L20.16

Veterans' readjustment benefits: as an entitlement program E10.10

Violations of appropriations or other fund limitations: F50.09

Water: as a regulated good or service R20.01

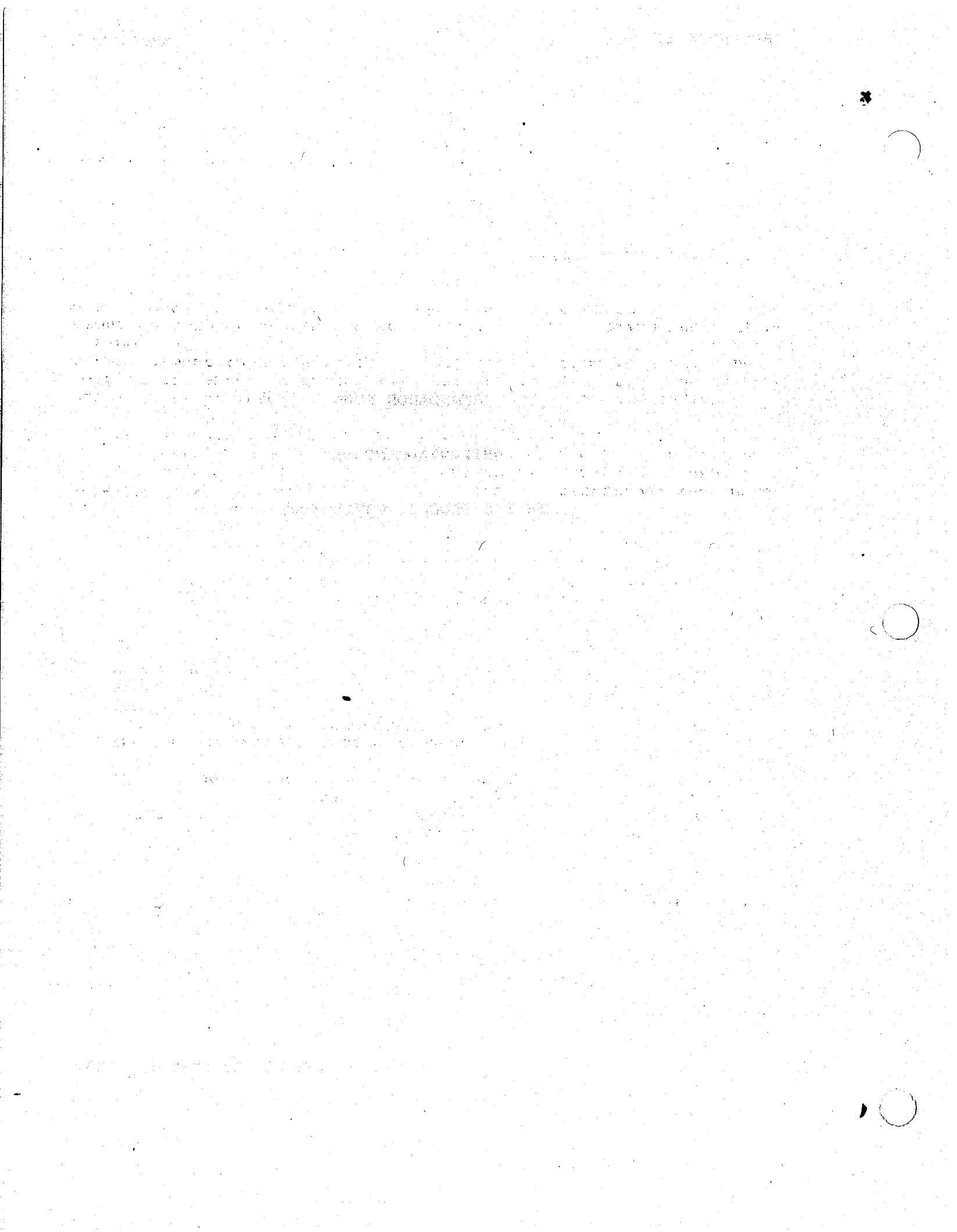
Workers' Compensation: as benefit program financed through annual appropriations L20.01; use of actuarial computations E10.02

Working funds: F40.03

Year-end closing statements related to Statement of Reconciliation to Budget Reports F20.10

**STANDARDS FOR  
INTERNAL CONTROLS  
IN THE FEDERAL GOVERNMENT**

TS 2-24 October 31, 1984



**TABLE OF CONTENTS**

<b><u>FOREWORD</u></b>	<b><u>Page</u></b>
Introduction	121
Internal Control Standards	123
Explanation of General Standards	125
Explanation of Specific Standards	129
Explanation of the Audit Resolution Standard	133



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1950

1950

1950

1950

1950

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1950

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### INTRODUCTION

This document contains the Comptroller General's internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control as required by the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)). Internal control systems are to reasonably ensure that the following objectives are achieved:

- Obligations and costs comply with applicable law.
- All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

The act directs the heads of executive agencies to:

- Make an annual evaluation of their internal controls using guidelines established by the Office of Management and Budget.
- Provide annual reports to the President and Congress that state whether agency systems of internal control comply with the objectives of internal controls set forth in the act and with the standards prescribed by the Comptroller General. Where systems do not comply, agency reports must identify the weaknesses involved and describe the plans for corrective action.

The following concept of internal controls is useful in understanding and applying the internal control standards set forth and discussed on succeeding pages.

The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The ultimate responsibility for good internal controls rests with management. Internal controls should not be looked upon as separate specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls. Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers.

## INTERNAL CONTROL STANDARDS

The internal control standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated. These internal control standards apply to all operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking in an agency.

### GENERAL STANDARDS

1. Reasonable Assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.
2. Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.
3. Competent Personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.
4. Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.
5. Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

### SPECIFIC STANDARDS

1. Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

2. Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.
3. Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
4. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
5. Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
6. Access to and Accountability for Resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

#### AUDIT RESOLUTION STANDARD

Prompt Resolution of Audit Findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

### EXPLANATION OF GENERAL STANDARDS

General internal control standards apply to all aspects of internal controls.

#### REASONABLE ASSURANCE

Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.

The standard of reasonable assurance recognizes that the cost of internal control should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. The required determinations call for judgment to be exercised.

In exercising that judgment, agencies should:

- Identify (1) risks inherent in agency operations, (2) criteria for determining low, medium, and high risks, and (3) acceptable levels of risk under varying circumstances.
- Assess risks both quantitatively and qualitatively.

Cost refers to the financial measure of resources consumed in accomplishing a specified purpose. Cost can also represent a lost opportunity, such as a delay in operations, a decline in service levels or productivity, or low employee morale. A benefit is measured by the degree to which the risk of failing to achieve a stated objective is reduced. Examples include increasing the probability of detecting fraud, waste, abuse, or error; preventing an improper activity; or enhancing regulatory compliance.

#### SUPPORTIVE ATTITUDE

Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

This standard requires agency managers and employees to be attentive to internal control matters and to take steps to promote the effectiveness of the controls. Attitude affects the quality of

performance and, as a result, the quality of internal controls. A positive and supportive attitude is initiated and fostered by management and is ensured when internal controls are a consistently high management priority.

Attitude is not reflected in any one particular aspect of managers' actions but rather is fostered by managers' commitment to achieving strong controls through actions concerning agency organization, personnel practices, communication, protection and use of resources through systematic accountability, monitoring and systems of reporting, and general leadership. However, one important way for management to demonstrate its support for good internal controls is its emphasis on the value of internal auditing and its responsiveness to information developed through internal audits.

The organization of an agency provides its management with the overall framework for planning, directing, and controlling its operations. Good internal control requires clear lines of authority and responsibility; appropriate reporting relationships; and appropriate separation of authority.

In the final analysis, general leadership is critical to maintaining a positive and supportive attitude toward internal controls. Adequate supervision, training, and motivation of employees in the area of internal controls is important.

#### COMPETENT PERSONNEL

Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.

This standard requires managers and their staff to maintain and demonstrate (1) personal and professional integrity, (2) a level of skill necessary to help ensure effective performance, and (3) an understanding of internal controls sufficient to effectively discharge their responsibilities.

Many elements influence the integrity of managers and their staff. For example, personnel should periodically be reminded of their obligations under an operative code of conduct.

In addition, hiring and staffing decisions should include pertinent verification of education and experience and, once on the job, the individual should be given the necessary formal and on-the-job training. Managers who possess a good understanding of internal controls are vital to effective control systems.

Counseling and performance appraisals are also important. Overall performance appraisals should be based on an assessment of many critical factors, one of which should be the implementation and maintenance of effective internal controls.

### CONTROL OBJECTIVES

Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

This standard requires that objectives be tailored to an agency's operations. All operations of an agency can generally be grouped into one or more categories called cycles. Cycles comprise all specific activities (such as identifying, classifying, recording, and reporting information) required to process a particular transaction or event. Cycles should be compatible with an agency's organization and division of responsibilities.

Cycles can be categorized in various ways. For example:

- Agency management.
- Financial.
- Program (operational).
- Administrative.

Agency management cycles cover the overall policy and planning, organization, data processing, and audit functions. Financial cycles cover the traditional control areas concerned with the flow of funds (revenues and expenditures), related assets, and financial information. Program (operational) cycles are those agency activities that relate to the mission(s) of the agency and which are peculiar to a specific agency. Administrative cycles are those agency activities providing support to the agency's primary mission, such as library services, mail processing and delivery, and



printing. The four types of cycles obviously interact, and controls over this interaction must be established. For example, a typical grant cycle would be concerned with eligibility and, if awarded, administration of the grant. At the time of award, the grant (program) and disbursement (financial) cycles would interface to control and record the payment authorization.

Complying with this standard calls for identifying the cycles of agency operations and analyzing each in detail to develop the cycle control objectives. These are the internal control goals or targets to be achieved in each cycle. The objectives should be tailored to fit the specific operations in each agency and be consistent with the overall objectives of internal controls as set forth in the Federal Managers' Financial Integrity Act.

In appendix B of its "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government," OMB has provided a suggested list of agency cycles and cycle control objectives. Agencies should consider this and other sources when identifying their cycles and cycle control objectives.

#### CONTROL TECHNIQUES

Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

Internal control techniques are the mechanisms by which control objectives are achieved. Techniques include, but are not limited to, such things as specific policies, procedures, plans of organization (including separation of duties), and physical arrangements (such as locks and fire alarms). This standard requires that internal control techniques continually provide a high degree of assurance that the internal control objectives are being achieved. To do so they must be effective and efficient.

To be effective, techniques should fulfill their intended purpose in actual application. They should provide the coverage they are supposed to and operate when intended. As for efficiency, techniques should be designed to derive maximum benefit with minimal effort. Techniques tested for effectiveness and efficiency should be those in actual operation and should be evaluated over a period of time.

### EXPLANATION OF SPECIFIC STANDARDS

A number of techniques are essential to providing the greatest assurance that the internal control objectives will be achieved. These critical techniques are the specific standards discussed below.

#### DOCUMENTATION

Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

This standard requires written evidence of (1) an agency's internal control objectives and techniques and accountability systems and (2) all pertinent aspects of transactions and other significant events of an agency. Also, the documentation must be available as well as easily accessible for examination.

Documentation of internal control systems should include identification of the cycles and related objectives and techniques, and should appear in management directives, administrative policy, and accounting manuals. Documentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transaction or event and related information from before it occurs, while it is in process, to after it is completed.

Complying with this standard requires that the documentation of internal control systems and transactions and other significant events be purposeful and useful to managers in controlling their operations, and to auditors or others involved in analyzing operations.

#### RECORDING OF TRANSACTIONS AND EVENTS

Transactions and other significant events are to be promptly recorded and properly classified.

Transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions. This standard applies to

(1) the entire process or life cycle of a transaction or event and includes the initiation and authorization, (2) all aspects of the transaction while in process, and (3) its final classification in summary records. Proper classification of transactions and events is the organization and format of information or summary records from which reports and statements are prepared.

#### EXECUTION OF TRANSACTIONS AND EVENTS

Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

This standard deals with management's decision to exchange, transfer, use, or commit resources for specified purposes under specific conditions. It is the principal means of assuring that only valid transactions and other events are entered into. Authorization should be clearly communicated to managers and employees and should include the specific conditions and terms under which authorizations are to be made. Conforming to the terms of an authorization means that employees are carrying out their assigned duties in accordance with directives and within the limitations established by management.

#### SEPARATION OF DUTIES

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist. Key duties include authorizing, approving, and recording transactions; issuing and receiving assets; making payments; and reviewing or auditing transactions. Collusion, however, can reduce or destroy the effectiveness of this internal control standard.

#### SUPERVISION

Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

This standard requires supervisors to continuously review and approve the assigned work of their staffs. It also requires that they provide their staffs with the necessary guidance and training to help ensure that errors, waste, and wrongful acts are minimized and that specific management directives are achieved.

Assignment, review, and approval of a staff's work requires

- clearly communicating the duties, responsibilities, and accountabilities assigned each staff member;
- systematically reviewing each member's work to the extent necessary; and
- approving work at critical points to ensure that work flows as intended.

Assignment, review, and approval of a staff's work should result in the proper processing of transactions and events including (1) following approved procedures and requirements, (2) detecting and eliminating errors, misunderstandings, and improper practices, and (3) discouraging wrongful acts from occurring or from recurring.

#### ACCESS TO AND ACCOUNTABILITY FOR RESOURCES

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

The basic concept behind restricting access to resources is to help reduce the risk of unauthorized use, loss to the Government, and to help achieve the directives of management. However, restricting access to resources depends upon the vulnerability of the resource and the perceived risk of loss, both of which should be periodically assessed. For example, access to and accountability for highly vulnerable documents, such as check stocks, can be achieved by

- keeping them locked in a safe,
- assigning or having each document assigned a sequential number, and
- assigning custodial accountability to responsible individuals.

Other factors affecting access include the cost, portability, exchangeability, and the perceived risk of loss or improper use of the resource. In addition, assigning and maintaining accountability for resources involves directing and communicating responsibility to specific individuals within an agency for the custody and use of resources in achieving the specifically identified management directives.

**EXPLANATION OF THE AUDIT RESOLUTION STANDARD****PROMPT RESOLUTION OF AUDIT FINDINGS**

Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

The audit resolution standard requires managers to take prompt, responsive action on all findings and recommendations made by auditors. Responsive action is that which corrects identified deficiencies. Where audit findings identify opportunities for improvement rather than cite deficiencies, responsive action is that which produces improvements.

The audit resolution process begins when the results of an audit are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the audit findings and recommendations are either invalid or do not warrant management action.

Auditors are responsible for following up on audit findings and recommendations to ascertain that resolution has been achieved. Auditors' findings and recommendations should be monitored through the resolution and followup processes. Top management should be kept informed through periodic reports so it can assure the quality and timeliness of individual resolution decisions.

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ACCOUNTING SYSTEM STANDARDS

TS 2-25 August 1987





## ACCOUNTING SYSTEM STANDARDS

## TABLE OF CONTENTS

CHAPTER		<u>Page</u>
1	<b>INTRODUCTION</b>	1-1
	Authority and Purpose	1
	System Definition, Configuration, and Relationship to Other Financial Management Functions	2
	Nature and Applicability of Standards and Related Guidance	4
2	<b>ACCOUNTING SYSTEM STRUCTURE AND OPERATION</b>	2-1
	Standards	1
	Discussion	2
	Legal Objectives and Related Requirements of Accounting Systems	2
	Structure of the Accounting System	3
	Accounting Processes and Procedures	5
	Support for Transactions	5
	Reconciliation	6
	Transaction Processing/Production Control	7
	Error Handling	10
	Control Over Output	10
	Verifying File Data	11
	System Security and Integrity	11
	Accounting System Maintenance	12
	Accounting System Reviews and Evaluations	14
3	<b>FINANCIAL REPORTING</b>	3-1
	Standards	1
	Discussion	1
	Accuracy	2
	Usefulness	3
	Completeness	4
	Timeliness	4
	Consistency	5

CHAPTER	<u>Page</u>	
<b>4</b>	<b>ACCOUNTING SYSTEM DEVELOPMENT AND MODIFICATION</b>	<b>4-1</b>
	Standards	1
	Discussion	1
	Importance of an Overall Plan and a Structured Approach	1
	Consideration of Existing Systems	3
	Contractor Assistance	4
	Managing the Structured Process	4
	Involving Top Management	5
	Choosing the Project Director, Project Manager, and Project Team	5
	Involving Users	7
	Involving Auditors	7
	Phases of a Structured Approach	8
	Initiation	9
	Definition	14
	Design	16
	Implementation	17
	System Integration, Installation, and Testing	18
<b>5</b>	<b>DOCUMENTATION</b>	<b>5-1</b>
	Standards	1
	Discussion	1
	Project Documentation	1
	Documentation of the Operational System	2
	User Documentation	3
	ADP Documentation	4
	Department and Agency Documentation Guidance	5
<b>TOPICAL INDEX</b>		<b>6-1</b>

		<u>Page</u>	
FIGURE			
1.1	Financial Management Cycle	1-3	
TABLES			
2.1	Examples of Computerized Functions and Related Control Objectives/Techniques	2-17	
4.1	System Development Life Cycle Phases and Results	4-12	

## ABBREVIATIONS

ADP	automated data processing
FIPS PUB	Federal Information Processing Standards Publication
GAO	General Accounting Office
NBS	National Bureau of Standards
OMB	Office of Management and Budget

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CHAPTER 1INTRODUCTIONAUTHORITY AND PURPOSE

Appendix III to title 2 of the General Accounting Office's (GAO) Policy and Procedures Manual for Guidance of Federal Agencies prescribes accounting system standards and requirements that agency heads must observe in establishing, maintaining, and reporting on their systems of accounting and internal controls as required by 31 U.S.C. 3512. This appendix is issued after consulting with the Office of Management and Budget (OMB) and the Department of the Treasury and considering the needs of other executive agencies, pursuant to 31 U.S.C. 3511(a) and (b).

Consistent with 31 U.S.C. 3511(b), the standards provide, among other things, the means for agencies to carry out 31 U.S.C. 3512. Subsection (a) of section 3512 requires the head of each executive agency to establish systems of accounting and internal control which provide

- complete disclosure of the financial results of agency activities;
- adequate financial information needed for agency management purposes;
- effective control over, and accountability for, assets for which the agency is responsible;
- reliable accounting results and reports that will be the basis for preparing and supporting agency budget requests, controlling budget execution, and providing financial information the President requires; and
- suitable integration of agency accounting with Treasury's central accounting and reporting responsibilities.

The standards contained in this appendix apply to all manual and/or automated systems of accounting and related internal controls that are operating or are under development or major revision, in all departments, agencies, or instrumentalities in the executive branch that fall within the definition of executive agency, as defined in 31 U.S.C. 102 and 3501. These standards, along with other applicable requirements, must be considered when

agency heads report on the status of their accounting systems as required by 31 U.S.C. 3512(c).

SYSTEM DEFINITION, CONFIGURATION, AND RELATIONSHIP  
TO OTHER FINANCIAL MANAGEMENT FUNCTIONS

Achieving the legislative objectives requires the development, implementation, and maintenance of integrated accounting and financial management systems from which needed information on resources, liabilities, obligations, expenditures, revenues, costs, and performance can be extracted and reported to appropriate levels of management, the Congress, and, ultimately, the public.

As used in this appendix, the accounting system is that part of the overall financial management system which provides the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, or organizational components. It encompasses the various operations involved in authorizing, recording, classifying, and reporting financial data related to financing sources and gains, expenses, losses and transfers out, costs, assets, liabilities, and equity. It includes the manual and automated procedures and processes from the point a transaction is authorized (initiated) to issuance of financial statements and management information reports containing the data in detail or in summary form.

Agency accounting systems, as defined above, may be configured in various ways. Ordinarily, each department or independent agency should have a primary accounting system which provides general ledger control over its financial transactions, resource balances, and subsidiary accounts and records. In some departments, such systems may be operated at the major organizational units, with uniform input being provided to the department-level general ledger or financial reporting system.

Typically, a primary system is supported by a configuration of systems that carry out the organization's various accounting and financial management functions. These supporting systems are separately identifiable with their own data entry, edits, and internal controls. They share, receive, and/or provide uniform financial information to each other and/or the primary accounting system. The activities that may be covered by such supporting systems range from the accounting and administrative operations

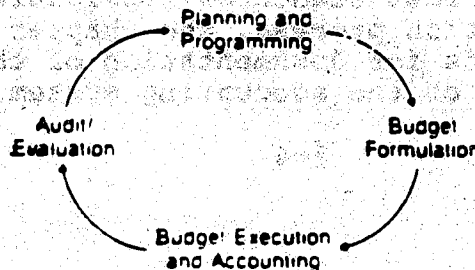
commonly carried out by agencies (such as payroll, budget execution, administrative payments, accounts receivable, accounts payable, travel, and property, inventory, or supply management) to the accounting operations associated with the agencies' unique programs and operating functions (such as loan, insurance, sales, entitlement or grant programs, and revolving or stock fund operations).

The accounting processes, procedures, subsidiary accounts, records, and data in these supporting systems are expected to comply with the requirements applicable to the primary accounting systems. Moreover, systems covering the common accounting and administrative operations should be integrated with the primary accounting systems through use of standard data definitions and uniform data classifications and processing.

Thus, the accounting system comprises the primary accounting system and the accounting portions of its supporting systems. This overall system is an integral and critical part of the overall financial management process of the department or agency. It captures, records, classifies, and processes the transactions and financial events. It produces the internal management reports, all routine external budget and accounting reports, and other outputs (such as invoices and disbursing documents) that are used in the other financial management phases.

Four functional phases--planning and programming, budget formulation, budget execution and accounting (including financial reporting), and audit/evaluation--should be linked together into a management cycle in which outputs from one phase are used as inputs to the next. This cycle, along with its related procedures and controls, results in a coordinated, integrated financial management system. The cycle is depicted below.

Figure 1.1: Financial Management Cycle





Briefly stated, the planning and programming phase is the process of establishing objectives and proposing programs and plans to achieve the objectives over time. The budget formulation and presentation process determines the level of resources needed to reach those objectives and the approved budget (including appropriation acts) establishes the program plans for conducting the work. Budget execution and accounting consists of executing the plan, directing activity toward results, and monitoring compliance with the plan. Audit and evaluation ensure discipline in the management process by confirming the accuracy and reliability of financial information. They also provide information about the efficiency, economy, and effectiveness of systems and operations, as well as information on the compliance of systems and operations with law and regulation. Reliable financial information is an essential factor in successful evaluations. The cycle is continuous; new plans are partially influenced by past results.

#### NATURE AND APPLICABILITY OF STANDARDS AND RELATED GUIDANCE

Title 2, "Accounting," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies has three appendixes. Appendix I provides numerous specific standards and requirements governing the accounting treatment and classification of transactions and events. It discusses concepts such as reporting entity, recognition, accrual, matching, allocation, and measurement. It also provides guidance on the use of cost-finding techniques and the need for accounting systems to precisely track and distinguish obligations, expenditures, expenses, and outlays to ensure proper measurement and reporting of costs. Appendix II prescribes standards for internal control. These standards establish the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which they are to be evaluated.

This third appendix prescribes standards and related guidance for the development and operation of accounting systems. The government's need for financial information in both detailed and summary forms results in a number of general requirements or standards for all agency accounting systems in operation, as presented in chapter 2, and in various specific external reporting requirements for the agencies, as presented in chapter 3. Chapter 4 presents broad standards applicable to the development or modification process, and chapter 5 presents broad requirements or standards for documentation of the system development project and of the accounting system.

The standards are presented at the beginning of each of the following chapters under the "standards" caption. These standards, while intended to be mandatory, are fairly broad. They apply to all operating accounting systems and major accounting system modification or development efforts undertaken following issuance of these standards.

\* In addition to prescribing these accounting system standards, GAO has cooperated in an interagency project under the direction of the Joint Financial Management Improvement Program to develop uniform requirements for the core financial systems of federal departments and agencies. The development of systems that meet uniform requirements is viewed as an essential step in moving from the current proliferation of fragmented, antiquated financial systems to an effectively integrated and comprehensive financial structure for the government. The joint sponsorship of this project resulted in mutually agreed-upon criteria for implementing accounting and other functional requirements for federal financial systems. The uniform requirements, as contained in the January 1988 publication entitled Core Financial System Requirements, are incorporated by reference into the accounting system standards prescribed by the Comptroller General.

If an existing system or an ongoing development effort is not in compliance with these uniform requirements and with the standards contained in this appendix, the agency should plan for and ensure compliance within a reasonable time in light of economic considerations, as well as make appropriate disclosure in reports on the status of the accounting system as required by 31 U.S.C. 3512(c).

Each chapter of this appendix also includes discussion material related to the respective standards. Guidance under the "discussion" caption may be viewed as advisory, unless it is required by a provision of law, by the related standards, or by another directive, such as appendices I and II of title 2, the uniform requirements for core financial systems, or issuances by the Office of Management and Budget or the Department of the Treasury.

The standards and related guidance which follow, pertaining to the development and operation of accounting systems, are intended to promote to the maximum extent possible the use of systems that will provide the information needed for effective and economical management of the government's resources and operations and to assess management's stewardship.

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CHAPTER 2ACCOUNTING SYSTEM STRUCTURE AND OPERATIONSTANDARDS

A department or agency accounting system must be maintained on an accrual basis<sup>1</sup> and utilize the United States Government Standard General Ledger chart of accounts. It must incorporate adequate audit trails, double-entry accounting, and include, for each appropriation or fund, accounts that provide appropriate records on obligations incurred and liquidated to assist in controlling expenditures and disbursements and in reporting on the status of appropriations and funds.

Within each department or agency, the account structure (general ledger and subsidiary accounts), definitions, and data elements must be standardized to ensure consistency, uniformity, and efficiency in accounting treatment, classification, and reporting. Furthermore, the procedures for capturing, classifying, communicating, processing, and storing data and transactions must be uniform (or translatable among the various subsystems or segments of the system, as necessary). All subsidiary accounts must tie into related control accounts in the general ledger.

The accounting system of each agency must provide control over assets and liabilities and must provide the accounting support needed for the budget process. It must be able to develop and report costs and performance by major organizational segments, budget activities, and program structures. The system must meet internal needs for classification by type of cost, such as capital assets, labor, materials, and contract services.

Department or agency accounting systems must include reasonable safeguards and controls to ensure data integrity and to protect against loss of the system's ability to function.

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<sup>1</sup>The prescribed basis for federal agency accounting is the accrual basis (31 U.S.C. 3512(d)). Exceptions are authorized when the differences between the results of cash and accrual accounting are insignificant. (See "Concepts," appendix I.)

Agencies must periodically review their accounting systems to ensure that the system, along with its controls and security features, continues to perform as intended, meet user needs, and conform to applicable laws and accounting standards.

## DISCUSSION

### LEGAL OBJECTIVES AND RELATED REQUIREMENTS OF ACCOUNTING SYSTEMS

A number of accounting system objectives mandated by law are listed in the "authority and purpose" section of this appendix. To ensure compliance with one of these objectives--effective control over and accountability for assets--the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)) directs agency heads to establish, in accordance with standards prescribed by the Comptroller General, internal accounting and administrative controls that reasonably ensure that (1) obligations and costs comply with laws, (2) assets are safeguarded against waste, loss, and misuse, and (3) revenues and expenditures are properly accounted for and recorded so that reliable data may be prepared and accountability of assets maintained. (See also title 2, appendix II, and chapter 4 of this appendix.)

Agency heads also are required to maintain their accounts on the accrual basis (31 U.S.C. 3512(d)) and to take actions to achieve, to the extent possible, consistent budget and accounting classifications, synchronization of those classifications with the agency's organizational structure, and performance and program cost information by organizational unit to support budget justifications (31 U.S.C. 1112(e)).

In furtherance of these various legal provisions, the central management agencies prescribe governmentwide requirements. In particular, accounting systems are required to assist in preventing the overobligation and overexpenditure of appropriations, apportionments, administrative subdivisions, and specific statutory or agency limitations. Therefore, an accounting system must be capable of providing users with positive knowledge of fund availability prior to incurring an obligation. Records maintained as part of the accounting system must show the status of each appropriation or limitation--amounts available, obligated, expended, and disbursed, and the balance remaining. (See also title 2, appendix I, section F50; title 7, "Fiscal Procedures," sections 4.4, 16.2, and 16.3; and OMB circular A-34.)

### STRUCTURE OF THE ACCOUNTING SYSTEM

The underlying purpose of an agency accounting system is to produce and report financial information to satisfy the internal needs of the agency and the external reporting needs of the executive branch, the Congress, and the public. To produce such reports, the system must be structured in a way that ensures the proper gathering, recording, storing, processing, communicating, and consistent reporting of the information.

Accounting information is most useful when organized by project or program, responsibility center, activity, object class of expenditure, organizational unit, appropriation, etc. Systems should be capable of responding to requirements for information along these various dimensions. Generally, this capability is provided by a combination of the account and coding structures.

Systems should be flexible so they can adapt to changing user and external requirements during the system's life cycle. The system should be flexible enough to handle additions or deletions, including changes to accounts or account codes, classifications, organizations, and dollar thresholds, without extensive program or system changes. Table-driven systems, where frequently changed information is kept in tables separate from program logic, and data base management systems are two effective ways of providing such flexibility. Also, capturing data at the lowest level of detail will facilitate adapting to new and expanded reporting requirements.

The United States Government Standard General Ledger provides a uniform chart of accounts and supporting transactions to be used by agencies. It is intended to standardize federal accounting and to meet the basic federal financial statement and budget execution reporting requirements. Agencies are permitted some flexibility in adapting the standard general ledger to meet their needs.

To determine the appropriate system and coding structures, an agency should first define each entity for which separate accounting and reporting are needed to meet legal and assigned responsibilities and reporting requirements. The structure must provide for use of appropriate accounts from the uniform chart of accounts. The system must incorporate the double-entry concept, and, to the extent practical, maintain appropriation and fund identification for the current and prior years. The account structure within the general ledger is driven by the type of funds and transactions involved and the nature of the agency's

operations. Accounts should be organized and classified to facilitate budget formulation and control, required external reporting, and program and functional management. As a minimum, as prescribed in appendix I, section F40, the general ledger must include accounts for assets, liabilities, equity of the U.S. government, expenses, losses, transfers out, and financing sources and gains.

To facilitate budget control and program and functional management, each accounting system must have a means of capturing and reporting transactions by appropriations and funds, budget programs, activities, projects, organizational segments, object classes, geographic locations, obligations, etc., as necessary to meet user needs and outside reporting requirements and inquiries. Providing these capabilities normally requires a comprehensive coding (classification) scheme. These classifications should be coded in such a way that lower levels of data roll up into higher levels. For example, projects normally roll up into budget activities, which roll up into programs, which roll up into appropriations, which roll up into agency-level information, which rolls up into consolidated departmentwide information. The account and classification structures should be consistent with those provided in the standard general ledger. They should be uniform, or at least translatable among all accounting systems, subsystems, and components within a department or agency to facilitate consolidation or rolling up of information into consolidated reports. The required translation among systems could be achieved, for example, by use of data tables and a data dictionary that would then function as a common denominator.

In addition, programming, budgeting, accounting, and reporting classifications should be consistent with each other and synchronized with the organizational structure so that actual activity can be compared with enacted budgets and support future budget formulation for each management function. To achieve this consistency and synchronization, the account structure, transaction coding and data elements, and classification scheme must be uniform or translatable among all accounting, budgeting, and reporting systems, subsystems, or components within a department or agency. The uniformity or translatability among account structure, procedures, transaction coding, and classification enables effective and efficient production of useful, timely, reliable, comparable, and complete financial information needed by management and is essential to the reconciliation of amounts recorded and reported on different bases, such as accrual, cash, or obligation.

## ACCOUNTING PROCESSES AND PROCEDURES

### Support for Transactions

A fundamental requirement for any viable accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records. These transactions, and any subsequent adjustments, should be authorized and executed in accordance with management criteria by personnel acting within the scope of their authority. They should be properly accumulated and correctly classified, coded, and recorded in all affected accounts. These transactions should be recorded in the accounts promptly and accurately, in the proper amount, to permit (1) preparation of financial reports in accordance with internal needs and external requirements and (2) prompt analysis of the information by management. Thus, information should be captured in the accounting records simultaneously with or immediately following the event that gave rise to the transaction.

All transactions, including those which are computer-generated and computer-processed, must be referenced to individual source records. Referencing must be done in a manner that enables tracing or replicating a transaction from its source to the resulting record or report, and from the resulting record or report to the source, or by tracing indirectly to source records through summaries and calculations contained in general and specific journals. Types of references include: batch references, journal references, transaction-document identifiers, and transaction terminal-entry identifiers. Accounting records should be retained in accordance with title 8 of the GAO policy and procedures manual and with the General Records Schedules maintained by the National Archives and Records Administration.

Individual source records fall into the following three categories: (1) documents (either traditional source documents or documents or forms created when data are entered at a terminal), (2) source listings of transaction data entered at a terminal (these listings include the same data elements as the traditional source documents, without generating the individual documents), and (3) source records stored on magnetic media such as disks or tapes. Items in source records necessary for audit-trail purposes include transaction type, record or account involved, amount, processing references, and identification of the preparer and approver of the transaction.



While this audit trail is essential to auditors and system evaluators, it is also necessary for the day-to-day operation of the system. For example, it allows for the detection and systematic correction of errors that arise. It also allows for the tracing or replicating of the automated processing of transactions when the following types of activities must be accomplished: verifying or investigating computer-generated transactions; verifying a total computation where the individual items are not otherwise listed; verifying complex computations; or reviewing or restoring changes to a data base, master file, or table. A key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported. To facilitate such tracing, a ledger account must include transaction references, that is, a record of all postings to the account. The audit trail also permits detailed listings of items reported in summarized form and the verification that items were correctly posted.

In the case of computer-generated transactions, verification of amounts recorded or reported requires (a) reviews of system documentation, such as edit routines and decision criteria in program listings, to gain an understanding of the events which generate transactions, and (b) reference to master files, data base records, detailed listings of computer media work files, or input transactions which trigger the computer-generated transactions.

### Reconciliation

General ledger balances must be reconciled with subsidiary accounts and records, either manually or by the computer, in a timely manner. Regularly scheduled reconciliation of control and subsidiary accounts and records for such things as cash receipts, accounts receivable, travel advances, inventories, accounts payable, and other liabilities helps to substantiate and maintain the accuracy of account postings and balances by checking the agreement between the sum of the detail in subsidiary accounts and the general ledger control balances.

General ledger property accounts should also be periodically reconciled to detailed property records. Accounting records must be brought into agreement with the results of physical inventories when they are taken. (See appendix I, section P40.) The results of periodic physical counts of cash and cash items should be reconciled to recorded amounts. Differences between recorded inventory and cash accounts and the results of physical

counts should be investigated to determine the causes. When appropriate, action would be taken to prevent recurrence and to effect recovery.

Financial data produced by program offices or information systems should be reconcilable with the comparable data in the accounting system. Systems, whether automated or manual, must have the capability of readily reconciling expenditure data with obligations and outlay data, and systems must include appropriate procedures for closing the accounts at the end of one accounting period and reopening accounts at the beginning of the next period.

### Transaction Processing/Production Control

Agency accounting systems, whether automated or manual, must contain internal controls which operate to prevent, detect, and correct errors and irregularities which may occur anywhere in the chain of events from transaction authorization to issuance of reports. The controls can be generally thought of as covering the functions of transaction authorization and approval, data preparation and validation, input, communications, processing, storage, output, error resolution and reentry of data, and file or data base quality maintenance. The objective of these controls is to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions/data are ensured during automated (or manual) processing of the accounting applications.

In automated systems, controls are usually classified as "general" or "application-specific" controls. General controls are those that affect the agency's data processing operations across-the-board, such as limitations on access to system software, and standing requirements for physical security and system backup and recovery. Typically, general controls are considered in terms of:

- organizational and operational controls which are provided by the organization plan and by designation of duties (which are typically thought of in terms of separation of duties);
- system development and maintenance controls which cover documentation and procedures and the process by which applications are developed, installed, changed, and updated;

- hardware and software controls which are designed to detect hardware malfunctions or failures and prevent operational errors;
- access controls which provide a reasonable level of physical security over automated data processing (ADP) resources to protect against unauthorized or improper use of equipment and stored data; and
- procedural controls which are the specific procedures used to control operations and ensure accurate and complete processing of data.

Application-specific controls are those related to a particular activity or subsystem, such as requirements that the payroll clerk have read-only access to a file and that payroll transactions can be entered only at certain terminals. Typically, application controls are considered in terms of input, processing, and output.

Input controls should detect unauthorized, incomplete, duplicate, or otherwise erroneous transactions and ensure they are controlled until corrected. Processing controls should provide reasonable assurance that all transactions have been processed and that the application processing was correct, using correct file data, operator procedures, and processing logic. Output controls provide reasonable assurance that the output is complete, correct, and distributed only to authorized users.

Closely related to controls over input, processing, and output are controls over data communication and data storage and retrieval. Data communication controls help ensure that the integrity and confidentiality of messages (data) transmitted by communication lines from the originating point to the reception point are maintained. In addition, data storage and retrieval controls help to ensure that the files and data are protected from loss, destruction, and unauthorized changes, and that only the correct and latest version of data and program files are used during processing. Table 2.1 at the end of this chapter provides examples of various computerized functions and related control objectives and techniques.

While the particular procedures and records used to effect these controls are left to each agency, agency systems (whether automated or manual) should include internal controls, where appropriate, that prevent or detect the following kinds of situations:

- failure to record a transaction,
- incorrect or incomplete recording of a transaction,
- duplicate recording of a transaction,
- loss of a transaction document in handling,
- incorrect entry of data at a terminal,
- processing of unauthorized or incorrect data,
- directly changing account/master file/data base records without an authorized transaction,
- use of a superseded or test version of a program rather than the current production version,
- use of a wrong file or record in processing,
- unauthorized file maintenance transactions (which have a financial impact),
- use of an incorrect value in internal tables,
- incorrect default value,
- input of incorrect program parameters,
- unauthorized use of programs which bypass normal program controls and edits,
- incorrect or incomplete processing logic,
- abnormal interruption of the application processing run,
- destruction of part or all of a file during processing,
- data base errors,
- out-of-balance conditions, and
- data errors caused during data transfer between interfacing systems.

Since most transactions are repetitive and the decision rules usually are well-defined, transaction processing can be heavily automated; the system's software may make decisions, generate transactions, and control processing activities. Consequently, initial and periodic testing of the adequacy and accuracy of the transaction processing software is necessary, as discussed more fully in chapter 4.

Agency systems should provide a reference and control list of transactions processed during a processing cycle or a given period of time. These are useful reference and search aids and are an important element of the audit trail in an automated environment. The lists can be in the order in which transactions occur, but special lists are also normally prepared to aid reference or search. These are frequently equivalent to subsidiary ledgers, such as cash receipts, sales, or payroll registers, in which transactions are listed and subtotals and totals are computed. The computed figures are then used for posting to summary or control accounts and for other control procedures.

### Error Handling

Systems must provide procedures for control over errors to ensure that, once errors are detected, (1) corrections are made in a timely manner and reentered into the appropriate processing cycle, (2) corrections are made only once, and (3) the correction itself is validated. Data items that contain errors should be carefully controlled to ensure they are resubmitted (i.e., the transaction is not lost). For data input errors, error lists or reports indicating why each item was rejected should be prepared and open items should be tracked and aged until all errors are corrected.

The disposition of erroneous transactions depends on the type of transaction, the data item in error, or other control considerations. The possibilities include (1) the entire transaction is rejected and returned to its originator for correction and resubmission, or (2) the transaction is held in a suspense file until it is corrected and/or transaction data are processed but marked with an error flag (because the error is in a noncritical data element). A system should be capable of providing management with reports that list errors by category and corrective action taken. A supervisor should review error listings and corrections. Procedures should be established for periodically analyzing reasons for errors and rejected transactions by type and source so that management may ensure that appropriate corrective action is taken.

When transactions are input through a terminal, either on-line or for later update to the system, the transaction and data elements are edited when keyed. Errors found by the edits are resolved and reentered immediately, or the transaction is held in some fashion until all the data are validated. When error resolution cannot be done at the terminal, the document or source record should be controlled to ensure errors are researched, corrected, documented, and resubmitted for input into the system in the appropriate processing cycle. Additional editing by the application software usually occurs once the transaction is in the system. Errors found during this process should be handled as discussed above.

### Control Over Output

Output distribution should be controlled to ensure that only properly authorized personnel receive reports or other output. Prior to distribution, output should be checked for such things as completeness, agreement of control totals, proper labeling,

and appropriate number of copies. If feasible, a cross-check with output from related programs should be done. The user group or area responsible for the function related to the output should perform simple error detection and control procedures (e.g., visual scans, tests against independently maintained control totals, comparison with approximations or physical counts) before relying on or releasing the output.

#### Verifying File Data

The correctness or integrity of file data depends on the quality of the original file and the quality of subsequent processing affecting that file. Since data quality can deteriorate over time, systems should provide maintenance procedures to help ensure the continuing quality of files. Methods for maintaining file quality include the scanning of file contents by a computer program which reviews data items against criteria similar to those used during validation of input data. In another method, the content of master file records for each major accounting application is printed out in a format that permits inspection and review for completeness and accuracy. Depending on what the application and record type are, such reviews should be performed by the users or other personnel who would be most effective in detecting discrepancies. The need for periodic special reviews to verify file data will be reduced where input controls are effective and when the examination of reports routinely produced by the system can be relied upon to serve this purpose. Agency management should determine the frequency and extent of file quality reviews, with due regard to the risks and costs involved. Similar review procedures should be considered for satellite files (stored tables) used by application programs.

#### System Security and Integrity

To help ensure continued and authorized processing and protection of information, systems must include procedures and controls which protect hardware, software, data, and documentation from physical damage by accident, fire, and environmental hazards and from unauthorized access whether inadvertent or deliberate. In physically safeguarding computer facilities, consideration should be given to such matters as the location and design of the computer facility; fire detection and fire fighting techniques; housekeeping and preventive maintenance techniques; physical safeguards over files, software, and documentation; and controlled access to the computer room and library.

The integrity and confidentiality of the system's data and software must also be protected from accidental or malicious modification, destruction, or unauthorized disclosure. Studies on computer crime often find that a significant amount of frauds were perpetrated by data processing personnel with prior records of mishandling or misappropriating funds who were placed in sensitive positions. Therefore, controls over personnel selection, placement, job rotation, and vacation requirements for critical or sensitive positions are important. In addition, the agency must ensure continuing availability of information processing by providing backup, recovery, and retention procedures encompassing hardware, personnel, supplies, software, data, and vital documentation. This will help ensure continuation of data communications and processing capabilities in emergency situations or during power interruptions and will help ensure the capability of reconstruction in case part or all of a master file or data base is destroyed or damaged during processing.

The Institute for Computer Science and Technology, National Bureau of Standards (NBS), Department of Commerce, has published numerous standards, guidelines, and technical reports on various computer security, integrity, and risk management topics which provide more specific guidance on how system security and integrity objectives can be achieved. This guidance is widely circulated and readily available throughout the federal government. One key publication, known as NBS Publication List 58, describes the many available publications and includes ordering information. In addition, OMB, Department of Defense, and General Services Administration publications on information resource management and systems address various aspects of computer security. The topic is further discussed in chapter 4.

#### ACCOUNTING SYSTEM MAINTENANCE

Agency accounting systems are dynamic. They are subject to changing requirements throughout their useful lives due to changes in related technology, agency programs, funding, personnel, etc. Reaction to changing requirements as well as the activities which carry out day-to-day operations can be termed system maintenance. Management should have sufficient involvement to ensure that despite such changes, the system's stability is maintained.

Stability of the system, in one context, exists when the computer software has been debugged and performs as intended. In a second context, it is maintained when successful application of

management policies and procedures for control of changes in application software, improved compilers, changes in hardware, and training of new employees operate to protect against communication problems, data entry failures, and user negligence. Well-defined organizational responsibilities and strict adherence to procedures and controls governing the changes to the system are keys to stability of the system in operation.

Procedures for controlling changes should require rigorous analysis of requested changes. Formally approved and documented change procedures help to protect against fraudulent or otherwise unauthorized changes to previously tested and accepted application systems and data bases. Program or other changes to the system in operation should be subject to the general and application-specific internal control strategies applied during the development process. After the analysis is completed and documented, user and/or ADP management should approve it before modifications are made.

The separation of duties required for control purposes can be achieved by designating responsibilities to the three major working groups associated with an automated, operational accounting system--computer operations personnel, software maintenance specialists, and users. Management procedures and controls should be in place to ensure that responsibilities for the system assigned to any of these groups are not improperly relinquished to or assumed by another.

The duties and responsibilities for the three major groups may include the following:

- Computer operations group: Has a responsibility to operate the system, to deliver to users reports generated by the system, to assess problems, and to work with users and the maintenance support group in resolving problems. (See chapter 5 for the documentation needs of the operations group.)
- Maintenance support group: Has a responsibility to accomplish and document changes or enhancements to meet user needs or to correct program errors detected within the group or by users. Changes should only be made in accordance with formally approved and documented system change control procedures. Even within the maintenance support group, it is not advisable from a control standpoint to allow all programmers access to all software. After any changes are made, the maintenance



support group should conduct appropriate tests of the software to ensure that procedures and controls are working as intended.

- User groups: Are responsible for ensuring, to the extent practicable, the integrity of data input, processing, and output. This responsibility includes making sure that (1) internal controls and operating procedures are properly implemented, (2) training and operating manuals are provided to appropriate personnel and updated as needed, (3) operations are evaluated against the design requirements, (4) problems are promptly communicated, and (5) errors are promptly resolved.

Also, operations and user groups share responsibility for periodic review and enforcement of formally approved procedures for end-user computing, user-developed and implemented software, and downloading of data from the official files.

#### ACCOUNTING SYSTEM REVIEWS AND EVALUATIONS

Another consequence of the dynamic nature of accounting systems is the need for periodic reviews and tests of their operations. These are critical to ensure that the system and its controls and security features continue to meet user needs, perform as intended, and conform with applicable accounting standards. (Reviews and testing of systems while they are undergoing development or major modification are discussed in chapter 4.)

Management should ensure that there are (1) periodic assessments of the system's overall usefulness in terms of output products and meeting the organization's mission and (2) periodic or continuing measurements of work-load efficiency and productivity for comparison of like operations, both in and out of the agency, to determine whether system performance expectations are being realized. Periodic evaluations should be made to ensure that prior cost-allocation assumptions are still valid. In addition, OMB circular A-130 requires periodic review of sensitive applications and recertification of the adequacy of system security safeguards.

The results of these various types of evaluations of the efficiency and effectiveness of the system in operation and of the costs and benefits associated with prior decisions should be used as input to the overall planning and programming process of the agency.

Consistent with management's need for periodic reviews, section 4 of the Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. 3512(c)(2)(B), places responsibility for determining accounting system conformance on agency heads by requiring them to report annually to the President and the Congress on whether agency accounting systems conform to the principles, standards, and requirements prescribed by the Comptroller General.

In order to make the required conformance determination, the agencies and GAO must use accounting system evaluation procedures which include testing of the critical aspects of the system in operation. System reviews and test results should be documented for use in future reviews, as well as future system planning. To the extent possible, the reviews of an accounting system in operation required by this title and by OMB should be consolidated and coordinated to avoid duplication, overlap, or omissions, and to enhance the efficiency and quality of the overall review effort.

Tests should be designed to disclose whether valid transactions are processed properly and whether the system rejects invalid transactions. The tests should cover the entire flow of transactions from initial authorization through processing, posting to the accounts, and reporting. In developing test plans, consideration should be given to the results of any prior system testing and audits. Where the systems involve manual operations, interview and observation techniques are especially important because of the higher risk that prescribed accounting procedures or control techniques are not consistently followed or that the results of processing test transactions are not representative.

Agencies will need to exercise judgment in determining which tests would be appropriate for their systems. Also, agencies may adopt evaluation policies which provide for more comprehensive evaluations on some cyclical basis. For example, fairly detailed reviews of the entire system or of a major portion of the system might be made every third year, with personnel who operate the system performing less comprehensive reviews in the interim.

Tests of an operational system should cover the major types of transactions or events the system is designed to process or handle and the key internal controls to ensure that they are operating as intended. It is important to keep in mind that, in most cases, using transaction testing as the key, more than one of the following testing techniques are needed:

- interviewing persons who operate the system,
- observing operating procedures,
- examining system documentation,
- independently verifying data integrity by use of generalized audit software,
- verifying by use of actual or simulated transactions that computer-based systems correctly process (or reject) both valid and invalid transactions,
- reviewing error reports and evaluating error follow-up procedures, and
- comparing data from related reports and records.

Similar guidance on testing has been included in appendix B of the OMB publication "Guidelines for Evaluating Financial Management/Accounting Systems" (May 20, 1985). In addition, GAO has developed a comprehensive methodology for evaluating accounting and financial management systems. This methodology--Control And Risk Evaluation (CARE)--includes segments covering general risk analysis, transaction flow review and analysis, and compliance and substantive testing. The methodology is readily available to executive agencies for use in their self-assessment efforts. GAO uses this methodology to assess agency financial management systems which are in operation and will apprise agencies of the results of such reviews, including any determinations regarding the adequacy of the accounting system and its conformance with the accounting principles, standards, and related requirements prescribed by the Comptroller General, as provided for in 31 U.S.C. 3512(e) and (f).

Table 2.1: Examples of Computerized Functions and Related Control Objectives/Techniques

<b>FUNCTION</b>	<b>CONTROL OBJECTIVE</b>	<b>EXAMPLES OF CONTROL TECHNIQUES</b>
Input	Authorized	<ul style="list-style-type: none"> <li>Transmittal documents are properly approved and data entry terminal passwords are used, validated, and protected.</li> </ul>
	Complete	<ul style="list-style-type: none"> <li>Proofing, batching, and balancing techniques and procedures are used to control the flow of transactions entering the system; processing schedules are used to determine that all input has been entered on time; on-line or manual logs are used to show receipt and disposition of data received; and errors rejected at the entry point are accounted for at the end of the processing cycle.</li> </ul>
	Accurate	<ul style="list-style-type: none"> <li>Validation techniques are used to ensure accuracy, completeness, and reasonableness of data; control totals are compared for key fields; transactions are edited and validated very early in the data flow for reasonableness and to ensure incorrect transactions are rejected before their entry into the system; ability to override or bypass edit and validation system features is restricted to authorized personnel; and reentry of corrected data is done by using the same or similar rules as for entering the original transactions.</li> </ul>
Data communication	Input data integrity ensured	<ul style="list-style-type: none"> <li>Each message from the sending terminal is well-identified to ensure proper traceability through the system.</li> </ul>
	Transmission accuracy and completeness	<ul style="list-style-type: none"> <li>Parity and other validity checks are used to detect errors in data transmission at the character level. Separate transmission of summary-</li> </ul>

FUNCTION	CONTROL OBJECTIVE	EXAMPLES OF CONTROL TECHNIQUES
		level data is used to confirm accuracy of data transmitted from an off-line subsystem before the primary system is updated.
	Reception and accounting	<ul style="list-style-type: none"> <li>○ The hardware and software receive and account for all messages in the system. Both incoming and outgoing messages are checked for valid addresses and edited for specific functions, such as routing. An on-line log of input/output messages is maintained.</li> </ul>
Processing	Authorized	<ul style="list-style-type: none"> <li>○ Procedures to control access, such as passwords, are used, and software-generated transactions are displayed on appropriate media and made available for authorization and reconciliation with related data.</li> </ul>
	Complete and accurate	<ul style="list-style-type: none"> <li>○ Procedures are established to ensure that all transactions rejected during computer processing are corrected and reentered in the appropriate processing cycles. The system's software produces error reports showing the entire rejected transaction, all data fields in error, and messages describing the error condition. New application programs and changes are rigorously tested. Data fields on a resubmitted transaction are subjected to the same verification procedures as the original transaction.</li> </ul>
	Potential for loss of data is minimized	<ul style="list-style-type: none"> <li>○ Procedures are established for ensuring access control, preventive maintenance, and disaster recovery plans, including off-site backup capability, data storage, and documentation.</li> </ul>

FUNCTION	CONTROL OBJECTIVE	EXAMPLES OF CONTROL TECHNIQUES
Data storage and retrieval	Files protected	<ul style="list-style-type: none"> <li>o Data storage facilities and personnel have appropriate operating procedures. In a data base management system environment, the software prevents simultaneous updates to a record. An active data dictionary/directory system is used to define data in the data base. Application data and software are classified by security levels and users by security clearances and access privileges. Password security is maintained.</li> </ul>
	Correct version used	<ul style="list-style-type: none"> <li>o Internal and external labels are checked.</li> </ul>
	Data remain as authorized	<ul style="list-style-type: none"> <li>o Detailed reviews of data base and data base files.</li> </ul>
	File backup	<ul style="list-style-type: none"> <li>o Data bases are dumped to a more permanent storage medium at regular intervals. Procedures provide for off-site backup of critical applications data and files. Documented recovery procedures are established for all critical applications.</li> </ul>
Output	Complete and accurate	<ul style="list-style-type: none"> <li>o New and changed application software are tested. Application output is reviewed to ensure the accuracy and completeness of data reported. Output control totals for each application are reconciled with input totals.</li> </ul>
	Accountable documents safeguarded	<ul style="list-style-type: none"> <li>o Unused stock is locked up. Control logs are maintained over forms issued, used, and voided.</li> </ul>

APPENDIX III

APPENDIX III

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**CHAPTER 3****FINANCIAL REPORTING****STANDARDS**

Accounting systems must provide full and prompt financial information to meet external reporting requirements and internal management needs. The reports, statements, and related disclosures the system produces must be accurate, useful, complete, timely, and consistent to fairly present information needed by management for external reporting and for (1) planning and programming, (2) budget formulation, (3) budget execution and accounting (including controlling assets, liabilities, and operations and managing activities), and (4) audit and evaluation of program and management effectiveness.

**DISCUSSION**

The overall purpose of the financial reporting process is to transform (analyze, evaluate, summarize, reconcile, adjust, and reclassify) financial data obtained from the various processing/transaction cycles into meaningful information and to provide it to the internal and external users who must make resource allocation decisions, assess management's performance and stewardship, manage activities, or determine legal compliance. For reports to be meaningful and useful, they must provide information users need, be easy to understand, be accurately and promptly prepared on a consistent and comparable basis, fairly present information and relevant disclosure data, and include the effect of all and only the transactions of the period being reported upon. They must also comply with restrictions on information classified for security purposes.

Ordinarily, both internal and external reports should be prepared from the same source data (the underlying accounting records or data base) and should be in agreement. Internal and external financial report generation is generally accomplished by the automated portion of the agency's financial management system. However, report preparation can also take place outside the automated portion of the system (for example, manual consolidations or microcomputer spreadsheet applications). In such cases, the automated portion should be capable of providing the necessary data and processes (summarization, adjustment,



etc.) to facilitate financial reporting and preparation, as well as consolidation of financial statements at the agency and department level. In either case, except where estimates are clearly appropriate, information included in external reports required by Treasury and OMB should be from the general ledger or accounts under general ledger control. Interagency, intra-agency, and interfund transactions should be separately identified in records and statements so they can be properly treated in preparing consolidated reports. Financial statements produced must be the culmination of the entity's systematic accounting process, covering the total operations of the reporting entity. (See appendix I, sections C40 and F20.)

### ACCURACY

All financial data presented in reports must be accurate. This does not rule out the use of reasonable estimates in reports and statements when precise measurements are impractical, uneconomical, unnecessary or would cause delay in report issuance. However, estimates should be clearly identified as such. In addition, if financial data or reports are based on sources other than the agency's official system, their basis should be clearly explained.

While agencies should exercise discretion as to disclosures that must be included in internal reports, special care must be taken on external reporting. In addition to the specific reporting requirements of the Department of the Treasury, appendix I, section F20 establishes full-disclosure requirements for agency financial statements. It provides for disclosure of related-party transactions, the liability for employee benefit plans, and numerous other items.

When reports are ad hoc or result from end-user manipulation of data produced by the system, the risk of error, bias, or misleading presentation is greater and special caution should be exercised. Reports should fairly present information and be relatively free from error and bias. They should not obscure significant facts nor present misleading information.

A system that consistently produces inaccurate data will result in users establishing alternative sources of information or carrying out their activities with inaccurate information. Therefore, automated and manual controls built into the system should ensure accuracy of financial data collected, processed, and reported. In addition, when reports are manually prepared, they should result directly from financial data coming from the

system and should be prepared by designated individuals knowledgeable of the reporting requirements and be reviewed and approved by supervisory personnel.

### USEFULNESS

Internal reports, including reports presented on terminal screen displays, should be designed and produced to meet users' needs. Recurring internal financial reports should be based on explicit statements of financial information requirements for each user organizational unit. Reports should include labels and headings which clearly show such information as report content, date issued, and period covered. User concurrence with report format should be obtained and kept on file. Information needed by users should be identified when designing systems and internal reports, and user satisfaction with the level of detail, frequency, and distribution of the reports should be verified periodically. However, care should be taken that information is not provided if the costs of providing it exceed benefits to be derived, unless it is required to meet legal or other specified purposes. Written policies and procedures should be developed for initiating and approving requests for financial information and for changes to report formats.

Additionally, the system's ad hoc reporting or query capabilities, as well as agency procedures for utilizing these capabilities, should be readily available to system users. Ad hoc reporting or queries should be encouraged for meeting special or nonrecurring needs for information, consistent with cost-benefit considerations. Responses to ad hoc queries also may be used as input for spreadsheet applications for such things as financial analyses and projections that are of interest to top-level management.

All internal reporting policies and practices should be reviewed periodically to determine their continued usefulness and whether they reflect organizational and program changes. In the case of externally required reports, responsibility for keeping current on changing requirements should be assigned to a particular individual or group.

All financial reports should be useful. Reports should be designed to highlight major problems, exceptions, or trends and to facilitate the monitoring and evaluation of operations. Including narrative which highlights the contents of reports is an effective way of enhancing their usefulness. If properly

designed, reports produced by the accounting system can be useful to managers for comparing current and prior-period performance, and planned performance with actual. These comparisons can be done in a variety of ways, including on a cash, accrual, or obligation basis.

Reports should be designed so they can (1) provide management with feedback when established controls have been violated, (2) alert managers when operations are deviating from financial plans, and (3) provide the financial data needed to analyze and predict the financial consequences of alternative courses of action. Accounting system reports, combined with other management information, can provide managers with a wide range of useful reports that contrast anticipated work units and their anticipated costs with actual work units and actual costs incurred. Reports of this nature can help agency management monitor and assess current operations and develop future work plans.

Exception reports are an effective way of providing managers with only the specific information that is needed or most useful to them. For example, a report listing only delinquent accounts receivable rather than one of the status of all accounts would be more useful in assisting managers to focus on the problem accounts. On the other hand, managers interested in trend analysis, for example, might also utilize more detailed reports showing what is owed, who owes it, and when payments are due.

### COMPLETENESS

The fair presentation of financial information requires inclusion of all essential financial facts relating to the scope, purpose, and time frame of each report. The system should contain both budgetary and proprietary accounting information in the level of detail needed to meet the needs of management and external reporting requirements.

### TIMELINESS

Reports must be promptly produced to be of maximum use to management and to meet external requirements. Inability of a system to consistently meet timeliness requirements will result in users establishing alternative sources for needed information or in users carrying out activities with obsolete information. Where timeliness is particularly critical, reporting needs may be met by providing the capability to query the system's data base or by ad hoc report generation capabilities.

Regardless of reporting format or frequency, various techniques can be used to help ensure timely report generation and distribution. For example, systems should have backup and recovery provisions to help ensure timely report generation in cases of processing interruption or emergency situations. Agencies should develop and maintain reporting schedules and due dates. Responsibility for report distribution can be assigned to one individual or group. A control list of reports produced, their due dates, and authorized recipients could be maintained and checked off as reports are issued. Approved cutoff dates should be established for data input for various reports produced and should be communicated throughout the agency. The use of remote printers could reduce the report distribution lag.

Financial reports should be issued periodically in accordance with the accounting period and, in addition, as specifically needed. Thresholds for timeliness should be established based on user requirements. Reports should not be delayed, and cost and effort should not be incurred to produce relatively minor refinements of data.

#### CONSISTENCY

Financial management data should be recorded and reported in the same manner throughout the agency and should use standard definitions and classifications. To enhance consistency throughout the government, the U.S. Government Standard General Ledger provides standard accounts and data elements to be used in preparing reports required by Treasury. Financial data reported should be derived from accounts that are maintained on a consistent basis from period to period. Any material changes in accounting policies or methods and their effects should be clearly explained in the reports. (See appendix I, section C20.)



**CHAPTER 4****ACCOUNTING SYSTEM DEVELOPMENT AND MODIFICATION****STANDARDS**

Accounting system development or modification must be based on a consideration of the agency's needs for financial information and on an overall plan for an integrated financial management system. To the extent practical and economically feasible, design and modification efforts must incorporate the use of modern techniques, structures, and equipment. The resulting accounting system or modification must satisfy requirements of laws, regulations, and management; the accounting principles, standards, and requirements prescribed by the Comptroller General; and the requirements of the central management agencies of the executive branch.

Accounting system acquisition and development or modification efforts must be managed by a structured process that provides involvement and approval by upper-level management at key decision points and continuous involvement of users throughout the process.

**DISCUSSION****IMPORTANCE OF AN OVERALL PLAN  
AND A STRUCTURED APPROACH**

Accounting and financial management system development and major modification efforts are costly investments and commitments of human and financial resources. Moreover, the decisions made when these efforts are being planned and carried out will significantly affect the system's future efficiency, its effectiveness in providing the information needed to manage the agency's operations, and its useful life. Failure to acquire or develop an adequate system initially will result in later system problems. Thus, careful, effective planning throughout the entire development process is extremely important.

Overall systems planning is also directed by OMB circular A-127. The circular and implementing guidance require agencies to annually review their financial management systems and submit to OMB a comprehensive 5-year plan showing planned developments and improvements, milestones and costs, and the relationship of

the proposed improvements to other systems development and operations activities. The circular also directs that agencies' financial management system plans be coordinated with their multiyear planning process for acquiring and operating information technology, as required by OMB circular A-130.

In addition to the overall plan, individual systems development or improvement projects must be planned and carried out in a structured manner. This structured approach concept applies both to (1) the organization, composition, and management of the staff assigned to the project and (2) the phases of work in the development of the new or modified systems. Although agencies are not required to use the exact approach described here and although the emphasis that they will place on the various phases may vary by project, agencies must structure projects and use an approach that will accomplish the same purposes and provide the same degree of control. The standards and related guidance contained here should not be interpreted as requiring unwarranted and unnecessary delays or costs to carry out detailed studies. For example, a determination might be made quite early in the development process that an existing system can be modified at relatively minor cost to meet the agency requirements--such a determination should result in appropriate modification of the scope and depth of the study in the various phases of the structured approach and, in particular, should reduce the amount of effort required for detailed design, programming, and coding.

Individual phases in the structured process will have identifiable activities, products, and target dates which will be the basis for planning, directing, and carrying out the work. These phases and their activities and products are also an appropriate basis for structuring quality assurance plans involving auditors, ADP technical personnel, functional users, and management. Problems detected early in the project will be less costly to resolve than those detected in later phases. Agencies will find that Federal Information Processing Standards Publication (FIPS PUB) 101 and the several related National Bureau of Standards special publications contain information that will be useful in developing and carrying out their quality assurance activities.

Other critical aspects of the structured process are the requirements that the entire process and ultimately the system be documented and that management review and approve each of the major project products (e.g., feasibility study, functional

requirements statement). Changes that affect the design will occur throughout the life of the system in response to additional knowledge of the system design and operation, changes in mission requirements or changes in costs, schedules, or staffing. These changes must be controlled to ensure that they are cost-effective and that they are properly approved and documented. Documentation is a dynamic, ongoing process which must begin at project inception and not be viewed as an add-on task. Management must demonstrate a commitment to thorough documentation through policy, procedures, and funding. Accounting system documentation standards are discussed in chapter 5 of this appendix.

It is also critical that security and internal control considerations are embedded into the system development phases to ensure they become an integral part of the system produced. Definition and specification of safeguards during early stages of development results in more cost-effective action. Retrofitting security safeguards in later stages of development or during system operation can be more costly and result in less effective system protection.

#### CONSIDERATION OF EXISTING SYSTEMS

The compelling need to find economical ways to meet the government's financial management system needs, along with the general policy objective of promoting standardized financial systems and reports, requires agencies to fully consider opportunities for saving time and money by using or modifying existing systems. In this regard, OMB circular A-127 requires that new or substantially revised systems shall be developed on an interagency basis and be designed to meet the needs of all participating agencies. In lieu of undertaking custom-development efforts, agencies should survey systems and modules available off-the-shelf, commercially, or from other agencies to determine if they might be used or adapted to meet agency requirements, or to determine if the agency requirements might be adapted to fit systems or modules that are available. Smaller agencies are urged to pool resources or to utilize, on a reimbursable basis, services that are available from larger agencies.

While use of various options such as off-the-shelf packages or cross-servicing arrangements can often afford savings in terms of time and money because the scope and depth of the development project can be modified, it is still critical that a managed, structured approach be followed. For example, requirements and



user needs still must be identified and assessed, users and managers still must be involved in the process, the system must be documented, security and internal control requirements must be identified and provided by the system, and so forth.

### CONTRACTOR ASSISTANCE

Virtually any part of an agency's financial management system development effort might be contracted out; however, the system procurement process is complex, involving many individuals and organizational elements. Such contracts can be very costly. Concerns for efficiency and economy and the realities of budgetary constraints may preclude use of contractors or limit their involvement to very specific areas, such as installing system packages that are already available from other agencies or vendors. If contractor assistance is used, good communication and coordination within the agency and between the agency and the contractor are required. All the steps discussed in this chapter, such as defining the user requirements, must still be done. Also, agency representatives from the user unit and ADP technical support unit should work with the contractor's project team during all project phases. In general, needs for continuous planning, effective organization of the agency's administrative staff, clear lines of communication, and a structured approach to the development work are applicable to a project regardless of whether or not it is done by contract.

If the development/enhancement project is to be contracted out, and one contract will cover all phases of the structured process, the contract must clearly define the various phases and deliverables and include provisions for quality assurance testing and agency management review and approval of each deliverable before starting the next phase. An independent contractor may be used to ensure that requirements can be traced through each phase of the life cycle and that the end product performs in accordance with original specifications. This process provides an objective assessment of the technical quality of the software products and valuable input to management decisions.

### MANAGING THE STRUCTURED PROCESS

Beyond its developmental cost, a systems project will disrupt normal activities with a host of attendant problems. While many difficulties can be anticipated, no systems project proceeds exactly as originally planned, nor will it be free of unexpected problems. Managing any major project requires careful

planning and thorough consideration of technical matters. It also demands an ability to deal with the unexpected and a mechanism to solve problems. Therefore, it is important not only that the project be managed by a structured process which provides a framework for ensuring each development phase is carefully planned and controlled, but also that it is staffed by appropriate people and that it has management support and participation.

#### Involving Top Management

One of the most critical factors in determining the success or failure of a system development project is the degree of top management support. Only with top-level support can a major system become an accepted, integral part of the organization. Top management should participate in systems planning from the beginning and at all major decision points along the way. An important tenet of the structured approach is that top management, often through a project steering committee, have specific opportunities at specified review checkpoints to approve or raise appropriate questions regarding the project's products (feasibility study, functional requirements statement, etc.) and progress. These reviews help ensure management involvement and enable management to raise and resolve questions before proceeding with the work. Management's responsibility throughout the process is to distinguish between needs and wants, mandatory and desired capabilities, current and future requirements, and feasible versus unrealistic system performance objectives.

One effective way to elicit top management's involvement is to establish a steering committee to monitor and control the progress of systems development or modification efforts. The steering committee should be comprised of top management representatives of each major operational area and staff unit affected by the new system. The committee should have approval authority over each system to be developed or modified within the framework of the overall plan, as well as approval authority over the initiation of each major phase in the development of each system.

#### Choosing the Project Director, Project Manager, and Project Team

A system development or modification project requires effective leadership and a team approach to bring together people from all units affected by the new/modified system. Also important in selecting key project personnel is the need to

provide a mix or balance in knowledge, ability, and experience. It is not often that a single individual will meet all desired qualifications. In many situations, especially in the case of large, complex systems or development work which is contracted out, it is advisable that a project director or coordinator be appointed. This individual generally should be an executive selected from the prime functional area that the proposed system will support. An alternative is to fill the project director position with an individual whose primary qualification is prior systems development experience rather than knowledge of the functional area that the new system will serve. In either case, a well-qualified, effective project director is one who is capable of planning, directing, and controlling resources; communicating and cooperating with management and others involved in development work; and making necessary decisions to ensure project success.

The project director should report to the steering committee and be given direct access to key agency managers and authority across functional lines to communicate and to coordinate the project. At an early stage, the steering committee should state the authority and responsibility of the project director, including the limits of his/her decision-making authority. The project director should be made responsible for meeting objectives and schedules. Establishing this position is an effective way to fill any void in control which might arise when the steering committee cannot meet often enough to provide the overall direction needed to keep the project on schedule.

The day-to-day direction over the project team should be carried out by a full-time project manager. Again, although the project manager could be selected from either the functional area of the system and data processing area, it is advisable that the project manager's qualifications supplement those of the project director. The project manager is responsible for creating and meeting deadlines, adhering to budgets, and ensuring the technical quality of the completed system. There are several automated project management software packages available today for personal computers which could assist the project manager in carrying out these responsibilities.

Team membership changes as the project progresses, requiring different kinds and levels of skills such as system analysts, programmers, computer operations personnel, hardware specialists, computer security specialists, system accountants, and users (accountants, budget analysts, and program managers). However, when the need arises to "recall" certain skills, care should be

taken to involve the same individuals who previously participated, whenever possible. This will help to ensure continuity.

### Involving Users

Also critical to the success of the system development project is user involvement. Users should be an integral part of the project team, participating in all phases. Involving the user from the start is one of the most effective ways of identifying system requirements and problems and perhaps the only practical means of ensuring system acceptance by the organization. It is recommended that the user representative participate full-time and be physically located with the team. When this is not practical or economically feasible, provisions could be made for user briefings at key phases of the development.

From a system development point of view, the functional user is the financial management community in the agency. However, from the financial manager's point of view, the users (or end-users) of the system are the program and administrative managers who use the information and reports coming from the system or the people who directly interact (prepare data, use terminals, etc.) with the computer. All are important in identifying problems with the current system and in identifying functional requirements or goals of the system being developed or modified. Each should be involved; however, it is probably the financial managers who would actually participate on the team and who would interact with the end-users and the project team.

### Involving Auditors

Another important factor contributing to successful system development is involvement of the agency's internal auditing/inspector general organizations and, where applicable, external auditing organizations. While normally not a member of the project team, the auditor plays an important role in advising management on the design and development of accounting and financial management systems. The importance of this role is even greater in situations where there is not extensive involvement of systems accountants in the project. The auditor reviews and evaluates the development process, and provides advice to the team to help ensure that the systems:

- carry out prescribed management policies and meet legal requirements;

- are being developed in a structured, well-planned, and managed manner and will meet users' needs;
- possess built-in controls necessary to provide reasonable assurance of proper operation;
- contain automated audit-tool capabilities, when appropriate, to assist in evaluating controls;
- will operate in an efficient and economical manner to minimize costs;
- provide the capability to trace a transaction from its initiation through all intermediate processing steps to the resulting financial reports, as well as back to its origin, thus enabling management and audit review of the system in operation, and providing reconstructibility, if necessary;
- are documented in a manner that will provide understanding of the systems for those who must use, maintain, or review the system; and
- classify transactions in a manner allowing preparation of financial reports and statements which comply with the Comptroller General's accounting principles and standards, as well as applicable OMB, Treasury, and agency requirements.

#### PHASES OF A STRUCTURED APPROACH

The development life cycle of an accounting system can be viewed as consisting of five major phases with certain activities associated with each phase. These phases--(1) initiation, (2) definition, (3) design, (4) implementation, and (5) integration, installation, and testing--are discussed briefly in the following pages. The final phase of a system's life cycle--system operation, maintenance, and evaluation--is discussed in chapter 2. The Institute for Computer Science and Technology, National Bureau of Standards, Department of Commerce, has published guidance for agencies on various aspects of the life cycle of automated data processing systems in its Federal Information Processing Standards Publications and in other special publications.

In addition, Department of Defense directive 7920.1 addresses system life-cycle management of the department's automated information systems. Other guidance related to information resource management systems, security, development, or operation can be found in the General Services Administration's Federal Information Resources Management Regulations and the Federal Acquisition Regulations, OMB circular A-130, and the standards issued by the National Computer Security Center of the National Security Agency.

The development phase of a system's life cycle has been structured into various subphases by various organizations over the years. There is a growing recognition in the federal government of the need to standardize the various terms and definitions used to describe the phases, activities, and results of the development life cycle. There is also a need to update the literature to consider state-of-the-art developments such as prototyping techniques and fourth-generation languages. Although the standards prescribed by the Comptroller General require use of a structured approach, they are not intended to preclude use of alternatives to the specific development subphases described here. Accordingly, agencies that are undertaking a development or modification effort should also consider the applicability of currently available guidance as well as that resulting from various ongoing studies.

The operational system or component which will result from a well-planned and managed development effort will provide agency management with comprehensive, complete, relevant, accurate, and timely information, while being flexible and adaptable to meet changing requirements throughout the life of the system. Table 4.1 summarizes these phases and related subphases in the life cycle and shows their related activities and results. (See pages 4-12 and 4-13.)

The following sections describe and discuss system initiation, definition, design, implementation, integration, installation, and testing in greater detail.

### Initiation

This phase of the project involves defining the financial system requirements in light of the agency's needs and objectives more fully than may have been done in the preparation of the overall 5-year plan and involves the completion of appropriate risk, feasibility, and cost-benefit studies. The analyses of deficiencies in existing systems, new or changed requirements,

opportunities for increased economy and efficiency, objectives, alternative approaches, technical and operational feasibility, system risks, and costs and benefits should provide a recommended course of action for review and decision by the steering committee or higher-level management. The approved plan/approach thus establishes the system objectives and general definition of the requirements. PIPS PUB 64 provides substantial guidance on these types of matters.

During the initiation phase, any problems with the existing system should be identified, along with their underlying causes. The major needs and objectives of the new system or modification effort should be defined in the context of agency mission and resource priorities. Such objectives, for example, might be to:

- improve system efficiency,
- reduce personnel costs,
- achieve integration with other systems,
- overcome existing weaknesses in internal controls,
- improve the timeliness or utility of output reports,
- provide standardization,
- provide functional control over organizationally decentralized financial functions, or
- bring the agency's present accounting system into compliance with the principles and standards prescribed by the Comptroller General.

An analysis should also be made to identify internal control and security vulnerabilities of the system. This initial risk assessment should determine the general nature and magnitude of the risks to data and assets. It should also provide managers and the team with recommended general security requirements for the system and the mix of administrative, technical, and physical controls and safeguards that should be included in the subsequent system design.

The identification of valid objectives and their benefits, along with a recognition of associated risks and any major constraints, such as limitations on available financial

resources, are essential to the meaningful evaluation of alternatives.

Alternatives for satisfying requirements are identified and analyzed as to technical, operational, and economical feasibility. Assessing alternatives requires consideration of their probable impacts on existing hardware, software, personnel skill requirements, staffing requirements, organizational relationships, distribution of functions in an integrated environment, data-entry procedures, data communications, data storage, retrieval, and reporting procedures. Appropriate consideration must also be given to the potential for saving time or money through such alternatives as using off-the-shelf or other previously developed software and systems, or cross-servicing, and to systems developed jointly with other agencies. Full consideration must be given to various alternatives before an agency's system development project proceeds.



Table 4.1: System Development Life Cycle Phases and Results

Phases	Initiation	Definition	Design	Implementation
Activity	<ul style="list-style-type: none"> <li>— Identify user needs in context of mission resources and priorities</li> <li>— Identify current capabilities and problems</li> <li>— Define objectives, requirements, and major constraints</li> <li>— Identify and assess alternative approaches, their feasibility, risks, costs, and benefits</li> <li>— Recommend approach and approve an alternative</li> </ul>	<ul style="list-style-type: none"> <li>— Develop plan to guide the project budget and schedule and define participant roles</li> <li>— Review current system operation and documentation</li> <li>— Identify and define internal user needs, external accounting and reporting requirements, internal control objectives, and system security requirements</li> <li>— Identify and evaluate design alternatives</li> <li>— Identify general training requirements</li> <li>— Select and recommend a design approach</li> </ul>	<ul style="list-style-type: none"> <li>— Further detail and conceptually test data requirements, data file structure, processing, and output format</li> <li>— Develop internal control techniques to meet internal control objectives identified in definition phase</li> <li>— Consider state-of-the-art features and controls as appropriate</li> <li>— Develop security specifications</li> <li>— Develop verification, validation, and test goals and plans</li> </ul>	<ul style="list-style-type: none"> <li>— Software logic developed, documented, and coded</li> <li>— Completed coding and programs reviewed</li> <li>— System flow documented</li> <li>— Software unit tested</li> <li>— User operations and program manuals drafted</li> <li>— Site preparation and installation plan prepared</li> </ul>
Results	<ul style="list-style-type: none"> <li>— Initial risk analysis</li> <li>— Feasibility study</li> <li>— Cost-benefit study</li> <li>— Recommended course of action for management decision</li> <li>— Approved approach establishes system objectives and general definition of requirements</li> </ul>	<ul style="list-style-type: none"> <li>— Project plan</li> <li>— User requirements</li> <li>— General system description</li> <li>— Data and functional requirements</li> <li>— Preliminary conceptual system design</li> <li>— Recommended approach for system development</li> <li>— Preliminary system test plans and procedures</li> <li>— Preliminary training plan</li> <li>— Baseline functional requirements</li> </ul>	<ul style="list-style-type: none"> <li>— Specifications (detailed system, program, data base communications)</li> <li>— System test plans and procedures</li> <li>— System implementation plans</li> <li>— Validation, verification, and test plans</li> </ul>	<ul style="list-style-type: none"> <li>— Individually tested computer programs</li> <li>— Updated program specifications</li> <li>— Program coding</li> <li>— System developmental baseline</li> </ul>

Integration, installation, and testing			
System testing	Operations start-up	System acceptance	Operation, maintenance, and evaluation (see chapter 2)
<ul style="list-style-type: none"> <li>-Apply test plans and procedures developed during the earlier phases to system components (system and application software, data bases, network, hardware)</li> <li>-Validate system integration and performance</li> </ul>	<ul style="list-style-type: none"> <li>-Transition from system development to operational status (install system)</li> <li>-Conversion from old to new system</li> <li>-Converted data reviewed for accuracy</li> <li>-Modify software code if appropriate</li> <li>-User training</li> <li>-Update manuals</li> <li>-Documentation review</li> </ul>	<ul style="list-style-type: none"> <li>-Begins when formal testing is complete</li> <li>-Perform acceptance tests to determine if system/ components meet requirements</li> <li>-Validate results and update documentation, as necessary</li> <li>-Accredit system</li> <li>-Shifts responsibility for the system from project team to financial managers and ADP management</li> </ul>	<ul style="list-style-type: none"> <li>-Postimplementation review of development process by project team</li> <li>-Hardware and software maintenance</li> <li>-Periodic runs of applications to confirm that only authorized changes have been made</li> <li>-Measures of work-load efficiency and productivity computed and analyzed</li> <li>-Evaluations of the system in operation for Financial Integrity Act reporting and system maintenance</li> <li>-Ongoing training as appropriate</li> </ul>
<ul style="list-style-type: none"> <li>-Documented system test results (software, network, hardware)</li> <li>-Results of system integration testing</li> </ul>	<ul style="list-style-type: none"> <li>-Modified software code</li> <li>-Data files ready for new system, as appropriate</li> <li>-Users ready for new system</li> <li>-Updated manuals</li> <li>-Updated and approved documentation</li> </ul>	<ul style="list-style-type: none"> <li>-Old system phased out</li> <li>-Transition plans implemented</li> <li>-System accepted and accredited</li> <li>-System baseline established</li> </ul>	<ul style="list-style-type: none"> <li>-User, ADP, and internal audit staffs maintain effective roles</li> <li>-Results of various reviews input to future system and review planning</li> </ul>

Definition

The first step in the definition phase of a new system or major modification to an existing system is typically the development of a plan to guide the project, its budget, staffing, and scheduling. The plan should define in general terms the methods the project team will use for such things as coding, documentation, problem reporting, management of changes in the configuration of the system, and system validation, verification, and testing. This plan should be updated as necessary as the project progresses.

The project team proceeds to make a detailed analysis to define and document the new or modified system requirements more fully than was done during the project initiation phase. This work is based on a review of the system currently in operation and its documentation, interviews with appropriate users at all levels, and review of pertinent federal laws and regulations and agency policies. The team first identifies and then defines and documents

- internal user needs;
- external accounting, reporting, and automated information processing requirements;
- internal control objectives;
- input data requirements to meet all of the above;
- system hardware and software functional requirements;
- extent of integration with other systems; and
- system security and privacy requirements.

Several design alternatives, including the adoption of designs used in other agencies, are then identified and evaluated against critical needs. Factors such as development and operating costs, technical feasibility, and eventual training needs are considered. Finally, a system design approach is selected and recommended to the steering committee.

During the definition phase, agency financial management personnel who are associated with a system development staff or who are part of the steering committee must concern themselves with and assume primary responsibility for identifying appropriate financial internal control objectives. The ADP technical support personnel will assist the financial managers by developing and incorporating automated control techniques to meet these objectives during the subsequent detailed design and coding subphases.

When identifying the internal control and security safeguard objectives that the new system should meet, various control requirements and internal agency and management needs must be considered. Requirements include the internal control standards prescribed in appendix II, those established in OMB circulars A-123 and A-130, and any department or agency-established internal control and security safeguard objectives. In addition, developers must provide adequate control to prevent or detect erroneous entry, processing, or reporting of data whether the system operations are to be manual, automated, or a combination of both. (See chapter 2 of this appendix.)

Early in the project, the team should start to plan for the eventual training that must take place. This preliminary planning process should consider the magnitude of the training requirements in terms of the kinds and numbers of staff that will be trained and their location, as well as who will be responsible, when and how the training will occur, and so forth.

Additional important products resulting from the definition phase include

- a project plan;
- definition of methods to be used for system design, coding, documentation, system configuration/change management, validation, verification, and testing;
- user requirements, documented in a form suitable for use in software development (including information on input data requirements, definitions of the functional processes to be accomplished by the system, and needed output formats and time frames);
- a general system description and a recommended approach for developing the system; and
- a preliminary (conceptual and functional) design of the proposed system, based on user requirements. The design should identify, in general terms, the data flows throughout the system, definitions of those data, control objectives, various responsibilities, etc.

Once the functional system baseline is approved, subsequent change should be approved and controlled according to the methods defined by the team or agency policy.

Design

Input data requirements, data file and data base structures, and processing and output format design features defined in the definition phase are further detailed, conceptually tested, and documented in the design phase. All of these elements are necessary in order for the project team to transform the preliminary/conceptual system design into an operational system. Also in this phase, the internal control techniques and security safeguards are developed for meeting the internal control and security objectives identified in the definition phase. The actual techniques to be used in a system to achieve the required control objectives must be decided upon and designed by the financial managers, system designers, and security specialists and must be appropriate and cost-effective. All of the specifications should be in sufficient detail so that tests can be designed that will tell whether the requirements are satisfied. The result of this phase is the design of a system that satisfies the requirements and constraints identified in prior phases.

The design effort should, to the extent practical and economically feasible, incorporate state-of-the-art features and controls into the system. For example, the design might provide for

- reduction of paper by maintenance of financial management data in machine-readable form;
- use of computer graphics to display machine-readable source data documents to aid review and audit work;
- a single source of data descriptions to enforce data standards and usage throughout the agency (such as a data dictionary/directory), especially for creating ad hoc reports;
- integrating data from other systems, as appropriate;
- minimizing or avoiding duplication and redundancy in gathering, storing, and distributing data;
- procedures to ensure accuracy, privacy, and security of information used in end-user computing;
- procedures which clearly define end-user data, including how and when they can be integrated with data from the

official file or data base for reports to be used by management; and

- automated audit-tool capabilities designed into the system to assist in internal control validation.

Ordinarily, specialized products such as the following result from the detailed design phase: (1) detailed system specification narratives identifying system components and functions of system data (such as input transactions, coded tables for encryption or translation, or data dictionary), (2) program specifications defining the computer programs in terms of processing activity, internal control techniques, physical files, data bases, data dictionary, and interfaces with other segments of the system, (3) data base specifications defining the content and physical and logical structure, (4) internal control techniques and security specifications, and (5) plans for achieving the system's stated verification, validation, and testing requirements to ensure compliance with the approved design. Once written, system and program specifications should be reviewed by qualified personnel for compliance with legal and user requirements. All of these products need project management approval before implementation begins.

