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OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEPUTY DIRECTOR  
FOR MANAGEMENT

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**MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND  
ESTABLISHMENTS, CHIEF FINANCIAL OFFICERS, AND INSPECTORS GENERAL**

**FROM:** Clay Johnson III  
Deputy Director for Management

**RE:** [Implementation Guidance for the Federal Financial Management Improvement Act](#)

The enclosed guidance outlines the critical factors that auditors and Heads of agencies need to consider when determining substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208, Title VIII (31 U.S.C. 3512 note). This guidance rescinds and replaces the *Revised Implementation Guidance for the Federal Financial Management Improvement Act* issued on January 4, 2001, and applies to those executive departments and agencies required to be audited and listed in Appendix A of OMB Audit Bulletin (No. 07-04 and subsequent issuances).

FFMIA requires all Chief Financial Officer (CFO) Act agencies to implement financial management systems that comply with three essential requirements: Federal financial management systems requirements, Federal accounting standards, and U.S. Standard General Ledger at the transaction level. The law further requires that the Head of the agency annually assess and the agency auditor report whether the agency's financial management systems comply with the law's essential requirements.

The guidance has been updated to reflect revisions to OMB Circular A-127, Financial Management Systems. Specifically, the revised Circular introduces a simplified approach to determine FFMIA substantial compliance by targeting the most significant agency financial statement audit risks. The updates were made after consideration of input from agency CFO and Office of Inspectors General representatives. It is effective as of October 1, 2009 and should be used for financial reports and audits for fiscal year 2010 and thereafter. Early implementation is encouraged, if applicable.

If you have questions or comments, please contact the Office of Federal Financial Management, (202) 395-3993.

This memorandum is also available at <http://www.whitehouse.gov/OMB/financial>.

[Attachment](#)

# THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 OMB IMPLEMENTATION GUIDANCE

## Introduction

The Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208, Title VIII (31 U.S.C. 3512 note), was intended to advance Federal financial management by ensuring that Federal financial management systems can routinely provide reliable financial information uniformly across the Federal government following professionally-accepted accounting standards. It is intended to support full disclosure of Federal financial data to ensure that reliable financial information is available for agency program management and for effective government oversight by the President, the Congress and the public. Below are the requirements for FFMIA.

### **FFMIA fundamentally does three things:**

1. Establishes in statute certain financial management system requirements that are already Executive Branch policies. Specifically, section 803(a) of the FFMIA requires each agency to implement and maintain financial systems that comply substantially with:
  - a. Federal financial management system requirements,
  - b. applicable Federal accounting standards, and
  - c. the U.S. Government Standard General Ledger (USSGL) at the transaction level;
2. Requires auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports; and
3. Requires agency heads to determine, based on the audit report and other information, whether their financial management systems comply with FFMIA. If the financial management systems do not substantially comply, agencies are required to develop remediation plans and submit them to OMB.

In determining whether an agency's financial management systems substantially comply with FFMIA, management and auditors need to consider whether a system's performance prevents the agency from providing reliable and timely financial information necessary for Federal managers. Identified deficiencies that do not prevent the agency from meeting the above requirement generally should not be considered as part of a FFMIA compliance determination. Auditors then need to use judgment in assessing whether the adverse impacts caused by identified deficiencies are instances of substantial noncompliance with FFMIA.

## Statutory Procedural Requirements of FFMIA

### General

The FFMIA does not itself establish any new financial management system requirements. However, it does establish a statutory requirement for agency-heads to assess, on an annual basis, whether their financial management systems substantially comply with the three requirements of FFMIA. Agencies that are not in substantial compliance with FFMIA must develop remediation plans to achieve compliance. It also requires an auditor to report on agency compliance with FFMIA as part of the annual financial statement audit process.

### Agency Responsibilities

**Determining Compliance.** Section 803(c)(1) of the FFMIA requires the head of each agency to make a determination of the agency's substantial compliance with Section 803(a) of the Act, based upon a review of the auditor's report and any other information the head of the agency considers relevant and appropriate. The agency-head's annual determination of substantial compliance is due on the same day<sup>1</sup> that agencies are required to submit their Performance and Accountability Reports (PAR) or Agency Financial Reports (AFR) to OMB and the Congress.

**Developing Remediation Plans if Non-Compliant.** Section 803(c)(3) of the FFMIA requires that:

1. If the head of an agency determines that the agency's financial management systems do not substantially comply with the requirements of the Act, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and milestones for achieving substantial compliance. The format of a remediation plan is explained in OMB Circular A-11.

Agency heads are responsible for making progress towards resolving identified deficiencies. The status of the progress should be discussed in the agency's financial management systems plan. When discussing resolution of deficiencies in the plan, the findings or analysis of noncompliance should be included with a discussion of ongoing remediation activities. Progress towards resolving the deficiencies should not be construed as compliance with FFMIA.

