4 FAM 030
ACCOUNTING PRINCIPLES AND STANDARDS STATEMENT

(TL:FIN-361;   04-28-2003)
(Office of Origin: A/RPS/DIR)

4 FAM 031 GENERAL STATEMENT

4 FAM 031.1 Scope And Purpose

(TL:FIN-356;   11-30-95)

This section establishes the Department's financial management policy and related accounting principles and standards. These principles and standards are to be followed for recording and tracking financial information in the Department's financial management system. Further, they are the Department's policy guidance to the preparation and/or revision of any supplemental procedural material that may not be a formal part of the FAM or FAH.

4 FAM 031.2 Applicability

(TL:FIN-356;   11-30-95)

The accounting principles and standards identified in this subchapter support the critical interrelationships that financial management functions (e.g. budgeting, accounting, asset management, internal control, etc.) must have in a financial management system. They are applicable to all organizational units and programs administered by the Department, including general and special funds, revolving funds, trust funds, and deposit funds. Their implementation is the basis upon which the Department will assure its financial management system produces consistently accurate information.

4 FAM 031.3 Statutory Authority

(TL:FIN-356;   11-30-95)

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3512), the Chief Financial Officers' Act of 1990 (CFO Act) and the Government

Management Reform Act of 1994 are the basic legislative mandates supporting this subsection and the basis for accounting and financial management policies for U.S. Government agencies. However, numerous other authorities also support the policy stated in this subchapter and the implementing procedures identified in the Foreign Affairs Handbook. These authorities are identified in 4 FAH-3 H-010.

4 FAM 031.3-1 Statutory Authority And Basic Objective Of The Department's Accounting System

(TL:FIN-356; 11-30-95)

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3512) sets forth the general policies for accounting for financial operations of U.S. Government agencies. This Act is complemented by the Chief Financial Officers' Act of 1990 which specifically expresses Congressional concern with the importance of financial management in decision making and the existing weaknesses with the financial accounting systems in Federal agencies. Under the CFO and Government Management Reform Act, the Department is expected to implement OMB policies to strengthen existing accounting systems and produce annual Department financial statements as well as statements for the significant commercial funds or entities that may exist within the Department. Pursuant to the requirements of these Acts, the accounting system shall be designed to provide:

(1) Integrated financial management processes that incorporate a standard general ledger and comply with OMB policies, requirements, and financial accounting standards promulgated for executive branch agencies;

(2) Adequate, reliable and accurate financial information needed for management, the Congress, the Office of Management and Budget, and the Treasury Department;

(3) Sufficient financial information to prepare annual financial statements for the Department;

(4) Accurate and consistent financial information and accounting functions or processes that can be audited by the Inspector General;

(5) Effective control over and accountability for all funds for which the Department is responsible;

(6) Reliable accounting results to support financial performance measures, strategic plans, budget requests, and execution of the

budget;

(7) Suitable integration of the Department's accounting with the central accounting and reporting operations of the Department of Treasury;

(8) Disclosure of operating costs to facilitate preparation of cost based budgets; and

(9) Reliable and accurate financial information required by other executive branch agencies.

4 FAM 031.3-2 Government Performance Results Act (Pub. L. 103-62)

(TL:FIN-356; 11-30-95)

To the extent feasible and reasonable, the financial management system shall support financial performance measures instituted under the Government Performance and Results Act (GPRA) of 1993 and special financial reports will be designed as needed

4 FAM 031.3-3 General Ledger Requirement For Accounting Transactions

(TL:FIN-356; 11-30-95)

The Department shall maintain, to the maximum extent possible, a general ledger that complies with OMB and Treasury publications on the Standard General Ledger for the U.S. Government. While system capabilities cannot currently meet this requirement, all new system designs shall incorporate the requirement for a general ledger and the Department shall be capable of consolidating all accounting information into a single general ledger for the Department.

4 FAM 031.3-4 General Ledger Management Policy

(TL:FIN-356; 11-30-95)

Production of auditable financial statements and strategic management planning/performance information under the CFO and GPRA legislation noted in 4 FAM 031.3 and 4 FAM 031.3-1 requires the consistent application of standardized accounting principles and maintenance of the Standard General Ledger noted in 4 FAM 031.3-2 . While a Standardized General Ledger capability, as defined by OMB does not currently exist in some overseas operating environments, Department policy is to continuously improve general ledger capabilities for financial statement purposes and to implement general ledger requirements at levels that will strengthen management controls and comply with existing legislation. All individuals involved in financial management operations are required to work toward manual and automated processes that will ensure timely and appropriate recording of financial information in the Department's current general ledger.

4 FAM 031.4 Administrative Law Guidance And Reference Information Sources

(TL:FIN-356; 11-30-95)

Consistent with the legislative authorities noted in 4 FAH-3 H-010, the Department shall identify the appropriate accounting principles, standards and system requirements for financial operations and shall implement accounting procedures consistent with U.S. Code and instructions and guidance contained in:

(1) OMB published Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Standards;

(2) OMB numbered Circulars and Bulletins such as A-11, A-12, and A-34; and

(3) the Treasury Financial Manual and bulletins.

The Department shall use reference information published by the Federal Accounting Standards Advisory Board, Financial Accounting Standards Board, Government Accounting Standards Board, Joint Financial Management Improvement Program, the Treasury General Ledger Board and the General Accounting Office (GAO).

4 FAM 031.5 Accounting Classification

(TL:FIN-356; 11-30-95)

The Department, in consultation with OMB (31 U.S.C. 1112(e)), shall maintain a consistent accounting and budget classification system which shall:

(1) Be consistent accounting and budget classifications;

(2) Synchronize between accounting and budgeting classifications and organizational structure; and

(3) Support budget justifications on performance and program costs by

organizational units.

The Department’s Account Structure and Classification Codes shall be regularly updated, and published in 4 FAH-1 .

4 FAM 031.6 Cost Based Budgets And Accrual Accounting

(TL:FIN-356; 11-30-95)

a. The Department shall maintain a financial management system with a standard general ledger encompassing budget and accounting functions. It shall be based on accrual accounting concepts and provide a current systematic record of changes in assets, liabilities, and sources of funds resulting from the incurring of obligations, accruing expenditures, and costs (or expenses); earning revenues; receipting and disbursing cash; and other financial transactions.

b. 31 U.S.C. 1108(b)(1) requires that (a) requests for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets, and (b) for the purposes of administration and operations, such cost-based budgets shall be used for all departments and establishments and their subordinate units. Cost-based budgets shall be developed by budget activity, program, and major organization.

4 FAM 031.7 Control Of Property

(TL:FIN-356; 11-30-95)

The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483) requires agencies to maintain adequate inventory controls and accountability systems for property under their control. 31 U.S.C. 3512(b) requires the accounting system of each agency to include monetary property accounting records.

4 FAM 031.8 System Integration

(TL:FIN-356; 11-30-95)

To assure maximum usefulness of the data developed from the Department’s financial management system, it shall be integrated, to the maximum extent possible, with other Department systems and the Treasury. Integration shall be achieved by using (a) the data classification structures identified in 4 FAH-1 , (b) common data repositories, and (c) data structures that meet Treasury Department manual and electronic reporting and disbursing requirements.

4 FAM 031.9 Accrual Basis Of Accounting

(TL:FIN-356; 11-30-95)

The financial management system shall have accrual concepts incorporated into its design. Essentially, the Department must record the significant and accountable aspects of financial transactions or events as they occur. The system shall also be designed to provide a current systematic record of changes in assets, liabilities, and sources of funds resulting from the incurrence of obligations, accrued expenditures, and costs (or expenses); the earning of revenues; the receipt and disbursement of cash; and other financial transactions. 4 FAH-3 H-230 contains accrual principles to be used by the Department as they apply to various accounting transactions (e.g., obligations, accrued expenditures, and costs).

4 FAM 031.10 Federal Accounting Principles And Standards

(TL:FIN-356; 11-30-95)

The Department's financial management system shall incorporate generally accepted accounting principles and standards for Federal agencies in accordance with instructions identified in OMB Circular A-134.

4 FAM 031.10-1 Hierarchy For Accounting Principles And Standards

(TL:FIN-356; 11-30-95)

The Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal accounting standards to the Director of OMB, the Secretary of the Treasury, and the Comptroller General of the United States. While a number of principles and standards have been recommended and published, there is still no comprehensive set that can be followed by the Department. Therefore, the Department shall use the following hierarchy for determining the appropriate accounting principles and standards for its financial management systems and financial statements:

(1) Individual standards agreed to and published by OMB, GAO and Treasury;

(2) Form and content requirements included in OMB Bulletin 93-02,

dated October 22, 1992, and subsequent issuance’s;

(3) Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance; and

(4) Accounting principles published by authoritative standard setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting standards improve the meaningfulness of the financial statements.

4 FAM 031.10-2 Other Available Sources Of Principles And Standards

(TL:FIN-356; 11-30-95)

The Federal Accounting Standards Advisory Board (FASAB) is an independent organization responsible for developing accounting principles and standard for Federal agencies. Essentially, the FASAB makes recommendations on accounting principles and standards for Federal agencies through exposure draft publications. However, until the recommendations are accepted and published by OMB, the FASAB exposure draft publications are not official accounting standards for the Department.