#### Implementation

Implementation can begin once the detailed design is approved. During this phase, the needed software is developed based on the detailed design specifications and then documented. Also, the individual programs are tested, and results are evaluated. It is highly advisable that all programs written for a particular system or component adhere to the same coding practices or conventions to facilitate subsequent program testing, troubleshooting, maintenance, and auditing. Examples of coding practices or conventions which might be established include

- writing all programs in a high-level language;
- using modular programs;
- limiting the number of executable statements in a program or module;
- maintaining consistency of coding conventions among all programs;

- using uniform naming conventions throughout each program and throughout all programs in a system;
- using specified paragraphing, blocking, and indenting conventions;
- maintaining uniformity in presentation of comments, errors, and diagnostic messages; and
- using messages which are self-explanatory.

If coding conventions have been specified and documented by the agency's information resources or ADP management, they should be followed; if not, National Bureau of Standards guidance should be followed.

Once completed, computer programs should be reviewed by qualified technical personnel for compliance with the detailed design description, adherence to coding standards, and, as appropriate, integration of other programs for testing. Unit test results must be evaluated and appropriate changes must be approved and made. Program and system flows are documented and manuals for users, operations, and program maintenance are drafted. Location of controls in program interfaces and system flow diagrams should be identified in the documentation.

#### System Integration, Installation, and Testing

This phase is comprised of three activities: system integration and testing, system installation, and system acceptance. Computer programs written to meet user requirements are integrated into a working system and tested; the various types of internal controls--manual, automated, general, and application--are tested to ensure they work as intended; the system components (software, network, and hardware) are tested and the results are reviewed; user, operation, and program maintenance manuals are completed; users are trained; data files are developed or converted; the system is installed; system acceptance testing is performed to determine if the system meets requirements; and management accepts the system and the development effort is complete. With proper planning, some of these implementation activities can be carried out concurrently.

During system testing, test plans and procedures developed during the detailed design phase are applied to the agency system and its controls, applications software, and data bases. Testing procedures assess whether (1) the internal controls,

security safeguards, programs, and system configuration conform to predefined standards, and (2) the programs perform according to user and other requirements. Testing should be comprehensive, covering all aspects of the software, including the interfacing of programs in a job stream. It should ensure that the system is capable of handling the transaction volume that will occur in actual operations. Testing also should verify that documentation is adequate and that reasonable procedures are in place for software maintenance and control. When changes must be made to correct programming errors, the changes must also be subjected to appropriate testing.

Users should assume responsibility for a major role in designing the test criteria. This should not be left solely to the ADP technical staff and/or the contractor. Testing should be performed on all systems/subsystems by a group independent of the system designers, and test files should be used. Test criteria, procedures, and results should be documented, approved by users and/or data processing management, and maintained. Maintenance of such documentation facilitates future reviews, evaluations, and modifications of operational systems.

The system installation subphase (sometimes called operations start-up) is a time of transition from system development to operational status. This subphase uses system transition and installation plans, support provisions for the hardware/software, and associated documentation formulated and approved during the earlier phases of the project.

Conversion from the old to the new system involves installing and converting the data files to the format required by the new system. Detailed planning and tight project control must be applied to avoid additional cost and minimize potential problems. The schedule for data-file conversion should be realistic and coordinated with equipment installation and user training. Data must be tested and the results reviewed to ensure data integrity.

During the conversion activity, appropriate users should review the system documentation and sign off that it meets their requirements. Agency personnel must receive proper training in operating the system and safeguarding information resources. Documentation provided for training users of financial management systems should be the actual user documentation. Once the system is operational and program or system changes are made, it is very important that users be trained to understand and handle the changes and that the appropriate system documentation be



updated. Ongoing training and updated documentation are crucial to help ensure sustained technical literacy and to keep current the skills and knowledge of the staff using, operating, and maintaining the system.

Once formal system testing is completed, the process of system acceptance begins and continues until the user and management are assured that the new system is operating successfully in the actual operating environment, meeting all requirements. During acceptance, the new system may run parallel with the old system or with the production version of the system being modified. Changes should be limited to those needed to correct the software. Changes for enhancement or preference purposes should not be made at this time. Any change made at this time should reflect documented user requirements and should undergo the same comprehensive testing that was applied during the system testing. Also, documentation must be appropriately updated. Once system tests are completed and before a system is placed in operation, OMB circular A-130 requires written certification by an agency official that the system meets applicable federal requirements and that installed security safeguards are adequate for the application. This accreditation includes an identification of strengths and limitations of system controls and security safeguards.

After the system is accepted, software changes are processed through the formal change-control procedure. Upon acceptance by the users, the responsibility for the system shifts from the project team to the financial managers (for data maintenance and fulfilling user needs) and ADP management (for software maintenance and operation of the system). At this point, the system is considered to be in the operation, maintenance, and evaluation phase, which is the third major phase of its life cycle. This is the phase that is addressed in chapter 2 of this appendix.

For significant development efforts, an evaluation of the project should be done after the system is operational to assess such aspects as the adequacy of the technical design, the development process that was followed, user satisfaction, operational performance, and costs of development and operation. As part of this evaluation, written assessments should be obtained from responsible participants in the development project and should be used when planning subsequent projects.

**CHAPTER 5****DOCUMENTATION****STANDARDS**

An agency's accounting system, including both manual and automated components, must be documented. The documentation must cover (1) the system's development, describing the baseline of the system and the analysis and development actions undertaken, and (2) the system's actual operation, describing the financial management and accounting aspects, how the functional users and operators interact with and use the system, and the computer program narratives and listings.

The documentation must be complete, current, and maintainable. In addition, it must be of sufficient scope and depth to provide management, users, systems operation and maintenance personnel, and auditors and other evaluators with an understanding of the design and operation of each component in the system and its integration with and relation to all other components. Documentation of the operational accounting system must be appropriately safeguarded and must be periodically updated so that it reflects actual operations.

**DISCUSSION**

The project team is responsible for producing two different kinds of documentation--documentation of the development effort (project documentation) and documentation of the system in operation. The latter can be further categorized as user-oriented documentation and ADP-oriented documentation.

**PROJECT DOCUMENTATION**

Project documentation covers all phases of the development effort. The types of documents that should normally be prepared include the project request and approval documents, papers and documents on the risk analysis, feasibility study, cost-benefit analysis, project plan, activity charts and schedules, budgets and personnel assignments, project status reports, memorandums and minutes of meetings, user interview notes, current system documentation, system design elements such as module designs, and hardware studies. This documentation

- provides a record of such things as the relation of the new or modified system to the 5-year plan; risk analysis;

feasibility study; cost-benefit analysis; functional requirements; data requirements; system, program, data base, and security specifications; acceptance test plan and test results; and the conversion plan and record of disposition of problems encountered in placing the system in operation;

- is the authoritative source of information on the status of the work, decisions reached, approvals granted, and activities performed in reaching solutions or agreements;
- aids effective communication between organizations and the project team; and
- provides the basis for the preparation of the operational system documentation and for training of user and computer processing staff.

Although some of the project documentation is updated as appropriate through the various phases of system development, once the system is accredited and operational, the project documentation need not be changed. Project documentation describes the system's baseline and all actions leading up to it.

This standard does not require that an agency retroactively construct project documentation for a system that is currently operating but not undergoing a major modification or improvement.

#### DOCUMENTATION OF THE OPERATIONAL SYSTEM

This documentation should reflect the current state of the system as it is being operated, as well as the regular maintenance in progress. It is written for the functional users and ADP specialists. The user documentation focuses on the financial management and accounting aspects and documents (1) how the system operates from an accounting view and (2) how the users interact with and use the system. The ADP documentation focuses on the data processing or automated aspects of the system, such as application program coding and descriptions of how the system operates. Both user and ADP documentation are necessary internal controls, and both must be developed, kept current, and appropriately safeguarded against loss, damage, or unauthorized access. The operational system documentation, both user and ADP, is written during the course of system development.

### User Documentation

User-oriented documentation describes the total system as a functional entity. It should describe the system objectives and include diagrams of modules or accounting processing cycles with appropriate explanatory notes. User documentation provides accounting policies, processes, and procedures. It should also describe aspects of the system such as the account structure and definitions; transaction codes; the accounting cycles and procedures, including the year-end closing process and report preparation; transaction and data flows (including both manual and automated aspects) in terms of the accounting or financial user organization activities and tasks; computer support for each activity and task; coordination needed with other groups or systems; and the control objectives and techniques of the system.

The system control objectives, and the manual and automated control techniques that were designed and that operate to meet those objectives, should be clearly identified as such and described in the documentation. Also, to the extent practical, the documentation should explain how pertinent operational features of the system comply with the Comptroller General's principles and standards and with OMB and Treasury requirements. Clear identification of where and how control objectives and other requirements are being met will facilitate reviews undertaken pursuant to the Federal Manager's Financial Integrity Act of 1982 and OMB circular A-127.

User documentation is prepared for the financial management personnel and should explain how they interact with and use the system. It should include

- the purpose, description, and format of all input forms and screens, and their source, frequency of preparation, and distribution;
- descriptions, in general terms, of computer system hardware and software, supplemented with graphic illustrations;
- organization and record description (field names and length) of the master files, and a data dictionary/directory describing attributes or meaning of each of the data elements, including size and format; and

- the purpose, description, and format of recurring output reports, as well as their sequence, frequency, and distribution.

To supplement the general system description discussed above, documentation should also be developed for each user organization which covers the procedural aspects of each module or cycle and the user's relationship to the system. The following information is generally included in this part of the system documentation: (1) an overview which gives the purpose and scope of each supported function and an information flow diagram for each module or cycle, (2) the procedures to be followed for each module or cycle, including error correction and control, and backup procedures, (3) description and field definitions and data entry instructions for each input form or screen, (4) description, format, and field definitions for each recurring management report, (5) description of ad hoc reporting capabilities, and (6) description and format for error listings and reports, including diagnostic error messages as well as error handling messages. This documentation is geared to users' needs and to questions that are likely to arise in the daily operation of the system. This documentation, or a condensed version of it, should provide the main vehicle for user training.

As applicable, user documentation should provide policies and procedures for downloading information and for further manipulation of data. Official policies and procedures must strictly govern any changes to data by users and the subsequent reentry of changed data into the official system and records. These instructions should be written and presented in a form and language that can be understood without having to learn much about computers and communication technology. User manuals should encourage increased productivity and decreased costs.

#### DP Documentation

ADP documentation describes and is used to control the software and hardware and the physical processing of the data and operation of the equipment. Included are program documentation for each application program and an operations manual.

Program documentation includes all the information that would be necessary for a systems analyst and/or programmer not familiar with the system to maintain (fix or change) the program in an efficient and timely manner. The documentation includes program specifications (created during system design activity), a discussion of the program's purpose and flow, a detailed

description of inputs and outputs, records and files, report identification and description, and run frequency, as well as error and halt conditions. In developing this documentation, consideration should be given to software change/modification procedures and the risks associated with multiple user audiences.

The operations manual should include descriptions of the hardware and its operation, recovery and backup procedures, problem detection and resolution, emergency priorities, safety and security procedures, and nonroutine procedures, such as turnover to maintenance programmers, computer engineers, installation staff, network control analysts, etc. Where appropriate, data processing operations personnel should be involved in creating and reviewing the data processing operations documentation.

#### DEPARTMENT AND AGENCY DOCUMENTATION GUIDANCE

This appendix provides only general guidance on required documentation. Before prescribing appropriate internal policies and procedures on such aspects of the documentation as content, format, and amount of detail, departments and agencies should also consider the guidelines provided in the FIPS PUBs, especially publications 38, 64, and 105, and in Department of Defense standard 7935. Consistency in policies and procedures throughout a department or agency is highly desirable, and they should be followed throughout the system's life cycle. Systems that are not documented are susceptible to fraud, waste, abuse, and mismanagement, as well as to inefficient and ineffective operation.

The guidance should recognize that system requirements do evolve; therefore, the documentation format must be flexible enough to accommodate changes in subsequent life cycle stages. Also, the department or agency should develop a policy on the types of documents that are expected to be included in the documentation. The system life cycle methodology used for system development or modification should serve as the context for types of documents developed.

If there are established departmentwide or agencywide standards for the ADP documentation, they should be followed by the project team. In the absence of such standards, the project team should develop and agree upon documentation standards to implement or supplement the National Bureau of Standards guidelines as well as the GAO documentation standards provided in this appendix and in appendix II of this title.

Formal procedures for documenting changes to either the manual or automated portions of the system should be established at the beginning of the project and maintained throughout the life of the system. It is important that the computer programs, processing instructions, and user guides be updated to reflect changes once they are approved. (Procedures for making changes to the system are discussed in chapter 2.)

The use of current technology to assist in the presentation, maintenance, and use of documentation is encouraged. Examples are video software documentation in lieu of hard-copy documentation and on-line documentation software providing direct access to any portion of documentation for review, maintenance, training, and distribution.

ACCOUNTING SYSTEM STANDARDSTOPICAL INDEX

- Acceptance of system, 4-18
- Account and coding structure  
documentation, 5-3  
organization, 2-3
- Accrual basis  
exceptions, 2-1  
requirements, 2-1
- Audit/evaluation  
in Financial Management  
Cycle, 1-3  
in system development, 4-7  
need defined, 1-4
- Audit Trail, 2-5, 2-6
- Change control procedures,  
2-13, 4-20
- Coding conventions, 4-17, 4-18
- Coding structure (see: Account  
and coding structure)
- Contractor assistance, 4-4
- Control and Risk Evaluation  
(CARE), 2-16
- Controls (see: Internal  
controls)
- Control objectives  
documentation, 5-2  
examples, 2-17, 2-18, 2-19  
when established, 4-14, 4-15
- Conversion  
from old system to new,  
4-19, 5-2
- Data base management systems  
in a flexible accounting  
system, 2-3
- Data dictionary/directory  
detailed design phase, 4-16  
for use between systems,  
2-4
- Data quality, 2-11
- Definitions and  
classifications  
need for consistency, 3-5
- Definition phase, 4-12,  
4-14, 4-15
- Design phase, 4-12, 4-16
- Development phase, 4-8, 4-12
- Documentation  
ADP, 5-4  
in system integration,  
installation, and  
testing, 4-18, 4-19  
need for management  
commitment, 4-3  
need for specific agency  
guidance, 5-5  
of a development project,  
5-1  
of an operational system,  
5-2  
standards, 5-1  
user, 5-3
- Double entry accounting  
requirement for, 2-1



- Error handling**  
 disposition of, 2-10  
 need for procedures, 2-10  
 user documentation, 5-4
- Estimates**  
 in financial reports, 3-2
- Evaluation**  
 need for, 2-14  
 requirements for, 2-15  
 system security safeguards,  
 2-15  
 use of, 2-15
- Exception reporting**  
 use of, 3-4
- Federal Managers' Financial  
 Integrity Act of 1982, 2-2,  
 2-15**
- Federal requirements**  
 certification under OMB  
 circular A-130, 4-20
- Financial Management Cycle,  
 1-3**
- Financial reporting**  
 accuracy, 3-2  
 as part of the Financial  
 Management Cycle, 1-3  
 completeness, 3-4  
 purpose, 3-1  
 standards, 3-1  
 timeliness, 3-4  
 usefulness, 3-3
- General ledger (see also:  
 United States Government  
 Standard General Ledger)**  
 account structure, 2-1  
 control in accounting  
 systems, 1-2  
 flexibility, 2-3  
 minimum requirements, 2-4  
 reconciliation, 2-6
- Initiation phase, 4-9, 4-12**
- Implementation phase, 4-12,  
 4-17**
- Integration, installation,  
 and testing phase, 4-12,  
 4-18**
- Integrity**  
 ensuring, 2-1
- Internal controls (see also:  
 Security)**  
 authority, 1-1  
 designing, 4-16, 4-17  
 documentation of, 4-18, 5-2  
 identifying objectives,  
 4-14, 4-15  
 input controls, 2-8  
 maintaining file quality,  
 2-11  
 objectives, 2-17, 2-18,  
 2-19, 4-14, 4-15, 5-3  
 separation of duties, 2-13,  
 2-14  
 standards (see: appendix II  
 of this manual)  
 system development phase,  
 4-3  
 system security and  
 integrity, 2-11, 2-12  
 techniques, 2-17, 2-18,  
 2-19  
 testing, 4-18, 4-19  
 transaction processing, 2-7  
 transaction support, 2-7,  
 2-8, 2-9  
 user group responsibility,  
 2-14  
 vulnerability analysis,  
 4-10
- Internal reports**  
 review of policies and  
 procedures, 3-3  
 usefulness, 3-3
- Legal objectives, 2-2**

- Life cycle of a development project**  
 guidance, 4-8  
 managing the structured development process, 4-4  
 need for a structured approach, 4-1  
 phases and results, 4-8, 4-12
- Management commitment, 4-4, 4-5, 4-6**
- Management reporting (see: Internal reports and/or Financial reporting)**
- Off-the-shelf software, 4-3, 4-11,**
- Operation, maintenance, and evaluation phase, 4-12**
- Operations manual (see: Documentation)**
- Planning**  
 direction in OMB circular A-127, 4-1  
 for training, 4-15  
 in Financial Management Cycle, 1-4  
 in system development, 4-1  
 of system reviews, 2-15  
 top management involvement, 4-5
- Quality assurance**  
 guidance, 4-2
- Reconciliation**  
 requirements, 2-6
- Review and evaluation (see: Evaluation)**
- Security (see also: Internal controls)**  
 certification requirement, 4-20  
 guidelines, 2-12, 4-9  
 in financial reporting, 3-1  
 need for review, 2-2  
 requirements in OMB circular A-130, 2-14
- Source records**  
 support for transactions, 2-5, 2-6  
 retention, 2-5
- Stability**  
 operating system, 2-12
- Standards for accounting systems**  
 development and modification, 4-1  
 documentation, 5-1  
 financial reporting, 3-1  
 structure and operation, 2-1
- Subsidiary accounts**  
 in account structure, 2-1  
 reconciliation, 2-6  
 relation to general ledger, 2-1
- Steering committee**  
 for system development project, 4-5
- Structure of the accounting system, 2-3**
- Support for transactions**  
 requirements for, 2-5, 2-6
- Table-driven systems**  
 use, 2-3

**Testing**

guidance, 2-16  
independence in, 4-19  
need in approving system,  
2-15  
plans for, 2-15  
system, 4-18, 4-19  
techniques, 2-15, 2-16

**Timeliness**

as a reporting objective,  
3-4,

**Training**

as part of system  
maintenance  
responsibilities, 2-13,  
2-14  
during conversion, 4-19,  
4-20  
relationship to  
documentation, 5-2, 5-4

**Transaction processing/  
production control, 2-7****United States Government  
Standard General Ledger  
provisions of, 2-3  
supporting reporting  
requirements, 3-5****User involvement**

in system development, 4-7

**Verifying file data, 2-11**

# Policy and Procedures Manual for Guidance of Federal Agencies

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## Title 3 Auditing

THE UNIVERSITY OF CHICAGO



February 12, 1990

**GAO'S POLICY AND PROCEDURES MANUAL  
FOR GUIDANCE OF FEDERAL AGENCIES**

**TITLE 3--AUDIT**

**TRANSMITTAL SHEET NO. 3-17**

**Effective Date: Immediately**

**Subject: Notice of revision of Title 3 and deletion of chapters 5, 6, 7, and 8**

**Purpose: The General Accounting Office is in the process of reviewing and revising Title 3 of its Policy and Procedures Manual for Guidance of Federal Agencies. The chapters of this title pertaining to statistical sampling procedures, responsibilities of certifying and disbursing officers, audit exceptions, and settlement of accounts have been incorporated into Title 7 of the manual under transmittal sheet number 7-42. The remaining chapters of Title 3 should be retained until further changes are communicated to manual holders.**

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*Charles A. Bowsher*

**Comptroller General  
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TITLE 3--AUDIT

TABLE OF CONTENTS

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	INTRODUCTION	3-1
1	AUDIT AUTHORITY	3-1
	1 Sources of audit authority	3-1
	1.1 Progressive development of audit authority	3-1
	2 The Budget and Accounting Act, 1921, as amended	3-1
	2.1 Audit authorizations	3-1
	3 Government Corporation Control Act, as amended	3-3
	3.1 Congressional policy	3-3
	3.2 Audit authorizations	3-3
	a. Wholly owned Government corporations	3-3
	b. Mixed-ownership Govern- ment corporations	3-4
	4 Legislative Reorganization Act of 1946	3-4
	4.1 Analysis of Government expenditures	3-4
	5 Federal Property and Admin- istrative Services Act of 1949	3-4
	5.1 Audit of property accounts	3-4
	6 Accounting and Auditing Act of 1950	3-5
	6.1 Congressional policy	3-5
	6.2 Audit authorizations	3-6
	7 Foreign Assistance Act of 1961, as amended	3-6
	7.1 Audit of fund administration	3-6
	8 Legislative Reorganization Act of 1970, as amended	3-6
	8.1 Review and evaluation	3-6
	9 Congressional Budget and Impoundment Control Act of 1974	3-8
	9.1 Impoundment control	3-8
	10 General Accounting Office Act of 1974	3-9
	10.1 Audit of nonappropriated fund activities	3-9



<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
1	10.2	Nonappropriated fund financial reporting	3-10
	11	Energy Policy and Conservation Act	3-10
	11.1	Verification examinations	3-10
	11.2	Powers of the Comptroller General	3-11
	12	Other legal authority for audit	3-12
	12.1	Authority in other laws	3-12
	13	Authority for access to records	3-13
	13.1	Access to agency records	3-13
	13.2	Examination of contractors' records	3-13
	13.3	Records of recipients of Federal financial assistance	3-14
	13.4	Retention of records	3-15
	(1)		
2		<b>AUDITS OF FEDERAL PROGRAMS, ACTIVITIES AND FUNCTIONS</b>	3-16
	20	Purposes and objectives	3-16
	20.1	Primary purposes of audits	3-16
	20.2	Agency responsibilities	3-17
	20.3	Scope of audits	3-18
		a. Audits of financial operations and legal compliance	3-19
		b. Audits of efficiency and economy of operations	3-19
		c. Audits of program results	3-20
	21	Audit approach	3-21
	21.1	Basic operations and phases of audit work	3-21
	21.2	Survey phase	3-22
	21.3	Review phase	3-23
	21.4	Report phase	3-24
	21.5	Interrelationship of phases of work	3-24
	22	Audit reports	3-24
	22.1	Basic policy on reporting to the Congress	3-24
	22.2	Distribution of congressional reports	3-25

1/ Sections 14 through 19 reserved.

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
2	22.3 Reports addressed to congressional committees and for individual Members of Congress	3-25
	22.4 Reports addressed to agency officials	3-25
	22.5 Copies of audit reports	3-26
	23 Advance review and comments	3-26
	23.1 Basic policy	3-26
	23.2 Views of trade, industry, or professional organizations and of other interested organizations	3-26
	24 Retention of accounts and records at site	3-27
	24.1 Legal authority	3-27
	24.2 Retention and transfer of records (2)	3-27
3	<b>AUDITS OF GOVERNMENT CORPORATIONS</b>	3-28
	27 Audits under the Government Corporation Control Act	3-28
	27.1 Basic audit authority	3-28
	27.2 Report requirements	3-28
	28 Regulations of the Comptroller General	3-29
	28.1 Accounting systems of Government corporations	3-29
	28.2 Place of audit	3-30
	28.3 Nature of audit	3-30
	28.4 Access to books and records	3-30
	28.5 U.S. Treasury's statements of depository accounts	3-30
	29 Cost of audits made under the Government Corporation Control Act	3-31
	29.1 Payment and reimbursement authority	3-31
	29.2 Budgeted expenses	3-31
	29.3 Billing of audit expenses	3-31
	29.4 Limitation on private audits	3-31

2/ Sections 25 and 26 reserved.

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
3	30	Audits of Government corporations not subject to the Government Corporation Control Act, and agencies made subject by specific legislation to audit by GAO in accordance with principles and procedures applicable to commercial corporate transactions
		3-32
	30.1	Reimbursement of audit expenses
	(3)	3-35
		APPENDIX A
		Corporations and agencies subject to audit under Government Corporation Control Act
		3-36
		APPENDIX B
		Rules and regulations of the Comptroller General for audit of the Corporation for Public Broadcasting
		3-37
4		INTERNAL AUDITING IN FEDERAL AGENCIES
	33	Management control
		3-41
	34	Role of internal auditing
		3-41
	34.1	Nature of internal auditing
		3-41
	34.2	Benefits of internal auditing
		3-42
	34.3	Federal management circular
		3-43
	34.4	Congressional interest
		3-43
	35	Scope of internal work
		3-44
	35.1	Appraising performance
		3-44
	35.2	Elements of an audit
		3-45
	35.3	Examining financial operations
		3-45
	35.4	Evaluating efficiency and economy
		3-47
	35.5	Reviewing program results
		3-48
	35.6	Other factors affecting scope of work
		3-49
	36	Personnel qualifications
		3-49
	37	Location in the organization
		3-51
	37.1	Responsibility of management officials
		3-51
	37.2	Independence and reporting level
		3-51

3/ Sections 31 and 32 reserved.

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
4	37.3	Centralization	3-52
	37.4	Audit staffs in subordinate organizations	3-53
	38	Management of the internal audit function	3-54
	38.1	Due professional care	3-54
	38.2	Audit manual	3-54
	38.3	Planning	3-54
	38.4	Supervision	3-56
	38.5	Evidence and working papers	3-56
	39	Internal audit reports	3-57
	39.1	Form and distribution	3-57
	39.2	Timeliness	3-58
	39.3	Content	3-59
	39.4	Financial reports	3-60
	40	Followup	3-61
	41	Relationship of internal auditing to other audits performed by agencies	3-61
	42	Relationship of internal auditing to General Accounting Office audit responsibilities	3-62
	(4)		

#### APPENDIX C

#### Summary of governmental audit standards

3-65

5	<b>USE OF STATISTICAL SAMPLING PROCEDURES IN EXAMINATION OF VOUCHERS</b>		
	45	Statutory authority	3-69
	45.1	Maximum dollar limit	3-69
	45.2	Legislative history	3-70
	46	Relief of accountable officers	3-70
	47	Terminology and limitations	3-70
	48	Definition and scope of statistical sampling	3-71
	48.1	Formulating audit objectives	3-73
	49	Where and when to apply statistical sampling	3-74
	50	Testing feasibility of statistical sampling	3-74

4/ Sections 43 and 44 reserved.

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
5	50.1	Sample design and sample size	3-75
	51	Statistical sampling system	3-75
	(5)		
6		<b>RESPONSIBILITIES OF CERTIFYING AND DISBURSING OFFICERS</b>	3-77
	54	Certifying officers	3-77
	54.1	Basic responsibilities	3-77
	54.2	Enforcement of certifying officer's liability	3-77
	54.3	Pecuniary liability of certifying officers	3-78
	54.4	Right to an advance decision	3-78
	54.5	Application of the Act of December 29, 1941	3-78
	54.6	Official authorization	3-79
	54.7	Transmittal of official authorization and signature cards	3-79
	54.8	Filing authorization and signature cards	3-79
	54.9	Termination or amendment of authority	3-80
	54.10	Identification by title and name	3-80
	55	Disbursing officers	3-80
	55.1	Basic responsibilities	3-80
	55.2	Military and other excepted disbursing officers	3-81
	55.3	Right to an advance decision	3-81
	56	The payment of transportation bills	3-81
	56.1	Payment prior to audit	3-81
	56.2	Limited liability of disbursing and certifying officers	3-81
	56.3	Transportation via commercial bills of lading	3-82
	57	Relief of accountable officers from responsibility for illegal, improper, or incorrect payments	3-82
	57.1	Handling and reporting illegal, improper, or incorrect payments	3-82
	57.2	Relation of administrative collection efforts to relief of accountable officers	3-83
	57.3	Where requests for relief shall be directed	3-83
	57.4	Actions resulting from consideration of relief cases	3-84

5/ Sections 52 and 53 reserved.

## TITLE 3--AUDIT

### INTRODUCTION

This title includes general information and regulatory material concerning the audits made by the General Accounting Office. The title also includes a chapter setting forth basic principles and concepts for internal auditing which should be a part of the management control system of each Federal agency (chapter 4), and a chapter concerning the use of statistical sampling procedures in examining vouchers (chapter 5).

### CHAPTER 1--AUDIT AUTHORITY

#### SECTION 1--SOURCES OF AUDIT AUTHORITY

##### 1.1 PROGRESSIVE DEVELOPMENT OF AUDIT AUTHORITY

The General Accounting Office (GAO) was created by the Congress through title III of the Budget and Accounting Act, 1921, 31 U.S.C. §§41 et seq. (1970), and placed under the direction and control of the Comptroller General of the United States. Since 1921 GAO's responsibility and authority have been broadened by additional acts of the Congress. The pertinent provisions of the basic laws affecting GAO's authority are set forth in the following sections of this chapter.

A history of the development of financial control in the Federal Government and of the progressive phases of audit authority is contained in title 1 of this manual.

#### SECTION 2--THE BUDGET AND ACCOUNTING ACT, 1921, AS AMENDED

##### 2.1 AUDIT AUTHORIZATIONS

The following authorizations for the audit, adjustments, and settlement of accounts and for related activities are included in the Budget and Accounting Act, 1921.

Section 305. "All claims and demands whatever by the Government of the United States or against it, and all accounts whatever in which the Government of the United States is concerned, either as debtor or creditor, shall

be settled and adjusted in the General Accounting Office." (42 Stat. 24; 31 U.S.C. 71)

Section 312. "(a) The Comptroller General shall investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds, and shall make to the President when requested by him, and to Congress at the beginning of each regular session, a report in writing of the work of the General Accounting Office, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipt, disbursement, and application of public funds as he may think advisable. In such regular report, or in special reports at any time when Congress is in session, he shall make recommendations looking to greater economy or efficiency in public expenditures.

"(b) He shall make such investigations and reports as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures. The Comptroller General shall also, at the request of any such committee, direct assistants from his office to furnish the committee such aid and information as it may request.

"(c) The Comptroller General shall specially report to Congress every expenditure or contract made by any department or establishment in any year in violation of law.

"(d) He shall submit to Congress reports upon the adequacy and effectiveness of the administrative examination of accounts and claims in the respective departments and establishments and upon the adequacy and effectiveness of departmental inspection of the offices and accounts of fiscal officers.

"(e) He shall furnish such information relating to expenditures and accounting to the Office of Management and Budget as it may request from time to time." (42 Stat. 25; 31 U.S.C. 53 (1970))

SECTION 3--GOVERNMENT CORPORATION  
CONTROL ACT, AS AMENDED

## 3.1 CONGRESSIONAL POLICY

The Government Corporation Act was approved on December 6, 1945, with the following declaration of congressional policy:

"It is declared to be the policy of the Congress to bring Government corporations and their transactions and operations under annual scrutiny by the Congress and provide current financial control thereof." (31 U.S.C. 841 (1970))

## 3.2 AUDIT AUTHORIZATIONS

The audit authorizations contained in the act are set forth below.

## a. WHOLLY OWNED GOVERNMENT CORPORATIONS

Section 105. "The financial transactions of wholly owned Government corporations shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States: Provided, That such rules and regulations may provide for the retention at the offices of such corporations, in whole or in part, of any accounts of accountable officers, covering corporate financial transactions, which are required by existing law to be settled and adjusted in the General Accounting Office, and for the settlement and adjustment of such accounts in whole or in part upon the basis of examinations in the course of the audit herein provided, but nothing in this provision shall be construed as affecting the powers reserved to the Tennessee Valley Authority in the Act of November 21, 1941 (55 Stat. 775).<sup>1/</sup> The audit shall be

<sup>1/</sup> The Act of November 21, 1941, 16 U.S.C. 831 h(b) (1970), provides, in pertinent part, "\* \* \* notwithstanding the provisions of any other law governing the expenditure of public funds, the General Accounting Office, in the settlement of the accounts of the Treasurer or other accountable officer or employee of the Corporation, shall not disallow credit for, nor withhold funds because of, any expenditure which the Board [of the Tennessee Valley Authority] shall determine to have been necessary to carry out the provisions of [this act] \* \* \*."



conducted at the place or places where the accounts of the respective corporations are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the respective corporations and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians \* \* \*." (59 Stat. 599; 31 U.S.C. 850 (1970))

b. MIXED-OWNERSHIP GOVERNMENT CORPORATIONS

Section 202. "The financial transactions of mixed-ownership Government corporations for any period during which Government capital has been invested therein shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States. \* \* \*" (59 Stat. 600; 31 U.S.C. 857 (1970))

SECTION 4--LEGISLATIVE REORGANIZATION ACT OF 1946

4.1 ANALYSIS OF GOVERNMENT EXPENDITURES

The following audit authority is set forth in the Legislative Reorganization Act of 1946.

Section 206. "The Comptroller General is authorized and directed to make an expenditure analysis of each agency in the executive branch of the Government (including Government corporations), which, in the opinion of the Comptroller General, will enable Congress to determine whether public funds have been economically and efficiently administered and expended \* \* \*." (60 Stat. 837; 31 U.S.C. 60 (1970))

SECTION 5--FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949

5.1 AUDIT OF PROPERTY ACCOUNTS

The Federal Property and Administrative Services Act of 1949 provides the following audit authority with respect to Government-owned or controlled property.

Section 206(c). "The General Accounting Office shall audit all types of property accounts and transactions at such times and in such manner as determined by the Comptroller General. Such audit shall be conducted as far as practicable at the place or places where the property or records of the executive agencies are kept and shall include but not necessarily be limited to an evaluation of the effectiveness of internal controls and audits and a general audit of the discharge of accountability for Government-owned or controlled property based upon generally accepted principles of auditing." (63 Stat. 391; 40 U.S.C. 487(c) (1970))

SECTION 6--ACCOUNTING AND  
AUDITING ACT OF 1950

6.1 CONGRESSIONAL POLICY

The Budget and Accounting Procedures Act of 1950 was approved on September 12, 1950. Title II of the act, known as the Accounting and Auditing Act of 1950, clarified the existing audit authority of the General Accounting Office, as set forth in the following paragraph.

Section 111(d) of the act provides that it is the policy of the Congress that:

"The auditing for the Government, conducted by the Comptroller General of the United States as an agent of the Congress be directed at determining the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations or other legal requirements, and adequate internal financial control over operations is exercised, and afford an effective basis for the settlement of accounts of accountable officers." (64 Stat. 835; 31 U.S.C. 65(d) (1970))

As set forth in section 111(a) of the act, the "purposes specified" referred to in the above quoted policy of the Congress include, in part:

"The accounting of the Government provided full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the Budget, and effective control over income, expenditures, funds, property, and other assets." (31 U.S.C. 65(a) (1970))

## 6.2 AUDIT AUTHORIZATIONS

The specific audit provisions of the act follow.

Section 117(a). "Except as otherwise specifically provided by law, the financial transactions of each executive, legislative and judicial agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies." (64 Stat. 837; 31 U.S.C. 67(a) (1970))

SECTION 7--FOREIGN ASSISTANCE ACT OF 1961,  
AS AMENDED, PUB. L. NO. 87-195,  
APPROVED SEPT. 4, 1961, 75 STAT. 424

### 7.1 AUDIT OF FUND ADMINISTRATION

The following audit authority is set forth in this act.

Section 301(d): "In any case in which a fund established solely by United States contributions under this or any other Act is administered by an international organization under the terms of an agreement between the United States and such international organization, such agreement shall provide that the Comptroller General of the United States shall conduct such audits as are necessary to assure that such fund is administered in accordance with such agreement \* \* \*." (As added by section 110(a) of Pub. L. No. 90-137, approved Nov. 14, 1967, 22 U.S.C. §2221(d)(1970))

SECTION 8--LEGISLATIVE REORGANIZATION ACT  
OF 1970, AS AMENDED

### 8.1 REVIEW AND EVALUATION

Legislation prior to the 1970 act authorized the General Accounting Office to make audits of financial transactions,

accounts, and financial statements and to review the economy, efficiency, and effectiveness with which executive agencies were spending appropriated funds. The 1970 act directed the Comptroller General to review and analyze the results of Government programs and activities. The audit authority for these reviews, as amended by the Congressional Budget and Impoundment Control Act of 1974, follows.

"Section 204. (a) The Comptroller General shall review and evaluate the results of Government programs and activities carried on under existing law when ordered by either House of Congress, or upon his own initiative, or when requested by any committee of the House of Representatives or the Senate, or any joint committee of the two Houses, having jurisdiction over such programs and activities.

"(b) The Comptroller General upon request of any committee of either House or any joint committee of the two Houses, shall--

"(1) assist such committee or joint committee in developing a statement of legislative objectives and goals and methods for assessing and reporting actual program performance in relation to such legislative objectives and goals. Such statements shall include, but are not limited to, recommendations as to methods of assessment, information to be reported, responsibility for reporting, frequency of reports, and feasibility of pilot testing; and

"(2) assist such committee or joint committee in analyzing and assessing program reviews or evaluation studies prepared by and for any Federal agency.

"Upon request of any Member of either House, the Comptroller General shall furnish to such Member a copy of any statement or other material compiled in carrying out paragraph (1) and (2) which has been released by the committee or joint committee for which it was compiled.

"(c) The Comptroller General shall develop and recommend to the Congress methods for review and evaluation of Government programs and activities carried on under existing law."

\* \* \* \* \*

"(e) The Comptroller General shall include in his annual report to the Congress a review of his activities under this section, including his recommendations of methods for review and evaluation of Government programs and activities under subsection (c)." (Section 702(a), Pub. L. No. 93-344, approved July 12, 1974, 31 U.S.C.A. §1154 (1970))

SECTION 9--CONGRESSIONAL BUDGET AND IMPOUNDMENT  
CONTROL ACT OF 1974

9.1 IMPOUNDMENT CONTROL

This act amended sections 201 through 204 of the Legislative Reorganization Act of 1970 and in so doing expanded GAO's authority and responsibility to assist the Congress and its committees. Additional assistance will be furnished by GAO in matters of fiscal and budgetary information and controls, including making program reviews and evaluations. (Pub. L. No. 93-344, July 12, 1974; 88 Stat. 326-329)

Title X of this Act, Pub. L. No. 93-344, supra, established a system of congressional impoundment control which requires the President to report to the Congress all actions and inactions that constitute a reserve or deferral of budget authority. Title X confers additional authority upon GAO with respect to this function. Section 1015 requires GAO to take specific action with respect to impoundment control as follows:

"(a) FAILURE TO TRANSMIT SPECIAL MESSAGE. If the Comptroller General finds that the President, the Director of the Office of Management and Budget, the head of any department or agency of the United States, or any other officer or employee of the United States--

"(1) is to establish a reserve or proposes to defer budget authority with respect to which the President is required to transmit a special message under section 1012 or 1013; or

"(2) has ordered, permitted, or approved the establishment of such a reserve or a deferral of budget authority;

"and that the President has failed to transmit a special message with respect to such reserve or deferral, the Comptroller General shall make a report on such reserve or deferral and any available information concerning it to both Houses of Congress. The provisions of this part shall apply with respect to such reserve or deferral in the same manner and with the same effect as if such report of the Comptroller General were a special message transmitted by the President under section 1012 or 1013, and for purposes of this part, such report shall be considered a special message transmitted under section 1012 or 1013.

"(b) INCORRECT CLASSIFICATION OF SPECIAL MESSAGE. If the President has transmitted a special message to both Houses of Congress in accordance with section 1012 or 1013, and the Comptroller General believes that the President so transmitted the special message in accordance with one of those sections when the special message should have been transmitted in accordance with the other of those sections, the Comptroller General shall make a report to both Houses of the Congress setting forth his reasons."

The Comptroller General is also empowered to bring suit to obtain the release of budget authority when funds are not made available as required by the impoundment control title. (Pub. L. No. 93-344, supra, 31 U.S.C. §1406 (Supp. V, 1975))

#### SECTION 10--GENERAL ACCOUNTING OFFICE ACT OF 1974

##### 10.1 AUDIT OF NONAPPROPRIATED FUND ACTIVITIES

Until the approval of the General Accounting Office Act of 1974 on January 2, 1975, there were many activities carried on by Government agencies subject to only limited audit by the General Accounting Office. These activities included the operations of exchanges, restaurants, concessions, canteens, vending machine operations, and other revenue-producing activities.

Section 301 of the General Accounting Office Act of 1974 provides audit authority for nonappropriated fund activities.

"(a) The (1) operations and funds (including central funds) of nonappropriated fund and related activities authorized or operated by an executive agency to

sell merchandise or services to military or other Government personnel and their dependents, such as the Army and Air Force Exchange Service, Navy Exchanges, Marine Corps Exchanges, Coast Guard Exchanges, Exchange Councils of the National Aeronautics and Space Administration, commissaries, clubs, and theaters, (2) systems of accounting and internal controls of such funds and activities, and (3) any internal or independent audits or reviews of such funds and activities shall, unless otherwise provided by law, be subject to review by the Comptroller General of the United States in accordance with such principles and procedures and under such rules and regulations as he may prescribe. The Comptroller General and his duly authorized representatives shall have access to those books, accounts, records, documents, reports, files, and other papers, things, or property relevant to funds and activities within this subsection as are deemed necessary by the Comptroller General."

#### 10.2 NONAPPROPRIATED FUND FINANCIAL REPORTING

Section 301 further provides that:

"(b) When required by the Comptroller General for such nonappropriated fund and related activities with gross receipts from sales of more than \$100,000 a year as he may designate by class, or upon specific request of the Comptroller General in any other case, each executive agency shall furnish promptly a copy of the annual report of any nonappropriated fund or related activity referred to in subsection (a). If such information is not included in any activity's annual report, such agency shall also furnish a statement showing the yearly financial operations, financial condition, and cash flow, and such other annual information relating to the activity as may be agreed upon by the Comptroller General and the head of the executive agency concerned." (Pub. L. No. 93-604, 31 U.S.C. §135 (Supp. V, 1975))

### SECTION 11--ENERGY POLICY AND CONSERVATION ACT

#### 11.1 VERIFICATION EXAMINATIONS

The Energy Policy and Conservation Act (Pub. L. No. 94-163) was approved on December 22, 1975. Title V of the act, 42 U.S.C. 6381 et seq. (Supp. V, 1975), authorizes the Comptroller General to make verification examinations as follows.

"Section 501. (a) The Comptroller General may conduct verification examinations with respect to the books, records, papers, or other documents of--

"(1) any person who is required to submit energy information to the Federal Energy Administration, the Department of the Interior, or the Federal Power Commission pursuant to any rule, regulation, order, or other legal process of such Administration, Department or Commission;

"(2) any person who is engaged in the production, processing, refining, transportation by pipeline, or distribution (at other than the retail level) of energy resources--

"(A) if such person has furnished, directly or indirectly, energy information (without regard to whether such information was furnished pursuant to legal requirements) to any Federal agency (other than the Internal Revenue Service), and

"(B) if the Comptroller General of the United States determines that such information has been or is being used or taken into consideration, in whole or in part, by a Federal agency in carrying out responsibilities committed to such agency; or

"(3) any vertically integrated petroleum company with respect to financial information of such company related to energy resource exploration, development, and production and the transportation, refining and marketing of energy resources and energy products.

"(b) The Comptroller General shall conduct verification examinations of any person or company described in subsection (a), if requested to do so by any duly established committee of the Congress having legislative or oversight responsibilities under the rules of the House of Representatives or of the Senate, with respect to energy matters or any of the laws administered by the Department of the Interior (or the Secretary thereof), the Federal Power Commission, or the Federal Energy Administration (or the Administrator)." (42 U.S.C. 6381 (Supp. V, 1975))

## 11.2 POWERS OF THE COMPTROLLER GENERAL

For the purpose of carrying out his authority under section 501 the act provides that--



"(1) the Comptroller General may--

"(A) sign and issue subpoenas for the attendance and testimony of witnesses and the production of books records, papers, and other documents;

"(B) require any person, by general or special order, to submit answers in writing to interrogatories, to submit books, records, papers, or other documents, or to submit any other information or reports, and such answers or other submissions shall be made within such reasonable period, and under oath or otherwise, as the Comptroller General may determine; and

"(C) administer oaths.

"(2) the Comptroller General, or any officer or employee duly designated by the Comptroller General, upon presenting appropriate credentials and a written notice from the Comptroller General to the owner, operator, or agent in charge, may--

"(A) enter, at reasonable times, any business premise or facility; and

"(B) inspect, at reasonable times and in a reasonable manner, any such premise or facility, inventory and sample any stock of energy resources therein, and examine and copy books, records, papers, or other documents, relating to any energy information, or any financial information in the case of a vertically integrated petroleum company." (42 U.S.C. 6382 (Supp. V, 1975))

## SECTION 12--OTHER LEGAL AUTHORITY FOR AUDIT

### 12.1 AUTHORITY IN OTHER LAWS

The group of laws cited above provide the basic framework within which most of the audit work of the General Accounting Office is conducted. It should be noted, however, that numerous other laws applicable to individual Government activities also provide specific authority for the General Accounting Office to perform audit activities. In this connection, reference should be made to the publication titled "Legislation Relating to the General Accounting Office," prepared by GAO's Office of the General Counsel.

## SECTION 13--AUTHORITY FOR ACCESS TO RECORDS

## 13.1 ACCESS TO AGENCY RECORDS

In discharging the audit and investigative responsibilities of the General Accounting Office, representatives of the Comptroller General must have access to all accounts, records, documents, and related materials pertinent to the examination. This need has been recognized in a number of laws beginning with the Budget and Accounting Act, 1921, as amended, which states that:

"All departments and establishments shall furnish to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their respective offices as he may from time to time require of them; and the Comptroller General, or any of his assistants or employees, when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department or establishment. The authority contained in this section shall not be applicable to expenditures made under the provisions of section 291 of the revised statutes." (42 Stat. 26, 31 U.S.C. §54 (1970))

## 13.2 EXAMINATION OF CONTRACTORS' RECORDS

Section 304 of the Federal Property and Administrative Services Act of 1949, as amended, 41 U.S.C. 254(c)(1970), provides, in part, as follows:

"All contracts negotiated without advertising pursuant to authority contained in this act shall include a clause to the effect that the Comptroller General of the United States or any of his duly authorized representatives shall until the expiration of three years after final payment have access to and the right to examine any directly pertinent books, documents, papers, and records of the contractor or any of his subcontractors engaged in the performance of and involving transactions related to such contracts or subcontracts."

Similar requirements were established with respect to contracts entered into, amended, or modified pursuant to authority contained in the Act of August 10, 1956 (10 U.S.C.

2313(b)) and the Atomic Energy Act of August 30, 1954 (42 U.S.C. 2206 (1970)).

The General Accounting Office also has authority pursuant to 50 U.S.C. 1433 to examine contractors' and subcontractors' records directly pertinent to any contract entered into, amended, or modified under authority contained in chapter 29 of title 50, U.S.C. (1970). The latter provision authorizes the making, amendment, or modification of contracts, without regard to other provisions of law, when the President deems that such action would facilitate the national defense.

A further source of authority to examine contractors' records is contained in the Anti-Kickback Act of March 8, 1946 (41 U.S.C. 53 (1970)). That act prohibits the payment by a subcontractor of any fee, commission, or compensation or the granting of any gift or gratuity to an officer, partner, employee, or agent of a prime contractor holding a negotiated contract or of a higher tier subcontractor holding a subcontract under the prime contract, or to any such prime contractor or subcontractor. For the purpose of examining into whether such payments, gifts, or gratuities have been made, the General Accounting Office has the power to inspect the plants and to audit the books and records of any prime contractor or subcontractor engaged in the performance of such a contract.

### 13.3 RECORDS OF RECIPIENTS OF FEDERAL FINANCIAL ASSISTANCE

The General Accounting Office has authority under various laws to audit the records of certain recipients of Federal financial assistance such as loans, advances, grants, or contributions.

For example, in passing the Intergovernmental Cooperation Act of 1968, Pub. L. No. 90-577, 42 U.S.C. 4242 (1970), the Congress authorized the General Accounting Office to make studies of Federal grant-in-aid programs. The act provided that such studies, among other relevant matters, address the effectiveness, efficiency, and economy of the programs and consider the adequacy of the budgetary, accounting, reporting and administrative procedures applicable to such programs. The act further provides that the Comptroller General shall have access to the records that are pertinent to grants-in-aid received by the States.

The Emergency Loan Guarantee Act of August 9, 1971, Pub. L. No. 92-70, 15 U.S.C. 1846(b)(1970), which created an Emergency Loan Guarantee Board for the purpose of guaranteeing loans to major business enterprises, provided that the General Accounting Office make a detailed audit of transactions of any borrower with respect to which an application for a loan guarantee is made under this act. Other laws extending the authority to audit the records of recipients of Federal financial assistance may be enacted from time to time.

In addition to the legal authority given to the General Accounting Office to audit the records of recipients of Federal financial assistance, arrangements have been made with several Federal departments and the States to enable the General Accounting Office staff to audit certain program costs by examining the records and supporting documents at the State level. For instance, arrangements have been made with the Bureau of Public Roads for the General Accounting Office staff to go to the State highway departments for the purpose of making examinations of the cost of building roads which are financed, in part, by the Federal Government. Also, the General Accounting Office has, in some cases, examined records of States, Territories, and possessions which have received for specified purposes certain surplus property disposed of by the Department of Defense and other executive agencies of the Federal Government. The examinations of such donee records are made either by authority of specific terms in the donation contracts or by arrangements made with the donees.

#### 13.4 RETENTION OF RECORDS

The pertinent provision of section 9 of the Records Disposal Act provides:

"Records pertaining to claims and demands by the Government of the United States or against it, or to any accounts in which the Government of the United States is concerned either as debtor or creditor, shall not be disposed of by the head of any agency \* \* \* until such claims, demands, and accounts have been settled and adjusted in the General Accounting Office, except upon the written approval of the Comptroller General of the United States." (44 U.S.C. 3309 (1970))

CHAPTER 2--AUDITS OF FEDERAL  
PROGRAMS, ACTIVITIES AND FUNCTIONS

SECTION 20--PURPOSES AND OBJECTIVES

20.1 PRIMARY PURPOSES OF AUDITS

The two primary purposes of audits by the General Accounting Office (GAO) are:

1. To evaluate the efficiency, economy, legality, and effectiveness with which Federal agencies carry out their financial, management, and program responsibilities.
2. To assist the Congress and Federal agency officials in carrying out their responsibilities by providing them with objective and timely information on the conduct of Government operations together with conclusions and recommendations.

GAO's audits can contribute toward improving Federal Government operations by providing answers to such questions as:

- Is it possible to eliminate waste and inefficient use of public money?
- Are Federal programs achieving their objectives?
- Are there other ways of accomplishing program objectives at lower costs?
- Are funds being spent legally and is the accounting and financial reporting system for them adequate?

GAO's objective is to recommend ways of making both proposed and ongoing Federal programs work better and to make the results of its studies known before decisions are reached.

Particular emphasis is placed on any aspects suspected or found to require improvement or correction and on the means of accomplishing it. The objective is not only to stimulate corrective action but to promote the avoidance of future occurrences of deficiencies or problems that are encountered.

In general, the detection of fraud is not a primary reason for making an audit. However, the possibilities of fraud in Government programs and activities are given full consideration by the auditor and any indications of fraud that come to his or her attention are investigated to the point where a determination can be made to refer the matter to the proper criminal law enforcement agency.

The prevention of fraud is of first importance and that responsibility rests in agency management. The organization structure, the division of responsibilities, and related control procedures should be devised to prevent fraud, and an adequate internal audit system should be in operation to detect it if it does exist.

In performing an audit, other matters having criminal implications may be encountered which warrant immediate consideration by agencies having criminal-law enforcement responsibilities.

The responsibility for investigating violations of Federal criminal laws is vested in the Federal Bureau of Investigation (FBI), except in certain specialized areas where the responsibility is assigned to other agencies. The more important types of Federal criminal-law violations cognizable by the FBI which may be encountered are fraud, false claims, conflict of interest, perjury, bribery, and theft or embezzlement of Government funds or property.

GAO's policy is to promptly furnish to the appropriate criminal-law enforcement agency all information concerning suspected criminal law violations arising in its work.

## 20.2 AGENCY RESPONSIBILITIES

Carrying out operations efficiently, economically, and effectively is a basic agency management responsibility. Each agency is responsible for managing and using its resources--funds, property, and personnel--only for authorized programs, activities, or purposes, and conducting its programs or activities in an effective, efficient, and economical manner to achieve the objectives established or intended by the Congress. Each agency's system of organization, management, and control should be designed to accomplish these ends, with due regard to the requirements of applicable laws and regulations.

The primary responsibility for establishing and maintaining adequate systems of accounting and internal control, including internal audit, is vested by the Budget and Accounting Procedures Act of 1950 in the heads of Federal agencies themselves. The accounting systems established, however, must conform to the principles, standards, and related requirements prescribed by the Comptroller General.

In addition, the establishment of effective controls is required as a matter of good management practice. GAO's policy is to evaluate the effectiveness of internal management controls, including accounting systems, in all agencies at the site of operations as a basis for discharging its auditing responsibilities.

Each Government agency has the primary responsibility to determine, with due regard to all applicable restrictions and requirements, the manner in which its activities and operations are carried out. GAO is not empowered to direct changes in agency policies, procedures, and functions. However, appropriate recommendations are made when opportunities for achieving greater economy, improving efficiency, and obtaining better results are observed.

### 20.3 SCOPE OF AUDITS

Audits may extend into all aspects of an agency's operations. They are not restricted to accounting matters or to books, records, and documents.

The technical nature of an operation does not, in itself, remove it from the purview of an audit. The administration of such operations is within the scope of the auditor's review authority and responsibility. However, if expert technical advice and assistance are considered necessary in making reviews, arrangements will be made to obtain them.

The full discharge of audit responsibilities with respect to an agency, or an agency activity, program, function, or operation, requires examination into matters under three broad categories:

- Audits of financial operations and legal compliance.
- Audits of efficiency and economy of operations.
- Audits of program results.

**a. AUDITS OF FINANCIAL OPERATIONS AND LEGAL COMPLIANCE.**

In audits of financial operations and legal compliance, the objectives are to evaluate whether:

- o The agency is carrying out only those programs, activities, and operations authorized by the Congress and is complying with the requirements of applicable laws and regulations governing the receipt, disbursement, and application of public funds.
- o The agency controls and accounts effectively for its funds, property, and other assets as well as the liabilities incurred in its operations.
- o All revenues and receipts arising from the operations are collected and properly accounted for.
- o The agency keeps adequate accounting records according to the principles, standards, and related requirements prescribed by the Comptroller General.
- o The agency's financial reports show fully and fairly its financial condition, changes in its financial condition, and revenues and expenditures (or costs) and otherwise provide adequate information for agency managers and congressional and other users of the reports.
- o The agency's accounting system provides:
  1. A basis for settling accountable officers' accounts.
  2. Reliable information for use in preparing budget requests, controlling the budget, and furnishing financial information to the Office of Management and Budget.
  3. Reliable information for the Government's central accounting and financial reporting system in the Treasury Department.

**b. AUDITS OF EFFICIENCY AND ECONOMY OF OPERATIONS.** These audits are made primarily to identify improvements needed. They include evaluating whether:



- o The agency's resources--funds, property, and personnel--are adequately controlled and used in an effective, efficient, and economical manner.
- o The programs and activities are conducted and expenditures made in an effective, efficient, and economical manner and in compliance with the requirements of applicable laws and regulations.

This category of audit work involves inquiring specifically into such matters as the:

- o Need for goods or services provided or procured.
- o Reasonableness of costs incurred or expenditures made.
- o Adequacy of safeguards over and care of resources acquired.
- o Proper use of resources.
- o Adequacy of revenues received for goods or services sold.

c. **AUDITS OF PROGRAM RESULTS.** Audits of program results evaluate whether desired results or benefits of agency programs and activities are being achieved and whether the objectives established by the Congress are being met. Such audits also include, when determined appropriate, ascertaining whether:

- o Management weaknesses adversely affect the achievement of desired results.
- o Alternative approaches might achieve program objectives more effectively or at lower cost.
- o Benefits or detriments are resulting that were not contemplated when the program was established.

In some cases, the findings may justify recommending that the Congress reconsider the program objectives in the light of experience with the program.

For each assignment, specific objectives are established within the framework of these general objectives. For any specific audit assignment, it will seldom be possible, or

practical, to do enough work to fully evaluate the performance of an agency's activities in all three audit categories described above. However, over a period of time, proper recognition is given to the need to accomplish the objectives in each of these categories for all agencies subject to audit.

## SECTION 21--AUDIT APPROACH

### 21.1 BASIC OPERATIONS AND PHASES OF AUDIT WORK

The basic operations performed in achieving specific audit objectives established on specific assignments consist of an integrated combination of:

1. Gathering information.
2. Making evaluations.
3. Developing recommendations, where appropriate.

One of the most important methods of obtaining needed information in an audit is by reviewing and testing the manner in which various kinds of responsibility are carried out. Much of the needed information is obtained by examining individual transactions or items. The main purpose of obtaining information in this manner, and making related evaluations, is to test the effectiveness of the management control over the activity, program, function, or operation being examined and to establish a proper basis for reporting on the results of the audit.

A General Accounting Office audit includes the following broad phases of work.

- Survey - Obtaining working information on the activity or program to be examined and analyzing it to identify matters warranting detailed examination or analysis.
- Review - Performing detailed examination or analysis work.
- Report - Communicating the results of examination or analysis work, including recommendations.

## 21.2 SURVEY PHASE

The survey phase of an audit is devoted to preliminary gathering of information and testing processes to identify problems or other matters warranting detailed examination. The survey phase encompasses:

### Gathering general working information

General working information on the agency, program, or activity being audited is obtained and reviewed in as short a time as possible. This information is then used in planning succeeding phases of the audit and as a source of reference in carrying out the detailed examination work.

### Studying legislation

The pertinent laws and legislative history are carefully studied to ascertain congressional intent as to:

- o The purpose, scope, and objectives of the activity or program being examined.
- o The manner in which they are to be conducted and financed.
- o The nature and extent of the agency's authority and responsibility.

### Preliminary testing of management controls

The policies established to govern agency activities under examination are analyzed for conformity with applicable laws and congressional intent and their appropriateness for carrying out authorized activities or programs in an effective, efficient, and economical manner.

Practical working information is also obtained on how the agency's system of controls actually works by testing the effectiveness and usefulness of controls over specific work activities. This information is useful in identifying possible management weaknesses and other matters on which the expenditure of additional time and effort will be warranted during the review phase.

Survey information is used to establish specific review objectives, estimate staffing requirements, schedule work at specific locations, prepare work programs, and establish

target dates for completion of the review and reporting phases.

### 21.3 REVIEW PHASE

This phase of an audit consists of detailed examinations or evaluations of specific agency activities or operations to the extent necessary to achieve the objectives of the assignment in accordance with GAO's prescribed auditing standards.

Emphasis is placed on reviewing and testing the agency's operating and administrative procedures and practices, system of accounting, reporting, internal review, and other elements of the system of internal management control for effectiveness in promoting:

1. Accomplishment of intended program and activity objectives.
2. Operational efficiency.
3. Efficient and economical utilization of property and personnel.
4. Effective control over expenditures, receipts, revenues, and assets.
5. Proper accounting for resources and financial transactions.
6. The production and reporting of accurate, reliable, and useful data.
7. Compliance with requirements of applicable laws, regulations, and decisions.

Several of the above may not be addressed during audits of program results. However, as was mentioned in section 20.3, over a period of time, recognition is given to the need to accomplish the objectives of all categories of GAO audits.

The review phase also includes exploring and developing all pertinent and significant information necessary to properly consider, support, and present any findings, conclusions, and recommendations.

#### 21.4 REPORT PHASE

The results of GAO work are communicated--either orally or in writing--to the Congress, to appropriate congressional committees, or to agency officials as a basis for action, where necessary, and for information purposes. Except in very unusual circumstances, some type of external communication will follow every review performed.

#### 21.5 INTERRELATIONSHIP OF PHASES OF WORK

Although identified as separate phases of audit work in describing the basic approaches to carrying out audit responsibilities and policies, these phases should not be regarded as separate parts of a work assignment which are sharply distinguishable from each other in all respects. A close relationship exists between all work performed on an audit assignment.

The manner and extent to which these phases are carried out and the interrelationships between them vary between assignments, depending on the objectives established in each case, whether the audit is being made for the first time or is a recurring or follow-up assignment, and the significance of the activities or programs to be examined. For example, more survey work would normally be performed on an initial assignment than on one involving activities which were previously reviewed. In the latter cases, some updating of general information will be required, but new surveys are not necessary.

### SECTION 22--AUDIT REPORTS

#### 22.1 BASIC POLICY ON REPORTING TO THE CONGRESS

The General Accounting Office is responsible to the Congress for the results of its work. The committees and Members of Congress look to it for accurate information and objective evaluations to help them carry out their legislative and oversight functions.

GAO is responsible also for promptly bringing its findings to the attention of agency officials so that they can consider the findings and take any necessary corrective actions. In addition, the general public has a legitimate interest in the results of GAO's work. In recognition of this interest, it is a GAO policy to fully disclose to the

public the results of its work, consistent with its functions, duties, and responsibilities as an agency of the Congress.

Regardless of with whom GAO communicates, its principal objective is to provide useful and timely information, both oral and written, on significant matters and to recommend improvements in the conduct of the Government's activities.

## 22.2 DISTRIBUTION OF CONGRESSIONAL REPORTS

Copies of reports sent to the Congress (i.e., addressed to the Speaker of the House and the President of the Senate) are also sent to the Committees on Appropriations, the House Committee on Government Operations, the Senate Committee on Governmental Affairs, appropriate legislative committees, and other interested committees and Members of Congress.

Copies of reports sent to the Congress are also sent to the Director of the Office of Management and Budget, appropriate officials of the agency concerned, and other interested parties, such as Government contractors and State and local agencies.

## 22.3 REPORTS ADDRESSED TO CONGRESSIONAL COMMITTEES OR INDIVIDUAL MEMBERS OF CONGRESS

Reports are addressed to the chairman of a congressional committee or to an individual Member of Congress when the work has been done or an inquiry has been made at the direct request of a committee chairman or individual Member unless arrangements have been made with those individuals for addressing the report to the Congress. Copies of the reports are generally available for distribution to other interested individuals or organizations shortly after issuance to the addressee.

## 22.4 REPORTS ADDRESSED TO AGENCY OFFICIALS

Reports are addressed to agency officials when:

1. The findings, conclusions, and recommendations deal with matters not requiring action by the Congress, and the matters do not warrant attention of the full Congress.

2. It is desired to inform agency officials of the completion of an audit or to call attention to findings of lesser significance.

Copies of reports to top agency officials are sent to the Office of Management and Budget for use in carrying out its responsibilities for formulating and executing the budget and for improving management in the executive agencies.

## 22.5 COPIES OF AUDIT REPORTS

Requests for copies of audit reports should be addressed to the U.S. General Accounting Office, Distribution Section, Room 4522, 441 G Street, NW., Washington, D.C. 20548.

## SECTION 23--ADVANCE REVIEW AND COMMENTS

### 23.1 BASIC POLICY

To insure that its reports are fair, complete, and objective, GAO obtains advance reviews and comments from persons or from officials of the organizations whose activities are discussed in its reports. This results in a report which shows not only what was found and GAO's opinion about it, but also what the responsible officials think about it and their plan of action, if any. This kind of report is more useful to the recipient.

There are occasions, however, when circumstances preclude obtaining advance review and comments. When this occurs it is GAO's policy to clearly disclose that fact and the reason(s) for not obtaining comments in the report.

### 23.2 VIEWS OF TRADE, INDUSTRY, OR PROFESSIONAL ORGANIZATIONS AND OF OTHER INTERESTED ORGANIZATIONS

Some reviews may lead to recommendations which could result in important changes in Government policies or standards affecting the interests of large numbers of private organizations and persons. In such cases it is not feasible to obtain and consider the views of all of those who may be affected. However, during the audit an effort will be made to obtain background information, points of view, copies of studies which are related to the audit, etc., from cognizant professional organizations, trade associations, consumer organizations, employee representative organizations, and other interested parties.

**SECTION 24--RETENTION OF ACCOUNTS AND  
RECORDS AT SITE****24.1 LEGAL AUTHORITY**

The accounts and records which are subject to audit at the site are to be retained at the place where the accounts of the agency are normally kept pursuant to section 117(b) of the Accounting and Auditing Act of 1950, as amended, 31 U.S.C. 67(b)(1970), which provides that:

"Whenever the Comptroller General determines that the audit shall be conducted at the place or places where the accounts and other records of an executive agency or the Architect of the Capitol are normally kept, he may require any executive agency or the Architect of the Capitol to retain in whole or in part accounts of accountable officers, contracts, vouchers, and other documents, which are required under existing law to be submitted to the General Accounting Office, under such conditions and for such period not exceeding ten years as he may specify, unless a longer period is agreed upon with the executive agency or the Architect of the Capitol \* \* \*."

The Comptroller General has authorized almost all agencies to retain supporting documents at the location where the related books and records are kept.

**24.2 RETENTION AND TRANSFER OF RECORDS**

See title 8 for information on retention and transfer of fiscal and accounting records of the General Accounting Office.



CHAPTER 3--AUDITS OF GOVERNMENT  
CORPORATIONSSECTION 27--AUDITS UNDER THE GOVERNMENT  
CORPORATION CONTROL ACT

## 27.1 BASIC AUDIT AUTHORITY

The basic legal authority for the audit of wholly owned Government corporations and of mixed-ownership Government corporations is contained in sections 105 and 202, respectively, of the Government Corporation Control Act, 31 U.S.C. 850 and 857 (1970 and Supp. V, 1975). See section 3 of chapter 1 for detailed audit provisions. This act became effective for the fiscal year beginning July 1, 1946. In addition to the corporations named therein, the provisions of that act have been subsequently extended to other corporations and agencies by amendments to the original act and by individual organic acts which established new corporations or organizations.

Sections 105 and 202, as amended by sections 601(a) and 601(c) of the General Accounting Office Act of 1974, Pub. L. No. 93-604, approved January 2, 1975, provide that, effective July 1, 1974, each wholly owned and mixed-ownership Government corporation shall be audited at least once in every 3 years.

These sections further provide that the financial transactions of Government corporations:

"\*\*\* shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States \* \* \*."

The rules and regulations which have been thus prescribed are set forth in section 28.

A list of the corporations and agencies subject to audit under the Government Corporation Control Act is presented on page 3-36.

## 27.2 REPORT REQUIREMENTS

Section 106 of the Government Corporation Control Act, 31 U.S.C. §851 (1970 and Supp. V, 1975), as amended by section 601(b) of Pub. L. No. 93-604 supra, contains the following

provisions with respect to the audit of wholly owned Government corporations (almost identical language is contained in section 203 of the act, 31 U.S.C. 858 (1970 and Supp. V, 1975), as amended by section 601(d) of Pub. L. No. 93-604 supra, in regard to the audit of mixed-ownership Government corporations):

"A report of each audit conducted under section 105 shall be made by the Comptroller General to the Congress not later than six and one-half months following the close of the last year covered by such audit. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress informed of the operations and financial condition of the several corporations, together with such recommendations with respect thereto as the Comptroller General may deem advisable, including a report of any impairment of capital noted in the audit and recommendations for the return of such Government capital or the payment of such dividends as, in his judgment, should be accomplished. The report shall also show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit, which, in the opinion of the Comptroller General, has been carried on or made without authority of law. A copy of each report shall be furnished to the President, to the Secretary of the Treasury, and to the corporation concerned at the time submitted to the Congress."

#### SECTION 28--REGULATIONS OF THE COMPTROLLER GENERAL

##### 28.1 ACCOUNTING SYSTEMS OF GOVERNMENT CORPORATIONS

It is the responsibility of each corporation to develop, install, and maintain an adequate system of accounts, records, and internal control. The accounting systems of corporations under the Government Corporation Control Act are not required to be approved by the Comptroller General pursuant to section 112(b) of the Budget and Accounting Procedures Act of 1950, 31 U.S.C. 66(b)(1970). However, the adequacy of such systems is reviewed by the General Accounting Office as a part

of its audit work, and when appropriate, recommendations are submitted for improvements which will make for better control over operations, provide more useful information for management, the Congress, or others entitled thereto, or result in simplification of methods and consequent economies.

#### 28.2 PLACE OF AUDIT

Audits will be conducted at the place or places where the accounts of the respective corporations normally are kept.

#### 28.3 NATURE OF AUDIT

Audits of Government corporations are made in accordance with the policies and objectives described in this chapter. These audits include the audit of accounts of accountable officers involving transactions of Government corporations that are required by law to be settled and adjusted in the General Accounting Office.

#### 28.4 ACCESS TO BOOKS AND RECORDS

Accounts, books, all checks (whether canceled, voided, paid, or otherwise) drawn on commercial banks, collection documents, contracts, files, financial records, reports, vouchers, and all other papers pertaining to their financial condition and operations shall be preserved by the respective corporations, unless disposed of pursuant to the Act of July 7, 1943 (44 U.S.C. 366 (1970)), or other lawful authority. Representatives of the General Accounting Office shall have access thereto, and to all things or property belonging to or in use by the corporations and necessary to facilitate its audits, and such representatives shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians.

#### 28.5 U.S. TREASURY'S STATEMENTS OF DEPOSITARY ACCOUNTS

Reconciliation of checks drawn on the account of the United States Treasury is a function of the Bureau of Government Financial Operations. That Bureau issues instructions and information about the status of accounts. (See Treasurer's Memorandum No. 3, formerly CP&R Memorandum No. 3.) Treasury Form 5207 is available on request to each funded disbursing activity; this form supplies information, by totals, about outstanding checks. The corporations' accounts are to be maintained on the basis of checks issued.

SECTION 29--COST OF AUDITS MADE UNDER THE  
GOVERNMENT CORPORATION CONTROL ACT

29.1 PAYMENT AND REIMBURSEMENT AUTHORITY

Section 301(a) of the Government Corporation Control Act, 31 U.S.C. 866(a)(1970), provides, in pertinent part:

"The expenses of auditing the financial transactions of wholly owned and mixed-ownership Government corporations \* \* \* shall be borne out of appropriations to the General Accounting Office, \* \* \* Provided, That each such corporation shall reimburse the General Accounting Office for the full cost of any such audit as billed therefor by the Comptroller General, and the General Accounting Office shall deposit the sums so reimbursed into the Treasury as miscellaneous receipts \* \* \*."

29.2 BUDGETED EXPENSES

The General Accounting Office furnishes estimates of the expense of future audits to the corporations subject to the Government Corporation Control Act to facilitate the preparation of expenditure budgets for such corporations. Estimated expenses for each audit are based upon the costs of previous audits, the scope of prospective audits, and other related matters.

29.3 BILLING OF AUDIT EXPENSES

After an audit report is issued to the Congress as required by law, the General Accounting Office bills the corporation audited for the costs incurred in making the audit. Such billings are based upon (a) the number of staff-hours expended in the audit, (b) the actual cost of travel expenses of the personnel involved, and (c) applicable overhead charges. Amounts received in payment of such charges are deposited in the Treasury as miscellaneous receipts.

29.4 LIMITATION ON PRIVATE AUDITS

Section 301(d) of the Government Corporation Control Act provides:

"Unless otherwise expressly provided by law, no funds of any Government corporation shall be used to pay the cost of any private audit of the financial records of the offices of such corporation \* \* \*." (31 U.S.C. 866(d)(1970))

SECTION 30--AUDITS OF GOVERNMENT CORPORATIONS NOT SUBJECT TO THE GOVERNMENT CORPORATION CONTROL ACT, AND AGENCIES MADE SUBJECT BY SPECIFIC LEGISLATION TO AUDIT BY GAO IN ACCORDANCE WITH PRINCIPLES AND PROCEDURES APPLICABLE TO COMMERCIAL CORPORATE TRANSACTIONS

The General Accounting Office makes audits of numerous other corporations and agencies not subject to the Government Corporation Control Act but which are made subject by specific legislation to audit in accordance with principles and procedures applicable to corporate commercial transactions. Such audits are similar in scope to those conducted under the Government Corporation Control Act. The following is a list of legislative authorities for such audits:

<u>Organization</u>	<u>Audit Authority</u>
Agency for International Development Loan Program	Section 635(g)(5) of the Foreign Assistance Act of 1961, as amended, Pub. L. No. 87-195, 22 U.S.C. 2395(g)(5)(1970)
Civil Service Commission Revolving Fund	5 U.S.C. §1304(c) as amended and enacted into positive law by Pub. L. No. 89-554, Sept. 6, 1966
Commissioner of Education (Student Loan Insurance Fund)-	Section 432, Pub. L. No. 89-329, Nov. 8, 1965, as amended by section 705(a), Pub. L. No. 93-604, Jan. 2, 1975, 20 U.S.C. §1082(b) (1970)
Corporation for Public Broadcasting	Section 396( <u>1</u> )(2)(A) of the Communications Act of 1934 as amended by section 201, Pub. L. No. 90-129, Nov. 7, 1967, 47 U.S.C. §396( <u>1</u> )(2)(A)(1970)
Delaware River Basin Commission	Section 14.11(c), Pub. L. No. 87-328, Sept. 27, 1961, 75 Stat. 688
Department of Housing and Urban Development (Low Cost Housing Program)	Section 201(a), Pub. L. No. 93-383, Aug. 22, 1974, 42 U.S.C. §1437h (Supp. V, 1975)

Organization (cont'd)

Department of Housing  
and Urban Development  
(National Flood  
Insurance Program)

Department of Housing  
and Urban Development  
(National Homeownership  
Foundation)1/

Department of Housing  
and Urban Development  
(Slum Clearance and  
Urban Renewal Program)

Federal Deposit  
Insurance Corporation

Federal Financing Bank

Federal Home Loan  
Bank Board

Federal Home Loan  
Mortgage Corporation

Audit Authority (cont'd)

Sections 1348, 1373, Pub. L. No.  
90-448, Aug. 1, 1968, 42 U.S.C.  
§4084 (1970)

Section 107(g), Pub. L. No. 90-  
448, Aug. 1, 1968 (1970), as  
amended by section 604 of Pub. L.  
No. 93-604, Jan. 2, 1975, 12 U.S.C.  
§1701y (1970)

Section 106(a), Housing Act of  
1949, 63 Stat. 413, 417, July 15,  
1949, 42 U.S.C. §1456 (1970)

Section 17(b), Federal Deposit In-  
surance Act, as amended by the Act  
of Sept. 21, 1950, 64 Stat. 873,  
890, as amended by section 602,  
Pub. L. No. 93-604, Jan. 2, 1975,  
12 U.S.C. §1827 (1970)

Pub. L. No. 93-224, Dec. 29, 1973,  
12 U.S.C. §2281 et seq. (Supp. V,  
1975)

Section 18(c)(6), Federal Home  
Loan Bank Act, 47 Stat. 725; 12  
U.S.C. §§1421, 1438 (1970) as  
amended

Section 307, Pub. L. No. 91-351  
12 U.S.C. §1456(b) (1970)

1/A National Homeownership Foundation is authorized, but no monies have been appropriated for its creation.

Organization (cont'd)Audit Authority (cont'd)

Federal Maritime Commission and Secretary of Commerce (Contracts and Disbursements Required for Activities Authorized by the Merchant Marine Act of 1936, Act of June 29, 1936, 49 Stat. 1985 as amended, 46 U.S.C. §1101 et seq.)	Section 207, Act of June 29, 1936, 49 Stat. 1985, 1988 as amended, 46 U.S.C. §1117 (1970)
Gorgas Memorial Laboratory	Act of May 7, 1928, 45 Stat. 491, 22 U.S.C. §278(a) (1970)
Government Printing Office	Pub. L. No. 90-620, Oct. 22, 1968, as amended by section 707, Pub. L. No. 93-604, Jan. 3, 1975, 44 U.S.C. §309 (Supp. IV, 1974)
Inter-American Foundation	Section 401(t), Pub. L. No. 91-175, 22 U.S.C. 290f(t) (1970)
Legal Services Corporation	Section 2, Pub. L. No. 93-355, July 25, 1974, 42 U.S.C. 2996(h) (Supp. IV, 1974)
National Credit Union Administration	Section 102, Pub. L. No. 89-354, as amended, 12 U.S.C. §1752a(f) (1970)
National Credit Union Share Insurance Fund	Section 209, Pub. L. No. 91-468, 12 U.S.C. §1789 (1970)
National Railroad Passenger Corporation	Section 805, Pub. L. No. 91-518, Oct. 30, 1970, as amended, 45 U.S.C. §644 (Supp. IV, 1974)
Secretary of Transportation (Authority to Insure and Reinsure Aircraft, Personnel and Property Against War Risks)	Section 1307(f), Federal Aviation Act of 1958, Pub. L. No. 85-726, Aug. 23, 1958, as amended by section 702, Pub. L. No. 93-604, Jan. 2, 1975, 49 U.S.C. §1537 (1970)

<u>Organization (cont'd)</u>	<u>Audit Authority (cont'd)</u>
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Susquehanna River Basin Commission	Section 1, Pub. L. No. 91-575, App. Dec. 24, 1970, article 15, 11 Susquehanna River Basin Compact
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Trans-Alaska Pipeline Liability Fund	Section 204, Pub. L. No. 93-153, Nov. 16, 1973, 43 U.S.C. §1653(c) (4)(1970)
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Washington Metropolitan Area Transit Authority	Section 70(b), Pub. L. No. 89-774, App. Nov. 6, 1966
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In some instances where no legislative authority exists, audits are made pursuant to agreements between the General Accounting Office and the appropriate corporate or administrative officials.

### 30.1 REIMBURSEMENT OF AUDIT EXPENSES

When an agency or corporation is required to reimburse the General Accounting Office for the expense of an audit, the reimbursements are processed in the same manner as those received under the Corporation Control Act.



## APPENDIX A

CORPORATIONS AND AGENCIES  
SUBJECT TO AUDIT UNDER  
GOVERNMENT CORPORATION CONTROL ACT

Wholly Owned Government Corporations (31 U.S.C. 846 (Supp. V,  
1975))

Commodity Credit Corporation  
Pennsylvania Avenue Development Corporation  
Federal Crop Insurance Corporation  
Government National Mortgage Association  
Federal Prison Industries, Incorporated  
Overseas Private Investment Corporation  
Export-Import Bank of the United States  
Federal Savings and Loan Insurance Corporation  
Federal Housing Administration  
Saint Lawrence Seaway Development Corporation  
Panama Canal Company  
Tennessee Valley Authority  
Pension Benefit Guaranty Corporation

Mixed-Ownership Government Corporations (31 U.S.C. 856  
(Supp. V, 1975))

Central Banks for Cooperatives  
Regional Banks for Cooperatives  
Federal Land Banks  
Federal Intermediate Credit Banks  
Federal Home Loan Banks  
Rural Telephone Bank  
United States Railway Association

## APPENDIX B

RULES AND REGULATIONS OF  
THE COMPTROLLER GENERAL FOR AUDIT OF THE  
CORPORATION FOR PUBLIC BROADCASTING

The Communications Act of 1934, as amended by the Public Broadcasting Act of 1967 (81 Stat. 365, 47 U.S.C. 396 et seq. (1970)), authorized the establishment of the Corporation for Public Broadcasting and provides that it will not be an agency or establishment of the United States Government. Section 398 of the act specifically provides that nothing in the act shall be deemed to authorize any department, agency, officer, or employee of the United States to exercise any direction, supervision, or control over the Corporation, its charter or bylaws, its grantees or contractors, or the curriculum, program of instruction, or personnel of any educational institution, school system, or educational broadcasting station or system.

The following rules and regulations are applicable to General Accounting Office audits of the Corporation.

Audits by the General Accounting Office

Section 396(1)(2)(A) of the act provides for audits by the General Accounting Office as follows:

"The financial transactions of the Corporation for any fiscal year during which Federal funds are available to finance any portion of its operations may be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States. Any such audit shall be conducted at the place or places where accounts of the Corporation are normally kept." (47 U.S.C. 396(1)(2)(A) (1970))

Audit reports

Section 396(1)(2)(B) of the act further provides:

"A report of each such audit shall be made by the Comptroller General to the Congress. The report to the Congress shall contain such comments and information as the Comptroller General may deem necessary to inform Congress of the financial operations and conditions of the Corporation together with such recommendations with

respect thereto as he may deem advisable. The report shall also show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit which, in the opinion of the Comptroller General, has been carried on or made without authority of law. A copy of each report shall be furnished to the President, to the Secretary, and to the Corporation at the time submitted to the Congress." (47 U.S.C. 396(1)(2)(B) (1970))

#### Place of audit

Audits will be conducted at the place or places where the accounts and other records of the Corporation normally are kept.

#### Nature of audit

General Accounting Office audits of the Corporation will be made in accordance with the following policies and objectives:

1. The primary purpose of the audit by the General Accounting Office is to make for the Congress an independent examination into the manner in which the Corporation discharges its financial responsibilities. Financial responsibilities of the Corporation include the administration of funds and the utilization of property and personnel only for authorized programs, activities, or purposes, and the conduct of programs or activities in an effective, efficient, and economical manner, giving consideration to the special status of the Corporation as provided in the Public Broadcasting Act of 1967 (47 U.S.C. 396 et seq.)
2. The general audit objectives of the General Accounting Office with respect to the Corporation's operations involve examination into:
  - a. Whether the Corporation is carrying out only those activities authorized by the Congress and whether the Corporation is conducting them in the manner contemplated to accomplish the objectives intended.

- b. Whether the activities are conducted and resources made available to the Corporation are utilized in an effective, efficient, and economical manner and in compliance with the requirements of applicable law, giving consideration to the special status of the Corporation as provided in the Public Broadcasting Act of 1967 (47 U.S.C. 396 et seq. (1970)).
  - c. Whether all Corporation revenues and receipts arising from the operations under examination are collected and properly accounted for.
  - d. Whether the Corporation's accounting system is adequate.
  - e. Whether the annual report prepared pursuant to section 396(i) of the act and transmitted to the Congress by the President adequately discloses comprehensive and detailed information relating to the Corporation's operations, activities, financial condition, and accomplishments.
3. Audits by the General Accounting Office will not be concerned with the policy matters relating to the Corporation's support, whether financial or otherwise, for the production, acquisition, or distribution of programs for public broadcasting, or the content of such programs.
  4. Audit procedures of the General Accounting Office will be determined after giving due regard to the nature and scope of the annual audit of the Corporation's accounts by independent public accountants as provided by section 396(1)(1) of the act.

#### Access to records

As provided in section 396(1)(2)(A) of the act:

" \* \* \* The representative of the General Accounting Office shall have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the Corporation pertaining to its financial transactions and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositories, fiscal agents, and custodians.

All such books, accounts, records, reports, files, papers and property of the corporation shall remain in possession and custody of the Corporation." (47 U.S.C. 386(1)(2)(A) (1970))

In carrying out the audit objectives recited above, the Corporation shall furnish on request information regarding its powers, duties, organization, transactions, operations, and activities. The Comptroller General or any of his duly authorized representatives shall, for the purpose of securing such information, have access to and the right to examine all books, accounts, records, reports, files, and all other papers, things, or property of the Corporation necessary to facilitate the audit.

To facilitate its audit and avoid unnecessary duplication, the audit reports and related working papers of the Corporation's independent public accountants shall be available to representatives of the General Accounting Office on request.

As provided by section 396(1)(3) of the act, representatives of the General Accounting Office shall have access for the purpose of audit to any books, documents, papers, and records of recipients of assistance from the Corporation by grant or contract (other than fixed-price contracts awarded under formal advertising procedures) that are pertinent to assistance received under section 396 of the act during any fiscal year for which Federal funds are available to the Corporation.

## CHAPTER 4--INTERNAL AUDITING IN FEDERAL AGENCIES

### SECTION 33--MANAGEMENT CONTROL

Management control begins with delegated authority and planned operations and continues through performance and reporting on performance. A well-designed system of management control helps to improve efficiency and economy and achievement of planned results. Such a system includes providing carefully devised and frequently updated standards of comparison in accordance with which activities are designed and carried on, and against which their output, whatever its form or stage of completion, can be measured.

The essence of management control is the action which adjusts operations to conform with prescribed or desired standards or requirements. To take this action, management needs timely and adequate information on performance.

### SECTION 34--ROLE OF INTERNAL AUDITING

Information needed by management may come from direct observation; from routine and periodic operating, accounting, statistical, and analytical reports; and from functional or staff reviews. Another important source of information is the internal audit organization which conducts independent examinations and makes reports on its findings and appraisals of operations and performance. The internal audit function uniquely supplements routine management checks through its independent approach and methods of review. This function is one of the essential tools of management, complementing all other elements of management control.

#### 34.1 NATURE OF INTERNAL AUDITING

The overall objective of internal auditing is to assist agency management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties and objectives.