2. If the determination by the head of the agency differs from the audit compliance findings (required as part of the financial statement audit), the agency must notify OMB explaining the differences. The Director of OMB shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

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<sup>1</sup> The due dates for PAR and AFR are updated yearly and listed in OMB [Circular No. A-136](#), *Financial Reporting Requirements*.

3. Generally, a remediation plan is expected to bring the agency's financial management systems into substantial compliance no later than three years after the date a determination is made by the head of the agency. If, however, the agency (in concurrence with OMB) determines that the agency's financial management systems cannot be brought into substantial within three years, the agency may specify a longer period. In this case, the agency must designate an agency official responsible for bringing the agency's financial management systems into substantial compliance by the date specified.

## **Auditor Responsibilities**

**Reporting on Compliance.** Section 803(b)(1) of the FFMIA requires that auditors report on FFMIA compliance as part of the financial statement audit process based upon OMB guidance.

Where an agency's financial management systems are considered not substantially compliant, Section 803(b)(2) specifically requires that the auditor discuss in the audit report:

1. the entity or organization responsible for the financial management systems that have been found not to comply;
2. all facts pertaining to the failure to comply with the requirements;
3. the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;
4. the primary reason or cause of the noncompliance;
5. any relevant comments from any responsible official; and
6. recommended remedial actions and the time frames to implement such actions.

To meet these reporting requirements, auditors need to plan and perform their audit work in sufficient detail to enable them to report on compliance and instances of noncompliance for all of the applicable requirements.

Auditors should also report on agency progress in achieving FFMIA compliance. If agencies have reduced the instances of noncompliance from the previous reporting period, the auditor's report should include a discussion of the improvements as well as acknowledge ongoing agency efforts to strengthen financial management systems.

**Reporting on Failure to Meet Deadlines in Remediation Plans.** Section 804(b) of the FFMIA requires that the Inspector General's (IG) semi-annual report to Congress required under section 5(a) of the Inspector General Act of 1978, as amended, include

instances and reasons when an agency has not met the milestones established in the remediation plan. Specifically, the report shall include:

1. the facts pertaining to non-compliance with Section 803 (a), including the nature and extent of non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances;
2. a statement of the remedial actions needed to comply; and
3. the entity or organization responsible for the noncompliance and if different, the entity or organization responsible for correcting the noncompliance.

In addition to these reporting requirements, both OMB and GAO have annual reporting requirements under the Act.

## **Factors to Consider in Determining Compliance**

### **Applicability**

The Act applies only to entities that are subject to the Chief Financial Officer (CFO) Act. All financial management systems must meet the FFMIA Section 803(a) requirements and be applied as follows:

The core financial system must apply the USSGL at the transaction level and be compliant with the Financial Systems Integration Office (FSIO) core financial system requirements and Federal accounting standards.

The financial portion of the mixed systems must transmit data such that:

1. data transferred to the core financial system can be traced to the original financial event(s) in the mixed system(s); and
2. data transferred adheres to the data exchange format required by the core financial system.

A data exchange or interface program must ensure that data transferred from the mixed systems is properly posted using the appropriate USSGL accounting entries and recorded in accordance with applicable standards from the Federal Accounting Standards Advisory Board (FASAB) in the core financial system.

As noted in the FFMIA risk model<sup>2</sup>, agencies in the significant risk category are not in compliance with FFMIA and there should be no need for them to determine compliance. Agencies in the nominal risk category are substantially compliant with FFMIA and

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<sup>2</sup> The FFMIA risk model is defined in [Circular A-127](#).

require no additional actions to achieve compliance unless auditors determine additional evidence to the contrary during the financial statement audit.

To assess whether instances of noncompliance would lead to systems not being substantially compliant with FFMIA as a whole, management and auditors must evaluate the impact of the cases of noncompliance. Ultimately, instances of noncompliance under moderate risk may not affect an agency's overall compliance if the agency can:

1. Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
2. Provide reliable and timely financial information for managing current operations;
3. Safeguard their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and
4. Do all of the above in a way that is consistent with Federal accounting standards and the USSGL.

### **Meeting Minimum Standards versus Achieving Ideal Performance**

Ideally, financial management systems should provide complete, reliable, timely and useful financial management information efficiently and automatically. However, FFMIA compliance itself neither requires nor results in ideal or state-of-the-art system performance or system efficiency; nor does it require that systems be entirely automated. What FFMIA compliance indicates is that systems routinely provide reliable financial information consistently, accurately, and uniformly.

### **Specific FFMIA Requirements and Compliance Indicators (Charts 1-3)**

The charts that follow are intended to help provide guidance on each of the FFMIA requirements. Each chart describes both (a) indicators of compliance and (b) steps for achieving compliance even when the risk is moderate. In reviewing the following charts it is important to note that not every "requirement" or compliance indicator is applicable to every agency. The agency must first determine whether a particular requirement is relevant to the agency's financial management system. Once a requirement is considered applicable to an agency's financial system, then the agency should determine whether its financial management system can perform the activity and meet the requirement.