4 FAM 031.10-3 The General Accounting Office Policy And Procedures Manual For Guidance Of Federal Agencies

(TL:FIN-356; 11-30-95)

The GAO Policy and Procedures Manual for Guidance of Federal Agencies is the official medium through which the Comptroller General promulgates (a) accounting principles, standards and related requirements; (b) requirements for accounting systems and internal auditing programs; (c) uniform procedures for use by Federal agencies; and (d) regulations governing relationships of the General Accounting Office with other Federal agencies and with individuals and private concerns doing business with the Government. When the Department encounters an issue with an accounting principle or standard that is not covered by an OMB sanctioned publication under the hierarchy stated in 4 FAM 031.10-1, the GAO Policy and Procedures Manual may be followed until OMB guidelines are published.

4 FAM 031.11 Conflicts Interpreting Accounting Standards And Principles

(TL:FIN-356; 11-30-95)

OMB Circular A-134 also establishes the policies to be followed by executive branch agencies in seeking and providing interpretations and other advice related to standards. If the request requires an interpretation of Federal Financial Standards, OMB will provide written copies to both the GAO and Treasury and publish a consensus determination.

4 FAM 032 FUNDS

4 FAM 032.1 Definition Of Fund Control

(TL:FIN-356; 11-30-95)

The term "fund control" refers to management control over the use of funds to insure 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

(4) The obligation or expenditure of amounts authorized is not reserved or otherwise deferred without Congressional knowledge and approval.

4 FAM 032.2 Legal Requirements

(TL:FIN-356; 11-30-95)

The following describes the six Federal laws which require or directly apply to control of funds, assets and other financial resources:

(1) The Anti-Deficiency Act [31 U.S.C. 1341] was designed to:

(a) prevent incurring obligations or making expenditures and disbursements which would create deficiencies in appropriations and funds;

(b) fix responsibility within an agency for excess obligations and expenditures; and

(c) assist in bringing about the most effective and economical use of appropriations and funds.

The law also provides that fund authorizations for budget control purposes should be established at the highest practicable level, consistent with assignments of responsibility, and should be limited in number to those essential for effective and efficient administration. In line with these objectives, every agency is required to have a system for administrative control of funds approved by the Director of the Office of Management and Budget.

(2) Agencies must control funds in accordance with the Budget and Impoundment Control Act of 1974 (31 U.S.C. 1512(c)), which prescribes guidelines and procedures for the establishment of reserves or other deferral of budget authority. Under the Act, restraints on obligations for any reason (Anti-Deficiency Act, policy, or other) must be reported by the President to the Congress as proposed recisions or deferrals. Proposed recisions cannot be affected without affirmative action by the Congress. Proposed deferrals take effect unless disapproved by either the House of Representatives or the Senate. The Comptroller General is required to report to the Congress on proposed or established reserves or other deferrals of budget authority that have not been reported to the President.

(3) To adequately satisfy the need for fund control, obligation information must be reported promptly and accurately. The authority to incur liabilities on behalf of the United States originates with the Constitution and subsequent laws, and the Comptroller General whose decisions have the effect of law (see 4 FAH-3 H-050). Specific criteria governing the recording and reporting of financial transactions as obligations are prescribed in Section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 1501). This law provides that no amount shall be recorded as an obligation unless it meets specific 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.

(4) Federal Credit Reform legislation requires the Department to accurately accumulate the cost of the credit extended through a loan process (e.g., repatriation loans). The legislation requires the tracking of costs on a budgetary basis, the delivery of benefits based on need, and the allocation of resources to manage the loan program. Deficiency violations will be created if program and administration costs for the loan programs are exceeded. Further, unless otherwise specified by OMB, credit execution reports will be prepared on the current data in each credit account even if the account is not apportioned.

(5) The National Defense Authorization Act eliminated the merged account concept and prescribed the rules for determining the availability of appropriation and fund balances. Essentially, the legislation establishes the procedures for closing and canceling appropriation and fund accounts under specific time frames (five years). In addition, the legislation provides specific requirements for adjusting obligations and completing expenditures in the closed, expired and canceled accounts.

(6) Federal Managers' Financial Integrity Act of 1982, Pub. L. 97-255 (31 U.S.C 3512) adds requirements for internal accounting and administrative controls.

4 FAM 032.3 Fund Control Policy And Regulations

(TL:FIN-356; 11-30-95)

In compliance with the legal requirements identified in 4 FAM 032.2, the Department has developed and issued regulations to govern the administrative control of funds. A complete statement of these regulations, as approved by the Office of Management and Budget, is shown in 4 FAM 080.

4 FAM 032.4 Fund Control System

(TL:FIN-356; 11-30-95)

In accordance with the Fund Control Policy and Regulations, the Department has established the following fund control system.

4 FAM 032.4-1 Apportionment And Reapportionment Of Appropriations

(TL:FIN-356; 11-30-95)

The Chief Financial Officer (CFO) has delegated to the Deputy Assistant Secretary for Budget and Planning, the responsibility for requesting apportionments and reapportionments in accordance with operating plans approved by the Under Secretary for Management, and the responsibility for reporting on the use of apportionments and reapportionments to the Office of Management and Budget.

4 FAM 032.4-2 Fund Controls

(TL:FIN-356; 11-30-95)

The control of appropriations and/or funds within consolidated financial plans and apportionments and reapportionments is exercised by allotment authorities, which are delegations of authority to issue allotments; allotments; operating allowances; and systems for the control of obligations and disbursement documents. It is the Department's policy to establish fund authorizations for budgetary control at the highest practical levels. The following principles apply:

(1) Allotment Authorities are issued to officers of major organizations that have autonomous or semiautonomous organizations reporting to them.

(2) Allotments are made to officers at the major organization level. In addition, allotments shall be issued to officers of autonomous or semiautonomous organizations by officers of major organizations receiving allotment authorities.

(3) Operating allowances are issued within allotments where necessary to facilitate control against allotments.

(4) It is also policy to limit the number of allotments to those essential to assure that obligations are not incurred in excess of apportionments and reapportionments. Therefore, only one allotment is made to each allottee for each appropriation or fund for which the allottee has operational responsibility. Reliance on systems of multiple allotments to provide analysis of obligation activity shall be avoided.

(5) Advices of Allotment are issued by the Deputy Assistant Secretary for Budget and Planning and by offices to whom allotment authorities are issued, in conformance with approved financial plans, and within the amounts and limitations of apportionments or reapportionments made by the Office of Management and Budget.

(6) The Director of Domestic Financial Services is responsible for assuring, with respect to all funds, including revolving funds and trust funds, that:

   (a) appropriate accounting is performed to provide for accurate disclosure of the status of all appropriations and other forms of obligational authority in terms of apportionments, allotment authority, allotments, operating allowances, obligations, and disbursements;

   (b) allotments do not exceed apportionments and reapportionments; and

(c) amounts recorded and reported as obligations are valid obligations as defined by law in accordance with Section 1311 of the Supplemental Appropriations Act of 1955.

(7) Each official who receives an allotment of funds is responsible for:

(a) restricting obligations to the amounts available in such allotments;

(b) identifying an obligation with the applicable appropriation or fund and allotment at the time it is incurred;

(c) certifying funds are available before the applicable obligation documents are released and recorded;

(d) certifying payments when goods are received or constructive receipts occurs; and

(e) reviewing unliquidated obligations and deobligating when appropriate.

Obligations incurred or disbursements made in excess of the amount permitted by an allotment constitutes a violation of the Anti-Deficiency Act as amended.

(8) Each official who receives an operating allowance shall be responsible for ensuring that obligations or disbursements are not incurred in excess of operating allowances. To help the allowance holder to meet this responsibility, the designated accounting offices shall maintain allowance accounts, and pre-validate documents for availability of funds. Obligations incurred or disbursements made in excess of the amount permitted by an allowance do not constitute Anti-Deficiency Act violations (31 U.S.C. 1341) unless the overobligation or overdisbursement at the operating allowance level causes the allotment to be exceeded. However, disciplinary actions in accordance with 4 FAM 080 will be initiated for any actions that result in the operating allowance being exceeded.

(9) The allotment accounts shall be the official allotment accounting records and the amounts there shall be under General Ledger control. Allottees shall also be responsible for controlling the rate of obligations in accordance with the approved financial plan, specifically to prevent the exhaustion of funds prior to planned expiration of an allotment.

(10) For purposes of effective financial planning, including fund control, data on proposed obligations (commitments) may be accumulated

in accounting records in advance of their becoming valid obligations. When the records are used to prepare official reports on obligations incurred, the reports shall include only valid obligations as defined by law.

4 FAM 032.4-3 Limitations Within Appropriations

(TL:FIN-356; 11-30-95)

Dollar limitations imposed by law within the scope of appropriations shall be provided by:

(1) Identifying statutory limitations in the allotment and general ledger accounts.

(2) Verifying the availability of funds within the statutory limitations when obligating documents are certified for availability of funds within allotments and operating allowances.

4 FAM 032.4-4 Deferrals And Recisions

(TL:FIN-356; 11-30-95)

The Department will conform to prescribed guidelines and procedures within its accounting system in accordance with the Congressional Budget and Impoundment Control Act of 1974. Budgetary authority may be temporarily withheld from obligation through the apportionment process for anticipated recisions, fiscal policy considerations, or for other reasons. However, all funds deferred through the apportionment process, as well as apportioned funds provided for a specific purpose or project that are being obligated at a pace slower than intended by the Congress, must to be reported to the Congress in special messages from the President.

4 FAM 032.5 Implementing Procedures

(TL:FIN-356; 11-30-95)

Detailed procedures for managing budgetary resources and allotted funds are identified in 4 FAH-3 H-100 and 4 FAH-3 H-200 respectively.

4 FAM 033 ASSETS

(TL:FIN-356; 11-30-95)

Assets are recorded in the accounting records when acquired. They shall be neither written off, written down, disposed of, nor allowed to leave the possession of the Department without proper authorization.