Internal auditing is a staff and advisory function, not a line-operating function. Thus, the internal auditor should not have authority to make or direct changes in his agency's procedures or operations. His job is to independently and objectively analyze, review, and evaluate existing procedures and activities; to report on conditions found; and,

whenever he deems it necessary, to recommend changes or other action for management and operating officials to consider.

An internal auditor should not be given direct operating responsibilities. Rather, he should be expected to concern himself primarily with the performance of others, to retain an independent outlook in all of his work, and to direct particular attention to matters requiring corrective action. His function is to present his views and suggestions constructively in such a manner as to stimulate or encourage action on his suggestions by others.

### 34.2 BENEFITS OF INTERNAL AUDITING

Management has found that services rendered by the internal auditor in the form of constructive recommendations supported by unbiased, relevant information have aided in meeting many of the problems of an organization's operations. The numerous, complex administrative problems of large organizations impose on management the necessity of delegating a large degree of operating authority within the organizational structure. Management must keep informed on what is happening in the organization at its various levels. Internal auditing is an important means by which management can provide itself with such information and related evaluations.

Management also benefits from timely information on problems on which remedial measures can be taken before the functioning of the organization is impaired. These problems, once they have been examined and appraised, often lead to opportunities for achieving lower costs, increased efficiency, and faster ways of getting things done.

Internal auditing can be of special benefit to the management of smaller organizations, or of small segments of large organizations, where the customary division of duties among employees is not always economical or practical. The internal auditor can often provide additional internal checks and controls required for effective and efficient management.

By reason of his knowledge of management policies and procedures and his contacts with officials and employees at all organizational levels, the internal auditor can render a valuable service by promoting better communication within an agency. He can obtain first-hand observations on the usefulness or effectiveness of prescribed policies and procedures and he can bring to top management's attention those needing modification, explanation, and interpretation. This

type of service can contribute greatly to good management control.

### 34.3 FEDERAL MANAGEMENT CIRCULAR

General Services Administration Federal Management Circular 73-2, dated September 27, 1973, sets forth policies to be followed in the audit of Federal operations and programs by executive departments and establishments. The primary objectives of this circular are to promote and improve audit practices, to achieve more efficient use of manpower, to improve coordination of audit efforts, and to emphasize the need for early audits of new or substantially changed programs. The circular states that the "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" (Appendix C), issued by the Comptroller General in 1972, will be the basic criteria on which Federal agency audit coverage and operations will be based. (As of December 1975, the responsibility for internal audit policy was transferred from the General Services Administration to the Office of Management and Budget.)

### 34.4 CONGRESSIONAL INTEREST

The Congress recognized the role and usefulness of internal auditing when it passed the National Security Act Amendments of 1949 and the Budget and Accounting Procedures Act of 1950. The last-named act placed responsibility for the institution of this element of internal control on top agency management by-providing (in section 113) that:

"The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide \* \* \* effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit \* \* \*." (31 U.S.C. 66a (1970))

Other more recent laws which require internal audits of agency activities include the Postal Reorganization Act of 1970 and the District of Columbia Self-Government and Governmental Reorganization Act of 1973.



The Government Activities Subcommittee, House Government Operations Committee, has taken a strong and active interest in this function in the Federal Government, urging all agencies to adopt effective internal audit systems.<sup>1/</sup>

### SECTION 35--SCOPE OF INTERNAL WORK

To be of maximum usefulness, the scope of the internal auditor's activity should not be restricted. It should extend to all agency activities and related management controls.

The duties of the internal auditor should be clearly stated by the head of the agency, and information concerning these duties should be disseminated throughout the agency to insure full recognition of the nature of his function at all levels.

#### 35.1 APPRAISING PERFORMANCE

A necessary function of management is to establish and prescribe policies, plans, and procedures for carrying out programs and activities in pursuit of the objectives of the organization and to establish organizational or management systems for review of operations.

The internal audit function can provide a highly valuable service to management by reviewing, appraising, and reporting on the extent and nature of internal compliance with management's policies, plans, and procedures, as well as with applicable legal and external regulatory requirements.

The internal auditor's work should include the review of the operation of the whole system of management controls over operations and resources to ascertain whether they are functioning in accordance with their design and are functioning effectively. In organizing his work, particularly in large agencies, he should consider making comparative examinations of similar functions which are performed in the various organizational components of the agency.

In making such examinations, the internal auditor should be alert to possibilities for improving operations and identifying opportunities for bringing about greater efficiency and economy.

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<sup>1/</sup> H. Rept. 456, 88th Cong., 1st sess. (1963).

As a result of his familiarity with management plans and policies, intra-agency relationships, and procedures and with the manner in which they are working out, the internal auditor should also report observations as to their adequacy and effectiveness in relation to top management objectives together with such recommendations for improvement he considers appropriate.

### 35.2 ELEMENTS OF AN AUDIT

The full scope of an audit of a governmental program, function, activity, or organization should encompass:

- An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
- A review of efficiency and economy in the use of resources.
- A review to determine whether desired results are effectively achieved.

This scope of audit is explicitly set forth as a general standard for governmental auditing in GAO's statement of audit standards (app. C), but it does not imply that every internal audit should be so extensive. Internal audit work should be tailored to meet the needs of management and other users having a legitimate interest in the audit results.

The needs of management officials for assistance of the kind that internal auditors can provide will vary from agency to agency because of differences in nature of operations, organizational structure, location of activities, qualities and competence of officials and employees, and concepts of management control held by top agency officials. An internal audit program should be structured to meet the needs of top management and also be designed to serve the needs of subordinate management levels.

### 35.3 EXAMINING FINANCIAL OPERATIONS

The internal auditor should examine financial transactions, including the receipt and disbursement of public funds; accounts; and financial reports to the extent necessary to determine whether:

- The agency is maintaining effective control over revenues, expenditures, assets, and liabilities.
- The agency is properly accounting for its resources, liabilities, and operations.
- The agency's financial reports contain accurate, reliable, and useful financial data and are fairly presented.
- The agency is complying with the requirements of applicable laws and regulations.

In carrying out this work, the internal auditor should evaluate the adequacy of the agency's prescribed policies and procedures and the internal controls related to its financial operations, including the accounting and financial reporting.

The internal auditor should examine whether all revenues arising from the agency's activities were collected and fully accounted for and whether expenditures were made for approved purposes and were properly authorized. He should evaluate whether the agency's procedures result in prices, rates, or fees that conform to applicable laws and regulations. Prescribed procedures for expenditures should be similarly reviewed for such conformity.

The work of the internal auditor should include examination and testing of accounting and other records and the related procedures underlying the agency's management information system to establish the reliability of the data used by management for internal purposes and for external reports.

The purpose and usefulness of internal reports should be reviewed by the internal auditor as one means of keeping reports responsive to the real needs of users, of avoiding the production of repetitive reports that no longer serve any useful purpose, and of avoiding the distribution of reports to persons having no use for them. He should also ascertain whether changing activities or circumstances are considered in the internal reporting operations.

The internal auditor should be particularly concerned with assets for which the agency is accountable--whether they are fully accounted for and whether procedures being followed adequately protect them from loss, deterioration,

or misuse. In examining these matters, he should be alert to the possibility of fraud and dishonesty and to opportunities and practices which could lead to fraud, dishonesty, or loss.

The existence of separate groups within the organization concerned with fraud or other forms of irregularity should not inhibit the auditor from giving close attention to such matters in his work. When he does encounter such matters, the internal auditor should bring them without delay to the attention of the management.

#### 35.4 EVALUATING EFFICIENCY AND ECONOMY

The internal auditor should be concerned at all times with minimizing unnecessary or wasteful practices in the use of the agency's resources. He should be watchful for and report on:

- Procedures, whether officially prescribed or merely followed, which are ineffective or found to be more costly than justified.
- Duplication of effort by employees or between organizational units which, if eliminated, could increase overall efficiency.
- Performance of work which serves little or no useful purpose.
- Inefficient or uneconomical use of equipment.
- Overstaffing in relation to work to be done.
- Faulty buying practices.
- Procurement and accumulation of unneeded or excess quantities of property, materials, or supplies.
- Wasteful use of property.

Where functional staff groups exist in an agency which are regularly concerned with such matters as organizational efficiency and personnel use and the making of related studies, the internal auditor should recognize such work and avoid any duplication of effort. However, he should communicate to such groups any observations he may have which are related to their responsibilities.

The operations of such functional staff groups should be subject to the same degree and type of audit as are other parts of the organization.

When practicable, the internal auditor should suggest ways of remedying the weaknesses that he finds; in some cases, he may recommend remedial studies by technical personnel.

### 35.5 REVIEWING PROGRAM RESULTS

A review of the results of programs or activities involves inquiring into the results or benefits achieved and whether the programs or activities are meeting established objectives.

Agency management officials have the basic responsibility for continually evaluating their programs and activities to determine the progress being made in achieving established objectives. The auditor whose scope of operations extends to reviewing program results should be initially concerned with evaluating the agency's system for measuring its progress or accomplishments. Major questions he should consider include:

Program effectiveness--Is the program accomplishing the results intended, as spelled out in the legislative objectives or in the implementing directives of the agency?

Cost effectiveness--Is the program succeeding within the costs anticipated at the time the legislation was enacted?

Adequacy of information system--Does top management have the essential and reliable information necessary to exercise supervision and controls and to ascertain direction or trends?

Cost-benefit relationship--Are program costs reasonably commensurate with the benefits achieved?

Consideration of alternatives--Have alternative programs or procedures been examined or should they be examined for potential in achieving objectives with the greatest economic efficiency?

Need for program--Is there a continuing need for the program? Legislation and regulations may not provide for program termination, and it is not unusual for a Government program to continue long after the need it was created to meet has disappeared.

Appropriateness of program--Is the program, as it was designed and implemented, geared to the needs of the particular target group that was used to justify the establishment of the program?

Clarity and consistency of objectives--Are program objectives sufficiently clear to permit agency management to effectively accomplish the desired program results? Are the objectives of the component parts of the program consistent with overall program objectives?

### 35.6 OTHER FACTORS AFFECTING SCOPE OF WORK

In all of his work, the internal auditor should strive to determine the underlying causes of the errors or adverse conditions he encounters and to formulate recommendations for preventing similar occurrences in the future.

The internal auditor should not be assigned the responsibility for developing and installing methods, systems, or procedures. He should, however, call attention to problem areas and possible improvements and he should be consulted on proposed corrective actions.

The internal auditor should be kept informed of proposed major changes in methods, systems, and procedures; particularly those involving computer applications, so that he can contribute suggestions on them before they are put into effect. Consultation between the systems/computer technicians and the internal auditor, during the systems development phase, helps to insure that adequate controls are established and adequate audit trails are provided in the system so as to avoid costly changes after a new system has been installed.

### SECTION 36--PERSONNEL QUALIFICATIONS

The staff assigned to perform an audit must collectively possess adequate professional proficiency to perform the tasks required.

Carrying out the type of internal audit described above requires an adequate staff of competent, experienced personnel. The degree to which internal auditing can aid management is proportional to the capabilities of the audit staff and the freedom with which it operates. A program of continuous training and development is essential.

Broad responsibilities and a wide range of services require that the internal auditor be well informed on such matters as his agency's purposes, objectives, programs, policies, operations, activities, and related basic legislation; its budget, fiscal, and accounting procedures and those of the Federal Government generally; legal and regulatory requirements; accounting and auditing principles and procedures; and management practices common to all organizations.

Within the scope of his assigned responsibility, the internal auditor should be capable of making audits at the various operating levels within the organization. He should be able to recognize problem areas and contribute workable suggestions for improvement. The internal audit manager must see that all audits are conducted by personnel who collectively have the skills necessary for the type of audit that is to be performed.

The qualifications of the staff assigned to the audit should be commensurate with the scope and complexities of its audit assignments. Audits vary in purpose and scope. Some require an opinion on financial statements and an evaluation of compliance with specific laws and other requirements; others require reviews of efficiency and economy; still others emphasize a review of effectiveness in achieving program results; and some require all three elements. Performing all three elements will usually require a wide variety of skills.

Because there are variations in program objectives and organizational forms, as well as differences in laws, rules, and regulations applicable to such programs, the qualifications mentioned herein should apply to the skills of the audit organization as a whole and not necessarily to individual auditors. For example, if an audit organization includes staff members or consultants with acceptable skills in accounting, statistics, law, engineering, actuarial science, and other fields, each individual member of the organization need not himself possess all of these skills.

The internal audit staff must be knowledgeable in auditing theory and procedures; statistical techniques, including sampling; computer operations and applications; management information systems; economics; operations research; governmental organization and operation; and other facets of modern management practices. While an audit staff may consist mostly of individuals with training and experience in accounting and auditing, it should also include, or acquire through the

medium of contract, experts in mathematics, computer operations, engineering, and other appropriate specialities when warranted by the nature of an agency's programs and activities.

The nature of his work requires the internal auditor to deal successfully with all classes of employees and to be able to communicate with them and others both orally and in writing. He must be tactful and always maintain a good appearance and a professional bearing.

During their examinations, internal auditors have opportunities for becoming acquainted with agency problems and personnel. The investment of talent and time in internal auditing can also make a material contribution to the development of potential management personnel.

#### SECTION 37--LOCATION IN THE ORGANIZATION

##### 37.1 RESPONSIBILITY OF MANAGEMENT OFFICIALS

Internal auditing does not in any way relieve other persons of the responsibilities assigned to them. An internal auditor should not replace established lines of operating authority, and his operations do not eliminate the need for continuing organizational and functional supervision.

Operating officials should be vested with full responsibility for compliance with prescribed policies and procedures, for protection and use of the resources of the agency, and for action in the correction of deficiencies or unsatisfactory conditions coming to their attention, including those reported by the internal auditor.

##### 37.2 INDEPENDENCE AND REPORTING LEVEL

The position of the internal auditor in the organization should be such that he is independent of the officials who are directly responsible for the operations he reviews. To provide an adequate degree of independence, the internal auditor should be responsible to the highest practical organizational level, preferably to the agency head or to a principal official reporting directly to the agency head.

Such positioning is in accordance with the general standard for governmental auditing which places upon the auditor and the audit organization the responsibility for maintaining



sufficient independence so that their opinions, conclusions, judgments, and recommendations will be impartial.

Internal auditing cannot be fully effective unless the official to whom the internal auditor reports is a strong supporter of the function, has direct access to the agency head, and has made arrangements to supply all significant audit findings directly to the agency head.

Where the internal auditor does not report to the head of the agency, the function should be placed under the direction of a principal official who does report directly to the agency head so as to insure recognition of its stature and importance in the control system. Also, where the internal auditor does not report to the head of the agency:

- The agency head should satisfy himself that the official to whom the internal auditor reports not only permits but also encourages the internal auditor to exercise latitude in setting the scope of work and in reporting on the results of his audits. The internal auditor should be sufficiently independent to be able to make impartial appraisals of the operation of agency programs and activities, including those under the official to whom the internal auditor reports.
- The head of the agency should concern himself with the scope and effectiveness of the internal audit function and its staffing and with the adequacy of attention paid to audit-findings and recommendations.
- The internal auditor, when he deems it necessary to the fulfillment of his responsibilities, should have direct access to the head of the agency.

### 37.3 CENTRALIZATION

The establishment of a single internal audit organization reporting to the agency head or to a principal official reporting directly to the agency head:

- Provides the advantages of greater independence.
- Fosters a broad viewpoint on the interrelationship of organizations and functions within an agency.

--Places the internal auditor in a better position to make systematic and independent evaluations of and reports on all agency programs, activities, and operations.

A single audit organization also facilitates the attraction and retention of better managerial and staff capability, more effective staff use, and increased coordination of audit effort and interrelated findings. In addition, under unified direction and supervision, a single audit organization permits the devotion of a greater portion of total staff time to specific audit assignments and provides greater opportunities for tailoring staff assignments to the talents and experience of staff members.

#### 37.4 AUDIT STAFFS IN SUBORDINATE ORGANIZATIONS

A separate internal audit staff should not be attached to a component bureau or similar organization unless management needs and the size and nature of the bureau's activities are such as to justify an internal audit staff of sufficient size to attract and retain qualified personnel and to make possible the productive and flexible use of staff resources. Decisions on the establishment of such staffs should be made by or be subject to approval by the agency head.

Where an organizational component of an agency maintains its own internal audit staff, the central internal audit activity of the agency should be accountable for furnishing general policy direction and coordinating the efforts of such staff.

The audit coverage by a subordinate audit staff should be included in the scope of the internal audit activity provided for top management. The work of such an organization should be used to the extent practicable in carrying out internal audit work of the top audit group and the effectiveness of the audit work at the lower level should be evaluated, as are other control functions.

An internal audit group at the bureau level should be accountable to an official occupying a sufficiently high position to insure its access to any activity of the organization and adequate consideration of and action on its findings and recommendations.

SECTION 38--MANAGEMENT OF THE  
INTERNAL AUDIT FUNCTION

38.1 DUE PROFESSIONAL CARE

Due professional care must be used in conducting internal audits and in preparing related reports.

This standard of performance requires the auditor to exercise good judgment in devising audit tests and procedures and to do a good job in applying them and in preparing reports. He must effectively supervise his assistants to the extent appropriate in relation to their abilities (see below), maintain effective working relationships with officials of the activity audited, and arrange to follow up on his findings and recommendations.

This standard of performance requires the auditor to be alert for indications of fraud, improper or illegal expenditures or operations, inefficiency, waste, or ineffectiveness. It does not mean, however, that he must make a detailed audit of all transactions or operations to insure that no material impropriety exists.

It is management's responsibility to institute effective procedures and controls to prevent irregularities and improprieties and to encourage efficient and effective operations under adopted policies and procedures. The auditor's job should be to test these procedures and controls rather than to function as a substitute for them.

38.2 AUDIT MANUAL

A manual should be developed outlining the objectives of internal auditing in the agency, the policies to be followed, the general scope of work to be performed, standards of performance, and reporting requirements.

38.3 PLANNING

Adequate planning of audit work, a basic examination and evaluation standard for governmental auditing, is essential to identify the areas to be covered by the audit staff and to permit systematic scheduling of work and the best use of manpower. However, audit plans should be sufficiently flexible to permit special examinations as new needs or changing circumstances require, thus making possible the best service to management.

Where the audit work includes reviews of the efficiency and economy of operations or achievement of desired results, adequate planning is especially important because the procedures employed in such audits are more varied and complex and, thus, more care is needed to select the appropriate procedures for the case at hand.

Adequate planning should include planning for:

- Coordination with other audit groups, as appropriate.
- Personnel to be used on the assignment.
- Work to be performed.
- The format and general content of the report to be issued.

A written audit program should be prepared for each audit to effectively communicate audit objectives to all staff members, to facilitate control of the audit work during the review phase, and to provide a permanent record of the audit plans. The programs should include any available underlying criteria of performance, including reference to pertinent laws and regulations, to be used for evaluation purposes. When the established criteria for performance are vague, the auditor should attempt to obtain authoritative interpretation of the criteria. If the auditor is required to select measurement criteria, he should strive to reach agreement on the appropriateness of these measures with the interested parties.

Audit programs should include information on:

- Objectives and scope of the audit.
- Background information needed for an understanding of the audit objectives and the operations of the program or activity to be audited.
- Definitions of unusual terms.
- Audit procedures.
- Reporting procedures.

### 38.4 SUPERVISION

Another basic examination and evaluation standard for governmental auditing pertains to supervision of audit assistants. This standard requires that such assistants be properly supervised.

This standard places upon the audit organization the responsibility for insuring that less-skilled staff members receive appropriate guidance in the performance of their work. Since training, experience, and other qualifications vary among auditors, specific work assignments must be commensurate with abilities.

The standard also requires that the work of other auditors or professional consultants engaged as a part of an internal audit assignment be subject to the supervisory review of the internal audit staff management.

Supervisory review should be directed to both the substance and the method of auditing. The review should insure that (1) conformance with audit standards is obtained, (2) the audit programs are followed, unless deviations are justified and authorized, (3) the working papers adequately support findings and conclusions, (4) the working papers provide adequate data for preparing a meaningful report, and (5) the auditor will accomplish the audit objectives. Documentation of supervisory reviews should be prepared and retained.

To keep pace with changing conditions, top management should, from time to time, reappraise the agency's internal audit and other internal review activities, especially their coverage and relationship to changes in the agency's policies and programs. Such appraisals should consider the need to modify the policies and procedures of these activities as necessary to keep them responsive to the current interest of management and other interested parties and to insure continued functioning with minimum interference with operating activities, without duplication of effort, and at a reasonable cost.

### 38.5 EVIDENCE AND WORKING PAPERS

Obtaining sufficient, competent, and relevant evidence to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations is another basic examination and evaluation standard for governmental auditing.

Working papers prepared during the audit should contain evidence to clearly support the auditors' conclusions and any recommendations made or other observations reported. The evidence gathered and used as supportive material should, in all cases, meet high standards of competence, reliability, and objectivity.

The working papers should (1) be complete and accurate, (2) be clear and understandable, (3) be legible and neat, and (4) contain only those materials directly pertinent to the audit and the related report.

#### SECTION 39--INTERNAL AUDIT REPORTS

The preparation of audit reports is an important part of the internal audit process, since it is primarily through reports that the auditor communicates his observations, findings, conclusions, and recommendations.

##### 39.1 FORM AND DISTRIBUTION

All significant audit findings should be brought to the attention of the agency head and other users of audit information in such written form as to make it easy for them to effectively use the information.

Written internal audit reports should be submitted to:

--Management officials who are responsible for the operations or activities reviewed and for making decisions as to actions to be taken on reported findings and recommendations.

--The official to whom the internal auditor is functionally responsible.

--Other officials in the agency who may benefit from the information in the reports.

Involvement of top management is essential here. By its inattention or inaction, much of the constructive benefit of the internal auditor's work can be lost. On the other hand, its interest in and use of his findings and recommendations can contribute much to the recognition of the importance of his work at all management levels.

The need to prepare written audit reports is not intended to limit or prevent discussions of findings, judgments, conclusions, and recommendations with persons who have

responsibilities involving the area being audited. On the contrary, such discussions should be encouraged in order to provide management officials with useful and timely information. However, regardless of whether such discussions are held, a written report should be prepared. On those occasions where corrective action is taken or promised, a less formal type of report, such as a letter to summarize the findings and recommendations and related action or commitment, may suffice.

There are a number of reasons why reports should be prepared in written form:

- To communicate the results to responsible officials at all levels of management.
- To make the auditor's findings and recommendations less susceptible to misunderstanding.
- To make the auditor's findings available for public inspection, when appropriate.<sup>1/</sup>
- To facilitate followup work to determine whether appropriate measures have been taken in response to the auditor's findings and recommendations.

### 39.2 TIMELINESS

The value of an audit report is directly related to its timeliness concerning any action required to be taken. Therefore, audit reports should be issued as promptly as possible to make information available for timely use by management and by other interested parties.

The auditor should consider interim communication of significant matters to appropriate officials during his audit work. Such communication is not a substitute for a final written report, but it does alert officials to matters needing correction at an earlier date and permits these officials to institute corrective measures earlier than is possible if the auditor's findings and recommendations are withheld until his final report is completed.

<sup>1/</sup>There are a number of situations where law or regulations prevent issuance of internal reports. Generally, internal auditors should be guided by the practices adopted by their agency for compliance with the Freedom of Information Act.

## 39.3 CONTENT

To be effective, audit reports must be carefully prepared and:

- Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
- Present factual matter accurately, completely, and fairly.
- Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
- Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.
- Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective of any unusual difficulties or circumstances faced by the operating officials concerned.
- Identify and explain issues and questions needing further study and consideration by the auditor or others.
- Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of



fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.

--Clearly explain the scope and objectives of the audit.

--State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.

#### 39.4 FINANCIAL REPORTS

If his audit report contains financial statements or other financial presentations concerning the program or activity audited, the auditor should explain the nature and extent of his audit of such information, together with comments on any significant financial issues affecting the reports and on compliance with legal or other regulatory requirements.

Each audit report containing financial statements should:

1. Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the organization, program, function, or activity audited), applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.
2. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, and material changes in accounting policies and procedures, along with their effect on the financial reports, shall be explained in the audit report.

## SECTION 40--FOLLOWUP

Primary responsibility for action and followup on audit recommendations rests with management. A good control system will include procedures under which management officials will evaluate the effectiveness of actions taken on audit recommendations.

A desirable procedure is to have regular status reports prepared, for the information of management officials and the internal auditors, as to actions taken on audit recommendations. Also, provision should be made for regular inquiry into whether proposed corrective actions have, in fact, been taken and their effectiveness. The responsibility for such followup should be that of management officials, but the internal auditors should participate.

Where operating officials disagree with the internal auditor's recommendations, mechanisms should be established to reconcile the differences or to call for a decision at a higher management level.

Thus, reporting a finding, observation, or recommendation should not end an internal auditor's concern with the matter. From time to time he should ascertain whether his recommendations have received serious management consideration and whether satisfactory corrective action has been taken.

Internal auditors should also concern themselves with the audit findings of the General Accounting Office and other audit agencies or groups, which contain recommendations as to actions to be taken by the agency. They should incorporate, in their followup procedures, inquiry into the nature and effectiveness of those actions.

SECTION 41--RELATIONSHIP OF INTERNAL AUDITING  
TO OTHER AUDITS PERFORMED BY AGENCIES

Auditing of the performance and records of third parties, such as contractors, grantees, or borrowers, is an essential aid to the administration of contracts and of grant and loan programs. The degree of interrelationship between such auditing and internal auditing will vary depending upon the nature, size, and scope of agency programs.

Contract auditing by an agency serves the purpose of determining whether the contractor is complying with contract

requirements for the goods or services being supplied to the agency. In the award and administration of negotiated contracts, it is usually necessary to make examinations of requests for cost reimbursement; of the currency, completeness, and accuracy of cost and pricing data used in pricing negotiations; and of activities generating costs, to the extent an agency's interests are affected. This type of auditing enables the agency to appraise a contractor's financial responsibility to the Government and to provide information necessary to contract negotiation and administration. It is an essential part of an agency's system of control for achieving its purposes efficiently and economically.

Similarly, the records and performance of grantees or borrowers are subject to audit by the responsible agency, as a means of ascertaining whether there has been compliance with the terms and objectives of the agreements under which Federal funds are granted or loaned. Such auditing, like contract auditing, is an integral part of an agency's system of control in achieving its purposes effectively and efficiently.

The location in the organization of the audit staff responsible for auditing third-party records and performance should be such as to insure that the function effectively serves the program operating officials directly concerned, as well as top management, and that available audit staff resources are effectively used.

A separate organization of such auditors will be appropriate in many cases because of the size of the organization required to carry out the function, the high degree of specialized knowledge required, or the special need for a close association between program management personnel and the audit staff. In other cases, a single integrated organization of all agency auditors may be desirable.

Regardless of the form or organization adopted, provision should be made for independent internal review of the external audit work to ascertain whether it is being carried out properly and efficiently.

#### SECTION 42--RELATIONSHIP OF INTERNAL AUDITING TO GENERAL ACCOUNTING OFFICE AUDIT RESPONSIBILITIES

The adequacy of the system of internal control, including internal audit, of each Federal agency is of importance

to the General Accounting Office in carrying out its statutory audit responsibilities. The Budget and Accounting Procedures Act of 1950 states the duty of the General Accounting Office to consider agency internal auditing as follows:

"Sec. 117. (a) Except as otherwise specifically provided by law, the financial transactions of each executive, legislative, and judicial agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies."  
(31 U.S.C. 67 (1970))

Although there are numerous areas of common interest between the General Accounting Office and an agency's internal auditors, certain basic objectives and responsibilities differ. Internal auditing is an integral part of an agency's system of management control. In its audits, the General Accounting Office is concerned with the entire control mechanism within an agency, including the various arrangements made by the management for internal audits and other forms of inspection, appraisal, and evaluation. If its evaluations warrant, the General Accounting Office will rely on such work and make full use of it in conducting its examinations.

The General Accounting Office is interested in the degree of agency management concern and interest in the work of the internal auditor and particularly in his reported findings and recommendations. The actions taken by management officials on internal audit recommendations are reviewed by General Accounting Office auditors.

The General Accounting Office uses the same techniques of testing and analyzing, to satisfy itself as to the adequacy of internal audit work, as those used in the review of any other function in a Federal agency. This includes a review of work programs and working papers and their adequacy in relation to what was reported. The review may cover some of the same transactions and procedures as those

examined by the internal auditor--a procedure essential in testing the quality of the internal audit work.

General Accounting Office evaluations of internal audit systems also include making inquiries of management and operating officials as to the usefulness of internal auditing to them in their day-to-day operations.

Normally, there is little duplication of the work of the internal auditor. The internal auditor performs his work as part of management's pattern of operation and control. The General Accounting Office review is part of the independent appraisal it makes for the Congress of the manner in which Federal agencies discharge their responsibilities and of the effectiveness of their control systems, including internal audit. It makes every effort to keep abreast of the planned work programs of the agency's internal auditors, to consider them in planning its own work, and to avoid, wherever possible, conflicts in audit schedules.

Free and unrestricted access to working papers, records, and reports prepared in connection with internal audit work and other internal review activities is essential for General Accounting Office auditors to effectively review and evaluate their propriety and adequacy. Ready access to such records is also necessary in order that all significant information pertinent to any matter being reviewed by the General Accounting Office may be considered. Such information is necessary in order that, to the extent possible, General Accounting Office findings and reports will be complete, accurate, and objective and thus of maximum usefulness to the Congress and to agency and other Government officials.

## APPENDIX C

SUMMARY OF GOVERNMENTAL  
AUDIT STANDARDS <sup>1/</sup>

The audit standards below are intended to be more than the mere codification of current practices tailored to existing audit capabilities. Purposely forward-looking, these standards include some concepts and areas of audit coverage which are still evolving in practice but which are vital to the accountability objectives sought in the audit of governments and of intergovernmental programs. Therefore, the audit standards have been structured so that each of the three elements of audit can be performed separately if this is deemed desirable.

**General standards**

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:
  - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
  - b. A review of efficiency and economy in the use of resources.
  - c. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.

1/ Excerpts from Standards for Audit of Governmental Organizations, Programs, Activities & Functions, Comptroller General of the United States (Washington, D.C., U.S. General Accounting Office, 1972.)

4. Due professional care is to be used in conducting the audit and in preparing related reports.

#### Examination and evaluation standards

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with legal and regulatory requirements.
4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to insure accurate information, to insure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

#### Reporting standards

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Copies should also be made available for public inspection.
2. Reports are to be issued on or before the date specified by law, regulation, or other arrangement and, in any event, as promptly as possible, so as to make the information available for timely use by management and by legislative officials.
3. Each report shall:
  - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
  - b. Present factual matter accurately, completely, and fairly.

- c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
- d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.
- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.



- j. Clearly explain the scope and objectives of the audit.
  - k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.
4. Each audit report containing financial reports shall:
- a. Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the organization, program, function, or activity audited) applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.
  - b. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, and material changes in accounting policies and procedures, along with their effect on the financial reports, shall be explained in the audit report.

**Policy and Procedures Manual for Guidance of Federal Agencies**

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**Title 4  
Claims**

1900



GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES  
Title 4--CLAIMS

TRANSMITTAL SHEET NO. 4-21

Effective date: Immediately.

Material transmitted:

Complete revision of Title 4 and revised Table of Contents.

Purpose

This revised title is one of a series which GAO is issuing in this new larger size, suitable for filing in a standard three-ring binder. The revisions:

- simplify the procedure for settling doubtful claims of \$25 or less
- provide new guidelines for handling false claims
- add guidelines for processing applications for waiver under the provisions of 5 U.S.C. 5584, 10 U.S.C. 2774, 32 U.S.C. 716, and 4 CFR 91-93.

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CHICAGO, ILLINOIS

1951

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TITLE 4--CLAIMS

TABLE OF CONTENTS

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
1	INTRODUCTION TO TITLE	
	1 Scope and purpose of title	4-1
	1.1 Scope	4-1
	1.2 Purpose	4-1
	2 Statutory authority relating to settle- ment of claims	4-1
	2.1 Statutory authority relating to settlement of claims by the General Accounting Office	4-1
	3 Discharge of statutory settlement authority	4-2
	3.1 Claims against the United States	4-2
	3.2 Claims by the United States	4-2
2	CLAIMS AGAINST THE UNITED STATES-- GENERAL PROCEDURES	4-3
	4 Scope of chapter	4-3
	5 Claims against the United States which must be adjudicated before payment is made or denied	4-3
	5.1 Claims required to be submitted to Claims Division	4-3
	5.2 Doubtful claims defined	4-4
	5.3 Simplified procedure for doubtful claims of \$25 or less	4-4
	6 Filing requirements for claimants	4-4
	6.1 Form of claim	4-4
	6.2 Claim filed by attorney or agent	4-4
	6.3 Where claims should be filed	4-5
	7 Statutory limitations on claims	4-5
	7.1 Statutory limitations relating to claims generally	4-5
	7.2 Statutory limitation on check claims	4-6
	7.3 Other statutory limitations	4-7
	8 Submission requirements for admin- istrative agencies	4-7
	8.1 Address to which claims should be forwarded	4-7
	8.2 Administrative reports	4-7
	8.3 Voucher procedures	4-8
	8.4 Notice to claimant of submission to General Accounting Office	4-8

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	8.5	Administrative action after submission to General Accounting Office	4-8
	9	Information relating to claims	4-9
	9.1	Information relating to claims presented to the Claims Division	4-9
	10	Basis of claim settlements	4-9
	10.1	Basis on which claims are settled in the Claims Division	4-9
	11	Form of claim settlements	4-9
	11.1	Allowed claims	4-9
	11.2	Disallowed claims	4-9
	12	Processing allowed claims for payment	4-10
	12.1	Forwarding settlement documents to disbursing officer through administrative office	4-10
	12.2	Processing and distributing certificates of settlement (GAO Form 39)	4-10
	12.3	Processing and distributing vouchers	4-11
	12.4	Administrative review or alteration of settlements	4-11
	13	Processing wholly disallowed claims	4-12
	14	Effect of General Accounting Office claim settlements	4-12
	14.1	Finality as to administrative agencies	4-12
	14.2	Effect as precedents for future payments	4-12
	14.3	Effect on liability of certifying and disbursing officers	4-12
	15	Review and reconsideration of General Accounting Office claim settlements	4-12
	15.1	Who may obtain review	4-12
	15.2	Basis for request for review	4-13
	15.3	Return of check or warrant with request for review	4-13
	15.4	Protests received in administrative offices against General Accounting Office settlements	4-13
3		<b>DECEASED CIVILIAN OFFICERS AND EMPLOYEES--</b>	
		<b>PROCEDURES FOR SETTLEMENT OF ACCOUNTS</b>	4-14
	16	Scope and definitions	4-14
	16.1	Scope of chapter	4-14
	16.2	Definitions	4-14

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	17	Forms	4-15
	17.1	Forms prescribed for procedures in this chapter	4-15
	18	Notifying employees	4-16
	18.1	Agency responsibility	4-16
	19	Designation of beneficiary	4-16
	19.1	Designation form	4-16
	19.2	Who may be designated	4-16
	19.3	Executing and filing a designation of beneficiary form	4-16
	19.4	Effective period of a designation	4-17
	19.5	Change or revocation of a designa- tion	4-17
	20	Claims jurisdiction	4-17
	20.1	Administrative agencies	4-17
	20.2	General Accounting Office	4-18
	21	Securing claims	4-18
	21.1	Securing claim on employee's death	4-18
	21.2	Claims involving minors or in- competents	4-18
	22	Unnegotiated and undelivered Government checks	4-19
	22.1	Return of unnegotiated Government checks	4-19
	22.2	Recording returned checks	4-19
	22.3	Checks drawn on the United States Treasury	4-19
	22.4	Checks drawn on designated deposi- taries	4-19
		a. Current checks	4-19
		b. Uncurrent checks	4-20
	23	Vouchering claims for administrative payment or for submission to General Accounting Office	4-20
	23.1	Voucher forms used	4-20
	23.2	Preparation of subvouchers in support of SF 1154	4-20
		a. Payroll for Personal Services--SF 1128	4-20
		b. Travel Voucher--SF 1012	4-22
		c. Public Voucher for Purchases and Services Other Than Personal--SF 1034	4-22
		d. Voucher for Allowances at Foreign Posts of Duty-- SF 1069	4-22
		e. Refund of Deposit Funds --SF 1047--or other approved type of disburse- ment voucher	4-22



<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	f. Schedule of Voucher Deductions--SF 1096	4-22
	23.3 Preparation of voucher for unpaid compensation	4-22
	23.4 Processing vouchers for administrative payment	4-23
	23.5 Processing vouchers for transmittal to General Accounting Office	4-24
	23.6 Payment data	4-24
	24 Applicability of general claim procedures	4-24
4	<b>DECEASED MEMBERS OF THE UNIFORMED SERVICES AND THE NATIONAL GUARD-- PROCEDURES FOR SETTLEMENT OF ACCOUNTS</b>	4-25
	25 Scope of chapter	4-25
	26 Forms	4-26
	26.1 Forms prescribed for procedures in this chapter	4-26
	27 Jurisdiction	4-26
	27.1 Administrative agencies	4-26
	a. Deceased members of the Armed Forces	4-26
	b. Deceased members of the National Guard	4-26
	27.2 General Accounting Office	4-26
	28 Claims	4-27
	28.1 Furnishing claim forms and assistance to claimants	4-27
	28.2 Claims involving minors or incompetents	4-27
	28.3 Claims for unnegotiated Government checks	4-27
	29 Disposition of unnegotiated and undelivered checks for pay and allowances	4-28
	29.1 Recording returned checks	4-28
	29.2 Checks drawn on the United States Treasury	4-28
	29.3 Checks drawn on designated depositaries	4-28
	a. Current checks	4-28
	b. Uncurrent checks	4-28
	30 Vouchering claims for pay and allowances	4-29
	30.1 Voucher forms used	4-29

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	30.2	Supporting documentation for SF 1176	4-29
	31	Processing vouchers for payment administratively	4-29
	32	Voucher submissions to General Account- ing Office	4-30
	32.1	Voucher submission requirements	4-30
	32.2	Administrative report to accompany vouchers	4-30
	32.3	Processing vouchers for payment after certification by General Accounting Office	4-30
	33	Applicability of general claim pro- cedures	4-31
5		<b>DECEASED PUBLIC CREDITORS GENERALLY-- CLAIM SETTLEMENT PROCEDURES</b>	
	34	Scope of chapter	4-32
	35	Jurisdiction	4-32
	35.1	Claims Division	4-32
	35.2	Administrative agencies	4-32
	36	Forms	4-33
	36.1	Form prescribed for procedures in this chapter	4-33
	36.2	Use of SF 1055 for claims outside scope of this chapter	4-33
	37	Claim filing requirements	4-33
	37.1	Use of prescribed form	4-33
	37.2	Assisting claimants in filing claims	4-33
	37.3	Claims involving minors	4-33
	38	Unnegotiated and undelivered Government checks	4-34
	38.1	Return of unnegotiated Government checks	4-34
	38.2	Checks drawn on the United States Treasury	4-34
	38.3	Checks drawn on designated depositories	4-34
		a. Current checks	4-34
		b. Uncurrent checks	4-34
	39	Claim submissions to General Accounting Office	4-35
	39.1	Address to which claims should be forwarded	4-35
	39.2	Administrative reports	4-35

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
6	INCOMPETENT PUBLIC CREDITORS--PRO- CEDURES FOR SETTLEMENT OF ACCOUNTS	4-37
	40 Scope of chapter	4-37
	41 Jurisdiction	4-37
	41.1 Claims Division	4-37
	41.2 Administrative agencies	4-37
	42 Claim filing requirements	4-37
	42.1 Form of claim	4-37
	42.2 Claim filed by guardian or committee	4-38
	a. Initial claim	4-38
	b. Claims for recurring payments	4-38
	42.3 Claims filed by other than guardian or committee	4-38
	43 Unnegotiated and undelivered Government checks	4-38
	43.1 Return of unnegotiated Government checks	4-38
	43.2 Checks drawn on the United States Treasury	4-38
	43.3 Checks drawn on designated deposi- taries	4-39
	a. Current checks	4-39
	b. Uncurrent checks	4-39
	43.4 Check information to accompany claim	4-39
	44 Applicability of general claim pro- cedures	4-39
7	IRREGULARITIES AND WITHHOLDINGS UNDER THE DAVIS BACON ACT, 40 U.S.C. 276a, AND/OR THE CONTRACT WORK HOURS AND SAFETY STANDARDS ACT, 40 U.S.C. 327-332(3)	4-40
	45 Scope of chapter	4-40
	46 Forms	4-40
	46.1 Form prescribed for procedures in this chapter	4-40
	47 General Accounting Office functions	4-40
	47.1 Responsibility of the General Account- ing Office	4-40
	47.2 Resolving the problem of debarment	4-41
	47.3 Evaluation of evidence	4-41
	47.4 Where evidence is obtained	4-41
	47.5 Independent General Accounting Office determinations	4-41
	48 Administrative reports	4-42
	48.1 Administrative reports in general	4-42
	48.2 When comprehensive reports are required	4-42
	48.3 Address to which comprehensive reports should be forwarded	4-42

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	48.4	The essential elements of comprehensive reports	4-42
	48.5	Reporting the finality of administrative determinations	4-43
	48.6	Corrections of underpayments by contractors or subcontractors	4-43
	49	Disposition of collections for wage underpayments	4-43
	50	Accounting reports	4-43
	50.1	Accounting for collections	4-43
	50.2	Schedule of underpayments and employees' claims	4-44
	51	Withholding procedures prior to collection action	4-44
	51.1	Institution of Withholding Procedures	4-44
8		<b>CLAIMS AGAINST THE UNITED STATES RELATING TO LOSS OR DAMAGE TO SHIPMENTS</b>	<b>4-45</b>
	52	Scope of chapter	4-45
	53	Claims to be paid administratively	4-45
	54	Claims to be submitted for adjudication	4-45
	55	Presentation of claims	4-45
	55.1	Filing requirements for claimants	4-45
	55.2	Evidentiary data required	4-46
	55.3	Where claims should be filed	4-46
	56	Claims for amounts administratively deducted	4-46
	57	Statutory limitations on filing suits in court	4-46
	58	Statutory limitations on filing claims in the General Accounting Office	4-47
	59	Submission of claims for direct settlement	4-47
	60	Acknowledgment of claims and inquiries with respect to them	4-48
	60.1	Acknowledgments	4-48
	60.2	Inquiries by claimants	4-48
	61	Basis of claim settlement	4-48
	62	Processing claims certified for payment in full or in part	4-48
	62.1	Form of settlement	4-48
	62.2	Limitation on administrative review and alteration of settlements	4-49
	62.3	Processing and distributing certificates of settlement	4-49
	62.4	Notification of agency address	4-50
	63	Disallowed claims	4-50

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	64	Effect of General Accounting Office claim settlements 4-50
	64.1	Finality as to administrative agencies 4-50
	64.2	Settlements not to be used as precedents 4-51
	65	Review and reconsideration of General Accounting Office claim settlements 4-51
	65.1	Who may obtain review 4-51
	65.2	Basis for request for review 4-51
	65.3	Return of check or warrant with request for review 4-51
	65.4	Protests received in administrative offices against General Accounting Office settlements 4-51
9		DEBT CLAIMS--GENERAL POLICIES AND PROCEDURES 4-53
	66	Scope and purpose of chapter 4-53
	66.1	Scope 4-53
	66.2	Purpose 4-53
	67	Doubtful debt claims 4-54
	67.1	Definition 4-54
	67.2	Reporting doubtful debt claims to General Accounting Office 4-54
	67.3	Section not applicable to notice of exception cases 4-54
	68	Administrative responsibility for collecting debts 4-55
	68.1	Administrative responsibility 4-55
	68.2	Requirements for discharge of administrative responsibilities 4-55
	68.3	Development of administrative procedures 4-56
	69	Principles for agency collection programs 4-56
	69.1	Basic principles 4-56
	69.2	Collection methods 4-56
	69.3	Points of diminishing returns 4-57
	70	Administratively uncollectible debts 4-57
	70.1	General rules for reporting uncollectible debts to the General Accounting Office 4-57
	70.2	Exceptions to the general rules 4-58
	70.3	Reporting debts due Government corporations 4-59
	70.4	Form and content of administrative reports 4-59

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	70.5	Where administrative reports should be sent	4-61
	70.6	Administrative accounting for uncollectible debts	4-61
	70.7	Collections by administrative agencies after report to the General Accounting Officer or the Department of Justice	4-62
	71	Disposition of collections made by General Accounting Office	4-63
	71.1	Disposition of remittances	4-63
	71.2	Notice to administrative agencies	4-63
	72	Application of the statute of limitations	4-63
	72.1	Statutory limitations on debt claims	4-63
	72.2	Administrative responsibility under the statute	4-64
10		<b>CONTRACT DEBT PROCEDURES</b>	4-66
	73	Scope and purpose of chapter	4-66
	73.1	Scope	4-66
	73.2	Purpose	4-66
	74	Applicability of general policies and procedures	4-66
	75	List of indebted contractors (Hold-up List)	4-66
	76	Procedures for withholding amounts due indebted contractors	4-67
	76.1	Direct request by creditor agency for withholding	4-67
	76.2	Reporting debts to Department of the Army for inclusion on the Hold-up List	4-67
	76.3	Withholding amounts due contractors	4-67
		a. For application to debts not reported to the General Accounting Office	4-67
		b. For application to debts reported to the General Accounting Office	4-68
	76.4	Disposition of withholding checks by General Accounting Office	4-68
	77	Revision or removal of items on the Hold-up List	4-69
	77.1	Notice to Department of the Army of collections affecting debts on the Hold-up List	4-69

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	a. Responsibility of creditor agency	4-69
	b. Responsibility of General Accounting Office	4-69
	77.2 Removing debts of less than \$1,000 from the hold-up List, regardless of collection	4-69
11	<b>DUAL COMPENSATION DEBT PROCEDURES</b>	4-71
	78 Scope of chapter	4-71
	79 Applicability of general policies and procedures	4-71
	80 Administrative responsibility when more than one agency is involved	4-71
	80.1 Determining amount of debt and creditor agency	4-71
	80.2 Responsibility for collecting debt	4-71
	81 Reporting dual compensation debts to the General Accounting Office	4-72
	81.1 Statutory limitation on collection of dual compensation debts	4-72
	81.2 Reporting dual compensation debts to General Accounting Office within prescribed time period	4-72
	81.3 Reporting administratively uncollectible dual compensation debts to the General Accounting Office	4-73
	81.4 Doubtful claims	4-73
Appendix A	Report of indebtedness resulting from dual compensation	4-74
12	<b>DAMAGE TO OR LOSS OF GOVERNMENT PROPERTY DUE TO TORTIOUS ACTS--DEBT PROCEDURES</b>	4-75
	82 Scope and purpose of chapter	4-75
	82.1 Scope	4-75
	82.2 Purpose	4-75
	83 Referring debt claims which arise out of tortious acts directly to Department of Justice	4-76
	83.1 Direct referral of tort debts to Department of Justice	4-76
	83.2 Exceptions	4-76
	83.3 Content of reports to Department of Justice or United States attorneys	4-76

<u>Chap.</u>	<u>Sec.</u>	<u>Page</u>
	84	Removal of tort debts from accounts receivable of administrative agencies 4-77
13		CLAIMS BY THE UNITED STATES RELATING TO LOSS OF OR DAMAGE TO SHIPMENTS
	85	Time limitation for referring claims 4-78
	85.1	One-year limitation 4-78
	85.2	Two-year limitation 4-78
	86	Loss and damage debts determined by administrative agencies to be due the United States 4-78
	86.1	Special collection procedure for loss or damage debts relating to international shipments by ocean and international air carriers 4-78
	86.2	Debts determined to be administratively uncollectible 4-79
	86.3	Debts required to be reported to the Claims Division 4-79
	86.4	Debts that may be reported to the Claims Division 4-80
	87	Deposit of collections made by the General Accounting Office 4-80
14		DEBTS ARISING OUT OF IRREGULARITIES AND DISCREPANCIES
	88	Scope and purpose of chapter 4-81
	88.1	Scope 4-81
	88.2	Purpose 4-81
	89	Definition 4-81
	90	Applicability of principles 4-81
	91	Administrative responsibility for collecting debts 4-82
	92	Reporting administratively uncollectible debts to General Accounting Office 4-82
	92.1	When to report administratively uncollectible debts 4-82
	92.2	Form and content of administrative reports 4-82
	93	Doubtful debt claims arising out of irregularities and discrepancies 4-84
	93.1	Reporting doubtful debt claims to General Accounting Office 4-84
	94	False claims against the United States 4-84



<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	94.1	Liability of persons making false claims	4-84
	94.2	Statutory period within which suit must be commenced	4-85
	94.3	Handling of claims under this section	4-85
	95	Reporting property accountability debts to General Accounting Office	4-86
15		<b>DEBTORS INVOLVED IN BANKRUPTCY PROCEEDINGS</b>	4-87
	96	Scope and purpose of chapter	4-87
	96.1	Scope	4-87
	96.2	Purpose	4-87
	97	Administrative responsibility for collecting debts	4-87
	98	Referral of debts to the Department of Justice	4-88
	99	Content of report to the Department of Justice	4-89
	100	Removal of debts from the accounts receivable of administrative agencies	4-89
16		<b>WAIVER OF CLAIMS FOR ERRONEOUS PAYMENTS OF PAY AND CERTAIN ALLOWANCES--GENERAL POLICIES AND PROCEDURES</b>	4-90
	101	Scope and purpose of chapter	4-90
	101.1	Scope	4-90
	101.2	Purpose	4-90
	102	Authority of agencies to take action on certain types of waiver applications without referral to the Comptroller General	4-90
	102.1	Applications clearly time-barred	4-90
	102.2	Claims involving travel and transportation	4-91
	102.3	Claims not involving erroneous payments of pay and allowances	4-91
	102.4	Claims greater than \$500	4-92
	102.5	Application of waiver standards when doubt exists	4-92
	102.6	Delegation of waiver authority	4-92
	103	Guidance for preparation of administrative reports	4-93
	103.1	Generally	4-93

<u>Chap.</u>	<u>Sec.</u>		<u>Page</u>
	103.2	Certain information no longer deemed necessary	4-93
	103.3	Statement of the circumstances under which an erroneous payment arose and agencies' recommendation for waiver determination	4-93
	103.4	Leave and earnings statements	4-93
	103.5	Importance of recording date of discovery	4-94
	103.6	Importance of date of notice of overpayment	4-94
	103.7	Importance of clarity of re-produced copies	4-94
	104	Appeals of actions taken by agencies	4-95
	105	Waiver register and annual report of waiver actions	4-95
	105.1	Waiver register--minimum information required	4-95
	105.2	Annual report to the Comptroller General--recommended format	4-95
		Exhibit A Waiver Register	4-96
		Exhibit B Report of Waiver Actions	4-97
APPENDIX A		SPECIMEN COPIES OF FORMS PRESCRIBED IN THIS TITLE	4-98

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## TITLE 4--CLAIMS

### CHAPTER 1--INTRODUCTION TO TITLE

#### SECTION 1--SCOPE AND PURPOSE OF TITLE

##### 1.1 SCOPE

The material in this title relates to all classes of claims by and against the United States except (1) those claims which are under the exclusive jurisdiction of administrative agencies pursuant to specific statutory authority and (2) claims for charges for transportation services furnished for the account of the United States, which are to be filed with the General Services Administration or the agencies out of whose activities they arise. However, claims by carriers and forwarders against the United States for amounts administratively deducted from transportation payment vouchers in connection with loss of or damage to property are covered by this title and are to be filed in the General Accounting Office.

##### 1.2 PURPOSE

The purpose of this title, in connection with the claims which are within its scope, is (1) to identify the claims against the United States which are required to be settled by the General Accounting Office before payment is made or denied and to prescribe procedures relating to those claims, (2) to prescribe the procedures relating to those claims which may be paid administratively under regulations of the General Accounting Office, and (3) to prescribe the principles relating to administrative efforts to collect claims asserted by the United States and the procedures controlling the reporting of such claims to the General Accounting Office for adjudication and collection.

#### SECTION 2--STATUTORY AUTHORITY RELATING TO SETTLEMENT OF CLAIMS

##### 2.1 STATUTORY AUTHORITY RELATING TO SETTLEMENT OF CLAIMS BY THE GENERAL ACCOUNTING OFFICE

The General Accounting Office is authorized by section 305 of the Budget and Accounting Act, 31 U.S.C. 71, to settle and adjust all claims and demands by and against the United States. In addition to this general statutory authority, various laws provide that specific classes or types of claims against the United States may be paid only after settlement by the General Accounting Office. On the other hand,

disposition of certain claims either by or against the Government has been placed by statute within the exclusive jurisdiction of the administrative agency concerned, and other laws provide that certain claims against the Government may be paid administratively under regulations prescribed by the General Accounting Office. With reference to the statutory right of the heads of departments and establishments, disbursing officers, and certifying officers to secure decisions in advance of payment, see 1 GAO 11.1.

### SECTION 3--DISCHARGE OF STATUTORY SETTLEMENT AUTHORITY

#### 3.1 CLAIMS AGAINST THE UNITED STATES

The General Accounting Office discharges its responsibility for the settlement of claims against the United States in three ways: (1) through the audit of transactions after payment and the settlement of the accounts of accountable officers, (2) by adjudication before payment is made or denied, and (3) by adjudication upon appeal following denial of a claim by an agency. Claims against the United States which must be adjudicated before payment is made or denied fall into two classes: first, those as to which there exists such doubt as to reasonably preclude action by the administrative agency in the absence of specific statutory authority and, second, those which the administrative agencies are specifically prohibited by law from paying prior to settlement by the General Accounting Office.

#### 3.2 CLAIMS BY THE UNITED STATES

To the extent that administrative agencies are able to collect, compromise, terminate, or suspend action on claims by the United States pursuant to authority contained in title 4, chapter II of the Code of Federal Regulations, the responsibility of the General Accounting Office for settlement of such claims is discharged through the examination of administrative records and the audit and settlement of the accounts of accountable officers. Those claims by the United States which contain elements of doubt as to the amount and validity of the Government's claim and those in which the administrative agencies are unable to take final collection action are required, subject to procedures prescribed in this title, to be submitted to the General Accounting Office for consideration.

CHAPTER 2--CLAIMS AGAINST THE  
UNITED STATES--GENERAL PROCEDURES

## SECTION 4--SCOPE OF CHAPTER

This chapter prescribes general procedures applicable to claims against the United States, including claims involving damage and setoff matters arising from freight and transportation services, which must be adjudicated in the General Accounting Office before payment is made or denied. Special procedures applicable to specified types or classes of claims against the United States will be found in subsequent chapters of this title. (The "Claims Division of the General Accounting Office" will hereafter be referred to as the "Claims Division.")

SECTION 5--CLAIMS AGAINST THE UNITED  
STATES WHICH MUST BE ADJUDICATED  
BEFORE PAYMENT IS MADE OR DENIED

## 5.1 CLAIMS REQUIRED TO BE SUBMITTED TO CLAIMS DIVISION

The following classes of claims may not be paid or denied administratively, but must be forwarded to the Claims Division for adjudication, unless otherwise specifically provided by law:

(1) Claims which involve doubtful questions of law or fact, except those under \$25, as provided in section 5.3 of this title, and claims which have been the subject of an advance decision of the Comptroller General, in which case a reference to the decision must appear on the voucher supporting the payment;

Note: When a claim contains items which involve doubt and items which the agency can settle administratively, only the doubtful portions over \$25 should be referred to GAO for settlement.

(2) Claims, regardless of doubt, which are required by statute, by regulation appearing in other chapters of this title, or by decision of the Comptroller General, to be settled in the General Accounting Office before payment is made or denied;

(3) Reclaims of items previously denied by the administrative agency, unless it is determined administratively that the action taken was clearly

in error and properly can be corrected by the agency; and

(4) Claims which appear to be barred by an applicable statute of limitation at the time of receipt by an administrative agency.

## 5.2 DOUBTFUL CLAIM DEFINED

A claim is doubtful when in the exercise of reasonable prudence either a person having final responsibility for deciding appropriate administrative action or the person who, in accordance with applicable statutes, will be held accountable if the claim were paid and then found to be incorrect, illegal, or improper, is unable to decide with reasonable certainty the validity and correctness of the claim.

## 5.3 SIMPLIFIED PROCEDURE FOR DOUBTFUL CLAIMS OF \$25 OR LESS

Claims of \$25 or less, involving doubtful questions of law or fact, may be settled by the agency in which the claim arose, relying upon written advice from an agency official designated by the head of each department or agency to provide such advice. If paid, a copy of the document containing such advice should be attached to the voucher, and the propriety of any such payment will be considered conclusive on the General Accounting Office in its settlement of the accounts involved.

# SECTION 6--FILING REQUIREMENTS FOR CLAIMANTS

## 6.1 FORM OF CLAIM

Unless otherwise specifically provided, claims will be considered only when presented in writing over the signature and address of the claimant or over the signature of the claimant's authorized agent or attorney. Generally, no particular form is required for filing a claim; however, claim forms are prescribed in succeeding chapters of this title for specific classes of claims.

## 6.2 CLAIM FILED BY ATTORNEY OR AGENT

A claim filed by an agent or attorney must be supported by a duly executed power of attorney or other documentary evidence of the agent's or attorney's right to act for the claimant. See 1 GAO 19.8.

**6.3 WHERE CLAIMS SHOULD BE FILED**

Action will generally be expedited if claimants file their claims initially with the administrative department or agency out of whose activities they arose. Claims which cannot be disposed of administratively will be transmitted to the Claims Division by the administrative office. However, if the statutory period of limitation is about to expire (see 4 GAO 7), claims should be addressed to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

**SECTION 7--STATUTORY LIMITATIONS  
ON CLAIMS****7.1 STATUTORY LIMITATIONS RELATING TO CLAIMS GENERALLY**

Sections 1 and 2 of the act of October 9, 1940, 54 Stat. 1061, 31 U.S.C. 71a, as amended by Public Law 93-604, which was approved January 2, 1975, and effective July 2, 1975, provide:

"(1) Every claim or demand (except a claim or demand by any State, Territory, possession or the District of Columbia) against the United States cognizable by the General Accounting Office under sections 71 and 236 of this title shall be forever barred unless such claim, bearing the signature and address of the claimant or of an authorized agent or attorney, shall be received in said office within 6 years after the date such claim first accrued: Provided, that when a claim of any person serving in the military or naval forces of the United States accrues in time of war, or when war intervenes within 5 years after its accrual, such claim may be presented within 5 years after peace is established.

"(2) Whenever any claim barred by subsection (1) of this section shall be received in the General Accounting Office, it shall be returned to the claimant, with a copy of this section, and such action shall be a complete response without further communication."



If the statutory period of limitations will soon expire, claimants should submit their claims directly to the Claims Division. (However, see 4 GAO 6.3.) In order to protect the interests of claimants, claims received by agencies as to which the right of payment accrued 4 years or more prior to the date of receipt and which cannot promptly be approved and paid in the full amount claimed will immediately be referred to the Claims Division. These claims will be recorded in the General Accounting Office, after which they will be returned to the agencies for payment, denial, or referral back to the General Accounting Office for adjudication.

## 7.2 STATUTORY LIMITATION ON CHECK CLAIMS

Section 2 of the act of June 22, 1926, as amended, 31 U.S.C. 122, provides:

"Hereafter all claims on account of any check, checks, warrant, or warrants appearing from the records of the General Accounting Office or the Treasury Department to have been paid, shall be barred if not presented to the General Accounting Office or the Treasurer of the United States within six years after the date of issuance of the check, checks, warrant, or warrants involved. However, any claims for the proceeds of checks payable in Philippine pesos heretofore issued in payment of claims certified by the Philippine War Damage Commission, shall not be barred if received by the representative of the Chief Disbursing Officer, United States Treasury Department, at Manila, Republic of the Philippines, within six years after the date of issuance of such checks."

To protect their own interests, it is the responsibility of claimants to present their claims for the proceeds of checks to the United States Treasury or the General Accounting Office if the statutory period of limitation is about to expire. Any claim on account of a check appearing to have been paid which may be received in an agency and which might be adversely affected by the 6-year limitation should be transmitted to the United States Treasury immediately upon its receipt, since that office has the paid check records and processes the related check claims.

### 7.3 OTHER STATUTORY LIMITATIONS

It is not intended to imply that statutes of limitation imposed by the Congress are necessarily limited to those quoted in subsections 7.1 and 7.2 of this section. It is incumbent on claimants to inform themselves regarding other possible statutory limitations.

## SECTION 8--SUBMISSION REQUIREMENTS FOR ADMINISTRATIVE AGENCIES

### 8.1 ADDRESS TO WHICH CLAIMS SHOULD BE FORWARDED

Claims which cannot be disposed of administratively should be forwarded by the administrative office to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

### 8.2 ADMINISTRATIVE REPORTS

Claims submitted to the Claims Division by administrative agencies should be accompanied by an administrative report containing:

- (1) The claimant's agency or branch of service, serial and social security number, as applicable, for purposes of identification, when such information is available in the files of the reporting agency. In the case of business firms, the Employer's Identification Number (EIN), which corresponds to the social security number of an individual, should be shown, if obtainable.
- (2) A statement of the facts out of which the claim arose.
- (3) A statement of the doubt or other reason for forwarding the claim.
- (4) A recommendation for the proper disposition.
- (5) A citation to pertinent supporting documents such as contracts and vouchers, if any.

- (6) A statement that the claim has not been paid and will not be paid except pursuant to certification in the name of the Comptroller General.
- (7) A complete symbol citation to the applicable appropriation or fund.

To support the claim and settlement action, agencies are required to submit to the General Accounting Office the original claim, signed by the claimant, the original of the administrative report, and the original or one copy of any supporting documents. These documents will be retained by the General Accounting Office to support the claim and settlement action.

### 8.3 VOUCHER PROCEDURES

When practicable, vouchers will be used by the administrative offices for the presentation of claims, but only pursuant to arrangements made by individual agencies through the Claims Division. Procedural details applicable to individual agencies will be covered in these arrangements. The same vouchers will serve as the settlement documents when certified by the General Accounting Office for allowance. In addition to the number of copies of the vouchers required to support administrative and accounting records and to provide notice to the claimant, one copy will be required and must be provided in each case for retention in the claim record of the General Accounting Office. No copy of the voucher should be prepared for return to the General Accounting Office after payment.

### 8.4 NOTICE TO CLAIMANT OF SUBMISSION TO GENERAL ACCOUNTING OFFICE

Claimants should be informed by the administrative agency that their claims have been submitted to the Claims Division for settlement. The notice to the claimant may not include information relating to the administrative recommendation.

### 8.5 ADMINISTRATIVE ACTION AFTER SUBMISSION TO GENERAL ACCOUNTING OFFICE

After claims have been submitted to the General Accounting Office there should be no further administrative action other than to furnish such supplemental reports to the General Accounting Office as conditions may warrant. This in no

manner precludes the furnishing of reports to the Congress or to the Department of Justice in those cases where the claim has been presented to a court of competent jurisdiction.

#### SECTION 9--INFORMATION RELATING TO CLAIMS

##### 9.1 INFORMATION RELATING TO CLAIMS PRESENTED TO THE CLAIMS DIVISION

Claimants or their authorized representatives may obtain information relating to claims which have been presented to the Claims Division by addressing correspondence to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

#### SECTION 10--BASIS OF CLAIM SETTLEMENTS

##### 10.1 BASIS ON WHICH CLAIMS ARE SETTLED IN THE CLAIMS DIVISION

Claims are settled on the basis of the facts as established by the Government agency concerned and by evidence submitted by the claimant. Settlements are founded on a determination of the legal liability of the United States under the factual situation involved as established by the written record. The burden is on claimants to establish the liability of the United States and the claimants' right to payment. The settlement of claims is based upon the written record only.

#### SECTION 11--FORM OF CLAIM SETTLEMENTS

##### 11.1 ALLOWED CLAIMS

The Claims Division will certify claims for payment either by use of a Certificate of Settlement, GAO Form 39, or by certificate of allowance placed on the voucher when voucher procedures referred to in subsection 8.3 of this title are in effect.

##### 11.2 DISALLOWED CLAIMS

When part of a claim is allowed and part disallowed, a statement relating to the disallowed portion will be included on the Certificate of Settlement or the voucher. When the full amount of a claim is disallowed, the claimant will be advised by issuance of Settlement Certificate, GAO Form 44.

**SECTION 12--PROCESSING ALLOWED CLAIMS  
FOR PAYMENT****12.1 FORWARDING SETTLEMENT DOCUMENTS TO DISBURSING  
OFFICER THROUGH ADMINISTRATIVE OFFICE**

In order to aid administrative officers in the proper discharge of their duties and responsibilities under 31 U.S.C. 665(a) and other provisions of law, all certificates of settlement or individual vouchers evidencing allowance of claims in whole or in part by the General Accounting Office will be forwarded to the proper administrative agency or department for processing through its records. Action should be taken by agencies to insure prompt payment thereof. Generally, Certificates of Settlement or vouchers will be forwarded to only one address of an independent agency or department, or bureau thereof. Each agency must keep the Claims Division currently advised as to the address to which it desires these documents forwarded.

**12.2 PROCESSING AND DISTRIBUTING CERTIFICATES OF  
SETTLEMENT (GAO FORM 39)**

a. Except as otherwise provided in paragraph "b" of this subsection, Certificates of Settlement, including those payable from funds of corporations subject to the Government Corporation Control Act, will be processed for payment as follows:

The certificate will be forwarded to the administrative department or agency under a covering transmittal letter. A copy of the transmittal letter will be promptly receipted and returned to the Claims Division. When the administrative office uses the voucher schedule procedures prescribed in 7 GAO 22, the original of the certificate will be scheduled in the same manner as other approved vouchers and will be used to support the fiscal accounts of the agency. When the voucher schedule procedures are not used, the original will be forwarded to the disbursing officer in the same manner as other approved individual vouchers and will be used to support his account. In either event, the agency will be responsible for preparing SF 1096, Schedule of Voucher Deductions, when necessary. The claimant's notice copy will be forwarded to the disbursing officer in all cases for transmittal to the payee with the check issued in payment of the claim. The other two copies of the certificate are for administrative use.

b. When either the full amount allowed or part of the amount allowed is withheld for application to a debt due the United States, additional copies of the certificate will be supplied by the General Accounting Office, as necessary, for forwarding by the disbursing officer to the agency whose accounts are to be credited. When the full amount allowed is withheld for application to a debt, the claimant's notice copy of the certificate will be forwarded to the claimant by the General Accounting Office, and, if the same appropriation or fund is to be charged and credited, the original certificate will be retained in the General Accounting Office. When the original certificate is retained in the General Accounting Office, copies sent to the administrative agency will include an explanation to that effect.

### 12.3 PROCESSING AND DISTRIBUTING VOUCHERS

After certification for allowance, original vouchers and all copies thereof except the copy prepared for retention by the General Accounting Office will be returned to the originating agency under a covering transmittal letter. A copy of the transmittal letter will be promptly receipted and returned to the Claims Division. The agency will be responsible for disposition of the voucher and copies for record and payment purposes and for notice to claimant. When all or part of the amount allowed is withheld for application to a debt due the United States, additional copies of the voucher will be supplied by the General Accounting Office, as necessary, for forwarding by the disbursing officer to the administrative agency whose account is being credited.

### 12.4 ADMINISTRATIVE REVIEW OR ALTERATION OF SETTLEMENTS

Settlement documents issued by the Claims Division should not receive an administrative review as to their legality or correctness. However, the administrative agencies and departments are authorized to alter such documents when necessary to reflect the applicable appropriation symbol number in use at the time of payment and to correct project numbers or other information in connection with the appropriation or fund stated. No alteration may be made which would cause payment of the claim from a different appropriation or fund, to a different payee, or in an amount different from that approved by the General Accounting Office.

**SECTION 13--PROCESSING WHOLLY  
DISALLOWED CLAIMS**

When a claim is disallowed in full, the Claims Division will transmit the original disallowance direct to the claimant. One copy of the disallowance will be furnished to the administrative office concerned.

**SECTION 14--EFFECT OF GENERAL ACCOUNTING  
OFFICE CLAIM SETTLEMENTS****14.1 FINALITY AS TO ADMINISTRATIVE AGENCIES**

Settlements made by the Claims Division are final and conclusive upon the executive branch of the Government unless revised by or at the direction of the Comptroller General (31 U.S.C. 74). (See section 15.1, this title.)

**14.2 EFFECT AS PRECEDENTS FOR FUTURE PAYMENTS**

Settlement of an individual claim by the Claims Division is not to be regarded as a precedent for the guidance of accountable or other administrative officers.

**14.3 EFFECT ON LIABILITY OF CERTIFYING AND DISBURSING  
OFFICERS**

Certifying and disbursing officers will not be held pecuniarily liable for payments made pursuant to claims settlement certifications issued in the name of the Comptroller General which appear regular on their face, except that they will not be relieved of the responsibility, where required, for determining that a sufficient balance exists in the appropriation or fund to cover the involved payments. Internal controls of the General Accounting Office assure the authenticity of the signature of the persons certifying amounts due in the name of the Comptroller General, which therefore need not be further verified as a condition precedent to payment.

**SECTION 15--REVIEW AND RECONSIDERATION OF GENERAL ACCOUNTING  
OFFICE CLAIM SETTLEMENTS****15.1 WHO MAY OBTAIN REVIEW**

Settlements made pursuant to 31 U.S.C. 71 will be reviewed (1) at the discretion of the Comptroller General upon the written application of (a) a claimant whose claim has been settled or (b) the head of the department or Government

establishment to which the claim or account relates (or person to whom such authority has been delegated) or (2) whenever the Comptroller General directs.

#### 15.2 BASIS FOR REQUEST FOR REVIEW

Applications for review of claim settlements should state the errors which the applicant believes have been made in the settlement and which form the basis of his request for reconsideration.

#### 15.3 RETURN OF CHECK OR WARRANT WITH REQUEST FOR REVIEW

The check issued upon a settlement must not be cashed but must accompany the application for review of the claim settlement if the amount of the check includes an item for which the review is applied, unless the Comptroller General directs otherwise.

#### 15.4 PROTESTS RECEIVED IN ADMINISTRATIVE OFFICES AGAINST GENERAL ACCOUNTING OFFICE SETTLEMENTS

An administrative office will promptly refer the following to the Claims Division:

- (1) Protests or appeals of settlements made by the Claims Division.
- (2) Any additional claim, the settlement of which requires reconsideration of a previous settlement made by the General Accounting Office. The prior claim will be cited, and an additional administrative report will be furnished to support the additional claim.



CHAPTER 3--DECEASED CIVILIAN OFFICERS AND EMPLOYEES--  
PROCEDURES FOR SETTLEMENT OF ACCOUNTS

SECTION 16--SCOPE AND DEFINITIONS

16.1 SCOPE OF CHAPTER

This chapter prescribes forms and procedures for the prompt settlement of accounts of deceased civilian officers and employees of the Federal Government and of the government of the District of Columbia (including wholly owned and mixed-ownership Government corporations), as contemplated by 5 U.S.C. 5581, 5582, 5583. The term "deceased employees" as used in this chapter includes former civilian officers and employees who die subsequent to separation from the employing agency.

The procedures prescribed by this chapter do not apply to:

- (1) Accounts of deceased officers and employees of the Federal land banks, Federal intermediate credit banks, or regional banks for cooperatives (see 5 U.S.C. 5581(1)).
- (2) Payment of unpaid balance of salary or other sums due deceased Senators or officers or employees of the Senate (see 2 U.S.C. 36a; 5 U.S.C. 5581(1)).
- (3) Payment of unpaid balance of salary or other sums due deceased Members of the House of Representatives (see 2 U.S.C. 38a). See 4 GAO 20.1 relative to the settlement of accounts of deceased officers and employees of the House of Representatives.

16.2 DEFINITIONS

The term "unpaid compensation," when used in this chapter, means the pay and allowances due on account of the services of the decedent for the Federal Government or the government of the District of Columbia. It shall include, but not be limited to:

- (1) Per diem in lieu of subsistence, mileage, and amounts due in reimbursement of travel expenses, including incidental and miscellaneous expenses in connection therewith for which reimbursement is due.

- (2) Allowances on change of official station.
- (3) Quarters and cost-of-living allowances and overtime or premium pay.
- (4) Amounts due for payment of cash awards for employees' suggestions.
- (5) Amounts due as refund of pay deductions for United States savings bonds.
- (6) Payment for accumulated and current accrued annual or vacation leave equal to the pay the decedent would have received had he lived and remained in the service until the end of the period of such annual or vacation leave.
- (7) Amounts of checks drawn for pay and allowances which were not delivered by the Government to the officer or employee during his lifetime.
- (8) Amounts of unnegotiated checks returned to the Government because of the death of the officer or employee.
- (9) Retroactive pay under 5 U.S.C. 5344(a)(2).

It does not include benefits, refunds, or interest payable under subchapter III of chapter 83 of title 5, U.S. Code, applicable to the service of the deceased employee, or amounts the disposition of which is otherwise expressly prescribed by Federal statute.

#### SECTION 17--FORMS

##### 17.1 FORMS PRESCRIBED FOR PROCEDURES IN THIS CHAPTER

###### STANDARD FORMS

- SF 1152 Designation of Beneficiary, Unpaid Compensation of Deceased Civilian Employee
- SF 1153 Claim of Designated Beneficiary and/or Surviving Spouse for Unpaid Compensation of Deceased Civilian Employee
- SF 1154 Public Voucher for Unpaid Compensation Due a Deceased Civilian Employee

SF 1154a Public Voucher for Unpaid Compensation Due  
a Deceased Civilian Employee (Memorandum)

Specimen copies of Standard Forms 1152, 1153, and 1154  
are contained in appendix A of this title.

SECTION 18--NOTIFYING EMPLOYEES

18.1 AGENCY RESPONSIBILITY

Each agency of the Government affected will bring to the attention of its civilian employees the provisions of the act relative to their right to designate a beneficiary or beneficiaries to receive the amounts due and the disposition to be made of unpaid amounts where no beneficiary or beneficiaries have been designated.

SECTION 19--DESIGNATION OF BENEFICIARY

19.1 DESIGNATION FORM

SF 1152, Designation of Beneficiary, Unpaid Compensation of Deceased Civilian Employee, is prescribed for use by employees in designating a beneficiary and in changing or revoking a previous designation. However, in the absence of the prescribed form, any designation, change, or cancellation of beneficiary witnessed and filed in accordance with the general requirements of these procedures shall be acceptable. Each agency subject to the provisions of the act will furnish the employee an SF 1152 upon request therefor.

19.2 WHO MAY BE DESIGNATED

An employee may designate any person or persons as beneficiary. The term "person or persons" as used in these procedures includes a legal entity or the estate of the deceased employee.

19.3 EXECUTING AND FILING A DESIGNATION OF  
BENEFICIARY FORM

The SF 1152 must be executed in duplicate by the employee and filed with the employing agency, where the proper officer will sign it and insert the date of receipt in the space provided on each part, file the original, and return the duplicate to the employee. The designation will be filed in the particular office which

authorizes payment of the employee's compensation, or such other place as the head of the agency may direct.

#### 19.4 EFFECTIVE PERIOD OF A DESIGNATION

A designation of beneficiary, properly executed and filed in the agency of employment, unless earlier changed or revoked in writing, will be effective as long as employment by the same agency continues and thereafter until the employee is transferred or reemployed by the same or another department or agency of the Government. Should an employee resign and be reemployed, or be transferred to another agency, and desire the unpaid compensation to be paid to a designated beneficiary, another designation of beneficiary form must be executed, as directed in subsection 19.3 above. If an amount should become due from the agency from which the employee was separated, it will be the responsibility of such agency to ascertain, prior to payment, if the employee was reemployed and executed a designation of beneficiary in connection with such employment, and to pay the compensation to any person or persons so designated. A new designation of beneficiary is not required as to an employee whose agency or site function, records, equipment, and personnel are absorbed by another agency.

#### 19.5 CHANGE OR REVOCATION OF A DESIGNATION

A designation of beneficiary previously made may be changed or revoked as of a later date by the execution and filing of another SF 1152 by the employee, as directed in subsection 19.3 above. When a designation of beneficiary is changed or revoked, the employing agency should return the earlier designation to the employee.

### SECTION 20--CLAIMS JURISDICTION

#### 20.1 ADMINISTRATIVE AGENCIES

Claims for unpaid compensation due deceased employees of the government of the District of Columbia, of the Canal Zone Government on the Isthmus of Panama, and of wholly owned and mixed-ownership Government corporations will be paid by those agencies. See 5 U.S.C. 5583. Except as otherwise provided in subsections 20.2 and 22.4b of this chapter, claims for unpaid compensation due deceased employees of other agencies of the Federal Government, including officers and employees of the House of

Representatives, may be paid by those agencies under any of the provisions of 5 U.S.C. 5582.

## 20.2 GENERAL ACCOUNTING OFFICE

Except as provided in subsection 20.1 above, claims for unpaid compensation due deceased employees of the Federal Government will be paid only upon settlement by the Claims Division in the following cases:

- (1) When doubt exists as to the amount or validity of the claim.
- (2) When doubt exists as to the person(s) properly entitled to payment.

## SECTION 21--SECURING CLAIMS

### 21.1 SECURING CLAIM ON EMPLOYEE'S DEATH

As soon as practicable after the death of a person designated as a civilian employee under the act, the agency in which s/he was last employed, upon determining that unpaid compensation is due the decedent, will request each designated beneficiary to execute SF 1153, Claim for Unpaid Compensation of Deceased Civilian Employee. If no beneficiary was designated, the surviving spouse, and if no surviving spouse, the person or persons next in order of precedence, in accordance with the first section of the act (5 U.S.C. 5582), would execute SF 1153. When the designated beneficiary is the estate of the decedent, the employing agency will furnish the legal representative, heir, or heirs of the decedent SF 1055, Claim Against the United States for Amounts Due in the Case of a Deceased Creditor, prescribed in 4 GAO 36.1, since this form will elicit the information required for settlement of such claims. Any assistance deemed necessary for the proper execution of the forms will be furnished to all claimants by the employing agency.

### 21.2 CLAIMS INVOLVING MINORS OR INCOMPETENTS

a. If a guardian or committee has been appointed for a minor or an incompetent (a person who has been adjudged by a court to be incompetent to handle his own affairs) appearing entitled to unpaid compensation, the claim should be supported by a short certificate of the court showing the appointment and qualification of the claimant in such capacity.

b. If no guardian or committee has been or will be appointed, the initial claim should be supported by a statement showing (1) the claimant's relationship to the minor or incompetent, if any, (2) the name and address of the person having care and custody of the minor or incompetent, (3) that any moneys received will be applied to the use and benefit of the minor or incompetent, and (4) that the appointment of a guardian or committee is not contemplated.

## SECTION 22--UNNEGOTIATED AND UNDELIVERED GOVERNMENT CHECKS

### 22.1 RETURN OF UNNEGOTIATED GOVERNMENT CHECKS

All unnegotiated U.S. Government checks drawn to the order of a decedent, representing unpaid compensation as defined in subsection 16.2 of this chapter and in the possession of the claimant should be returned to the employing agency concerned. Claimants should be instructed to return any other U.S. Government checks, drawn to the order of a decedent for purposes other than unpaid compensation, such as veterans benefits, social security benefits, or Federal tax refunds, to the agency from which received with request for further instructions from that agency.

### 22.2 RECORDING RETURNED CHECKS

Upon receipt of unnegotiated U.S. Government checks for unpaid compensation, returned pursuant to subsection 22.1 above, the administrative office will make an appropriate record of them for later statement in the Public Voucher for Unpaid Compensation Due a Deceased Civilian Employee, SF 1154.

### 22.3 CHECKS DRAWN ON THE UNITED STATES TREASURY

The proceeds of unnegotiated and/or undelivered checks which are drawn on the United States Treasury, formerly the Treasurer of the United States, for unpaid compensation due the decedent will be obtained by processing SF 1154.

### 22.4 CHECKS DRAWN ON DESIGNATED DEPOSITARIES

a. CURRENT CHECKS. The proceeds of unnegotiated and/or undelivered checks which are drawn on designated

depositories of the United States Treasury, formerly the Treasurer of the United States, for unpaid compensation due the decedent, and are still current as to issue date (see "b" below), will be obtained by processing SF 1154.

b. **UNCURRENT CHECKS.** Unnegotiated and/or undelivered checks for unpaid compensation due the decedent, which are drawn on designated depositories and have not been paid prior to the close of the fiscal year next following the fiscal year in which the checks were issued, are uncurrent. Claims for the proceeds of such checks must be submitted to the Claims Division for settlement pursuant to the provisions of section 1(b) of the act of August 28, 1957, Public Law 85-183, 31 U.S.C. 132. The checks, if available, should accompany the claims.

**SECTION 23--VOUCHERING CLAIMS FOR ADMINISTRATIVE PAYMENT OR FOR SUBMISSION TO GENERAL ACCOUNTING OFFICE**

**23.1 VOUCHER FORMS USED**

Upon receipt of a duly executed SF 1153 or SF 1055 and any unnegotiated and/or undelivered U.S. Government checks, the agency concerned will promptly prepare a disbursement voucher for the amount of the unpaid compensation due the deceased civilian employee. The disbursement voucher, SF 1154 and SF 1154a (Memorandum), Public Voucher for Unpaid Compensation Due a Deceased Civilian Employee, will be used for this purpose.

**23.2 PREPARATION OF SUBVOUCHERS IN SUPPORT OF SF 1154**

The disbursement voucher, SF 1154, will be supported where necessary by the forms described below, which may be used as subvouchers. Each of the forms used should be signed by a designated approving officer and should show the amount chargeable to the applicable appropriation and/or fund. While the use of standard forms as subvouchers in support of the payment voucher appears desirable, there will be no objection to the development of the details of unpaid compensation on other forms used by the paying agencies (Government-owned corporations, etc.) for determining the amounts due their deceased employees for similar elements of compensation.

d. **PAYROLL FOR PERSONAL SERVICES--SF 1128.** On the reverse of this form will be shown the name of the deceased

employee, his designation and rate of pay, and, in the appropriate columns, the gross earnings, deductions, and net amount due for all personal services which have not been included in any prior payroll. Additional items to be shown on this form will be the number of hours of unused annual leave and the number of overtime and premium pay hours together with the amounts due in each case. In connection with payroll deductions, attention is invited to the following:

(1) FEDERAL INSURANCE CONTRIBUTIONS ACT. If the decedent was subject to the provisions of the Federal Insurance Contributions Act, his social security number should be shown beneath his name. Current earnings of the decedent and the lump-sum payment for unused annual leave earned after the calendar year 1950 are subject to FICA tax. When no FICA tax deductions are currently made from the unpaid compensation of the decedent because the required amount for the calendar year has been deducted on previous payrolls of the agency, the administrative officer should so state on the subvoucher (SF 1128 or other appropriate form).

(2) CIVIL SERVICE RETIREMENT ACT. If the decedent was subject to the provisions of the Civil Service Retirement Act, as amended, his current earnings up to and including the date of death are subject to deductions for the Civil Service Retirement Fund.

(3) FEDERAL EMPLOYEES GROUP LIFE AND HEALTH INSURANCE. If the decedent's earnings were subject to deductions for life and/or health insurance at the time of death, such deductions are to be applied to amounts earned up to and including date of death.

(4) FEDERAL TAX. The Internal Revenue Service has ruled that no withholding should be made for income tax from the unpaid salary and lump-sum leave payment due a decedent.

(5) STATE TAX. The withholding of State income tax from the unpaid salary and lump-sum leave payment due a decedent will be governed in each case by the applicable laws and regulations. (See part III, chapter 4000, of the Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies )



(6) U.S. SAVINGS BONDS. No current deduction will be made from the unpaid compensation of a deceased civilian employee for, or to complete, the purchase of a U.S. savings bond under the employee's bond purchase authorization, since such allotment of pay becomes void upon the death of the allotter.

(7) ACCOUNTING FOR DEDUCTIONS. Deductions for the Civil Service Retirement Fund, FICA taxes, Government life and health insurance premiums, etc., shown for the purpose of determining the net amount due, will also be included and accounted for on the next regular payroll of the employing agency as Gross Amount Earned and Deductions.

b. TRAVEL VOUCHER--SF 1012. On this form will be shown the amount of per diem and mileage allowances and expenses incurred incident to official travel. On this form may also be shown the amount of any authorized allowance due on account of change of official station.

c. PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL--SF 1034. On this form will be shown the amount of unpaid "cash awards" granted by the employing agency for the deceased employee's meritorious suggestion(s).

d. VOUCHER FOR ALLOWANCES AT FOREIGN POSTS OF DUTY--SF-1069. On this form will be shown the unpaid amount representing the commuted value of quarters and cost-of-living allowances which are not included on the Travel Voucher (SF 1012) or any other prescribed form.

e. REFUND OF DEPOSIT FUNDS--SF 1047--OR OTHER APPROVED TYPE OF DISBURSEMENT VOUCHER. On this form will be shown any unapplied balance of payroll deductions previously made at the direction of the deceased employee for purchase of U.S. savings bonds.

f. SCHEDULE OF VOUCHER DEDUCTIONS--SF 1096. On this form will be shown the balance of any outstanding travel advances or any other items of indebtedness for deduction from the total of the amount otherwise due.