The indicators are intended to be both broad and flexible and to provide a practical basis for measuring substantial compliance with the FFMIA requirements. The auditor or agency head may make a determination of substantial compliance without satisfying every indicator. However, the auditor or agency head may request additional information to support compliance or, at its discretion, request or perform further testing.

**Chart 1. Federal Financial Management Systems Requirements**

<b>Requirements</b>	<b>Indicators of Compliance – Nominal Risk</b>	<b>Steps for achieving compliance when the risk is Moderate - Moderate Risk</b>
<p>Agency financial management systems shall comply with the Federal Financial Management Systems Requirements</p> <ol style="list-style-type: none"> <li>1. FSIO Certified System</li> <li>2. Internal controls over financial reporting</li> <li>3. Computer security</li> </ol>	<ol style="list-style-type: none"> <li>1. Use of FSIO certified core financial system</li> <li>2. No internal control findings reported on FMFIA over financial reporting</li> <li>3. No FISMA related findings impacting financial management systems</li> <li>4. No findings reported on FMFIA Section 4</li> </ol>	<ol style="list-style-type: none"> <li>1. Self Assessment of Core Financial System</li> </ol> <p>If agencies do not use a FSIO certified core financial system or uses one that is no longer certified, then they should conduct a self assessment of the system. Before starting the assessment, agencies must factor in the costs and benefits of doing so. If an agency is fairly certain that it would not achieve compliance, there is no value in conducting a self assessment. Agencies in that particular situation should focus on fixing issues instead of identifying the same deficiencies year after year. We encourage agencies to conduct self assessment of their core financial systems by using the criteria follow. Once agencies perform the self assessments, the systems do not need to go through the process again unless a major change to the requirements or the environments has occurred. Agencies should be watchful and efficient by testing only those affected areas. Auditors may rely on the results of the self assessment. Therefore, auditors are not required to initiate tests to verify whether all of the FSIO requirements have been met. Auditors may conduct further testing if their financial statement audit tests reveal any evidence that is contrary to the self assessment.</p> <p>The self assessment will consist of a checklist that shows whether certain criteria have been met. It is recommended that agencies maintain adequate documentation to corroborate the results of the assessment. See page 12 for a recommended format of the self assessment.</p> <ol style="list-style-type: none"> <li>a. A common accounting classification structure is used or CGAC is adopted (when it becomes available);</li> <li>b. Budgetary and proprietary entries are always in balance;</li> <li>c. Common government-wide business standards are implemented (when they are available);</li> <li>d. User access controls/passwords and user authorizations are</li> </ol>

Requirements	Indicators of Compliance – Nominal Risk	Steps for achieving compliance when the risk is Moderate - Moderate Risk
		<p>authorized in writing and implemented and other financial controls are in place and operating effectively;</p> <ul style="list-style-type: none"> <li>e. Budget execution is integrated in the core financial system with accounts payable, accounts receivable and general ledger;</li> <li>f. Users have on-line access to the status of funds or receive daily reports on the status of funds to perform analyses or decision making;</li> <li>g. Prior to processing transactions, users are notified that an obligation or expenditure would exceed funds available, or an expenditure exceeds the amount of an obligation established for that purpose;</li> <li>h. Feeder systems are integrated or electronically interfaced with the core financial system;</li> <li>i. An audit trail exists from any summary data recorded in the core financial system to detailed source transactions maintained in feeder systems;</li> <li>j. Information on approved and disapproved direct loans is maintained;</li> <li>k. Employee compensation is initiated, maintained, and reported correctly and timely;</li> <li>l. The status and disposition of inventory items are maintained;</li> <li>m. Debt referred for collection or offset by Federal collections is identified;</li> <li>n. Interest on overdue payments and discounts is calculated.</li> <li>o. Financial reports adhere to internal and external reporting requirements, including financial statement preparation;</li> <li>p. Budget Reports support the preparation, execution and reporting of the agency's budget in accordance with OMB Circular No. A-11 (Preparation and Submission and Execution of the Budget) and other OMB circulars and bulletins;</li> <li>q. Support budget formulation and execution functions; and</li> <li>r. Produce auditable financial statements based on the data from the agency's financial system</li> </ul>