4 FAM 033.1 Cash Resources

(TL:FIN-356; 11-30-95)

a. General Ledger accounts are maintained by appropriation or fund account and shall include foreign currency in order to disclose complete and current information on cash resources. Cash must also be distinguished by entity, nonentity and restricted cash balances. For example the financial management system must accurately reflect:

   (1) entity receipts and disbursements by appropriation or fund symbol in the cash balance with Treasury;

   (2) nonentity cash advanced to U.S. Disbursing Officers;

   (3) nonentity cash held for others; and

   (4) restricted cash from amounts held in escrow or other special accounts (e.g., Suspense Deposit Abroad).

   Finally, the nonentity cash held for others and restricted cash must distinguish between government and non-government sources.

b. Accounting records are closed as of the end of the period for which reports are to be prepared so that all transactions, and only such transactions posted during that period, are included. The accounting for receipts shall be on the basis of collections received. Disbursements shall be accounted for on the basis of vouchers paid. Accounts and records are maintained to facilitate periodic reconciliation with the accounting records of the U.S. Treasury. The handling of cash resources must be in accordance with all requirements, e.g., the U.S. Department of Treasury.

c. Detailed procedures to manage imprest funds and other cash requirements are identified in 4 FAH-3 H-300.

4 FAM 033.1-1 Collections

(TL:FIN-356; 11-30-95)

a. Except as provided in 4 FAH-3 H-390, all collections shall be recorded on the day received and shall be deposited, to the maximum extent possible, on the same business day. Collections received after the cut-off time for a same day deposit shall be recorded on the day received even when the deposit cannot be made on the same day.

b. Cash or negotiable instruments received from contractors or others as bid deposits, performance collateral, or in trust for other reasons shall be promptly deposited in accordance with 4 FAH-3 H-390. Checks, bonds, or other negotiable instruments are recorded when received and deposited in either a Treasury authorized account or in accordance with the arrangements made with the appropriate U.S. Disbursing Officer if collected overseas. At posts other than FMCs, negotiable instruments will be held in a secure facility under the control of the Management officer. Proper subsidiary records shall be maintained to identify the deposits, and in locations where general ledgers are maintained, reconciliation with the general ledger shall be made at least monthly.

4 FAM 033.1-2 Disbursements

(TL:FIN-356; 11-30-95)

a. Responsibility for certification of vouchers for payment as well as responsibility for the scheduling of vouchers for payment shall be identified clearly, and no payment shall be made unless the applicable voucher has been certified for payment. Disbursements are recorded as of the date of certification of the applicable payment schedule Form SF-1166, Voucher and Schedule of Payments. Controls shall be implemented to prevent duplicate payments.

b. Late payment penalties and lost discounts shall be a cost of operations, which is consistent with the Prompt Payment Act as amended (Pub. L. 97-177 and Pub. L. 100-496), OMB Circular A-125, and Treasury regulations.

c. Specific procedures for:

(1) certifying vouchers;

(2) controlling disbursements;

(3) paying interest;

(4) recording discounts and

(5) maintaining quality control reviews are identified in multiple sections of 4 FAH-3 H-250 and 4 FAH-3 H-430 .

4 FAM 033.1-3 Imprest Funds

(TL:FIN-356;   11-30-95)

a. The officer having supervisory responsibility over the cashier (domestic and overseas) will be responsible for supervision of cashier activities within prescribed policies and procedures. This supervision includes periodic unannounced verifications of cashier funds. Verification shall be made at least monthly, and at irregular intervals, to avoid long undisclosed shortages. Balances will also be verified any time imprest fund accountability is transferred.

b. Imprest funds shall be recorded under a separate classification in the general ledger and shall be managed in accordance with procedures identified in 4 FAH-3 H-390.

c. In accordance with Treasury Financial Manual requirements, imprest funds to support domestic activities shall be charged to apportioned funds and identified as entity cash. However, funds extended to overseas USDOs and duly designated cashiers at personal risk are to be considered Treasury resources and classified as nonentity cash held by the Department.

d. Accountability for cash shall be reconciled to the cashier control accounts in accordance with the procedures in 4 FAH-3 H-390 and the Serviced Post User Manual (SPUM) Appendix A Cashier Manual.

4 FAM 033.1-4 Foreign Currencies (FT Accounts)

(TL:FIN-356;   11-30-95)

Cash resources in the form of foreign currencies are subject to the same accounting principles and standards that are applicable to domestic cash resources for entity FT accounts. The administration of foreign currency assets, including accounting, exchange rates, and reporting, shall be performed pursuant to procedures prescribed by the Department of Treasury. Unlike Treasury accounts which are receipt and custody account from which direct expenditures may not generally be made, agency accounts are both receipt and expenditure accounts. The status of nonentity FT accounts will be reported to the appropriate agency and Treasury as required. Financial reports that include information on Department of State agency accounts containing foreign currencies that are not freely convertible to U.S. currency shall be stated in dollar terms based on conversion rates authorized by the U.S. Treasury and published by Department USDOs. Reports shall also clearly disclose that the dollar amounts shown do not represent currency available for the payment of general obligations.

4 FAM 033.1-5 Foreign Currencies (Dollar Accounts) Held Under Foreign Service Accountability (FSA)

(TL:FIN-356; 11-30-95)

The FSA account is a record of the cash assets reflected in the accounts of U.S. disbursing officers. The account balance to be associated with the Department of State consists of U.S. dollars and that portion of the disbursing officer's foreign currency holdings which is taken into dollar accountability. Translation of foreign currency transactions, assets, liabilities and the U.S. investment into U.S. dollar equivalents shall be made in order to prepare internal and external worldwide consolidated financial statements. The account balances which (1) must be converted to U.S. dollar amounts (e.g., accounts receivable), (2) require cash disbursements (e.g., accounts payable), or (3) must be estimated for fund availability (e.g., unobligated allotment) will be computed at the exchange rate in effect at the end of each accounting or reporting period. However, the rate used for internal and external report generation purposes must be consistent with Treasury regulations and reporting requirements when they apply.

4 FAM 033.2 Accounts Receivable

(TL:FIN-356; 11-30-95)

Accounts receivable arise from claims to cash or other assets. There are three basic accounting standards for accounts receivable that must be implemented by individuals managing these assets.

(1) **Recognition of Receivables**—A receivable should be recognized when a Federal entity establishes a claim to cash or other asset against other entities based on legal provisions, such as a payment due date or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made. (see 4 FAH-3 H-230).

(2) **Separate Reporting—**Receivables from Federal entities are intragovernmental receivables and should be reported separately from receivables from nonfederal entities.

(3) **Entity vs. nonentity Receivables—**Receivables should be distinguished between entity and nonentity receivables. Entity receivables are amounts that a Federal entity claims for payment from other Federal or nonfederal entities and that the Federal entity is authorized by law to include in its obligation authority or to offset its expenditures and liabilities upon collection. nonentity receivables are amounts that the entity collects on behalf of the

U.S. Government or other entities and the entity is not authorized to spend. Receivables not available to an entity are nonentity assets and should be reported separately from receivables available to the entity (e.g., reimbursement for value added tax owed by a foreign government).

4 FAM 033.2-1 Department Initiatives to Meet Federal Financial Accounting Standard for Accounts Receivable

(TL:FIN-356; 11-30-95)

While current financial system capabilities may not meet all the requirements specified by existing Federal Financial Accounting Standards, it is Department policy to rapidly comply with these standards with automated system designs. In locations where manual processes are required, domestic and overseas organizations shall ensure that the policies identified in 4 FAM 032.2 through 4 FAM 032.5 are followed to the maximum extent possible.

4 FAM 033.2-2 Accounts Receivable Types

(TL:FIN-356; 11-30-95)

The Department has several different types of accounts receivable that must be tracked. Specific types of receivables include:

(1) **Reimbursements from other U.S. Government agencies**. The Department shall establish receivables for reimbursements from other U.S. Government agencies for services rendered under Foreign Affairs Administrative Support (FAAS) agreements and Program Reimbursement agreements. FAAS reimbursements shall be billed based on an apportionment of the agreement amount. The agreement amount will be established and revised periodically on the basis of obligations incurred to provide the services. Program Reimbursements will be on the basis of obligations incurred. For other services, such as courses at the Foreign Service Institute, reimbursements shall be on the basis of cost, as prescribed in Section 601 of the Economy Act (31 U.S.C. 686), and will include generally recognized elements of indirect and overhead costs. Detailed procedures governing the management of the FAAS System are published in the Foreign Affairs Handbook 4 FAH-2 .

(2) **Working Capital Fund Revenue**. WCF revenue is recorded as a receivable when sales giving rise to such revenue occur.

(3) **Employee Receivables.** Receivables, as opposed to advances, are

established for employees for various debts including overpayment of salary, overpayment for moving and storage of household effects, medical costs, and overpayment of retirement annuities. In addition, outstanding travel and salary advances become employee receivables when they exceed the Department criteria for timely repayment.

(4) **Vendors, Contractors and Others.** Receivables arising from overpayments, adjustments to billings, and for dishonored checks are established when they occur.

(5) **Foreign Governments Receivables**. Receivables arising from international agreements such as Ice Patrol, U.N. bonds and loans for construction and refugee accounts are established when an agreement determines an amount must be paid by the U.S. Government.

(6) **Value Added Tax From Foreign Governments.** All amounts arising from value added tax payments to foreign governments should be booked as receivables even though they are not considered budgetary resources until received.