### 23.3 PREPARATION OF VOUCHER FOR UNPAID COMPENSATION

On the reverse side of the payment voucher (SF 1154) will be shown, in the spaces provided, the amounts of the several elements of unpaid compensation which are

developed as indicated in subsection 23.2 above. Spaces are also provided for showing the amount of outstanding travel advances for which the deceased employee is accountable, and such amount will be deducted from the total of the amount otherwise due. Items of unpaid compensation known to be due may be vouchered without regard to other items considered doubtful or requiring additional information. In such cases the supplemental vouchers should contain a citation to the voucher(s) covering the previous payment or payments, such citation being shown in the spaces provided on the reverse side of SF 1154 and SF 1154a. The gross amount chargeable to the appropriation and/or fund, including "deposit" funds, and the net amount due the claimant(s) will be brought forward to the face of the payment voucher (SF 1154) and shown in the spaces provided. In the space provided for "Accounting Classification" will be shown the distribution of the gross amount chargeable to the appropriation and/or fund applicable. The voucher will be otherwise completed, recorded, and certified by the designated certifying officer.

#### 23.4 PROCESSING VOUCHERS FOR ADMINISTRATIVE PAYMENT

Vouchers (SF 1154) covering payments to be made administratively pursuant to 4 GAO 20.1 will be forwarded or scheduled to the disbursing officer for payment in the same manner as other disbursement vouchers. In those cases where a site audit of salary payments is performed by the General Accounting Office, the subvouchers described in subsection 23.2 above, showing the detailed computations of the amounts due, together with SF 1152, will be retained in the administrative office for audit purposes. In those cases where an off-site audit of salary payments is performed by the General Accounting Office, the subvouchers, showing the detailed computations of the amounts due, together with SF 1152 and SF 1153, will be attached to that copy of the payment voucher (SF 1154) which is used for audit purposes by the General Accounting Office and forwarded to the point where payroll documents are normally sent for audit. In those cases of partial payment as provided in subsection 23.3 above, the subvouchers, showing the detailed computations of the amounts due, together with SF 1152 and SF 1153, will be retained in the administrative office if a site audit is performed or, if an off-site audit is performed, will be forwarded to the point where payroll documents are normally sent for audit and attached to that copy of the first voucher (SF 1154) which is used for audit purposes by the General Accounting Office.

### 23.5 PROCESSING VOUCHERS FOR TRANSMITTAL TO GENERAL ACCOUNTING OFFICE

Disbursement vouchers (SF 1154) which can be paid only after settlement by the General Accounting Office pursuant to 4 GAO 20.2 will be transmitted to the Claims Division, U.S. General Accounting Office, Washington, D.C. 20548, in a number of copies sufficient to permit the General Accounting Office to retain one copy. The approved voucher will be returned to the agency for payment.

The subvouchers, showing the detailed computations of the amounts due, together with SF 1152, if any, and the completed application form (SF 1153 or SF 1055), will be attached to the original payment voucher (SF 1154), or to the first payment voucher (SF 1154) in cases of partial payment under subsection 23.3 above, and sent to the Claims Division, even though a site audit is otherwise performed by the General Accounting Office.

In addition to the supporting documents described above, claims submitted to the Claims Division should be accompanied by an administrative report containing (1) a statement of the doubt involved, if any, (2) any pertinent administrative findings and recommendations, and (3) a statement that the claim has not been and will not be paid except pursuant to certification in the name of the Comptroller General.

### 23.6 PAYMENT DATA

The Public Voucher for Unpaid Compensation Due a Deceased Civilian Employee (SF 1154) provides for showing payments made either by check(s) drawn on the United States Treasury or designated depository banks, or in cash. If payment is made by check(s) drawn on a designated depository bank, the name of such bank should be shown. If payment is made in cash, signature of the payee in acknowledgment of receipt of payment is required, and, if more than one payee, a receipt should be obtained for the amount paid to each and attached to the voucher.

## SECTION 24--APPLICABILITY OF GENERAL CLAIM PROCEDURES

When not in conflict with this chapter, the provisions of chapter 2 of this title, relating to procedures applicable to claims generally, are also applicable to the settlement of accounts of deceased civilian officers and employees.

CHAPTER 4--DECEASED MEMBERS OF THE UNIFORMED SERVICES  
AND THE NATIONAL GUARD--PROCEDURES FOR SETTLEMENT  
OF ACCOUNTS

SECTION 25--SCOPE OF CHAPTER

This chapter prescribes forms and procedures for the prompt settlement of the accounts of:

(1) Deceased members of the uniformed services (including deceased commissioned officers of the Public Health Service and the Environmental Science Services Administration) pursuant to 10 U.S.C. 2771.

(2) Deceased members of the National Guard pursuant to 32 U.S.C. 714.

Note: The term "deceased members" as used in this chapter includes former members who die subsequent to discharge or separation from the service.

A designation of beneficiary under 10 U.S.C. 2771 or 32 U.S.C. 714, properly executed and filed in the place designated for such purposes in the regulations of the department concerned, will be effective thereafter until (1) expressly changed or revoked in writing or (2) the serviceman transfers to a different branch of the military service or (3) s/he returns to the same or a different branch after a break in service.

The payment provisions of 10 U.S.C. 2771 and 32 U.S.C. 714 are effective only when the member's death occurs on or after January 1, 1956. Claims relating to the accounts of members dying before such date are for consideration by the Claims Division.

The term "pay and allowances" when used in this chapter includes any amount due a decedent from the service of which he was a member, exclusive of amounts payable administratively pursuant to other specific authority.

## SECTION 26--FORMS

## 26.1 FORMS PRESCRIBED FOR PROCEDURES IN THIS CHAPTER

## STANDARD FORMS

SF 1174 Claim for Unpaid Compensation of Deceased Member Uniformed Services

SF 1176 Public Voucher for Unpaid Pay and Allowances Due a Deceased Member of the Armed Forces

SF 1176a Public Voucher for Unpaid Pay and Allowances Due a Deceased Member of the Armed Forces (Memorandum)

Specimen copies of Standard Forms 1174 and 1176 are contained in appendix A of this title.

## SECTION 27--JURISDICTION

## 27.1 ADMINISTRATIVE AGENCIES

Except as otherwise provided in subsections 27.2 and 29.3b of this chapter, pay and allowances due deceased members shall be paid as follows:

## a. DECEASED MEMBERS OF THE ARMED FORCES.

Amounts payable under any of the clauses establishing the order of precedence as set forth in 10 U.S.C. 2771(a) shall be paid by the department or military service concerned.

## b. DECEASED MEMBERS OF THE NATIONAL GUARD.

Amounts payable under any of the clauses establishing the order of precedence as set forth in 32 U.S.C. 714(a) shall be paid by the department concerned.

## 27.2 GENERAL ACCOUNTING OFFICE

Payments shall be made only upon settlement by the Claims Division in the following cases:

(1) When doubt exists regarding the amount or validity of the claim.

(2) When doubt exists regarding the person(s) properly entitled to payment.

#### SECTION 28--CLAIMS

##### 28.1 FURNISHING CLAIM FORMS AND ASSISTANCE TO CLAIMANTS

As soon as practicable after the death of a member, the department under which the member was serving at the date of death will furnish the designated beneficiary or beneficiaries SF 1174, Claim for Unpaid Compensation of Deceased Members of Uniformed Services for use in filing a claim for any unpaid pay or allowances that may be due the decedent. If there is no designated beneficiary, the person or persons next in order of precedence, in accordance with 10 U.S.C. 2771(a) or 32 U.S.C. 714(a), should submit SF 1174. Any assistance deemed necessary for the proper execution of the forms will be furnished to all claimants by the departments concerned.

##### 28.2 CLAIMS INVOLVING MINORS OR INCOMPETENTS

a. If a guardian or committee has been appointed for a minor or an incompetent (a person who has been adjudged by a court to be incompetent to handle his own affairs) appearing entitled to unpaid amounts, the claim should be supported by a short certificate of the court showing the appointment and qualification of the claimant in such capacity.

b. If no guardian or committee has been or will be appointed, the initial claim should be supported by a statement showing (1) claimant's relationship to the minor or incompetent, if any, (2) the name and address of the person having care and custody of the minor or incompetent, (3) that any moneys received will be applied to the use and benefit of the minor or incompetent, and (4) that the appointment of a guardian or committee is not contemplated.

##### 28.3 CLAIMS FOR UNNEGOTIATED GOVERNMENT CHECKS

Unnegotiated U.S. Government checks drawn to the order of the decedent by the service of which he was a member should

be returned to the department concerned for consideration in connection with the settlement of the member's account. Claimants should be advised that all other unnegotiated U.S. Government checks drawn to the order of the decedent should be returned to the agency from which received with request for further instructions from that agency.

**SECTION 29--DISPOSITION OF UNNEGOTIATED AND UNDELIVERED CHECKS FOR PAY AND ALLOWANCES**

**29.1 RECORDING RETURNED CHECKS**

Unnegotiated U.S. Government checks covering pay and allowances, returned pursuant to subsection 28.3 of this chapter, will be recorded on appropriate accounting documents for later statement in the Public Voucher for Unpaid Pay and Allowances Due a Deceased Member of the Armed Forces, SF 1176.

**29.2 CHECKS DRAWN ON THE UNITED STATES TREASURY**

The proceeds of unnegotiated and/or undelivered checks which are drawn on the United States Treasury for pay and allowances due the decedent will be obtained by processing SF 1176.

**29.3 CHECKS DRAWN ON DESIGNATED DEPOSITARIES**

a. **CURRENT CHECKS.** The proceeds of unnegotiated and/or undelivered checks which are drawn on designated depositaries of the United States Treasurer, formerly the Treasurer of the United States for pay and allowances due the decedent, and are still current as to issue date (see "b" below), will be obtained by processing SF 1176.

b. **UNCURRENT CHECKS.** Unnegotiated and/or undelivered checks for pay and allowances due the decedent, which are drawn on designated depositaries and have not been paid prior to the close of the fiscal year next following the fiscal year in which the checks were issued, are uncurrent. Claims for the proceeds of such checks must be submitted to the Claims Division for settlement pursuant to the provisions of section 1(b) of the act of August 28, 1957, Public Law 85-183, 31 U.S.C. 132. The checks, if available, should accompany the claims.

SECTION 30--VOUCHERING CLAIMS FOR PAY  
AND ALLOWANCES

## 30.1 VOUCHER FORMS USED

Upon receipt of a claim on a duly executed SF 1174, the department concerned will promptly prepare a disbursement voucher for the amount of the pay and allowances due the deceased member, including the proceeds of unnegotiated checks. The disbursement voucher, SF 1176, and SF 1176a (Memorandum), will be used for this purpose.

## 30.2 SUPPORTING DOCUMENTATION FOR SF 1176.

The disbursement voucher, SF 1176, will be supported by:

- (1) the original claim, on SF 1174;
- (2) appropriate documentation relating to any amounts included on the voucher, such documentation to be on forms approved for such purpose and used as subvouchers;
- (3) an official copy of the death report; and
- (4) a certified copy of the designation of beneficiary form, when a beneficiary has been designated, if the name and address of the beneficiary as shown on the form do not appear on the death report.

SECTION 31--PROCESSING VOUCHERS FOR  
PAYMENT ADMINISTRATIVELY

Those vouchers (SF 1176) covering payments to be made administratively pursuant to subsection 27.1 of this chapter will be forwarded individually or scheduled to the appropriate disbursing office for payment in the same manner as other disbursement vouchers. In the Departments of the Army, Navy, and Air Force, the documents and subvouchers referred to in subsection 30.2 above will be forwarded to the Finance Center of the department concerned to be retained in the "Military Pay Record Jacket" or other appropriate pay account of the deceased member for audit by the appropriate audit staff of the General Accounting Office. In the Departments of the Treasury; Commerce; and Health, Education, and Welfare, the applicable documents and subvouchers referred to in subsection



30.2 will be retained with the Military Pay Record or other appropriate pay account at the location where the audit by the General Accounting Office will be performed.

## SECTION 32--VOUCHER SUBMISSIONS TO GENERAL ACCOUNTING OFFICE

### 32.1 VOUCHER SUBMISSION REQUIREMENTS

Disbursement vouchers (SF 1176) which can be paid only after settlement by the General Accounting Office pursuant to subsection 27.2 of this chapter will be submitted to the Claims Division, U.S. General Accounting Office, Washington, D.C. 20548. Each original disbursement voucher involving an individual claimant will be accompanied by one copy for notice to such claimant, one copy for retention in the claim record of the General Accounting Office, and a sufficient number of copies to support administrative and accounting records. In no event will the original voucher be accompanied by less than two copies. If more than one individual is claiming, additional voucher copies will be provided for notice to each claimant and will accompany the original voucher when submitted to the Claims Division. No copy of the voucher should be prepared for return to the Claims Division after payment.

### 32.2 ADMINISTRATIVE REPORT TO ACCOMPANY VOUCHERS

In addition to the supporting documents described in subsection 30.2 of this chapter, any disbursement voucher submitted to the Claims Division will be accompanied by an administrative report containing (1) a statement of the doubt or other reason for forwarding the claim, (2) any pertinent administrative findings and recommendations, and (3) a statement that the claim has not been and will not be paid except pursuant to certification in the name of the Comptroller General.

### 32.3 PROCESSING VOUCHERS FOR PAYMENT AFTER CERTIFICATION BY GENERAL ACCOUNTING OFFICE

After certification for payment, the original voucher and all copies thereof, except the copy prepared for retention by the General Accounting Office, will be returned to the originating department under a covering transmittal letter. A copy of the transmittal letter will be promptly receipted and returned to the Claims Division. The department will be

responsible for the distribution of the voucher and copies for record and payment purposes. It also will be responsible for forwarding each claimant's notice copy to the disbursing office for transmittal to the payee with the check issued in payment of the claim.

**SECTION 33--APPLICABILITY OF GENERAL CLAIM PROCEDURES**

When not in conflict with this chapter, the provisions of chapter 2 of this title, relating to procedures applicable to claims generally, are also applicable to the settlement of accounts of deceased members.

CHAPTER 5--DECEASED PUBLIC CREDITORS GENERALLY--  
CLAIM SETTLEMENT PROCEDURES

SECTION 34--SCOPE OF CHAPTER

This chapter relates to the settlement of claims for amounts alleged to be due the estates of deceased individual public creditors, except when such claims are within the jurisdiction of administrative agencies pursuant to specific authority. The claims coming within the scope of this chapter include, among others, claims for amounts due deceased contractors (whether under terminated or continuing contracts) and other deceased public creditors for supplies furnished and services rendered.

SECTION 35--JURISDICTION

35.1 CLAIMS DIVISION

Claims for unpaid amounts due deceased public creditors will be paid only upon settlement by the Claims Division in the following cases:

(1) When doubt exists as to the amount or validity of the claims.

(2) When doubt exists as to the person(s) properly entitled to payment under the laws of the domicile of the decedent.

35.2 ADMINISTRATIVE AGENCIES

Except as otherwise provided in subsections 35.1 and 38.3b of this chapter claims for unpaid amounts due deceased public creditors may be paid by the administrative agency under the laws of the domicile of the decedent.

## SECTION 36--FORMS

## 36.1 FORM PRESCRIBED FOR PROCEDURES IN THIS CHAPTER

## STANDARD FORM

SF 1055 Claim Against the United States for Amounts Due  
in the Case of a Deceased Creditor

A specimen copy of this form is contained in appendix A of  
this title.

## 36.2 USE OF SF 1055 FOR CLAIMS OUTSIDE SCOPE OF THIS CHAPTER

SF 1055 may be used for filing claims which are within  
the exclusive jurisdiction of administrative agencies, if the  
agencies concerned so desire.

## SECTION 37--CLAIM FILING REQUIREMENTS

## 37.1 USE OF PRESCRIBED FORM

Claims to which this chapter relates, including claims  
for the proceeds of U.S. Government checks, will be filed on  
SF 1055.

## 37.2 ASSISTING CLAIMANTS IN FILING CLAIMS

Such assistance as is deemed necessary may be given to  
claimants by the administrative agencies to insure proper  
execution and submission of the claim form, SF 1055.

## 37.3 CLAIMS INVOLVING MINORS

a. If a guardian has been appointed for a minor appear-  
ing entitled to unpaid amounts, the claim should be supported  
by a short certificate of the court showing the appointment  
and qualification of the claimant in such capacity.

b. If no guardian has been or will be appointed, the  
initial claim should be supported by a statement showing (1)  
claimant's relationship to the minor, if any, (2) the name  
and address of the person having care and custody of the  
minor, (3) that any moneys received will be applied to the  
use and benefit of the minor, and (4) that the appointment  
of a guardian is not contemplated.

SECTION 38--UNNEGOTIATED AND UNDELIVERED  
GOVERNMENT CHECKS

38.1 RETURN OF UNNEGOTIATED GOVERNMENT CHECKS

All unnegotiated U.S. Government checks, in possession of a claimant, which are drawn to the order of a deceased public creditor should be returned to the agency from which received.

38.2 CHECKS DRAWN ON THE UNITED STATES TREASURY

The proceeds of unnegotiated and/or undelivered checks which are drawn on the United States Treasury to the order of a deceased public creditor will be obtained for claim settlement purposes by processing a regular disbursement voucher signed by a duly authorized certifying officer.

38.3 CHECKS DRAWN ON DESIGNATED DEPOSITARIES

a. CURRENT CHECKS. The proceeds of unnegotiated and/or undelivered checks which are drawn on designated depositaries of the United States Treasury to the order of a deceased public creditor, and are still current as to issue date (see "b" below), will be obtained for claim settlement purposes by processing a regular disbursement voucher signed by a duly authorized certifying officer.

b. UNCURRENT CHECKS. Unnegotiated and/or undelivered checks, which are drawn on designated depositaries to the order of a deceased public creditor and have not been paid prior to the close of the fiscal year next following the fiscal year in which the checks were issued, are uncurrent. Claims for the proceeds of such checks must be submitted to the Claims Division for settlement pursuant to the provisions of section 1(b) of the act of August 28, 1957, Public Law 85-183, 31 U.S.C. 132. The checks, if available, should accompany the claims.

**SECTION 39--CLAIM SUBMISSIONS TO GENERAL  
ACCOUNTING OFFICE****39.1 ADDRESS TO WHICH CLAIMS SHOULD BE FORWARDED**

Claims within the scope of this chapter which are required to be settled by the General Accounting Office pursuant to subsections 35.1 and 38.3b should be forwarded by administrative agencies to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

**39.2 ADMINISTRATIVE REPORTS**

To the extent appropriate, claims submitted to the Claims Division should be accompanied by an administrative report containing:

- (1) The claimant's service, serial, and social security number, as applicable, for purposes of identification, when available in the files of the reporting agency. In the case of business firms, the Employer's Identification Number (EIN), which corresponds to the social security number of an individual, should be shown, if obtainable.
- (2) A statement of the facts out of which the claim arose.
- (3) A statement of the doubt involved.
- (4) A recommendation as to the disposition believed proper.
- (5) A citation to pertinent supporting documents such as contracts and vouchers, if any.
- (6) A citation to the appropriation or account to be charged.
- (7) A schedule or list of checks drawn on the United States Treasury or of current checks drawn on designated depositories, if any, showing the appropriation or account to which the proceeds have been credited (see 4 GAO 38.3b relative to claims for the proceeds of uncurrent depository checks).

- (8) A statement that the claim has not been paid and will not be paid except pursuant to certification in the name of the Comptroller General.

**CHAPTER 6--INCOMPETENT PUBLIC CREDITORS--PROCEDURES  
FOR SETTLEMENT OF ACCOUNTS****SECTION 40--SCOPE OF CHAPTER**

This chapter prescribes the procedures applicable to the settlement of claims for amounts due incompetent public creditors of the United States, including claims for the proceeds of Government checks drawn on the United States Treasury or other authorized Government depository to the order of such creditors, except those claims which are under the exclusive jurisdiction of administrative agencies pursuant to specific statutory authority.

Note: The term "incompetent" in this chapter refers to a person who has been adjudged by a court to be incompetent to handle his own affairs.

**SECTION 41--JURISDICTION****41.1 CLAIMS DIVISION**

Claims to which this chapter relates will be paid only upon settlement by the Claims Division in the following cases:

- (1) When doubt exists as to the amount or validity of the claim.
- (2) When doubt exists as to the person(s) properly entitled to payment.

**41.2 ADMINISTRATIVE AGENCIES**

Except as otherwise provided in subsections 41.1 and 43.3b of this chapter claims for unpaid amounts due incompetent public creditors may be paid by the administrative office.

**SECTION 42--CLAIM FILING REQUIREMENTS****42.1 FORM OF CLAIM**

No form is prescribed for use in making claim for sums due incompetent creditors of the United States. Such claims



must be filed in writing over the signature and full address of the person claiming on behalf of the incompetent creditor and must set forth the connection of the incompetent creditor with the United States Government, giving the name of the department, bureau, establishment, or agency involved.

#### 42.2 CLAIM FILED BY GUARDIAN OR COMMITTEE

a. INITIAL CLAIM. The initial claim filed by the guardian or committee of the estate of an incompetent must be accompanied by a short certificate of the court showing the appointment and qualification of the claimant as guardian or committee.

b. CLAIMS FOR RECURRING PAYMENTS. Subsequent claims from guardians or committees for recurring payments need not be accompanied by an additional certificate of the court, but they must be supported by a statement that the appointment is still in full force and effect.

#### 42.3 CLAIMS FILED BY OTHER THAN GUARDIAN OR COMMITTEE

If no guardian or committee has been or will be appointed, the initial claim should be supported by a statement showing (1) claimant's relationship to the incompetent, if any, (2) the name and address of the person having care and custody of the incompetent, (3) that any amount paid to the claimant will be applied to the use and benefit of the incompetent, and (4) that the appointment of a guardian or committee is not contemplated.-

### SECTION 43--UNNEGOTIATED AND UNDELIVERED GOVERNMENT CHECKS

#### 43.1 RETURN OF UNNEGOTIATED GOVERNMENT CHECKS

All unnegotiated U.S. Government checks in possession of a claimant which are drawn to the order of an incompetent public creditor should be returned to the agency from which received.

#### 43.2 CHECKS DRAWN ON THE UNITED STATES TREASURY

The proceeds of unnegotiated and/or undelivered checks which are drawn on the United States Treasury to

the order of an incompetent public creditor will be obtained for claim settlement purposes by processing a regular disbursement voucher signed by a duly authorized certifying officer.

#### 43.3 CHECKS DRAWN ON DESIGNATED DEPOSITARIES

a. **CURRENT CHECKS.** The proceeds of unnegotiated and/or undelivered checks which are drawn on designated depositaries of the United States Treasury to the order of an incompetent public creditor, and are still current as to issue date (see "b" below), will be obtained for claim settlement purposes by processing a regular disbursement voucher signed by a duly authorized certifying officer.

b. **UNCURRENT CHECKS.** Unnegotiated and/or undelivered checks, which are drawn on designated depositaries to the order of an incompetent public creditor and have not been paid prior to the close of the fiscal year next following the fiscal year in which the checks were issued, are uncurrent. Claims for the proceeds of such checks must be submitted to the Claims Division for settlement pursuant to the provisions of section 1(b) of the act of August 28, 1957, Public Law 85-183, 31 U.S.C. 132. The checks, if available, should accompany the claims.

#### 43.4 CHECK INFORMATION TO ACCOMPANY CLAIM

A schedule or list of checks drawn on the United States Treasury or of current checks drawn on designated depositaries, showing the appropriation or account to which the proceeds have been credited, will be submitted by the agency concerned to the Claims Division with the claim. (See subsection 43.3 above relative to claims for the proceeds of uncurrent depository checks.)

### SECTION 44--APPLICABILITY OF GENERAL CLAIM PROCEDURES

The provisions of chapter 2 of this title relating to the procedures applicable to claims generally are applicable also to the settlement of accounts of incompetent public creditors to which this chapter relates.

CHAPTER 7--IRREGULARITIES AND WITHHOLDINGS UNDER THE  
DAVIS-BACON ACT, 40 U.S.C. 276A, AND/OR THE CONTRACT  
WORK HOURS AND SAFETY STANDARDS ACT, 40 U.S.C. 327-332(3)

SECTION 45--SCOPE OF CHAPTER

This chapter prescribes the form and procedures for withholding amounts to adjust wage underpayments and for reporting such Davis-Bacon Act and/or Contract Work Hours and Safety Standards Act violations to the General Accounting Office. The chapter also sets forth the information and evidence required to be included in factual and accounting reports.

SECTION 46--FORMS

46.1 FORM PRESCRIBED FOR PROCEDURES IN THIS CHAPTER

STANDARD FORM

SF 1093 Schedule of Withholdings Under the Davis-Bacon Act (40 U.S.C. 276a) and/or the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-332(3))

A specimen copy of this form is contained in appendix A of this title.

SECTION 47--GENERAL ACCOUNTING OFFICE FUNCTIONS

47.1 RESPONSIBILITY OF THE GENERAL ACCOUNTING OFFICE

The General Accounting Office is responsible, in all instances where compliance with provisions of the Davis-Bacon Act has been questioned, for determining whether or not violations occurred in a sense that requires debarment of the contractor as provided in the act. Also, it is responsible, when funds have been withheld from a contractor to cover wage underpayments under said act or under the Contract Work Hours and Safety Standards Act, for paying aggrieved employees amounts to which they may be entitled. A third responsibility exists, in instances where withholding action has been taken, to settle claims by contractors based upon the amounts withheld.

#### 47.2 RESOLVING THE PROBLEM OF DEBARMENT

In general, the problem of debarment is resolved by distinguishing between, on the one hand, technical violations which have resulted from inadvertence or legitimate disagreement concerning classification and, on the other hand, substantial violations the intentional nature of which is demonstrated by bad faith or gross carelessness in observing obligations to employees with respect to the minimum-wage provisions of the act.

#### 47.3 EVALUATION OF EVIDENCE

Since evidence which defines the nature and extent of violations for debarment purposes likewise establishes the propriety of withholdings from contractors and the extent of wage underpayments due employees, an integrated and consistent evaluation of such evidence is essential. In evaluating the evidence, the General Accounting Office gives careful consideration to administrative determinations and recommendations.

#### 47.4 WHERE EVIDENCE IS OBTAINED

Most evidence is obtained and supplied by the agency having charge of a contract under which irregularities occur. In addition, certain data usually are added by the Department of Labor pursuant to cooperative measures adopted in view of its responsibilities for coordinating the enforcement of labor standards legislation under Reorganization Plan No. 14 of 1950, 5 U.S.C. 901-913, and Regulations of the Secretary of Labor thereunder, 29 CFR subtitle A, part 5. Also, in some instances additional evidence may be submitted by a contractor.

#### 47.5 INDEPENDENT GENERAL ACCOUNTING OFFICE DETERMINATIONS

While the General Accounting Office is assisted by the counsel obtained from the sources specified in subsection 47.4 of this section it is required to make independent legal determinations based upon its own evaluation of evidence in each case. The settlement of claims submitted by contractors and employees involves a determination of the legal rights of each predicated upon the propriety of the withholding action.

## SECTION 48--ADMINISTRATIVE REPORTS

## 48.1 ADMINISTRATIVE REPORTS IN GENERAL

Complete administrative reports, including both accounting data and all evidence upon which determinations and recommendations are based, are necessary in all cases. Since the examination of cases by the General Accounting Office ordinarily is based upon a written record, all material matters, including negotiations with contractors, should be reduced to writing and furnished for consideration.

## 48.2 WHEN COMPREHENSIVE REPORTS ARE REQUIRED

Comprehensive reports are necessary in all instances where there is a disregard of obligations to employees. Failure to withhold moneys for wage underpayments, or the fact that wage underpayments have been corrected, does not obviate furnishing factual reports.

## 48.3 ADDRESS TO WHICH COMPREHENSIVE REPORTS SHOULD BE FORWARDED

Comprehensive reports should be forwarded direct to the Claims Division, U.S. General Accounting Office, Washington, D.C. 20548, unless required to be reported through the Department of Labor pursuant to its regulations.

## 48.4 THE ESSENTIAL ELEMENTS OF COMPREHENSIVE REPORTS

Where disregard of obligations to employees has been found, the comprehensive report should describe the nature and extent of irregularities and present the evidence relied upon to establish their existence. The essentials of such a report include (1) a chronological narration of the facts, (2) a copy of any investigative report and exhibits, including payrolls submitted to the Government and other pertinent documentary evidence, (3) copies of correspondence showing administrative action with respect to the exaction of compliance and actions taken or explanations proffered by offenders, and (4) any additional information, evidence, or recommendations believed to be useful in General Accounting Office determinations.

**48.5 REPORTING THE FINALITY OF ADMINISTRATIVE DETERMINATIONS**

Reports should give definite information as to the finality of administrative determinations with respect to wage underpayments and as to contractors' compliance therewith. Until it can be demonstrated that administrative determinations of wage underpayments have become final in the sense that a contractor has acquiesced in them or has no further recourse through appeal, Federal payments to employees out of funds collected from a contractor not only would be hazardous but might result in improper payments. Also, an incurrence of expense to make such disbursements clearly would be inappropriate in any instance where Federal intervention might not actually be necessary to discharge the obligation imposed primarily upon contractors and subcontractors. It is essential, therefore, that the General Accounting Office be advised as to how a determination of underpayment becomes finally binding upon a contractor and in what manner it is evident that a contractor thereafter refused to comply.

**48.6 CORRECTIONS OF UNDERPAYMENTS BY CONTRACTORS OR SUBCONTRACTORS**

Should wage underpayments be corrected by contractors or subcontractors to the satisfaction of the agency in charge of a contract, evidence of such corrective payments need not be furnished. An appropriate certification that adjustments have been verified will be satisfactory for purposes of the report.

**SECTION 49--DISPOSITION OF COLLECTIONS FOR WAGE UNDERPAYMENTS**

There has been established in the General Accounting Office the account "05X6022," into which collections for wage underpayments will be deposited. The amounts so deposited will be available for settlement by the General Accounting Office when making appropriate payments to aggrieved employees.

**SECTION 50--ACCOUNTING REPORTS****50.1 ACCOUNTING FOR COLLECTIONS**

When collections have been made, SF 1093, Schedule of Withholdings Under the Davis-Bacon Act (40 U.S.C. 276a)

and/or the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-332), should be completed and forwarded, in duplicate, to the Claims Division. The form should be accompanied by an appropriate check payable to the General Accounting Office.

#### 50.2 SCHEDULE OF UNDERPAYMENTS AND EMPLOYEES' CLAIMS

A schedule of the underpayments, showing names of employees, their current addresses, social security numbers, dates and hours of work, classifications and rates at which paid, and classifications and rates at which required to be paid, should be completed and attached to SF 1093 for transmission to the Claims Division, together with any claims received from the employees.

#### SECTION 51--WITHHOLDING PROCEDURES PRIOR TO COLLECTION ACTION

##### 51.1 INSTITUTION OF WITHHOLDING PROCEDURES

Withholding procedures may be instituted, as a matter of ensuring that full wages will be paid in questionable instances, prior to collection action. However, the General Accounting Office does not undertake to make adjustments with employees until wage underpayment determinations have become final and unless contractors have refused to comply with such determinations. The reasoning followed is that (1) the primary responsibility for making full payment to employees rests upon contractors (and subcontractors) and (2) the expense of disbursement to employees by the Government should be avoided where possible. It follows that actual collections and deposits of moneys into the trust fund (as distinguished from withholdings as necessary) should not be completed until it can be shown that all controversies have been finally settled and that contractors themselves cannot, or will not, discharge their obligations in full.

CHAPTER 8--CLAIMS AGAINST THE UNITED STATES RELATING TO  
LOSS OR DAMAGE TO SHIPMENTS

## SECTION 52--SCOPE OF CHAPTER

## 52.1 SCOPE

This chapter contains the general procedures applicable to the presentation, settlement, reconsideration, and review of claims against the United States relating solely to loss and damage incurred in transportation services.

Note: The word "claims" as used in this chapter means requests by claimants for amounts deducted or set off by the Government.

## SECTION 53--CLAIMS TO BE PAID ADMINISTRATIVELY

Claims by carriers for all or part of amounts deducted for loss and damage, which are not barred by a statute of limitations or which do not involve a doubtful question of law or fact, may be paid by departments and agencies.

## SECTION 54--CLAIMS TO BE SUBMITTED FOR ADJUDICATION

Claims involving loss and damage, other than those specified in section 53 of this chapter should be submitted without payment by departments and agencies to the Claims Division. See also section 59 of this chapter. Claims for transportation charges should be referred to the General Services Administration, in accordance with the procedures of that agency.

## SECTION 55--PRESENTATION OF CLAIMS

## 55.1 FILING REQUIREMENTS FOR CLAIMANTS

Claims will not be considered unless presented in writing over the bona fide signature and address of the claimant or over the signature of the claimant's agent or attorney, indicated to be such by a duly executed power of attorney or other documentary evidence of the agent's or attorney's right to act for the claimant.



**55.2 EVIDENTIARY DATA REQUIRED**

Each claim should set forth all the pertinent facts and details and be supported by such evidentiary data as will clearly establish the liability of the United States. Bare assertions or conclusions as to amounts due from the United States usually are not accorded formal consideration.

**55.3 WHERE CLAIMS SHOULD BE FILED**

Action generally will be expedited if claimants file their claims with the administrative department or agency out of whose activities the claims arose. However, a claimant may file a claim directly with the Claims Division, General Accounting Office, Washington, D.C. 20548, particularly if the applicable statutory period of limitation is about to expire.

**SECTION 56--CLAIMS FOR AMOUNTS ADMINISTRATIVELY DEDUCTED**

When a deduction is made by an administrative officer from amounts otherwise due, reclaim, if found necessary, should first be filed with the administrative agency involved. If final administrative disposition of a claim is not satisfactory, the claim for all or any part of the amount deducted may be filed with the Claims Division, U.S. General Accounting Office, Washington, D.C. 20548. No form is prescribed for filing such claim, but the transaction involved must be fully identified.

**SECTION 57--STATUTORY LIMITATIONS ON FILING SUITS IN COURT**

46 U.S.C. 745 imposes a 2-year limitation on court actions against the United States on maritime claims; 49 U.S.C. 16(3)(i), 304a(8), 908(f)(5), and 1006a(8) impose a 3-year limitation on court actions against the United States on claims of carriers subject to the Interstate Commerce Act; and 28 U.S.C. 2401 and 2501 impose a 6-year limitation on court actions against the United States on other claims. Administrative agencies should not pay claims which are "time-barred" by these statutory limitations. Except where specific exemption has been granted by the Comptroller General, such claims should be forwarded to the Claims Division, for adjudication and settlement. If there is

doubt as to whether a carrier's claim is "time-barred," the claim should be forwarded to the Claims Division for consideration and appropriate disposition.

#### SECTION 58--STATUTORY LIMITATIONS ON FILING CLAIMS IN THE GENERAL ACCOUNTING OFFICE

Subsection (1) of section 71a of title 31 U.S.C. imposes a 6-year limitation on the filing of claims cognizable by the General Accounting Office under sections 71 and 236 of title 31 U.S.C. The filing of a claim with some other agency will not meet the requirements of this statute; the claim must be received in the General Accounting Office within 6 years after the date such claim first accrued.

#### SECTION 59--SUBMISSION OF CLAIMS FOR DIRECT SETTLEMENT

Each claim submitted by a Government department or agency to the Claims Division, for adjudication and settlement, except those for amounts previously collected by the General Accounting Office, shall be accompanied in each case by: (1) an appropriate certification as to factual matters not considered by previous certifications, (2) an administrative report as to any pertinent information not previously furnished the General Accounting Office, (3) a recommendation on the action to be taken, (4) a citation to previous payments, if any, by reference to disbursing office voucher number, date of payment, and disbursing office symbol number, and (5) a citation to the applicable appropriation(s) or fund(s). Administrative reports and recommendations need not be forwarded in connection with claims for amounts collected by or through the efforts of the General Accounting Office with this exception: if such claims are submitted through an administrative agency, there should be furnished any factual data available in the agency which was not submitted previously to the Claims Division.

Claimants should be advised by administrative agencies of the dates their claims actually are transmitted to the Claims Division for adjudication.

Further administrative action by a department or agency is not required except to furnish material information subsequently received or to furnish any supplemental reports requested by the General Accounting Office.

**SECTION 60--ACKNOWLEDGMENT OF CLAIMS AND  
INQUIRIES WITH RESPECT TO THEM****60.1 ACKNOWLEDGMENTS**

Claimants are advised of the claim number assigned to each claim received in the Claims Division.

**60.2 INQUIRIES BY CLAIMANTS**

Every effort is made to adjudicate claims as soon as practicable, and claimants are requested to withhold inquiries for at least 6 months after receipt of acknowledgments from the General Accounting Office.

**SECTION 61--BASIS OF CLAIM SETTLEMENTS**

Claims are settled on the basis of the contract of carriage as evidenced by the bill of lading or other contractual agreement; the payment record; reports as required from a Government department or agency; information available in the General Accounting Office; and the written and documentary record submitted by the claimant. Oral presentations are not acceptable to supplement the written record. The adjudication and settlement of claims is founded on the determination of the legal liability of the United States under the factual situation disclosed by the record. The burden is on a claimant to establish the clear liability of the United States and the claimant's right to payment.

**SECTION 62--PROCESSING CLAIMS CERTIFIED FOR  
PAYMENT IN FULL OR IN PART****62.1 FORM OF SETTLEMENT**

When it is determined that all or any part of a claim is proper for allowance, the amount allowed is certified in the Claims Division on a Certificate of Settlement, GAO Form 39, and a complete explanation is furnished on this form as to any amount disallowed. Such certificates are forwarded to the proper administrative agency or department for payment or processing through its records and for scheduling to the proper disbursing officer for prompt payment.

**62.2 LIMITATION ON ADMINISTRATIVE REVIEW AND ALTERATION OF SETTLEMENTS**

Departments and agencies may not effect an administrative revision as to legality or correctness of Certificates of Settlement, GAO Form 39, covering claims certified for payment in full or in part by the General Accounting Office. However, administrative agencies and departments are authorized to alter Certificates of Settlement to indicate the applicable appropriation symbol number in use at the time of payment and to correct subsidiary accounting references or like information in connection with the appropriation or fund stated.

No alteration may be made which will result in the payment of the claim from a different appropriation or fund or in an amount other than that originally stated on the Certificate of Settlement. If for any reason Certificates of Settlement are not processed and paid promptly, they should be returned to the Claims Division with an explanation as to the reason for nonpayment.

**62.3 PROCESSING AND DISTRIBUTING CERTIFICATES OF SETTLEMENT**

Except as otherwise provided below in subparagraph (2), Certificates of Settlement will be processed as follows:

(1) The original and four copies will be forwarded to the administrative department or agency whose funds are to be charged. A copy of the transmittal letter will be promptly receipted and returned to the Claims Division. If the administrative office uses the voucher-schedule procedures outlined in 7 GAO 22, the original and the claimant's notice copy will be forwarded to the disbursing office for disposition, in accordance with (a) and (b) below, and the original will be scheduled in the same manner as other approved vouchers. If the voucher-schedule procedures are not used, the original and two copies of the certificate will be forwarded to the disbursing office for disposition, after payment, as follows:

(a) The original will be stamped in the upper right-hand corner with the disbursing office voucher number and date of payment, and will be used to support the disbursing officer's account.

(b) The claimant's notice copy will be mailed to the payee with any check issued.

(2) When all or part of the amount certified for payment is withheld by the General Accounting Office as a credit against a debt due the United States, additional copies of the certificate will be supplied as necessary for forwarding by the disbursing officer to the agency whose accounts are to be credited. The administrative office will be responsible for the preparation of Schedule of Voucher Deductions, SF 1096, as required. When the full amount certified for payment is withheld by the General Accounting Office for application to a debt, the claimant's notice copy of the Certificate of Settlement will be forwarded to the claimant by the General Accounting Office, and when the same appropriation or fund is to be charged and credited, a notation that the original is being retained in the General Accounting Office will be placed on the certificate.

#### 62.4 NOTIFICATION OF AGENCY ADDRESS

Certificates of Settlement are forwarded only to one address in each agency, or each department or bureau thereof. Each agency should furnish promptly to the Claims Division notice of any change in the address to which Certificates of Settlement are to be forwarded.

#### SECTION 63--DISALLOWED CLAIMS

When a claim is wholly disallowed, the claimant is advised by a Settlement Certificate, GAO Form 44, which furnishes a complete explanation of the reasons for the action taken. One copy of the GAO Form 44 is furnished to the department or agency concerned at the same address to which Certificates of Settlement are forwarded.

#### SECTION 64--EFFECT OF GENERAL ACCOUNTING OFFICE CLAIM SETTLEMENTS

##### 64.1 FINALITY AS TO ADMINISTRATIVE AGENCIES

Settlements issued by the General Accounting Office are final and conclusive upon the executive branch of the Government unless revised by or at the direction of the Comptroller General.

**64.2 SETTLEMENTS NOT TO BE USED AS PRECEDENTS**

A General Accounting Office claim settlement of an individual claim is not to be regarded by a department or agency as a precedent for the guidance of accountable or other administrative officers as to future payments.

**SECTION 65--REVIEW AND RECONSIDERATION OF GENERAL ACCOUNTING OFFICE CLAIM SETTLEMENTS****65.1 WHO MAY OBTAIN REVIEW**

Settlements made pursuant to 31 U.S.C. 74 will be reviewed (1) at the discretion of the Comptroller General upon the written application of (a) a claimant whose claim has been settled or (b) the head of the department or Government establishment to which the claim or account relates or (2) upon motion of the Comptroller General at any time.

**65.2 BASIS FOR REQUEST FOR REVIEW**

Applications for review of claim settlements should state the errors which the applicant believes have been made in the settlement and which form the basis of his/her request for reconsideration.

**65.3 RETURN OF CHECK OR WARRANT WITH REQUEST FOR REVIEW**

The check issued upon a settlement must not be cashed, but must accompany the application for review of the claim settlement if the amount of the check includes an item for which the review is applied, unless the Comptroller General directs otherwise.

**65.4 PROTESTS RECEIVED IN ADMINISTRATIVE OFFICES AGAINST GENERAL ACCOUNTING OFFICE SETTLEMENTS**

An administrative office will promptly refer the following to the Claims Division, General Accounting Office:

- (1) Protests or appeals of settlements made by the Claims Division.

- (2) Any additional claim, the settlement of which requires reconsideration of a previous settlement made by the General Accounting Office. The prior claim will be cited, and an additional administrative report will be furnished, to support the additional claim.

**CHAPTER 9--DEBT CLAIMS--GENERAL POLICIES AND PROCEDURES****SECTION 66--SCOPE AND PURPOSE OF CHAPTER****66.1 SCOPE**

This chapter relates to debt claims by the United States. Special procedures applicable to specified types or classes of debt claims will be found in subsequent chapters of this title.

**66.2 PURPOSE**

The purposes of this chapter are to:

(1) Define doubtful debt claims and outline the basic procedures for reporting them to the General Accounting Office for adjudication pursuant to section 305 of the Budget and Accounting Act, 1921, 31 U.S.C. 71, and title 4, chapter II of the Code of Federal Regulations.

(2) Define the responsibility of administrative agencies for collecting amounts determined to be due the United States.

(3) Establish principles to govern agency collection procedures.

(4) Prescribe the procedures for reporting to the General Accounting Office, pursuant to section 305 of the Budget and Accounting Act, 1921, 31 U.S.C. 71, and title 4, chapter II of the Code of Federal Regulations, debts determined to be uncollectible through means available to the administrative agencies.

(5) Provide for removing administratively uncollectible debts from accounting records of the administrative agencies.

(6) Outline the disposition which will be made of amounts collected by the General Accounting Office.

(7) Define administrative procedures and responsibilities relative to the statute of



limitations established by Public Law 89-505, approved July 18, 1966, 28 U.S.C. 2415.

#### SECTION 67--DOUBTFUL DEBT CLAIMS

##### 67.1 DEFINITION

Debt claims are doubtful when a person at a fully responsible administrative level, having final responsibility for deciding on the proper course of administrative action is uncertain as to the amount involved, the liability of the parties, or the action to be taken.

##### 67.2 REPORTING DOUBTFUL DEBT CLAIMS TO GENERAL ACCOUNTING OFFICE

Doubtful debt claims over \$25 should be reported promptly to the Claims Division for adjudication. The report should contain a complete statement of the facts and doubtful questions involved. The General Accounting Office will adjudicate the claims and return them with advice of its findings and conclusions except in cases involving offers to compromise doubtful debts, which may be acted upon or returned with instructions or advice in accordance with 4 CFR 103.8. Reports should be forwarded to:

1  
Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

##### 67.3 SECTION NOT APPLICABLE TO NOTICE OF EXCEPTION CASES

This section does not apply to cases in which the administrative office questions the propriety of a notice of exception issued by an accounting and auditing division of the General Accounting Office; questions in such cases should be resolved through appropriate contacts with the accounting and auditing division that issued the notice of exception or be presented to the Comptroller General for decision if necessary.

SECTION 68--ADMINISTRATIVE RESPONSIBILITY  
FOR COLLECTING DEBTS

68.1 ADMINISTRATIVE RESPONSIBILITY

The Federal Claims Collection Act of 1966, 31 U.S.C. 951-953, places the responsibility on administrative agencies for collecting debts determined to be due the United States, which arise as a result of their activities. For debts which do not exceed \$20,000, exclusive of interest, agencies are authorized to compromise, terminate, or suspend collection action. Also, this responsibility for collection action includes those debts which are determined to be due on account of illegal, improper, or incorrect payments shown in General Accounting Office notices of exception issued to certifying or disbursing officers, but the authority to compromise this class of claims is expressly reserved in the General Accounting Office. Further, each agency is responsible for cooperating and assisting in the collection of debts known to be due the United States arising out of the activities of other agencies, and this responsibility is not limited to those cases in which amounts due debtors are authorized by statute to be withheld and applied in liquidation of their debts.

68.2 REQUIREMENTS FOR DISCHARGE OF ADMINISTRATIVE  
RESPONSIBILITIES

The proper discharge of these administrative responsibilities requires that policies be adopted and procedures developed which will

- (1) assure maximum collection results commensurate with the circumstances in each case and the cost entailed,
- (2) provide for suitable integration of agency processes with those of other agencies, but only as a supplement to, not as a substitute for, the responsible agency's actions, and
- (3) avoid unnecessary or overlapping actions, both in the agency's internal processes and in terms of the total actions on behalf of the United States.

**68.3 DEVELOPMENT OF ADMINISTRATIVE PROCEDURES**

Each agency will develop a program and internal procedures governing efforts to recover amounts due the United States, consistent with the provisions of title 4, chapter II of the Code of Federal Regulations and the general requirements prescribed in 4 GAO 69.

**SECTION 69--PRINCIPLES FOR AGENCY  
COLLECTION PROGRAMS****69.1 BASIC PRINCIPLES**

To be effective, agency debt-collection programs must be comprehensive, vigorous, and uniformly applied in principle. Consistent with the circumstances in different types of cases, they should provide for timely, forceful, and persistent action to collect from the individual payee, recipient, or other person or entity legally liable for payment of the debt. The programs should be designed to lead to the earliest practicable conclusion of administrative effort to effect collection.

**69.2 COLLECTION METHODS**

Debt collection procedures should provide for the use of all reasonable means of collect on available to the administrative agencies, consistent with the debtor's ability to pay and with good business practices--procedures such as:

- (1) Timely and aggressive demands describing the debt.
- (2) Efforts to locate the debtor.
- (3) Setoff, when appropriate, of amounts due indebted contractors under the agency's contracts.
- (4) Application of the procedures prescribed in chapter 10 of this title for setting off amounts due indebted contractors under contracts with other agencies.
- (5) Setoff of amounts due individuals when authorized by law, with particular reference to the withholding authority in 5 U.S.C. 5511-5514, 5705, and 5724(f).

(6) Requests to other agencies for cooperation in collecting debts from persons who are in their employ or service or who are otherwise currently receiving payments from them.

Provision should be made for businesslike safeguards to preclude duplicate collection action.

### 69.3 POINTS OF DIMINISHING RETURNS

Administrative collection procedures should provide for the establishment and observance of realistic points of diminishing returns, applicable equally to notice of exception cases and to other debts, beyond which further collection efforts by the agency are not justified. In establishing such points, consideration should be given to estimated or actual recovery rates in relation to

- (1) the costs of the different types of actions,
- (2) the size of the debt, and
- (3) the apparent possibilities of collection through the agency's efforts and those of other agencies.

## SECTION 70--ADMINISTRATIVE UNCOLLECTIBLE DEBTS

### 70.1 GENERAL RULES FOR REPORTING UNCOLLECTIBLE DEBTS TO THE GENERAL ACCOUNTING OFFICE

Debts that cannot be collected in full by agency collection efforts in accordance with 4 CFR 102 should be compromised, suspended, or terminated in accordance with 4 CFR 103 and 104 or reported to the General Accounting Office in accordance with 4 CFR 105 for further collection action. As a general rule, since agencies are required to take all reasonable collection actions short of legal action (including attempts to locate the debtor and determine ability to pay), the determination as to whether or not a debt should be forwarded for further collection action should be governed by the potential for collection through legal action.

The following guidelines should assist agencies in evaluating the potential for legal action:

a. **DEBT SIZE:** Debts amounting to less than \$600 should not be referred for enforced collection, except where a significant enforcement policy is involved.

b. **ABILITY TO PAY:** Legal action ordinarily will require evidence that (1) the debtor has assets that may be realized upon or (2) family income is sufficient to repay. The following rule of thumb should be applied to income:

Rural area--Refer for further collection action if there is annual income of at least \$7,500 for the first member of the family and \$500 for each additional member.

Urban area--Refer for further collection action if there is annual income of at least \$8,500 for the first member of the family and \$500 for each additional family member.

## 70.2 EXCEPTIONS TO THE GENERAL RULES

a. **DEBTORS INVOLVED IN BANKRUPTCY PROCEEDINGS.** When notice is received that a debtor is involved in bankruptcy proceedings, the procedures prescribed in chapter 15 of this title shall be followed.

b. **DEBTORS DISCHARGED IN BANKRUPTCY.** A debt shall not be reported, regardless of amount, when it is known that the debtor has been discharged in bankruptcy, and that the amount due the United States was listed in his schedule of debts, provided no question of fraud is involved.

c. **DEBTS OF CORPORATIONS.** Debts of a corporation shall not be reported, regardless of amount, when all of the following conditions are present:

(1) When it is known that the debtor corporation has been dissolved.

(2) When it is known that there are no corporate assets from which collection can be made.

(3) When the whereabouts of the officers and directors of the corporation are unknown.

d. **DECEASED DEBTORS.** An effort should be made to ascertain whether the decedent left an estate, through inquiries to relatives, representatives, or clerks of probate courts. Debts should not be reported, regardless of amount, when positive evidence shows the decedent left no estate. Agencies should never file a formal proof of claim in estate proceedings, but should promptly report to the General Accounting Office cases requiring such action, in accordance with subsection 70.1.

e. **DEBT MATTERS CLOSED BY THE DEPARTMENT OF JUSTICE.** (1) Debts arising out of damage to or loss of Government property due to tortious acts, including the negligent operation of privately owned vehicles and trespass on Government lands, buildings, or projects, as specifically covered in chapters 12 and 13 of this title, and (2) debts which may have been referred to the Department of Justice otherwise for consideration need not be reported.

f. **SPECIFICALLY EXCEPTED CLASSES OF DEBTS.** Debts shall not be reported when specifically excepted from the general reporting requirements by the Comptroller General or by the Claims Division, acting pursuant to delegated authority. Specific exceptions will continue in effect until specifically withdrawn. The exception of a class of cases will not prohibit an agency from reporting individual cases of that class if it appears under the circumstances in a particular case that the General Accounting Office may be able to effect collection. When transmitting an excepted case, the reason for reporting the debt should be included in the administrative report.

#### 70.3 REPORTING DEBTS DUE GOVERNMENT CORPORATIONS

While debts due Government corporations are generally not required to be reported to the Claims Division, such debts may be reported for further collection proceedings, within the limitations and subject to the procedures prescribed in this section, when exhaustive efforts to collect have been unsuccessful and the corporation has reason to believe they may be collected by the General Accounting Office through means available to it.

#### 70.4 FORM AND CONTENT OF ADMINISTRATIVE REPORTS

The reports of administratively uncollectible debts to the Claims Division shall conform in all respects with the requirements of 4 CFR 105 and shall be reported in the following manner:

- (1) They shall be reported by individual administrative reports containing the debtor's full name and current address. If more than one party is liable for the debt and the current address of any party is unknown, the report will include a listing of the prior known addresses of such party and a statement of the steps taken to locate him.
- (2) The debtor's service, serial, or other identifying number must be shown if the debt arose as a result of service in the Armed Forces; it shall be shown in connection with other debts also for purposes of identification, when available in the files of the reporting agency.
- (3) The debtor's date of birth and social security number shall be shown, if known. For business firms, the employer's identification number (EIN), which corresponds to the social security number of an individual, shall be shown if obtainable.
- (4) The reports shall contain a complete statement of the facts and computations which are pertinent under the laws and regulations on the basis of which the debt was administratively determined.
- (5) The actions taken to collect or compromise the indebtedness, required by 4 CFR 105.4, shall be summarized.
- (6) Reasonably current credit information (obtained within the last 6 months) will accompany the report.
- (7) The report shall also contain citations to the applicable laws, regulations, contracts, vouchers, and checks.
- (8) Also included should be copies of any correspondence between the debtor and the administrative office when the debtor has requested an explanation or questioned the amount of the debt or his liability.
- (9) Copies of the documents should be included, which would establish the Government's position on issues raised by the debtor, when he has disputed or continues to dispute a material fact or facts after detailed explanation to him.

(10) Reports relating to debts of persons known to be currently employed by the Government or serving in the uniformed services should include information showing the action taken to recover the amount through the agency in which the debtor is employed or serving and the results thereof.

(11) The reports shall include the date the debt first accrued, the date of any partial payments, and copies of any correspondence which might be construed as written acknowledgment of the debt. This information is necessary to determine the applicability of the statute of limitations (28 U.S.C. 2415), which is explained more fully in section 72 of this title.

#### 70.5 WHERE ADMINISTRATIVE REPORTS SHOULD BE SENT

Reports of administratively uncollectible debts shall be forwarded to the General Accounting Office as follows:

(1) Except as otherwise provided below, debts shall be reported to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548

(2) Debts which are the subject of General Accounting Office notices of exception, remaining outstanding in the accounts of accountable officers, shall be reported to the General Accounting Office as provided in (1) above, but these reports shall be forwarded through the General Accounting Office audit activity which issued the exception.

The provisions of subparagraph (2) do not apply, however, when it is known that the debtor is involved in bankruptcy proceedings. In these cases action will be taken as directed in chapter 15 of this title.

#### 70.6 ADMINISTRATIVE ACCOUNTING FOR UNCOLLECTIBLE DEBTS

(1) Administrative agencies shall write off as uncollectible, receivables which are determined to be uncollectible through the means available to them. This action will leave under accounting control only those debts upon which collection efforts have been temporarily suspended or are being pursued, including debt matters referred



directly to the Department of Justice, until advice is received that the Department has closed its file in the matter. All administratively uncollectible items, and those on which collection action has been terminated pursuant to 4 CFR 104.3, shall be recorded in a manner sufficient to support the writeoff, even though they are not required to be reported to the General Accounting Office for further collection action pursuant to subsection 70.1 of this section. No further control and collection effort by the administrative agency is required except in those instances where agencies are advised that a debtor is presently employed or serving in the reporting agency, in which event the debt should be reestablished on the agency records and collection action resumed. However, this does not preclude the agency from maintaining an administrative (as opposed to an accounting) record of those debts which, because of the relationship of the debtor to the agency, might at some future time become collectible through setoff of amounts becoming due the debtor from the agency.

(2) Surety bonds are no longer required for civilian employees or military personnel serving as accountable officers. Where it is necessary to adjust the account of an accountable officer because of loss due to the fault or negligence of such officer, and the head of the agency determines that the amount of the loss is uncollectible, the appropriation available for the expense of the accounting functions should be charged. Such adjustment will have no effect on the employee's personal liability. (Sections 101 and 102, Public Law 92-310, 86 Stat. 201, 31 U.S.C. 1201, 1202.)

#### 70.7 COLLECTIONS BY ADMINISTRATIVE AGENCIES AFTER REPORT TO THE GENERAL ACCOUNTING OFFICE OR THE DEPARTMENT OF JUSTICE

The General Accounting Office should be notified immediately when collections are made or contemplated for application to debts previously reported to this Office for further collection action except (1) when the collections are accomplished under the Hold-up List procedures set forth in chapter 10 of this title and (2) when the agency forwarding the debt has received notice from this Office that collection action on the involved debt has been discontinued and the files have been closed. However, if such notice discloses that a judgment was obtained, the Claims Division should be advised immediately when administrative collections for application to the

judgment debt are made or contemplated. This action is necessary so that the General Accounting Office may continue to maintain appropriate records of unpaid judgment debts, including interest and court costs, when proper, and coordinate the information with the Department of Justice. Also, when an agency or department has referred a debt directly to the Department of Justice or a U.S. attorney, the Department or Attorney should be notified immediately when administrative collections for application to the debt are made or contemplated.

#### SECTION 71--DISPOSITION OF COLLECTIONS

##### MADE BY GENERAL ACCOUNTING OFFICE

#### 71.1 DISPOSITION OF REMITTANCES

Collections made by the Claims Division will be deposited into the Treasury by this Office. Collections properly creditable to trust or deposit funds will be deposited to the credit of the appropriate fund account. Other collections will be deposited as miscellaneous receipts.

#### 71.2 NOTICE TO ADMINISTRATIVE AGENCIES

Administrative agencies will not be notified of collections which are deposited as miscellaneous receipts. If deposit is made to the credit of a trust or deposit fund account, a copy of the certificate of deposit will be furnished the recipient agency for accounting control purposes.

The administrative agency also will be notified (1) of the final collection action on items included in the Hold-up List and (2) of final collection of debts which are the subject of notices of exception for which the accountable officer has not been relieved of responsibility.

#### SECTION 72--APPLICATION OF THE STATUTE OF LIMITATIONS

#### 72.1 STATUTORY LIMITATIONS ON DEBT CLAIMS

Public Law 89-505, approved July 18, 1966, 28 U.S.C. 2415, provides with certain exceptions, that every action for the recovery of money erroneously paid to or on behalf of any civilian employee of any agency of the United States, or to or on behalf of any member or dependent of any member of the uniformed services of the United States, incident to

the employment or services of such employee or member, shall be barred unless the complaint is filed within 6 years after the right of action (the right to begin and prosecute an action in the courts) accrues. The law also provides that every action for money damages brought by the United States or an officer or agency thereof, which is founded upon any contract, express or implied in law or fact, shall be barred unless the complaint is filed within 6 years after the right of action accrues or within 1 year after final decisions have been rendered in applicable administrative proceedings required by contract or by law, whichever is later. In the event of later partial payment or written acknowledgment of the debt, the right of action is deemed to accrue again at the time of each such payment or acknowledgment. In addition, the statute provides, with certain exceptions, that every action for money damages, brought by the United States or an officer or agency thereof, which is founded upon a tort shall be barred unless complaint is filed within 3 years after the right of action first accrues.

#### 72.2 ADMINISTRATIVE RESPONSIBILITY UNDER THE STATUTE

- (1) It is incumbent upon all administrative agencies to be familiar with the provisions of the statute of limitations, including the exceptions and exclusions to the general definition in 72.1.
- (2) Care should be exercised during the processing of all debt claims to prevent the expiration of the statute. Cases should be considered for litigation prior to the earliest barring date which might apply. Any case in which the statute of limitations may expire before being sent to the Department of Justice should be carefully examined for a reasonable basis for using a later date, for considering the claim under other statutory authority, or for applying one or more of the exclusions covered in 28 U.S.C. 2416. Cases in which doubt exists regarding the statute of limitations should be sent to the General Accounting Office for consideration.
- (3) Cases forwarded to the General Accounting Office should be forwarded at least 1 year before the expiration of the statute of limitations.

- (4) Cases forwarded directly to the Department of Justice should be forwarded at least 6 months prior to the expiration of the statute of limitations.
- (5) In their collection process, agencies should allow time for full compliance with the collection procedures and requirements prescribed in 4 CFR 101-105 and this title. Any omission of these requirements will be limited to those cases in which the date is imminent on which suit will be barred.

## CHAPTER 10--CONTRACT DEBT PROCEDURES

## SECTION 73--SCOPE AND PURPOSE OF CHAPTER

## 73.1 SCOPE

This chapter relates to debts arising out of contracts with the United States, except debts arising out of freight and passenger transportation services furnished for the account of the United States or exclusive of cases involving fraud or bankruptcy.

## 73.2 PURPOSE

The purpose of this chapter is to prescribe procedures for withholding amounts due indebted contractors, under contracts with agencies other than the creditor agencies, for application against the debts of the contractors.

SECTION 74--APPLICABILITY OF GENERAL  
POLICIES AND PROCEDURES

The provisions of chapter 9 of this title covering the policies, principles, and procedures applicable to debt claims generally are applicable to debts arising out of contracts with the United States. The procedures prescribed in this chapter are one means available for collecting contract debts when attempts to secure cash settlements have been unsuccessful. Withholding or setoff should not be made in contravention of the rights of assignees under the Assignment of Claims Act of 1940, as amended, 31 U.S.C. 203, 41 U.S.C. 15.

SECTION 75--LIST OF INDEBTED CONTRACTORS  
(HOLD-UP LIST)

The Commander, U.S. Army Finance and Accounting Center, Attn: FINCY-AB, Indianapolis, IN 46249, maintains a list of contractors indebted to the United States, commonly referred to as the Hold-up List. The Department of the Army has consented to include on the Hold-up List the names of contractors indebted to other departments and agencies when the debts are reported by the creditor agencies for inclusion on the list. The Department of the Army will circularize the Hold-up List to all participating agencies with the understanding that only as many copies of the list shall be prepared and distributed as will most effectively

accomplish the desired result without undue additional cost. The purpose of listing indebted contractors and circularizing the list is to put all contracting agencies of the Government on notice of debts arising under contracts with other agencies, so amounts due the indebted contractors may be withheld for application against the debts.

#### SECTION 76--PROCEDURES FOR WITHHOLDING AMOUNTS DUE INDEBTED CONTRACTORS

##### 76.1 DIRECT REQUEST BY CREDITOR AGENCY FOR WITHHOLDING

If an agency to which a contractor is indebted knows that the debtor contractor has a payment due from another agency, it will request that agency to withhold from the debtor contractor and remit to the creditor agency an amount sufficient to cover the indebtedness. When making the request, the creditor agency should state how it prefers the remittance check to be drawn.

##### 76.2 REPORTING DEBTS TO DEPARTMENT OF THE ARMY FOR INCLUSION ON THE HOLD-UP LIST

Agencies should fully utilize the Army's Hold-up List in collecting debts from contractors as provided in 4 CFR 102.3. Reports to the Army of debts to be listed should show, if available, the employer's identification number (EIN) which is used on tax returns, as well as the name and address of the contractor.

Contract debts which are not collected through this means or other available sources and which cannot be compromised, terminated, or suspended should be determined administratively uncollectible and reported to the Claims Division as provided in 4 GAO 70. At the time debts are reported to the General Accounting Office, the creditor agency will inform the Commander, U.S. Army Finance and Accounting Center, that the debts have been reported to the General Accounting Office. Information that a debt has been referred to the General Accounting Office should be included in the listing by the Department of the Army. No item of less than \$200 shall be reported to the Department of the Army for inclusion on the list.

##### 76.3 WITHHOLDING AMOUNTS DUE CONTRACTORS

a. FOR APPLICATION TO DEBTS NOT REPORTED TO THE GENERAL ACCOUNTING OFFICE. When the debt has not been reported to

the General Accounting Office, the paying agency will cause checks covering amounts to be withheld for application to a contract debt due another agency to be drawn payable in the alternative either to "[contractor's name] or Treasurer of the United States" or to "[contractor's name] or [name of the creditor agency]" depending on the preference of the creditor agency. If the setoff involves more than one creditor agency, a check will be drawn to cover each indebtedness. The checks will be transmitted to the creditor agency with a statement sufficient to identify the debt against which they are to be applied. At the same time the agency making the payment will notify the indebted contractor of the action taken. If the amount due the contractor exceeds the amount due the United States, an additional check for the balance due will be drawn in favor of and forwarded directly to the contractor.

b. FOR APPLICATION TO DEBTS REPORTED TO THE GENERAL ACCOUNTING OFFICE. When the debt has been reported to the Claims Division, the paying agency will cause checks covering amounts to be applied against a contract debt to be drawn payable to "[contractor's name] or U.S. General Accounting Office." If the setoff involves more than one creditor agency, a check will be drawn to cover each indebtedness. The checks will be transmitted to:

Claims Division,  
U.S. General Accounting Office,  
Washington, D.C. 20548,

with a statement sufficient to identify the debts against which they are to be applied. At the same time, the agency making the payment will notify the indebted contractor and the creditor agency of the action taken. If the amount due the contractor exceeds the amount due the United States, an additional check for the balance due will be drawn in favor of and forwarded directly to the contractor.

#### 76.4 DISPOSITION OF WITHHOLDING CHECKS BY GENERAL ACCOUNTING OFFICE

When the Claims Division receives a check in liquidation of an item on the Hold-up List, it will take the following action.

(1) If the full amount of the check is due the United States, it will be deposited to the proper account.

(2) If only a portion of the check is found to be due the United States, that portion will be deposited to the proper account and the balance will be paid to the contractor.

(3) If the debt was previously liquidated and no portion of the check is due the United States, the check will be transmitted to the contractor.

#### SECTION 77--REVISION OR REMOVAL OF ITEMS ON THE HOLD-UP LIST

##### 77.1 NOTICE TO DEPARTMENT OF THE ARMY OF COLLECTIONS AFFECTING DEBTS ON THE HOLD-UP LIST

a. **RESPONSIBILITY OF CREDITOR AGENCY.** The creditor agency will furnish appropriate advice to the U.S. Army Finance and Accounting Center relating to collections or withholdings made for application to debts which it has reported to that office for inclusion on the Hold-up List, except final collections made by the General Accounting Office, so the list may be revised.

b. **RESPONSIBILITY OF GENERAL ACCOUNTING OFFICE.** The Claims Division will notify the U.S. Army Finance and Accounting Center when it has taken final collection action or determined that further collection action is unwarranted, in cases which have been reported to the General Accounting Office and which appear on the Hold-up List, and will furnish copies of the notices to the creditor agencies for their information. The U.S. Army Finance and Accounting Center will remove these cases from the Hold-up List on the basis of notice from the General Accounting Office without further direction from the creditor agencies.

##### 77.2 REMOVING DEBTS OF LESS THAN \$1,000 FROM THE HOLD-UP LIST, REGARDLESS OF COLLECTION

Agencies reporting the names of indebted contractors for the Hold-up List shall cause such names to be removed from the list when the debts are less than \$1,000 and the names have appeared thereon for 12 months following the date the debts were reported to the General Accounting Office. This action should be taken even though the debts have not been collected. However, items of less than \$1,000 may be retained on the list for a longer period when the facts and circumstances warrant. Participating departments and agencies



shall screen the Hold-up List periodically for the purpose of removing items of less than \$1,000 or reinstating such items upon proper request therefor.

**CHAPTER 11--DUAL COMPENSATION DEBT PROCEDURES****SECTION 78--SCOPE OF CHAPTER**

This chapter relates to debts arising out of the receipt of compensation from the United States, including Government-owned or controlled corporations, or from the government of the District of Columbia, in violation of any provision of law prohibiting or restricting the receipt of dual compensation.

**SECTION 79--APPLICABILITY OF GENERAL POLICIES AND PROCEDURES**

The general policies, principles, and procedures prescribed in chapter 9 of this title apply to dual compensation debts, emphasizing that timely collection efforts are desirable. As a collection procedure, a creditor agency should contact the debtor's employing agency, or the agency from which he is receiving retired pay, and request assistance in collecting by voluntary setoff, as provided in 4 CFR 102.3. The exceptions to the requirement that administratively uncollectible debts be reported to the General Accounting Office, contained in 4 GAO 70.1 and 70.2, apply to the reports referred to in both subsections 81.2 and 81.3 of this chapter.

**SECTION 80--ADMINISTRATIVE RESPONSIBILITY WHEN MORE THAN ONE AGENCY IS INVOLVED****80.1 DETERMINING AMOUNT OF DEBT AND CREDITOR AGENCY**

When more than one department or agency is involved in a dual compensation debt, the department or agency discovering the existence of such debt will determine by contact with the other agency, as may be necessary, (1) the amount of the debt and (2) the creditor agency.

**80.2 RESPONSIBILITY FOR COLLECTING DEBT**

It will be the responsibility of the creditor agency to pursue the necessary collection action and make such reports to the General Accounting Office as may be required.

SECTION 81--REPORTING DUAL COMPENSATION DEBTS  
TO THE GENERAL ACCOUNTING OFFICE

81.1 STATUTORY LIMITATION ON COLLECTION OF DUAL  
COMPENSATION DEBTS

The act of August 28, 1954, 31 U.S.C. 237a, provides:

"The United States waives all claims against any person arising out of the receipt by such person of compensation from the United States including Government owned or controlled corporations or from the government of the District of Columbia in violation of any provision of law prohibiting or restricting the receipt of dual compensation, which has not been reported to the General Accounting Office for collection within six years from the last date of any period of dual compensation." (Underscoring supplied.)

81.2 REPORTING DUAL COMPENSATION DEBTS TO GENERAL ACCOUNTING  
OFFICE WITHIN PRESCRIBED TIME PERIOD

The creditor agency will be responsible for reporting dual compensation debts, discovered administratively, to the Claims Division for collection before the expiration of the 6-year limitation period set forth in 31 U.S.C. 237a. Debts which cannot be determined to be administratively uncollectible and reported pursuant to 4 GAO 70 within the 6-year period should be reported on agency forms similar in format to appendix A, before the expiration of the period. These special reports may be made at any time before the 6-year period expires, but not before determination of the precise amount of the debt. They should be submitted in quadruplicate to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548.

The original and one copy will be retained by the General Accounting Office and the other two copies will be receipted and returned to the forwarding agency.

The administrative agency need not make the special report referred to above when a written notice of a dual compensation debt which had not been detected by the administrative office is received from an accounting and auditing division of the General Accounting Office. In such cases,

General Accounting Office auditors will execute any reports that may be required. Two receipted copies of forms prepared by the auditors will be furnished to the creditor agency concerned.

### 81.3 REPORTING ADMINISTRATIVELY UNCOLLECTIBLE DUAL COMPENSATION DEBTS TO THE GENERAL ACCOUNTING OFFICE

When a dual compensation debt is reported to the General Accounting Office as administratively uncollectible pursuant to 4 GAO 70, the usual agency forms, if any, prescribed for that purpose should be used. If receipted copies of the special report form--similar to that shown in appendix A to this chapter--have been forwarded to the agency, one copy should accompany the report of uncollectibility. Debts should not be reported to the General Accounting Office as uncollectible when the debtor is making regular installment payments. However, such debts may be reported if installment payments are discontinued by the debtor and not resumed within a reasonable time.

### 81.4 DOUBTFUL CLAIMS

All cases in which doubt exists as to whether there has been a violation of a law prohibiting or restricting the receipt of dual compensation should be reported immediately to the Claims Division for adjudication. The General Accounting Office will adjudicate the claims and return them with its findings and conclusions, unless the report states that the claims have been determined administratively uncollectible at the time of reporting. If it is determined that there is no debt, the reporting agency will be notified. The special report forms patterned after appendix A to this chapter should not be used for reporting doubtful cases.

CLAIMS-GENERAL  
TITLE 4

CHAPTER 10  
APPENDIX A

REPORT OF INDEBTEDNESS RESULTING FROM DUAL COMPENSATION

<b>To:</b> Claims Division U.S. General Accounting Office Washington, D.C. 20548	<b>Date:</b>
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The individual named below has been determined to be indebted to the United States by reason of having received dual compensation in contravention of applicable statutes. The matter is hereby reported for collection in conformance with the provisions of the act of August 28, 1954, 31 U.S.C. 237a, to preclude any possibility of voiding collection action after six years from the last date of the period of dual compensation.

<b>Name of debtor</b>	<b>Address of debtor</b>
<b>Date of birth</b>	
<b>Period of dual compensation</b>	<b>Amount of debt</b>

**Agencies involved:**

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**Remarks:**

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Signed \_\_\_\_\_  
Title \_\_\_\_\_  
Reporting Agency \_\_\_\_\_

1st Indorsement to Reporting Agency

The General Accounting Office hereby acknowledges receipt, for collection, of the report of indebtedness of the above-named debtor. Consistent with the provisions of Chapter 9, Title 4 of the GAO Manual, this Office discharges its responsibilities for the recovery of amounts due the United States by utilizing the collection facilities of the various agencies to the maximum extent whenever such use seems to be in the interest of efficiency and economy. Therefore, you are requested to take appropriate collection action and to return the case here only if your collection efforts are unsuccessful. A copy of this form must be returned when and if this debt is reported to this Office as uncollectible.

Signed \_\_\_\_\_  
Title \_\_\_\_\_  
U.S. General Accounting Office

Date \_\_\_\_\_

**CHAPTER 12--DAMAGE TO OR LOSS OF GOVERNMENT  
PROPERTY DUE TO TORTIOUS ACTS--DEBT PROCEDURES****SECTION 82--SCOPE AND PURPOSE OF CHAPTER****82.1 SCOPE**

This chapter relates to claims by the United States which arise out of damage to or loss of Government property due to tortious acts, including negligently operating privately owned vehicles and trespassing on Government lands, buildings, or projects. The procedures prescribed in this chapter do not apply to:

(1) Claims involving damage to Government property by carriers or other damage arising out of the transportation of property for the account of the United States. Such claims will be handled in accordance with chapter 13 of this title.

(2) Claims involving accountability for the loss of public property entrusted to officers and agents of the Government within the meaning of the act of March 29, 1894, as amended, 31 U.S.C. 89, 90. (See 4 GAO 95.)

(3) Reports of survey pertaining to the loss, spoilage, destruction of, or damage to property of the United States under the control of the Department of the Army as contemplated by the act of October 30, 1941, as amended, 10 U.S.C. 4835, and reports of survey pertaining to the loss, spoilage, destruction of, or damage to property of the United States under the control of the Department of the Air Force as contemplated by the act of October 11, 1951, 10 U.S.C. 9835.

(4) Any similar claims the disposition of which is governed by statute.

**82.2 PURPOSE**

The purpose of this chapter is to provide

(1) for the referral by administrative agencies of certain debts, which arise out of tortious acts, directly to the Department of Justice (either to the Washington Office or to the United States attorneys when authorized by that Department) and

(2) for the removal of tort debts from the accounts receivable of administrative agencies when collection action is discontinued.

**SECTION 83--REFERRING DEBT CLAIMS WHICH  
ARISE OUT OF TORTIOUS ACTS DIRECTLY  
TO DEPARTMENT OF JUSTICE**

**83.1 DIRECT REFERRAL OF TORT DEBTS TO DEPARTMENT OF JUSTICE**

Except as provided herein, administratively uncollectible debt claims within the scope of this chapter should be referred directly to the Department of Justice (either to the Washington Office or to the U.S. attorneys when authorized by that Department).

Tort claims within the scope of this chapter will not be reported to the Claims Division.

**83.2 EXCEPTIONS**

The debt matter need not be reported to the Department of Justice if it is administratively determined that criminal action is not warranted when

- (1) the amount of the debt is less than \$600, or
- (2) the record clearly shows the debtor is unable to pay, or
- (3) the debtor cannot be located.

**83.3 CONTENT OF REPORTS TO DEPARTMENT OF JUSTICE OR  
UNITED STATES ATTORNEYS**

Reports of cases referred to the Department of Justice or the U.S. attorneys in accordance with subsection 83.1 above shall conform in all respects with 4 CFR 105 and, to the extent appropriate, will be supported by:

- (1) All pertinent evidence available.
- (2) The names and locations of the parties in interest.
- (3) The names and locations of any parties who may have knowledge of the facts.

(4) The name and address of the insurance company involved, if any.

(5) Evidence of financial ability to pay for the damage if judgment is obtained, if the party or parties against whom claim is being asserted are not insured.

**SECTION 84--REMOVAL OF TORT DEBTS FROM ACCOUNTS RECEIVABLE OF ADMINISTRATIVE AGENCIES**

The administrative agencies will remove debts which are within the scope of this chapter from their accounts receivable when

(1) cases are closed by the Department of Justice or the U.S. attorneys for any reason and without regard to whether collection has been accomplished, or

(2) it is administratively determined that collection action should be discontinued on cases which are not required to be reported to the Department of Justice or the U.S. attorneys in accordance with 4 GAO 83.2.



CHAPTER 13--CLAIMS BY THE UNITED STATES RELATING TO  
LOSS OF OR DAMAGE TO SHIPMENTS

SECTION 85--TIME LIMITATION FOR REFERRING CLAIMS

85.1 ONE-YEAR LIMITATION

A 1-year limitation applies on court actions against ocean carriers for loss of or damage to shipments. See 46 U.S.C. 1301, 1303(6).

85.2 TWO-YEAR LIMITATION

A 2-year limitation applies on court actions against air carriers for loss of or damage to international shipments. (See article 29 of the Warsaw Convention--49 Stat. 3000.) Written notice of damage must be furnished carriers within 7 days from the date of receipt in the case of baggage and within 14 days from the date of receipt in the case of cargo (or 21 days for delayed shipments). Failure to comply in the time specified for notification of damage precludes action against the carrier to recover damage claims. (See article 26 of the Warsaw Convention.)

Where the Warsaw Convention is not controlling, written notice of loss or damage must be given the carriers within the period prescribed in international air tariffs.

SECTION 86--LOSS AND DAMAGE DEBTS DETERMINED BY  
ADMINISTRATIVE AGENCIES TO BE DUE  
THE UNITED STATES

86.1 SPECIAL COLLECTION PROCEDURE FOR LOSS OR DAMAGE DEBTS  
RELATING TO INTERNATIONAL SHIPMENTS BY OCEAN AND  
INTERNATIONAL AIR CARRIERS

When a loss or damage, for which the carrier is administratively determined to be liable, has occurred on an international ocean or air shipment, effort should be made to withhold an amount sufficient to reimburse the Government for the loss or damage from the carrier's bill covering charges for the transportation or related services on the same shipment. If this is not possible, the withholding should be made from a payment due the carrier on an unrelated account. Notice of such withholding to the carrier should request the carrier's consent to the action; if such consent is not given, or the indebtedness is not otherwise compromised or withdrawn pursuant to section 68, the matter should be referred to the Department of Justice at least 90 days

before the expiration of the 2-year period in article 29 of the Warsaw Convention, 49 Stat. 3000, concerning international air carriers, or the 1-year period in 46 U.S.C. 1303(6) (Carriage of Goods by Sea Act), concerning ocean carriers in foreign commerce. Such referral is necessary in order that the Department may have time to consider the need for suit to reduce the Government's claim to judgement.

#### 86.2 DEBTS DETERMINED TO BE ADMINISTRATIVELY UNCOLLECTIBLE

Loss and damage claims by the United States which cannot be collected, compromised, suspended, or terminated in accordance with 4 CFR 102, 103, and 104 should be determined uncollectible and reported to the General Accounting Office or the Department of Justice for appropriate action. The Claims Division at its option, may return any claim referred to it by the administrative agency, for lack of compliance with the provisions of 4 CFR 101-105, or the guidelines herein.

Administrative agencies will cease collection action when reporting loss and damage claims to the Claims Division. If an agency has placed the name of a carrier debtor on the Hold-up List of the Department of the Army, the agency will inform the Army Finance and Accounting Center that the debt has been referred to the General Accounting Office.

#### 86.3 DEBTS REQUIRED TO BE REPORTED TO THE CLAIMS DIVISION

(1) Every uncollected debt for which notice is received that a debtor is involved in bankruptcy, insolvency, or reorganization proceedings should be forwarded immediately to the Claims Division, except that when a letter has been received from the General Accounting Office, any special instructions contained in that letter should be observed.

(2) Uncollectible debts in excess of \$20,000 should be forwarded to the Claims Division, unless, because of time limitation, it is necessary to refer such debts directly to the Department of Justice for court action.

(3) Debts over \$600 which cannot be collected, compromised, terminated or suspended in accordance with the provisions of 4 CFR 101-105.

**86.4 DEBTS THAT MAY BE REPORTED TO THE CLAIMS DIVISION**

The following debt situations may be reported to the Claims Division.

(1) When a written offer to compromise a debt is received and the administrative agency is uncertain whether the debt is subject to compromise, or if so subject, whether the amount offered represents satisfactory reimbursement to the Government. (See 4 CFR 103.8.)

(2) When the administrative agency's collection action is unsuccessful or when it appears that the cost of further collection action will exceed the amount recoverable and the agency has doubt whether collection action should be suspended or terminated. (See 4 CFR 104.4.)

**SECTION 87--DEPOSIT OF COLLECTIONS MADE BY  
THE GENERAL ACCOUNTING OFFICE**

Collections on account of the loss of or damage to military or naval material in transit for account of the Departments of the Army, Navy, or Air Force will be credited to the appropriation or fund account out of which such or similar material may be replaced. (See Public Law 617, 84th Congress, 31 U.S.C. 489a.)

Collections on account of loss or damage to material shipped for the account of other Government agencies will be credited to miscellaneous receipts, except where specific authority of law exists which requires credit to a specific fund and the agency has furnished appropriate reference to such fund in its transmittal of the debt to the General Accounting Office.

**CHAPTER 14--DEBTS ARISING OUT OF IRREGULARITIES  
AND DISCREPANCIES****SECTION 88--SCOPE AND PURPOSE OF CHAPTER****88.1 SCOPE**

This chapter deals with debt claims by the United States which arise out of irregularities and discrepancies, except (1) claims against accountable officers of the United States whose accounts are required by statute to be rendered to and settled by the General Accounting Office and (2) claims relating to freight and passenger transportation services, furnished for the account of the United States, which are within the scope of 4 CFR 30.1(b).

**88.2 PURPOSE**

The purposes of this chapter are (1) to prescribe procedures relating to the collection of debts which arise out of irregularities and discrepancies and (2) to distinguish between reporting the occurrence of irregularities and discrepancies for consideration by the General Accounting Office in connection with its accounting, auditing, and investigative functions, and reporting administratively uncollectible debts which arise out of irregularities and discrepancies, for collection action by the Claims Division.

**SECTION 89--DEFINITION**

The debts considered in this chapter arise out of irregularities and discrepancies which include, but are not limited to, losses of public funds or property due to embezzlement, theft, or other serious wrongdoing by present or former officers and employees of the Government and others; shortages in the accounts of persons accountable to the United States for money or property who do not render accounts to the General Accounting Office for settlement (see subsection 88.1 above); and the submission of false claims against the United States.

**SECTION 90--APPLICABILITY OF PRINCIPLES**

The principles prescribed in 4 GAO 69 are generally applicable to debts arising out of irregularities and discrepancies, it being emphasized that timely collection efforts are desirable. The principles do not apply, however, to certain debt claims which involve the presentation of false claims against the United States. (See section 94.)

**SECTION 91--ADMINISTRATIVE RESPONSIBILITY  
FOR COLLECTING DEBTS**

Administrative agencies are generally responsible for taking the same aggressive administrative action to collect debts determined by them to be due the United States which arise out of irregularities and discrepancies as they take for other debts arising out of their activities. However, when debts involve the submission of false claims against the United States and the time has not expired within which suits for forfeiture and damages might be prosecuted under the false claims statute, the debts should be reported promptly to the Department of Justice or to the Claims Division, as provided in section 94 of this chapter, without taking administrative action to collect them.

**SECTION 92--REPORTING ADMINISTRATIVELY  
UNCOLLECTIBLE DEBTS TO GENERAL  
ACCOUNTING OFFICE****92.1 WHEN TO REPORT ADMINISTRATIVELY UNCOLLECTIBLE  
DEBTS**

Except as otherwise provided in 4 GAO 70.1 and 70.2 and 4 GAO 94, debts arising out of irregularities and discrepancies will be reported to the Claims Division for further collection action upon determination by the administrative agencies that they are uncollectible through means available to the agencies. The debts should be submitted to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548.

Administrative agencies should make no reports to the Claims Division when debts arising out of irregularities and discrepancies have been collected in full by them or when they are unable to identify persons responsible for losses sustained by the United States.