Requirements	Indicators of Compliance – Nominal Risk	Steps for achieving compliance when the risk is Moderate - Moderate Risk
		<p>2. Internal Control</p> <p>If a material weakness or persistent significant deficiency is found from an A123 (Appendix A) review or a financial statements audit, an agency must demonstrate that it does not have any impact to the following:</p> <ul style="list-style-type: none"> <li>a. Preparing financial statements and other required financial and budget reports using information generated by the financial management system(s);</li> <li>b. Providing reliable and timely financial information for managing current operations;</li> <li>c. Accounting for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and</li> <li>d. Remaining consistent with Federal accounting standards and the U.S. Standard General Ledger.</li> </ul> <p>3. Computer Security</p> <p>A FISMA significant deficiency signals that the system is not compliant. No further action by the agency is necessary.</p> <p>4. Findings from FFMIA Section 4</p> <p>A finding in this section signals that the system is not compliant. No further action by the agency is necessary.</p>

## Chart 2. Accounting Standards

<b>Requirements</b>	<b>Indicators of Compliance – Nominal Risk</b>	<b>Steps for achieving compliance when the risk is Moderate - Moderate Risk</b>
<p>An agency's financial management systems must adhere to Federal accounting standards.</p>	<p>The agency's financial statements are compiled in accordance with the Federal accounting standards prescribed by OMB and results in an unqualified opinion without any material weakness or significant manual adjustments.</p>	<ol style="list-style-type: none"> <li>1. If agencies receive a qualified opinion, then agencies must demonstrate that the opinion does not impact the agency's ability to prepare auditable financial statements, e.g., a material uncertainty, such as resolution of litigation or projecting future economic events; and</li> <li>2. If the audit discloses material weakness in internal control, agencies must demonstrate that the weaknesses do not affect the agency's ability to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purposes that are consistent with the Federal accounting standards.</li> </ol>

**Chart 3. Standard General Ledger at the Transaction Level**

<b>Requirements</b>	<b>Indicators of Compliance – Nominal Risk</b>	<b>Steps for achieving compliance when the risk is Moderate - Moderate Risk</b>
<p>An agency's financial management systems must implement the USSGL at the transaction level.</p>	<ul style="list-style-type: none"> <li>• Use of FSIO certified core financial system</li> </ul>	<p>Self-Assessment of USSGL Compliance</p> <p>If agencies do not use a FSIO certified core financial system or use one that is no longer certified, then they should conduct a self assessment to verify USSGL compliance.</p> <p>The self-assessment should verify the following factors:</p> <ol style="list-style-type: none"> <li>a. Transactions are recorded in full compliance with the USSGL Chart of Account's descriptions and posting models/attributes that demonstrate how the USSGL is to be used for recording transactions of the Federal government accounting process;</li> <li>b. Reports produced by the systems provide financial information, whether used internally or externally, that can be traced directly to the USSGL accounts; and</li> <li>c. Transactions from feeder systems, which may be summarized and interfaced into the core financial system's general ledger, are posted following USSGL requirements.</li> </ol>

## Recommended Format

<b>SYSTEM SELF ASSESSMENT FORM</b>		<b>In adherence (Y/N)</b>
<b>Core financial systems criteria</b>		
A.	A common accounting classification structure is used or CGAC is adopted (when it becomes available and agency has modernized)	
B.	Budgetary and proprietary accounts are always in balance	
C.	Common government-wide business standards are implemented (when it becomes available and agency has modernized)	
D.	User access controls/passwords and user authorizations are authorized in writing and implemented and other financial controls are in place and operating effectively	
E.	Budget execution is integrated in the core financial system with accounts payable, accounts receivable and general ledger	
F.	Users have on-line access to the status of funds or receive daily reports on the status of funds to perform analyses or decision making	
G.	Prior to processing transactions, users are notified that an obligation or expenditure would exceed funds available, or an expenditure exceeds the amount of an obligation established for that purpose	
H.	Feeder systems are integrated or electronically interfaced with the core financial system	
I.	An audit trail exists from any summary data recorded in the core financial system to detailed source transactions maintained in feeder systems	
J.	Information on approved and disapproved direct loans is maintained	
K.	Employee compensation is initiated, maintained, and reported correctly and timely	
L.	The status and disposition of inventory items are maintained	
M.	Debt referred for collection or offset by Federal collections is identified	
N.	Interest on overdue payments and discounts is calculated	
O.	Financial reports adhere to internal and external reporting requirements, including financial statement preparation	
P.	Budget Reports support the preparation, execution and reporting of the agency's budget in accordance with OMB Circular No. A-11 and other OMB circulars and bulletins	
Q.	Support budget formulation and execution functions	
R.	Produce auditable financial statements based on the data from the agency's financial system	

<b>USSGL criteria</b>		<b>In adherence (Y/N)</b>
A.	Transactions are recorded in full compliance with the USSGL Chart of Account's descriptions and posting models/attributes that demonstrate how the USSGL is to be used for recording transactions of the Federal government accounting process	
B.	Reports produced by the systems provide financial information, whether used internally or externally, that can be traced directly to the USSGL accounts	
C.	Transactions from feeder systems, which may be summarized and interfaced into the core financial system's general ledger, are posted following USSGL requirements.	