Loans are receivables that may require special treatment due to Credit Reform Legislation and published accounting principals and standards (e.g., Repatriation Loans). Specific requirements for these Department of State managed loans are identified in 4 FAM 033.3 .

4 FAM 033.2-3 Recording Receivables

(TL:FIN-356; 11-30-95)

The Department records and bills receivables as follows:

(1) Receivables arising from overpayments and adjustments to billings from vendors, contractors, common carriers, and others are recorded promptly when determined.

(2) Receivables due from other U.S. Federal agencies shall be clearly identified to permit elimination of such receivables and payables in government-wide financial statements prepared by the U.S. Department of Treasury.

(3) All reimbursable work performed is covered by a written agreement containing a description of the work to be performed, the service to be furnished, and the frequency of billing. Receivables are recorded

promptly as the related revenues are earned, or as acts giving rise to such claims are completed.

(4) A receivable is recorded for each dishonored check. Such checks shall be returned by the Disbursing Office and a special billing notice shall be processed immediately after receipt. See 4 FAH-3 H-360 for special procedures related to dishonored accommodation exchange checks.

(5) Accounts receivable classifications in the general ledger shall provide the information necessary to identify those receivables that are available for obligations, such as anticipated receipts, reimbursements and transfers.

(6) Subsidiary receivable ledgers and general ledger accounts shall be reviewed at least annually for uncollectible receivables and for receivables affected by the expiration and cancellation of appropriations covered by the National Defense Authorization Act of 1990 (M-year legislation).

4 FAM 033.2-4 Posting Accounts Receivable To The General Ledger And Reconciling Subsidiary Ledgers

(TL:FIN-356; 11-30-95)

Whether automated or manual, subsidiary ledgers on current accounts receivable must be maintained at the point where the receivable was generated and/or the point where collection is most likely to take place (see special provisions for repatriation loans). Receivables will be recorded in U.S. dollars or local currency at the rate in effect on the day the receivable is recognized

4 FAM 033.2-5 Accounts Receivable Must Be Dated, Grouped And Managed From Date Created

(TL:FIN-356; 11-30-95)

Each receivable shall be established (dated) when the receivable is recognized as an amount owed to the Department. The subsidiary ledgers shall be designed to group receivables by age with the most current increment covering receivables less than 30 days old. Other age groupings will be in increments of 30 days (31-60, 61-90, 91-120) and records will be maintained on the age of each receivable. Unless specifically authorized for a specific period of collection (e.g., value added tax), receivables over 90 days old will be considered past due and will be transferred to the Financial

Operations Accounts Receivable Division (FMP/DFS/FO/AR) in accordance with 4 FAM and 4 FAH-3 H-490 .

4 FAM 033.2-6 Recording Procedures

(TL:FIN-356; 11-30-95)

Each overseas and domestic organization is responsible for developing procedures to accurately track known accounts receivables and to record accounts receivables in the subsidiary ledger whether automated or manual in a timely manner. When the posting process is manual, the procedures developed at the organizational level must ensure that accurate records are maintained. Each organization must ensure that accounts receivable records are tracked and reported to the Department in accordance with the procedures in 4 FAH-3 H-230, 4 FAH-3 H-260 and 4 FAH-3 H-270 .

4 FAM 033.2-7 Allowance For Uncollectible Accounts Receivable

(TL:FIN-356; 11-30-95)

Losses on receivables should be recognized in the accounting period when it is more likely than not that the receivables will not be totally collected. For the Department, the concept of "more likely than not" means that there is more than a 50 percent chance that a receivable will not be collected. Essentially, the amount in the allowance for uncollectible accounts receivables should be estimated on the annual reporting date or when sufficient evidence suggests that the latest estimate does not realistically present the gross amount of receivables at their net realizable value.

4 FAM 033.2-8 Responsible Organization For Determining Write-Off Requirements For Uncollectible Accounts Receivable

(TL:FIN-356; 11-30-95)

a. At least annually and more frequently if necessary, losses due to uncollectible amounts must be measured in a systematic manner based on an analysis of individual accounts. All Department organizations (domestic and overseas) must analyze anticipated losses from uncollectible receivables and provide these estimates to the Director, Office of Domestic Financial Management Services (FMP/F/DFS). Estimates should be based on (1) debtor's ability to pay, (2) debtor's payment record and willingness to pay, and (3) potential to recover amounts from secondary sources, including liens, garnishments, cross collections and other applicable tools.

b. FMP/F/DFS will consolidate estimates from overseas and domestic organizations to determine the total amount of uncollectible accounts receivable to be recorded in the Department's general ledger. Since the allowance for losses generally cannot be based solely on the results of individual account analysis, additional factors, such as the nature of accounts receivables, will be considered. If circumstances warrant, FMP may assess the potential loss by grouping individual losses into the following groups:

(1) debtor categories (business firms, state and local governments and individuals);

(2) reasons that give rise to receivables (tax delinquencies, erroneous benefit payments, trade accounts based on goods and services sold, and transfers of defaulted loans to accounts receivables; and

(3) geographic regions (foreign countries and domestic regions).

4 FAM 033.2-9 Recognizing The Cost/Expense For Uncollectible Accounts Receivable

(TL:FIN-356; 11-30-95)

When actual accounts receivables are written off, a cost/expense is not identified in the current year since the allowance for doubtful accounts and the expense account in the general ledger are established for this purpose. However, when writing off accounts receivable, specific procedures must be followed to properly reflect the actions on the income statement. Detailed write-off procedures and the accounting for the amounts written off on the income statement are identified in 4 FAH-3 H-490.

4 FAM 033.3 Loan Receivables

(TL:FIN-356; 11-30-95)

Loan receivables arise from claims to cash or other assets. Under the accrual basis of accounting, loans receivable representing amounts due from others shall be promptly accounted for as assets. The Department administers a loan program subject to the provisions of Credit Reform Legislation. While other loan activities have occurred in the Department for limited purposes (e.g., 36 month salary advances for FSN personnel, evacuations, etc.), repatriation loans are the most common loan and the primary activity covered in this section. When a Department organization encounters another loan requirement, guidance on the accounting treatment of such loans should be requested from FMP/F/FMS/FPMC and FMP/F/DFS prior to completing the loan transactions.

4 FAM 033.3-1 Accounting For Loans Receivable

(TL:FIN-356; 11-30-95)

Department loans (i.e., repatriation loans) are accounted for as receivables only after the funds have been disbursed. Loans authorized but not disbursed shall be disclosed in explanatory notes on financial reports. They shall not be reported as assets with related liabilities representing obligations to make loans.

4 FAM 033.3-2 Allowance For Defaults On Loans Receivable

(TL:FIN-356; 11-30-95)

Default losses on loans receivable should be recognized in the accounting period when the loan will become uncollectible and should be based on the present value method. The computation of the default amount will be performed by FMP/F/DFS/FO/AR at least annually and will be adjusted (reestimated) as economic circumstances and/or other conditions affect the borrowers' ability to repay the loans.

4 FAM 033.4 Accounting For Interest Receivable

(TL:FIN-356; 11-30-95)

Interest receivable should be recognized for the amount of interest income earned but not received for an accounting period. Interest receivable should be recognized as it is earned on investments in interest-bearing securities. Interest should also be recognized on outstanding accounts receivable and other U.S. government claims against persons and entities in accordance with provisions in 31 U.S.C. 3717, Interest and Penalty Claims.

4 FAM 033.4-1 Recording Interest Receivable And/Or Received

(TL:FIN-356; 11-30-95)

No interest should be recognized for accounts receivable or investments that are considered uncollectible unless the interest is actually collected. However, until the interest requirement is officially waived by the Department or the related debt is actually written off, interest accrued on uncollectible amounts should be disclosed. Also, actual payments received from the debtor are required to be applied first to penalty and administrative cost charged, second to interest receivable, and third to outstanding debt principal per 4 FAH-3 H-490.

4 FAM 033.4-2 Recording Interest Receivable From Federal Entities

(TL:FIN-356;   11-30-95)

Interest receivable from Federal entities should be accounted for and reported separately from interest receivable from the public.

4 FAM 033.5 Advances And Prepayments

(TL:FIN-356;   11-30-95)

a. Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires (e.g., travel advances, cash or other assets distributed under a contract, grant, or cooperative agreement). Prepayments are payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. However, progress payments made to a contractor based on the percentage of completion of the contract are not advances or prepayments.

b. Prepayments of expenses applicable to future periods such as prepaid rent, shall be recognized in the accounts as assets which, like other payments made in advance of the receipt of services or benefits, constitute neither costs not accrued expenditures. They develop into and shall be recognized in future accounting periods as costs and accrued expenditures as the value of the allocated portion is earned by the payee through performance. In the event that advance payments, including such prepayments, are neither earned by the payee nor returned or otherwise recovered, they shall be recognized as costs (losses) and accrued expenditures in the accounting period in which uncollectibility is determined

4 FAM 033.5-1 Advances And Prepayments That Need To Be Recorded

(TL:FIN-356;   11-30-95)

The Department extends a number of advances and prepayments to employees and others for a variety of different reasons. Each type must be recorded in a separate subsidiary ledger, reconciled and posted to the general ledger at the close of each accounting period to the extent the existing financial management system will allow. Also, separate accounts for each type of advance or prepayment shall be maintained to distinguish between public, other government agency, and intra-Departmental transactions. The most common type of advances and prepayments include the following:

(1) Post-funded travel advances for post-funded temporary duty travel (TDY). These advances are tracked by an individual's name and must be repaid within 30 days of completion of travel.