**92.2 FORM AND CONTENT OF ADMINISTRATIVE REPORTS**

Except in the case of property accountability referred to in section 95 of this chapter, each uncollectible debt arising out of an irregularity or discrepancy to be forwarded to the Claims Division for further collection action should be the subject of a separate report which should contain:

- (1) The debtor's full name, social security number, and current address.
- (2) The debtor's present employment status.
- (3) The debtor's service, serial, or other identifying number if the debt arose as a result of service in the Armed Forces.
- (4) A certified copy of the bond on file with the Section of Surety Bonds, Bureau of Accounts, Department of the Treasury, if the debtor was bonded.
- (5) A statement showing whether the debtor has deposit to his credit in the Civil Service Retirement and Disability Fund.
- (6) A copy of the findings or investigation report, if the indebtedness resulted from the findings of a board of survey or a report of investigation.
- (7) A statement showing whether the matter was referred to the Department of Justice to be considered for instituting criminal proceedings and what action was taken.
- (8) A complete statement of the facts and computations on the basis of which the debt was administratively determined.
- (9) Reasonably current credit information.
- (10) A complete citation to all contracts, vouchers, and checks involved, together with
  - (a) copies of any available correspondence between the debtor and the administrative office, when the debtor has requested an explanation or questioned his liability or the amount of the debt,
  - (b) copies of any available correspondence from the debtor admitting liability,
  - (c) copies of the documents necessary to establish the Government's position on issues raised by the debtor when he has disputed or continues to dispute a material fact or facts after detailed explanation to him; and

(d) a statement of the sources of information contacted and the results of the contacts when the administrative office has been unable to locate the debtor.

(11) When the debtor is known to be currently employed by the Government or serving in the uniformed services, a statement showing what action was taken to recover the amount through the agency in which employed or serving.

**SECTION 93--DOUBTFUL DEBT CLAIMS  
ARISING OUT OF IRREGULARITIES  
AND DISCREPANCIES**

**93.1 REPORTING DOUBTFUL DEBT CLAIMS TO GENERAL ACCOUNTING  
OFFICE**

Except when questions are involved which require a decision by the Comptroller General, any debt claim arising out of an irregularity or discrepancy in which doubt exists as to the amount involved or liability of the parties should be reported immediately to the Claims Division for adjudication. The Claims Division will adjudicate the claim and return it with its findings and conclusions, unless the report states that the claim has been determined administratively uncollectible at the time of reporting. Reports in all doubtful cases should be forwarded to:

Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548.

The reporting agency will be notified in any case when it is determined there is no debt.

See subsection 94.4 below for reporting cases to the Claims Division when doubt exists as to the applicability of the false claims statute.

**SECTION 94--FALSE CLAIMS AGAINST THE  
UNITED STATES**

**94.1 LIABILITY OF PERSONS MAKING FALSE CLAIMS**

Under 31 U.S.C. 231-233 and 235, any person not in the military or naval forces of the United States, nor in the militia called into or actually employed in the service of the United States, who makes or presents a claim against the

Government of the United States, knowing such claim to be false, fictitious, or fraudulent, shall forfeit and pay to the United States the sum of \$2,000, and, in addition, double the amount of damages which the United States may have sustained by reason of doing or committing such act, together with the costs of suit; such forfeiture and damages shall be sued for in the same suit.

#### 94.2 STATUTORY PERIOD WITHIN WHICH SUIT MUST BE COMMENCED

Every suit under the false claims statute must be commenced within 6 years after commission of the act, and not afterward (31 U.S.C. 235). It is emphasized that the protection of the interests of the United States requires timely action on all cases in which the provisions of the false claims statute might be applicable.

#### 94.3 HANDLING OF CLAIMS UNDER THIS SECTION

When an administrative agency refers any case to the Department of Justice for possible criminal prosecution of the claimant for fraud or possible civil suit for fraud arising from claim irregularities involving the presentation of a false claim, such agency should not seek to effect collection of the claim and should defer action on all other claims submitted by the debtor, even though they appear unrelated to the false claims matter. Any amounts voluntarily remitted by the debtor and any amounts otherwise due the debtor should be retained by the administrative agency but not applied against the indebtedness pending receipt of advice from the Department of Justice. The debt report to the Department of Justice should include information as to all amounts remitted by the debtor or available for setoff purposes. Debt claims referred to the Department of Justice in accordance with this subsection should not be reported to the Claims Division. Unless the agency is otherwise advised by the Department of Justice, claims which are not finally disposed of as a result of referral to the Department of Justice under this subsection should be processed by the agency in accordance with the debt-collection regulations and procedures established pursuant to the Federal Claims Collection Act of 1966, 31 U.S.C. 951-953.

If an agency doubts whether the false claims statute applies, advice should be requested from the Department of Justice; if other questions of law or fact are unresolved, such claim should be reported to the Claims Division. These claims should be accompanied by a complete statement by the



agency's legal staff of the doubtful questions involved and should be accompanied by any amounts received on the debt and all vouchers and/or checks covering any amounts due the debtor.

**SECTION 95--REPORTING PROPERTY ACCOUNTABILITY DEBTS TO GENERAL ACCOUNTING OFFICE**

Subject to the exceptions provided in 4 GAO 70.1 and 70.2, administratively uncollectible debts involving accountability for property should be reported in the form of a certification as required by the Act of March 29, 1894, as amended, 31 U.S.C. 89, 90. The reports should be forwarded to:

**Claims Division  
U.S. General Accounting Office  
Washington, D.C. 20548**

**CHAPTER 15--DEBTORS INVOLVED  
IN BANKRUPTCY PROCEEDINGS****SECTION 96--SCOPE AND PURPOSE OF CHAPTER****96.1 SCOPE**

This chapter concerns claims by the United States against debtors involved in bankruptcy proceedings, except for debt claims arising out of freight and passenger transportation services furnished for the account of the United States.

**96.2 PURPOSE**

The purpose of this chapter is to provide

(1) for direct referral by administrative departments and agencies of debts to the Department of Justice (either to the Washington office or to the U.S. attorneys when authorized by that Department) when the debtors are involved in bankruptcy proceedings and

(2) for removal of bankruptcy debts from the accounts receivable of the administrative departments and agencies when collection actions have been completed.

**SECTION 97--ADMINISTRATIVE RESPONSIBILITY  
FOR COLLECTING DEBTS**

Upon receiving information that a debtor is involved in bankruptcy proceedings, the administrative department or agency concerned shall:

(1) Set off any amounts due the debtor which were earned before the date the petition in bankruptcy was filed and which are available for application to the debt. Any amount in excess of that required to satisfy known Government debts should be paid to the receiver, trustee, assignee, etc., as appropriate.

(2) Forward notice of the bankruptcy proceedings to the General Accounting Office at once if the debt was previously reported to this Office.

(3) Transmit the notice and a report of the debt to the General Accounting Office promptly, if, after complete development of all the facts and circumstances, there exists a doubtful question of law or fact concerning the amount of the debt, the liability of the debtor, or entitlement to any amounts payable. (Cases should not be reported as doubtful upon receipt of bankruptcy notice merely because all factors which may have a bearing on the final liability of the bankrupt can not be immediately ascertained.)

(4) Take steps to assure that amounts earned by the debtor after the date of filing the petition for bankruptcy are or will be paid to the receiver, trustee, assignee, etc., as appropriate.

(5) Take action to ascertain whether there appear to be assets for distribution to creditors. If the information of record does not disclose whether there will be assets for distribution, an inquiry should be addressed to the clerk of the appropriate court to ascertain the amount of assets and liabilities of the bankrupt.

(6) Prepare proof of claim, with necessary documentation, as appropriate, for referral to the Department of Justice when proper. (See section 98 below.)

#### SECTION 98--REFERRAL OF DEBTS TO THE DEPARTMENT OF JUSTICE

Debt claims involving bankruptcies (other than those covered in section 97(2) and (3) above) will be referred directly to the Department of Justice (either to the Washington office, or to the U.S. attorneys when authorized by that Department) except that:

(1) Generally, debts of less than \$600 will not be referred to the Department of Justice. However, a series of smaller debts involving the same debtor and aggregating \$600 or more should be referred with attending proof of claim. Also, if the facts and circumstances in a particular case warrant filing a proof of claim (e.g., if petition is filed under chapters X, XI, or XIII of the Bankruptcy Act), debts of lesser amounts may be referred to that Department.

(2) When the information of record indicates that there will be no assets for distribution to creditors at the present level of Government claims, the debt should not be referred.

Debt claims not referred under (1) or (2) above to the Department of Justice need not be reported to the Claims Division.

**SECTION 99--CONTENT OF REPORT TO THE  
DEPARTMENT OF JUSTICE**

When a debtor is involved in bankruptcy proceedings and the claim is referred directly to that Department, the report will include:

(1) The court in which the petition was filed and the case number, if known.

(2) A complete statement of the debt, including its basis.

(3) The section or chapter of the Bankruptcy Act under which the petition was filed.

(4) If the time for filing claims is about to expire and the amount of the claim has not been definitely determined, contingent proof of claim should be forwarded to the Department of Justice, to be followed as soon as possible by a final proof of claim.

(5) When a debt claim is founded upon an instrument in writing, the Bankruptcy Act requires that the instrument be filed with the final proof of claim. (Certified copies of documents are acceptable to the courts. See Rules of Civil Procedure for the U.S. District Courts, rule 44. 28 U.S.C.)

**SECTION 100--REMOVAL OF DEBTS FROM THE  
ACCOUNTS RECEIVABLE OF  
ADMINISTRATIVE AGENCIES**

Debts within the scope of this chapter may be removed from the accounts receivable of the administrative agencies when collection actions by the Department of Justice have been completed or when referring the debts to the Department of Justice has been determined to be inappropriate.

CHAPTER 16--WAIVER OF CLAIMS FOR ERRONEOUS  
PAYMENTS OF PAY AND CERTAIN ALLOWANCES--  
GENERAL POLICIES AND PROCEDURES

SECTION 101--SCOPE AND PURPOSE OF CHAPTER

101.1 SCOPE

This chapter concerns applications for waiver of claims of the United States arising out of erroneous payments of pay and certain allowances made to or on behalf of certain employees of the United States or to or on behalf of members of the uniformed services. Authority for waiver is provided by 5 U.S.C. 5584, 10 U.S.C. 2774, and 32 U.S.C. 716 and the standards for waiver promulgated thereunder (4 CFR 91-93).

101.2 PURPOSE

The purposes of this chapter are to

- (1) outline agencies' authority to take action on certain types of waiver applications,
- (2) provide guidance for preparing the administrative reports required by 4 CFR 92.2,
- (3) outline the procedures for processing appeals of waiver determinations, and
- (4) set forth a proposed format for waiver registers and reports of waiver actions to the Comptroller General.

SECTION 102--AUTHORITY OF AGENCIES TO TAKE ACTION ON CERTAIN  
TYPES OF WAIVER APPLICATIONS WITHOUT REFERRAL TO  
THE COMPTROLLER GENERAL

102.1 APPLICATIONS CLEARLY TIME-BARRED

Generally, applications for waiver must be received either in the office of the head of the agency concerned or in the General Accounting Office within 3 years from the date of discovery of the erroneous payment. (See subsection 103.4.) If an application is received after the expiration of that statutory period, the head of the agency shall advise the applicant that no action may be taken because his application is time-barred. Such notice to the applicant shall include the applicable statutory provision, the date of discovery of the erroneous payment, and the date of receipt of the application for

waiver. Cases of doubt as to the application of the statutory time limit should be forwarded to the Comptroller General for resolution.

#### 102.2 CLAIMS INVOLVING TRAVEL AND TRANSPORTATION

Applications for waiver of claims for erroneous payments of travel and transportation allowances or reimbursement of relocation expenses under 5 U.S.C. 5724a need not be referred to the Comptroller General, regardless of amount. Instead, the head of the agency or his designee shall notify the applicant that the waiver statute and the standards for waiver codified in 4 CFR 91-93 do not authorize waiver of such claims.

#### 102.3 CLAIMS NOT INVOLVING ERRONEOUS PAYMENTS OF PAY AND ALLOWANCES

Generally, waiver authority only extends to payments of pay and/or allowances which were erroneous when made. In those cases where an application concerns a debt which clearly does not fall within that authority, the head of the agency or his designee may advise the applicant that the application may not be considered because the debt does not arise out of payment which was erroneous when it was made. Thus, if a member or employee is indebted to the United States because of loss of, or damage to, Government property, the applicant should be advised that the claim could not be considered for waiver because it does not fit the stated criteria.

As indicated by the following examples, care must be exercised in applying this rule:

Example 1. The failure to collect a debt may in itself generate an erroneous payment of pay which would be proper for waiver consideration. If a service member receives a payment of reenlistment bonus, a payment which was valid when made, and is later discharged prior to completion of his enlistment, a claim by the United States arises for recoupment of the unearned portion of the reenlistment bonus. If, however, that member received a final payment of pay and allowances which should have been set off against the claim for the unearned reenlistment bonus, that final payment, to the extent to which it could have been used for setoff, but was not, becomes an erroneous payment which may be considered for waiver upon proper application.

**Example 2.** A payment which was valid when made may become erroneous back to the initial payment because of later-occurring circumstances. When an employee is separated from Federal employment with entitlement to severance pay and later applies for and is granted a disability retirement which is effective as of the date of separation, the payments of severance pay are thereby rendered erroneous and subject to waiver consideration. This example would only apply when the payment is deemed to be erroneous back to the beginning.

#### 102.4 CLAIMS GREATER THAN \$500

The waiver statutes require that waiver requests be considered by the Comptroller General when the claim exceeds \$500. Agencies cannot consider for waiver any claim exceeding \$500 but must forward it to the General Accounting Office for determination. In determining whether a claim aggregates in excess of \$500, agencies may exclude any portion of the claim that is clearly not subject to waiver, as provided in subsections 102.1, 102.2, and 102.3.

#### 102.5 APPLICATION OF WAIVER STANDARDS WHEN DOUBT EXISTS

When doubt exists concerning whether waiver action is proper, the claim may be referred to the General Accounting Office, regardless of amount.

#### 102.6 DELEGATION OF WAIVER AUTHORITY

The waiver statutes specifically vest authority to make determinations thereunder, in the head of an agency or the secretary concerned. While such authority may be delegated, it should not be delegated to disbursing and certifying officers who are responsible under law for making payments. In addition, disbursing and certifying officers should not withhold collection efforts on a debt resulting from erroneous payments because of the probability that waiver may be requested and subsequently granted. However, if the Government's interests are adequately protected, it would be permissible to temporarily suspend collection action pending resolution of a waiver request.

**SECTION 103--GUIDANCE FOR PREPARATION OF ADMINISTRATIVE REPORTS****103.1 GENERALLY**

Except as provided in subsection 103.2 of this Manual, administrative reports should contain all of the information required by section 92.2 of title 4, Code of Federal Regulations. The purpose of the following subsections is to provide additional guidance for the preparation of administrative reports.

**103.2 CERTAIN INFORMATION NO LONGER DEEMED NECESSARY**

Section 92.3(b)(1) of title 4, Code of Federal Regulations, states that the administrative report should include citations to the voucher(s) on which an erroneous payment was made. Since these citations may not be necessary for the proper adjudication of an application for waiver, they may be omitted unless specifically requested by the General Accounting Office. These citations, however, should be supplied when uncollectible debts are forwarded to the General Accounting Office for collection under the provisions of the Federal Claims Collection Act of 1966, codified in 31 U.S.C. 951-953.

**103.3 STATEMENT OF THE CIRCUMSTANCES UNDER WHICH AN ERRONEOUS PAYMENT AROSE AND AGENCIES' RECOMMENDATION FOR WAIVER DETERMINATION**

Administrative reports should include a statement of the circumstances under which an erroneous payment occurred (4 CFR 92.2(b)(2)). This statement should consist of a chronological summary of the events in the particular case, supported by copies of pertinent personnel action forms, military orders, leave and earnings statements, statements of applicant, statements of witnesses, etc. The report should also include a statement as to whether there is any indication of fault, misrepresentation, or lack of good faith on the part of the employee, member, or other interested person, and a recommendation on whether the request for waiver should be granted or denied. If doubt exists regarding the determination, the areas of doubt should be set out in the administrative report.

**103.4 LEAVE AND EARNINGS STATEMENTS**

Proper action on an application for waiver often hinges upon the information provided to the recipient of the



erroneous payments during the period when the overpayments occurred. Usually, the best source of information is the leave and earnings statement issued to the recipient. In some cases, the leave and earnings statements for the pay periods immediately preceding the first erroneous payment will establish whether or not the recipient knew or should have known that he was being erroneously paid. Copies of all pertinent leave and earnings statements should be included in the administrative report.

#### 103.5 IMPORTANCE OF RECORDING DATE OF DISCOVERY

The date of discovery of an erroneous payment is that date on which it is definitely determined by an appropriate official that an erroneous payment has been made, and is the date from which the statutory limitations, referred to in subsection 102.1 of this chapter, are computed. This date is not to be confused with the date on which the recipient is notified of the erroneous payment. If the date of discovery cannot be accurately determined, the reporting official shall so state in his report, and shall set forth that date which, in his judgment, bearing in mind that any doubt is to be resolved in favor of the applicant, is most likely to be the date of discovery.

#### 103.6 IMPORTANCE OF DATE OF NOTICE OF OVERPAYMENT

When an applicant for waiver has received notice of a continuing erroneous payment, and continues to receive that erroneous payment for one or more pay periods after date of notice, waiver of the amounts received after date of notice is rarely appropriate. The reporting official should in such instances determine as accurately as possible the amounts erroneously paid before and after the date of notice to the recipient and should include those amounts in his report.

#### 103.7 IMPORTANCE OF CLARITY OF REPRODUCED COPIES

The adjudication of applications for waiver is based primarily on the written record. Therefore, copies of important documents included in administrative reports must be legible. If satisfactory reproductions cannot be obtained, the reporting official should furnish file copies of documents, along with a notation that the documents should be returned when they have served their purpose.

## SECTION 104--APPEALS OF ACTIONS TAKEN BY AGENCIES

When an applicant files notice with an agency that he disagrees with the action taken by the agency on his application for waiver, the agency shall reopen the matter and determine whether new information has been presented which would cause the agency to reverse its original action. If such information is presented, and if the agency reverses its position in whole or in part, the agency shall notify the applicant of its new determination. If an agency, upon reconsideration, believes its original action to have been proper, it shall set forth in writing why its original action is believed proper and shall forward the administrative report, its final action, and the appeal to the Comptroller General.

SECTION 105--WAIVER REGISTER AND ANNUAL  
REPORT OF WAIVER ACTIONS

## 105.1 WAIVER REGISTER--MINIMUM INFORMATION REQUIRED

Exhibit A sets forth the minimum information to be included in the waiver register, required by 4 CFR 92.7(a). Agencies may, at their discretion, expand upon the format provided.

105.2 ANNUAL REPORT TO THE COMPTROLLER GENERAL--RECOMMENDED  
FORMAT

Exhibit B sets forth a recommended format for reports of waiver actions to the Comptroller General required by the implementing statutes and by 4 CFR 92.7(b).

CLAIMS

EXHIBIT A

WAIVER REGISTER

<u>NAME</u>	<u>SSN</u>	<u>AMOUNT OF CLAIM</u>	<u>DATE DEBT DISCOVERED</u>	<u>DATE OF APPLICATION</u>	<u>DATE OF WAIVER ACTION</u>	<u>AMOUNT WAIVED</u>	<u>AMOUNT DENIED</u>	<u>AMOUNT REFUNDED TO APPLICANT</u>
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Report of Waiver Actions

To: The Comptroller General

From: (Agency)  
(Address)

	Number	Dollar Value	
Waived in full by agency	_____	_____	
Denied in full by agency	_____	_____	
Waived in part and denied in part	_____	_____	(waived) (denied)
Agency determined application not for consideration (See 4 GAO 102.1-102.3.)	_____	_____	
Cases referred to GAO	_____	_____	

Amount refunded as result of waiver action by agency: \$ \_\_\_\_\_

Amount refunded as result of waiver action by GAO: \$ \_\_\_\_\_

Standard Form 1055 (Front)

Standard Form No. 1055  
4 GAO 36  
5010-104

**CLAIM AGAINST THE UNITED STATES  
FOR  
AMOUNTS DUE IN THE CASE OF A DECEASED CREDITOR**

1. I/we, the undersigned, hereby make claim as \_\_\_\_\_ for amounts due from the  
(Relationship)  
United States in the case of \_\_\_\_\_ who died on the \_\_\_\_\_ day  
(Name of decedent)  
of \_\_\_\_\_, 19\_\_\_\_, while domiciled in the State of \_\_\_\_\_

2. The basis of this claim is as follows: \_\_\_\_\_  
(State nature of claim, amount, name and location of Department or Agency involved)

3. Has there been or will there be appointed an executor or administrator of the decedent's estate?  
\_\_\_\_\_ ("Yes" or "No.") If the answer is "Yes," the following statement should be completed:

I/we have been duly appointed \_\_\_\_\_ of the estate of the deceased, as evidenced  
(Executor or Administrator)  
by certificate of appointment herewith, administration having been taken out in the interest of:

\_\_\_\_\_ and such appointment is still in full force and effect.  
(Name, address, and relationship of interested relative or creditor)

*(If making claim as the executor or administrator of the estate of the deceased, no witnesses are required, but a short certificate of letters testamentary or of administration must be submitted.)  
(If you are the executor or administrator of the estate of the deceased, disregard paragraphs 4, 5, and 6.)*

4. If an executor or administrator has not been or will not be appointed, the following information should be furnished: The deceased is survived by—

Widow or widower (if none, so state): \_\_\_\_\_  
Children (if none, so state): \_\_\_\_\_

Name Age (if under 21) Street Address, City, and State

Grandchildren (list only the children of deceased children—if none, so state):  
Name Age (if under 21) Street Address, City, and State Name of deceased parent of grandchild

Standard Form 1055 (Back)

If no child or grandchild survives, enter below the following:

Name	Street Address, City, and State	
Father (if deceased, so state) : _____		
Mother (if deceased, so state) : _____		
Name	Age (if under 21)	Street Address, City, and State
Brothers and sisters (if none, so state) : _____		

Nephews and nieces (list only the children of deceased brothers or sisters—if none, so state) :

Name	Age (if under 21)	Street Address, City, and State	Name of deceased parent of nephew or niece
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5. Have the funeral expenses been paid? ..... ("Yes" or "No.") (If paid, receipted bill of the undertaker must be attached hereto.)
6. Whose money was used to pay the funeral expenses? .....  
(If funeral expenses were paid from the proceeds of an insurance policy, state the name of the beneficiary of such policy. ....)

**FINES, PENALTIES, and FORFEITURES** are imposed by law for making of false or fraudulent claims against the United States or the making of false statements in connection therewith.

..... (Signature of claimant)	..... (Date)	..... (Signature of claimant)	..... (Date)
..... (Street address)		..... (Street address)	
..... (City)	..... (State)	..... (City)	..... (State)

**TWO WITNESSES ARE REQUIRED**

We certify that we are well acquainted with the above .....  
(Name of claimant(s))  
and that the signature(s) of the claimant(s) was (were) affixed in our presence.

..... (Signature of witness)	..... (Signature of witness)
..... (Street address)	..... (Street address)
..... (City)	..... (State)
..... (City)	..... (State)

All unnegotiated Government checks in possession of the claimant, drawn to the order of the decedent and involved in the claim, shall accompany the claim application.

Standard Form 1093

Standard Form 1093  
September 1967  
Title 4, GAO Manual  
1093-104

**SCHEDULE OF WITHHOLDINGS UNDER THE DAVIS-BACON ACT (40 U.S.C. 276a)  
AND/OR  
THE CONTRACT WORK HOURS STANDARDS ACT (40 U.S.C. 327-332)**

**To THE U. S. GENERAL ACCOUNTING OFFICE  
CLAIMS DIVISION  
WASHINGTON, D.C. 20548**

Contractor or subcontractor charged  
with violations .....

Prime contractor .....

Contract No. ....  
(Date)

Report concerning irregularities transmitted to—  
.....  
(Date)

Deducted from amounts otherwise due the contractor, for deposit to the account "05X6022," covering wages due the employees whose names, social security numbers and current addresses are listed on the attached schedule, are withholdings pursuant to the following laws:

Davis-Bacon Act ..... \$ .....

Contract Work Hours Standards Act ..... \$ .....

Total ..... \$ .....

Forwarded herewith is check No. ...., dated .....

for \$ .....

.....  
(Disbursing officer or other administrative official)

U. S. GOVERNMENT PRINTING OFFICE: 1970 OF-289-000 (200)

See 4 GAO 46

4-100

Standard Form 1152 (Front)

<p>Standard Form 1152 September 1947 Title 4, GAO Manual 1152-106</p>	<p><b>DESIGNATION OF BENEFICIARY</b> UNPAID COMPENSATION OF DECEASED CIVILIAN EMPLOYEE</p>	<p><b>IMPORTANT</b> Read instructions on back of duplicate before filling in this form</p>	
<p><b>INFORMATION CONCERNING THE EMPLOYEE:</b></p>			
<p>NAME— (Last) (First) (Middle) Date of Birth (Month, day, year)</p>			
<p>DEPARTMENT OR AGENCY IN WHICH EMPLOYED</p>			
<p>(Department or agency) (Bureau) (Division)</p>			
<p><i>I, the employee named above, canceling any and all previous Designations of Beneficiary heretofore made by me, do now designate the beneficiary or beneficiaries named below to receive any UNPAID COMPENSATION due and payable after my death. I understand that this Designation of Beneficiary relates solely to money due as defined in 5 U.S.C. 5591, 5592, 5593; and in no wise will affect the disposition of any benefit which may become payable under the Retirement or Group Life Insurance Acts applicable to my Government service. I further understand that this Designation of Beneficiary will remain in full force and effect until (1) expressly changed or revoked by me in writing, (2) I transfer to another agency, or (3) I am reemployed by the same or another department or agency of the Government.</i></p>			
<p><b>INFORMATION CONCERNING THE BENEFICIARY OR BENEFICIARIES:</b></p>			
Type or print first name, middle initial, and last name of each beneficiary	Type or print address (including ZIP Code) of each beneficiary	Relationship	Share to be paid to each beneficiary
<p><i>I hereby direct, unless otherwise indicated above, that if more than one beneficiary is named, the share of any deceased beneficiary who may predecease me shall be distributed equally among the surviving beneficiaries, or entirely to the survivor. I understand that this Designation of Beneficiary shall be void if none of the designated beneficiaries is living at the time of my death.</i></p> <p><i>I hereby specifically reserve the right to cancel or change any designation of beneficiary at any time in the manner and form prescribed by the Comptroller General of the United States, and without knowledge or consent of the beneficiary.</i></p>			
<p>(Date of execution—month, day, year)</p>		<p>(Signature of employee)</p>	
<p><b>WITNESSES TO SIGNATURE:</b></p>			
<p>(Signature of Witness)</p>		<p>(Number and street)</p>	<p>(City, State, and ZIP Code)</p>
<p>(Signature of Witness)</p>		<p>(Number and street)</p>	<p>(City, State, and ZIP Code)</p>
<p>PRINT OR TYPE NAME AND ADDRESS (INCLUDING ZIP CODE) OF EMPLOYEE</p>		<p>THIS SPACE RESERVED FOR RECEIVING DATA OF EMPLOYING AGENCY</p>	
<p> </p>		<p> </p>	
<p> </p>		<p>(Indicate date and by whom received)</p>	
<p>DELIVER BOTH COPIES TO THE PROPER OFFICER OF YOUR AGENCY—DUPLICATE WILL BE NOTED AND RETURNED</p>			

See 4 GAO 17



Standard Form 1152 (Back)

**IMPORTANT**—The filing of this form will completely cancel any designation you may have previously filed. Be sure to name in this form all persons you wish to designate as beneficiaries of any unpaid compensation payable at your death.

**EXAMPLES OF DESIGNATIONS**

**How To Designate One Beneficiary**

Type or print first name, middle initial, and last name of each beneficiary	Type or print address (including ZIP Code) of each beneficiary	Relationship	Share to be paid to each beneficiary
Catherine M. Jackson*	2808 Southern Avenue Williams, Indiana 46728	Sister	All

**How To Designate More Than One Beneficiary**

Type or print first name, middle initial, and last name of each beneficiary	Type or print address (including ZIP Code) of each beneficiary	Relationship	Share to be paid to each beneficiary
Susan L. Brown**	110 Prince Street Anniston, New York 14607	Aunt	One-fourth
Mary Joe Carson	230 Duke Street Anniston, New York 14607	Niece	One-fourth
Elizabeth H. Howard	2301 State Street Weaver, Ohio 44405	Mother	One-half

**How To Designate A Contingent Beneficiary**

Type or print first name, middle initial, and last name of each beneficiary	Type or print address (including ZIP Code) of each beneficiary	Relationship	Share to be paid to each beneficiary
William J. Johnson, if living	244 South Ann Street Olney, Georgia 31204	Father	All
Otherwise to: Sarah L. Johnson	244 South Ann Street Olney, Georgia 31204	Sister	All

**How To Cancel A Designation Of Beneficiary So That Amount Due Will Be Payable As Provided In The Law**

Type or print first name, middle initial, and last name of each beneficiary	Type or print address (including ZIP Code) of each beneficiary	Relationship	Share to be paid to each beneficiary
Cancel prior designations			

\*Do not write name as C. M. Jackson or as Mrs. John E. Jackson.  
\*\*Be sure that the shares to be paid to the several beneficiaries add up to 100 percent.

Standard Form 1152 (Third Side)

<p>Standard Form 1152 September 1947 The 4 GAO Manual 1152-10</p>	<p><b>DESIGNATION OF BENEFICIARY</b> <b>UNPAID COMPENSATION OF</b> <b>DECEASED CIVILIAN EMPLOYEE</b></p>	<p><b>IMPORTANT</b> Read instructions on back of duplicate before filling in this form</p>	
<p><b>INFORMATION CONCERNING THE EMPLOYEE:</b></p>			
<p><b>NAME</b> (Last) (First) (Middle) <b>Date of Birth</b> (Month, day, year)</p>			
<p><b>DEPARTMENT OR AGENCY IN WHICH EMPLOYED</b></p> <p>(Department or agency) (Bureau) (Division)</p>			
<p><i>I, the employee named above, canceling any and all previous Designations of Beneficiary heretofore made by me, do now designate the beneficiary or beneficiaries named below to receive any UNPAID COMPENSATION due and payable after my death. I understand that this Designation of Beneficiary relates solely to money due as defined in 5 U.S.C. 5581, 5582, 5583, and in no way will affect the disposition of any benefit which may become payable under the Retirement or Group Life Insurance Acts applicable to my Government service; I further understand that this Designation of Beneficiary will remain in full force and effect until (1) expressly changed or revoked by me in writing, (2) I transfer to another agency, or (3) I am reemployed by the same or another department or agency of the Government.</i></p>			
<p><b>INFORMATION CONCERNING THE BENEFICIARY OR BENEFICIARIES:</b></p>			
<p>Type or print first name, middle initial, and last name of each beneficiary</p>	<p>Type or print address (including ZIP Code) of each beneficiary</p>	<p>Relationship</p>	<p>Share to be paid to each beneficiary</p>
<p><i>I hereby direct, unless otherwise indicated above, that, if more than one beneficiary is named, the share of any deceased beneficiary who may predecease me shall be distributed equally among the surviving beneficiaries; or entirely to the survivor. I understand that this Designation of Beneficiary shall be void if none of the designated beneficiaries is living at the time of my death.</i></p> <p><i>I hereby specifically reserve the right to cancel or change any designation of beneficiary at any time in the manner and form prescribed by the Comptroller General of the United States, and without knowledge or consent of the beneficiary.</i></p>			
<p>(Date of execution—month, day, year)</p>		<p>(Signature of employee)</p>	
<p><b>WITNESSES TO SIGNATURE:</b></p>			
<p>(Signature of Witness)</p>		<p>(Number and street) (City, State, and ZIP Code)</p>	
<p>(Signature of Witness)</p>		<p>(Number and street) (City, State, and ZIP Code)</p>	
<p>PRINT OR TYPE NAME AND ADDRESS (INCLUDING ZIP CODE) OF EMPLOYEE</p>		<p>THIS SPACE RESERVED FOR RECEIVING DATA OF EMPLOYING AGENCY</p>	
<p> </p>		<p> </p>	
<p>(Indicate date and by whom received)</p>			
<p><b>DELIVER BOTH COPIES TO THE PROPER OFFICER OF YOUR AGENCY—DUPLICATE WILL BE NOTED AND RETURNED</b></p>			
<p><b>DUPLICATE</b></p>			

See 4 GAO 17

## Standard Form 1152 (Fourth Side)

**IMPORTANT NOTICE—Order of Precedence**

If there is no designated beneficiary living, any unpaid compensation which becomes payable after the death of an employee will be payable to the first person or persons listed below who are alive on the date title to the payment arises.

1. To the widow or widower.
2. If neither of the above, to the child or children in equal shares, with the share of any deceased child distributed among the descendants of that child.
3. If none of the above, to the parents in equal shares or the entire amount to the surviving parent.
4. If there be none of the above, to the duly appointed legal representative of the estate of the deceased employee, or if there be none, to the person or persons determined to be entitled thereto under the laws of the domicile of the deceased employee.

It is not necessary for any employee to designate a beneficiary unless he wishes to name some person or persons not included above, or in a different order.

**INSTRUCTIONS**

1. The examples printed on the back of the first page of this form may be helpful in executing the Designation of Beneficiary.
2. All entries on the form except signatures should be typed or printed in ink (typewriting preferred). All designations of beneficiary or beneficiaries should be executed on the prescribed form of Designation of Beneficiary, Standard Form 1152, and must be signed and witnessed.
3. Complete the form in duplicate and file with the agency in which employed. A Designation of Beneficiary must be received by the employing agency prior to the death of the designating employee to be valid. The duplicate will be noted and returned to the employee as evidence that the original has been received and filed. It is suggested that the duplicate be filed with the employee's important papers.
4. Cancellation of a prior Designation of Beneficiary may be effected without the naming of a new beneficiary by executing a new Designation of Beneficiary, Standard Form 1152, and inserting in the space provided for name of beneficiary the words, "Cancel prior designations." The effect of this action will require payment to be made in the order of precedence stated above.
5. A designation will remain valid until expressly changed or revoked, until the employee transfers to another agency, or until reemployed by the same or another department or agency of the Government. In case of separation and reemployment, or transfer to another agency, a new Designation of Beneficiary should be executed if the order of precedence established by the act is not acceptable. It is not necessary to file a new designation where the name or address of the employee or of beneficiary is changed.
6. A designation free of erasures or alterations should be filed in order to avoid a possible contest after death.
7. In the absence of the prescribed form, any designation, change, or cancellation of beneficiary witnessed and filed in accordance with the general requirements of these instructions shall be acceptable.

This Designation of Beneficiary form is to be used solely for the disposition of unpaid compensation at death of a civilian employee and is not to be confused with Standard Form 2841, Designation of Beneficiary, Civil Service Retirement System, or Standard Form 2841, Designation of Beneficiary, Federal Employees' Group Life Insurance Act of 1954.

U. S. GOVERNMENT PRINTING OFFICE: 1955 O-281-007

See 4 GAO 17

4-104

Standard Form 1153 (Front)

**CLAIM FOR UNPAID COMPENSATION OF DECEASED CIVILIAN EMPLOYEE**

**General Information:** Any assistance deemed necessary for the proper execution of this form will be furnished to all claimants by the employing agency. Forward the completed form to the Government agency in which the deceased was employed at time of death.

**Part A**

1. Name(s) and social security number(s) of claimant(s)	2. Relationship to deceased	3. If minor, state age  4. Is designation of beneficiary for unpaid compensation on file with agency? (Yes or No)  5. Are you named beneficiary? (Yes or No)
6. Name and social security number of decedent	7. Date of death	8. Employing agency  9. Decedent's domicile

**Part B (To be completed by the widow or widower of the deceased only.)** Do you certify that you were married to the decedent and to the best of your knowledge and belief that the marriage was not dissolved prior to his/her death? \_\_\_\_\_

**WIDOW OR WIDOWER AND DESIGNATED BENEFICIARIES DO NOT FILL IN PART C. ALL OTHERS MUST.**

**Part C**

1. List below the name, social security number, age, relationship, and address of:
  - (a) Widow or widower.
  - (b) If no widow or widower survives, list each living child of the deceased (include natural, adopted, illegitimate, and stepchildren and indicate after their names which class) or the descendants of deceased children.
  - (c) If no widow or widower, child descendant of deceased children survives, list each surviving parent and state whether natural, step, or adoptive parent.
  - (d) If none of the above survives, list the next of kin who may be capable of inheriting from the deceased (brothers, sisters, descendants of deceased brothers and sisters).

Name and social security number	Age	Relationship to deceased	Address

Standard Form 1153 (Back)

Part D

1. If none of the above survives and an executor or administrator has been appointed, the following statement should be completed:

I/we have been duly appointed \_\_\_\_\_ of the estate of the deceased, as evidenced by certificate of appointment herewith, administration having been taken out in the interest of

(Name, address, and relationship of interested relative or creditor)

and such appointment is still in full force and effect.

NOTE—If making claim as the executor or administrator of the estate of the deceased, no witnesses are required, but a court certificate evidencing your appointment must be submitted.

2. If no administrator or executor has been appointed, will one be appointed? \_\_\_\_\_  
(Yes or No)

DESIGNATED BENEFICIARY, SURVIVING SPOUSE, CHILDREN, PARENTS, OR LEGAL REPRESENTATIVES DO NOT  
FILL IN PART E. ALL OTHERS MUST.

Part E

Have the funeral expenses been paid? \_\_\_\_\_ (If paid, receipted bill of the undertaker must be attached hereto.) Whose money was used to pay the funeral expenses? \_\_\_\_\_

FINES, PENALTIES, and FORFEITURES are imposed by law for the making of false or fraudulent claims against the United States or the making of false statements in connection therewith.

\_\_\_\_\_  
(Signature of claimant) (Name) (Signature of claimant) (Name)  
\_\_\_\_\_  
(Street address) (Street address)  
\_\_\_\_\_  
(City, State, and ZIP code) (City, State, and ZIP code)

TWO WITNESSES ARE REQUIRED

We certify that we are well acquainted with the above \_\_\_\_\_ and that the signature(s) of the claimant(s) was (were) affixed in our presence.

\_\_\_\_\_  
(Signature of witness) (Signature of witness)  
\_\_\_\_\_  
(Street address) (Street address)  
\_\_\_\_\_  
(City, State, and ZIP code) (City, State, and ZIP code)

All Government checks in the possession of the claimant, drawn to the order of the decedent in payment of " unpaid compensation," should accompany this claim. All Government checks drawn to the order of the decedent for other purposes (such as veterans' benefits, social security benefits, or Federal tax refunds) should be returned to the agency from which received.

U. S. GOVERNMENT PRINTING OFFICE : 1971 O - 501-500 (2222)

Standard Form 1154 (Front)

Standard Form 1154  
September 1967  
Title 4, GAO Manual  
1154-109

**PUBLIC VOUCHER**  
**FOR UNPAID COMPENSATION DUE A**  
**DECEASED CIVILIAN EMPLOYEE**

Voucher No. \_\_\_\_\_  
Schedule No. \_\_\_\_\_

**PAID BY**

\_\_\_\_\_  
(Department and bureau, agency, or establishment)

\_\_\_\_\_  
(Location)

NAMES AND ADDRESSES (INCLUDING ZIP CODES) OF PAYEES	AMOUNT

Net amount due as per summary on reverse hereof \_\_\_\_\_

Amount of unpaid compensation due \_\_\_\_\_, a civilian employee  
of the United States or the District of Columbia, who died on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_

Gross amount chargeable to appropriations and funds, as distributed below \_\_\_\_\_ \$

*Pursuant to authority vested in me, I certify that the items listed herein are correct and proper for payment from the appropriation(s) and/or fund(s) indicated below.*

\_\_\_\_\_  
(Authorized certifying officer)

Date \_\_\_\_\_ Title \_\_\_\_\_

**ACCOUNTING CLASSIFICATION**

\_\_\_\_\_

\_\_\_\_\_

Paid to the payee(s) named hereon by check No. \_\_\_\_\_ through \_\_\_\_\_ drawn on Treasurer,  
U.S., or on \_\_\_\_\_; or by cash in the amount of \$ \_\_\_\_\_  
(Name of bank)

\*Payee \_\_\_\_\_

\*If payment is made in cash, signature of the payee in acknowledgment of receipt of payment is required. If more than one payee, a receipt should be obtained for the amount paid to each and attached to the voucher.

SF 1154-A Public Voucher for Unpaid Compensation Due a Deceased  
Civilian Employee (memorandum)

See 4 GAO 17

Standard Form 1154 (Back)

Summary of "UNPAID COMPENSATION" of the deceased civilian employee named on the face of this Public Voucher:

	Amount
Lump sum payment for annual leave	_____
Salary or pay for which checks have not been issued	_____
Reimbursement for travel expenses	_____
Allowances	_____
Cash awards for employees' suggestions	_____
Unnegotiated checks drawn in payment of such compensation and deposited:	

Check No.	Date	Amount
_____	_____	_____
_____	_____	_____
_____	_____	_____

Unapplied balances on U.S. Savings Bond purchases \_\_\_\_\_

**TOTAL CHARGEABLE TO APPR. RELATIONS, SPECIAL FUNDS, ETC.** \_\_\_\_\_

Less amounts deducted or withheld:

Outstanding travel advances	_____
Civil service retirement	_____
Employee life insurance	_____
Health benefits	_____
Other	_____

**NET AMOUNT DUE** \_\_\_\_\_

PREVIOUS PARTIAL PAYMENTS OF "UNPAID COMPENSATION"

_____	_____	_____
_____	_____	_____
_____	_____	_____

(Voucher number)

(Date paid)

(D.O. number)

U.S. GOVERNMENT PRINTING OFFICE : 1953 O-252-002

See 4 GAO 17

Standard Form 1174 (Front)

**CLAIM FOR UNPAID COMPENSATION OF DECEASED MEMBER OF THE UNIFORMED SERVICES**

General Information: Any assistance deemed necessary for the proper execution of this form will be furnished to all claimants by the employing agency. Forward the completed form to the Government agency in which the deceased was employed at time of death.

**Part A**

1. Name(s) and social security number(s) of claimant(s)	2. Relationship to deceased	3. If minor, state age
		4. Is designation of beneficiary for unpaid compensation on file with service? <span style="float: right;">(Yes or No)</span>
		5. Are you named beneficiary? <span style="float: right;">(Yes or No)</span>
6. Name, rank or rating, service number, and social security number of decedent	7. Date of death	8. Name of service
		9. Decedent's domicile

Part B (To be completed by the widow or widower of the deceased only.) Do you certify that you were married to the decedent and to the best of your knowledge and belief that the marriage was not dissolved prior to his/her death?

**WIDOW OR WIDOWER AND DESIGNATED BENEFICIARIES DO NOT FILL IN PART C. ALL OTHERS MUST.**

**Part C**

1. List below the name, social security number, age, relationship, and address of:
  - (a) Widow or widower.
  - (b) If no widow or widower survives, list each living child of the deceased (include natural, adopted, illegitimate, and stepchildren and indicate after their names which class) or the descendants of deceased children.
  - (c) If no widow or widower, child or descendant of deceased children survives, list each living parent and state whether natural, step, foster, or adoptive parent.
  - (d) If none of the above survives, list the next of kin who may be capable of inheriting from the deceased (brothers, sisters, descendants of deceased brothers and sisters).

Name and social security number	Age	Relationship to deceased	Address



Standard Form 1174 (Back)

Part D

1. If none of the above survives and an executor or administrator has been appointed, the following statement should be completed:

I/we have been duly appointed \_\_\_\_\_ of the estate of the deceased, as evidenced by certificate of appointment herewith, administration having been taken out in the interest of

(Name, address, and relationship of executor or administrator)

and such appointment is still in full force and effect.

NOTE.—If making claim as the executor or administrator of the estate of the deceased, no witnesses are required, but a court certificate evidencing your appointment must be submitted.

2. If no administrator or executor has been appointed, will one be appointed? \_\_\_\_\_  
(Yes or No)

DESIGNATED BENEFICIARY, SURVIVING SPOUSE, CHILDREN, PARENTS, OR LEGAL REPRESENTATIVES DO NOT  
FILL IN PART E. ALL OTHERS MUST.

Part E

Have the funeral expenses been paid? \_\_\_\_\_ (If paid, receipted bill of the undertaker must be attached hereto.) Whose money was used to pay the funeral expenses? \_\_\_\_\_

FINES, PENALTIES, and FORFEITURES are imposed by law for the making of false or fraudulent claims against the United States or the making of false statements in connection therewith.

\_\_\_\_\_  
(Signature of claimant) (Date) (Signature of claimant) (Date)  
\_\_\_\_\_  
(Street address) (Street address)  
\_\_\_\_\_  
(City, State, and ZIP code) (City, State, and ZIP code)

TWO WITNESSES ARE REQUIRED

We certify that we are well acquainted with the above \_\_\_\_\_ and that the signature(s) of the claimant(s) was (were) affixed in our presence.

\_\_\_\_\_  
(Signature of witness) (Signature of witness)  
\_\_\_\_\_  
(Street address) (Street address)  
\_\_\_\_\_  
(City, State, and ZIP code) (City, State, and ZIP code)

All Federal checks in possession of the claimant, drawn to the order of the decedent, in payment of pay and allowances should accompany this claim.

GPO: 1974 O-536-533

Standard Form 1176

Standard Form 1176  
September 1967  
Title 4, GAO Manual  
1176-105

**PUBLIC VOUCHER  
FOR UNPAID PAY AND ALLOWANCES DUE A  
DECEASED MEMBER OF THE  
ARMED FORCES**

Voucher No. \_\_\_\_\_  
Schedule No. \_\_\_\_\_

**PAID BY**

\_\_\_\_\_  
(Department and bureau, agency, or establishment)

\_\_\_\_\_  
(Location)

NAMES AND ADDRESSES (including Zip Codes) OF PAYEES	AMOUNT
<b>TOTAL</b>	

The above total represents the following unpaid pay and allowances due \_\_\_\_\_  
(Name)

(Rank or rating) \_\_\_\_\_ (Service number and name of service) \_\_\_\_\_

Military Pay Record or other pay account . . . . . \$ \_\_\_\_\_

Unnegotiated U.S. Government checks . . . . . \$ \_\_\_\_\_

All other (per diem, travel, transportation, savings deposits, etc.) . . . . . \$ \_\_\_\_\_

**Gross amount chargeable to appropriations and funds, as distributed below . . . . . \$ \_\_\_\_\_**

*Pursuant to authority vested in me, I certify that the items listed above are correct and proper for payment from the appropriation(s) and/or fund(s) indicated below.*

\_\_\_\_\_  
(Authorized certifying officer)

Date \_\_\_\_\_ Title \_\_\_\_\_

**ACCOUNTING CLASSIFICATION**

\_\_\_\_\_

Paid by Check No. \_\_\_\_\_ through \_\_\_\_\_

U.S. GOVERNMENT PRINTING OFFICE: 1974 O-587-028

**SF 1176-A Public Voucher for Unpaid Pay and Allowances  
Due a Deceased Member of the Armed Forces (memorandum)**

See 4 GAO 26

Continuation of Schedule C

Particulars	1978	1979	1980
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# Policy and Procedures Manual for Guidance of Federal Agencies

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## Title 5 Transportation

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

PH 441

LECTURE 1



**GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES -  
TRANSPORTATION, TRANSMITTAL SHEET NO. 5-33**

**REVISION OF  
TITLE 5**

The attached constitutes a complete revision of title 5, Transportation, of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. This revision clarifies and numerically rearranges some provisions; makes one technical legal change; and updates legal citations. Asterisks identify revised material.

**FORMAL  
CHANGES**

Some provisions in chapter 1 were shortened, some were expanded, and some paragraphs were renumbered for clarity. The paragraphs are now numbered in the same sequence as they appear in the substantive chapters that they preview.

Paragraph 2.1 in chapter 2 was shortened for clarity.

**LEGAL  
CHANGE**

Chapter 4 contains a technical, legal change. The two references to carriers and forwarders being "entitled" to payment before audit are deleted to conform to a change in the law. Public Law 99-627, approved November 7, 1986, 100 Stat. 3508, amended 31 U.S.C. § 3726(a) to make payment to carriers or forwarders prior to the General Services Administration's audit discretionary with GSA.

**FILING  
INSTRUCTIONS**

Remove and destroy all pages of the present title 5, including the table of contents, and substitute the transmitted material.

Retain this Transmittal Sheet. It is part of the document.

**OBTAINING  
ADDITIONAL  
COPIES**

Each federal department and agency receives a limited number of copies of all revisions and updates to the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Copies are sent to agency heads, the office of the inspectors general or other agency audit heads, and the departmental financial management offices. Additional copies are sent to other central locations in various



**TABLE OF CONTENTS**

<u>Chapter</u>		<u>Page</u>
5.1	Introduction to Title -- The General Accounting Office	5.1 - 1
5.2	Responsibility for Prescription of Forms and Procedures -- Scope of chapter -- Standard forms and procedures	5.2 - 1 5.2 - 1
5.3	Uniform Standards and Procedures for Transportation Transactions -- Scope of chapter -- Use of American-flag vessels -- Use of U.S. air carriers -- Uniform procedures	5.3 - 1 5.3 - 1 5.3 - 1 5.3 - 5
5.4	Review of General Services Administration Transportation Settlement Actions -- Definitions -- Review by Comptroller General -- Requests for review -- Copies to General Services Administration	5.4 - 1 5.4 - 1 5.4 - 2 5.4 - 2
5.5	Standards for Advance Payment of Transportation Charges -- Prescription of standards -- Payment prior to performance -- Bonding requirements	5.5 - 1 5.5 - 1 5.5 - 2



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**1.1 The General Accounting Office**

When Public Law 93-604 transferred from the General Accounting Office to the General Services Administration the function of auditing and adjusting payment to carriers and forwarders furnishing transportation services for the account of the United States, the General Accounting Office retained the following responsibilities in the field of government transportation:

- (1) The review of administrative policies, practices, and procedures relating to transportation services furnished for the account of the United States.
- (2) The prescription of uniform fiscal practices relating to the use of American flag vessels and certificated air carriers.
- (3) The review, when requested by a carrier or forwarder, of actions taken by the General Services Administration on claims for transportation and related services furnished for the account of the United States by such carrier or forwarder.
- (4) The prescription, with the Secretary of the Treasury, of standards for advance payment of charges for transportation services furnished the United States.

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The sixth part of the report deals with the results of the work done during the year. It is followed by a detailed account of the work done during the year. The report concludes with a summary of the results and a list of references.

**Scope of Chapter**

This chapter contains basic determinations by the Comptroller General as to the extent he deems it necessary to continue or discontinue to exercise the authority to prescribe forms and uniform procedures provided in section 309 of the Budget and Accounting Act of 1921, 42 Stat. 25, 31 U.S.C. § 3511.

**2.1 Standard Forms and Procedures**

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The function of prescribing standard forms and procedures pertaining to payments for transportation services furnished for the account of the United States has been delegated to the Administrator, General Services Administration, without the necessity for prior consultation with GAO, subject to performance of the Comptroller General's statutory, discretionary functions, and uniform fiscal requirements in this title. 47 Fed. Reg. 50843, November 10, 1982.

The information contained in this document is classified "Confidential - Security Information" because its disclosure could result in the identification of sources of information, the disclosure of intelligence methods, or the disclosure of information that could be of value to an adversary.

Classified by: [redacted]

This document contains information that is classified "Confidential - Security Information" because its disclosure could result in the identification of sources of information, the disclosure of intelligence methods, or the disclosure of information that could be of value to an adversary.

Classified by: [redacted]



**Scope of Chapter**

This chapter contains uniform standards and procedures relating to discretionary functions vested by statute in the Comptroller General and to matters requiring uniformity of fiscal practices relating to transportation transactions entered into for the account of the United States Government.

\* **3.1 Use of  
American-flag  
Vessels**

Section 901 of the Merchant Marine Act of 1936, 46 U.S.C. § 1241(a) requires the use of American-flag vessels for travel by U.S. officers and employees on official business and for the transportation of their personal effects when such vessels are available. Compliance with section 901 is required whether the transportation expenses are paid by the United States or reimbursed to the traveler.

Expenditures shall be disallowed for foreign-flag ocean passenger transportation or for foreign-flag ocean transportation of personal effects, unless there is attached to the payment voucher a certificate or memorandum adequately explaining why American-flag service was unavailable, signed by the traveler or a responsible official of the agency authorizing the travel or transportation who knows the facts concerning such usage.

The certificate or memorandum required under subsection 3.1(b) and the uniform billing and certification procedures relating to ocean transportation are set forth in subsection 3.3 of this title.

\* **3.2 Use of U.S.  
Air Carriers**

These guidelines will be considered by the Comptroller General of the United States in carrying out the responsibility given in the so-called Fly America Act, 49 U.S.C. App. § 1517, as amended. The law requires the disallowance of expenditures from funds appropriated or otherwise established for the account of the United States for foreign air transportation secured aboard a foreign air carrier if a U.S. air carrier is available to

The following information was obtained from a confidential source who has provided reliable information in the past.

Page 2 of 3

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direct or through service, to the farthest interchange point on a usually traveled route;

- where an origin or interchange point is not served by a U.S. air-carrier, foreign air-carrier service should be used only to the nearest interchange point on a usually traveled route to connect with U.S. air-carrier service; and
- where a U.S. air carrier involuntarily reroutes the traveler via a foreign carrier, the foreign air carrier may be used notwithstanding the availability of alternative U.S. air-carrier service.
- For travel between a gateway airport in the United States (the last U.S. airport from which the traveler's flight departs or the first U.S. airport at which the traveler's flight arrives) and a gateway airport abroad (that airport from which the traveler last embarks en route to the U.S. or at which he/she first debarks incident to travel from the U.S.), passenger service by U.S. air carrier will not be considered available
- where the gateway airport abroad is the traveler's origin or destination airport, if the use of U.S. air-carrier service would extend the time in a travel status, including delay at origin and accelerated arrival at destination, by at least 24 hours more than travel by foreign air carrier; and
- where the gateway airport abroad is an interchange point, if the use of U.S. air-carrier service would require the traveler to wait 6 hours or more to make connections at that point, or if delayed departure from or accelerated arrival at the gateway airport in the United States would extend his/her time in a travel



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agreement between the United States and a foreign government, the terms of which are consistent with the international aviation policy goals set forth at 49 U.S.C. App. § 1502(b) and provide reciprocal rights and benefits.

Expenditures for commercial foreign air transportation on foreign air carrier(s) will be disallowed unless there is attached to the appropriate voucher a certificate or memorandum adequately explaining why service by U.S. air carrier(s) is not available, or why it was necessary to use a foreign air carrier. Where the travel is by indirect route or the traveler otherwise fails to use available U.S. air-carrier service, the amount to be disallowed against the traveler is based on the loss of revenues suffered by U.S. air carriers as determined under formula set forth in 56 Comp. Gen. 209 (1977). The term traveler includes, but is not limited to, government dependents, consultants, grantees, contractors, and subcontractors.

The certificate or memorandum required under subsection 3.2(c) and the uniform billing and certification procedures relating to air transportation are set forth in subsection 3.3 of this title.

Compliance with 49 U.S.C. App. § 1517 is required whether the transportation expenses are paid by the United States or reimbursed to the traveler.

### **3.3 Uniform Procedures**

This subsection supplements the standards for ocean transportation transactions in subsection 3.1 and the guidelines for the implementation of the "Fly America Act" in subsection 3.2.

Each voucher for reimbursement of expenses for travel in whole or in part via a non-American-flag air or foreign-flag ocean carrier and each bill for payment of transportation services furnished in whole or in part by a non-American-flag air or foreign-flag ocean

The first part of the document discusses the general situation and the objectives of the project. It is intended to provide a clear understanding of the scope and goals of the work.

The second part of the document details the methodology used in the study. This includes a description of the data collection methods, the analysis techniques, and the steps taken to ensure the accuracy and reliability of the results.

The third part of the document presents the results of the study. This section includes a summary of the findings, a discussion of the implications of the results, and a comparison with previous research in the field.

The fourth part of the document discusses the conclusions drawn from the study. This includes a summary of the key findings and a discussion of the limitations of the study and suggestions for future research.

The fifth part of the document provides a list of references and a list of figures. The references include a list of the books, articles, and other sources used in the study. The figures include a list of the charts, graphs, and other visual aids used in the study.

The sixth part of the document provides a list of appendices. This includes a list of the tables, figures, and other materials that are included in the document. The appendices provide additional information and data that are not included in the main text of the document.

The seventh part of the document provides a list of acknowledgments. This includes a list of the individuals and organizations that provided support and assistance during the course of the study. The acknowledgments express the author's appreciation for their contributions.

**CHAPTER 3 UNIFORM STANDARDS AND PROCEDURES FOR TRANSPORTATION  
TRANSACTIONS**

I certify that it (is) (was) necessary for

\_\_\_\_\_ (name of traveler or agency)

to use \_\_\_\_\_

\_\_\_\_\_ (foreign-flag vessel(s))

\_\_\_\_\_ (or noncertificated<sup>1</sup>/ air carriers)

\_\_\_\_\_ (flight identification numbers)

or to transport (personal effects) (freight)

between \_\_\_\_\_

\_\_\_\_\_ and

\_\_\_\_\_ en route

from \_\_\_\_\_

to \_\_\_\_\_

on \_\_\_\_\_

(date)

for the following reasons: \_\_\_\_\_

\_\_\_\_\_ (date)

\_\_\_\_\_ (signature of traveler or  
authorizing officer)

\_\_\_\_\_ (title or position)

\_\_\_\_\_ (organization)

<sup>1</sup>/ Section 401 of Federal Aviation Act of  
1958 (49 U.S.C. App. § 1371).

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Administration will ascertain that payments involving the use of a non-American-flag vessel or air carrier are supported by the required certificate or memorandum and documentation required in subsection (b) justifying such use. When there is doubt as to the accuracy or acceptability of any justification, the matter will be referred to the Comptroller General for decision.

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**Chapter 4 REVIEW OF GENERAL SERVICES ADMINISTRATION TRANSPORTATION SETTLEMENT ACTIONS**

**Definition**

*Function Transferred  
from GAO to  
Executive Branch  
04 7/1/96*

"Claim" means any bill or demand, including submission of a voucher or supplemental bill, for payment of charges for transportation and related services by a carrier or forwarder under 31 U.S.C. § 3726.

"Settlement" means any action taken by the General Services Administration in connection with the audit of payments for transportation and related services furnished for the account of the United States that has a dispositive effect, including:

- Deduction action (or refund by carrier) in adjustment of asserted transportation overcharges.
- Disallowance of a claim, or supplemental bill, for charges for transportation and related services, either in whole or in part.
- Any other action that entails finality of administrative consideration.

**4.1 Review by Comptroller General**

Actions taken by the General Services Administration on a claim by a carrier or forwarder under 31 U.S.C. § 3726 that have a dispositive effect and constitute a settlement action as defined in section 4 will be reviewed by the Comptroller General, provided request for review of such action is made within 6 months (not including time of war) from the date such action is taken or within the period of limitation specified in 31 U.S.C. § 3726(a) whichever is later.

**4.2 Requests for Review**

Requests for review of settlement actions by the General Services Administration should be addressed to the Comptroller General of the United States, U.S. General Accounting Office, Washington, D.C. 20548. Each request must identify the claim, the date and nature of the GSA action on the claim, the government bill of lading or Government Transportation Request number, the carrier's bill number, government voucher number and date of payment,



Reference is made to the report of Special Agent in Charge [Name] dated [Date] at [Location] and the report of Special Agent in Charge [Name] dated [Date] at [Location].

The above information was obtained from [Source] and is being furnished to you for your information.

It is noted that [Subject] is currently residing at [Address] and is employed by [Employer].

Very truly yours,  
Special Agent in Charge

[Name]  
Special Agent in Charge

[Name]  
Special Agent in Charge

UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
Washington, D. C. 20535



**Prescription  
of Standards**

The standards in this chapter reflect the standards issued jointly by the Comptroller General of the United States and the Secretary of the Treasury in 41 Fed. Reg. 53769, December 9, 1976, under the provisions of 49 U.S.C. § 66 (now, 31 U.S.C. § 3726(c)) and published in 4 CFR Part 56. These standards authorize payment of charges for transportation services to carriers or forwarders in advance of the completion of services without regard to 31 U.S.C. § 3324, provided the carrier or forwarder has issued the usual ticket, receipt, bill of lading or equivalent document covering the service involved. Regulations prescribed by the head of an agency in implementation of this chapter are subject to review by the General Accounting Office as part of its audit of the agency's activities.

**5.1 Payment Prior  
to Performance**

Where a carrier or forwarder has issued the usual ticket, receipt, bill of lading, or equivalent document and subject to limitations prescribed by the Administrator, General Services Administration, or designee, administrative procedures may provide for payment of bills for transportation services furnished for the account of the United States prior to government confirmation of the satisfactory completion of such services, except those bills presented by:

- (1) An assignee bank or financial institution under the authority of 31 U.S.C. § 3727 and 41 U.S.C. § 15.
- (2) Payees who are in bankruptcy proceedings or are subject to the control of a receiver, trustee, or other similar representative.
- (3) Payees who consistently fail to refund overcharges without assertion of substantial defenses or other valid reasons when notified by the General Services Administration or any other interested government agency.

The first part of the report is devoted to a description of the experimental apparatus and the methods used for the measurement of the various quantities. The second part contains the results of the measurements and a comparison with the theoretical predictions. The third part discusses the possible sources of error and the conclusions drawn from the experiment.

The experimental results show that the measured values are in good agreement with the theoretical predictions. The error in the measurements is estimated to be about 5%. The conclusions drawn from the experiment are that the theoretical model is valid and that the experimental setup is reliable.

The results of the experiment are summarized in the following table. The table shows the measured values of the various quantities and the corresponding theoretical predictions. The error in the measurements is also indicated in the table.

The conclusions drawn from the experiment are that the theoretical model is valid and that the experimental setup is reliable. The results of the experiment are in good agreement with the theoretical predictions.

Page 10 of 10



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# Pay, Leave and Allowances

Pay leave and absence





Comptroller General  
of the United States

Washington, D.C. 20548

March 22, 1996

**GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL  
AGENCIES**

**TITLE 6--PAY, LEAVE, AND ALLOWANCES**

**TRANSMITTAL SHEET NO. 6-33**

Effective Date: Immediately

Material Transmitted: Revision of Chapter 3 and Section  
5.3 of Chapter 5

Purpose: The General Accounting Office has revised chapter 3 and section 5.3 of chapter 5 of Title 6 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. The revisions cover internal controls over time and attendance (T&A) reporting and situations where employee pay is not sufficient to permit all deductions. The changes to T&A reporting are the result of advancing technology and current initiatives to simplify administrative operations. The changes that have been made should provide agencies with sufficient flexibility to streamline T&A systems and implement steps to reduce costs. We will monitor implementation of this new guidance and make additional refinements to further simplify T&A operations and reduce costs within the parameters set forth by law, regulation, and good internal controls.

This revision replaces chapter 3 of the May 1989 edition of Title 6. Elimination of the order of precedence for deductions is in response to the requirements of the Hatch Act Amendments of 1993, Public Law 103-94, that were passed subsequent to the last revision of Title 6. This revision also replaces section 5.3 in chapter 5.

The principal changes include

- greater emphasis of agency's responsibility to have in place a system of internal controls that ensures (1) proper authorization and approval of T&A transactions and (2) maintenance of complete and accurate T&A records,



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- elimination of specific procedural requirements,
- discussion of requirements for using electronic signatures,
- discussion of exception-based T&A reporting systems and minimum requirements, and
- addition of legal references regarding deductions from pay.

Filing instructions

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| Remove and destroy | <ul style="list-style-type: none"> <li>- Chapter 3</li> <li>- Section 5.3 of chapter 5</li> </ul>         |
| Insert             | <ul style="list-style-type: none"> <li>- Revised chapter 3</li> <li>- Section 5.3 of chapter 5</li> </ul> |

Obtaining additional copies

Each federal department and agency receives a limited number of copies of all revisions and updates to GAO's Policy and Procedures Manual for Guidance of Federal Agencies. Copies are sent to agency heads, inspectors general or other agency audit heads, and departmental financial management offices. Additional copies are sent to other central locations in various departments and agencies and to congressional offices, based on specific requests.

Additional copies of this revision may be obtained through the following means.

By mail:

U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20884-6015

In person:

U.S. General Accounting Office  
Room 1100  
700 4th Street, NW (corner of 4th & G Streets, NW)  
Washington, DC

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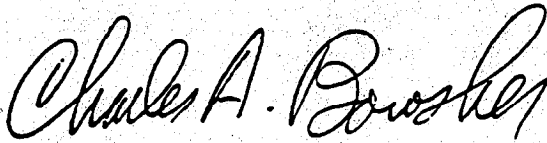
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Notification of any correction or revisions to the addresses where we send copies of revisions of the Policy and Procedures Manual for Guidance of Federal Agencies should be sent to the mailing address given above.

Any questions about this revision should be directed to GAO's Accounting and Information Management Division by calling (202) 512-7689.



Comptroller General  
of the United States

Please retain this transmittal sheet; it is part of the document.

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June 5, 1989

**GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES**

**TITLE 6--PAY, LEAVE, AND ALLOWANCES**

**TRANSMITTAL SHEET NO. 6-32**

Effective Date: Immediately

Material Transmitted: Complete Revision of Title 6

Purpose: The General Accounting Office has revised title 6 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. This revision has been made to update requirements in light of advancing technology and recent changes in legislation and to facilitate uniformity and standardization in federal financial management systems. As such, it is intended to be easily accommodated by newly acquired computer systems. The text has been reorganized and streamlined, with repetitive material and material already in publications of other agencies eliminated. There are many specific changes, which we have not attempted to list comprehensively here. However, we would like to call your attention to the following new or enhanced items:

- a new order of precedence for deductions, which contains current requirements of the various laws involved, including those related to the new Federal Employees Retirement System (with legal citations for each item in the order);
- certification and recordkeeping requirements for "paperless" time and attendance components;
- automated payroll systems and requirements for their interface with personnel, general ledger, cost accounting, and other financial management systems or subsystems;
- increased attention to military pay requirements;
- permission for employees to maintain and/or approve their own time and attendance records under certain circumstances and with appropriate internal control requirements to be met in those situations;
- responsibilities for ensuring compliance with legal requirements and internal controls in a payroll system operated for an agency by a contractor (either private or government), with alternatives for discharging those responsibilities;
- legal references on key payroll functions in an appendix at the end of the title;

THE UNITED STATES OF AMERICA

IN SENATE

January 10, 1951

REPORT

OF THE

COMMISSION ON THE ORGANIZATION AND ADMINISTRATION OF THE FEDERAL GOVERNMENT

IN RESPONSE TO RESOLUTION 100, SENATE, PASSED JULY 1, 1947

AND HOUSE RESOLUTION 100, HOUSE OF REPRESENTATIVES, PASSED JULY 1, 1947

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GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES  
TITLE 6--PAY, LEAVE AND ALLOWANCES

TRANSMITTAL SHEET No. 6-31

December 30, 1982

Effective date: Immediately

Material transmitted: Pages 6-ii, 6-13 through 6-17a and  
6-20 (Revised)

Purpose:

This revision reflects several minor clarifications and the changes required by the "Federal Employees Flexible and Compressed Work Schedules Act of 1982" on time and attendance recording and the "Tax Equity and Fiscal Responsibility Act" on the order of precedence in withholding medicare tax deductions from Federal civilian employee salaries. All agencies are advised that a future change will incorporate the effects of the "Omnibus Budget Reconciliation Act of 1982" and the "Debt Collection Act of 1982" on the order of precedence for deductions as soon as coordination with the required parties can be accomplished. The three affected areas are: (1) Federal employees on military retirement that receive a post-of-living allowance increase, (2) Internal Revenue Service levies for unpaid Federal taxes, and (3) debt collections for unpaid student loans owed by Federal employees.

Particular attention is called to the following:

1. Section 17 and subsection 17.2 now include a reference to GSA retention schedules requirements in addition to the retention schedule requirements in title 8 of the GAO Manual concerning retention of certain payroll documents for audit purposes.
2. Subsection 17.2
  - a. Describes three acceptable methods of time and attendance recording. It specifically requires seriatim recording when sign-in/sign-out sheets are used.
  - b. Explains exception payroll reporting techniques, and requires if there are no exceptions that a report be sent to the payroll office stating that all employees worked a normal tour of duty.



THE UNIVERSITY OF CHICAGO  
DEPARTMENT OF CHEMISTRY  
58 CHEMISTRY BUILDING  
CHICAGO, ILLINOIS 60637

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Dear Sirs:  
I have the pleasure to inform you that your application for admission to the Ph.D. program in Chemistry has been approved. You are invited to come to Chicago in the fall of 1964. Your advisor will be Professor [Name].  
The first semester of the program will be spent in the laboratory of your advisor. The second semester will be spent in the laboratory of Professor [Name].  
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The ninth semester will be spent in the laboratory of Professor [Name].  
The tenth semester will be spent in the laboratory of Professor [Name].  
The eleventh semester will be spent in the laboratory of Professor [Name].  
The twelfth semester will be spent in the laboratory of Professor [Name].

Very truly yours,  
[Name]  
Chairman, Department of Chemistry

Enclosed are two copies of the letter of admission and a copy of the letter of appointment. Please return the original of the letter of admission to the Department of Chemistry, 58 Chemistry Building, Chicago, Illinois 60637.

Yours sincerely,  
[Name]  
Chairman, Department of Chemistry

GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES  
TITLE 6--PAY, LEAVE AND ALLOWANCES

TRANSMITTAL SHEET No. 6-30

March 15, 1982

Effective date: Immediately

Material transmitted: Pages 6-19 and 6-20 (Revised)

Purpose:

The purpose of this revision is to change the order of precedence for deductions from employees pay. Deductions for indebtedness due the United States are now fifth in order of precedence. Formerly this deduction was tenth in order. The order of precedence for the other deductions has been changed accordingly.

Filing instructions

Remove           Pages 6-19 and 6-20  
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*Charles A. Bowsher*

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**Policy and Procedures Manual for Guidance of Federal Agencies**

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**Title 6  
Pay, Leave and Allowances**

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

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GAO MANUAL FOR GUIDANCE OF FEDERAL AGENCIES  
TITLE 6--PAY, LEAVE AND ALLOWANCES

TRANSMITTAL SHEET No. 6-29

Effective date: Immediately

Material transmitted: Complete revision of Title 6

**Purpose:** This revised title is one of a series GAO is issuing in this new, larger size for filing in a standard 3-ring binder. Editorial and technical revisions have been made throughout the title. Attention is called to the following:

1. Subsection 3.1 provides for standard and optional accounting form numbers to be assigned by the Office of Records Management, Forms Management Branch, National Archives and Records Service, General Services Administration, instead of by the Comptroller General.
2. Section 9 specifically prohibits designers or programmers of the automated aspects of a payroll system from any involvement in preparing the payrolls.
3. Section 13, specifying that agency systems for pay, leave, and allowances must meet all statutory requirements, has been added as the initial section of chapter 3, "Principles, Standards, and Related Requirements."
4. Section 14, "Integration with the Accounting System," points out that the payroll system should be designed to produce data that will facilitate reporting by an agency's accounting system of the full cost of operations.
5. Subsection 16.1, "Control Over Source Documents," specifically prohibits an employee from performing all phases of a transaction without intervention of another person.
6. Subsection 16.2, "Control Over Processing," specifically prohibits automatic data processing involvement of designers or programmers in preparing the payrolls.
7. Subsection 16.4 establishes basic requirements for payroll payments to be made. It identifies three types of payments: (1) checks to individuals, (2) composite checks, and (3) electronic funds transfer payments.
8. Section 17 contains information on conditions under which source documents need not be transmitted to the payroll office.

9. Subsection 17.2, "Recording and Reporting Time and Attendance or Piecework for Civilian Employees," reemphasizes the requirement that the time and attendance form must be signed by the employee's supervisor after the end of the time period. The subsection also provides for use of exception-reporting techniques.

10. Subsection 17.3 has been added to provide for alternative work schedules (flexitime and compressed work schedules).

11. Subsection 18.1, "Types of and Support for Deductions," refers to the 42 U.S.C. 659 provisions for deducting court-ordered garnishments for child support and alimony from employees' pay. The Bankruptcy Reform Act Public Law 95-598, provides for deducting court-ordered payments for indebtednesses from employees' pay. The subsection also provides for withholding of city income taxes.

12. Section 19, "Payroll Computation," has been added to include information on pay lag and how it might affect the preparation of pay checks.

13. Subsection 20.6 provides that annual and sick leave earned be posted each pay period before charging for leave taken.

14. Subsections 20.7 and 20.8 have been added to cover wage continuation payments and rest red forfeited annual leave.

15. Subsection 21.2 provides that the reasonable value of allowances for quarters in the United States furnished to civilian employees be paid for by the employees and treated as appropriation reimbursements.

16. Section 25, "Reports," calls attention to the need to comply with the Privacy Act of 1974.

This revised title supersedes the illustrative pamphlet entitled "Simplified Payroll System" issued in 1965.

The Office of Personnel Management will be responsible for issuing procedures on merit pay and Senior Executive Service awards. When issued, these procedures should be carefully observed in the operation of agency payroll systems.



COMPTROLLER GENERAL  
OF THE UNITED STATES

United States General Accounting Office

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"Pay, Leave, and Allowances"--Title 6 of the  
GAO Policy and Procedures Manual for Guidance  
of Federal Agencies

Prepared by the Staff of the  
U.S. General Accounting Office



THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT



TITLE 6--PAY, LEAVE, AND ALLOWANCES

Table of Contents

<u>Chapter</u>	<u>Section</u>		<u>Page</u>
1		<b>INTRODUCTION</b>	
	1.1	Applicability	1-1
	1.2	Statutory Responsibilities	1-2
	1.3	Payroll System Objectives	1-2
	1.4	Internal Control Standards	1-3
	1.5	Organization of This Title	1-3
2		<b>OVERALL REQUIREMENTS</b>	
	2.1	Introduction	2-1
	2.2	Requirements	2-2
3		<b>TIME AND ATTENDANCE</b>	
	3.1	Introduction	3-1
	3.2	Requirements--Civilian Employees	3-1
	3.3	Requirements--Active Military Personnel	3-12
	3.4	Requirements--Military Reservists	3-13
4		<b>GROSS PAY</b>	
	4.1	Introduction	4-1
	4.2	Requirements	4-1
5		<b>DEDUCTIONS</b>	
	5.1	Introduction	5-1
	5.2	Requirements	5-1
	5.3	Order of Withholding Precedence for Deductions	5-3

TITLE 6--PAY, LEAVE, AND ALLOWANCES

Table of Contents

<u>Chapter</u>	<u>Section</u>		<u>Page</u>
6		<b>LEAVE AND ALLOWANCES</b>	
	6.1	Introduction	6-1
	6.2	Objectives for Leave	6-1
	6.3	Requirements for Leave	6-1
	6.4	Objectives for Allowances	6-5
	6.5	Requirements for Allowances	6-5
7		<b>DISBURSEMENTS</b>	
	7.1	Introduction	7-1
	7.2	Requirements	7-1
<u>Appendix</u>			
I		<b>LEGAL REFERENCES</b>	8-1
II		<b>CROSS-REFERENCE TABLE</b>	9-1
		<b>TOPICAL INDEX</b>	10-1

# TITLE 6 -- PAY, LEAVE, AND ALLOWANCES

## CHAPTER 1: INTRODUCTION

### 1.1 APPLICABILITY

- A. This title prescribes the requirements to be met in operating that part of financial management systems dealing with civilian and military<sup>1</sup> pay, leave, and allowances. These requirements apply to (1) all executive agencies as defined in 31 U.S.C. 102 and 3501 and (2) the judicial branch, except the Supreme Court (hereafter collectively referred to as "agencies"). To promote uniformity within the federal government, other federal entities are encouraged to adopt the requirements of this title.
- B. The title is to be used in conjunction with related payroll guidance issued by the Office of Personnel Management, the Department of the Treasury, including the Internal Revenue Service, and the Office of Management and Budget. It is also to be used in conjunction with (1) guidance issued by agencies providing certain specialized payroll regulations (such as the Departments of State and Defense), (2) guidance issued by the Federal Retirement Thrift Investment Board, and (3) other titles of this manual. Applicable requirements in these other references, including use of standard or other prescribed forms, must be followed by agencies.

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<sup>1</sup>For simplicity, GAO has used the term "military" to mean "uniformed services." However, statutes provide a more detailed approach to the nomenclature. In accordance with 37 U.S.C. 101 (3), the term "uniformed services" means the Army, Navy, Air Force, Marine Corps, Coast Guard, and commissioned corps of the National Oceanic and Atmospheric Administration and of the Public Health Service. The term "armed forces," defined in 37 U.S.C. 101(4), includes the same services except for the last two. In certain cases, the commissioned corps of the National Oceanic and Atmospheric Administration and of the Public Health Service may fall under guidance more suited to civilians, and in other cases, under guidance more suited to the "armed forces." It is the intent of this title that guidance appropriate to the laws, regulations, and circumstances governing those entities be applied throughout.

## 1.1.C

C. This title does not cover

1. accounting for payroll transactions in agency accounting systems or settling of accounts of deceased personnel. Guidelines for these matters are in titles 2 and 4, respectively.
2. federal civilian and military retirees (except re-employed annuitants) and related retirement annuities. Guidelines for retirement are in 5 U.S.C. Chapter 83, subchapter III, and 10 U.S.C., 14 U.S.C., 33 U.S.C., and 42 U.S.C.

## 1.2 STATUTORY RESPONSIBILITIES

The requirements in this title are prescribed by the Comptroller General after consulting with representatives of the President and the Secretary of the Treasury, and after considering the needs of the executive agencies, as required by 31 U.S.C. 3511. The head of each executive agency is required by 31 U.S.C. 3512 to establish, evaluate, and maintain adequate systems of accounting and internal control. This requirement includes the responsibility to ensure that any contractor (government or private) operating a payroll system on behalf of an agency maintains adequate systems of accounting and internal control.

## 1.3 PAYROLL SYSTEM OBJECTIVES

In carrying out the responsibilities set forth in the preceding section, agencies must minimize the number of payroll systems in use, automate and standardize them to the extent feasible, and ensure that they meet the following objectives to facilitate adequate control over all phases of pay, leave, and allowances.

- A. prompt payment in the proper amount to all persons entitled to be paid, in compliance with applicable laws, regulations, and legal decisions;
- B. prompt accounting for and disposition of all authorized deductions from gross pay;
- C. adequate control over, retention, and disposition of all payroll-related documents;
- D. prompt preparation of adequate and reliable payroll records. Individual pay records for all civilian and military personnel must be maintained to show gross

compensation (including allowances) by type and amount, deductions (including allotments), by type and amount, and net pay for each pay period. As a part of the overall financial management system, these records must be maintained by calendar year, leave year, or fiscal year, as appropriate, to support:

1. management purposes;
  2. planning, preparation, execution, and review of the budget; and
  3. internal and external reporting requirements.
- E. effective communication between agencies and agency personnel (both civilian and military) on payroll matters;
- F. adequate control over all phases of pay, leave, and allowances; and
- G. effective interaction of the payroll function with the general ledger, personnel, and cost accounting functions, with provision for reconciling common data elements among separate systems.

#### 1.4 INTERNAL CONTROL STANDARDS

A key to effective payroll operations is the maintenance of internal controls over those operations. Internal control standards to be followed by agencies are in appendix II to title 2 of this manual. These broad standards are applicable to payroll systems. Appendix III of that title also prescribes standards and related guidance for the development and operation of accounting systems. Agency heads must ensure that these standards are followed through the plan of organization relating to payroll operations as well as through the methods and procedures adopted for processing and auditing their payrolls.

#### 1.5 ORGANIZATION OF THIS TITLE

Chapter 2 of this title establishes overall requirements necessary to achieve the objectives set forth in the preceding sections. Chapters 3 through 7 present more specific requirements to be met in several critical areas of payroll processing. Appendix I contains legal and regulatory references for the chapters, while appendix II provides a cross reference between the former title 6 and the revised title 6. A topical index is provided at the end.

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## CHAPTER 2: OVERALL REQUIREMENTS

### 2.1 INTRODUCTION

Agency heads are responsible for the overall planning and general direction of the pay, leave, and allowance functions (referred to as "pay and allowance functions" by the military). In carrying out this responsibility, agency heads must

- A. require that adequate written policies and procedures be established and implemented, that all personnel be adequately trained in their functions, and that sufficient controls and management oversight be established and implemented to ensure compliance with payroll system objectives set forth in section 1.3 of this title. Overall requirements for meeting these objectives are in the following sections of this chapter. To the extent the payroll system does not facilitate meeting these objectives, other portions of the financial management system must provide for meeting them.
- B. ensure that all requirements for payroll systems are adequately met whether the systems are operated by the agency, another agency based on a cross-servicing agreement, or a private contractor. Obtaining such assurance for contracted operations will necessitate that periodic procedures, which may include audits of contracted payroll operations, be performed. These procedures should be specified in the agreement between the agency for which payroll service is performed and the service-providing agency or private contractor. All audits performed must be in accordance with GAO's Government Auditing Standards (the "yellow book").
  1. When an agency uses the services of another agency to provide payroll operations, assurance that the servicing agency is meeting legal requirements may be provided by one or more of the following procedures, as mutually agreed upon by the agencies. The agreed-upon procedures should be included in the interagency contract involved.
    - a. The service-providing agency may certify compliance with legal requirements. The certification must be based on
      - (1) a documented internal review under the Federal Managers' Financial Integrity Act [31 U.S.C. 3512 (b) and (c)] or other appropriate authority or



2.1.B.1.a.(2)

- (2) initiative mutually agreeable to the contracting agencies.
  - b. audit of service-providing agency operations by a mutually agreeable independent party, such as
    - (1) the Inspector General of the service-providing agency;
    - (2) the Inspector General or other component of the agency for which service is being performed; or
    - (3) the General Accounting Office, a certified public accounting firm or any other mutually agreeable entity, which certifies compliance with legal requirements.
  - c. other mutually agreeable actions, which clearly demonstrate that contractor operations meet legal requirements, may be undertaken.
2. When an agency uses a private contractor, assurance that contracted operations are in accordance with title 6 and other legal requirements may be provided by one or more of the procedures listed below. Performance of these procedures should be specified in the contract.
- a. audit of the contractor operations by the agency for which service is being provided, demonstrating that the operations meet legal requirements;
  - b. audit of contractor operations and certification of compliance with legal requirements by an independent party acceptable to the agency for which service is performed; or
  - c. other actions which clearly demonstrate that contractor operations meet legal requirements.

2.2 REQUIREMENTS

A. Policies and procedures must

1. be clearly written and in accordance with applicable laws, regulations, and legal decisions;

2. be promptly amended to reflect changes in applicable laws, regulations, and legal decisions;
  3. be as uniform as possible throughout the agency;
  4. include an established organization structure under which authority and responsibility for performing pay, leave, and allowances functions is clearly defined;
  5. reflect clear assignments of responsibility, delegations of authority, and separation of duties;
  6. be distributed to payroll operations staffs and to individual employees/military service members as needed to ensure efficient, effective operations; and
  7. be as simple, efficient, cost-effective, and practical as circumstances permit.
- B. Personnel engaged in pay, leave, and allowances activities must
1. be adequately trained and kept informed about the requirements of laws, regulations, and legal decisions;
  2. be adequately supervised in order to help prevent any unauthorized, fraudulent, or other irregular act;
  3. perform operations efficiently, effectively, and economically, in accordance with laws, regulations, and legal decisions; and
  4. promptly identify and resolve inconsistencies in information submitted, processed, and reported during the various payroll cycles.
- C. Reporting requirements include the following:
1. All required internal and external reports must be accurately and promptly prepared and distributed to appropriate recipients to ensure receipt when information will be of maximum benefit.

2.2.C.2

2. Reports must be based on, supported by, and periodically validated against appropriate detailed information in the payroll system.
  3. Reports must be discussed periodically with users to ascertain whether the information is
    - a. still needed,
    - b. reported at the level of detail needed,
    - c. reported in an optimum format, and
    - d. reported at an appropriate frequency.
  4. Reports on payroll transactions processed must be sent promptly to officials who authorized or were responsible for the transactions and reviewed by them for completeness and accuracy. Any discrepancies noted must be resolved promptly.
  5. Any discrepancies in reporting, transmitting, or depositing funds noted by central agencies must be resolved promptly.
  6. Reports must be retained and disposed of in accordance with the General Records Schedule, with sensitive data as defined by the Privacy Act of 1974 (5 U.S.C. 552a) handled in accordance with provisions of that Act.
- D. The payroll system must be designed to interact as efficiently and effectively as practical with other related systems which provide information for or use information from the payroll system through integration (use of a common data base) or through system-to-system interface (such as by a tape output from the payroll system to be used as an input to another system which would require the data). This integration or interface will be used to aid in prompt update of information and reconciliation of discrepancies noted between systems or between discrete components of a system. Interaction must take place between an agency's payroll system and its

1. personnel system in order to obtain current information on which to process pay, leave, and allowances (The information may be in "master files" of employee data containing entitlements to rates of pay and benefits.);
  2. general ledger system in order to provide information to prepare, transmit, and analyze various agency financial reports;
  3. cost accounting system in order to (a) distribute and charge payroll labor cost data to appropriations, jobs, projects, programs, and departments, (b) help in properly evaluating operations and management, and (c) support budget development and formulation; and
  4. other financial management systems as necessary to meet agency financial requirements.
- E. Agencies must establish appropriate internal controls over payroll operations which will include, but are not limited to, the items below.
1. Controls which will help ensure that payroll documents processed are correct, complete, accurate, and properly authorized, including, but not limited to, the following items.
    - a. Corrections and other adjustments to data in official records must be approved in writing or through electronic signature (made by entering designated codes into an automated system under safeguards to prevent unauthorized use) by an authorized official, as follows:
      - (1) Records of all changes made after records have been approved or certified must be generated and maintained.
      - (2) Manual corrections on documents made after the documents have been approved or certified must be made in a way that does not obliterate the original entries. Corrections must be initialed and dated by the person making them and must be approved by a designated authorizing official.

2.2.E.1.a.(3)

- (3) Automated system changes to data must be made in such a way that an audit trail is maintained to show or provide reference to documents which show the original and new data and the authorization for the change. Such changes must be made only on the basis of properly approved documents authorizing the changes.
- b. There must be separation of duties among those in the following list. Where the size of the organization does not permit separation of all of the duties, the most effective separation feasible under the circumstances must be provided. However, in any case, item 1 must always be separated from the other duties listed.
- (1) authorization of pay and entitlements,
  - (2) certification of payments,
  - (3) payroll computation,
  - (4) recording of payroll data in the accounts,
  - (5) distribution of pay,
  - (6) review of payroll transactions,
  - (7) automated system development,
  - (8) system testing,
  - (9) system implementation, and
  - (10) system maintenance.
- c. The following must be restricted to authorized personnel:
- (1) access to personnel, payroll, and disbursement records or data files;
  - (2) access to forms used in authorizing special entitlements, allowances, and pay rates; and

(3) payroll processing equipment and related software.

d. Where feasible, employees/military service members engaged in payroll activities must not maintain or provide service for their own payroll and personnel records. Where the size of an office is so small that this is infeasible, employees and service members engaged in payroll activity may only maintain and provide service for their own

(1) routine deductions, such as withholding exemptions for federal, state, and local tax purposes, and voluntary allotments and

(2) time and attendance documents under certain circumstances. (See section 3.2.F.1 and 3.2.F.2.)

e. To detect inappropriate data at the earliest time and to the extent practical, data entered into automated payroll systems must be subjected to computerized edits when entered. Data elements not susceptible to such edits must be edited at the earliest practical time.

I. Appropriate data detected must be promptly investigated, corrected, and, if appropriate, reprocessed. A record of such data, its originator, and its disposition must be generated and maintained.

2. Controls which help ensure that computerized payroll operations process transactions and produce reports accurately, by use of the following and other techniques. (More detailed guidance on automated data processing controls and testing of accounting systems is contained in title 2, appendix III, of this manual.)

a. Testing computer programs and changes to programs prior to placing them in operation, and subsequently, testing the various data elements and computational procedures as needed to ensure that they are operating as intended;

b. Performing periodic preventive maintenance on hardware, noting and promptly resolving problems; and

2.2.E.2.c.

c. Including in the programmed instructions such techniques as:

- (1) verification of social security numbers or other identifying information for employees authorized to be paid against a master list or file of such information for valid current employees;
- (2) use of proper authorization codes by authorized payroll employees;
- (3) acceptance of data entry from authorized terminals only;
- (4) verification of data entry using batch control totals, where applicable;
- (5) use of master control totals for data elements by computing such totals before payroll transactions are entered, adding totals computed from transactions, and computing a grand total at the completion of the processing cycle. The software in use must ensure that beginning totals plus transaction totals equal ending totals; and
- (6) proper backup of data in the event of power failure, equipment malfunction, or other hazards.

3. Compliance controls provided by independent audit and review, which include, but are not limited to, the following:

- a. Agencies must ensure that external audits and internal reviews--to determine whether payroll operations are efficient, effective, and economical and are in accordance with law, regulations, and legal decisions--are made by persons not engaged in those operations. (For principles and concepts applicable to internal auditing, agencies should consult GAO's Government Auditing Standards (the "yellow book") and title 3 of this manual.)

- b. Payroll systems must be maintained in such a way that they can be audited in accordance with GAO's Government Auditing Standards (the "yellow book"). Note that while GAO may independently examine selected agency payroll transactions, agency heads are responsible for securing or providing adequate internal and external review of payroll operations. (See section 2.1.B.)
4. Compliance controls provided by management review. Payroll managers must continually review their operations and adjust them to be as efficient, effective, and economical as possible and to ensure that they are in accord with legal requirements. In addition, agencies must establish and utilize guides for such evaluation.



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## CHAPTER 3: TIME AND ATTENDANCE

### 3.1 INTRODUCTION

This chapter distinguishes between civilian employees, who are expected to be "working," usually during certain times and other civilian employees and members of the active duty armed services, who are expected to be in a "duty status." Part I sets forth guidance for civilian employees and part II sets forth the guidance for military service members. Employees who are paid regardless of their presence or absence and who do not accrue leave under 5 U.S.C. 6301 et seq., such as certain political appointees, are exempt from the provisions of this chapter. [See Comptroller General Decision B-123698 (May 10, 1978).]

For the past several years, T&A systems have been undergoing significant changes due to more flexible work schedules and places, increased use of automation, and the downsizing movement in government. These trends have resulted in a changing internal control environment and are the basis for revising this chapter.

### PART I: CIVILIAN EMPLOYEES

#### 3.2 GUIDANCE PROVIDED IN THIS CHAPTER

The purpose of this chapter is to provide guidance to agencies on T&A systems. It identifies the internal control objectives that T&A systems must meet and describes several requirements that must be addressed to help accomplish these control objectives. With few exceptions, the particular internal control techniques needed to accomplish the objectives are not specified. Rather, this chapter is intended to provide agencies sufficient flexibility to implement T&A systems best suited to their needs and to implement the techniques they feel can best achieve the control objectives in their systems.

#### 3.3 INTERNAL CONTROL OBJECTIVES IN T&A SYSTEMS

The primary objective of T&A systems is to ensure that the hours worked, hours in pay status, and hours absent of employees/service members are properly reported. Reliable data are important to accurately compute and account for computed pay, leave, and allowances. To achieve this objective, management should have in place internal control systems that provide reasonable assurance that (1) T&A transactions are properly authorized and approved and (2) T&A data is completely and accurately recorded and retained.



A. T&A Transactions Are Properly  
Authorized and Approved

The nature and extent of approvals of T&A transactions will vary among T&A systems depending upon the specific aspects of the system. By their design, some systems, such as fully automated ones, may require fewer approvals than manual systems and will use automated signatures instead of the handwritten ones in manual systems. Nevertheless, the nature and extent of T&A approvals must be such that management knows that supervisors or other officials are accountable for approvals of employees' worktime and absences. This helps ensure that accurate T&A information is recorded and reported for the purposes of computing pay and allowances.

Primary responsibility for authorizing and approving T&A transactions generally rests with employees' supervisors, who approve employees' T&A reports. Timekeepers<sup>1</sup> and supervisors must be aware of the work time or absence of employees for whom they are responsible to ensure the reliability of T&A data. To the extent practical, changes to employees' normal work schedule should generally be approved prior to the change actually occurring. Unanticipated changes should be approved as soon as possible.

B. T&A Data Are Complete and Accurate

Because most federal civilian employees are paid on an hourly basis (or fractions of an hour) and earn and charge leave on that basis, a complete and accurate record of the hours (or fractions of an hour) an employee works must be retained as an official agency record available for review or inspection. To provide a basis for pay, leave, and benefits, the records must include aggregate hours of regular time, other time (such as overtime, credit hours, or compensatory time), and leave.<sup>2</sup> To help ensure accuracy, the completed records must be approved by the

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<sup>1</sup>Traditional T&A systems have involved a timekeeper responsible for assisting supervisors in recording and verifying employees' work time and absences. New T&A systems can reduce or even eliminate timekeepers' duties and shift the responsibilities to employees or supervisors. However, recording accurate T&A information remains the primary control objective.

<sup>2</sup>Traditionally, daily arrival and departure times were required to be recorded. Although this revision does not require such daily records to be maintained, agencies may choose to do so by using sign-in/sign-out sheets or other means if management deems it appropriate.



supervisor (or other equivalent official) and, in an automated environment, checked by system edits and other tests to verify that recorded worktime is reasonable and allowable.

### 3.4 RELIANCE ON INTERNAL CONTROLS IN T&A SYSTEMS

As T&A systems move away from traditional methods of recording and reporting employee work and leave times, it is important to implement and maintain a well defined system that provides management continuous confidence that controls are working as designed. This can be done through:

1. A well-defined organizational structure and flow of T&A data, with clearly written policies and procedures setting forth the responsibilities of employees, timekeepers (if applicable), and supervisors regarding recording, examining, and approving T&A transactions.
2. Effective application of available technology and concepts to achieve efficient and effective T&A system processes in accordance with applicable requirements and the environment in which the agency operates.
3. The ability to record payroll costs by appropriation, organizational code, and work activity to facilitate application of required cost accounting for financial and program management.
4. Review and testing of all aspects of the T&A systems' processing procedures and controls in sufficient scope, depth, and frequency to provide reasonable assurance that key procedures and controls are working and effective and that employee integrity is maintained.

Agencies' T&A systems are subject to periodic review under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. 3512(d)).<sup>3</sup>

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<sup>3</sup>Standards for internal controls are in appendixes II and III of title 2 of this manual. In addition, the Office of Management and Budget (OMB) requirements for evaluating financial systems and controls are in OMB circulars A-123 and A-127. Together, OMB and GAO guidance establish the criteria and rules for assessing and reporting annually on the status of agency systems and controls.

THE UNIVERSITY OF CHICAGO  
DEPARTMENT OF CHEMISTRY

REPORT OF THE  
COMMISSIONERS OF THE  
STATE OF CHICAGO

FOR THE YEAR ENDING DECEMBER 31, 1900

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### 3.5 RECORDING AND MAINTAINING COMPLETE AND ACCURATE T&A RECORDS

#### A. Data Contained on T&A Reports

Because pay is based on a biweekly period, T&A reports should generally cover no more than one biweekly pay period and include the following information for each employee:

1. Employee name and identifying number (such as a social security number) .
2. Pay period number or dates.
3. Aggregate number of hours worked for the pay period.
4. Aggregate number of hours of premium pay, by type of premium pay, to which the employee is entitled.
5. Dates and number of hours of leave (by type), credit hours and compensatory hours earned and used.
6. Evidence of approval by an authorized official (usually the supervisor).
7. Any required supporting documentation or records for absences.
8. Such other information as agencies believe necessary in support of operations.

A T&A record containing all required data elements can be (1) a hard copy document completed manually, (2) an automated file retained electronically, or (3) a combination of automated and manual records. The data contained in the T&A records should be linked to accounting records that can provide support for financial reporting and allocation of costs.

#### B. Recording T&A Data

Agency policy must affix accountability for recording T&A data referred to in 3.5.A. The data may be recorded by the

1. individual employee,
2. timekeeper,
3. supervisor, or
4. combination of these persons.

Regardless of who records the data, the T&A system must be able to identify the individual responsible for recording the data. If the employee is not recording his or her T&A data, the basis for recording the data could be (1) the timekeeper's or supervisor's observation, (2) time clocks, or other automated timekeeping devices, where not prohibited by law, or (3) other applicable techniques. The person recording the T&A data acknowledges responsibility for the accuracy of the recorded data.



STATE DEPARTMENT  
DEPARTMENT OF THE ARMY  
OFFICE OF THE SECRETARY

WASHINGTON, D. C.

MEMORANDUM FOR THE SECRETARY

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Because T&A systems may differ, the point at which T&A data are recorded can vary among different T&A systems. For example, T&A data may be recorded (1) daily, (2) when deviations occur from an individual's or agency's established work schedule, or (3) at the end of the pay period. Regardless of the timing of recording T&A data, management must have in place a system of control techniques that give reasonable assurance that integrity of the data is maintained.

### C. Other T&A Records

Other documents supporting T&A records should be completed and maintained. Examples of such documents include those for establishing (1) work schedules<sup>4</sup> (2) flexiplace<sup>5</sup> arrangements, (3) leave, (4) overtime, (5) compensatory time earned and used, (6) credit hours earned and used under an alternative work schedule, (7) number of unscheduled duty hours, etc. The records must show (1) employees' pay period schedules indicating planned start and stop work times and hours per day for established work schedules, (2) the aggregate hours (or fractions of hours) and days employees worked regular hours, worked overtime, took leave, or used earned compensatory time or credit hours, and (3) approval by the supervisor. Concerning overtime, in order for the agency to properly document and calculate an employee's overtime pay entitlements under title 5 of the U.S. code (5 U.S.C. chapter 55 and 61 and the Fair Labor Standards Act (29 U.S.C. 201 et seq.)), the records must distinguish between regular overtime and irregular or occasional overtime.

### D. Employees Temporarily Assigned to Another Agency

When an employee is on temporary assignment to another agency, the agency to which the employee is detailed must record T&A data for the employee in accordance with the requirements of this title and report the information to his or her home agency promptly to facilitate disbursement of pay by the home agency.

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<sup>4</sup>Under the Federal Employees Flexible and Compressed Work Schedules Act, as amended, federal agencies can allow employees to vary their daily arrival and departure times and, under some options, to vary the length of their workday or work week. In all cases, full-time employees are required to work or account for 80 hours each biweekly pay period, unless on approved leave.

<sup>5</sup>OPM Memorandum for Personnel Directors on the subject of Alternative Workplace Arrangements October 21, 1993.

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Section 1.1

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### 3.6 AUTHORIZING AND APPROVING T&A TRANSACTIONS

#### A. Attestations, Verifications, and Approvals

This section (1) defines attestations, verifications, and approvals and (2) discusses how attestations, verifications, and approvals can be indicated in a manual or automated T&A system.

Attestation refers to employees affirming T&A data to be true and correct. Verifications are confirmations, usually by timekeepers or supervisors, that recorded information is true, correct, and accurate to the best of their knowledge. Approvals are supervisors', other equivalent officials', or higher level managers' agreement, ratification, or concurrence to planned work schedules and leave of employees or actual T&A data. Such approvals represent that actual work schedules recorded by employees or timekeepers are to the best of the approving official's knowledge true, correct, and accurate, and in accordance with applicable laws, regulations, and legal decisions. Approving officials acknowledge awareness and understanding of their responsibilities when approving T&A data.

The evidence showing attestations, verifications, and approvals will differ between manual and automated systems. In manual systems attestations, verifications, and approvals are usually shown by a signature or initial of an individual on a hard-copy document; in automated systems, they are represented by electronic programmed data elements. The programmed data elements can vary from user identification codes and passwords to electronic signatures. The degree of control in automated systems over T&A data and the reliability of data will vary depending on the type of programmed data elements used in the attestation, verification, and approval. User identification codes<sup>6</sup> and passwords<sup>7</sup> provide less control over data than do electronic signatures.<sup>8</sup>

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<sup>6</sup>User Identification Code: A string of characters used to identify an entity to a system. This value will generally be public information and is unlikely to change. It is used by a system in referencing the user's authorization privileges and keeping track of his or her usage. (FIPS 83, page 9.)

<sup>7</sup>Password: A string of characters used to authenticate an identity or to verify access authorization. (FIPS 140-1.)

<sup>8</sup>Electronic Signature: A symbol, generated through electronic means, that can be used (1) to identify the sender of a message and (2) to verify the integrity of the critical information that is received. In evaluating electronic signature systems, GAO uses the following four criteria. The system must produce a signature which is (1) unique to the signer, (2) under the signer's sole control, (3) capable of verification, and (4) linked to the

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In automated systems, electronic signatures are required to be used for indicating approvals but need not be used for attestations and verifications, if management so chooses to require such attestations and verifications. If management requires attestations and verifications in an automated T&A system, a review of the system and related risks should be made to help determine the type of automated attestation and verification to implement. Based on the results of the review, management may use passwords or user ID codes if it believes that through such means it can obtain reasonable assurance that T&A data accurately represent an employee's actual work schedule, type of hours worked, and leave.

Because of the nature of an electronic document, it is difficult to ascertain whether the data have been altered unless the signature is linked to the data in such a way that the signature verification process can detect data changes. Electronic signatures are linked to the data so that if the data are changed, the signature is invalidated. Traditional passwords and user identification codes do not contain this control. For this reason, electronic signatures are preferred.

The National Institute of Standards and Technology (NIST)<sup>9</sup> has established procedures for the evaluation and approval of certain automated signature techniques<sup>10</sup> to ensure the integrity of the data and compliance with the previously mentioned criteria. The electronic signatures should conform with the requirements issued by NIST and also use algorithms and techniques approved by NIST.

#### B. Authorizing An Employee's Work Schedule

When (1) an employee's work schedule differs from the agencywide schedule established by management or (2) reflects a flexible work program, an employee's work schedule must, when feasible, be approved by the supervisor or the official most knowledgeable of the employee's schedule in advance of the period when the plan takes effect. When not feasible, the plan should be approved as soon after the start of the pay period as possible.

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data in such a manner that if the data are changed, the signature is invalidated. See 71 Comp. Gen. 109 (1991).

<sup>9</sup>Under the requirements of the Computer Security Act, NIST is responsible for establishing standards for federal computer systems that process sensitive but unclassified information.

<sup>10</sup>These procedures are contained in the Federal Information Processing Standards (FIPS PUB 183).



Approval must be granted for overtime before the work has been performed when feasible and, when not feasible, as soon as possible after the work has been performed. Care must be taken to distinguish between regular overtime and irregular overtime or occasional overtime (or compensatory time in lieu of overtime, where allowed) in order for the agency to properly document and calculate an employee's overtime pay entitlements under title 5 of the U.S. Code (5 U.S.C. chapters 55 and 61) and the Fair Labor Standards Act (29 U.S.C. 201 et seq.).

#### C. Approval of Leave

Approval of leave must be made before the leave is taken when practical. If impractical, leave must be approved as soon as reasonably possible after taken.

#### D. Attestation and Verification by Employees and Timekeepers

Employees and timekeepers are not required to attest or verify T&A reports and related documents. However, if management requires such attestations and/or verifications, they should be performed as close to the end of the pay period as possible. When not possible until after the end of the pay period, a copy of the T&A report and related documents, when applicable, should be provided to the employee promptly for attestation and to the timekeeper promptly for verification. Employees and/or timekeepers should disclose any discrepancies to supervisors promptly. Supervisors should resolve such discrepancies promptly.

#### E. Approval of T&A Reports and Related Records

All T&A reports and related supporting documents (such as overtime pay authorizations) must be reviewed and approved by an authorized official. Review and approval should be made by the official, normally the immediate supervisor, most knowledgeable of the time worked and absence of the employees involved. Approval of T&A reports and related documents should be based on personal observation, work output, timekeeper verification, checking data against other independent sources, reliance on other controls, or a combination of these methods.

The official most knowledgeable of the time worked should approve any overtime or compensatory time. Care should be taken (1) to ensure that the overtime was approved, preferably in advance, and (2) that the amount and time of overtime (regular or irregular), credit hours, and compensatory time is accurately recorded.

If practical, T&A data must be approved at the end of the last day of the pay period or later. When this is not feasible because of payroll processing requirements to meet established paydays, T&A data must be prepared and



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approved as close to the end of the pay period as possible to still allow processing of the payroll by payday.

#### F. Adjustments or Corrections After the T&A Period Ends

Adjustments or corrections required because of changes after T&A data were approved must be made in the payroll system and reflected in pay for the pay period to which the changes apply, when possible. When not possible, adjustments must be made as soon after discovery as practical. Any changes must be approved by an authorizing official before being entered into the payroll system.

#### G. Self-Approval of T&A Reports

In general, employees may not approve their own T&A data. However, the head of an agency (or designee) may authorize particular individuals to approve their own T&A data in certain situations. In these situations, an official authorized by the agency head (or designee) must grant advance authority in writing, and agencies must ensure that effective controls are in place.

Exceptions to the general prohibition of employees approving their own T&A data are intended to apply when it is not feasible to have their T&A data approved by a supervisor. These exceptions include but are not necessarily limited to (1) employees working alone at a remote site for long periods and (2) employees based at the same duty station as their supervisors or timekeepers but frequently away from the same general location. In other situations when it is not practical for the supervisor to approve T&A data promptly, the employee may be paid and the supervisor may subsequently review and approve the data.

### 3.7 TRANSMITTING T&A INFORMATION TO PAYROLL

T&A information must be transmitted to the payroll system for all employees or, under exception-based systems, for employees who have changes to their normal work schedules. While the choice of methods used to transmit the T&A data may be based on cost-effectiveness and management information needs, the system used to transmit the information must protect T&A data from unauthorized change or alteration and must generate a record of any change made. Any change to previously attested to and approved data must be reviewed by and attested to by the employee to whom the data relate and must also be reviewed by and approved by an authorized official.

1. The first part of the document is a letter from the Secretary of the State to the Governor, dated 18th March 1878.

A copy of the letter is enclosed for the Governor's reference. The letter contains the following information:

### 2. The second part of the document is a report from the Secretary of the State to the Governor, dated 18th March 1878.

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### 3. The third part of the document is a report from the Secretary of the State to the Governor, dated 18th March 1878.

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### 3.8 EXCEPTION-BASED SYSTEMS

Exception-based reporting systems<sup>11</sup> can exist when employees schedules are established, either through management designated work schedules or by mutual agreement between employees and management. When employees' arrival and departure times for a pay period are established, these schedules become the basis for recorded T&A data unless material variances or deviations<sup>12</sup> occur. Material variances or deviations must be approved by the supervisor before the change occurs, if feasible, or promptly after occurring, if not feasible. As part of their approval of the change, supervisors or designees must verify that the dates and amounts of material changes have been recorded in the appropriate T&A record.

### 3.9 IMPLEMENTING OTHER T&A METHODS NOT PROVIDED FOR IN THIS CHAPTER

Agencies may select other methods that suit their circumstances and that meet the internal control objectives mentioned earlier in this chapter. In doing so, agencies should consider the cost of additional requirements against the benefits received. Questions on interpretations of the material covered in this chapter or on acceptability of methods not covered may be made to the Assistant Comptroller General for Accounting and Information Management, U.S. General Accounting Office, 441 G Street, NW, Washington, DC 20545.

## PART II: MILITARY SERVICE MEMBERS

### 3.10 ACTIVE MILITARY PERSONNEL

Active military personnel are considered to be on duty 24 hours a day. Because the nature of some military assignments makes a confirmation of the presence at duty.

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<sup>11</sup>See "NPR Recommendations on T&A Data" and GAO/AIMD-94-193R, NPR Recommendations on T&A Data, September 28, 1994, for several examples.

<sup>12</sup>Unless otherwise designated by management, material variances or deviations from an established schedule for recording purposes are those that differ by 1 hour or more during a planned workday or flex day. However, if leave is used, a deviation of less than 1 hour could be considered material. For example, if an employee arrives 30 minutes late, but works 30 minutes past the planned departure time, this would be considered an immaterial variation and need not be recorded. On the other hand, if the employee chooses to request annual or sick leave rather than to work for the time absent, then a material deviation for recording purposes has occurred.

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stations difficult, if not impossible, the recording of presence of duty and of specific hours during which duty is performed each day is not required. However, superiors are expected to be aware of the presence and absence of service members for whom they are responsible. When a service member is on temporary assignment to another component of the armed services or to a civilian agency, the entity to which the service member is detailed must provide time and attendance recording for the service member and report the information to his or her home component promptly to facilitate payment of basic pay and allowances by (or through) the home component.

Absence reports must be maintained daily to indicate those service members who are to be charged leave and those who are not present for duty but who should be. Examples of reports which might contain such data are "morning" or "day" reports, strength reports, unit diaries, and other similar reports.

Information on absences which affect pay should be compiled each pay period and be transmitted to the payroll system. Without such information, the payroll system may pay the member for authorized pay and allowances. In either case, the following requirements for review and approval must be met:

1. Reports of such information and related supporting documents must be reviewed and approved by a designated authorizing official who is aware of the responsibilities for ensuring accuracy of the reports.
2. Approval of such reports will be made at the end of the last day of the pay period whenever possible. When this is not possible because of payroll processing requirements to meet established paydays, documents must be approved as close to the end of the pay period as possible.
3. Approval must be done in accordance with section 3.6.A. of this chapter.
4. Any adjustments required because of changes in reported absences after the reports were approved and transmitted to the payroll system must be made and reflected in the pay period to which the changes apply, when possible, or, when not possible, adjusted as soon as possible, preferably in the next pay period.

Any changes must be approved by the authorizing official prior to being entered into the payroll system. Service members may not approve their own absence reports unless prior authority to do so is granted in writing by an authorized official.

When feasible, cost-effective, and desirable, attendance reporting and related internal controls set forth in part I of this chapter should be instituted for service members to the extent management deems appropriate.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the success of any business or organization. The text also mentions the need for regular audits and reviews to ensure that all data is up-to-date and correct.

The second part of the document focuses on the role of technology in modern business operations. It highlights how digital tools and software can streamline processes, improve efficiency, and reduce costs. The author suggests that businesses should invest in the latest technology to stay competitive in the market.

The third part of the document addresses the challenges of managing a diverse workforce. It discusses the importance of effective communication, team building, and providing training opportunities. The text also touches upon the need for flexible work arrangements to accommodate different employee needs.

The fourth part of the document explores the impact of market trends and economic conditions on business performance. It advises businesses to stay informed about industry developments and to adapt their strategies accordingly. The author also mentions the importance of having a contingency plan in place for unexpected events.

The fifth part of the document discusses the importance of customer satisfaction and loyalty. It suggests that businesses should focus on providing high-quality products and services, and that they should actively seek feedback from their customers. The text also mentions the benefits of building a strong brand identity.

The sixth part of the document covers the topic of financial management and budgeting. It emphasizes the need for businesses to track their expenses and revenues carefully, and to create a realistic budget. The author also discusses the importance of seeking professional advice when needed.

The seventh part of the document discusses the importance of innovation and research and development. It suggests that businesses should invest in R&D to develop new products and services, and to stay ahead of the competition. The text also mentions the importance of protecting intellectual property.

The eighth part of the document covers the topic of risk management and insurance. It advises businesses to identify potential risks and to take steps to mitigate them. The author also discusses the importance of having adequate insurance coverage to protect the business from financial loss.

The final part of the document provides a summary of the key points discussed throughout the document. It reiterates the importance of maintaining accurate records, embracing technology, managing a diverse workforce, staying informed about market trends, focusing on customer satisfaction, managing finances, investing in innovation, and managing risks. The author concludes by encouraging businesses to stay resilient and adaptable in a constantly changing environment.

### 3.11 MILITARY RESERVISTS

The work of military reservists is sometimes suited to the T&A requirements for civilian employees set forth in part I of this chapter. In other cases, it is more like that of active military service members, making the requirements set forth in section 3.10 more appropriate. When reservists perform duties suited to application of the requirements in part I, those requirements must be imposed and met. However, when reservists perform duties that are not suited to application of the requirements in part I because application would make them impractical or infeasible, the requirements in section 3.10 above must be imposed and met. When placed on active duty status, reservists will be subject to the T&A criteria in section 3.10.



The first part of the report deals with the general situation in the country. It is a very interesting and detailed account of the conditions prevailing at the time. The author has done a great deal of research and has gathered a wealth of material. The second part of the report is devoted to a study of the economic situation. It is a very thorough and well-organized study of the economic conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The third part of the report is devoted to a study of the social situation. It is a very thorough and well-organized study of the social conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The fourth part of the report is devoted to a study of the political situation. It is a very thorough and well-organized study of the political conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The fifth part of the report is devoted to a study of the cultural situation. It is a very thorough and well-organized study of the cultural conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The sixth part of the report is devoted to a study of the educational situation. It is a very thorough and well-organized study of the educational conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The seventh part of the report is devoted to a study of the health situation. It is a very thorough and well-organized study of the health conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The eighth part of the report is devoted to a study of the labor situation. It is a very thorough and well-organized study of the labor conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The ninth part of the report is devoted to a study of the transportation situation. It is a very thorough and well-organized study of the transportation conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The tenth part of the report is devoted to a study of the communication situation. It is a very thorough and well-organized study of the communication conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The eleventh part of the report is devoted to a study of the energy situation. It is a very thorough and well-organized study of the energy conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The twelfth part of the report is devoted to a study of the environment situation. It is a very thorough and well-organized study of the environment conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The thirteenth part of the report is devoted to a study of the international situation. It is a very thorough and well-organized study of the international conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The fourteenth part of the report is devoted to a study of the future situation. It is a very thorough and well-organized study of the future conditions of the country. The author has done a great deal of research and has gathered a wealth of material. The fifteenth part of the report is devoted to a study of the conclusion. It is a very thorough and well-organized study of the conclusion conditions of the country. The author has done a great deal of research and has gathered a wealth of material.



### 5.3 INSUFFICIENT PAY TO COVER DEDUCTIONS

If the gross pay of an employee is not sufficient to permit all deductions to be made, the following regulations apply:<sup>1</sup>

If the gross pay of an employee is not sufficient to permit all deductions to be made, the following regulations apply:

Section 550.301 of subpart C—Allotments and Assignments from Federal Employees—of part 550—Pay Administration (General)—of title 5, Code of Federal Regulations, which identifies the deductions to be applied in determining the net pay from which allotments and assignments of pay are made;

Section 550.805(c) of subpart H—Back Pay—of part 550—Pay Administration (General)—of title 5, Code of Federal Regulations, which provides the order of precedence for deductions from back pay awards;

Section 550.1104 of subpart K—Collection by Offset From Indebted Government Employees—of part 550—Pay Administration (General)—of title 5, Code of Federal Regulations, which identifies the deductions to be applied in determining the amount of disposable pay subject to offset.

Agencies should contact OPM should questions arise concerning the aforementioned regulations.

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<sup>1</sup>These regulations do not apply to military pay.

THE UNITED STATES OF AMERICA

IN SENATE, January 10, 1911.

REPORT OF THE COMMISSIONERS OF THE GENERAL LAND OFFICE

ON THE PROGRESS OF THE PUBLIC LANDS IN THE TERRITORY OF ARIZONA, DURING THE YEAR 1910.

PREPARED UNDER THE ACT OF MARCH 3, 1879, CH. 250, SECTION 2.

WASHINGTON: GOVERNMENT PRINTING OFFICE: 1911.

COMMISSIONERS OF THE GENERAL LAND OFFICE:

W. H. HARRIS, Commissioner.

W. H. HARRIS, Commissioner.

## CHAPTER 4: GROSS PAY

### 4.1 INTRODUCTION

For purposes of this chapter, gross pay in its simplest form is defined as the product of a pay rate multiplied by the number of pay units (hours, days, pieces of work, or other appropriate units). Gross pay includes all taxable and nontaxable pay before deductions, including awards of back pay and accumulated interest under 5 U.S.C. 5596 and 10 U.S.C. 1552. In addition to regular ("base" or "basic") pay and, for civilians, overtime pay, gross pay also may include the value of allowances, such as foreign post differential, cost of living allowances, military clothing allowances, and certain allowances related to permanent-change-of-station moves. Regular pay may itself include other special entitlements, such as hazardous duty incentive pay, special pay for duties subject to hostile fire or imminent danger, and shift differential. (This is not intended to be a complete list of gross pay components. References to numerous other components of gross pay may be found in the Internal Revenue Code and related regulations.)

The payroll system objectives for gross pay are that

- A. it must be accurately computed,
- B. it must be adequately documented,
- C. entitlements must be properly authorized, and
- D. it must be properly budgeted and charged to appropriate accounts.

### 4.2 REQUIREMENTS

- A. The following are requirements to meet the objective of accurate computation:
  - 1. Where separate payroll and personnel systems are maintained, the pay rates and any other common data elements related to pay, leave, and allowances for each employee/service member in the payroll system must be reconciled to those in the personnel system. Management must determine the frequency of reconciliations necessary to ensure current and valid information, and any discrepancies noted in the reconciliations must be resolved promptly.

4.2.A.2

2. The payroll system must contain and, to the extent applicable, compute correct dollar values for allowances, entitlements, and awards of back pay and interest, and must correctly include them in the determination of gross pay.
3. Gross pay--including that portion due to the value of allowances and entitlements, where applicable--must be properly adjusted for leave without pay or absence without leave.

B. The following are requirements to meet the objective of adequate documentation:

1. Designated payroll or personnel staff must review pay, leave, and allowance documentation before processing it to ensure that
  - a. all information necessary to process and support transactions has been supplied;
  - b. the proper authorizing official has approved the data as being complete, correct, and accurate; and
  - c. pay rates and units are current.
2. Each employee/service member must be provided a written advisory showing the nature and amount of changes in gross pay from one pay period to the next. This information may be disclosed on an employee earnings statement in lieu of a separate written advisory. The information must be in sufficient detail to show components of gross pay, deductions, and net pay. For general increases in pay that are government-wide in scope, separate individual written notices of pay changes need not be provided.
3. Documentation on pay, leave, and allowances, held and stored in accordance with the General Records Schedule, must be maintained to support all computations of gross pay. Documentation for both rates and units of pay, for time in pay status, and for entitlements must be maintained and made readily available for operational and audit needs.

C. The following are requirements to meet the objective of proper authorization:

1. Entitlements to and establishment of rates of pay, leave, and allowances must be approved by proper authorizing individuals who have no responsibility for
  - a. computing the payroll,
  - b. entering payroll data into the accounting records,
  - c. entering hours worked or other units of pay into the payroll system, and
  - d. distributing pay.
2. Hours (or other units of pay) worked, as recorded on time and attendance or absence reports, must be authorized in accordance with procedures set forth in chapter 3 of this title.
3. Pay entitlements other than as recorded on time and attendance or absence documents must be authorized only by designated personnel not otherwise engaged in computing the payroll, recording payroll data in the accounting records, entering other payroll data into the payroll system, or distributing net pay.
4. No employee/service member may authorize his or her own entitlement to, or rate of, pay, leave and allowances.
5. Employees/service members may approve their own units of pay only to the extent of and under the circumstances set forth in sections 3.2.F and 3.3.C.5 of this title.

D. Agencies must ensure that payroll information is readily available to support cost and budget functions. Reports of information to support pay, leave, and allowance costs related to gross pay must be available to managers promptly to assist in

1. projecting and compiling budgets;
2. monitoring and controlling program, departmental, and other agency activities;
3. preparation of financial statements; and
4. reconciliations. In addition to controls over time and attendance information and automated system operations discussed in chapters 2 and 3 of this title, payroll system information on gross pay must be regularly reconciled to related information in other separate systems, to ensure continuing compatibility of information. Management must determine the frequency of reconciliation necessary to ensure current and valid information. A reconciliation must include the following items:
  - a. Where separate payroll and general ledger systems are maintained, the amounts of gross pay accumulated in the payroll system must be reconciled to the amount of gross pay charged to accounts in the general ledger.
  - b. Where separate payroll and cost accounting systems are maintained, the amounts of gross pay or hours accumulated in the payroll system must be reconciled each pay period to the amounts of gross pay or hours charged through the cost accounting system.
  - c. Systems integrated through a common data base must contain edits to automatically ensure these reconciliations among different modules or functions to the extent necessary to ensure accuracy.
  - d. Any discrepancies noted in these reconciliations must be resolved promptly.

## CHAPTER 5: DEDUCTIONS

### 5.1 INTRODUCTION

A. A deduction is any subtraction or exclusion from gross pay or wages due an employee/service member. The three basic types of deductions are

1. those required by laws, regulations, or civilian or military legal decisions, such as federal, state and local income tax, retirement, child support, and alimony payments;
2. those for benefits specifically authorized by law, such as health and life insurance; and
3. voluntary, personal allotments to designated payees.

B. Payroll system objectives for deductions are that they must be

1. properly authorized,
2. adequately documented, and
3. paid when due in the amount authorized.

### 5.2 REQUIREMENTS

A. The following are requirements to meet the objective of proper authorization:

1. Authorization for each type of deduction must contain sufficient information to properly establish the deduction and to enable correct payment to the proper payee. Only properly authorized deductions will be made.
2. Debts must be collected in accordance with due process provisions of applicable laws, such as set forth in section 5.3 of this chapter and in the references pertaining to chapter 5 in appendix I. Interest and administrative charges may accrue on debts not collected promptly and must be included in collections, if due. Agencies must establish operating procedures to be certain they comply with these laws, when applicable, and they should consult with appropriate legal counsel in doubtful cases. Consistent with provisions of applicable laws, debts should be collected promptly.



5.2.B

- B. To meet the objective of adequate documentation, each agency must maintain documentation supporting deductions from pay, as specified here:
1. For an allotment or modification of allotment, the request must show
    - a. the legal authority under which the allotment is permitted;
    - b. the amount to be deducted;
    - c. the period in which the deduction is to begin, and, if known in advance, when it is to end; and
    - d. such other information as necessary to implement the allotment and comply with legal and regulatory requirements.
  2. Withholding of other deductions must be evidenced by current, complete, accurate, and properly authorized forms prescribed for the withholding by cognizant agencies or the payees.
- C. The following are requirements to meet the objective of making payments when due and in the amounts authorized:
1. Agencies must ensure timely payment of deductions that are made from employee/service member salaries and wages to those authorized to receive the payments.
  2. Where separate payroll and ledger systems are maintained, the amounts of deductions accumulated in the payroll system must be reconciled periodically to the amounts of deductions credited to accounts in the general ledger. Management must determine the frequency of reconciliation necessary to ensure current and valid information. Any discrepancies must be resolved promptly.

## CHAPTER 6: LEAVE AND ALLOWANCES

### 6.1 INTRODUCTION

The type, amount, and nature of leave benefits is dependent on type and length of employment, military status, and other eligibility requirements. Similarly, the type, amount, and nature of allowances or special entitlements, other than leave, such as discussed in chapter 4, depend upon various criteria. Sections 6.2 and 6.3 set forth objectives and requirements for leave. Sections 6.4 and 6.5 set forth objectives and requirements for allowances.

### 6.2 OBJECTIVES FOR LEAVE

The leave objectives to be met by payroll systems are that:

- A. Leave records are properly maintained for each employee/service member.
- B. Leave is accurately accrued.
- C. Leave taken is properly authorized and documented.
- D. Information on leave use and accrual is accurately determined and promptly provided to ensure certain leave-related collections from employees and for preparation of financial reports, including those for cost accounting purposes.

### 6.3 REQUIREMENTS FOR LEAVE

Payroll system requirements to meet leave objectives set forth in the preceding section are set forth below.

- A. Leave records must be maintained to show for each employee/service member:
  1. the rate of accrual for each type of leave which may be accrued;
  2. the hours or days accrued and used by leave type;
  3. any advance leave authorized, including the date through which the leave is authorized, the type of leave advanced, and the total hours or days advanced;
  4. any leave received or given under a leave sharing program authorized in 5 U.S.C. 6331 et seq.; and

6.3.A.5

5. the number of hours or days for any leave ceilings, by type of leave.

B. The following are requirements to meet the objective of accurate leave accruals.

1. The payroll system must contain accurate information on the type of appointment for each federal employee/service member and the leave hours or days to which the employee/service member is entitled.
2. The number of hours or days and dollar value of each type of leave must be accurately accrued using correct rates effected at proper times. For financial accounting purposes, dollar values must be accrued in accordance with title 2 of this manual.
3. Reductions must be made at the beginning of each leave year for accumulated leave exceeding statutory limitations. In accordance with the relevant statutes, OPM regulations provide for the carry-over from one leave year to the next of certain leave balances in excess of those normally allowed.
4. Reductions must be made in accrual rates for annual and sick leave for civilian employees when necessary to reflect extended leave without pay or absence without leave. Military service members do not accrue sick leave, but they do accrue "leave," which is similar to annual leave for civilian employees. Reductions must be made in accrual rates of such "leave" to reflect extended leave without pay or absence without leave.
5. Controls must be implemented to ensure that leave ceilings are not exceeded at the end of a leave year and that any leave in excess of ceilings is restored or dropped, as appropriate.

C. The following are requirements to meet the objective of proper authorization and documentation of leave used and, where applicable, entitlements to leave.

1. Leave used must be documented and approved in writing or electronically by a supervisor designated to make such approvals. Examples of proper documentation and authorization include use of standard forms for leave authorization, approval by memorandum or letter, completing designated blocks on time and attendance or absence forms, approval through entry of a code into an automated system, and other methods properly designed to document leave.
2. Documentation for leave used must show the dates, times, and types of leave taken. Documentation must be maintained to support entitlement to certain types of leave, where applicable, such as subpoenas for court attendance as a witness; certificates of attendance in support of court leave granted for jury duty; orders placing a military reserve unit on active duty which require travel in support of leave for military training; and memorandums of approval to restore unused leave which would otherwise be lost.
3. The following apply to types of leave which are accrued:
  - a. Civilian employees must not be compensated for leave taken in excess of leave accrued, except for
    - (1) absences for religious observance for which compensatory time was not worked in advance,
    - (2) authorized advanced leave, and
    - (3) leave authorized under a leave sharing program authorized by 5 U.S.C. 6331 et seq.
  - b. Military service members must not be compensated for "leave" taken in excess of leave accrued, except for authorized advanced leave.

D. Requirements to assure proper collection/reimbursement from employees/service members on unpaid leave or on certain types of paid leave, and for proper financial reporting of leave, are set forth below.

1. The payroll system must provide information to the general ledger, accounts receivable, or collections system to ensure prompt and accurate collection, through establishment of accounts receivable, appropriate reports, and followup actions, of
  - a. health insurance premiums (from civilian employees only), certain dental plan premiums (from service members only), and life insurance premiums (from civilian employees and service members) when gross pay is insufficient to fund the deductions (such as when an employee is on leave without pay and must pay the employing agency for health insurance premiums in order to keep the insurance in force);
  - b. collectible court juror or witness reimbursements to civilian employees while on court leave or to service members while not in a leave status; and
  - c. leave taken in excess of leave earned at separation.
2. The payroll system, in conjunction with general ledger and cost accounting systems, must maintain and provide the amounts of leave accrued and used and their related values to compute leave expenses and liabilities by designated general ledger and cost accounting classifications and for internal and external reporting. Accounting for leave is prescribed in title 2 of this manual.

#### 6.4 OBJECTIVES FOR ALLOWANCES

The payroll system objectives for allowances other than leave are:

- A. Each allowance or special entitlement granted must be properly authorized and documented.
- B. A record of each type of allowance or special entitlement granted must be maintained for each employee/service member.
- C. The dollar value of each allowance or special entitlement must be properly determined. (See chapter 4 for inclusion of items in gross pay, where appropriate.)

#### 6.5 REQUIREMENTS FOR ALLOWANCES

Requirements to meet the objectives for allowances are set forth below.

- A. Each allowance or special entitlement must be evidenced by an appropriate form signed by an official designated to make such authorizations.
- B. Records must be maintained to show for each employee
  1. the nature and type of each allowance or special entitlement granted,
  2. the period of time and any other conditions for which the allowance or special entitlement is granted or on which its continued payment depends, and
  3. the date on which each allowance is effective and when it terminates.

6.5.C

C. Dollar values for allowances and special entitlements must be accurately computed in accordance with applicable criteria and promptly entered into the payroll system. No employee/service member may enter his/her own allowances and special entitlement records into the payroll system. The payroll system must provide information

1. to compute related expenses and liabilities by designated general ledger and cost accounting classifications and
2. for internal and external reporting.

## CHAPTER 7: DISBURSEMENTS

### 7.1 INTRODUCTION

Payroll disbursements are outlays of funds for net pay, deductions, and agency share of payroll benefits. Payroll system objectives for disbursements are that they be

- A. properly authorized,
- B. adequately documented,
- C. accurately computed, and
- D. promptly paid.

Fiscal procedures governing disbursements and liabilities of certifying officers are covered in title 7 of this manual.

### 7.2 REQUIREMENTS

Disbursement requirements to meet the objectives set forth in the preceding section are set forth below.

- A. A voucher must be prepared for each disbursement or group of disbursements, and each voucher must be certified by a duly authorized certifying officer before payment. No employee/service member may certify his or her own individual disbursements, but may certify a voucher for the agency payroll which includes his or her own pay.
- B. All certifications and disbursements must be based upon sufficient information to enable the correct payment to be made to each payee entitled to receive a payment. Agency payroll systems must identify net pay and deductions, with detailed records of each deduction, for every employee/service member. A leave and earnings statement showing gross pay, deductions, and net pay for a pay period and cumulative totals for the calendar year to date, along with leave balances at the end of the pay period, should be provided to employees every pay period.
- C. Agencies must ensure that disbursements are accurately and appropriately computed and transmitted, in accordance with applicable Treasury Department regulations, by
  - 1. periodically testing and validating the various computational procedures involved;



2. transmitting net pay by means of
  - a. electronic fund transfer (which agencies should encourage their employees/service members to use),
  - b. composite check,
  - c. individual check, or
  - d. cash. (Cash payments will be used only when no other means of payment is practical. If payments must be made in cash, employees/service members must properly identify themselves and must acknowledge payment by signing the payroll sheet or a receipt when payments are received. Requiring a pay receipt in advance of actual payment is prohibited. Cash may be disbursed only by a designated employee/service member not involved in other aspects of payroll processing.)
3. disbursing allotments to the appropriate payee via the Treasury Financial Communications System, where feasible. (If not feasible, allotments should be disbursed by other methods approved by the Secretary of the Treasury);
4. transferring deductions for Civil Service/Federal Employee Retirement System retirement, life insurance and accidental death and dismemberment insurance, and health benefits (civilian employees only), along with related agency contributions, to the Office of Personnel Management;
5. transferring federal income tax deductions, along with agency and employee FICA and Medicare contributions, to the Internal Revenue Service;
6. transferring Federal Employee Retirement System Thrift savings plan deductions for contributions and loan repayments to the Federal Retirement Thrift Investment Board;
7. paying state, including the District of Columbia, and local income taxes withheld in accord with the terms of the agreement between each state or other jurisdiction and the Secretary of the Treasury; and

APPENDIX I (Chapter 3 references)

4. Federal Personnel Manual
  - a. Ch. 610, Hours of Duty;
  - b. Ch. 630, Absence and Leave;
  - c. Supp. 990-2, Hours of Duty, Pay, and Leave Annotated;
    1. Bk. 610, Hours of Duty;
    2. Bk. 620, Alternative Work Schedules; and
    3. Bk. 630, Absence and Leave.
5. Decisions of the Comptroller General of the United States
  - a. B-123698, May 10, 1978.

B. Military

1. U.S. Code
  - a. 10 U.S.C. ch. 40, Leave;
  - b. 33 U.S.C. ch. 17, National Ocean Survey;
  - c. 37 U.S.C. ch. 9, Leave; and
  - d. 42 U.S.C. ch. 6A, Public Health Service.
2. GAO Military Personnel Law Manual
  - a. Ch. 1, Basic Pay and Military Status.
3. Department of Defense Military Pay and Allowances Entitlements Manual
  - a. Pt. 1, Basic and Special Pay.
4. Department of Defense Directive
  - a. No. 1327.5, Leave and Liberty.

APPENDIX I (Chapter 4 references)

GROSS PAY, Chapter 4

A. Civilian

1. U.S. Code

- a. 5 U.S.C. ch. 53, Pay Rates and Systems;
- b. 5 U.S.C. ch. 54, Performance Management and Recognition System;
- c. 5 U.S.C. ch. 55, Pay Administration;
- d. 5 U.S.C. ch. 59, Allowances;
- e. 10 U.S.C. ch. 79, Correction of Military Records; and
- f. 29 U.S.C. ch. 8, Fair Labor Standards.

2. Code of Federal Regulations

- a. 5 C.F.R. pt. 530, Pay Rates and Systems (General);
- b. 5 C.F.R. pt. 531, Pay Under the General Schedule;
- c. 5 C.F.R. pt. 532, Prevailing Rate Systems;
- d. 5 C.F.R. pt. 534, Pay Under Other Systems;
- e. 5 C.F.R. pt. 536, Grade and Pay Retention;
- f. 5 C.F.R. pt. 540, Performance Management and Recognition System;
- g. 5 C.F.R. pt. 550, Pay Administration (General);
- h. 5 C.F.R. pt. 551, Pay Administration Under the Fair Labor Standards Act;
- i. 5 C.F.R. pt. 591, Allowances and Differentials; and
- j. 5 C.F.R. pt. 595, Physicians' Comparability Allowances.

8. reconciling total net pay and deductions disbursed with detailed employee/service member records.
- D. Agencies must develop and maintain a schedule of processing dates necessary to meet payment due dates, and must time disbursements as set forth below.
1. Due dates must be in accord with applicable laws, regulations, and legal decisions.
  2. Payments to employees must be made as soon as practical after the close of the pay period, and the time frame must balance time required for processing, review, and adjustment against the equity of paying employees as soon after the close of the pay period as possible.
  3. It is recommended (a) that pay dates be not more than 12 days following the close of a pay period and (b) that pay periods be not less than 2 weeks long.
  4. Back pay awards or any other payroll-related liabilities on which interest may accrue must be paid promptly to minimize interest the government must pay.
  5. If checks and bonds are distributed directly to employees, agencies must ensure that they are properly safeguarded and are handled as few times and by as few people as practical prior to distribution.

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APPENDIX I: LEGAL REFERENCES

INTRODUCTION, Chapter 1

A. Civilian

1. U.S. Code

- a. 5 U.S.C. ch. 83, Retirement;
- b. 31 U.S.C. ch. 7, General Accounting Office; and
- c. 31 U.S.C. ch. 15, Appropriation Accounting.

B. Military

1. U.S. Code

- a. 5 U.S.C. ch. 21, Definitions;
- b. 10 U.S.C. ch. 61, Retirement or Separation for Physical Disability;
- c. 10 U.S.C. ch. 63, Retirement for Age;
- d. 10 U.S.C. ch. 65, Retirement of Warrant Officers for Length of Service;
- e. 10 U.S.C. ch. 363, Separation or Transfer to the Retired Reserve
- f. 10 U.S.C. ch. 367, Retirement for Length of Service;
- g. 10 U.S.C. ch. 571, Voluntary Retirement;
- h. 10 U.S.C. ch. 573, Involuntary Retirement, Separation and Furlough
- i. 10 U.S.C. ch. 863, Separation or Transfer to the Retired Reserve
- j. 10 U.S.C. ch. 867, Retirement for Length of Service;
- k. 14 U.S.C. ch. 11, Personnel;
- l. 33 U.S.C. ch. 17, National Ocean Survey; and
- m. 42 U.S.C. ch. 6A, Public Health Service.

APPENDIX I (Chapter 2 References)

OVERALL REQUIREMENTS, Chapter 2

(This section is not divided into civilian and military parts because most citations apply to both).

A. Civilian and Military

1. Office of Management and Budget Circulars

- a. A-76, Performance of Commercial Activities;
- b. A-123, Internal Control Systems; and
- c. A-127, Financial Management Systems.

TIME AND ATTENDANCE, Chapter 3

A. Civilian

1. U.S. Code

- a. 5 U.S.C. ch. 5, Administrative Procedure;
- b. 5 U.S.C. ch. 55, Pay Administration;
- c. 5 U.S.C. ch. 61, Hours of Work;
- d. 5 U.S.C. ch. 63, Leave; and
- e. 29 U.S.C. ch. 8, Fair Labor Standards.

2. Code of Federal Regulations

- a. 5 C.F.R. pt. 610, Hours of Duty; and
- b. 5 C.F.R. pt. 630, Absence and Leave.

3. GAO Civilian Personnel Law Manual

- a. Tit. I, Compensation; and
- b. Tit. II, Leave.

APPENDIX I (Chapter 4 references)

3. GAO Civilian Personnel Law Manual
  - a. Tit. I, Compensation; and
  - b. Tit. IV, Relocation.
4. Federal Personnel Manual
  - a. Ch. 610, Hours of Duty;
  - b. Ch. 630, Absence and Leave; and
  - c. Supp. 990-2, Hours of Duty, Pay, and Leave Annotated.
5. Department of State Foreign Affairs Manual
  - a. Vol. 4, Financial Management.

B. Military

1. U.S. Code
  - a. 37 U.S.C. ch. 3, Basic Pay;
  - b. 37 U.S.C. ch. 5, Special and Incentive Pays;
  - c. 37 U.S.C. ch. 7, Allowances; and
  - d. 38 U.S.C. ch. 30, All Voluntary Force Educational Assistance Program
2. GAO Military Personnel Law Manual
  - a. Ch. 1, Basic Pay and Military Status;
  - b. Ch. 2, Special Pay;
  - c. Ch. 3, Allowances;
  - d. Ch. 4, Members' Travel; and
  - e. Ch. 5, Dependents' Travel and Transportation Allowances.



APPENDIX I (Chapter 4 references)

3. Department of Defense Military Pay and Allowances Entitlements Manual
  - a. Pt. 1, Basic and Special Pay;
  - b. Pt. 2, Incentive Pay; and
  - c. Pt. 3, Allowances.

DEDUCTIONS, Chapter 5

A. Civilian

1. U.S. Code

- a. 5 U.S.C. ch. 55, Pay Administration;
- b. 5 U.S.C. ch. 57, Travel, Transportation, and Subsistence;
- c. 5 U.S.C. ch. 83, Retirement;
- d. 5 U.S.C. ch. 84, Federal Employees' Retirement System;
- e. 5 U.S.C. ch. 87, Life Insurance;
- f. 5 U.S.C. ch. 89, Health Insurance;
- g. 11 U.S.C., ch. 13, Debts of Individuals, and other ch.;
- h. 15 U.S.C. ch. 41, Consumer Credit Protection;
- i. 26 U.S.C. ch. 24, Income Tax Withholding;
- j. 26 U.S.C. ch. 64, Collection;
- k. 31 U.S.C. ch. 37, Claims; and
- l. 42 U.S.C. ch. 7, Social Security.

2. Code of Federal Regulations

- a. 4 C.F.R. pt. 101-105, Federal Claims Collection Standards;

APPENDIX I (Chapter 5 references)

- b. 4 C.F.R. pt. 102, Standards for the Administrative Collection of Claims;
  - c. 5 C.F.R. pt. 550, Pay Administration (General);
  - d. 5 C.F.R. pt. 581, Processing Garnishment Orders for Child Support and/or Alimony;
  - e. 5 C.F.R. pt. 831, Retirement;
  - f. 5 C.F.R. pt. 870, Basic Life Insurance;
  - g. 5 C.F.R. pt. 871, Standard Optional Life Insurance;
  - h. 5 C.F.R. pt. 872, Additional Optional Life Insurance;
  - i. 5 C.F.R. pt. 873, Family Optional Life Insurance;
  - j. 5 C.F.R. pt. 874, Assignment of Life Insurance; and
  - k. 5 C.F.R. pt. 890, Federal Employees Health Benefits Program.
3. GAO Civilian Personnel Law Manual
- a. Tit. I, Compensation.
4. Treasury Financial Manual
- a. 1 TFM ch. 3-3000, Payments to the Office of Personnel Management for Health Benefits, Group Life Insurance, and Civil Service Retirement;
  - b. 1 TFM ch. 3-4000, Federal Income and FICA Taxes;
  - c. 1 TFM ch. 3-5000, Withholding of District of Columbia, State, City, and County Income or Employment Taxes;
  - d. 1 TFM ch. 3-6000, U.S. Savings Bonds, Series EE;
  - e. 1 TFM ch. 3-7000, Allotments and Assignments of Pay; and

APPENDIX I (Chapter 5 references)

f. 1 TFM ch. 3-9000, Allotments of Pay for Savings Accounts.

5. Federal Personnel Manual

- a. Ch. 831, Retirement;
- b. Ch. 832, Social Security Retirement, Survivors and Disability Insurance, and Medicare Program;
- c. Ch. 870, Life Insurance; and
- d. Ch. 890, Federal Employee Health Benefits.

B. Military

1. U.S. Code

- a. 10 U.S.C. ch. 47, Uniform Code of Military Justice;
- b. 24 U.S.C. ch. 2, The Soldiers' and Airmen's Home;
- c. 37 U.S.C. ch. 13, Allotments and Assignments of Pay;
- d. 37 U.S.C. ch. 19, Administration; and
- e. 38 U.S.C. ch. 19, Insurance.

2. GAO Military Personnel Law Manual

- a. Ch. 1, Basic Pay and Military Status.

3. Department of Defense Military Pay and Allowances Entitlements Manual

- a. Pt. 7, Deductions and Collections.

4. Decisions of the Comptroller General of the United States

- a. 36 Comp. Gen. 79 (1956).

LEAVE AND ALLOWANCES, Chapter 6

A. Civilian

1. U.S. Code

- a. 5 U.S.C. ch. 55, Pay Administration;
- b. 5 U.S.C. ch 59, Allowances;
- c. 5 U.S.C. ch. 63, Leave;
- d. 5 U.S.C. ch. 81, Compensation for Work Injuries;
- e. 5 U.S.C. ch. 87, Life Insurance; and
- f. 5 U.S.C. ch. 89, Health Insurance;

2. Public Laws

- a. P.L. 100-566, Federal Employees Leave Sharing Act of 1988.

3. Code of Federal Regulations

- a. 5 C.F.R. pt. 630, Absence and Leave; and
- b. 41 C.F.R. 101-7.003, Federal Travel Regulations

4. GAO Civilian Personnel Law Manual

- a. Tit. II, Leave.

5. Federal Personnel Manual

- a. Ch. 630, Absence and Leave; and
- b. Sup. 990-2, Hours of Duty, Pay and Leave Annotated;

- 1. Bk. 630, Absence and Leave.

6. Foreign Affairs Manual

- a. Title 6.

APPENDIX I (Chapter 6 references)

B. Military

1. U.S. Code

- a. 10 U.S.C. ch. 40, Leave;
- b. 10 U.S.C. ch. 55, Medical and Dental Care;
- c. 10 U.S.C. ch. 551, Officers in Command;
- d. 37 U.S.C. ch. 7, Allowances;
- e. 37 U.S.C. ch. 9, Leave; and
- f. 38 U.S.C. ch. 19, Insurance.

2. GAO Military Personnel Law Manual

- a. Ch. 1, Basic Pay and Military Status.

3. Department of Defense Military Pay and Allowances Entitlements Manual

- a. Pt. 1, Basic and Special Pay.

4. Department of Defense Directive

- a. No. 1327.5, Leave and Liberty.

5. Joint Travel Regulations

- a. Vol. 1.

6. Decisions of the Comptroller General of the United States

- a. Sergeant Richard P. Stevenson, USAF, 62 Comp. Gen. 39 (1982).

DISBURSEMENTS, Chapter 7

A. Civilian and Military

1. U.S. Code

- a. 5 U.S.C. ch. 55, Pay Administration;
- b. 5 U.S.C. ch. 84, Federal Employees' Retirement System;
- b. 31 U.S.C. ch. 33, Depositing, Keeping, and Paying Money; and
- c. 31 U.S.C. ch. 35, Accounting and Collection.

2. Code of Federal Regulations

- a. 31 C.F.R. pt. 209, Payment to Financial Institutions for Credit to Accounts of Employees and Beneficiaries;
- b. 31 C.F.R. pt. 210, Federal Payments Through Financial Institutions by the Automated Clearing House Method

6. Treasury Financial Manual

- a. 1 TFM ch. 3-2000, Payroll Vouchers;
- b. 1 TFM ch. 3-3000, Payments to the Office of Personnel Management for Health Benefits, Group Life Insurance, and Civil Service Retirement;
- c. 1 TFM ch. 3-4000, Federal Income and FICA Taxes;
- d. 1 TFM ch. 3-5000, Withholding of District of Columbia, State, City, and County Income or Employment Taxes;
- e. 1 TFM ch. 3-8000, Payments of Net Pay to Financial Organizations for Credit to Accounts of Employees;
- f. 1 TFM ch. 4-2000, Check Issue Disbursing Procedures;
- g. 1 TFM ch. 4-2500, Treasury Financial Communications System Payments;

APPENDIX I (Chapter 7 references)

- h. 1 TFM ch. 4-3000, Imprest Fund Cash Held at Personal Risk by Disbursing Officers and Cashiers;
  - i. 1 TFM ch. 4-5000, Requisitioning, Preparing, and Issuing Treasury Checks;
  - j. 1 TFM ch. 4-6000, Checking Accounts With the United States Treasury;
  - k. 1 TFM ch. 4-8000, Designated Depository Checking Accounts; and
  - l. 1 TFM ch. 6-6000, Payment Procedures Upon Expiration of an Appropriation or a Continuing Resolution.
5. DoD Accounting Manual (Department of Defense Instruction 7220.9-M);
- a. ch. 32, Cash (covers funds disbursements and collections).

APPENDIX II: CROSS-REFERENCE TABLE

In revising title 6, we reorganized the topics and added new material, including an appendix of legal references. We deleted obsolete material and text which repeated requirements of other agencies. The following table provides broad, general cross-references between the old title 6 and this revision so that readers familiar with the old title may more quickly find needed information. Where a cross-reference indicates that text of certain regulatory material has been deleted, readers may wish to consult Appendix I of the revised title, which provides legal references by key subject matter areas.<sup>2</sup>

<u>FORMER</u>	<u>NEW</u>
<u>Chapter</u>	<u>Section</u>
<u>Chapter</u>	<u>Chapter/section</u>
1	Introduction
	First paragraph
	1.1.A
	Second paragraph
	1.1.B
1	1.2
2	1.2
3.1	Deleted (GAO no longer approves standard forms. See individual agency requirements for forms. Also see 1.1.)
3.2	1.1.A
4	1.3

<sup>2</sup>Abbreviations used for agency documents are as follows: OPM (Office of Personnel Management), CG (Comptroller General), FPM (Federal Personnel Manual), GRS (General Records Schedule), TFM (Treasury Financial Manual), and FAM (Foreign Affairs Manual).



APPENDIX II

FORMER

NEW

Chapter

Section

Chapter/section

1 5

Deleted  
(GAO no longer issues separate approvals for systems design or payroll systems. See CG letter to heads of agencies, dated 4/18/83.)

2 6

First two paragraphs

1.4

Third paragraph

2.2.E.1.b  
2.2.E.3

7

First paragraph

2.2.A

Second paragraph

2.2.A.7

Third paragraph

2.1 and  
2.2.D

Fourth paragraph

2.2.E.4

Fifth paragraph

2.2.A  
2.2.B

Sixth paragraph

2.2.A and  
2.2.B.1

8

2.2.A

9

2.2.E.1.b

10

2.2 B.1

11

First paragraph

2.2 B.3

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
2	11	
	Second paragraph	Deleted (See sect. 2.2.B.2)
	Third paragraph	2.2.E.3
	12	
	First paragraph	2.2.E.3
	Second paragraph	1.2
	Third paragraph	2.2.E.3
	Fourth paragraph	2.2.E.3
3	13	2.2.A.1
	14	2.2.D
	15	2.2.A.3
	16	2.2.E
	16.1	
	First paragraph	2.2.E.1
	Second paragraph	2.2.E.1.b and 2.2.E.1.d
	16.2	
	First paragraph	2.2.E.1 and 2.2.E.2.c.(5)
	Second paragraph	Deleted (No need to dis- tinguish between control proced- ures for auto- mated systems and those for manual systems.)

APPENDIX II

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
3	16.2	
	Third paragraph	2.2.E.2.c
	16.3	
	First paragraph	7.2.A
	Second paragraph	7.2.A and B
	16.4	
	First paragraph	7.2.C.2.a and b
	Second paragraph	Deleted (See TFM.)
	Third paragraph	7.2.C.2.c
	Fourth paragraph	7.2.A
	16.5	7.2.D.3
	16.6	
	First paragraph	7.2.D.5
	Second paragraph	2.2.E.1.b, c, and d
	Third paragraph	Appendix I reference 7.A.4
	17	
	First paragraph	2.2.E.1.a
	Second paragraph	Deleted (See FPM.)
	Third paragraph	3.2.H
	17.1	4.2.B.2

<u>Chapter</u>	<u>FORMER</u> <u>Section</u>	<u>NEW</u> <u>Chapter/section</u>
3	17.2	
	First paragraph	3.2.B.1
	Second paragraph	3.2.D.3
	Third paragraph	3.2.C and E
	Fourth paragraph	3.2.C 3.2.H
	Fifth paragraph	3.2.H.1.b and 3.2.H.3
	Sixth paragraph	1.3.C (See GRS 2 and 20 and title 8, ch. 1.)
	Seventh paragraph	3.2.C and 3.2.D.7.a
	Eighth paragraph	3.2.D.6 and 6.3.C.1
	Ninth paragraph	3.2.D (See sect. 3.2 F.1.c and d)
	Tenth paragraph	Deleted (See 1.3.C.)
	Eleventh paragraph	3.2.D.5 and 9
	Twelfth paragraph	3.2.G
	Thirteenth paragraph	3.2.A and F and 3.3.A
	17.3	
	First paragraph	Deleted (See FPM.)
	Second paragraph	Deleted (See FPM.)

APPENDIX II

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
3	17.3	
	Third paragraph	Deleted (See FPM.)
	Fourth paragraph	Deleted (See FPM.)
	Fifth paragraph	3.2.B.2
	Sixth paragraph	3.2.B.2
	18	
	18.1	5.2.A and B
	First paragraph	5.2.B
	Second paragraph	5.2.A.2
	Third paragraph	5.2.A.2
	Fourth paragraph	5.2.B.1
	Fifth paragraph	5.2.B.1
	Sixth paragraph	5.2.B.1
	Seventh paragraph	Deleted (See sect. 5.3.)
	Eighth paragraph	Deleted (See sect. 5.3.)
	Ninth paragraph	5.2.B
	18.2	
	First paragraph	7.2.C.4 and 5, and 5.2.C.1
	Second paragraph	7.2.C.4 and 5, and 5.2.C.1

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
3	18.2	
	Third paragraph	7.2.C.7 and 5.2.C.1
	Fourth paragraph	5.2.C.1
	18.3	
	First paragraph	5.2.C.2 and 7.2.C.8
	Second paragraph	5.2.B, 5.2.C.2, and 7.2.C.8
	Third paragraph	5.2.B
	Fourth paragraph	5.2.B
	Fifth paragraph	5.2.B
	Sixth paragraph	5.2.B and 7.2.C.8
	18.4	5.3.A.1 through 19
	18.4 (NOTE)	5.3.B.2
	19	3.1, 4.1 7.2.D.3, and 3.2.D.4
	20	1.3.D
	20.1	1.3.D and 2.2.E.1

APPENDIX II

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
3	20.2	1.3.D, 2.2.E.1, and 4.2.B
	20.3	3.3.B. and 6.3.C.3.b
	20.4	Deleted (See military personnel regulations.)
	20.5	3.3.A
	20.6	
	First paragraph	6.3.A
	Second paragraph	6.3.A and 6.3.B.4
	Third paragraph	6.3.A
	Fourth paragraph	6.3.A, B, C and D
	Fifth paragraph	Deleted (Most agency systems are automated.)
	Sixth paragraph	6.3.B
	Seventh paragraph	6.3.A.2 and 6.3.D
	Eighth paragraph	6.3.A.3, 4, and 5
	Ninth paragraph	Deleted (See FPM.)
	Tenth paragraph	6.3.B.3, civilian personnel regulations, and FPM.)

<u>FORMER</u>		<u>NEW</u>
<u>Chapter</u>	<u>Section</u>	<u>Chapter/section</u>
3	20.6	
	Eleventh paragraph	Deleted (See military personnel regulations,
	Twelfth paragraph	Deleted (See military personnel regulations.)
	20.7	Deleted (See FPM and Labor Dept. regulations.)
	20.8	Deleted (See FPM.)
	20.9	2.2.E.1.a
	20.10	2.2.E.1.a
	21.1	4.1 and 6.5
	21.2	4.1 and 6.5
	22	Deleted (See title 2, app. I; title 7, ch. 4 and ch 5; and TFM.)
	23	1.3.C
	24	Deleted (See FAM and FPM.)
	25	2.2.C



APPENDIX II

FORMER

NEW

Chapter            Section

Chapter/section

Appendix A

Deleted  
(See OPM,  
Treasury, and  
State Dept. for  
current forms.)

TOPICAL INDEX

- allotment (of pay)**  
 deduction, 1-3, 2-7, 5-1  
 disbursing via Treasury Financial Communications System, 7-2  
 documentation, 5-2  
 internal control, 2-7
- allowance**  
 absences for service members, 3-12  
 entitlement, special, 4-1, 6-5, 6-6  
 exception reporting, 3-11  
 excluded from gross pay for deduction purposes, 5-3  
 gross pay, 4-1  
 objectives, 6-5  
   authorization and documentation, 4-1, 6-5  
   dollar value, 6-6  
   record for each employee/service member, 6-6  
 records, access to, 2-6
- audit (of payroll)**  
 compliance controls, 2-8  
 documentation for rates and units of pay, 4-2  
 trail, 2-6  
 "yellow book," 2-1, 2-8, 2-9
- authorization**  
 audit trail, 2-6  
 codes, 2-8  
 deductions, 5-1, 6-3  
 forms, 6-3, 6-5  
 gross pay, objectives for 4-3  
 leave use, 6-3  
 separation of duties, 2-6  
 time and attendance, approval (handwritten or automated) of  
   3-4, 3-9, 3-12, 4-3, 6-3
- bankruptcy court**  
 withholding of deductions, order of precedence for, 5-3,  
 5-7
- base pay (basic pay)**  
 included in gross pay, 5-3

certification of payments  
separation of duties, 2-6

## cost accounting

classifications, 6-6  
leave use and accrual, 6-1, 6-4  
payroll system requirement to interact with, 1-3, 2-5  
time and attendance requirement for reconciliation, 4-4

## deductions

alimony, 5-1, 5-5  
allotment, 5-3  
authorization, 5-1  
bankruptcy court, 5-3, 5-7  
damages to private property (military), 5-6  
definition, 5-1  
documentation, requirements for adequate, 5-2  
  authorization, 5-1  
  payment, timely, 5-2  
  payments in amounts authorized, 5-1, 5-2  
  reconciliation, 5-2  
  transferring of retirement and insurance deductions, 7-2  
  withholding, 5-2  
documentation, 5-1, 5-2  
due process, 5-4  
earnings statement, 4-2, 7-1  
FICA, 5-2, 5-7  
forms authorizing, 5-2  
garnishment, 5-5  
income tax  
  federal  
    back, IRS levy, 5-6  
    current, 5-3  
    local, 5-4  
    state, 5-1, 5-4, 7-2  
indebtedness to the U.S., 5-4  
  due process, 5-4  
  statute of limitations, 5-4  
individual pay records, 1-3  
insurance premiums  
  health, 5-4  
  life  
    basic, 5-4  
    optional, 5-6  
multiple, 5-4  
nonappropriated fund activity (military), 5-6  
reconciling to general ledger, 5-2  
rental of premises occupied by military dependents, 5-5

deductions

electronic fund transfer

(deductions)

retirement, 5-1, 5-3, 5-6, 5-7, 5-8  
separation of duties, 1-7  
Soldiers' and Airmen's Home, U.S., 5-3  
statute of limitations, 5-4  
support (military), child and spousal 5-5  
tax withholdings, 5-3  
timely payment of, 5-2  
Uniform Code of Military Justice, 5-7  
voluntary, 5-6  
withholding,  
order of precedence for, 5-3  
definition of gross pay, 5-3

disbursements

cash, 7-2  
composite check, 7-2  
designated employee/service member, 7-2  
electronic fund transfer, 7-2  
individual check, 7-2  
objectives, 7-1  
requirements, 7-1  
separation of duties, 7-1  
transfer of deductions to payees, 7-2  
Treasury Financial Communications System, 7-2  
voucher, 7-1

documentation

allotment, 5-2  
audit purposes, 4-2  
General Records Schedule, 4-2  
gross pay, requirement for, 4-2  
time and attendance, 3-1, 3-6, 3-7, 3-8

due process

deductions for debt collection, 5-1, 5-4

earnings statement

requirement for, 3-10, 4-2, 7-1

education benefits

GI Bill, Montgomery, 5-8

electronic fund transfer

transmitting net pay, requirement for, 7-2

electronic signature

insurance

electronic signature (automated signature)

automated code, 2-5, 2-8, 2-4, 3-5, 3-7, 3-8, 6-3

internal controls, requirement for, 2-5

time and attendance, 3-4, 3-6, 3-7, 6-3

exception reporting, 3-11

Federal Employees Retirement System (FERS),

5-3, 5-7

flexible work schedule

controls over by supervisors and timekeepers, 3-2

recording of time and attendance, 3-2

supervisors and timekeepers, 3-2

time and attendance, 3-9

forfeiture of pay

military service member, 5-7, 5-8

General Records Schedule (GRS)

documentation requirements, 4-2

report retention and disposition requirements, 2-4

gross pay

absence without leave, 4-2

accurate computation, 4-1, 4-2

adequate documentat.on, 4-2

allowances and entitlements, 4-1, 4-2

base (basic), 4-1

definition, 4-1

entitlements, authorization of, 4-3

leave without pay, 4-2

reconciliation with

general ledger, 4-4

non-payroll systems, 4-4,

income tax

federal

deductions for, 5-3, 5-6

back federal income taxes, levy for, 5-6

local, 5-4

state, 5-4

insurance

basic group life, 5-4

**integration/interface of payroll systems**

- objective, 1-3
- requirement for, 2-4
- cost accounting system, 2-5
- general ledger system, 1-3, 2-5, 4-4
- other financial management systems, 2-5
- personnel system, 1-3, 2-5

**internal controls**

- audits, external, 2-8
- authorized personnel, 2-6, 2-8
- controls, compliance, 2-8
- corrections, 2-5
- instructions, program, 2-8
  - codes, authorization, 2-8
  - data, backup of, 2-8
  - data entry, acceptance of, 2-8
  - edits, computerized, 2-7
  - master control totals, 2-8
  - separation of duties, 2-6, 2-8, 2-9
  - testing computer programs and hardware, 2-7
  - verification of data entry, 2-8
  - verification of social security numbers, 2-8

payroll, computerized, 2-7

requirements for, 2-5

review

- internal, 2-8
- management, 2-9
- standards, Comptroller General, 1-3
- statutory responsibilities, 1-2

**leave**

- absence without, 6-3
- accruals, 6-1, 6-2
- advance, 6-1
- objectives, 6-1
- records requirements
  - authorization and documentation, 6-1, 6-2, 6-3
  - religious observance taken, 6-3
  - use of standard forms, 6-3
- reductions, 6-2
- sharing, 6-1, 6-3
- without pay, 4-2, 6-4

military

separation of duties

**military**

absence reports, 3-12

definition, 1-1

deductions, withholding precedence for, 5-3

payroll system, objective for, 1-2

recording presence/absence, requirements for

absence information for payroll system, 3-12

awareness of presence and absence, 3-12

maintenance of absence reports, 3-12

time and attendance objective, 3-1

time and attendance requirements for reservists, 3-13

use of civilian requirements, 3-13

reserves, time and attendance objective for, 3-1

**net pay**

application of deductions, 5-6, 5-7

bankruptcy court order, 5-7

disbursement, 7-1, 7-3

electronic funds transfer, 7-2

leave and earnings statement, 7-1

reconciling of, 7-3

shown in payroll records, 1-3, 4-2, 7-1

order of withholding precedence for deductions, 5-3

overtime, 3-5

payroll systems, contractor-operated, 1-1, 2-1, 2-2

reconciliation of payroll data and other systems, 4-1, 4-4, 5-2

**reports**

cost and budget, 4-3

external, 2-4

financial reports for leave, 6-1

internal, 2-3

internal controls, 2-7, 3-11

payroll system interaction with general ledger, 1-3, 2-5, 6-4

payroll transactions, 2-4, 3-8

time and attendance, 3-1, 3-4, 3-5, 3-6, 3-8, 3-9, 3-10, 4-3

absence, 3-12, 4-3

military, 3-12

retirement, civil service, 5-3, 5-6

**salary**

(see gross pay)

separation of duties, 2-3, 2-6

special entitlement

Treasury Financial  
Communications System

special entitlement  
(see allowance)

statute of limitations

mandatory repayment of indebtedness to the United States, 5-4

time and attendance report

adjustments, prior pay period, 3-6  
approval, 3-3, 3-9, 3-10, 3-12  
compensatory time, 3-4, 3-5, 3-8  
computerized, 3-1, 3-7, 3-8  
credit hours, 3-4, 3-8  
data elements, 2-8, 3-7, 3-8  
employees approving own, 3-9  
flexible hours, 3-2, 3-9, 3-10  
leave used, 3-5, 3-8, 3-13  
military pay adjustments, 3-13  
military personnel, 3-12  
military reservists, 3-13  
paperless, 3-7  
premium pay, 3-4, 3-8, 3-11  
recording, 3-1  
regular time, 3-4  
remote site, 3-2, 3-9, 3-10  
reporting, exception, 3-11  
review, supervisory, 3-4, 3-5, 3-7, 3-10  
serial sign-in/sign-out, 3-2  
signature  
  automated, 2-5, 3-4, 3-5, 3-6, 3-7, 3-8, 3-12, 6-3  
  electronic, 2-5  
temporary assignment, 3-3  
time clocks, 3-2, 3-4  
timekeeper, 3-1, 3-2, 3-3, 3-4, 3-9, 3-10  
timekeeper attestation, 3-4  
transmission of information, 3-4  
verification, employee, 3-10  
work schedule, 3-5, 3-9

**Treasury Financial Communications System (TPCS)**

disbursement of allotments, 7-2



**Policy and Procedures Manual for Guidance of Federal Agencies**

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**Title 7  
Fiscal Procedures**

February 12, 1990

**GAO'S POLICY AND PROCEDURES MANUAL  
FOR GUIDANCE OF FEDERAL AGENCIES**

**TITLE 7--FISCAL GUIDANCE**

**TRANSMITTAL SHEET NO. 7-42**

Effective Date: Immediately

Material Transmitted: Complete revision of Title 7

Purpose: The General Accounting Office has revised Title 7 of its Policy and Procedures Manual for Guidance of Federal Agencies. This revision has been made to simplify and modernize GAO's guidance on legal and accounting requirements for fiscal procedures. It supplements accounting, internal control, and system standards prescribed in Title 2 of the manual.

This document was prepared after consulting with the Department of the Treasury, the Office of Management and Budget, and other executive branch agencies and private sector organizations. It incorporates numerous suggestions from the government's chief financial officers and inspectors general. The revisions reflect recent changes in legal requirements and interpretations, and facilitate use of modern technology.

**Principal changes include**

- providing updated coverage of agency responsibilities for accounting and centralized financial reporting, including the tie-in of account symbols and titles with the uniform chart of accounts as set forth in the U.S. Government Standard General Ledger; continuing resolutions; supplemental budget authority; transactions among appropriations and fund accounts, including interagency agreements; the recording and reporting of obligations; and year-end closing and adjusting of current and expired account balances;
- updating and incorporating the closely related guidance on accountable officers, account settlement, relief of accountable officers, and statistical sampling that previously was presented in Title 3--Audit;
- pointing out that automated voucher processing techniques and controls do not relieve agencies from complying with voucher examining requirements;
- emphasizing that certifying and disbursing officers, who are relying on systems, controls, and other personnel when certifying that vouchers are proper for payment, must have a reasonable basis for that reliance;
- pointing out that such reliance requires well-defined organizational structures and lines of responsibility, effective use of technology, and effective reviews of voucher processing procedures and controls;
- providing agencies with greater flexibility in the selection of voucher examining techniques, including higher limits on statistical sampling; and
- clarifying requirements for reporting fiscal irregularities and for obtaining relief of accountable officers.

If you have any questions about this title, please call the General Accounting Office,  
Accounting and Financial Management Division, on (202) 275-9578.

*Charles A. Bowsher*

Comptroller General  
of the United States

**Please retain this transmittal sheet; it is part of the document.**

		Table of Contents	
<u>Chapter</u>	<u>Section</u>		<u>Page</u>
		INTRODUCTION	7.i
1		AUTHORITY AND RESPONSIBILITIES	7.1-1
	1.1	Definitions	7.1-1
	1.2	General Authorizations and Requirements	7.1-1
		A. Authority of the Comptroller General	7.1-1
		B. Agency Responsibilities	7.1-2
2		APPROPRIATION, RECEIPT, AND FUND ACCOUNTS	7.2-1
	2.1	Appropriations and Budget Authority	7.2-1
		A. Basic Requirement for Appropriations	7.2-1
		B. The Concepts of Budget Authority, Appropriations, Loan Guarantees, and Entitlements	7.2-1
		C. Types of Budget Authority	7.2-3
		1. Classification based on duration	7.2-3
		2. Classification based on amount	7.2-4
		3. Classification based on availability for new obligations	7.2-4
		4. Classifications based on congressional action	7.2-4
		D. Supplemental Budget Authority	7.2-5
		E. Deficiency Budget Authority	7.2-5
		F. Continuing Resolutions	7.2-5
		1. Temporary appropriation legislation	7.2-5
		2. Treasury warrants	7.2-5
		G. Reappropriations	7.2-6
		H. Limitations	7.2-6
		I. Central Accounts Maintained by Treasury	7.2-6
		J. Regulations	7.2-6
	2.2	Establishing and Reporting on Appropriation, Receipt, and Fund Accounts	7.2-7
		A. Assignment and Announcement of Account Symbols and Titles	7.2-7
		B. Responsibilities for Establishing Accounts and Reporting Charges and Credits	7.2-8
		1. Responsibilities of Treasury	7.2-8
		2. Responsibilities of agencies	7.2-8
		a. Requirements in law	7.2-8
		b. Related requirements	7.2-9
		C. Limitation Control Requirements	7.2-9
		D. Impoundment and Budgetary Reserves	7.2-11

**INTRODUCTION**

The requirements prescribed in this title relate to the development, installation, and operation of that part of an agency's financial management system concerned with fiscal operations. They are intended to supplement the basic accounting principles and standards prescribed by the Comptroller General in Title 2 of this manual. This title now includes guidance previously presented in Title 3 of this manual on the use of statistical sampling, responsibilities of accountable officers, settlement of accountable officers' accounts, and relief of accountable officers.

This title is not, however, intended to provide specific guidance on fiscal transactions involving claims by and against the United States; travel and transportation; or pay, leave, and allowances. Guidance for these matters is contained in Titles 4, 5, and 6, respectively.

Users of this title will find that they are frequently referred to guidance such as that published by the Department of the Treasury and the Office of Management and Budget for related or more detailed information on certain subjects. In addition, for more detailed or comprehensive discussions of applicable laws and legal interpretations, users will often be referred to GAO's Principles of Federal Appropriations Law.

Terms used in this title that are referenced to the Glossary may be found in A Glossary of Terms Used in the Federal Budget Process. The Glossary is issued and maintained by the Comptroller General under 31 U.S.C. 1112. This law directs the Comptroller General to establish, maintain, and publish standard terms and classifications for federal fiscal, budgetary, and program information. This authority includes, but is not limited to, data and information pertaining to federal fiscal policy, revenues, receipts, expenditures, functions, programs, projects, and activities. Such standardization of terms, definitions, classifications, and codes assists data users throughout the government and the private sector.