(2) Washington-funded travel advances for worldwide international assignment travel and for authorized TDY under stateside allotments or operating allowances. Each advance is tracked by an employee's name in a specific allotment or allowance account

(3) Quarters allowance advances for post-funded quarters. The amount of each advance is tracked by employee's name and managed through the payroll system.

(4) Salary advances for permanent change of station costs are tracked and repaid by salary deductions. Repayment must be tracked by an employee's name and completely repaid in 18 pay periods or less. The amount of each advance is recorded and reported by individual employee and managed through the payroll system.

(5) Advances for contracts are made in advance of performance under the terms of a contract. Such a payment is a contract advance if the performance has not occurred before the end of the accounting period. For example, guarantee deposits are classified as contract advances. Other examples are deposits for meters and communications equipment where the recovery of the payment for goods or services is to be effected at some future date. Advances of this nature are tracked by the vendor in a subsidiary ledger and either repaid by the vendor or offset against the cost of goods delivered or services performed.

(6) Grant advances for performance in a specific time frame without the requirement of a report from the grantee as of the end of the reporting period are estimated for the elapsed period and tracked in a subsidiary ledger by individuals. At the close of an accounting period, the residual amount of the grant is reconciled and posted to the general ledger as outstanding grant advances. However, if the

grant is outright without requiring reports of performance (e.g., educational allowance grant), it is treated as an expense at the time of payment and not as an advance.

(7) Other advances are made for certain post-funded expenses, for example, cash deposits to the Government Printing Office (GPO) for procurement of GPO publications. These advances are always short-term in nature and usually fully expensed by the close of an accounting period. However, residual balances need to be tracked in a subsidiary ledger, reconciled and posted to the general ledger in accordance with the accounting period.

(8) Prepaid rents are advance payments on rental of equipment. Each advance is recorded in a subsidiary ledger by the name of the company or individual receiving the advance. If the advance payment is for a period greater than a month, the full amount is recorded in the subsidiary ledger and a pro rata share (based on the amount of the prepayment divided by the number of months in the period of agreement) will be deducted from the amount of the prepayment for each month. At the end of each reporting period, the remaining balance of the prepayments is reconciled and reported in the general ledger as rental advances.

(9) Prepaid leaseholds are advance payments on real property. These advances are generally called leasehold prepayments and posted in a subsidiary ledger by property and/or lessee name. Essentially, the amounts are considered as recoverable if the lease-rental agreements are terminated prior to expiration dates. If the advance payment is for a period exceeding 30 days, a pro rata share (based on the amount of the prepayment divided by the number of months in the agreement) is deducted from the amount of the prepayment for each month. The amount of the leasehold in each case is progressively reduced and treated as an applied cost. At the end of the accounting period, the remaining balance of the prepayments is reconciled and posted to the general ledger as leasehold prepayments.

4 FAM 033.5-2 Accounting For Advances And Prepayments

(TL:FIN-356; 11-30-95)

In addition to the classification requirements identified in 4 FAH-3 H-033.5-1 , the following will apply to all advances and prepayments recorded in the Department’s financial management system and shall be followed to the maximum extent possible:

(1) Advances and prepayments supported by subsidiary ledgers are to be posted to the general ledger accounts by fund symbol. Records shall be maintained so that all transactions affecting advances/prepayments are included during the accounting period. Records of individual accounts shall be reconciled monthly with the balance shown in the general ledger control accounts.

(2) Travel advances and other advances to employees, contractors, grantees, and other Government agencies are recorded at the time the disbursement is made. When performance of the travel is documented (voucher submitted, etc.) and/or the advance is repaid, the expenditure is recorded and the advance amount is reduced, if appropriate.

(3) Amounts established for travel advances and other advances to employees, contractors, grantees and others shall be classified separately in the general ledger with corresponding subsidiary accounts to identify each debtor.

(4) All advances and prepayments will be recorded in U.S. dollars or local currency if the item is valued in a foreign currency. Foreign currency amounts shall be clearly identified to show whether they are collectible only in foreign currency. The dollar value of foreign currency receivables is included on Department reports, with a separate identification of receivables in currencies not fully convertible to U.S. currency.

(5) The Department shall pursue an aggressive collection policy and follow the standards promulgated by credit and debt collection legislation (e.g. Debt Collection Act, Federal Claims Collection Act, Credit Reform, etc.). Specific procedures to implement these statutes are documented
in 4 FAH-3 H-490.

4 FAM 033.5-3 Advances And Prepayments Should Not Be Netted

(TL:FIN-356; 11-30-95)

Advances to employees are outlays for anticipated expenses or payments for goods and services even if the advance has not been charged to a funded allotment. Specific examples of advance transactions that are so charged include advances for travel and quarters allowances. When advances are not repaid in accordance with Department policies and procedures, they should be converted to an accounts receivable. In addition, advances and prepayments paid out by the Department are assets to the Department.

Similarly, advances and prepayments received by the Department are liabilities that may require either repayment, delivery or goods or performance of services. Therefore, the advances and prepayments that the Department paid out (assets) should not be netted against the advances and prepayments the Department received (liabilities) when tracking and reporting advances and prepayments.

4 FAM 033.6 Investments

(TL:FIN-356; 11-30-95)

The Department has authority to acquire and hold security investments. While the majority of such investments will come from U.S. Treasury sources, the Department also has authority to hold non-Treasury securities as well. The accounting principles and standards for valuing and recording Department investments in securities are identified in sections 4 FAM 033.6-1 and 4 FAM 033.6-2.

4 FAM 033.6-1 Accounting For Investment In Treasury Securities

(TL:FIN-356; 11-30-95)

The majority of all Department security investments will be in Treasury securities. For the most part these securities will be managed in various trust funds (Foreign Service Retirement and Disability Fund, Foreign Service National Separation Liability Trust Fund, Gift Funds etc.) and will be held for specific purposes in accordance with legislative authority associated with the activity. When the Department acquires Treasury securities for investment purposes, it must record and track the investments in the financial management system in accordance with Federal Accounting Standards Advisory Board (FASAB) accounting standards related to this type asset. The FASAB standard identified in subparagraphs (A) through (F) does not apply to investments in non-Treasury securities held for investment purposes.

(A) Scope of FASAB Standard For Investment In Treasury Securities

There are three basic investment assets covered by this standard. Specifically, they include:

(1) nonmarketable par value Treasury securities;

(2) market-based Treasury securities expected to be held to maturity, and

(3) marketable Treasury securities expected to be held to maturity.

(B) Treasury Securities Should Be Held To Maturity

Nonmarketable Treasury securities must be held to maturity. However, marketable Treasury securities could be sold prior to maturity if conditions warrant. The recording and valuation procedures identified in 4 FAM 033.6-3 only apply to market-based and marketable securities that are expected to be held to maturity. The procedures do not apply if the securities are likely to be sold in response to short-term cash needs, changes to market interest rates, or for other reasons.

(C) Separate Accounting And Reporting Is Required For Federal and Non-Federal Securities

Investments of the Department in U.S. securities (securities issued by Treasury and Federal agencies) are intragovernmental investments. These securities also represent intragovernmental liabilities of the Treasury Department or other Federal entities that issue the securities. Investments in securities issued by the U.S. Treasury or other Federal entities should be accounted for and reported separately from investments in securities by nonfederal entities.

(D) Initial Recording of Treasury Securities Held For Investment

The three types of Treasury securities identified in 4 FAM 033.6-1 should be recognized at their acquisition cost. If the acquisition is made in exchange for nonmonetary assets, the acquired securities should be recognized at the fair market value of either the securities acquired or the assets given up, whichever is more definitively determinable. If the acquisition cost differs from the face (par) value, the security should be recorded at the acquisition cost, which equals the security's face value plus or minus the premium or discount on the investment. Any difference between the acquisition and par value should be recorded as a contra account to the debt security.

(E) Valuing Treasury Securities Subsequent To Acquisition

If an amount of premium or discount exists, the carrying amount of the investments should be adjusted in each reporting period to reflect the amortization of the premium or discount. Premiums and discounts should be amortized over the life of the Treasury security using the interest method. Under the interest method, the effective interest rate (the actual interest yield on the amounts invested) multiplied by the carrying amount of the Treasury security at the start of the accounting period equals the interest income recognized during the period. The amount of amortization of discount or premium is the difference between the effective interest recognized for the period and the nominal interest for the period as stipulated in the Treasury security.

(F) Investment Reclassification

In rare instances, a significant unforeseeable circumstance may cause a change in the Department's intent or ability to hold to maturity certain securities that are initially classified as expected to be held to maturity. In these circumstances, the affected securities should be reclassified as securities available for sale or early redemption. Once a security is reclassified, it is no longer subject to the standard in subparagraph (D).

4 FAM 033.6-2 Accounting For Investments In Non-Treasury Securities To Be Held Until Maturity

(TL:FIN-356; 11-30-95)

At various times the Department may acquire and hold non-Treasury security investments (e.g., donations to gift funds, etc.) that must be valued, recorded in the general ledger by fund account and reported on financial statements. Donated Non-Treasury securities will be valued at fair market value on the acquisition date. When non-Treasury investment securities are acquired through purchase or trade and a determination has been made and/or specified in the transfer terms that the Department must hold the securities until maturity, they should be recorded at the fair market value as of the date of acquisition.