## Table of Contents

<u>Chapter</u>	<u>Section</u>		<u>Page</u>
4		YEAR-END CLOSING AND ADJUSTING OF BUDGET AUTHORITY	7.4-1
	4.1	Legal Origins of Clearing Out Expired Account Balances	7.4-1
	4.2	Overview of Withdrawal, Restoration, and Transfer Process	7.4-1
		A. Overview of Process	7.4-1
		B. Treasury/Agency Responsibilities for Accounting for and Reporting on Withdrawals and Restorations	7.4-4
		C. Timing of Withdrawals and Restorations	7.4-4
	4.3	Crediting of Collections to Successor "M" Accounts	7.4-5
	4.4	Payment of Claims Chargeable to Successor "M" Accounts	7.4-5
5		COLLECTIONS	7.5-1
	5.1	Applicability	7.5-1
	5.2	Control Over Collections	7.5-2
		A. Responsibilities for Collection Controls and Records	7.5-2
		B. Separation of Duties for Cash Receipts	7.5-2
		C. Inscription and Endorsement of Remittances	7.5-3
	5.3	Deposit and Documentation of Collections	7.5-3
		A. Legal Requirements for Deposit of Receipts	7.5-3
		B. Deposit Requirements	7.5-4
		C. Support for Collections Deposited	7.5-4
	5.4	Collections Credited to Appropriation and Fund Accounts	7.5-5
		A. Crediting Collections to Appropriation and Special Fund Accounts	7.5-5
		B. Availability of Fixed Term Appropriation Receipts	7.5-5
		C. Availability of Special Fund Receipts	7.5-6
		D. Documentation	7.5-6

## Table of Contents

<u>Chapter</u>	<u>Section</u>		<u>Page</u>
6	6.7	Use of Credit Cards for Purchases	7.6-8
	6.8	Imprest Funds	7.6-9
		A. Purpose and Amount of an Imprest Fund	7.6-9
		B. Accountability for Imprest Funds	7.6-10
		C. Agency Responsibilities	7.6-10
		D. Verifications and Audits of Imprest Funds	7.6-11
	6.9	Grants and Cooperative Agreements	7.6-11
	6.10	Periodic Reviews	7.6-12
7		<b>CONCEPTS OF FEDERAL ACCOUNTABILITY AND RESPONSIBILITIES OF ACCOUNTABLE OFFICERS</b>	7.7-1
	7.1	Accountability Concept	7.7-1
		A. Responsibilities of Certifying Officers	7.7-1
		B. Responsibilities of Disbursing Officers	7.7-1
	7.2	Reliance on Systems and Related Controls	7.7-2
		A. Shifting Emphasis Due to Automation	7.7-2
		B. Reasonableness of the Reliance on Systems and Controls	7.7-3
	7.3	Organizational Structure and Operating Procedures	7.7-3
	7.4	Application of Available Technology and Concepts	7.7-5
		A. Technology Provides Voucher Examining Alternatives	7.7-5
		B. Computer Edits	7.7-6
		C. Data Authentication and Electronic Certification	7.7-6
		D. Fast Pay Procedures	7.7-7
		E. Statistical Sampling	7.7-8
		F. Combining Fast Pay Procedures and Statistical Sampling	7.7-9
		G. Requests for Alternative Procedures	7.7-9
	7.5	Evaluations of the Voucher Processing System and Controls	7.7-10
		A. Review Requirements	7.7-10
		B. Making FMFIA Reviews More Useful	7.7-11
		C. Special Requirements for Certification, Processing, and Reporting if Weaknesses Exist	7.7-12

## Table of Contents

<u>Chapter</u>	<u>Section</u>		<u>Page</u>
8	8.12	C. Requests for Relief Submitted to GAO	7.8-11
		D. Subsequent Developments	7.8-11
	8.13	Where to Submit Requests for Relief	7.8-12
	8.14	Adjustment of Accounts	7.8-12
		A. General	7.8-12
		B. Relief Granted by GAO	7.8-12
		C. Relief Granted by the Agency	7.8-12
		D. Relief Denied or Agency Declines to Seek Relief	7.8-13
		E. Other Situations	7.8-13
 <u>Appendixes</u>			
I		Standard and Optional Forms	7.I-1
II		Treasury Department--General Accounting Office Joint Regulations	7.II-1
III		Use of Statistical Sampling Procedures in Examination of Vouchers for Payment	7.III-1
IV		Special Requirements for Certain Types of Disbursements	7.IV-1
V		Selected Legal Citations Directly Affecting Budgetary and Financial Accounting	7.V-1
VI		Cross-Reference Table	7.VI-1
VII		Topical Index	7.VII-1
 <u>Figure</u>			
4.1		Illustration of the Year-end Closeout or Adjustment of Reciprocal Account Balances	7.4-3



**1.1 DEFINITIONS**

Unless otherwise provided in this title, the terms "agency," "executive agency," and "government corporation" are used as follows.

- A. "Agency" means a department, agency, or instrumentality of the United States government;
- B. "Executive agency" means a department, agency, or instrumentality of the executive branch of the United States government, but does not include government corporations; and
- C. "Government corporation" means a corporation, agency, or instrumentality subject to chapter 91 of title 31, U.S. Code.

**1.2 GENERAL  
AUTHORIZATIONS  
AND  
REQUIREMENTS**

General authorizations and requirements for agency accounting and auditing are set forth in numerous statutes, primarily in Chapter 35 of title 31, U.S. Code. For selected U.S. Code excerpts, see appendix V.

**A. Authority of the  
Comptroller General**

The Comptroller General is required to prescribe accounting principles, standards, and requirements to be observed by executive agencies (31 U.S.C. 3511(a) and (c)(2)). Before prescribing an accounting principle, standard, or requirement, the Comptroller General must consult with the President and the Secretary of the Treasury on their accounting, financial reporting, and budgetary needs and must consider the needs of other executive agencies and of the judicial branch, except for the Supreme Court (31 U.S.C. 3511(a) and (c)). Under section 3511(b), the requirements the Comptroller General prescribes under section 3511(a) shall:

- 1. provide for suitable integration between the accounting process of each agency and the accounting of the Department of the Treasury;
- 2. allow the heads of agencies to carry out 31 U.S.C. 3512 (see subsection 1.2.B which follows);
- 3. provide for complete disclosure of results of the financial operations of each agency and the government; and

**2.1 APPROPRIATIONS  
AND BUDGET  
AUTHORITY****A. Basic Requirement  
for Appropriations**

The powers the Constitution vests in the Congress include the powers to pay all debts and provide for the common defense and general welfare of the United States and to make all laws necessary and proper for the execution of the powers vested in the government or its agencies (article 1, section 8). The Constitution also provides that no money shall be drawn from the Treasury unless appropriations for expending the money are made by law (article 1, section 9, clause 7). Thus, in a constitutional sense, expenditures of public funds are required to be accounted for by charging an "appropriation" made by the Congress.

**B. The Concepts of  
Budget Authority,  
Appropriations,  
Loan Guarantees,  
and Entitlements**

1. Congress finances federal programs and activities by providing "budget authority." Budget authority is "authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds or to collect offsetting receipts . . ." (2 U.S.C. 622(2)). Budget authority is provided for agency use by the Congress through regular annual appropriations enacted during each session of the Congress or through permanent appropriations. Usually, the enactment of such budget authority is the end result of a lengthy, structured budget formulation process. Requirements concerning the executive budget formulation process are prescribed by the Office of Management and Budget in accordance with 31 U.S.C. 1101-1114. (See OMB Circular A-11.) The concept of budget authority includes appropriations, contract authority, and borrowing authority, but does not include the authority to insure or guarantee loans.

2. Appropriations are the most common form of budget authority. The term "appropriation" is defined as:

"An authorization by an act of Congress that permits Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes."

The term is also used in a broader context to include: funds; authorizations to create obligations by contract in advance of appropriations; or any other authority making funds available for obligation or expenditure (31 U.S.C. 701(2), 1101(2)).

Deficit Control Act of 1985 that amended 2 U.S.C. 622 included "offsetting receipts" within the definition of budget authority for the purposes of the Congressional and Budget Impoundment Control Act of 1974.)

6. "Loan guarantee authority" is statutory authority that permits an agency to pledge the government to pay all or part of the loan principal and interest to a lender or holder of a security in the event of default by a third party borrower. In loan guarantee arrangements, it is not known whether or to what extent liquidating appropriations will be necessary until there has been a default. Accordingly, as provided by 2 U.S.C. 622(2), loan guarantee authority is not budget authority. An appropriation (or fund) to liquidate loan guarantee authority, however, does constitute budget authority against which obligations are recorded when they arise, regardless of the adequacy of the amount of budget authority available to liquidate the liability. Loan guarantees constitute contingent liabilities which may not be recorded as obligations until the contingency occurs, affixing the government's liability. (See subsection 3.4.C of this title.)
7. "Entitlement authority" is authority to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law (2 U.S.C. 622(9), 651(c)(2)(C)). Entitlement authority results in obligations that are recorded against some form of budget authority, usually indefinite appropriations or definite appropriations that may be based on estimates of annual funding needs.

As seen from the foregoing, not all budget authority is in the form of appropriations, and not all appropriations are budget authority.

C. Types of Budget Authority

1. Classification based on duration
  - a. One-year (annual) budget authority. Budget authority available for obligation only during a specific fiscal year. It is also known as a "fiscal year" or "annual" budget authority.

authority is considered current in the first year in which it is provided and permanent in succeeding years.

An appropriation may combine characteristics from the above groupings. For example, 31 U.S.C. 1304 is authority for a "permanent, indefinite" appropriation.

D. Supplemental Budget Authority

A supplemental appropriation act provides funds in addition to those in an annual appropriation act. Supplemental appropriations provide budget authority (including funding for new programs authorized after the date of the original appropriation act) in addition to the regular or continuing appropriations already provided when the need for funds is too urgent to be postponed until the next regular appropriation act. Supplementals may sometimes include items not appropriated in the regular bills for lack of timely authorizations.

E. Deficiency Budget Authority

A deficiency appropriation is a type of supplemental appropriation that provides funds necessary to cover obligations that have been incurred in excess of available funds.

F. Continuing Resolutions

1. Temporary appropriation legislation

When the regular annual appropriations are not enacted by the beginning of a fiscal year, continuing resolutions are enacted by the Congress generally as temporary appropriation legislation to provide budget authority for federal agencies and/or specific activities to continue in operation until the regular appropriations are enacted. However, at times, funding may be provided for the entire fiscal year by continuing resolution. Continuing resolutions are discussed in detail in GAO's Principles of Federal Appropriations Law.

2. Treasury warrants

Funds appropriated by a continuing resolution are drawn from the Treasury by means of a Treasury warrant (TFS Form 6200, Treasury Financial Manual, volume I, part 2, chapter 2000). A warrant is the official document issued pursuant to law by the Secretary of the Treasury that establishes the amount of money authorized to be

have been incorporated into this title. They are included as appendix II for the purpose of maintaining a historical record.

## 2.2 ESTABLISHING AND REPORTING ON APPROPRIATION, RECEIPT, AND FUND ACCOUNTS

### A. Assignment and Announcement of Account Symbols and Titles

Appropriation, receipt, and fund account symbols and titles are assigned by Treasury in consultation with the Office of Management and Budget (OMB), and in compliance with the principles, standards, and related requirements prescribed by the Comptroller General. An account symbol is a group of numbers or a combination of numbers and letters used, in accordance with a prescribed system of account classification and identification, for denoting the agency responsible for the account, the period of availability, and the fund classification.

The assigned, amended, or discontinued Federal Account Symbols and Titles (FAST) are published quarterly by Treasury as a supplement to the Treasury Financial Manual. This periodic listing provides each fund group's symbols and titles along with U.S. Code or Statutes at Large citations.

In addition to each fund having unique symbol and title designations to assist with centralized reporting, all fund transactions are to be recorded in appropriate accounts as set forth in the U.S. Government Standard General Ledger chart of accounts. The Standard General Ledger is published as a supplement to the Treasury Financial Manual. It is to be used to standardize agency accounting and to support the preparation of standard reports between an agency and Treasury for its centralized accounting and reporting responsibilities, and between an agency and OMB, the President, and the Congress for budgetary accounting needs.

By means of the accounting system's coding and classification structure, agencies should be able to summarize and report their financial data in both proprietary and budgetary terms, and on either a consolidated basis or by individual appropriation or fund account. (More detailed guidance regarding the integration and configuration of the primary and subsidiary systems that carry out an organization's

responsibilities of the Secretary of the Treasury under 31 U.S.C. 3513.

b. Related requirements

Accounting symbolization must be maintained accurately in order to facilitate the operation of information systems designed to

- (1) assure compliance with restrictions on the receipt or expenditure of certain budgetary resources,
- (2) permit presentation of comparable information for analysis of trends in certain accounts, and
- (3) provide information to Treasury for the central accounts of the government.

Agencies are required to report charges and credits to appropriation, receipt, or fund accounts consistent with the fund account symbols and titles, and the Standard General Ledger uniform chart of accounts. In addition, agencies are responsible for complying with Treasury requirements for furnishing documents, reports, and information on the charges and credits to the separate appropriation, receipt, and fund accounts. The reported amounts will be posted to the reciprocal agency accounts maintained by Treasury.

Agencies are responsible for maintaining adequate documentation and control over charges and credits to appropriation receipt or fund accounts. This responsibility is part of the overall responsibility for maintaining systems designed to ensure that financial transactions are in conformity with legal requirements. (See also subsections 2.1.H, 2.2.C, and chapter 3, obligations, on the topic of control.)

C. Limitation Control Requirements

Specific limitations imposed by law or agency management (as defined in 2.1.H) are intended to achieve an effective and orderly use of available authority and to reduce the need for supplemental or deficiency appropriations. Such limitations should be accounted for in the Standard General Ledger's budgetary (4000 series) accounts. Generally, this limitation control process begins with OMB's apportionment (of

obligation. The agency allotment cannot exceed the OMB apportionment.

Subdivisions below the suballotment level, such as subdivisions made by the agency financial plans, program operating plans, or other agency restrictions are usually referred to as allowances. (The term "allocation" also has been used to designate subdivisions below the suballotment level. Defining such administrative subdivisions as "allowances," as is done here and in the Standard General Ledger, reduces possible confusion with the use of "allocation" in connection with transfer appropriation accounts.)

The overobligation of an allocation or of an allowance does not necessarily result in a violation of the Antideficiency Act unless either has been separately apportioned, or the agency fund control regulations specify that such overobligations automatically result in violations of the Antideficiency Act.

Agencies administering appropriated funds are responsible for ensuring that the amount obligated does not exceed the legally imposed limitations (e.g. limitations established by legislation, apportionment, allotment, or other administrative subdivision). They are also responsible for establishing such records or accounts and for preparing such reports as may be necessary for ensuring compliance with the limitation(s). (See section 3.6.)

These appropriation controls are to be maintained as part of the accounting records. (For more detailed control requirements discussions, see accounting standards for fund control in Title 2, appendix I, section F50; accounting system standards in Title 2, appendix III, chapter 2; and OMB instructions on internal control systems and accounting systems in Circulars A-123, A-127, and A-34 (part III and appendix B)). Where a limitation is stated in number of units (e.g., the number of automobiles that may be purchased) instead of dollars, controls should be maintained in terms of units, rather than dollars.

D. Impoundment and  
Budgetary Reserves

An impoundment is any action or inaction by an officer or employee of the federal government that is intended to withhold the obligation or expenditure of budget authority.

authorized to bring a civil action against an agency to make available for obligation budget authority that has been improperly withheld from obligation (2 U.S.C. 687).

### 2.3 RECORDING APPROPRIATED FUNDS

#### A. Appropriation Warrants

A public law appropriating moneys is the basis for the issuance of appropriation warrants (31 U.S.C. 321(a)(3) and 3323). The warrants, initiated pursuant to law by the Secretary of the Treasury, are the basis for recording appropriations on the books of Treasury and in the reciprocal accounting records of all other agencies for which the appropriations are made. As noted earlier, appropriations do not represent cash actually set aside in the Treasury for the purposes specified in the appropriation act; they represent limitations of amounts which agencies may obligate for the purposes and during the time periods specified in the appropriations acts.

Regular appropriation warrants are signed only by a Treasury representative. All appropriation warrants under the first continuing resolution for a fiscal year will be issued and signed by a Treasury representative and countersigned by a General Accounting Office representative for an amount equivalent to the total annual amount appropriated by the resolution. Additional warrants will be issued and countersigned only if subsequent continuing resolutions change the annual amount appropriated for an account. (Also see subsection 2.1.F.2 of this title.)

#### B. Issuance of Appropriation Warrants

For definite appropriations from the general fund of the Treasury, that is those stated in specific amounts in the appropriation acts, warrants will be issued in the full amounts.

For indefinite appropriations from the general fund of the Treasury, that is where the amount is determinable at some later date (see subsection 2.1.C(2)), warrants normally will be issued at the beginning of each fiscal year, after approval by OMB and in the amounts of the latest published estimates of OMB. The warrants will be subsequently adjusted, as appropriate, to actual obligations or payments.

Where budget authority is provided by joint resolutions, pending enactment of regular appropriations for the fiscal



be recorded as obligations or outlays of the transferring accounts nor as reimbursements or receipts of the receiving accounts. No change may be made in the availability of appropriated funds by agencies through the use of nonexpenditure transactions unless specifically authorized by law.

**B. Expenditure Transactions**

For accounting and reporting purposes, expenditure transactions are transactions among appropriation and fund accounts that represent payments, repayments, or receipts for goods or services furnished or to be furnished. Expenditure transactions are recorded either as obligations or outlays (or both) of the transferring accounts and as unearned customer orders or reimbursements of the receiving accounts, as specifically authorized by law.

**C. Reimbursements Between Government Agencies**

**1. Intragovernmental billing and collection system**

The intragovernmental billing and collection system facilitates interagency transfers of funds in compliance with specific provisions of law. Two essential elements of the system are that it provides for immediate payment to the billing agency and it incorporates a method for customer agencies to charge back erroneous charges. However, all the requirements of the law authorizing an interagency agreement or controlling the accounting for the budget authority made available to implement the agreement must be followed. Further, in order to facilitate implementation and audit, the documentary record of the agreement should always cite the authority for the agreement.

Certain automated intragovernmental billing and collection subsystems have been established to accomplish intragovernmental purchases and sales and the resulting payments in the most efficient manner. These objectives are achieved by

- a. eliminating check issuance and deposit procedures, and
- b. eliminating paper voucher procedures, when applicable, through simultaneous billing and collection with interfacing computer systems.

- a. The requesting organization should ensure that it has budget authority available prior to placing an order or entering into an agreement for goods or services.
- b. The performing agency should specify the amount that it is to be paid for providing the requested item or service. If the law authorizes, but does not require, performance on a nonreimbursable basis, the parties should agree whether reimbursement is required. The amount should be determined in accordance with the requirements imposed by the law authorizing the agreement. For example, 31 U.S.C. 1535 and 1536 require the recovery of actual costs, including direct and indirect costs. When the total cost of performance is not known in advance, costs should be estimated, and this estimated amount should constitute a ceiling on the costs that may be incurred by the performing agency without notifying, and receiving approval from, an authorized official of the requesting agency.
- c. The requesting agency should obligate budget authority in the amount specified in the agreement and institute procedures to monitor the cost and performance.
- d. When the law requires that the performing agency recover actual costs for the items or services provided and advances by the requesting agency exceed the actual costs of performance, the excess should be refunded promptly upon completion of performance.
- e. The agreement should be properly documented. (See subsection 3.4.B.) It should, as a minimum, set forth
  - (1) citations of the legal authority for entering into the agreement,
  - (2) the terms and conditions of the requested performance,
  - (3) the specified cost of performance, including appropriate ceilings when the cost is based on estimates (or the designation "nonreimbursed" when authorized and agreed to by the performing agency),

agency violating 31 U.S.C. 1301(a) and 1341(a)  
(B-234427, August 10, 1989).

- h. If the requesting agency desires continued performance, and budget authority is available, the agreement should be modified accordingly at the earliest practical time.

3. Interagency disputes

A disputed interagency bill for goods or services, together with applicable documents and reports, may be submitted for settlement to the following address:

Claims Group  
General Government Division  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

**3.1 APPLICABILITY**

General legal guidance applicable to accounting for and reporting on obligations against appropriation accounts is prescribed in this chapter with the concurrence of the Director of the Office of Management and Budget. Related fund control accounting and reporting standards are covered in Title 2, appendix I, Section F50, and appendix III, chapter 2. A "Checklist for Fund Control Regulations" is prescribed in Office of Management and Budget Circular A-34, appendix B, pursuant to 31 U.S.C. 1514(a).

The term "appropriation" is used in this chapter in its broader sense as a synonym of "budget authority," since the word usually has been used in this way in the referenced statutes and Comptroller General's decisions. (See subsections 2.1.B.1 and 2.) The meaning of the term also includes collections credited to appropriation or fund accounts which are discussed in section 5.4 of this title.

**3.2 INCURRING  
OBLIGATIONS**

In general, simplified terms, obligations are incurred when amounts of orders placed, contracts awarded, services received, and similar transactions during a given period will require payments during the same or some future period. Obligations must satisfy legal requirements before they may be properly recorded against appropriation accounts.

**3.3 CRITERIA FOR  
VALID  
OBLIGATIONS**

Legal decisions regarding "obligations" issues are often stated in terms of whether appropriations are "legally available" for a given expenditure. This is simply another way of stating whether using an appropriation for a given item is a valid obligation. Whether appropriations are legally available for obligation and expenditure depends upon the following:

- A. The purpose of the obligation must be one for which the appropriation was made (31 U.S.C. 1301(a)).
- B. The obligation must be incurred within the time that the appropriation was made available for new obligations (31 U.S.C. 1502(a)).
- C. The obligation may not exceed the amount appropriated by statute, nor may it be incurred before the appropriation becomes law, unless otherwise provided by law (31 U.S.C. 1341, 41 U.S.C. 11).

impoundment of funds. Either will also call into question the propriety of certifications of obligations that must be submitted with appropriation requests. (See subsection 3.8.A.)

B. Proper  
Documentation

Documentary requirements for recording obligations incurred in the course of government activity are provided in 31 U.S.C. 1501(a). This provision specifically directs that no amount shall be recorded as an obligation unless it is supported by documentary evidence of

1. a binding agreement between agencies or an agency and other parties that is
  - a. in writing, in a way and form, and for a purpose authorized by law; and
  - b. executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided;
2. a loan agreement showing the amount and terms of repayment;
3. an order required by law to be placed with an agency;
4. an order issued under a law authorizing purchases without advertising
  - a. when necessary because of a public exigency,
  - b. for perishable subsistence supplies, or
  - c. within specific monetary limits;
5. a grant or subsidy payable
  - a. from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law;
  - b. under an agreement authorized by law; or
  - c. under plans approved consistent with and authorized by law;

underlying legal liability of the government on the claim is not in question (for example, in property condemnation cases), and only the amount of the claim is in dispute, a recordable obligation exists. The obligation should be estimated in accordance with subsection 3.4.D. (See 35 Comp. Gen. 185 (1955) and 34 Comp. Gen. 418, 423 (1955).)

D. Estimating Obligations

When the amount of an obligation is not known at the time it is incurred, the best possible estimate should be used to record the obligation. Where an estimate is used, the basis for the estimate and the computation must be documented. Appropriate adjustment must be made when events permit a more accurate estimate of the amount of the obligation and when the actual obligation is determined. In situations where open-ended obligations would potentially result in exhausting the unobligated balance of the appropriation at that time, the agency should initiate steps to obtain additional budget authority.

E. Commitments

For purposes of effective financial planning, including fund control, data on proposed obligations, often referred to as "commitments," may be systematically accumulated in accounting records in advance of their becoming valid obligations. Such a commitment procedure is particularly useful when there is a significant delay between the initial prevalidation and the later actual obligation of funds, or when there are multiple locations receiving allotments from one appropriation.

The Standard General Ledger accommodates recording the commitment process through the "Commitments Available for Obligation" account. If used, this accounting procedure reflects allotments or other available funds which are earmarked in anticipation of obligation. However, such anticipated obligations are not included in any official reports on obligations incurred, as they do not meet the criteria for recording obligations as presented in this section.

F. Obligation Cutoff Procedure

Each agency shall establish a reasonable cutoff date for (1) recording obligations which are applicable to the fiscal year but received after the close of the fiscal year and (2) making any necessary adjustments in amounts of recorded obligations. Sufficient time must be allowed after the cutoff date for making adjustments and preparing the annual reports of obligations, Treasury SF 225 - Report on

### 3.6 CONTROL OVER OBLIGATIONS

Agencies shall institute appropriate control procedures for ensuring that all obligations entered into on behalf of the government, including interagency transfers for reimbursable work, are made in accordance with law and are documented, recorded, and reported as required by law. Such procedural controls should be integrated with agency budgetary and accounting fund control systems. For more detailed guidance, see OMB Circular A-34 and GAO Title 2, appendix III, chapter 2.

Accounting systems shall be designed to help prevent obligations from exceeding the amounts of appropriations, statutory limitations, apportionments, or administrative subdivisions thereof (31 U.S.C. 1514), which are set in response to statutory, presidential (through OMB), and agency management guidance. To preclude such overobligations, the system should be capable of providing positive knowledge that funds are available to cover obligations being entered into or anticipated, and agency written procedures should clearly state how the availability of funds may be checked. The records maintained should show, in all cases, the status of each limitation; that is, the allotted apportionment amount available, the amount obligated, the amount expended (accrued expenditure), the amount disbursed, and the balance remaining.

### 3.7 RECONCILIATION OF OBLIGATIONS

#### A. Reconciliation

Periodically, and at the close of each fiscal year, each agency must reconcile its obligation controlling accounts to the total of amounts posted to supporting records. In addition, each agency shall review its unliquidated obligations at least once a year, not necessarily at the fiscal year-end, to reasonably assure itself that all and only those transactions meeting the criteria of legally valid obligations described in sections 3.3 and 3.4 of this chapter have been included. The working papers and records on which such verifications are based shall be retained in the agency in a form that will facilitate audit. For record retention requirements, see Title 8 of this manual.

The reconciliation process includes verifying that the agencies' quarterly, monthly, and annual obligation reports to Treasury and OMB agree with the agencies' obligation control accounts for each open appropriation account. Obligation reporting requirements include the quarterly SF 225 - Report

**4.1 LEGAL ORIGINS  
OF CLEARING  
OUT EXPIRED  
ACCOUNT  
BALANCES**

General requirements for adjusting and closing current and expired account balances for appropriations are in law (31 U.S.C. 1551-1557) and specific instructions to agencies are set forth in the Treasury Financial Manual, volume I, part 2, chapter 4200. These requirements apply to all appropriations, except appropriations for the District of Columbia government and appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives. This chapter presents an overview of the process.

The law provides that all unobligated funds under an appropriation act (including other budgetary resources that may have been available for obligation) will be withdrawn at the end of the period of availability. Withdrawn amounts revert to the Treasury or, if applicable, to the special or trust fund from which derived. The withdrawn amounts will remain available for restoration, however, if needed to meet payment requirements for valid obligations incurred but not recorded or reported, or that were recorded and reported in amounts less than ultimately determined to be payable during the period of availability.

**4.2 OVERVIEW OF  
WITHDRAWAL,  
RESTORATION,  
AND TRANSFER  
PROCESS****A. Overview of Process**

Withdrawal, restoration, and transfer provisions and processes are intended to reduce the number of expired appropriation accounts in the Treasury to the minimum required for effective control, with the dollar balance in each account limited to the amount required for expected future payments. Generally, the process is to be accomplished in the following manner, as illustrated in figure 4.1:

1. After an appropriation ceases to be available for new obligations, and obligations have been adjusted at year-end and certified as required by 31 U.S.C. 1108(c), the unobligated balance is withdrawn by Treasury to the general, trust, or other fund from which it originally derived and is accounted for as surplus authority for that particular fiscal year.
2. In the agency's accounts, the obligated balance is reclassified into an expired appropriation account where it remains available for payment of existing obligations for the next 2 fiscal years.



make certifications of obligations are those officials having overall responsibility for obligations, as distinguished from those engaged in detailed recording operations. In no event, however, are the persons designated by the heads of the agencies to be below the level of the chief accounting officer of a major bureau, service, or constituent organizational unit. The required certification statement is:

"I hereby certify that the amounts shown in this report are correct. All known transactions meeting the criteria of 31 U.S.C. 1501 have been obligated and are so reported."

If for any reason the foregoing certification cannot be made, the official designated to certify shall explain the reason for not being able to do so.

A person or public officer who is authorized by law to make or give a certificate and does so knowing the certificate contains a false statement is subject to a fine of not more than \$500 or imprisonment for not more than 1 year, or both (18 U.S.C. 1018).

Note that the person who certifies obligations reports is not a "certifying officer" for purposes of personal accountability for the subject funds. Although the person may be coincidentally an "authorized certifying officer," the two functions are legally distinct.

Transfer appropriation accounts under the control of the spending agency shall be certified to the head of the advancing agency for inclusion in the advancing agency's reporting requirements.

All certifications, basic records, and reports of obligations shall be available for audit purposes no later than 90 days after the close of the accounting period.

**B. Additional Guidance  
on Certifying  
Obligations**

When determining the amounts to be certified under 31 U.S.C. 1108(c), agencies should consider the following:

1. While it is incumbent on agencies to provide the best information they can in statements of obligations provided to the President, the law neither specifies how officials making the certifications are to satisfy themselves that the amount certified meets the requirements of 31 U.S.C. 1108(c) nor requires

appropriation or appropriation successor accounts, or to maintain agreement in amounts of undisbursed balances and all unpaid obligations, results in needless paperwork in the agency and in Treasury. The net withdrawals or restorations will normally be made by Treasury on a fiscal year basis from the year-end reports submitted by the agencies under Treasury instructions.

**4.3 CREDITING OF  
COLLECTIONS TO  
SUCCESSOR "M"  
ACCOUNTS**

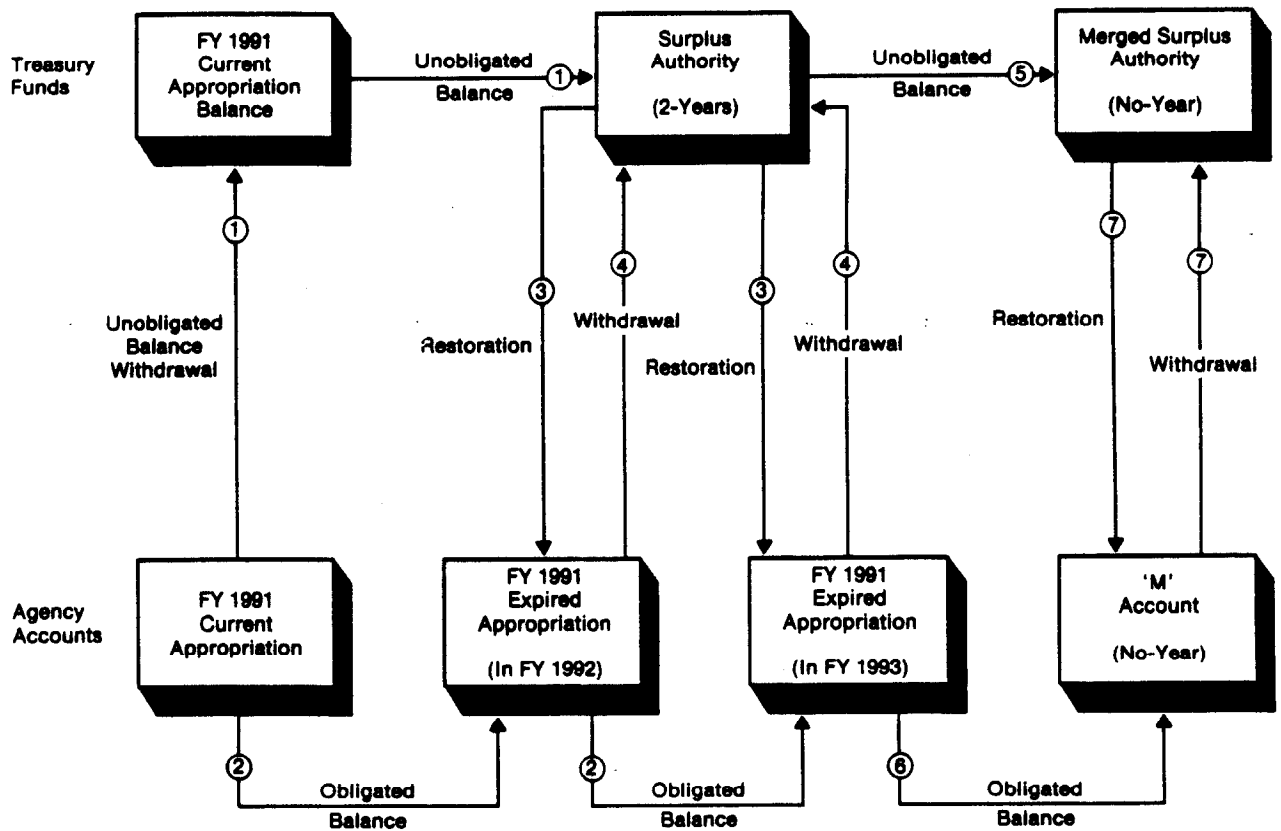
Unless otherwise authorized by law, collections made by agencies that should be applied as reimbursements and refunds to expired appropriations after the 2-year period shall be credited to the applicable successor "M" accounts. (For further discussion, see collections credited to appropriation and fund accounts, section 5.4 of this title.)

Collections made by the Comptroller General for other government agencies, however, may be deposited into the Treasury as miscellaneous receipts in accordance with the provisions of 31 U.S.C. 1552(b), and as provided in Title 4 (Claims) of this manual.

**4.4 PAYMENT OF  
CLAIMS  
CHARGEABLE TO  
SUCCESSOR "M"  
ACCOUNTS**

Each appropriation account established under 31 U.S.C. 1552 that is an appropriation available for obligation for a definite period is accounted for separately and remains available until expended to pay obligations chargeable against any appropriation from which the account is derived (31 U.S.C. 1553(a)). Accordingly, claims chargeable to successor "M" accounts may be paid without General Accounting Office action.

FIGURE 4.1  
ILLUSTRATION OF THE YEAR-END CLOSEOUT  
OR ADJUSTMENT OF RECIPROCAL ACCOUNT BALANCES  
(FISCAL YEAR 1991 APPROPRIATION)



Note: Circled numbers refer to steps in subsection 4.2.A.

## 5.1 APPLICABILITY

This chapter is applicable, except as stated below, to all classes of funds collected by officers and employees of the U.S. government, including

- A. receipts from any source for the use of the United States which are required to be deposited into the Treasury as general fund miscellaneous receipts;
- B. reimbursements and refunds for credit to appropriation accounts;
- C. payments for credit to management, revolving, and deposit fund accounts;
- D. receipts for credit to special and trust fund accounts;
- E. receipts from unofficial use of government facilities in emergencies;
- F. proceeds from sales of government personal property; and
- G. collections from government employees of certain payments.

This chapter is applicable except to the extent collections are otherwise subject to statutory and regulatory control specifically governing the collecting, handling, and depositing of funds. Such exceptions include, for example, customs and internal revenue receipts, District of Columbia tax receipts, postal receipts, and receipts from the sale of real property. For additional discussion and guidance on the availability or unavailability of receipts, see GAO's Principles of Federal Appropriations Law.

Regulations and instructions for cash management and the deposit of collections are issued by Treasury (Treasury Financial Manual, volume I, parts 5 and 6).

Guidance on the tools and procedures for collecting delinquent receivables is provided in Title 4 of this manual, the Federal Claims Collection Standards (4 C.F.R. 101-105), OMB Circular A-129, and the Treasury Financial Manual supplement, "Managing Government Credit."

Special accounting controls are necessary when sales or operating persons handle cash receipts.

Official collections shall not be commingled with personal funds or be used for cashing checks or money orders. However, disbursing officers are authorized by 31 U.S.C. 3342 to cash checks in certain situations.

C. Inscription and  
Endorsement of  
Remittances

Agencies shall, where possible, instruct remitters to make checks and other negotiable instruments payable to the order of the specific organizations or operating units maintaining the accounts to be credited, rather than to the Treasurer of the United States. Any remittance payable to the Treasurer of the United States, however, should be accepted and processed by the receiving agency.

In no event should agencies instruct remitters to make checks, money orders, or other instruments payable to individual officers or employees by name. Endorsements are to be in accordance with the regulations of Treasury (Treasury Financial Manual, volume I, part 5, chapter 2000).

5.3 DEPOSIT AND  
DOCUMENTATION  
OF COLLECTIONS

A. Legal Requirements  
for Deposit of  
Receipts

The general rule with respect to collections from sources outside the government is that all moneys received for the use of the United States shall be turned into the Treasury as general fund miscellaneous receipts (31 U.S.C. 3302(b)) and can be withdrawn only in consequence of appropriations made by law (art. 1, sec. 9, cl. 7 of the Constitution).

The term "miscellaneous receipts" does not refer to any single account in the Treasury; rather, it refers to a number of receipt accounts under the heading "General Fund," as listed in Treasury's "FAST."

In addition to 31 U.S.C. 3302(b), several other statutes require the deposit of moneys received in various specific contexts into miscellaneous receipts. Examples include user charges and fees collected under 31 U.S.C. 9701 and moneys received by the military departments from authorized leases (10 U.S.C. 2667(d)(1)).

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5.4 COLLECTIONS  
CREDITED TO  
APPROPRIATION  
AND FUND  
ACCOUNTS

A. Crediting Collections  
to Appropriation  
and Special Fund  
Accounts

Collections which may be credited to appropriation and fund accounts fall within two general classifications: refunds and reimbursements.

1. Refunds are returns of advances, collections for overpayments made, adjustments for previous amounts disbursed, or recovery of erroneous disbursements from appropriation or fund accounts that are directly related to, and are reductions of, previously recorded payments from the accounts. Even in the absence of express statutory authority, refunds may be deposited to the credit of the appropriation or fund charged with the original expenditure or the successor account (31 U.S.C. 1552(b)).
2. Reimbursements (which may be designated as fees, proceeds, etc.) are sums received by the government in payment for commodities sold or services furnished, either to the public or to another government account. Reimbursements may be deposited to the credit of an appropriation or fund account when authorized by law.

B. Availability of  
Fixed Term  
Appropriation  
Receipts

1. Refunds

Unless otherwise authorized by law, refunds should be deposited to the credit of the appropriation account initially charged with the overpayment and, if the account has expired for the purpose of incurring new obligations, to the credit of the successor account (31 U.S.C. 1552(b)).

2. Reimbursements

Reimbursements should be deposited to the credit of the appropriation or its successor account in accordance with the requirements imposed by the authorizing legislation. For example, the law may authorize deposit of receipts to current appropriations or it may direct that deposit be to the appropriation initially charged with the cost of the performance of reimbursable work. In the latter situation, 31 U.S.C. 1552(b) should be complied with.

## 5.5 OTHER COLLECTIONS

### A. Collections by Voucher Deductions

Various types of collections are made by voucher deductions under procedures prescribed by Treasury. These collections include Federal Insurance Contributions Act taxes, federal and state income taxes, travel advances, claim settlements, and contractor refunds of advances.

### B. Collections by One Agency for Another

Collections of any type received by one agency should not be forwarded to another for deposit. Such collections should be deposited by the collecting office for credit to its suspense or budget clearing account as described in the Treasury Financial Manual, volume I, part 5, chapter 3000. The transfer of funds should be accomplished by following the procedures for interagency transactions in the Treasury Financial Manual, volume I, part 6, chapter 10000.

### C. Collections for Unofficial Use of Government Facilities in Emergencies

The established policy of the government is to prohibit the unofficial use of government facilities by government officers, government employees, and private citizens, except in emergencies.

The term "facilities" as used herein applies to various services acquired or used for official purposes by the government. It includes telecommunications; office or storage space; office or business equipment and furniture; any other leased property, equipment, or service used by the government; and transportation obtained with government transportation requests or bills of lading. Generally, the government has contracted for such services with an owner, vendor, or transportation company.

It is the responsibility of the individual to report any emergency use of the facilities immediately to the appropriate administrative official and to reimburse the government for the cost of such use and any excise or other federal tax imposed. Funds received for the emergency use of government facilities, with the exception of federal taxes, will be deposited in the appropriate account and that portion of the contractor's bill will be paid therefrom. Federal taxes collected will be remitted to the Internal Revenue Service.

Special requirements established for control over use of telephones is covered in appendix IV of this title.

The transaction scenario for these replacement purchases is presented in the Standard General Ledger, transactions T5055 through T5075. Regulations governing the exchange or sale procedures of items covered by this section are contained in Federal Property Management Regulations, subpart 101-46, 41 C.F.R. 101-46, and are the responsibility of the General Services Administration.

**E. Recoveries of Damages**

**1. Contract damages**

The amount of excess costs or liquidated damages recovered because of default or breach of contract may be used to fund a replacement contract and need not be deposited to miscellaneous receipts (62 Comp. Gen. 678 (1983) and 64 Comp. Gen. 625 (1985)).

**2. Property damages**

Generally, funds recovered from third parties for damage to government property must be deposited to miscellaneous receipts and may not be credited to an appropriation available to repair such property or any other appropriation of the agency (67 Comp. Gen. 129 (1987)). However, payments-in-kind for damage to government property may be accepted without an offsetting adjustment between the appropriation and miscellaneous receipts (67 Comp. Gen. 510 (1988)).

**3. Subrogee's recoveries**

In those cases when the government pays for a loss of, or damage to, an employee's personal property under 31 U.S.C. 3721 but the ultimate liability for the payment rests with a third party, amounts collected by the government from the third party may be deposited to the appropriation charged with the payment to the employee (61 Comp. Gen. 537 (1982)).

**F. Collections From Government Employees of Certain Payments**

As a general rule, Federal employees are obligated to account for any gift, gratuity or benefit received from private sources incident to the performance of official duty. Normally, items or moneys so received are the property of the government and should not be retained for personal use by the employee. This rule applies, for example, to fees and payments received by employees that represent juror and witness fees, riot pay while serving with the National Guard,



pads, calendars, or other items may be retained by the employee.

Items and money received by employees from private sources such as airlines, automobile rental firms, and lodging providers should be remitted to their agencies, except for nominal promotional materials. Any money received by agencies representing discounts or rebates will be deposited to the credit of the appropriation initially charged with the payment since these constitute refunds. Payments received as penalties shall be deposited to the Treasury as miscellaneous receipts.

G. Unidentified Remittances

Unidentified remittances presumed to be creditable ultimately to a receipt, appropriation, or fund account within the budget will be credited to a receipt clearing account (or to the Treasury trust fund receipt account "Unclaimed Moneys . . .," 31 U.S.C. 1322); otherwise, the remittances will be credited to a deposit fund suspense account outside the budget. If remittances are subsequently identified to accounts within the budget, they should be transferred. Transfer documents should show the purpose for which the remittances were received.

When corrections or adjustments to be made within an accounting station are expenditure transactions between appropriation, fund, or receipt accounts, reclassification will be accomplished by journal voucher. If the adjustment involves separate stations, it should be accomplished using the On-Line Payment and Collection (OPAC) System or SF 1081 (transfer between stations).

In cases where an amount or portion of an amount was due and has been received and correctly processed but misclassified (credited to the wrong account), the clearance can be accomplished by an expenditure transfer to the correct receipt account. In those cases where a refund of all or a portion of the amount to which an agency was not entitled (due to duplicate billing, etc.) is to be made and the receipt was credited to an agency's appropriation, the refund should come from that same appropriation. If, however, the receipt has been deposited as a miscellaneous receipt (which cannot be recovered without an appropriation), the refund must be charged to account symbol 20X1807, "Refund of Moneys Erroneously Received and Covered," in accordance with 31 U.S.C. 1322(b)(2). Records must be maintained in support of charges to this account. For further detail on

## 6.1 DISBURSING OPERATIONS

### A. General

The funds of most executive agencies are disbursed by Treasury, through Treasury's disbursing officers, under the direction of the Chief Disbursing Officer, Financial Management Service. Disbursing officers for agencies subject to 31 U.S.C. 3321(b) derive their authority by direct delegation from the Chief Disbursing Officer or by delegation from Treasury disbursing officers providing centralized disbursing services to the agencies.

Not all funds are disbursed by Treasury. Some principal exceptions are disbursements made by the Department of Defense, the United States Marshals Service, and certain government corporations. The disbursing functions for the excepted organizations and for most organizations in the legislative and judicial branches of the government are performed by the organizations' own disbursing offices. In most cases, a disbursing officer of an excepted organization receives authority to disburse by delegation from the head of the organization or from other agency officials having legal authority to make such delegations. Also, for all civilian agencies overseas, the Department of State performs the disbursing function for Treasury.

### B. Disbursements by Checks and Electronic Fund Transfers

All disbursements, except those authorized to be made in cash, shall be made by checks or electronic fund transfers drawn by authorized officers on the Treasury of the United States or on designated depositories (i.e., commercial banks or banking institutions designated by Treasury to hold U.S. government funds). Regulations governing disbursements' by check or electronic fund transfer are published in the Treasury Financial Manual, volume I, part 4.

Agency controls should ensure that amounts paid by the disbursing officers were in accordance with the payment information certified to them on vouchers or voucher schedules. (See subsection 7.1.B.) Such controls should also include procedures for ensuring the proper custody, signing, and delivery of checks.

Designated depositories should be instructed to send all agency bank statements (and paid checks, if appropriate) for checking accounts maintained by U.S. government disbursing offices directly to the agency concerned. Each agency is responsible for reconciling bank statements with its accounts.

If disbursements are made in cash, the vouchers should be received by the vendors or receipts from the vendors should be attached to the vouchers. (See section 6.8.)

The preparation of the disbursement voucher includes the essential steps of assuring, apart from any subsequent audit, that (1) goods or services were ordered by an authorized official, evidenced by a purchase order, contract, or other authorization, (2) goods or services ordered have been delivered and accepted, evidenced by receiving and inspection reports, and (3) an invoice or bill has been received. The documentation requirements for employee pay, leave, and allowances are covered in Title 6 of this manual.

Basic payment documents supporting disbursements do not necessarily need to be forwarded to a central processing point. Instead, agencies may maintain supporting documentation in several locations combined with a reliable system to extract and forward information needed for comparing and matching the necessary payment data from authorizing, receiving, and billing documents. For example, the system may use magnetic or electronic media to transmit needed information to the certifying or disbursing officer provided an audit trail is maintained and there is adequate control to ensure the reliability of the data. (See section 7.4.)

Also, microform copies of paper records can be acceptable for audit and legal purposes. (See section 3.4, Title 8 of this manual, and 36 C.F.R. 1230.)

C. Documentation Requirements--  
Alternative Conditions

There are situations in which alternatives may be used for the usual documentation requirements provided that procedures and controls are adequate for protecting the government's interest. Specific GAO approval will not be required for using the following types of alternatives.

1. Use of invoices in place of vouchers

Disbursement transactions, except those involving charges for transportation services, are not required to be processed on prescribed vouchers if the invoices or bills show all the required information. Such invoices or bills may be used as vouchers in support of the agencies' accounts and accountability statements.

### 5. Payments to public utilities

Payments may be made to public utilities in the absence of a contract when the charges are based on rates that are fixed or adjusted by federal, state, or other regulatory bodies. However, contracts are not precluded where either the companies or the agencies require agreements or contracts for the furnishing of services.

### 6.3 AGENCY RESPONSIBILITY FOR PROMPT PAYMENTS

Agencies, as the term is defined in 5 U.S.C. 551(1), are required by law (31 U.S.C. chapter 39) to pay their bills on time, to pay interest penalties when payments are made late, and to take discounts only when payments are made within the discount period. Implementing regulations were issued by the Office of Management and Budget in OMB Circular A-125. The Treasury Financial Manual, volume I, part 6 contains additional guidance with regard to discounts as they concern Treasury's cash management efforts.

### 6.4 APPROVAL AND CERTIFICATION OF PAYMENT DOCUMENTS

All basic vouchers, voucher schedules, and invoices or bills used as vouchers must be certified as legal, proper, and correct for payment by an authorized certifying or disbursing officer. The certification of a document attests to all administrative determinations having been made as required of an approving official. The certification of a voucher schedule applies to all individual vouchers listed on the schedule. The responsibilities and liability of accountable officials are discussed in more detail in chapters 7 and 8 of this title.

### 6.5 PREPAYMENT EXAMINATION OF VOUCHERS

#### A. General Requirements

The principal objectives of the examination of a voucher are to ensure that:

1. The payment is permitted by law and is in accordance with the terms of the applicable agreement.
2. The required administrative authorizations and approvals for the payment are obtained.

officials are not responsible for overpayments due to improper rates, classifications, or failure to make proper deductions under equalization or other agreements with respect to charges for transportation services where the charge is subject to the centralized postpayment audit by GSA (31 U.S.C. 3322(c), 3528(c), and 3726(a)). However, these officers will be held responsible for overcharges due to illegal payments, mathematical errors, or other errors in the paying operation.

**B. Special Requirements for Specific Types of Disbursements**

Special certifications shall be made when required by law. Each agency head and each authorized certifying or disbursing officer must be aware of applicable statutory and regulatory requirements and comply with them. Appendix IV of this title contains some of the special certifications that have governmentwide application.

**6.6 INTERNAL CONTROLS OVER DISBURSEMENTS**

**A. General Requirements**

Each agency's system of internal control over disbursements should be based on the operating needs of that particular agency and should be in conformity with the related principles and standards for accounting and administrative internal controls prescribed in Title 2 of this manual. Automated and manual system structures and controls, for the most part, are addressed in Title 2, appendix III, chapter 2. The topics of separation of duties and avoiding duplicate payments, however, are emphasized in subsections 6.6.B and 6.6.C which follow.

**B. Separation of Duties**

To the extent practicable, operations should be separated to reduce risk of error, waste, and wrongful acts. In automated systems, a separation of duties should be achieved by the assignment of different responsibilities by function. For example, different responsibilities should be assigned to computer operations personnel, software maintenance specialists, and users. Further, user responsibilities include ensuring that disbursing operations are separated from such operations as purchasing, receiving, and accounting; that internal controls and procedures are properly implemented; and that errors are promptly resolved.

cashiers of their responsibilities and furnish them suitable facilities for safeguarding the funds.

It is the responsibility of each agency to maintain appropriate accounting and internal controls for the assets held by an imprest fund cashier. Accounting should be as simple as practicable consistent with effective management and with the control necessary for ensuring compliance with the requirements of section 1341 and subchapter II of chapter 15 of title 31, U.S. Code.

D. Verifications and  
Audits of Imprest  
Funds

Each agency that has an imprest fund shall make periodic audits of the fund. The audits should be unannounced and conducted so that the timing of the audits is not predictable. They should include verification of balances and steps, such as analyzing fund activities over a several-month period, that could disclose theft or fraud.

Any unauthorized use of, irregularities in, or improper accounting for an imprest fund disclosed by an agency verification or audit shall be reported promptly to the head of the agency so that any necessary corrective action may be taken and the accountability records of the disbursing officer may be properly adjusted.

In addition to describing the irregularities, the report should state whether prescribed procedures and requirements were being followed and should recommend any action considered to be necessary or desirable for preventing recurrence of the irregularities and for strengthening control over the administration of the fund. Requirements for resolving and reporting such irregularities are in chapter 8 of this title.

6.9 GRANTS AND  
COOPERATIVE  
AGREEMENTS

Through grants or cooperative agreements, the federal government provides assistance to state and local governments and to nongovernment recipients. Such agreements usually provide for advances of funds for the performance of planned activities without substantial federal involvement. Procedures to ensure the propriety of grant authorizations, disbursements, and related follow-up procedures will vary among programs.

For guidance on grant operations, agencies should look primarily to the authorizing legislation, implementing agency regulations, and the requirements established by OMB and Treasury. OMB's publication M-85-10, entitled Financial

Agencies using the U.S. Government National Credit Card (SF-149) may pay vendor billings for credit card charges without submission of paper charge card receipts with the invoices if acceptable methods (e.g., electromagnetic or other means) are used to ensure the purchases are authorized and the interests of the government are protected. (See Comptroller General Decision, B-214459, November 12, 1987.) Any credit card payment system must provide reasonable assurance that the government is being asked to pay only that which it is properly obligated to pay, and must include the capability of verification through audit.

Where questions have arisen regarding the government's liability with respect to theft or misuse of commercial credit cards, the government's liability has been determined to be limited--based on the established principles that the government is neither bound nor estopped by acts of officers or agents acting without authority, nor is it bound by acts of persons, such as thieves, who never have been its agents. (See 64 Comp. Gen. 337 and 341 (1985).)

In addition to the above types of credit card arrangements, in which the billings are presented to the agency for payment, governmentwide contract arrangements have been made by GSA under which credit cards may be issued directly to federal employees for payment of travel costs. The traveler pays the credit card contractor based on monthly bills and submits travel vouchers to the agency for reimbursement of allowable travel costs.

## 6.8 IMPREST FUNDS

This section sets forth the requirements for using imprest funds for small cash disbursements. Regulations concerning the establishment and maintenance of funds and the responsibilities of cashiers who operate the funds and disbursing officers are contained in the Treasury Financial Manual, volume I, part 4.

### A. Purpose and Amount of an Imprest Fund

An imprest fund should satisfy a definite and continuing need of an agency for making relatively small cash disbursements. Disbursements from imprest funds usually are made (1) to vendors for goods and services and (2) to employees as advances or reimbursements for authorized expenditures.

An imprest fund should be limited to an amount commensurate with the authorized purpose of the fund and

**7.1 ACCOUNTABILITY  
CONCEPT**

When entrusted with or statutorily made responsible for public funds, government employees are, in effect, trustees for the taxpayers. These "accountable officers" encompass such officials as authorized certifying officers, civilian and military disbursing officers, collecting officers, and other employees who by virtue of their employment are responsible for or have custody of government funds. These officials are personally liable for the loss or improper payment of the funds for which they are accountable.

**A. Responsibilities of  
Certifying Officers**

Unlike disbursing officers or collectors of public moneys, certifying officers have no public funds in their possession. However, a certifying officer is accountable for and required to reimburse personally the government for any illegal or otherwise improper payment made by a disbursing officer because of his or her certification.

As required by 31 U.S.C. 3528, a certifying officer will be held accountable for

1. the existence or correctness of the computations appearing in and of the facts stated in a voucher and its supporting records and for the legality of the proposed payment under the appropriation or fund involved, and
2. unless relieved of liability by the Comptroller General or a delegatee as provided in chapter 8 of this title, repayment of the amount of any
  - a. illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certificate made by the officer, and
  - b. payment prohibited by law or which did not represent a legal obligation under the appropriation or fund involved.

**B. Responsibilities of  
Disbursing Officers**

Section 3325(a) of 31 U.S.C. provides that an executive agency's disbursing official shall disburse money only as provided by a voucher certified by the head of the agency or by an authorized certifying official. In addition, a disbursing official is accountable for ensuring that a voucher is in proper form and is certified and approved.

Where agencies are not subject to 31 U.S.C. 3321(a) and do their own disbursing, such as the military departments, the



disbursing officers are also responsible for performance of the certifying functions. They must ensure

1. the propriety of the voucher,
2. the legality of disbursements,
3. the correctness of computations, and
4. the accuracy of the facts stated in the vouchers and supporting records.

## 7.2 RELIANCE ON SYSTEMS AND RELATED CONTROLS

### A. Shifting Emphasis Due to Automation

There is a compelling need to deal effectively with problems caused by the high-volume of transactions, geographic dispersion of activities, and emphasis on prompt payment that are present in today's federal financial environment. Electronic techniques and systems are being used to generate, process, transmit, and store financial information. Moreover, where agencies obtain financial services from other agencies through cross-servicing agreements, there is a sharing of responsibilities. In the complex environments created by the use of such systems, it is usually impractical for an accountable official to examine personally each transaction for which he or she accepts responsibility, and, consequently, in fulfilling their responsibilities, accountable officials must rely on the systems, controls, and personnel that process the transactions.

This necessary shift in emphasis from examining individual transactions to relying on the adequacy of systems and related controls has been reflected in the recent policy guidance applicable to agencies and in the requirement in the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(c)) for recurring assessment by agency management of the adequacy of accounting systems and management controls. Standards for internal controls and accounting systems are contained in appendixes II and III of Title 2 of this manual. In addition, OMB requirements for evaluating financial systems and controls are contained in OMB Circulars A-123 and A-127. Together, the OMB and GAO guidance establish the criteria and rules for assessing and reporting annually the status of agency systems and controls.

**B. Reasonableness of  
the Reliance on  
Systems and Controls**

The necessity for relying on systems and controls and the existence of general requirements for their periodic assessment create a potential risk, however, that, as a result of an unwarranted general presumption that the system and controls are working well, certifications of disbursement vouchers may become too routine. While new developments may alter the way in which certifying and disbursing officers operate, and may thus result in some redefinition of the conditions under which they may be granted relief, the basic concept of their accountability and legal liability remains unaltered.

Therefore, a further basic policy concept that must be applied if certifications are to be meaningful is that the certifying and disbursing officials must have reason for believing that the key processes and controls on which they rely are working. This confidence in the system and controls should be based on a number of factors:

1. a well defined organizational structure and flow of work, with appropriate separation of responsibilities and clearly written policies and procedures governing the examination, approval, and certification of disbursement vouchers;
2. effective application of available technology and concepts to achieve efficient and effective voucher processing; and
3. review of the voucher processing procedures and controls in sufficient scope, depth, and frequency to provide reasonable assurance that key processing procedures and controls are working and reliable.

Whenever a request for relief from repayment of an amount erroneously paid is supported by a contention that the certifying or disbursing official relied on the system and its controls, the reasonableness of such justifications--that is, the basis for such reliance--will be carefully considered before relief is granted.

**7.3 ORGANIZATIONAL  
STRUCTURE AND  
OPERATING  
PROCEDURES**

The functions, authorities, and responsibilities of the various parts of an agency's financial organization and of the key personnel should be clearly defined. The policies and procedures applicable to the agency's financial operations should be in writing and readily available. Separation of key duties and responsibilities for authorizing, processing, recording, and reviewing transactions will ensure that checks

and balances exist. Clear definition of the voucher processing objectives, procedures, and controls will provide prompt, consistent guidance to all personnel and will promote discipline and stability in daily operations.

Administrative approval and/or certification of a voucher for payment will usually result from a combination of specific manual and automated procedures and controls which are systematically completed to support the approval of the proposed payment. Completion of the steps used to examine vouchers may involve several individuals, each with responsibility for specific actions, such as initiation and completion of receiving and inspection reports; data entry; data transmission and authentication; and ensuring the consistency of information from invoices, obligating documents, and receiving reports.

As indicated in subsection 7.2.B, the fact that some portion of the prepayment audit is automated, decentralized, performed by another agency or a contractor, or otherwise not within the certifying official's direct control, does not alter his or her basic accountability and legal liability for the propriety of the payment. However, in considering requests for relief from liability for payment irregularities in accordance with chapter 8 of this title, one of the key concerns will be whether the certifying official was negligent or justified in relying on the system and its various controls. Thus, when certifying officials find it impractical to confirm first-hand that transactions meet legal requirements, that goods or services were received in satisfactory condition, and that amounts are correctly computed, they should know that these determinations are being made by others who are charged with that responsibility.

These concepts are also applicable to cross-servicing arrangements when one agency has all or part of its accounting or financial services performed by another agency. Because such cross-servicing arrangements result in sharing responsibilities, careful delineation of each agency's respective responsibilities is required. Cross-servicing agreements should define the extent of each agency's reliance on the other and the responsibilities of each for complying with applicable reporting and certification requirements. Typically, officials of each agency will find it necessary to rely on actions, assurances, or administrative approvals by personnel of the other agency. Examples of the just mentioned responsibilities include certifying vouchers for disbursement, as described in subsection 7.1.A; preparing and

certifying reports on obligations, as described in sections 3.7 and 3.8; and making annual reports and certifications regarding the adequacy of the internal control and accounting systems, as described in section 7.5.

The integrity of such systems requires that responsibilities be designated, that individuals understand their responsibilities and the consequences of their actions, and that they are held accountable for their performance. Defining and documenting the responsibilities and accountability of each organizational unit and individual involved in the voucher processing operation makes each individual better able to rely on actions by others, which provides a framework in which certifying and disbursing officers can rely on the actions of other cognizant personnel.

#### 7.4 APPLICATION OF AVAILABLE TECHNOLOGY AND CONCEPTS

##### A. Technology Provides Voucher Examining Alternatives

In large-volume, highly-automated voucher processing operations, automated control procedures and computer assisted audit techniques provide viable alternatives to the traditional requirements for the 100-percent, prepayment examination of vouchers. Agencies should consider the various alternative techniques for voucher processing and examining that might be used effectively. In light of the particular needs of the approving, certifying, and disbursing officials, agencies should incorporate an appropriate mix of such tools into their voucher processing procedures and controls. Such techniques should be part of a total system that includes well defined responsibilities and organizational structures and effective evaluations to verify that established procedures and controls are working.

Automated processes, controls, and audit techniques often can be used effectively in conjunction with the traditional manual ones. As a general policy, agencies should endeavor to establish automated processing techniques and controls whenever they are feasible. This policy, however, should not be viewed as a relaxation of voucher examining requirements. For example, ensuring the consistency of supporting documentation (see subsection 6.2.B) is required under any acceptable voucher processing approach. Some of the more significant techniques and approaches are summarized below. Other approaches, or variations of those discussed, may also

be acceptable, so long as they meet applicable legal requirements and their use will be in the best interest of the government.

**B. Computer Edits**

The repetitive nature of most voucher processing transactions and the fact that the decision rules usually are well-defined permit extensive automation of these processes. Effective data entry edits are especially important because they are relatively simple to develop and use and because they help detect and prevent errors before the errors are entered into the computerized files. Automated systems can be programmed to perform various comparisons, verifications, and calculations, and to produce outputs that effectively replace the manual voucher processing and examining procedures. Automated financial systems are discussed more fully in appendix III of Title 2 of this manual, which prescribes accounting system standards for executive agencies other than government corporations.

**C. Data Authentication  
and Electronic  
Certification**

With the proper application of available technology, it is possible to perform required prepayment audits without gathering together the source records. For example, different personnel can extract information from source records, input it to an automated system through computer terminals, and forward it through communications networks to a centralized location for further processing, certification, and payment. However, using this approach requires agencies to implement techniques that will provide reasonable assurance that data in electronic messages are complete, correct, and authorized.

Implementation of electronic technologies requires that the voucher processing system be carefully structured and monitored to ensure that audit trails are maintained and that officials who are responsible for authorizing, certifying, and disbursing are in possession of the information needed to carry out their responsibilities effectively. Depending on agency need and preference, this structure can include a network of approving officials and/or assistant certifying officials, many variations of centralized/decentralized processing, and telecommunications systems with differing levels of control. Whatever the structure, individual responsibilities and the basis for the final certification and payment must be clear.

Various techniques can be used in the data authentication process to provide reasonable assurance that data in support

of disbursements are authorized, accurate, and complete. For example, passwords, personal identification numbers, and special equipment can be used to control access to the data authentication system. The extent to which such controls are required over the individual steps in such a system may vary based on cost and risk considerations.

However, when the final certification of vouchers is accomplished electronically, the electronic signal or symbol adopted as the certifying officer's electronic signature must be initiated by methods that (1) distinguish the specific certifying official and (2) are under the sole control of the certifying official. Electronic certification of the final voucher also requires that control procedures be in place to ensure the authenticity of transmitted data, including the electronic signature. Such controls must provide reasonable assurance that deliberate or inadvertent manipulation, modification, or loss of data during transmission is detected.

The National Institute of Standards and Technology (NIST) of the Department of Commerce prescribes federal standards and guidelines for computer security and telecommunications systems in the Federal Information Processing Standards Publications (FIPS PUB). In particular, further guidance regarding data authentication requirements is in FIPS PUB 113. Also, FIPS PUB 140 provides standards for equipment used to perform cryptographic operations such as those outlined in FIPS PUB 113. Technology and standards in these areas are continuing to evolve. NIST plans to authorize certain private laboratories, under its National Voluntary Laboratory Accreditation Program, to certify that equipment offered by vendors meets applicable NIST security requirements.

#### D. Fast Pay Procedures

Effective control over disbursements ordinarily requires prepayment examination and approval of vouchers before they are certified for payment. However, partial exceptions to the prepayment audit requirement, known as fast pay, have been allowed by GAO. Past fast pay approvals have involved deferral of specific examining steps, usually the verification of receipt and inspection, on the condition that they be performed after payment. Fast pay procedures generally have been limited to payments for goods or services where there has been a continuing relationship with the vendors and the procedure permitted agencies to take advantage of prompt payment discounts or to effect other economies.

Executive branch guidance applicable to fast pay procedures is in OMB Circular A-125, which provides guidance to implement the Prompt Payment Act, and the Federal Acquisition Regulation (FAR), part 13. Both A-125 and FAR permit use of fast pay procedures to pay vendor invoices without evidence of receipt at the time of certification and payment and subject to a general limitation of \$25,000 and certain other restrictions. These additional restrictions include, for example, (1) that geographical separations and a lack of communication facilities make it impractical to make timely payment based on evidence of acceptance; (2) that suppliers who will be paid under the procedure agree to replace, repair, or correct supplies not conforming to purchase requirements; and (3) that the agency has a system in place to identify suppliers who have a history of abusing the fast payment procedure.

Agencies do not need specific GAO approval to implement fast pay programs that meet A-125 and FAR conditions for fast pay. When clearly warranted, additional specific-case approvals may be authorized by GAO. (See subsection 7.4.G.) However, such past abuses as failing to complete required audit steps following payment make it especially important that such proposals be well justified and, if implemented, carefully monitored.

#### E. Statistical Sampling

Subject to limitations prescribed by the Comptroller General, agency heads are authorized by 31 U.S.C. 3521(b) to establish statistical sampling programs for the examination of vouchers in support of their certification and payment.

In accordance with this authority, agencies may use statistical sampling for vouchers in amounts not exceeding a limitation of \$2,500. Within this maximum, agencies are required to establish their own dollar limitations based on cost/benefit analyses of their voucher examining operations. In determining whether travel vouchers exceed the limitation, agencies may exclude any passenger transportation costs paid through the General Services Administration's contractor issued charge cards; such costs are subject to audit by the General Services Administration's transportation rate auditors.

Any disbursing or certifying official relying in good faith on the statistical sampling procedure adopted by the agency to disburse funds or certify a voucher for payment will not be

liable for losses to the government resulting from payment or certification of a voucher not audited specifically because of the use of the sampling procedure, provided that the agency has diligently carried out collection actions prescribed by the Comptroller General (31 U.S.C. 3521(c)). (See appendix III for a further discussion of statistical sampling, including plans for development, documentation, and monitoring.)

**F. Combining Fast Pay  
Procedures and  
Statistical Sampling**

Voucher examining plans that combine elements of fast pay and statistical sampling may be used in appropriate circumstances. Such plans must provide for (1) audit emphasis commensurate with the risk to the government, (2) sampling of all invoices not subject to complete audit coverage, (3) effective monitoring, and (4) a basis for the certification of payments (67 Comp. Gen. 194 (1987) and B-227682.2, August 16, 1989).

In general, however, whenever the need for timely, economical, and effective prepayment verification of the propriety of payment vouchers can be met through system improvements, whether by increased automation or otherwise, that alternative is preferred over others that involve the relaxing of controls or audit requirements.

**G. Requests for  
Alternative  
Procedures**

If an agency determines that in its particular situation a voucher examining plan that differs from the procedures in this title will produce savings while adequately protecting the government's interest, it may request approval of the specific plan from GAO. The request should be in writing and contain a description of the plan, including any procedures for statistical sampling, and a description of the agency's specific situation and conditions that warrant deviation from the procedures in this title for examining vouchers. If anticipated savings are due primarily to a proposed reduction in audit intensity or timeliness, the request also should explain the consideration given to alternatives and the basis for selecting the alternative that has been proposed.

Approval of such proposed alternatives will be on a case-by-case basis and applicable only to a specific situation. When such alternative procedures are approved, the agency should periodically evaluate whether advances in communications technology or other electronic systems capabilities afford the agency the opportunity to conduct effective, economical, and timely audits of invoices.



Such requests should be directed to:

Assistant Comptroller General  
Accounting and Financial Management  
ATTENTION: Accounting Principles and Standards  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

## 7.5 EVALUATIONS OF THE VOUCHER PROCESSING SYSTEM AND CONTROLS

### A. Review Requirements

The results of various reviews or tests of the financial management system and its controls are important indicators of whether such systems and controls are adequate to support certifications. Requirements that agencies conduct systematic internal reviews, independent of the examinations of disbursing and collecting transactions required of accountable officers, have existed for many years. For example, such requirements were emphasized in an August 1, 1969, letter from the Comptroller General to heads of agencies (B-161457). The objectives of these independent reviews included ensuring that (1) appropriate examinations of transactions were being made to verify their legality, propriety, and correctness at the time when any needed preventive or corrective action could be most effectively taken, (2) effective controls were maintained over disbursements, collections, and balances for which accountable officers were responsible, and (3) appropriate administrative actions were taken to correct problems.

Since enactment of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), 31 U.S.C. 3512(b) and (c), all executive agencies are required to review their systems of accounting and management controls and to report annually to the President and the Congress on the results of the reviews, including any plans to correct significant deficiencies. The requirement for making such reviews and reports is especially appropriate in today's highly automated environment because the officials responsible for certifying or otherwise approving the payment of federal funds must rely on automated systems and controls, rather than on personal examination of individual transactions.

The results of FMFIA reviews can be of great value to certifying and disbursing officers, especially if the needs of these officials have been considered in the FMFIA planning and reporting. By themselves, however, broad-scoped FMFIA reviews may not be sufficient justification for certifying and disbursing officials to rely on the system and its controls. These reviews usually are made on an annual cycle, whereas disbursing activities are continuous. Further, the depth and frequency of the reviews of the voucher processing operations and the adequacy and timeliness of any corrective actions vary widely. As a result, some FMFIA reviews are more useful than others to certifying officials.

Certifying and disbursing officials may also be able to rely to some degree on other types of reviews of voucher processing operations. For example, reviews and corrective actions pursuant to the Computer Security Act of 1987, Public Law 100-253, enacted January 8, 1988, should help ensure reliability of the data processed by automated systems. Also, when made, reviews of voucher processing procedures or controls by inspectors general should provide management with useful information on system strengths and weaknesses. In either type of review, however, the scope, timing, and objectives of the work will not ordinarily meet agency needs for continuous assurance of the adequacy of a voucher processing system.

B. Making FMFIA  
Reviews More  
Useful

To the extent practicable, FMFIA reviews should be designed, carried out, and reported on in ways that show whether the voucher processing and disbursing system and controls are reliable. The needs of certifying and approving officials should be considered in advance of the reviews, and review results should be communicated to them in reports tailored to their special interests. This information, combined with other knowledge of strengths and weaknesses in the system and related controls, will help to determine whether further procedures, controls, and tests are needed to adequately support the required certifications.

Further review and testing can take a variety of forms, such as statistical sampling of transactions already processed for payment to confirm the effectiveness of existing procedures and controls or the use of specially designed test transactions to verify that all system edits and routines are working properly--that is, that errors are detected and rejected and transactions are correctly processed.

C. Special  
Requirements for  
Certification,  
Processing, and  
Reporting If  
Weaknesses Exist

The identification of weaknesses in a voucher processing system should result in prompt and effective corrective action. Pending completion of these corrective efforts, certifying officials may be able to satisfy themselves that payments are proper by relying on alternate procedures and controls. Also, if a designated assistant secretary or comparable official provides his or her agency head and GAO with a written statement that effective system controls could not be implemented prior to voucher preparation and, further, certifies that the payments are otherwise proper, GAO will not consider the absence of such controls as evidence of negligence in determining whether or not the certifying official should be held liable for any erroneous payment made prior to receipt of an advance decision. (See section 8.3.) However, if the situation remains uncorrected, follow-up reports showing the status of corrective actions must be submitted to the head of the agency at 90-day intervals following the date of the first written statement. Further, such weaknesses should be fully disclosed in the annual FMFIA reports to the President and Congress.

Of course, the traditional requirements that due care be exercised in making the payments and that diligent effort be made to recoup any erroneous payments will still be considered in any requests for relief of liability. (See Principles of Federal Appropriations Law.)

**8.1 AUTHORITY AND  
RESPONSIBILITY**

GAO has the authority and responsibility to settle the accounts of accountable officers as provided in 31 U.S.C. 3526. This authority extends to certifying and disbursing officers and collecting officials. The responsibilities of certifying and disbursing officers are described in chapter 7 of this title. Responsibilities of collecting officials are covered in chapter 5 of this title.

The requirements discussed in this chapter apply equally to all accountable officers, unless they are identified with a specific type of accountable officer.

**8.2 DEFINITION OF  
FISCAL  
IRREGULARITY**

For purposes of the laws governing the accountability and relief of accountable officers, fiscal irregularities fall into two categories: physical loss/deficiency and improper payment.

A physical loss or deficiency is a shortage of public funds in an account, including imprest or similar funds, resulting from such things as (1) theft (burglary, robbery, etc.), (2) loss in shipment, and (3) destruction by fire, accident, or natural disaster. An unexplained shortage (i.e., a shortage of funds with no apparent reason or explanation) is treated as a physical loss.

An improper payment is a disbursement of public funds by a disbursing officer or subordinate that is found by an appropriate authority, including the Comptroller General, to be illegal, improper, or incorrect. Improper payments result from fraud, forgery, alteration of vouchers, and improper certifications, as well as from other improper practices.

The term "public funds" includes appropriated funds, receipts or collections, and funds held in trust by a federal agency, such as funds of patients in a federal hospital.

**8.3 RIGHT TO AN  
ADVANCE  
DECISION ON  
CERTIFICATION  
OR PAYMENT**

Certifying and disbursing officers are provided with a means of protection against their liability for the certification and payment of vouchers which may prove to be illegal or otherwise improper. As provided in 31 U.S.C. 3529, they have the right to apply for and obtain a decision by the Comptroller General on any question of law relevant to any item in the voucher presented to them for certification or payment.

In accordance with 4 C.F.R. 22.7(a), an arbitration award that is final binding under 5 U.S.C. 7122(a) or (b) will be considered conclusive on GAO in its settlement of accounts and GAO will not review or comment on the merits of such an award. Such an award does not, however, constitute precedent for payments in other instances not covered by the award. When such arbitration awards are not clearly within the scope of any existing appropriation, the expenditure generally should be charged to the appropriation that has the most closely related purpose and scope to that of the arbitration award.

In lieu of requesting a decision by the Comptroller General for items of \$100 or less, certifying and disbursing officers may rely upon written advice from an agency official designated by the head of the agency to make such determinations. GAO will consider the agency decision on the propriety of any such payment to be conclusive in its settlement of the accounts. A copy of the document containing such advice should be retained and referenced to the transaction.

#### 8.4 AGENCY RESPONSIBILITIES

##### A. General

Each agency must maintain appropriate accounting and internal controls, including internal audit, over the assets for which it is responsible. For accountable officers, this includes assuring the legality, propriety, and correctness of disbursements and collections of public funds. In addition, periodic assessments of and reports on the adequacy of agency controls and accounting systems are required by FMFIA, 31 U.S.C. 3512(b) and (c). Irregularities in accounts discovered by agencies should be reported as provided in subsections B and C of this section.

##### B. Reporting Irregularities

Agency heads or their designated representatives will prepare a report on each irregularity that affects the accounts of accountable officers whose accounts are required by law to be settled by GAO. Included in these reportable irregularities are those disclosed by agency examinations of disbursement and collection transactions and other internal reviews. The report of irregularities should contain the information called for in subsection 8.12.A of this title.

Resolution by the agency of reported irregularities should be documented in accordance with subsection 8.12.B and filed with the report.

The reports should be retained by the agency as part of the account records and copies sent to GAO when required by subsection 8.4.C. A copy of each report should be provided to the accountable officer. In addition, copies of the reports may be required by Treasury, in accordance with its regulations.

C. Submitting Reports to  
GAO

If the irregularity is resolved by the agency as described in subsection 8.12.B within 2 years after the date the accounts are made available to GAO for audit, reporting to GAO is not necessary. If the irregularity is not resolved within 2 years after the date the accounts are made available for audit, a copy of the report should be submitted to GAO. However, a report to GAO is not necessary for (1) cases of physical losses under \$1,000, as described in subsection 8.9.C, and (2) cases in which a portion of a loss, although unrecovered, is subject to routine, ongoing recovery action by way of offsets or installment payments.

GAO may from time to time identify particular circumstances in which the prompt reporting of irregularities in other specified situations is needed. At such a time, the agencies involved will be notified in writing.

Reports required by GAO pursuant to this section should be sent to:

Assistant Comptroller General  
Accounting and Financial Management  
ATTENTION: Accounting Systems Audit  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

8.5 THE SETTLEMENT  
PROCESS

GAO's account settlement responsibility requires an administrative determination of the status of the accounts and the amounts due, if any. In meeting this responsibility, GAO relies largely on the fact that agencies are responsible for establishing and assessing their financial systems and controls. (See section 8.4.) To determine whether accountable officers' functions are discharged correctly and in accordance with applicable laws and regulations, GAO monitors the

agency assessments, reports, and corrective actions and gives special consideration to the effectiveness of collection and disbursement procedures and controls, reports of irregularities, and transaction testing.

For account settlement purposes, GAO requires agencies to retain, with the account records, statements of accountability and transactions identical to the reports submitted to Treasury for central accounting and reporting purposes. The applicable reporting forms are SF 224, SF 1218, SF 1219, SF 1220, SF 1221, or other approved forms used in lieu of the prescribed forms. (See appendix I.)

The extent to which GAO may examine individual accounts and specific transactions depends largely on the effectiveness of the accounting and internal controls of the agency involved. When irregularities are reported or disclosed in transactions of accountable officers, GAO may issue a Notice of Exception as described in section 8.6 or initiate other appropriate action. The time limitation for account settlement is discussed in section 8.7 of this title.

## **8.6 ISSUANCE OF EXCEPTIONS TO CERTIFYING OR DISBURSING OFFICERS**

GAO will notify certifying and disbursing officers of exceptions taken to items in their accounts by issuing a Notice of Exception (GAO Form 1100) or an other type of written notice. When a Notice of Exception is issued, it remains an outstanding charge in the accountable official's account until it is resolved, even though the account may otherwise be settled. (See section 8.7 of this title.)

### **A. Replies to Exceptions**

Agencies should provide prompt replies to exceptions in the space provided on GAO Form 1100. After being administratively verified, a reply should be signed by the responsible certifying or disbursing officer and returned promptly to GAO.

In the event that the responsible certifying or disbursing officer is no longer available to reply, the successor officer for the account should furnish the administrative reply to the exception, over his or her own signature, if it can be provided on the basis of the information or data on file. In a case in which GAO may need to issue a revised exception, the successor should provide the responsible officer's current address in the reply.

**B. Acknowledgment of  
Replies**

When GAO finds that a reply to an exception is satisfactory, it will so notify the responsible officer or the administrative office concerned, unless the concerned agency does not desire such acknowledgement.

If a reply to an exception does not present a satisfactory basis for removing the exception, GAO will issue a revised exception that explains why the reply was unsatisfactory.

**C. Reporting  
Repayments**

If an exception to a certifying or disbursing officer's account is satisfied with a repayment, a report should be sent to GAO indicating the collection.

If the indebtedness is liquidated by a single repayment, the repayment should be reported on the original Notice of Exception. If the original form was sent to GAO previously, the repayment should be reported on a copy of the form, if available, or in a letter containing sufficient information to identify the exception.

If the repayment will be made in installments, the reply to the original Notice of Exception should contain a full explanation of the repayment method and schedule. The Notice of Exception will remain open until the entire amount is collected. When the total amount is repaid, a follow-up report should be sent to GAO indicating that the exception is satisfied.

**D. Agency  
Responsibility**

When a Notice of Exception is issued, the agency should keep the exception and all forms of support identified with the transactions in question as part of its permanent records of the account. It should also retain and treat as account records all replies and correspondence in connection with the exception. All records in the account should be retained in accordance with the requirements for record retention in Title 8.

**8.7 TIME LIMITATION  
ON SETTLEMENT  
OF ACCOUNTS**

GAO is limited by 31 U.S.C. 3526 to 3 years for making final settlements of accountable officers' accounts. GAO's general policy is to consider the end of the period covered by the applicable statement of accountability and transactions as the beginning of this 3-year period. (See section 8.5.) Therefore, except in cases of unresolved exceptions, settlement will occur, by operation of law, 3 years after the date that the statement of accountability is certified. However, in cases



such as duplicate payments or forgeries, GAO considers the 3-year period to begin after notice of loss is received by the agency from Treasury. If the loss is due to embezzlement, fraud, or other criminal activity, the 3-year period does not begin until the loss has been discovered and reported to the appropriate agency officials. A settlement is limited to the personal liability of the accountable officer; it does not extend to any liabilities of third parties.

This policy with respect to when the 3-year period begins assumes that the account is substantially complete for audit purposes; that is, that the various documents supporting the statements of accountability are available to the agency and GAO for audit. However, unusual delays in making the supporting documentation available for audit may toll (suspend) the running of the 3-year period. In addition, the 3-year limitation is suspended during wartime.

The only irregularities in an accountable officer's account more than 3 years old that GAO may question are losses due to the criminal activity of the accountable officer. This does not preclude recovery from an accountable officer of any amount due the government under an exception taken within the 3-year settlement period, even though repayment is not made until after the expiration of the settlement period. (See section 8.6 of this title.) Furthermore, it does not preclude recovery of money from any payee who was illegally or erroneously paid.

#### **8.8 RELIEF OF ACCOUNTABLE OFFICERS: GENERAL**

As noted in chapter 7 of this title, an accountable officer is liable for the repayment of losses of public funds for which he or she was accountable. This liability arises automatically, by operation of law, at the time of the physical loss or improper payment.

The term "relief" refers to an administrative decision, made by a government official authorized by law to make such a decision, that absolves the accountable officer from liability for a loss.

At one time, vehicles for administrative relief did not exist. The only recourses available to the accountable officer were court action and private relief legislation. Over the years, a statutory pattern has evolved under which administrative relief is available if various statutory conditions are met. The authority to grant relief is vested in the Comptroller General in most, but not all, cases.

The details of the various relief statutes and the standards GAO has developed in applying them are discussed in detail in GAO's Principles of Federal Appropriations Law. The following sections summarize these statutory requirements and provide certain procedural guidance.

## 8.9 PHYSICAL LOSS OR DEFICIENCY: CIVILIAN AGENCIES

### A. Standards for Relief

For civilian agencies, the Comptroller General is authorized to relieve an accountable officer or former accountable officer from liability for a physical loss or deficiency if the agency determines, and GAO agrees, that

1. the loss occurred while the officer was performing official duties or that the loss resulted from an act or omission by one of the officer's subordinates,
2. the loss was not the result of fault or negligence on the part of the accountable officer, and
3. the loss was not the result of an improper payment.

These standards, set forth in 31 U.S.C. 3527(a), and relevant guidance in Comptroller General decisions are the bases for determinations by agency officials and by GAO regarding the propriety of proposed relief actions.

### B. Losses of \$1,000 or More

When an agency believes that relief is appropriate for physical losses of \$1,000 or more, the agency must formally request relief from GAO. The request must include the required administrative determination made by the agency head or another delegated agency official that relief is appropriate. (See subsection 8.9.A.) Documentation of any delegation, in whatever form the agency deems suitable, need not be furnished to GAO but should be available if requested.

GAO will review the record and respond in writing to the official who submitted the request. Because of the requirement for an agency determination, however, GAO generally will be unable to act solely on a request submitted directly by the accountable officer.

C. Losses of Less Than  
\$1,000

For losses of less than \$1,000, relief requests need not be submitted to GAO. The agency may resolve such losses based on administrative determinations with respect to the standards for relief. (See subsection 8.9.A.) A central control record of such actions should be maintained by each agency and documentation showing the basis for actions taken should be retained for subsequent review by management or audit personnel.

For resolution by an agency, the \$1,000 limitation applies to single incidents or the total of similar incidents which occur about the same time and involve the same accountable officer.

8.10 PHYSICAL LOSS  
OR DEFICIENCY:  
MILITARY  
DEPARTMENTS

## A. Standards for Relief

For the armed services, relief for a physical loss may be granted by the Department of Defense or the appropriate military department regardless of the amount. Otherwise, however, the standards for relief in Department of Defense cases of physical loss are similar to those for civilian agencies. The defense or military department may grant relief to disbursing officers only when it determines that the loss

1. occurred while the accountable officer was in the line of duty,
2. occurred without fault or negligence on the part of the accountable officer, and
3. was not the result of an improper payment (31 U.S.C. 3527(b)).

B. Agency  
Determinations

Unlike determinations made by civilian agencies, administrative determinations by military departments under 31 U.S.C. 3527(b) are conclusive on GAO. In military physical loss cases in which the required administrative determinations are made, the granting of relief follows automatically. (See subsection 8.10.A.) Therefore, a relief request need not be submitted to GAO, regardless of the amount. Requirements stated in subsection 8.4.C for

reporting irregularities to GAO are not negated by this section.

Determinations made under 31 U.S.C. 3527(b) should be documented and retained by the agency for purposes of review by management and audit personnel.

### 8.11 IMPROPER PAYMENT

#### A. Standards for Relief: Disbursing Officers

A disbursing officer may be relieved from liability for an improper payment if GAO determines that the payment was not the result of bad faith or lack of reasonable care on the part of the disbursing officer (31 U.S.C. 3527(c)). Relief may be requested by the agency involved, or it may be considered on GAO's own initiative.

#### B. Standards for Relief: Certifying Officers

GAO is authorized under 31 U.S.C. 3528(b)(1) to relieve a certifying officer from liability for an improper payment, upon determining that

1. the certification was based on official records and the certifying officer did not know, and by reasonable diligence and inquiry could not have discovered, the correct information; or
2. the obligation was incurred in good faith, the payment was not specifically prohibited by statute, and the government received value for the payment.

#### C. Required Collection Efforts

The granting of relief either to a disbursing or certifying officer does not affect the liability of the recipient of the improper payment, nor does it affect the agency's duty to pursue collection action against the recipient. Relief may be denied if GAO determines that the agency has not diligently pursued collection action. Requests for relief under section 8.11 must describe the agency's collection efforts under the Federal Claims Collection Standards (4 C.F.R. parts 101-105) and Title 4 of this manual, or other applicable authorities. GAO will evaluate the adequacy of such collection actions in relation to the facts and circumstances of the particular case. If relief is denied because of an agency's failure to pursue adequate collection action, the letter of denial will describe

the perceived deficiencies. The request for relief may be resubmitted after the agency has taken further collection actions.

### 8.12 REQUIRED DOCUMENTATION

#### A. Reportable Irregularities

The documentation for each irregularity must include the following:

1. a detailed statement of facts of the case, including the type of irregularity, date, amount, and names and positions of the accountable officer(s) and other individuals involved;
2. a reference to pertinent supporting documents, such as pay records, contracts, and vouchers;
3. a description of how the irregularity occurred and how it affected the accountable officer's account;
4. adequate description of procedural deficiencies, if known, that caused the irregularity and the corrective action taken or to be taken; and
5. information on any recoupment already made or being considered.

#### B. Irregularities Resolved by the Agency

In addition to the documentation required by subsection 8.12.A, resolved irregularities should be supported, as applicable, by documentation showing

1. that the questioned items were proper;
2. that the questioned amounts were recovered;
3. that the questioned amounts were waived under 2 U.S.C. 130c and 130d, 5 U.S.C. 5584, 10 U.S.C. 2774, or 32 U.S.C. 716 and that a credit in the amount of the waiver was granted to the accountable officer's account as authorized by law;
4. any administrative determinations required by the applicable relief statute, when relief is granted by the agency; and

5. any other administrative actions permitted by law to resolve the irregularities.

For a discussion of waivers of claims against recipients of overpayments of pay and allowances or other payments, see 4 C.F.R. parts 91-93 and Title 4 of this manual.

**C. Requests for Relief  
Submitted to GAO**

Requests for relief submitted by agencies to GAO must include the following items, as applicable:

1. a copy of any report submitted to GAO pertaining to the case under subsection 8.4.C of this title (If a report was not submitted previously, a copy of the agency's report should be included.);
2. a description of collection actions taken;
3. identification of an appropriation or fund to be charged if an account adjustment is deemed necessary (see section 8.14 of this title);
4. if the relief request is based on a contention that the loss resulted from reliance on the procedures and controls in an automated system, information should be provided which shows that there was a reasonable basis for such reliance (see section 7.2);
5. any administrative determinations required by the applicable relief statute; and
6. a written statement by the accountable officer or, in its absence, a notation by the agency that the accountable officer chooses not to submit a separate statement. (An accountable officer desiring relief has the burden of demonstrating that the loss occurred without any fault or negligence on his or her part. Because the basic liability is a strict liability arising by operation of law and the government is not required to prove negligence, it is important that, if possible, the accountable officer be given the opportunity to include a statement in the relief request.)

**D. Subsequent  
Developments**

Any subsequent developments relevant to the case, such as full or partial recovery of the loss, should be documented in the account records. If a request for relief has been

submitted to GAO, such developments should also be reported promptly to GAO.

8.13 WHERE TO  
SUBMIT  
REQUESTS FOR  
RELIEF

Any requests for relief submitted to GAO should be sent to the following address:

Office of the General Counsel  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

8.14 ADJUSTMENT OF  
ACCOUNTS

A. General

In cases in which adjustments are authorized, except for situations covered by subsection 8.14.E, the amount of the adjustment (which may be the entire amount of the loss or a portion of it, if part has been recovered) will be charged to the current appropriation or fund available for the expenses of the accountable function at the time the adjustment is made. If an adjustment is deemed necessary and relief is requested from GAO, the request should indicate which appropriation or fund the agency proposes to charge, as listed in the "Federal Account Symbols and Titles" supplement to the Treasury Financial Manual.

B. Relief Granted by  
GAO

The letter granting relief by GAO will include a statement approving the adjustment and indicate the appropriate appropriation or fund to be charged. If GAO does not cite the same appropriation or fund as that proposed by the agency to be charged or concludes that the adjustment is not appropriate in the particular case, the letter will include an explanation. (See 31 U.S.C. 3527(d).)

C. Relief Granted by  
the Agency

In cases where an agency is authorized to grant relief and determines that an adjustment is necessary, the agency may make the adjustment in the manner described in this section, without any direct involvement by GAO. Designation of agency officials authorized to approve adjustments should be in writing.

**D. Relief Denied or  
Agency Declines to  
Seek Relief**

If relief is denied either by GAO or by the agency concerned, as applicable, or the agency declines to seek relief because the loss is deemed attributable to fault or negligence of the accountable officer and the agency determines that (1) the loss cannot be recovered from the accountable officer or from any payee, beneficiary, recipient, or other liable party, and (2) an adjustment is necessary, the agency may make the adjustment as provided in this section without further involvement by GAO. The adjustment does not affect the accountable officer's liability for the loss. (See 31 U.S.C. 3530.)

**E. Other Situations**

If an adjustment is necessary and cannot be made under subsections 8.14.B, C, or D, the agency may make the adjustment by restoring the required amount from the withdrawn unobligated balances of expired appropriations, as authorized by 31 U.S.C. 1552(a)(2). Such a situation might arise, for example, in the case of an improper payment where (1) the money cannot be recovered from the recipient and (2) the accountable officer is without fault but the passage of time (see section 8.7) has precluded the granting of relief (Comptroller General Decision, B-227202, August 14, 1989).





Table of Contents

	<u>Page</u>
A. Responsibilities for Prescribing Standard Accounting Forms	7.I-3
B. Selected Standard and Optional Forms Relating to Fiscal Procedures Prescribed by the Department of the Treasury	7.I-3
C. Selected Standard and Optional Forms Relating to Fiscal Procedures Prescribed by the General Services Administration	7.I-5
D. Optional Forms Relating to Fiscal Procedures Prescribed by the General Accounting Office	7.I-5



**A. Responsibilities for Prescribing Standard Accounting Forms**

Generally, standard and optional accounting forms relating to fiscal operations and related guidance are prescribed by the agency having primary functional responsibility for the area(s) associated with the forms. Except as provided otherwise in this appendix, the issuance or revision of such forms does not require GAO approval; however, the forms must be consistent with the principles, standards, and related requirements prescribed by the Comptroller General (31 U.S.C. 3511).

The government's Standard and Optional Forms Program is administered by GSA. The Federal Information Resource Management Regulations (FIRMR) (41 C.F.R. 201-45.5) sets forth the program's scope, objectives, guidelines, and procedures. These regulations prescribe general requirements and procedures for standard and optional forms management--especially in the areas of clearance, revision, cancellation, and exceptions. (The standard and optional forms promulgated by the Comptroller General or those subject to his approval are excluded from the clearance authorities of the program. However, by agreement between GSA and GAO, such forms are included in the GSA clearance procedures discussed in FIRMR.)

All agencies are encouraged to take advantage of opportunities presented by modern technology, such as use of computer-generated forms; however, proposed new issuances or revisions of standard forms, including changes in content, format, or printing specifications, must be submitted to GSA for review and approval prior to implementation.

**B. Selected Standard and Optional Forms Relating to Fiscal Procedures Prescribed by the Department of the Treasury**

SF 224	Statement of Transactions
SF 1034	Public Voucher for Purchases and Services Other Than Personal (original)
SF 1034-A	Public Voucher for Purchases and Services Other Than Personal (memorandum)
SF 1035	Public Voucher for Purchases and Services Other Than Personal--Continuation Sheet (original)
SF 1035-A	Public Voucher for Purchases and Services Other Than Personal--Continuation Sheet (memorandum)
SF 1047	Public Voucher for Refunds (original)
SF 1048	Public Voucher for Refunds (memorandum)

SF 1049	Public Voucher for Refunds (original--tabular form)
SF 1050	Public Voucher for Refunds (memorandum--tabular form)
SF 1080	Voucher for Transfers Between Appropriations and/or Funds
SF 1081	Voucher and Schedule of Withdrawals and Credits
SF 1096	Schedule of Voucher Deductions
SF 1098	Schedule of Canceled or Undelivered Checks
SF 1143	Advertising Order (face); Public Voucher for Advertising (reverse)
SF 1145	Voucher for Payment Under Federal Tort Claims Act (original)
SF 1145-A	Voucher for Payment Under Federal Tort Claims Act (memorandum)
SF 1147	Request for Issuance of Replacement Check Due to Error in Name and/or Designation of Payee
SF 1149	Statement of Designated Depository Account
SF 1151	Nonexpenditure Transfer Authorization
SF 1156	Public Voucher for Fees and Mileage of Witnesses (original)
SF 1156-A	Public Voucher for Fees and Mileage of Witnesses (memorandum)
SF 1157	Claim for Witness Attendance Fees, Travel, and Miscellaneous Expense
SF 1165	Receipt for Cash--Subvoucher (with stub: Interim Receipt for Cash)
SF 1166 OCR	Voucher and Schedule of Payments (original)
SF 1166-A OCR	Voucher and Schedule of Payments (memorandum)
SF 1167 OCR	Voucher and Schedule of Payments--Continuation Sheet (original)
SF 1167-A OCR	Voucher and Schedule of Payments--Continuation Sheet (memorandum)
SF 1179	Recapitulation of Block Control Level Totals of Checks Issued

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SF 1184	Unavailable Check Cancellation
SF 1218	Statement of Accountability (Foreign Service Account) <sup>1</sup>
SF 1219	Statement of Accountability <sup>1</sup>
SF 1220	Statement of Transactions According to Appropriations, Funds, and Receipt Accounts <sup>1</sup>
SF 1221	Statement of Transactions According to Appropriations, Funds, and Receipt Accounts (Foreign Service Account) <sup>1</sup>
OF 1129	Cashier Reimbursement Voucher and/or Accountability Report
OF 1129-A	Cashier Reimbursement Voucher and/or Accountability Report--Memorandum

C. Selected Standard and Optional Forms Relating to Fiscal Procedures Prescribed by the General Services Administration

SF 1012	Travel Voucher (original)
SF 1012-A	Travel Voucher (memorandum)
SF 1038	Advance of Funds Application and Account
SF 1094	U.S. Tax Exemption Certificate
SF 1094-A	Tax Exemption Certificates Accountability Record
SF 1164	Claim for Reimbursement for Expenditures on Official Business
OF 1121	Bill of Lading Accountability Record

D. Optional Forms Relating to Fiscal Procedures Prescribed by the General Accounting Office

Because of the low level of demand for all of the optional forms formerly prescribed by the General Accounting Office and listed in the appendix to this title, none of the forms will be stocked by the Federal Supply Service after present stocks are exhausted. Agencies affected by this change should assess their needs and establish appropriate alternative forms and procedures. Agencies may meet their needs for

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<sup>1</sup> This form is used by the Comptroller General for the settlement of accounts. Changes to and revisions of this form require approval of the Comptroller General.

OF 1017-G, Journal Voucher, by reproducing the copy of the form included on the next, unnumbered page.

The following governmentwide optional forms are canceled.

OF 1014	General Ledger (ruled)
OF 1014-A	General Ledger (unruled)
OF 1015	Allotment Ledger (ruled)
OF 1016	Distribution Ledger (ruled)
OF 1017-C	Register of Allotment Ledger Transactions
OF 1101	Miscellaneous Obligation record
OF 1114	Bill for Collection
OF 1114-A	Official Receipt
OF 1114-B	Collection Voucher
OF 1120	Transportation Request Accountability Record







Table of Contents

<u>Number</u>		<u>Page</u>
1	Procedure for Handling Repayments to Appropriations	7.II-3
2	Procedure for Making Appropriated Funds Available for Disbursement	7.II-5
3	Procedure for Handling Special, Trust, Revolving and Deposit Fund Collections	7.II-7
	Amendment No. 1 - Amendment of the Definitions of Available and Unavailable Receipts	7.II-9
	Amendment No. 2 - Amendment of the Definitions of Available and Unavailable Receipts	7.II-11
	Amendment No. 3 - Amendment of the Definition of Available Receipts	7.II-13
4	Modification of Warrant Procedures and Revised Elimination of Certain Checking Accounts	7.II-15
	Supplement No. 1 - Modification of Warrant Procedures and Elimination of Certain Checking Accounts	7.II-19
	Supplement No. 2 - Modification of Warrant Procedures and Elimination of Remaining Funded Checking Accounts	7.II-21
5	Elimination of the Requirement That Certain Warrants Be Countersigned in the General Accounting Office	7.II-23
6	Modification of Procedures for Warrants Issued Pursuant to Continuing Resolutions	7.II-25



## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 1

(Under Public Law 784, approved September 12, 1950)

**SUBJECT:** Procedure for Handling Repayments to Appropriations.

1. **Purpose.** Pursuant to Section 115(a) of Public Law No. 784, the Secretary of the Treasury and the Comptroller General have determined, in the interest of simplification and improvement, that existing procedures with respect to the handling of repayments to appropriations be modified. All collections representing repayments to appropriations which have not lapsed, including reimbursements and refunds, will be deposited directly in the accounts of disbursing officers and will accordingly be immediately available for disbursement. This will eliminate the necessity for the issuance of covering warrants, the requisitioning of funds, and the use of accountable warrants in connection with repayments to appropriations. The procedure outlined hereinafter will be followed for repayments to appropriations received from sources outside the Government.

2. **Types of Repayments to Appropriations.** Repayments to appropriations covered by the instructions in this Regulation fall within two general classes defined as follows:

a. Reimbursements to appropriations which represent amounts collected from outside sources for commodities or services furnished, or to be furnished, and which by law may be credited directly to appropriations.

b. Refunds to appropriations which represent amounts collected from outside sources for payments made in error, overpayments, or adjustments for previous amounts disbursed, including returns of authorized advances.

3. **Accounting for Repayments to Appropriations.** The repayments referred to in paragraph 2 of this Regulation will be scheduled for credit in the account of a disbursing officer on approved forms, and will be deposited on Treasury Certificate of Deposit Form No. 6599. Such repayments may be scheduled to any disbursing officer for deposit by him to the credit of his own account or to the credit of any other disbursing officer's account as designated by the administrative agency. The receipted copy of the schedule of collections showing the certificate of deposit number and date of deposit shall constitute acceptable posting media for use by the administrative agency in crediting such repayments in their accounts.

4. **Reporting of Repayment Transactions on Account Current.** Disbursing officers will report such repayments to appropriations in the collection column of the receipt section of the account current for each appropriation account.

5. Special Procedures Already Established. This Regulation will not apply to the accounting for repayments to appropriations through the Accounts of Advances for the Department of Defense and the Department of State. The existing procedure prescribed for these agencies where collections are effected through accounts of advances will be continued.

The procedure for handling repayments to appropriations as outlined in General Accounting Office Accounting Systems Memorandum No. 9 - Revised will continue to be followed where the credits result from charges to other appropriations.

Also, this Regulation will not apply to the accounting for repayments to the appropriations available for the payment of the principal of and interest on the public debt so long as there continues in effect the present procedure under which such payments are made.

6. Effective Date. The procedures outlined in this Regulation are to be effective November 1, 1950.

(Signed) John W. Snyder  
Secretary of the Treasury

(Signed) Lindsay C. Warren  
Comptroller General of the  
United States

September 22, 1950

## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 2

(Under Public Law 784, approved September 12, 1950)

SUBJECT: Procedure for Making Appropriated Funds Available for Disbursement.

1. Purpose. Pursuant to Section 115(a) of Public Law 784, the Secretary of the Treasury and the Comptroller General have determined in the interest of simplification and improvement, that existing procedures with respect to the requisitioning of appropriated funds by agencies and the advancing of such funds to disbursing officers shall be modified as provided herein. Appropriated funds will be advanced under each separate appropriation head to disbursing officers on the basis of properly executed appropriation warrants except as indicated in paragraph 4 hereof. This will eliminate the requisitioning of funds and the issuance of accountable warrants in connection with funds made available to agencies on appropriation warrants and will result in the discontinuance of certain accounts on the books of the agencies and the Treasury Department.

2. Method of Advancing Agency Funds to Disbursing Officers. Funds appropriated to agencies will, on the basis of appropriation warrants issued and countersigned, be made immediately available in the checking accounts of appropriate disbursing officers on the books of the Treasurer of the United States. Such funds will be made available by appropriation account as follows:

a. Agency Funds Advanced to the Chief Disbursing Officer, Treasury Department. Appropriated funds of agencies to be disbursed or funded by the Division of Disbursement will be made available in the accounts of the Chief Disbursing Officer. Funds will be transferred by the Chief Disbursing Officer to other disbursing officers, authorized to obtain advances through his account, on the basis of requests received from administrative agencies concerned.

b. Agency Funds Advanced to Disbursing Officers Other Than the Chief Disbursing Officer, Treasury Department. Appropriated funds of other agencies will be made available in the accounts of the disbursing officer of the agency. Where an agency has more than one disbursing officer, the agency will designate the officer whose account with the Treasurer of the United States is to be credited with the total amount of appropriated funds available to the agency and notify the Treasury Department and the General Accounting Office of such designation. The disbursing officer designated will make such transfers of funds to other disbursing officers, authorized to obtain advances through his account, as necessary for purposes of the agency.

3. Conditions Under Which Advances of Funds May be Withheld or Withdrawn. In the event of delinquency in the rendition of accounts or for other reasons involving the condition of the disbursing officer's account, within the purview of 31 U.S.C. 78, advances to such officer may be withheld or withdrawn, and in the case of such withholding an appropriation warrant may be issued without authorizing an advance.

4. Appropriated Funds Exempted from This Regulation. This Regulation will not apply to the following appropriated funds: (1) those in which the unrequisioned balance is a factor in the computation of interest to be charged or credited; (2) those for the payment of principal and interest on the public debt; (3) those appropriations which are available only for transfer, in the full amount, to some other account on the books of the Treasury; and (4) District of Columbia funds.

5. Effective Date. This Regulation will become effective May 1, 1951. Any unrequisioned balances of appropriations not exempted by this Regulation remaining on the books of the Treasury as of the close of business April 30, 1951, less the reserves established by the Bureau of the Budget pursuant to Section 1214 of the General Appropriation Act, 1951, approved September 6, 1950, Public Law 759, 81st Congress, will be advanced by the Secretary of the Treasury to the appropriate disbursing officer.

(Signed) John W. Snyder  
Secretary of the Treasury

(Signed) Lindsay C. Warren  
Comptroller General of the  
United States

April 16, 1951

## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 3

(Under Public Law 784, approved September 12, 1950)

**SUBJECT:** Procedure for Handling Special, Trust, Revolving and  
Deposit Fund Collections

1. General Provisions. Pursuant to Section 115(a) of Public Law 784, the Secretary of the Treasury and the Comptroller General of the United States have determined that existing procedures with respect to the handling of special fund and trust fund receipts which are available for expenditure by the collecting agency, be modified. Except as otherwise provided herein, all such special fund and trust fund receipts will be credited directly in the accounts of disbursing officers and will accordingly be immediately available for disbursement. The issuance of covering warrants and the advancing of funds to disbursing officers in connection with such receipts is hereby eliminated; however, these collections will continue to be accounted for as receipts and as amounts appropriated. The Treasury Department will issue appropriation warrants on an annual basis to be countersigned by the Comptroller General confirming the appropriation of such receipts.

The Secretary of the Treasury and the Comptroller General of the United States have determined that covering warrants will be eliminated in connection with certain special fund and trust fund accounts which are in the nature of revolving fund or deposit fund accounts. Collections for credit to accounts of this nature will be credited directly to revolving fund or deposit fund accounts instead of to receipt accounts. Such collections will be accounted for in the same manner as repayments to general, special or trust fund appropriations in accordance with the procedures set forth in Treasury Department - General Accounting Office Joint Regulation No. 1.

2. Types of Special Fund and Trust Fund Receipts. Appropriation receipts relating to special and trust fund accounts fall within two general classes described below:

a. Available receipts. Receipts which under law or trust agreement are immediately available in their entirety to the collecting agency as appropriations for expenditure without further action by the Congress. Excluded from this category are receipts to be applied to the retirement of Public Debt obligations and funds in connection with which the computation of interest charges or credits necessitates the maintenance of accounts for unrequisioned balances of appropriations on the books of the Treasury.

b. Unavailable receipts. Receipts which at the time of collection are not appropriated, and receipts which are not immediately available for expenditure because (1) further action by the Congress is required or congressional limitation has been established as to the amount available for expenditure; (2) amounts credited to receipt accounts are later to be cleared in whole or in part to other receipt accounts



before appropriation warrant action is taken; or (3) the amounts of receipts are appropriated or made available to an agency other than the one making collection.

3. Accounting for Special Fund and Trust Fund Receipts. All receipts for credit to accounts classified as special funds and trust funds will be accounted for by agencies on a gross basis under receipt account symbols assigned by the Treasury Department. Available receipts will concurrently be accounted for in related special fund or trust fund appropriation accounts.

The available receipts described in paragraph 2a will be scheduled for credit in the account of a disbursing officer on a special form to be prescribed by the General Accounting Office. Such receipts when credited in the accounts of a disbursing officer will be available for disbursement.

The unavailable receipts described in paragraph 2b and the items excluded in paragraph 2a are not affected by this Regulation.

4. Designation of Types of Receipts by Treasury Department. The Treasury Department will assign receipt account symbols for special fund accounts and trust fund accounts. Announcements will designate those receipts which are to be treated as available. Agencies will be guided accordingly in scheduling collections to disbursing officers.

5. Conditions Under which Credits to a Disbursing Officer May Be Withheld or Balances to his Credit May Be Withdrawn. In the event of delinquency in the rendition of accounts or for other reasons involving the condition of the disbursing officer's account, within the purview of 31 U.S.C. 78, credits to such officer may be withheld and balances already to his credit may be withdrawn irrespective of the source of such credits or balances.

6. Effective Date. This Regulation will be effective July 1, 1951.

(Signed) John W. Snyder  
Secretary of the Treasury

(Signed) Lindsay C. Warren  
Comptroller General of the  
United States

June 12, 1951

## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 3

## Amendment No. 1

(Under Public Law 784, approved September 12, 1950)

SUBJECT: Amendment of the Definitions of Available and Unavailable Receipts.

The Secretary of the Treasury and the Comptroller General of the United States have determined that the definition of available and unavailable receipts set forth in Joint Regulation No. 3, dated June 12, 1951, be modified by eliminating the provision that available receipts be collected in their entirety by the agency to which they are available as appropriations for expenditure.

Accordingly, the phrase "by the collecting agency" in paragraph 1 of the Regulation is hereby deleted, and paragraph 2 is amended to read as follows:

2. Types of Special Fund and Trust Fund Receipts. Appropriation receipts relating to special and trust fund accounts fall within two general classes described below:

a. Available Receipts. Receipts which under law or trust agreement are immediately available in their entirety as appropriations to a single agency for expenditure without further action by the Congress. Excluded from this category are receipts to be applied to the retirement of Public Debt obligations and funds in connection with which the computation of interest charges or credits necessitates the maintenance of accounts for unrequisioned balances of appropriations on the books of the Treasury.

b. Unavailable Receipts. Receipts which at the time of collection are not appropriated, and receipts which are not immediately available for expenditure because (1) further action by the Congress is required or congressional limitation has been established as to the amount available for expenditure; or (2) amounts credited to receipt accounts are later to be cleared in whole or in part to other receipt accounts before appropriation warrant action is taken.

The second sub-paragraph of paragraph 3 of the Regulation is amended to read as follows:

The available receipts described in paragraph 2 will be scheduled for credit in the account of a disbursing officer on such forms as may be prescribed by the General Accounting Office. Such receipts when credited in the accounts of a disbursing officer will be available for disbursement.

With respect to the Civil Service Retirement and Disability Fund, this amendment will apply only to those deductions from payrolls paid by the Division of Disbursement, Treasury Department, which heretofore have been covered into the Treasury with credit to the receipt account "Contributions, civil service retirement and disability fund". As soon as appropriate procedures are developed for the handling as available receipts of the receipts herein excluded, Joint Regulation No. 3 will be amended accordingly.

(Signed) JOHN W. SNYDER  
Secretary of the Treasury

(Signed) LINDSAY C. WARREN  
Comptroller General of the  
United States

December 21, 1951

TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

JOINT REGULATION NO. 3

Amendment No. 2

SUBJECT: Amendment of the Definitions of Available and  
Unavailable Receipts.

Amendment No. 1, dated December 21, 1951, to Joint Regulation No. 3 is hereby amended by deleting the last unnumbered paragraph thereof concerning transactions of the Civil Service Retirement and Disability Fund, since procedures have now been developed for the handling of all receipt transactions of the Fund as available receipts under Joint Regulation No. 3. This amendment will be effective July 1, 1957.

(Signed) W. Randolph Burgess  
Acting Secretary of the  
Treasury

(Signed) Joseph Campbell  
Comptroller General of the  
United States

May 20, 1957



## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 3

## AMENDMENT NO. 3

SUBJECT: Amendment of the Definition of Available Receipts

The Secretary of the Treasury and the Comptroller General of the United States have determined that the definition of available receipts set forth in Joint Regulation No. 3, dated June 12, 1951, as amended by Amendment No. 1, dated December 21, 1951, be modified by eliminating the exclusion from that definition of funds in connection with which the computation of interest charges or credits necessitates the maintenance of accounts of unrequisioned balances of appropriations on the books of the Treasury.

Accordingly, the phrase "and funds in connection with which the computation of interest charges or credits necessitates the maintenance of accounts for unrequisioned balances of appropriations on the books of the Treasury" in paragraph 2a is deleted. The amended definition of available receipts reads as follows:

2. Types of Special Fund and Trust Fund Receipts. \* \* \*

a. Available Receipts. Receipts which under law or trust agreement are immediately available in their entirety as appropriations to a single agency for expenditure without further action by the Congress. Excluded from this category are receipts to be applied to the retirement of Public Debt obligations.

This amendment will be effective July 1, 1972.

/Signed/ John K. Carlock  
Fiscal Assistant Secretary  
of the Treasury

/Signed/ Elmer B. Staats  
Comptroller General of the  
United States

September 18, 1972



## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 4 - REVISED

(Under Public Law 784, approved September 12, 1950)

SUBJECT: Modification of Warrant Procedures and Elimination of  
Certain Checking Accounts.

1. Pursuant to Section 115 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66c), the Secretary of the Treasury and the Comptroller General of the United States have made the following determinations in consideration of: (a) Sections 113 and 114 of the Budget and Accounting Procedures Act of 1950 which, respectively, place responsibility on the head of each executive agency for maintaining systems of accounting and internal control in accordance with certain requirements, and make provision for maintaining in the Treasury Department a unified system of central accounting and reporting on the most efficient and useful basis; (b) Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), which requires the head of each executive agency to maintain a system for administrative control over the incurring of obligations and making of expenditures pursuant to appropriations or other authorizations and the fixing of responsibilities for violations of law in that respect; (c) where applicable, the Act of December 29, 1941, as amended (31 U.S.C. 82b - c) fixing the respective responsibilities of disbursing and certifying officers; and (d) the detailed reconciliation which is made of disbursing and collecting officers' check and deposit transactions.

2. The requirements of existing law that funds be requisitioned and advanced to accountable officers are hereby waived.

3. The responsibility for determining, prior to disbursement, the sufficiency of balances under appropriations, funds or other limitations established by or pursuant to law rests with the administrative agency to which the funds were appropriated or otherwise made available. There is no change in the responsibilities of officers performing disbursing functions exempted from the provision of the Act of December 29, 1941, as amended.

4. The use of funded checking accounts in the issuance and payment of checks drawn on the Treasurer of the United States shall be discontinued, with respect to designated agencies. In each case where a funded checking account is not maintained, the balance of checks outstanding, supported by the checks issued records of disbursing officers and paid check records of the Treasurer, shall be the basis for the reconciliation of the disbursing accounts. The amount of checks outstanding for each such disbursing symbol account shall be disclosed by the accounts of the Treasury Department relating to the cash operations of the Government as a whole, maintained pursuant to Section 114 of the Budget and Accounting Procedures Act of 1950.



5. In the event of delinquency by a disbursing officer in the rendition of his accounts or for other reasons arising out of the condition of the officer's accounts, the Comptroller General may, by notification to the Secretary of the Treasury, suspend the terms of paragraph 2 of this Joint Regulation with respect to such officer. In such event the applicable provisions of law will become operative with respect to such officer.

6. The requirements of existing law that warrants be issued and countersigned to acknowledge the receipt of moneys to be covered in the Treasury are hereby waived. For the purposes of Section 305 of the Revised Statutes, as amended (31 U.S.C. 147), moneys received and covered into the public Treasury shall be deemed to be officially acknowledged when the receipt of such moneys, for credit to the receipt accounts or appropriation and fund accounts maintained pursuant to the Act of July 31, 1894, as amended (5 U.S.C. 255) and Section 114(b) of the Budget and Accounting Procedures Act of 1950, is recorded by the Treasury offices designated for that purpose by the Secretary of the Treasury.

7. This regulation is effective July 1, 1955. The provisions of paragraph 4, however, shall become operative with respect to only the disbursing activities designated below, on the date cited. Further authorizations will be made by supplement to this regulation.

<u>Disbursing Activity</u>	<u>Effective Date</u>
a. Disbursing by all components of the Department of Defense.....	July 1, 1955
b. All disbursing by the Division of Disbursement, Treasury Department, including disbursing by others by delegation under the provisions of section 4 of Executive Order No. 6166, as amended, and disbursing by the Division of Disbursement for officers or agencies not subject to the provisions of such section, including checks drawn in the name of the Secretary of the Treasury.....	July 1, 1955
c. All disbursing by United States Marshals.....	July 1, 1955
d. All disbursing by the Judiciary, except Clerks of United States District Courts, Clerks of United States Courts of Appeals, Clerks of United States Emergency Court of Appeals, and Register of Wills.....	July 1, 1955

(Signed) G. M. Humphrey  
Secretary of the Treasury

(Signed) Joseph Campbell  
Comptroller General of the  
United States

April 29, 1955



## TREASURY DEPARTMENT - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 4 - REVISED, SUPPLEMENT NO. 1

(Under Public Law 784, approved September 12, 1950)

**SUBJECT:** Modification of Warrant Procedures and Elimination of  
Certain Checking Accounts.

As contemplated by paragraph 7 of Joint Regulation No. 4 - Revised, dated April 29, 1955, the Secretary of the Treasury and Comptroller General of the United States have determined that the provisions of paragraph 4 of said regulation, concerning the elimination of funded checking accounts for the issuance and payment of checks drawn on the Treasurer of the United States, shall become operative, not later than July 1, 1957, with respect to the additional disbursing activities designated below.

1. Post Office Department, exclusive of the separate accounts maintained under the postal savings system.
2. Library of Congress.
3. Government Printing Office.

(Signed) W. Randolph Burgess  
Acting Secretary of the  
Treasury

(Signed) Joseph Campbell  
Comptroller General of the  
United States

January 10, 1957



DEPARTMENT OF THE TREASURY - GENERAL ACCOUNTING OFFICE

JOINT REGULATION NO. 4 - REVISED, SUPPLEMENT NO. 2

(Under Public Law 784, approved September 12, 1950)

**SUBJECT:** Modification of Warrant Procedures and Elimination of  
Remaining Funded Checking Accounts

As contemplated by paragraph 7 of Joint Regulation No. 4 - Revised, dated April 29, 1955, the Secretary of the Treasury and Comptroller General of the United States have determined that the provisions of paragraph 4 of said regulation, concerning the elimination of funded checking accounts for the issuance and payment of checks drawn on the United States Treasury, shall become operative, not later than July 1, 1975, with respect to all disbursing activities.

/Signed/ John K. Carlock  
Fiscal Assistant Secretary  
of the Treasury

/Signed/ Elmer B. Staats  
Comptroller General of the  
United States

June 26, 1975



## DEPARTMENT OF THE TREASURY - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 5

(Under Public Law 784, approved September 12, 1950)

**SUBJECT: Elimination of the Requirement That Certain Warrants Be  
Countersigned in the General Accounting Office**

1. Section 115 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66c) provides that when the Secretary of the Treasury and the Comptroller General of the United States determine that existing procedures can be modified in the interest of simplification, improvement, or economy, with sufficient safeguards over the control and accounting for public funds, they may issue joint regulations providing for the waiving, in whole or in part, of the requirements of existing law that warrants be issued and countersigned in connection with the receipt, retention, and disbursement of public moneys and trust funds.

2. Pursuant to the above statute, the Secretary of the Treasury and the Comptroller General of the United States have determined, in the interest of simplification and improvement, that existing procedures with respect to the processing of appropriation warrants be modified to eliminate the requirement that such warrants be countersigned in the General Accounting Office except for those warrants issued pursuant to legislation continuing appropriations until enactment of applicable appropriation acts.

3. All requirements of existing law that warrants be countersigned are hereby waived except as they relate to countersigning of warrants issued pursuant to legislation continuing appropriations until enactment of applicable appropriation acts.

4. Documentation for amounts appropriated will be prepared in accordance with Department of the Treasury Regulations.

5. The Department of the Treasury will continue to consult with the General Accounting Office before issuance of warrants when the legality of issuance and/or the amount requested are in question.

6. Effective Date. This regulation will be effective upon issuance of appropriate regulations by the Department of the Treasury.



/Signed/ John K. Carlock  
Fiscal Assistant Secretary  
of the Treasury

/Signed/ Elmer B. Staats  
Comptroller General of the  
United States

October 18, 1974

## DEPARTMENT OF THE TREASURY - GENERAL ACCOUNTING OFFICE

## JOINT REGULATION NO. 6

(Under Public Law 784, approved September 12, 1950)

Subject: Modification of Procedures for Warrants Issued  
Pursuant to Continuing Resolutions

1. Section 115 of the Budget and Accounting Procedures Act of 1950 (31 USC 3326) provides that when the Secretary of the Treasury and the Comptroller General of the United States determine that existing procedures can be modified in the interest of simplification, improvement, or economy, with sufficient safeguards over the control and accounting for public funds, they may issue joint regulations providing for the waiving, in whole or in part, of the requirements of existing law pertaining to warrants issued and countersigned in connection with the receipt, retention, and disbursement of public monies and trust funds.

2. Pursuant to the above statute, the Secretary of the Treasury and the Comptroller General of the United States have determined, in the interest of simplification, improvement, and economy, that existing procedures with respect to appropriation warrants issued under continuing resolutions be modified to eliminate the requirement that new appropriation warrants be issued and countersigned upon the enactment of each and every continuing resolution during a fiscal year.

3. All appropriation warrants under the first continuing resolution for a fiscal year will be issued and countersigned for an amount equivalent to the total annual amount appropriated by the resolution. Additional warrants will be issued and countersigned only if subsequent continuing resolutions change the annual amount appropriated for an account.

4. The Department of the Treasury will continue to consult with the General Accounting Office before issuance of warrants when the legality of issuance and/or the amount requested are in question.

5. Effective Date. This regulation will be effective October 1, 1983.

/Signed/ Gerald Murphy  
Acting Fiscal Assistant  
Secretary of the Treasury

/Signed/ Charles A. Bowsler  
Comptroller General of the  
United States



Table of Contents

	<u>Page</u>
A. <b>Definition</b>	7.III-3
B. <b>Statutory Authority and Exceptions</b>	7.III-3
C. <b>Appropriateness of Statistical Sampling</b>	7.III-4
D. <b>The Sampling Plan</b>	7.III-5
E. <b>Documentation</b>	7.III-6



**A. Definition**

Statistical (or probability) sampling in voucher examination relies on the scientifically proven principles of probability to collect quantitative facts about the accuracy and other characteristics of a universe of vouchers by reviewing a randomly selected sample of that universe. Examination of the items in the sample and evaluation of the results not only permit the correction of errors and other deficiencies found in the items sampled and in procedures and controls directly related to them but also permit mathematical projections as to the quality of all vouchers in the universe. The results of such sampling can be the basis for making changes in procedures or controls in order to correct deficiencies in the voucher processing system. Analysis of the sample results also provides the input needed to confirm the continuing validity of the sampling plan or, when appropriate, to modify the plan.

The terms "examination" and "audit" are used interchangeably in this appendix. Unless otherwise indicated, they mean the review, prior to payment, of documents assembled in support of any claim against, or any payment to be made by, the government, to determine its legality, propriety, validity, and accuracy.

**B. Statutory Authority and Exceptions**

Agency heads are authorized by 31 U.S.C. 3521(b) to establish statistical sampling programs, within limitations prescribed by the Comptroller General, for the examination of vouchers in support of their certification and payment. In accordance with this authority, the Comptroller General has established a general limitation of \$2,500 on vouchers that may be examined by sampling programs. (In determining whether travel vouchers exceed the limitation, agencies may exclude any passenger transportation costs paid through the General Services Administration's contractor-issued charge cards.) Agencies are required to establish their own dollar limitations within this maximum based on cost-benefit analyses of their voucher examining operations.

The law (section 3521(c)) also provides that any disbursing or certifying official relying in good faith on the statistical sampling procedure adopted by his or her agency to disburse funds or certify a voucher for payment will not be liable for losses to the government resulting from payment or certification of a voucher not audited specifically because of the use of the sampling procedure, provided that the agency has diligently carried out collection actions prescribed by the Comptroller General.

Sampling may be used in the examination of single vouchers in large amounts representing numerous similar transactions of less than the dollar limitation established by the agency as provided in this appendix. For example, supporting documents, such as copies of delivery tickets or petty cash receipts, may be examined by sampling if savings can be realized.

Exceptions to the \$2,500 maximum for vouchers which may be statistically sampled may be authorized when it is clear that they are warranted economically and that the procedures and controls in place will adequately protect the government's interest. Plans covering such exceptions require justification and approval on a case-by-case basis. Requests for such exceptions should include sufficient detail for meaningful evaluation of the proposal and be sent to the following address:

Assistant Comptroller General  
Accounting and Financial Management  
ATTENTION: Accounting Principles and Standards  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Statistical sampling can also be an effective tool for monitoring the overall quality of an agency's voucher processing system or for evaluating a particular aspect of the processing procedures and controls. The provisions of 31 U.S.C. 3521(b) and (c) are not applicable because this type of sampling is not a substitute for the normal 100-percent, prepayment examination of vouchers. Although dollar limitations and other regulatory restrictions do not apply to this type of sampling, agencies should use a scientifically acceptable sampling plan and procedure to ensure that the sample results are representative of the voucher universe that is sampled.

C. Appropriateness of Statistical Sampling

Statistical sampling is a means of reducing the cost of unproductive voucher examinations and must be supported by appropriate cost evaluations; however, an unfavorable cost-benefit ratio could be the result of correctable inefficiencies in the current examining process. Thus, before concluding that statistical sampling is appropriate, agencies should consider whether they need to strengthen examining skills or better utilize available automated data processing and communication technology. Also, when statistical sampling is undertaken, its propriety should be reevaluated periodically in light of technological or operational changes.

Agencies should seek the combination of voucher examining techniques that is most efficient and effective. The use of statistical sampling does not preclude agencies from using computerized edits and other techniques designed to ensure the accuracy and reasonableness of data and for improving the efficiency and effectiveness of voucher examining. For example, agencies should look for ways to improve audit efficiency and effectiveness by placing audit emphasis on areas of potential weakness. In particular, agencies should consider whether an error that has been detected is likely to be present in other similar transactions and, if so, whether to take steps to identify and correct all such errors.

**D. The Sampling Plan**

Developing a good statistical sampling plan requires knowledge usually possessed by professionals in the field of statistics. Accordingly, the advice and assistance of a professional statistician should be utilized when setting up a system of statistical sampling. Once developed and tested in operation, a sampling system may be operated by personnel not having statistical training. It must be monitored, however, by persons who have sufficient knowledge of statistical sampling techniques used for auditing records and of the essential features of the plan in use to assure that it operates as designed and that improvements are recommended when needed.

A determination to employ statistical sampling should be supported by a comparison of the cost to carry out the alternative voucher examination procedures to the benefits resulting from the examination. As appropriate, vouchers should be categorized by type and dollar range to make these comparisons effective in identifying the dollar thresholds below which savings would result from statistical sampling. The measure of such savings would be the difference between (1) the cost of examining all vouchers and (2) the combined costs of (a) examining the sample and (b) losses due to undetected errors in the vouchers not examined. Dollar thresholds are likely to vary among and within agencies according to the complexity of the vouchers that are being processed and the effectiveness of processing procedures and controls in use.

Using statistical sampling for voucher examination involves identifying objectives and scientifically acceptable approaches for the design, implementation, and subsequent revision of a formal sampling plan. In order to develop and implement the plan and to monitor its operation, agencies will generally have to do the following:

1. Define the universe of vouchers to be examined by statistical sampling. Usually, this will be a determination to sample certain categories and dollar ranges (strata), based on an analysis, as described above, that identifies the threshold below which sampling is more cost-effective than the normal audit.
2. Determine the size of the sample needed and how the sample items will be selected. Often, the procedure will involve random selection of sample items from the stream of vouchers that is being processed for payment. The plan for statistical sampling should provide the opportunity for any invoice not subject to normal audit to be selected in the sample.
3. Analyze results of the sample in accordance with scientifically acceptable procedures and make any changes needed to the sampling plan to maintain the integrity of the sampling program. For example, analysis of sample results might indicate a need to modify the dollar threshold between the vouchers that are being



subjected to 100-percent audit and those that are being audited by statistical sampling.

4. Present the results to management with appropriate interpretation.

**E. Documentation**

The agency must maintain records of all aspects of its sampling plan(s), including such elements as the specific sampling procedures, the statistical formulas used, and the resulting calculations. Further, records of actual application of the plan, such as work sheets showing items selected for examination, errors discovered, total number and amount of vouchers in the universe, and other pertinent data, should be retained in order to document the implementation of the plan and any subsequent changes made based on the sample results. These records, which reflect actual operation of the plan, should be subject to the same retention-disposal criteria as other documentation in support of agency disbursements. All records pertaining to the voucher examination system should be available for review by authorized management and audit personnel.

Table of Contents

	<u>Page</u>
A. Advertising	7.IV-3
B. Contract Field Printing	7.IV-3
C. Long-distance Telephone Service	7.IV-3
D. Payment in Foreign Currency	7.IV-4
E. State and Local Taxes	7.IV-4
F. Tort Claims	7.IV-5
G. Transportation	7.IV-6
H. Travel Advances	7.IV-6
I. Unclaimed Moneys and Funds Erroneously Received	7.IV-6



In addition to the requirements set forth in chapter 6, special requirements have been established by law or regulation for certain types of disbursements. The various special requirements described in this appendix generally apply but the actual requirements for individual agencies may differ.

A. Advertising

The head of each agency shall maintain appropriate procedures for authorizing the procurement of and payment for advertising in accordance with 44 U.S.C. 3702 and 3703 and 5 U.S.C. 302(b).

Delegated authority to authorize advertising may not be redelegated unless specifically authorized by law.

B. Contract Field Printing

The responsible officer under whose authority contract field printing was purchased shall certify that the work was procured in accordance with the applicable Government Printing and Binding Regulations of the Congressional Joint Committee on Printing.

C. Long-distance Telephone Service

Section 1348(b) of 31 U.S. Code provides that:

"Appropriations of an agency are available to pay charges for a long-distance call if required for official business and the voucher to pay for the call is sworn to by the head of the agency. Appropriations of an executive agency are available only if the head of the agency also certifies that the call is necessary in the interest of the Government."

Agencies should maintain documentation showing all persons designated to furnish the certifications required by this statute. This documentation, as other basic payment documentation, should be maintained for audit purposes.

Every effort should be made to restrict the use of government telephones to the transaction of official business. Agencies may pay the costs of certain personal telephone calls if the calls meet the criteria established by the General Services Administration. (See 41 C.F.R. part 201.)

The agency head's duty to certify long-distance telephone calls may be satisfied through implementation of an appropriate statistical sampling system.

The General Services Administration has developed special payment verification procedures with respect to the usage-based services under the FTS-2000 system.

Under these procedures, GSA is responsible for ensuring that the contractors comply with contract terms. GSA pays the contractors from funds advanced by the agencies based on (1) GSA's limited examination of the charges billed and (2) GSA's reliance on the systematic verifying and reporting procedures that are required of the user agencies. In accordance with guidance provided by GSA, the user agencies must verify the propriety of the reported usage, including that the calls are necessary in the interest of the government. They must report regularly to GSA on their verification efforts and provide GSA with documentation on disputed charges. Also, agencies are required to take appropriate collection and disciplinary action against individuals making unofficial calls.

Section 1348 of 31 U.S. Code prohibits payments for telephone installations in private residences except where otherwise provided for by law.

#### D. Payment in Foreign Currency

All vouchers that are to be paid in foreign currency must show the appropriation(s) to be charged and either the foreign currency amount to be paid or the United States dollar equivalent. The disbursing officer will record the rate of exchange, along with either the foreign currency amount or United States dollar equivalent as appropriate. Detailed instructions for preparation of vouchers payable in foreign currency are contained in the Treasury Financial Manual, volume I, part 4. If payment is made by a check drawn on a foreign depository, the disbursing officer should record the name of the depository and the check number on the voucher.

The Office of Management and Budget has requested that all agencies make a special effort to ensure that contracts and other obligations are incurred in, and paid for in, foreign currencies rather than U.S. dollars in countries for which it has been announced that the supply of foreign currencies available for U.S. programs exceeds immediate needs.

#### E. State and Local Taxes

Agencies of the United States, including government corporations, are not obligated to pay state or local taxes imposed directly on the federal government because, under the U.S. Constitution, the federal government is immune from the payment of such taxes. The government is exempt from payment of a state or local sales tax when the legal incidence of the tax is on the vendee or when the state or local law exempts sales to the United States from such taxation. As it is not always clear where the legal incidence of a tax falls, a legal opinion should be obtained if there is any doubt in a specific case.

The policies, procedures, and forms for asserting immunity or exemption from, or for the payment of, state and local taxes are promulgated in the Federal Acquisition Regulation.

Generally, agencies should assert the government's immunity or exemption from taxes whenever it is available. Agencies, however, need not claim immunity or exemption from taxes unless it is cost-effective to do so or the vendor will grant a tax exemption without requiring a tax exemption certificate.

For imprest fund purchases, in the interest of economy and reduced paperwork, agency heads or their authorized representatives may authorize the payment of state and local taxes on any transaction regardless of its dollar value. Before asserting immunity from such taxes, an agency should consider whether the cost of issuing a tax exemption certificate (SF 1094) is justified by the probable savings.

#### F. Tort Claims

Section 2672 of 28 U.S. Code provides that the head of each federal agency or his or her designee, in accordance with regulations prescribed by the Attorney General, may consider, ascertain, adjust, determine, compromise, and settle any tort claim for money damages against the United States, provided that any compromise or settlement in excess of \$25,000 be effected only with the prior written approval of the Attorney General or designee.

Documentation supporting the compromise or settlement of a tort claim shall include

1. a statement setting forth the amount claimed, a full description of the circumstances that gave rise to the claim and the essential elements of the claim, and the amount of the compromise or settlement;
2. the written approval by the head of the agency or designee of the compromise or settlement;
3. the written acceptance from the claimant of the compromise or settlement; and
4. the written approval of the Attorney General or designee, if the amount of the compromise or settlement exceeds \$25,000.

Any compromise or settlement in an amount of \$2,500 or less shall be paid by the head of the agency concerned out of appropriations available to that agency. The amount of the compromise or settlement should be certified as proper for payment by the authorized certifying official.

Any compromise or settlement in excess of \$2,500, either authorized by the head of the agency or the Attorney General, shall be paid from appropriations or funds available for the payment of judgments or compromises of like cases. All memorandums, reports, exhibits, and other documents supporting the settlement of a claim shall be retained by the agency.

**G. Transportation**

Requirements relating to payments for transportation services are contained in Title 5 of this manual and in regulations issued by the General Services Administration.

**H. Travel Advances**

A traveler entitled to a per diem, mileage, or subsistence allowance may be given a monetary advance in such amount as may be deemed advisable considering the character and probable duration of the travel to be performed. As a general rule, agency procedures should ensure that travel advances are approved only if they are necessary and are held to a minimum in both duration and amount. A viable alternative to the use of cash advances is provided by the travel credit card program established by GSA.

Normally, travel advances are charged to the appropriations or funds from which the reimbursements for the travel expenses will be made. If a traveler is in temporary duty travel status at the end of a fiscal year, separate vouchers must be submitted for each of the 2 fiscal years. However, travel expenses for a permanent change of duty station are charged against the appropriation current at the time the travel order is issued, even if the travel spans 2 fiscal years.

**I. Unclaimed Moneys and Funds Erroneously Received**

Payments of moneys erroneously received and deposited into the Treasury and of unclaimed moneys will be made by Treasury in accordance with the procedures in the Treasury Financial Manual, volume I, part 6.

These payments may be made without settlement action by GAO. If the agency is unable to resolve the legality or propriety of a claim, however, the claim should be submitted to GAO for settlement action, as provided in Title 4 of this manual.

<u>Table of Contents</u>		<u>Page</u>
31 U.S.C. 1341, 1342, 1349, 1350, 1351, 1514, 1517, 1518, 1519	Preventing Deficiencies in Appropriations	7.V-3
31 U.S.C. 1501	Documentary Evidence Requirement for Government Obligations	7.V-5
31 U.S.C. 1552	Procedure for Appropriation Accounts Available for Definite Periods	7.V-6
31 U.S.C. 1553	Availability of Appropriation Accounts to Pay Obligations	7.V-6
31 U.S.C. 1554	Review of Appropriation Accounts	7.V-6
31 U.S.C. 1555	Withdrawal of Unobligated Balances of Appropriations for Indefinite Periods	7.V-7
31 U.S.C. 3302	Custodians of Money	7.V-7
31 U.S.C. 3325	Vouchers	7.V-8
31 U.S.C. 3511	Prescribing Accounting Requirements and Developing Accounting Systems	7.V-9
31 U.S.C. 3512	Executive Agency Accounting Systems	7.V-10
31 U.S.C. 3513	Financial Reporting and Accounting System	7.V-11
31 U.S.C. 3521	Audits by Agencies	7.V-12
31 U.S.C. 3526	Settlement of Accounts	7.V-12
31 U.S.C. 3527	General Authority to Relieve Accountable Officials and Agents From Liability	7.V-14



	<u>Table of Contents</u>	<u>Page</u>
31 U.S.C. 3528	Responsibilities and Relief From Liability of Certifying Officials	7.V-15
31 U.S.C. 3529	Requests for Decisions of the Comptroller General	7.V-16

Preventing Deficiencies in Appropriations

Extensive legal provisions have been enacted to control the obligation and use of appropriated funds and to prevent deficiencies in appropriations and the consequent need for supplemental appropriations. Some salient provisions of law are:

## 31 U.S.C. 1341 - Limitations on Expending and Obligating Amounts

"(a)(1) An officer or employee of the United States Government or of the District of Columbia government may not-

(A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; or

(B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law."

## 31 U.S.C. 1342 - Limitation on Voluntary Services

"An officer or employee of the United States Government or of the District of Columbia government may not accept voluntary services for either government or employ personal services exceeding that authorized by law except for emergencies involving the safety of human life or the protection of property. This section does not apply to a corporation getting amounts to make loans (except paid in capital amounts) without legal liability of the United States Government."

## 31 U.S.C. 1349 - Adverse Personnel Actions

"(a) An officer or employee of the United States Government or of the District of Columbia government violating section 1341(a) or 1342 of this title shall be subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office."

## 31 U.S.C. 1350 - Criminal Penalty

"An officer or employee of the United States Government or of the District of Columbia government knowingly and willfully violating section 1341(a) or 1342 of this title shall be fined not more than \$5,000, imprisoned for not more than 2 years, or both."

## 31 U.S.C. 1351 - Reports on Violations

"If an officer or employee of an executive agency or an officer or employee of the District of Columbia government violates section 1341(a) or 1342 of this title, the head of the agency or the Mayor of the District of Columbia, as

the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken."

**31 U.S.C. 1514 - Administrative Division of Apportionments**

"(a) The official having administrative control of an appropriation available to the legislative branch [and] the judicial branch, . . . subject to the approval of the President [and] the head of each executive agency . . . shall prescribe by regulation a system of administrative control not inconsistent with accounting procedures prescribed under law. The system shall be designed to-

- (1) restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation; and
- (2) enable the official or the head of the executive agency to fix responsibility for an obligation or expenditure exceeding an apportionment or reapportionment."

**31 U.S.C. 1517 - Prohibited Obligations and Expenditures**

"(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding-

- (1) an apportionment; or
- (2) the amount permitted by regulations prescribed under section 1514(a) of this title.

"(b) If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken."

**31 U.S.C. 1518 - Adverse Personnel Actions**

"An officer or employee of the United States Government or of the District of Columbia government violating section 1517(a) of this title shall be subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office."

**31 U.S.C. 1519 - Criminal Penalty**

"An officer or employee of the United States Government or of the District of Columbia government knowingly and willfully violating section 1517(a) of this

title shall be fined not more than \$5,000, imprisoned for not more than 2 years, or both."

31 U.S.C. 1501 Documentary Evidence Requirement for Government Obligations

"(a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of

- (1) a binding agreement between an agency and another person (including an agency) that is-
  - (A) in writing, in a way and form, and for a purpose authorized by law; and
  - (B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided;
- (2) a loan agreement showing the amount and terms of repayment;
- (3) an order required by law to be placed with an agency;
- (4) an order issued under a law authorizing purchases without advertising-
  - (A) when necessary because of a public exigency;
  - (B) for perishable subsistence supplies; or
  - (C) within specific monetary limits;
- (5) a grant or subsidy payable-
  - (A) from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law;
  - (B) under an agreement authorized by law; or
  - (C) under plans approved consistent with and authorized by law;
- (6) a liability that may result from pending litigation;
- (7) employment or services of persons or expenses of travel under law;
- (8) services provided by public utilities; or

- (9) other legal liability of the Government against an available appropriation or fund.

"(b) A statement of obligations provided to Congress or a committee of Congress by an agency shall include only those amounts that are obligations consistent with subsection (a) of this section."

### 31 U.S.C. 1552 Procedure for Appropriation Accounts Available for Definite Periods

"(a) Each appropriation account available for obligation for a definite period is closed as follows:

- (1) The obligated balance is transferred on September 30th of the 2d fiscal year after the period of availability ends to an appropriation account of the agency responsible for paying the obligation. Amounts transferred from all appropriation accounts for the same general purpose are merged in the account for paying obligations.
- (2) The unobligated balance is withdrawn at the end of the period of availability for obligation and reverts to the Treasury or, if derived only from a special or trust fund and not otherwise provided, reverts to the fund from which derived. The withdrawal shall be made not later than the November 15 occurring after the period of availability ends. When the head of the agency decides that part of a withdrawn unobligated balance is required to pay obligations and make adjustments, that part may be restored to the appropriate account.

"(b) Collections authorized to be credited to an appropriation, but not received before the transfer of the obligated balance under subsection (a)(1) of this section, are credited to the account into which the obligated balance was transferred. However, collections made by the Comptroller General for other agencies may be deposited in the Treasury as miscellaneous receipts."

### 31 U.S.C. 1553 Availability of Appropriation Accounts to Pay Obligations

"(a) Each appropriation account established under section 1552 of this title is accounted for separately and remains available until expended to pay obligations chargeable against any appropriation from which the account is derived."

### 31 U.S.C. 1554 Review of Appropriation Accounts

"(a) The head of each agency shall review at least once a fiscal year each appropriation account established for the agency under section 1552 of this title. If the undisbursed balance is more than the obligated balance in the account, the excess shall be withdrawn in the way provided in section 1552(a)(2) of this title. If the

obligated balance is more than the undisbursed balance, the excess may be restored to the account in an amount that is not more than the remaining unobligated balances of the appropriations available for the same general purposes. Before restoring an amount, the head of the agency shall make a report on the restoration as may be required by the President.

"(b) The review required under subsection (a) of this section shall be made as of the end of each fiscal year. A withdrawal or restoration under this section shall be made not later than December 31 of the following fiscal year. However, a withdrawal or restoration is accounted for and reported as of the close of the fiscal year to which the review relates. A review made as of any other date for which a withdrawal or restoration is made after December 31 shall be accounted for and reported as transactions of the fiscal year in which made."

31 U.S.C. 1555 Withdrawal of Unobligated Balances of Appropriations for Indefinite Periods

"(a) An unobligated balance of an appropriation for an indefinite period shall be withdrawn in the way provided in section 1552(a)(2) of this title when the head of the agency concerned decides that the purposes for which the appropriation was made have been carried out or when no disbursement is made against the appropriation for 2 consecutive fiscal years.

"(b) An amount of an appropriation withdrawn under this section may be restored to the applicable appropriation account to pay obligations and to settle accounts."

31 U.S.C. 3302 Custodians of Money

"(a) Except as provided by another law, an official or agent of the United States Government having custody or possession of public money shall keep the money safe without-

- (1) lending the money;
- (2) using the money;
- (3) depositing the money in a bank; and
- (4) exchanging the money for other amounts.

"(b) Except as provided in section 3718(b) of this title,<sup>1</sup> an official or agent of the Government receiving money for the Government from any source shall deposit the money in the Treasury as soon as practicable without deduction for any charge or claim.

"(c)(1) A person having custody or possession of public money, including a disbursing official having public money not for current expenditure, shall deposit the money without delay in the Treasury or with a depository designated by the Secretary of the Treasury under law. Except as provided in paragraph (2), money required to be deposited pursuant to this subsection shall be deposited not later than the third day after the custodian receives the money. The Secretary or a depository receiving a deposit shall issue duplicate receipts for the money deposited. The original receipt is for the Secretary and the duplicate is for the custodian.

(2) The Secretary of the Treasury may by regulation prescribe that a person having custody or possession of money required by this subsection to be deposited shall deposit such money during a period of time that is greater or lesser than the period of time specified by the second sentence of paragraph (1).

"(d) An official or agent not complying with subsection (b) of this section may be removed from office. The official or agent may be required to forfeit to the Government any part of the money held by the official or agent and to which the official or agent may be entitled."

### 31 U.S.C. 3325 Vouchers

"(a) A disbursing official in the executive branch of the United States Government shall-

- (1) disburse money only as provided by a voucher certified by-
  - (A) the head of the executive agency concerned; or
  - (B) an officer or employee of the executive agency having written authorization from the head of the agency to certify vouchers;
- (2) examine a voucher if necessary to decide if it is -
  - (A) in proper form;
  - (B) certified and approved; and

<sup>1</sup> This exception permits fees for properly authorized debt collection services to be paid from amounts collected.

(C) computed correctly on the facts certified;  
and

- (3) except for the correctness of computations on a voucher, be held accountable for carrying out clauses (1) and (2) of this subsection.

"(b) Subsection (a) of this section does not apply to disbursements of a military department of the Department of Defense, except for disbursements for departmental pay and expenses in the District of Columbia.

"(c) On request, the Secretary of the Treasury may provide to the appropriate officer or employee of the United States Government a list of persons receiving periodic payments from the Government. When certified and in proper form, the list may be used as a voucher on which the Secretary may disburse money."

31 U.S.C. 3511 Prescribing Accounting Requirements and Developing Accounting Systems

"(a) The Comptroller General shall prescribe the accounting principles, standards, and requirements that the head of each executive agency shall observe. Before prescribing the principles, standards, and requirements, the Comptroller General shall consult with the Secretary of the Treasury and the President on their accounting, financial reporting, and budgetary needs, and shall consider the needs of the heads of the other executive agencies.

"(b) Requirements prescribed under subsection (a) of this section shall-

- (1) provide for suitable integration between the accounting process of each executive agency and the accounting of the Department of the Treasury;
- (2) allow the head of each agency to carry out section 3512 of this title; and
- (3) provide a method of-
  - (A) integrated accounting for the United States Government;
  - (B) complete disclosure of the results of the financial operations of each agency and the Government; and
  - (C) financial information and control the President and Congress require to carry out their responsibilities.

"(c) Consistent with subsections (a) and (b) of this section-

- (1) the authority of the Comptroller General continues under section 205(b) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 486(b)); and
- (2) the Comptroller General may prescribe the forms, systems, and procedures that the judicial branch of the Government (except the Supreme Court) shall observe.

"(d) The Comptroller General, the Secretary, and the President shall conduct a continuous program for improving accounting and financial reporting in the Government."



31 U.S.C. 3512 Executive Agency Accounting Systems

"(a) The head of each executive agency shall establish and maintain systems of accounting and internal controls that provide-

- (1) complete disclosure of the financial results of the activities of the agency;
- (2) adequate financial information the agency needs for management purposes;
- (3) effective control over, and accountability for, assets for which the agency is responsible, including internal audit;
- (4) reliable accounting results that will be the basis for-
  - (A) preparing and supporting the budget requests of the agency;
  - (B) controlling the carrying out of the agency budget; and
  - (C) providing financial information the President requires under section 1104(e) of this title; and
- (5) suitable integration of the accounting of the agency with the central accounting and reporting responsibilities of the Secretary of the Treasury under section 3513 of this title.

"(b)(1) To ensure compliance with subsection (a)(3) of this section and consistent with standards the Comptroller General prescribes, the head of each executive agency shall establish internal accounting and administrative controls that reasonably ensure that-

- (A) obligations and costs comply with applicable law;
  - (B) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and
  - (C) revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.
- (2) Standards the Comptroller General prescribes under this subsection shall include standards to ensure the prompt resolution of all audit findings.

"(c)(1) In consultation with the Comptroller General, the Director of the Office of Management and Budget-

- (A) shall establish . . . guidelines that the head of each executive agency shall follow in evaluating the internal accounting and administrative control systems of the agency to decide whether the systems comply with subsection (b) of this section; and
  - (B) may change a guideline when considered necessary.
- (2) By December 31 of each year . . . , the head of each executive agency, based on an evaluation conducted according to guidelines prescribed under paragraph (1) of this subsection, shall prepare a statement on whether the systems of the agency comply with subsection (b) of this section, including-

- (A) if the head of an executive agency decides the systems do not comply with subsection (b) of this section, a report identifying any material weakness in the systems and describing the plans and schedule for correcting the weakness; and
  - (B) a separate report on whether the accounting system of the agency conforms to the principles, standards, and requirements the Comptroller General prescribes under section 3511(a) of this title.
- (3) The head of each executive agency shall sign the statement and reports required by this subsection and submit them to the President and Congress. The statement and reports are available to the public, except that information shall be deleted from a statement or report before it is made available if the information specifically is-
- (A) prohibited from disclosure by law; or
  - (B) required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs.

"(d) To assist in preparing a cost-based budget under section 1108(b) of this title and consistent with principles and standards the Comptroller General prescribes, the head of each executive agency shall maintain the accounts of the agency on an accrual basis to show the resources, liabilities, and costs of operations of the agency. An accounting system under this subsection shall include monetary property accounting records.

"(e) The Comptroller General shall-

- (1) cooperate with the head of each executive agency in developing an accounting system for the agency; and
- (2) approve the system when the Comptroller General considers it to be adequate and in conformity with the principles, standards, and requirements prescribed under section 3511 of this title.

"(f) The Comptroller General shall review the accounting systems of each executive agency. The results of a review shall be available to the head of the executive agency, the Secretary, and the President. The Comptroller General shall report to Congress on a review when the Comptroller General considers it proper."

### 31 U.S.C. 3513 Financial Reporting and Accounting System

"(a) The Secretary of the Treasury shall prepare reports that will inform the President, Congress, and the public on the financial operations of the United States Government. The reports shall include financial information the President requires. The head of each executive agency shall give the Secretary reports and information on the financial conditions and operations of the agency the Secretary requires to prepare the reports.

"(b) The Secretary may-

- (1) establish facilities necessary to prepare the reports; and
- (2) reorganize the accounting functions and procedures and financial reports of the Department of the Treasury to develop an effective and coordinated

system of accounting and financial reporting in the Department that will integrate the accounting results for the Department and be the operating center for consolidating accounting results of other executive agencies with accounting results of the Department.

"(c) The Comptroller General shall-

- (1) cooperate with the Secretary in developing and establishing the reporting and accounting system under this section; and
- (2) approve the system when the Comptroller General considers it to be adequate and in conformity with the principles, standards, and requirements prescribed under section 3511 of this title."

### 31 U.S.C. 3521 Audits by Agencies

"(a) Each account of an agency shall be audited administratively before being submitted to the Comptroller General. The head of each agency shall prescribe regulations for conducting the audit and designate a place at which the audit is to be conducted. However, a disbursing official of an executive agency may not administratively audit vouchers for which the official is responsible. With the consent of the Comptroller General, the head of the agency may waive any part of an audit.

"(b) The head of an agency may prescribe a statistical sampling procedure to audit vouchers of the agency when the head of the agency decides economies will result from using the procedure. The Comptroller General-

- (1) may prescribe the maximum amount of a voucher that may be audited under this subsection; and
- (2) in reviewing the accounting system of the agency, shall evaluate the adequacy and effectiveness of the procedure.

"(c) A disbursing or certifying official acting in good faith under subsection (b) of this section is not liable for a payment or certification of a voucher not audited specifically because of the procedure prescribed under subsection (b) if the official and the head of the agency carry out diligently collection action the Comptroller General prescribes.

"(d) Subsections (b) and (c) of this section do not-

- (1) affect the liability, or authorize the relief, of a payee, beneficiary, or recipient of an illegal, improper, or incorrect payment; or
- (2) relieve a disbursing or certifying official, the head of an agency, or the Comptroller General of responsibility in carrying out collection action against a payee, beneficiary, or recipient."

### 31 U.S.C. 3526 Settlement of Accounts

"(a) The Comptroller General shall settle all accounts of the United States Government and supervise the recovery of all debts finally certified by the Comptroller General as due the Government.

This table provides a cross-reference between this revision and the previous Title 7 (issued on July 14, 1983, under transmittal number 7-40 and revised January 18, 1985, under transmittal number 7-41). The table also includes similar references to the sections from Title 3 (issued under transmittal number 3-16) that are incorporated into this title.

<u>FORMER TITLE 7</u> <u>SECTION</u>	<u>PRESENT SECTION</u>
1.1	1.2.A
1.2	1.2.B
2.1	Appendix I
2.2	Appendix I
2.3	Appendix I
3.1	2.1.A
3.2	2.1.A
3.3	2.1.B
3.4	3.3
3.5	2.1.C, D, E, F
3.6	2.1.H
3.7	2.1.G
3.8	2.1.I
3.9	2.1.J
4.1	2.2.A
4.2	2.2.A, B
4.3	Deleted
4.4	2.2.C

<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
5.1	2.2.A
5.2	Deleted
5.3	2.2.A
5.4	Deleted
5.5	Deleted
5.6	Deleted
5.7	Chapter 4
5.8	Deleted
6.1	2.3.A
6.2	2.3.B
7.1	2.4.A
7.2	2.4.B
7.3	2.4.C
8.1	2.2.B.1
8.2	2.2.B.2
9.1	5.1
9.2	5.1
10.1	5.2.A
10.2	5.2.B
10.3	5.2.C
10.4	5.2.C
11.1	5.3.A

<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
11.2	5.3.B
11.3	5.3.C
12.1	5.4.A.1
12.2	5.4.A.1
12.3	5.4.A, B
12.4	5.4.D
13.1	5.4.C.1, 2
13.2	5.4.C.3
13.3	5.4.D
14.1	5.5.A
14.2	5.5.B
14.3	5.5.C
14.4	5.5.D
14.5	5.5.F
14.6	5.5.G
14.7	Deleted
15.1	3.1
15.2	3.2
15.3	3.3
15.4	Appendix V
16.1	3.4.A
16.2	3.6

<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
16.3	3.7
16.4	Deleted
16.5	3.8
17.1	Deleted
17.2	6.1
17.3	6.1
17.4	6.1
17.5	6.1
17.6	6.1
17.7	6.1
17.8	6.1
17.9	7.1.B
17.10	6.3
18.1	6.2.A
18.2	6.2.B
18.3	6.2.C
18.4	6.2.C
18.5	6.2.C
18.6	6.2.C
18.7	6.2.C
18.8	6.7
18.9	6.6.C

<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
19.1	6.4
19.2	7.1.A
19.3	6.5.B
19.4	7.4.E, Appendix III
19.5	8.3
20.1	6.6.A
20.2	6.5.A
20.3	6.6.C
20.4	6.2
20.5	6.6.B
20.6	6.1.B
20.7	6.3
21.1	Appendix IV
21.2	Appendix IV
21.3	Appendix IV
21.4	Deleted
21.5	Deleted
21.6	Appendix IV
21.7	Deleted
21.8	Appendix IV
21.9	Appendix IV
21.10	Appendix IV



<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
21.11	Appendix IV
21.12	Appendix IV
21.13	Appendix IV
22.1	6.8
22.2	6.8
22.3	6.8.A
22.4	6.8.A
22.5	6.8.C
22.6	6.8.B
22.7	6.8.D
22.8	6.8.C
23.1	4.1, 4.2
23.2	4.1
23.3	Deleted
23.4	4.2.B
24.1	Appendix V
24.2	Appendix V
24.3	Deleted
24.4	Deleted
25.1	Appendix V
25.2	Deleted
25.3	4.2.C

<u>FORMER TITLE 7 SECTION</u>	<u>PRESENT SECTION</u>
25.4	Deleted
25.5	Deleted
26.1	Appendix V
26.2	Deleted
26.3	4.2.A, B
26.4	4.3
26.5	4.4, Appendix V
27	4.2, Appendix V
28.1	Deleted
28.2	2.3, Appendix V
28.3	7.1, 8.1, 8.5
28.4	Appendix V
28.5	Deleted
28.6	Deleted
28.7	8.5
28.8	8.5
28.9	6.2, 6.4
28.10	6.2.A
28.11	8.4
28.12	8.4
28.13	Deleted
28.14	8.4

FORMER TITLE 7  
SECTION

PRESENT SECTION

Appendix A

Appendix I

Appendix B

Appendix II

<u>FORMER TITLE 3 SECTION</u>	<u>PRESENT TITLE 7 SECTION</u>
45	Appendix III
46	Appendix III
47	Appendix III
48	Appendix III
49	Appendix III
50	Appendix III
51	Appendix III
54.1	7.1.A
54.2	7.1.A
54.3	7.1.A
54.4	8.3
54.5	7.1.B
54.6	Deleted
54.7	Deleted
54.8	Deleted
54.9	Deleted
54.10	Deleted
55.1	7.1.B
55.2	7.1.B
55.3	8.3
56	6.5.A

FORMER TITLE 3  
SECTIONPRESENT TITLE 7  
SECTION

57.1	Deleted
57.2	8.8, 8.11.C, 8.12, 8.14
57.3	8.13
57.4	Deleted
57.5	8.14
58.1	8.4
58.2	8.9, 8.14
58.3	8.9
58.4	8.10
61.1	8.6
61.2	8.6
61.3	8.6
62.1	8.6.A
62.2	8.6.A
62.3	8.6.B
63	Deleted
64.1	8.6.C
67.1	8.1
67.2	8.1
67.3	8.4, 8.5
67.4	8.1, 8.5, 8.6
68.1	8.5, 8.7

FORMER TITLE 3  
SECTION

PRESENT TITLE 7  
SECTION

68.2	Deleted
68.3	Deleted
68.4	Deleted
69.1	8.7
69.2	8.7
70	Deleted



"(b) A decision of the Comptroller General under section 3529 of this title is conclusive on the Comptroller General when settling the account containing the payment.

"(c)(1) The Comptroller General shall settle an account of an accountable official within 3 years after the date the Comptroller General receives the account. A copy of the certificate of settlement shall be provided the official.

(2) The settlement of an account is conclusive on the Comptroller General after 3 years after the account is received by the Comptroller General. However, an amount may be charged against the account after the 3-year period when the Government has or may have lost money because the official acted fraudulently or criminally.

(3) A 3-year period under this subsection is suspended during a war.

(4) This subsection does not prohibit-

(A) recovery of public money illegally or erroneously paid;

(B) recovery from an official of a balance due the Government under a settlement within the 3-year period; or

(C) an official from clearing an account of questioned items as prescribed by law.

"(d) On settling an account of the Government, the balance certified by the Comptroller General is conclusive on the executive branch of the Government. On the initiative of the Comptroller General or on request of an individual whose accounts are settled or the head of the agency to which the account relates, the Comptroller General may change the account within a year after settlement. The decision of the Comptroller General to change the account is conclusive on the executive branch.

"(e) When an amount of money is expended under law for a treaty or relations with a foreign country, the President may-

(1) authorize the amount to be accounted for each year specifically by settlement of the Comptroller General when the President decides the amount expended may be made public; or

(2) make, or have the Secretary of State make, a certificate of the amount expended if the President decides the amount is not to be accounted for specifically. The certificate is a sufficient voucher for the amount stated in the certificate.

"(f) The Comptroller General shall keep all settled accounts, vouchers, certificates, and related papers until they are disposed of as prescribed by law.

"(g) This subchapter does not prohibit the Comptroller General from suspending an item in an account to get additional evidence or explanations needed to settle an account."



31 U.S.C. 3527 General Authority to Relieve Accountable Officials and Agents From Liability

"(a) Except as provided in subsection (b) of this section, the Comptroller General may relieve a present or former accountable official or agent of an agency responsible for the physical loss or deficiency of public money, vouchers, checks, securities, or records, or may authorize reimbursement from an appropriation or fund available for the activity in which the loss or deficiency occurred for the amount of the loss or deficiency paid by the official or agent as restitution, when-

- (1) the head of the agency decides that-
  - (A) the official or agent was carrying out official duties when the loss or deficiency occurred, or the loss or deficiency occurred because of an act or failure to act by a subordinate of the official or agent; and
  - (B) the loss or deficiency was not the result of fault or negligence by the official or agent;
- (2) the loss or deficiency was not the result of an illegal or incorrect payment; and
- (3) the Comptroller General agrees with the decision of the head of the agency.

"(b)(1) The Comptroller General shall relieve a disbursing official of the armed forces responsible for the physical loss or deficiency of public money, vouchers, or records, or shall authorize reimbursement from an appropriation or fund available for reimbursement, of the amount of the loss or deficiency paid by or for the official as restitution, when-

- (A) the Secretary of Defense or the appropriate Secretary of the military department of the Department of Defense decides that the official was carrying out official duties when the loss or deficiency occurred;
  - (B) the loss or deficiency was not the result of an illegal or incorrect payment; and
  - (C) the loss or deficiency was not the result of fault or negligence by the official.
- (2) The finding of the Secretary involved is conclusive on the Comptroller General.

"(c) On the initiative of the Comptroller General or written recommendation of the head of an agency, the Comptroller General may relieve a present or former disbursing official of the agency responsible for a deficiency in an account because of an illegal, improper, or incorrect payment, and credit the account for the deficiency, when the Comptroller General decides that the payment was not the result of bad faith or lack of reasonable care by the official. However, the Comptroller General may deny relief when the Comptroller General decides the head of the agency did not carry out diligent collection action under procedures prescribed by the Comptroller General.

"(d)(1) When the Comptroller General decides it is necessary to adjust the account of an official or agent granted relief under subsection (a) or (c) of this section, the amount of the relief shall be charged-

- (A) to an appropriation specifically provided to be charged; or
  - (B) if no specific appropriation, to the appropriation or fund available for the expense of the accountable function when the adjustment is carried out.
- (2) Subsection (c) of this section does not-
- (A) affect the liability, or authorize the relief, of a payee, beneficiary, or recipient of an illegal, improper, or incorrect payment; or
  - (B) relieve an accountable official, the head of an agency, or the Comptroller General of responsibility in carrying out collection action against a payee, beneficiary, or recipient.

"(e) Relief provided under this section is in addition to relief provided under another law."

31 U.S.C. 3528 Responsibilities and Relief From Liability of Certifying Officials

- "(a) A certifying official certifying a voucher is responsible for-
- (1) information stated in the certificate, voucher, and supporting records;
  - (2) the computation of a certified voucher under this section and section 3325 of this title;
  - (3) the legality of a proposed payment under the appropriation or fund involved; and
  - (4) repaying a payment-
    - (A) illegal, improper, or incorrect because of an inaccurate or misleading certificate;
    - (B) prohibited by law; or
    - (C) that does not represent a legal obligation under the appropriation or fund involved.
- "(b)(1) The Comptroller General may relieve a certifying official from liability when the Comptroller General decides that-
- (A) the certification was based on official records and the official did not know, and by reasonable diligence and inquiry could not have discovered, the correct information; or
  - (B)(i) the obligation was incurred in good faith;
  - (ii) no law specifically prohibited the payment; and
  - (iii) the United States Government received value for payment.
- (2) The Comptroller General may deny relief when the Comptroller General decides the head of the agency did not carry out diligently collection action under procedures described by the Comptroller General.

"(c) The Comptroller General shall relieve a certifying official from liability for an overpayment-

- (1) to a common carrier under section 3726 of this title when the Comptroller General decides the overpayment occurred only because the administrative audit before payment did not verify transportation rates, freight classifications, or land-grant deductions; or
- (2) provided under a Government bill of lading or transportation request when the overpayment was the result of using improper transportation rates or classifications or the failure to deduct the proper amount under a land-grant law or agreement.

"(d) This section does not apply to disbursements of a military department of the Department of Defense, except disbursements for departmental pay and expenses in the District of Columbia."

**31 U.S.C. 3529 Requests for Decisions of the Comptroller General**

"(a) A disbursing or certifying official or the head of an agency may request a decision from the Comptroller General on a question involving-

- (1) a payment the disbursing official or head of the agency will make; or
- (2) a voucher presented to a certifying official for certification.

"(b) The Comptroller General shall issue a decision requested under this section."

The page numbers used in this index indicate the chapter followed by the page within the chapter. The digit representing Title 7 is not shown.

**Accountability concept, 7-1, 7-3**

**Accountable officers,**  
 certifying officer responsibilities, 6-5,  
 6-7, 7-1  
 collections, 5-2  
 data authentication and electronic  
 signature, 7-6  
 disbursing officer responsibilities, 7-1  
 reliance on organizational structure  
 and operating procedures, 7-3  
 reliance on statistical sampling, 7-8  
 reliance on systems and controls, 7-2  
 relief of, 8-1  
 right to an advance decision, 6-10,  
 8-1, 8-2

**Account symbols and titles, 1-2, 2-7, 2-8,  
 2-9, 5-6**

**Accounting forms**  
 account settlement, 8-4  
 notice of exception, 8-4  
 responsibility for prescribing, 2-1, 6-2,  
 1-1, 1-3  
 withdrawals and restorations, 4-4

**Advance decisions, 6-10, 8-1, 8-2**

**Allocations, 2-10**

**Allotments, 2-10**

**Allowances, 2-11**

**Antideficiency Act, 2-10, 2-11, 2-16  
 (Also see: Obligations)**

**Apportionment, 2-9, 2-10, 2-11, 2-12,  
 2-14, 3-7**

**Appropriation and fund accounts, 2-7,  
 2-8, 2-9, 2-10, 2-14, 2-15, 3-1, 3-7, 3-8  
 collections, 5-1, 5-2, 5-5  
 disbursements, 6-1  
 transactions among accounts, 2-14, 3-9  
 withdrawal and restoration, 4-1, 4-4**

**Appropriations**

concept, 2-1  
 definition, 2-1  
 recording of, 2-7, 2-8, 2-9  
 warrants, 2-5  
 (Also see: Budget authority)

**Borrowing authority, 2-1, 2-2**

**Budgetary reserves, 2-10, 2-11**

**Budget authority**

Classifications:  
 amount, 2-4  
 availability for new obligation, 2-4  
 congressional action, 2-4  
 continuing resolutions, 2-5  
 contract authority, 2-2  
 deficiency, 2-5  
 duration, 2-3  
 limitations, 2-6  
 offsetting receipts, 2-2  
 reappropriation, 2-6  
 supplemental, 2-5  
 Definition and types, 2-1, 2-2, 2-3

**Collections**

accounting control, 5-2  
 availability of special fund receipts,  
 5-5, 5-6  
 deposit and documentation, 5-3, 5-4,  
 5-6  
 from government employees, 5-9, 5-10  
 inscription and endorsement of  
 remittances, 5-3  
 On-Line Payment and Collection  
 (OPAC) System, 2-15, 5-11  
 recovery of damages, 5-9  
 refunds or reimbursements, 5-5  
 sale of personal property, 5-8, 5-9  
 separation of duties, 5-2  
 unidentified remittances, 5-11

**Commitments, 3-5**

**Contingent liabilities, 2-3, 3-4**

**Continuing resolutions, 2-5**

The page numbers used in this index indicate the chapter followed by the page within the chapter. The digit representing Title 7 is not shown.

- Contract authority, 2-1, 2-2
- Credit cards, 6-8, 6-9
- Data authentication, 7-4
- Deficiency budget authority, 2-5
- Deposits  
see: Collections
- Deobligation, 3-8
- Disbursing operations  
approval and certification, 6-5, 7-1, 7-2, III-3  
authorities, 6-1, 8-1  
checks, 6-1  
credit cards, 6-8, 8-1  
data authentication, 7-6  
electronic certification, 7-6  
evaluation of, 7-10, 7-11  
forms and documentation, 6-2, 6-3, I-1, III-6  
grants and cooperative agreements, 6-11  
imprest funds, 6-9, 6-10, 6-11  
internal controls, 6-7, 7-2, 7-3  
prepayment examination, 6-5, 6-6, 7-5, 7-6  
prompt payment, 6-5, 7-2  
statistical sampling, 7-8, III-1,  
(Also see: Accountable officers)
- Disbursements--special requirements,  
appendix IV  
advertising, IV-1  
contract field printing, IV-1  
long distance telephone service, IV-1  
payment in foreign currency, IV-1  
state and local taxes, IV-1  
tort claims, IV-1  
transportation, IV-1  
travel advances, IV-1  
unclaimed moneys and funds, IV-1
- Economy Act, 2-14, 2-17, 2-18
- Electronic certification, 7-6
- Electronic fund transfers, 6-1
- Entitlement authority, 2-3
- Examination of vouchers for payment  
see: Disbursing operations
- Exchange or sale of personal property,  
5-8, 5-9
- Expired accounts  
crediting collections, 4-5  
legal origins, 4-1  
"M" accounts, 4-2, 4-3, 4-4, 4-5  
payment of claims, 4-5  
withdrawal, restoration, and transfer,  
4-1, 4-2, 4-3, 4-4, 4-5, 8-13
- Fast payment procedures, 6-6, 7-7, 7-8,  
7-9
- Fiscal irregularity  
definition, 8-1  
deposits, 5-4  
documenting, 8-10  
reporting, 8-2, 8-3, 8-10
- Forms  
see: Accounting forms
- Grants and cooperative agreements, 6-11
- Impoundment, 2-10, 2-11, 2-12, 3-3
- Imprest funds, 6-9, 6-10, 6-11, IV-5
- Improper payments  
definition, 8-2  
relief, 8-6, 8-9  
responsibility for, 7-1, 7-2
- Interagency agreements  
see: Interagency transactions
- Interagency transactions  
agency responsibilities, 2-16, 2-17,  
2-18  
disputes, 2-19  
Economy Act, 2-14, 2-15, 2-16, 2-17,  
2-18  
Intragovernmental Billing and  
Collection System, 2-15
- Irregularity  
see: Fiscal irregularity
- Loan guarantee authority, 2-3
- "M" accounts

The page numbers used in this index indicate the chapter followed by the page within the chapter. The digit representing Title 7 is not shown.

- "M" accounts**  
see: Expired accounts
- Message authentication**  
see: Data authentication
- Notice of Exception, 8-4, 8-5**
- Obligations**  
availability concept, 3-1, 3-2  
contingent liabilities, 3-4  
control over, 3-7  
criteria for, 3-1, 3-2  
cut-off procedure, 3-5  
deobligation, 3-8  
documenting, 3-3, 3-4  
estimating, 3-5  
reconciling, 3-7  
reporting and certifying, 3-8, 3-9, 3-10
- Offsetting receipts, 2-1, 2-2**
- Physical loss or deficiency, 8-1, 8-3, 8-6, 8-7, 8-8, 8-9**
- Prompt Payment Act, 6-5, 6-6, 7-8**
- Reappropriation, 2-6**
- Receipts**  
see: Collections
- Recovery of damages, 5-9**
- Refunds**  
see: Collections
- Reimbursements, 5-5**  
(Also see: Collections)
- Relief of accountable officers**  
documentation requirements, 8-10, 8-11  
improper payments, 8-1, 8-6, 8-9  
physical loss or deficiency, 8-1, 8-6, 8-7, 8-8  
required collection efforts, 8-9
- Restoration**  
see: Withdrawal, restoration, and transfer process
- Sale of personal property, 5-8, 5-9**
- Special fund receipts, 2-14, 5-5, 5-6**
- Standard General Ledger**  
purpose, 2-7
- Statistical sampling**  
certifying obligations, 3-10, III-1
- Supplemental appropriations, 2-5**
- Treasury Department/General Accounting Office Joint Regulations, appendix II**
- Unidentified remittances, 5-11**
- U.S. Government Standard General Ledger**  
see: Standard General Ledger
- Voucher processing**  
see: Disbursing operations
- Withdrawal, restoration, and transfer process, 3-8, 4-2**  
(Also see: Expired accounts)