4 FAM 033.6-3 Accounting For Investment In Non-Treasury Securities That Will Be Sold Before Maturity

(TL:FIN-356; 11-30-95)

Non-Treasury investments acquired through purchase or trade that will be definitely resold shall be valued and recorded in accordance with the book to market method promulgated under Generally Accepted Accounting Principles (GAAP). Under this GAAP principle, the Non-Treasury investment security that will be resold must be recorded in the general ledger at either cost or fair market value, whichever is lower at the time of acquisition. In addition, a contra account must be established to recognize gains and losses to these investments between accounting periods. Essentially, the GAAP principal requires the Department to reflect increases or decreases in the fair market value of the securities by recording gains and losses in the contra account. Other non-Treasury securities that are acquired and will be held to maturity shall be recorded at the acquisition cost or value.

4 FAM 033.7 Accounting For Inventory And Property

4 FAM 033.7-1 Statutory Requirements

(TL:FIN-356; 11-30-95)

Public Law 84-863 (31 U.S.C. 1312(b)) provides that each Executive Agency shall account for its property transactions and holdings in terms of monetary value as an integral part of its accounting system. The fact that public funds are invested in property held by the Department creates the management need to properly account for these resources

4 FAM 033.7-2 Periodic Physical Inventories Are Required

(TL:FIN-356; 11-30-95)

Physical inventories of FASAB defined inventory items (e.g. items held for sale, operating materials, etc.) and non-expendable property shall be taken at regular intervals; i.e., at least once a year or at an equivalent cycle. Similarly, physical inventories of real property and leasehold improvements will be taken at least every three years and more frequently when necessitated by extensive acquisition or remodeling. 6 FAH-1 H-226 establishes the schedules and procedures for taking such inventories. Inventory procedures and accounting record adjustments shall be applied on a consistent basis from one fiscal year to another.

4 FAM 033.7-3 Reconciliation Of Inventory To Accounting Records

(TL:FIN-356; 11-30-95)

Quantities determined by physical inventories will be reconciled to the accounting records. Adjustments will be made on the accounting records.

4 FAM 033.8 Definition Of Inventory And Operating Materials

(TL:FIN-356; 11-30-95)

Statement Of Federal Financial Accounting Standards Number 3 dated October 27, 1993 defines inventory as tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.

Similarly, operating materials and supplies consist of tangible personal property to be consumed in normal operations. Specific items excluded from operating materials are:

(1) goods that have been acquired for use in the construction of real property or in assembling equipment to be used by the entity;

(2) stockpiled materials;

(3) goods held under price stabilization programs;

(4) foreclosed property;

(5) seized and forfeited property and

(6) inventory.

4 FAM 033.8-1 Computing The Inventory Value To Be Recorded In The General Ledger

(TL:FIN-356; 11-30-95)

The inventory value to be recorded in the Department's general ledger at the end of an accounting cycle (at least annually) is either an aggregate amount recorded on an inventory record or the results of a physical count on the accounting period closing date. Items that could qualify include substantive products in support of commercial activities, passports in process, and/or other products and services for which the Department will ultimately assess a user fee or charge upon delivery.

4 FAM 033.8-2 Operating Materials Balances To Be Recorded In The General Ledger

(TL:FIN-356; 11-30-95)

Operating materials and supplies shall be recognized and reported as assets when produced or purchased. The consumption method of accounting for the recognition of expenses shall be applied for operating materials and supplies. The method to determine a balance to be reported should be consistent with the procedures in 4 FAM 033.8-1. A dollar value for operating materials and supplies that does not exceed $5,000 does not need to be recorded in the general ledger.

4 FAM 033.8-3 Accounting For Current Asset Property (Working Capital Fund Only)

(TL:FIN-356;   11-30-95)

Property that is classified as current asset inventories (e.g., office materials and supplies stores, printing reproduction stores) shall be accounted for in accordance with 4 FAM 033.8-2.

4 FAM 033.8-4 Accounting For Other Asset Property

(TL:FIN-356;   11-30-95)

Other property not classified as fixed assets (e.g., books for permanent collections), whether acquired through purchase, voluntary conveyance, or other means, shall not be valued unless the asset or collection is capitalized. When an asset is valued and capitalized, its value will be recorded in a separate descriptive class of general ledger and applicable subsidiary accounts. Gift fund items (e.g., furniture, rare documents, etc.) are not capitalized in the financial management system or reflected in the financial statements. While property accountability records will be maintained and the items will be valued for insurance purposes, the information will not be maintained in any official financial accounting system or the general ledger. Borrowed property will be recorded in the general ledger accounts for items loaned under a written acknowledgment of responsibility and offset by a liability account.

4 FAM 033.9 Property Management Records, Data And Systems

(TL:FIN-356;   11-30-95)

The Department’s financial management system utilizes information in property management systems designed and managed by various organizations. Therefore, these property management systems (automated and manual) must utilize data elements and standardized formats that support the financial management system and the Department’s general ledger structure. Specific property management systems affected by this requirement for standardized data include the Office of Foreign Buildings Real Estate Management System (REMS), Bureau of Administration Nonexpendable Property Application (NEPA), Bureau of Diplomatic Security Property Accountability Management System (PAMS), and the Bureau of Information Management Worldwide Property Accountability (WPA) system for communication equipment. As the Department proceeds with preparing audited financial statements and requirements for integrated systems, these property accountability systems will serve as subsidiary ledgers for recording property, plant and equipment. The Department’s goal must be that data from these systems will be the source information for reconciling information in the general ledger.

4 FAM 033.9-1 Real And Nonexpendable Personal Property Categories

(TL:FIN-356; 11-30-95)

a. The financial management system in conjunction with the property management systems identified in 4 FAM 033.7-2 must accurately reflect real property values in the following categories:

(1) Land;

(2) Buildings; and

(3) Other major facilities or structures as determined appropriate by FBO and/or General Services in the Bureau of Administration.

b. Similarly the nonexpendable property management systems noted in 4 FAM 033.9 must identify personal property values for the following equipment categories:

(1) Communications Equipment;

(2) Vehicles;

(3) Medical Equipment;

(4) Security Equipment;

(5) Automated Data Processing Equipment;

(6) Automated Data Processing Software;

(7) Other Depreciable Personal Property; and

(8) Nondepreciable Capitalized Property.

4 FAM 033.9-2 Accounting For Fixed Asset Property

(TL:FIN-356; 11-30-95)

Policies and procedures for management of property in accordance with applicable General Services Administration and other regulations are identified in 6 FAM and 6 FAH (GENERAL SERVICES). Consistent with these policies and procedures, the Department's financial management records for property shall adhere to the following overall requirements:

(1) Coordination of Budget and Accounting Classifications. Correlation between budget classifications for capital outlay and accounting classifications will meet the requirements of Office of Management and Budget Circular A-12.

(2) Disposition of Property. Property accounts will be adjusted for both investment and depreciation values of retirements, losses, or other means of property disposal. Property retired from service but not disposed of shall be separately classified in the accounts. Removal costs and amounts realized shall be considered in determining the loss or gain of the disposition of property. Gains and losses on disposal of assets will be recognized separately in the accounts. The book value of property transferred without reimbursement to other agencies shall be accounted for as a reduction of the investment of the U.S. Government.

4 FAM 033.9-3 Monetary Controls

(TL:FIN-356; 11-30-95)

Monetary control shall be established so that the accounting system will disclose the total cost and cumulative depreciation of capitalized property.

4 FAM 033.9-4 Classification Of Property Accounts

(TL:FIN-356; 11-30-95)

As noted in 4 FAM 033.9-1, separate accounts shall be used for significant classifications of property. Common classifications shall be used for both accounting and property management purposes, and shall identify types of property where value must be regularly reported to the Congress or other Executive Agencies. The coding structure will provide separate classifications for property in use, property not in use, seized or impounded property, property held by grantees (including grantee acquired property for which title is vested in the Department, as well as property which the Department has reversionary rights), etc., and related accounts for accumulated depreciation of property.

4 FAM 033.9-5 General

(TL:FIN-356; 11-30-95)

Property that is classified as fixed assets shall be accounted for as either (1) real property or (2) nonexpendable personal property. Personal property shall be subdivided into (a) capitalized or (b) noncapitalized based on the accounting principles identified in the following subparagraphs.

(A) Capitalization Criteria

(1) **Real Property**. All real property, including items constructed on leased land to which the Department retains title, shall be capitalized at the date of acquisition.

(2) **Personal Property**. Personal property which should be classified as fixed assets shall be capitalized or accounted for as follows:

(a) **Capitalized**. Property to be capitalized will be listed in FAH06-01H and, when meeting the following criteria, shall be capitalized at the date of acquisition, and be under item control by an accountable officer, if: (1) It is complete within itself; (2) It does not lose its identity or become a component part of other property when put into use; (3) its value exceeds $5,000 on the date of acquisition; and (4) It is of a durable nature with a service life expectancy to exceed two years.

(b) **Non-Capitalized**. Property with a unit acquisition cost or valuation of $5,000 or less or which is not listed as capitalized personal property in 6 FAH-1, will not be capitalized and will not be carried in asset accounts. Procurements related to these assets will be expensed to current operations. However, if it is determined that current costs would be distorted due to purchase of large quantities of items which would not ordinarily be capitalized under this criteria (e.g., bulk purchases), they shall be recorded in a separate asset account and amortized over a reasonable period. This separate asset account will not be supported by individual property records.

(c) **Repair and Maintenance Cost.** In all cases, repair and maintenance cost incurred to keep property in satisfactory condition will be accounted for as an operating cost.

(d) Capitalized personal property that becomes permanently attached to real property will be removed from personal property records and added to the capitalized value of the real property. In the event capitalized personal property is subsequently removed from real property and either inventoried or sold, it will be reclassified as personal property in the appropriate asset account (e.g., air conditioning chillers replaced on a building and subsequently sold as a separate item of property).

(3) **Review of Capitalized Property List.** Periodically, and no less than annually, property items shall be reviewed to determine whether or not items should be added or dropped from the listing. Unlisted items of capitalized property will be added to the list when acquired and in accordance with procedures outlined in the 6 FAH-1.

(B) Valuation

(1) **General**. Property shall be recorded in the accounts at the cost of bringing the property to a state of usefulness. The value shall include transportation, installation, net of purchase discounts (whether or not taken), and other related costs. Where incurred costs are not measured or known, documented appraised value will be used. When justified for a particular situation, standard or average costing associated with groupings of property shall be permissible provided that information as to location and use is maintained.

(2) **Transportation**. For capitalized property that is transported in bulk via containerized shipments, transportation and related costs shall be recorded as follows.

(a) When the costs can be readily determined for each item, pre-delivery costs shall be distributed on an equitable basis and posted to the property records and general ledger accounts.

(b) When costs cannot be readily determined for each item, pre-delivery costs shall be charged as current operations expenses.

(3) **Additions, Alterations and Betterments.** For additions, alterations, betterments, rehabilitations, or replacements, costs shall be capitalized where the charges significantly extend the useful life of the property or its capacity to render service. In such cases, the cost of features superseded or destroyed in the process shall be removed from property accounts. In situations where estimated useful or reasonable value must be determined, consideration shall be given to the usefulness, condition, and estimated market value of such property.

(4) **Trade-ins.** The cost recorded for property acquired as a result of trade-ins shall be the lesser of (a) the cash paid or payable, plus the amount allowed by the seller on the trade-in property or (b) what the purchase would have been had there been no trade-in. Gains or losses realized on trade-ins will be recorded in a separate expense account. The amount of gain or loss will be the difference

between the value received and the investment in materials and services exchanged.

(5) **Reimbursable Transfers.** Property transferred to the Department's custody on a reimbursable basis shall be accounted for on the basis of the transfer price as determined by agreement or application of appropriate statutory requirements or Central Agency regulations, but at not less than its estimated useful value.

(6) **Non-Reimbursable Transfers, Donations, Devise, Forfeiture or Confiscation.** Property acquired from non-federal agencies, state or local governments, foreign governments, international organizations, private individuals or companies by gift or bequest on a non-reimbursable basis shall be recorded as property with no value.

(7) **Non-Reimbursable Transferred From Other Federal Agencies**. Property acquired on a non-reimbursable basis from other Federal agencies shall be recorded at the value identified on the books of the transferring agency. All book values, depreciation charges in the current year and accumulated depreciation balances shall be transferred to the Department as if the Department was the original owner of the transferred asset.

(8) **Property Acquired Under Installation Contracts.** Property acquired under installation contracts shall be capitalized at the time of receipt or acceptance by the Government rather than periodically as payments are made or when title passes to the Government. The amount capitalized will include the purchase price plus related costs. For example, costs incurred for site preparation, installation, and similar costs related to making the equipment ready for use, incurred separately from the installation purchase contract or separately identified for payment in the contract, shall be capitalized when incurred.

(9) **Property Acquired Under Lease/Purchase Contracts**

(a) **Capital Leases.** Leases meeting one or more of the following criteria shall be classified as capital leases:

—Lease transfers ownership to the Government at the end of the lease term (i.e., fixed noncancelable term).

—Lease contains a bargain purchase option, so as to assure purchase of the property.

—Lease term is equal to 75% or more of the economic life of the leased property.

—Present value at the beginning of the lease for the minimum lease payment is 90% or more of the fair value of the leased property.

Capital leases shall be recorded as an asset and a liability at an amount equal to the present value at the beginning of the lease. The amount to be recorded should be based on the minimum lease payments during the lease term. It should exclude any executory costs to be paid by the lessor (taxes, insurance, etc.). However, if the amount so determined exceeds the fair value of the property, the fair value should be recorded.

(b) **Operating Leases**. All other leases shall be classified as operating leases and rental payments thereunder shall be charged to expenses over the lease term as they become payable.

(c) **Purchases.** Purchases made under lease/purchase contracts which are in fact installation purchases (the decision to purchase having already been made) will be treated for capitalization purposes as installation purchases.

(10) **Property Acquired by Construction.** Management control over the cost of assets acquired by construction must assure that the cost of the work is kept within the authorized amounts and that accurate costs are recorded and transferred to the proper fixed property accounts when the work is finished. Accounts for the cost of facilities constructed by or for the Department will include all material elements of costs, including those for:

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

—Acquisition of land (including easement and right-of-way costs), buildings, and other facilities.

—Labor (including Department employees), materials and supplies, and other direct charges.

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

—Applicable indirect costs.

—Fixed and severable collateral equipment and its installation to complete the facility for its intended use.

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

—Legal fees and damage claims.

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

Regardless of financing differences, these costs incurred will be accumulated as part of the cost of each capital project so that reliable information on total cost will be available for management and financial reporting.

4 FAM 033.9-6 Depreciation For Property, Plant and Equipment

(TL:FIN-356; 11-30-95)

a. **Basic Principles**. The accounting system will recognize and record depreciation on all Working Capital Fund and Foreign Service Institute fixed assets. In addition, the inventory categories for buildings, ADP equipment, vehicles, security equipment, communication equipment and software, medical equipment and other capitalized equipment will be depreciated. Depreciation charges shall be recorded down to the functional element level and at the organizational level in the Department and the suborganizational level at posts.

b. **Depreciation Rates**. Depreciation rates will be established only on the basis of a reasonable estimate of the useful life of respective depreciable fixed assets and will consider estimated salvage value. Full recognition will be given to obsolescence in establishing useful lives for depreciation purposes. When appropriate, recognition will be given to cognizant Government agencies' determinations concerning the useful life or anticipated obsolescence of property.

c. **Review of Rates.** Depreciation rates will be reviewed at least every three years to determine the reasonableness of the rates.

d. **Accounting for Depreciation**. Depreciation accounting shall be accomplished at a minimum cost consistent with the benefits to be derived. Therefore, procedures for determining and recording depreciation shall be relatively simple and undue precision will be avoided.

4 FAM 033.9-7 Leasehold Improvements

(TL:FIN-356;   11-30-95)

(A) Major Improvements (Capitalized)

Major improvements include, but are not limited to, the cost of acquiring and installing new ceilings, permanent walls, lighting, carpeting, air conditioning, and safety and protective devices with a useful life longer than one year, and additions and betterments to buildings and other facilities. The Department shall identify dollar capitalization criteria in 6 FAH-1 for recording transactions relating to major improvements. Major improvements shall be classified according to two lease categories—short term and long term. Improvements to leased properties shall be capitalized and depreciated over the estimated life of the lease, or the life of the improvement, whichever is less. 6 FAH-1 shall contain the criteria defining long and short term leases.

(B) Minor Improvements (Expensed)

Minor improvements are the costs for constructing or upgrading existing permanent walls, ceilings, lighting, and carpeting which are less than the capitalization criteria stated in 6 FAH-1 .

4 FAM 034 LIABILITIES

4 FAM 034.1 General

(TL:FIN-356;   11-30-95)

The accounting system shall provide for the recognition and recording of liabilities on the accrual basis of accounting. Liabilities shall be recorded in accordance with published accounting standards recognized by OMB and Treasury regardless of whether funds are available for their liquidations or authorized for their payment. Liabilities shall be liquidated as payments are made, or goods and services furnished.

4 FAM 034.2 Accounting For Liabilities

(TL:FIN-356;   11-30-95)

Under accrual basis accounting, amounts owed to an individual, company, organization, US Government agency, etc. for the unpaid value of goods and services received and accepted are liabilities. Liabilities need to be accrued for goods received or services rendered, whether billed or unbilled, when they are identified. If the volume of liabilities (e.g., accounts payable) is large, detailed information supporting the liabilities needs to be retained in subsidiary ledgers. Also, to the maximum extent possible, recognized liabilities must be posted to the general ledger as of the end of each accounting period and the general ledger must be reconciled with subsidiary ledgers at least annually.

4 FAM 034.3 Accounting Classifications

4 FAM 034.3-1 Categories of Liabilities

(TL:FIN-356;   11-30-95)

(a) Separate accounts shall be maintained for major categories of liabilities, especially intergovernmental liabilities.

(b) Financial reports shall distinguish between current liabilities, the current portion of long term liabilities, and long term liabilities.

4 FAM 034.3-2 Review Of Accounts

(TL:FIN-356;   11-30-95)

Current liabilities will be defined as liabilities due and payable within one year.   Long-term liabilities will be defined as greater than one year (e.g. multi-year installment contracts) unless an OMB published federal accounting standard for liabilities specifies otherwise. All liabilities shall be reviewed annually to reflect the proper classifications and compliance the National Defense Authorization Act of 1990 (M-year legislation governing expired and canceled appropriations).

4 FAM 034.3-3 Subsidiary Accounts

(TL:FIN-356;   11-30-95)

Subsidiary accounts shall be maintained as needed to identify the person or agency owed, and when feasible, or required, the form of payment to be made. Examples of required subsidiary accounts include:

(1) Accounts Payable;

(2) Salary, Wages And Benefits;

(3) Annual Leave;

(4) Accrued Pension Liability;

(5) Liability for Grants;

(6) Contingent Liabilities;

(7) Tort Claims;

(8) Advances;

(9) Installment Purchases; and

(10) Other Current Liabilities.

4 FAM 034.4 Basis For Recording

4 FAM 034.4-1 Liability Amounts

(TL:FIN-356; 11-30-95)

All liabilities shall be recorded and supported by reports of services rendered or goods received. Payroll liabilities shall include all actual time in pay status to the end of the reporting period. Liabilities for employee benefits shall be accrued in accordance with the criteria stated in 4 FAH-3 H-200. In instances where the amount of the liability is not definitely established, the best estimate shall be recorded and then adjusted when definite information becomes available.

4 FAM 034.4-2 Accounts Payable

(TL:FIN-356; 11-30-95)

The term Accounts payable represents a specific class of liabilities defined by Federal Financial Accounting Standard Number 1. This standard covers accounts payable for amounts owed by a Federal entity for goods and services received in contract performance and rents due to other entities. Liabilities related to on-going continuous expenses such as employees' salary and benefits are not considered accounts payable under this standard. These items are classed as other current liabilities. Also, amounts owed for goods or services received from Federal entities represent intragovernmental transactions and should be reported separately from accounts owed to the public

Types of Accounts Payable and Criteria For Posting To Subsidiary Accounts

The amount recorded as a payable is the value of goods or services received (whether billed or unbilled) but not paid for at the end of the reporting period.

A. Contractual Services

The amount of a payable under a contract depends upon when the Government becomes liable for payment of the services being produced or performed by the contractor. When a contractor manufactures or constructs according to agreed upon specifications, the accrued expenditure and liability shall be recorded on the basis of documented transactions. The categories of contracts for consideration in determining accruals are:

(1) Contracts in which the Government has a legal monetary liability as the work is performed by the contractor during the period of the contract. This is often best determined by estimating the percentage of the total contract that has been completed.

(2) Contracts in which no legal liability for payment exists unless all services covered by the contract are received by the Government. Under this type of contract, no payable occurs until all services are received.

(3) Contracts in excess of $50,000 requiring performance according to Government specification. The payable will be based upon data obtained from the monthly contract financial report submitted by the contractor for each contract, provided the period of the contract exceeds 6 months. For contracts for periods of 6 months or less the amount is determined from the specific provisions in the contract governing completion dates and any holdbacks pending inspection.

(4) Contracts of $50,000 or less, or for periods of 6 months or less, requiring performance according to Government specifications. Payables are determined through analysis of documentary evidence indicating receipt of goods and services and/or the degree of completion of each contract.

(5) Contracts for off-the-shelf items, mass-produced and/or sold in the commercial market. Payable figures are figures based on receiving reports.

B. Rents and Leaseholds

When a rental or leasehold period is on a monthly basis and the period is from the first of one month to first of the following month, and the amount due has not been paid, the amount recorded as a payable is one month’s rent.

C. Communications and Utilities

Where a service is billed on a first-to-the-end-of-the-month basis, and such service has been received (telephone, telegraph, light, water, heat, etc.) but not paid, the estimated undelivered order (obligation) established for the month(s) is the payable amount.

D. Petty Cash Purchases

The amount of the payable at the end of the reporting period is the balance of the undelivered orders (unliquidated obligations) which were established for petty cash purchases.

E. Semiannual Orders (Requisitions)

When billings (interoffice transfers) are received prior to receipt of goods, the billing is not recorded as a payable. If neither goods nor billing has been received before the end of the reporting period, none of the undelivered orders (unliquidated obligations) for semiannual orders is a payable.

F. Official Residence Expenses

The amount recorded as a payable at the end of the reporting period is the balance of the undelivered orders (unliquidated obligations).

G. Representation Expenses

The amount recorded as a payable at the end of the reporting period is the balance of the undelivered orders (unliquidated obligations).

H. Travel and Transportation (Under Travel Authorizations)

A payable as of the end of the reporting period is determined by analyzing undelivered orders (unliquidated obligations) in the document file as follows:

(1) If the travel authorization indicates that travel was to start but would not be completed before the end of the reporting period, the unpaid transportation costs plus the estimated per diem from the starting date of travel to the end of the reporting period is included as a payable.

(2) If the travel authorization indicates travel was to be performed and completed before the end of the reporting period, the entire unliquidated obligation for that travel authorization is recorded as a payable.

(3) If the travel authorization indicates TDY travel will begin and end overseas but no travel was to be performed before the end of the

reporting period, the payable is recorded for that travel authorization when an expense is incurred (e.g., purchase of airline tickets).

(4) The above accounting treatment does not apply to international assignment travel; a special requirement is used in the Department to determine payables under this account. (See 4 FAH-3 H-050).

I. Transportation of Things (Not Under Travel Authorizations)

A payable exists for the amount of any bill of lading or an airway bill for shipment of pouches or freight charges on goods or material which is unpaid at the end of the reporting period.

4 FAM 034.4-3 Salary, Wages And Benefits

(TL:FIN-356; 11-30-95)

a. Liability accounts for accrued payroll, including employee benefits earned and not paid at the end of the accounting period, shall be separately identified from other accounts payable. The amount to be recorded as a payable at the end of the accounting period will be the balance of the amount committed. Similarly, a payable at the end of the reporting period for the following benefits will be determined in the same manner as salary and wages:

(1) post allowances;

(2) Foreign Service transfer allowances;

(3) home service transfer allowances;

(4) separate maintenance allowances;

(5) supplementary post allowances;

(6) living quarters allowances;

(7) temporary lodging allowances;

(8) Marine Guard allowances;

(9) miscellaneous allowances; and

(10) employer’s contributions.

b. A payable is established in the amount of the unliquidated obligation for a dependent’s education allowance if the school year has started at the end of the reporting period. If the school has not started at the end of the reporting period, no payable is established for this allowance. A payable is established in the amount of an award to an employee if the award has been approved but not paid at the end of the reporting period.

4 FAM 034.4-4 Annual Leave

(TL:FIN-356; 11-30-95)

The amount of annual leave earned and not taken shall be compiled monthly for recording in the general ledger and for use in preparing financial reports. At the end of the fiscal year the leave liability accounts in the general ledger will be reconciled to employee leave records maintained in the payroll system and adjusted for any differences, leave lost, etc.

4 FAM 034.4-5 Accrued Pension Liability

(TL:FIN-356; 11-30-95)

The accrued pension liability and related costs shall be calculated annually according to approved actuarial assumptions and recognized in the accounts and financial reports. Severance pay is not an accrued pension liability even though it is a payable for benefits to former personnel. Except for FSN severance payments from the Foreign Service National Separation Liability Trust Fund (FSNSLTF), severance pay will be posted as a liability. The liability amount will be the balance of any undelivered orders (unliquidated obligations) at the end of the reporting period. Severance payments from the FSNSLTF are considered payables and should not be classed as an accrued pension liability.

4 FAM 034.4-6 Liability For Grants

(TL:FIN-356; 11-30-95)

Under some of the Department’s programs, the U.S. Government is bound by contract to make contributions or grants to international organizations when such entities have met certain conditions. As an organization earns a grant, or a portion of a grant, but has not received it, the amount of the grant earned but unpaid becomes a liability of the Department. The liability for grants earned but unpaid shall be established in the accounting records and disclosed in the financial reports.

4 FAM 034.4-7 Contingent Liabilities

(TL:FIN-356; 11-30-95)

Contingent liabilities shall be shown in the general ledger when there is a high probability the government will be held liable and the amount owed can be reasonably estimated. Other contingent liabilities shall be explained by footnote on the financial statements. Contingent liabilities include but are not limited to claims for recovery of price adjustments, personal property claims and claims of losses. Subsidiary records shall be maintained to support the contingent liabilities and shall be liquidated when a liability is established or the liability does not materialize.

4 FAM 034.4-8 Tort Claim

(TL:FIN-356; 11-30-95)

A tort claim is a liability against the U.S. Government that should only be identified as a payable when it has been legally adjudicated but not paid at the end of the reporting period. There will be no payable established while the claim is in litigation or still in the administrative resolution process. Only after a determination is made that an item is a payable, and whether it is a payable to (1) a Government agency or (2) other than a Government agency, should such item be recorded in the ledger.

4 FAM 034.4-9 Advances And Deferred Credits

(TL:FIN-356; 11-30-95)

Amounts received as advances prior to delivery of goods or services by the Department shall be considered as deferred credits if they extend over multiple accounting periods. Deferred credits to revenue represent collections or other value received in consideration for services yet to be performed but which in the normal course of operations will be performed and the related revenue earned in a future accounting period. Deferred credits shall be recognized in the liability category of accounts and amortized as revenues during the period in which earned.

4 FAM 034.4-10 Installment Purchasing

(TL:FIN-356; 11-30-95)

Any property acquired under lease/purchase contracts, or similar arrangements, which in substance represent installment purchasing, shall be recorded as a liability and an asset at the lower of fair market value or present value of minimum lease payments. For lease/purchase contracts where no decision to buy has yet been made, the purchase price shall be recorded as a liability when the option to purchase is exercised.

4 FAM 034.4-11 Other Current Liabilities

(TL:FIN-356; 11-30-95)

The term "other current liabilities" is used to classify current liabilities that are not recognized in specific categories. Specific examples include accounts payable; interest payable; debt owed to the public, Treasury or other entities; and liabilities for loan guarantee losses. Other current liabilities may include accrued employees' wages, bonuses and salaries; accrued entitlement benefits payable; and/or annuities for the current fiscal year administered by trust, pension, or insurance program. In addition, when federal agencies receive advances and prepayments from other entities for goods to be delivered or services to be performed in the current year, the advances and prepayments are other current liabilities. Examples would include liabilities for deposit and trust funds entrusted to the Department, and the amounts of unidentified collections held in suspense.

4 FAM 034.5 Posting Accounts Payable To The General Ledger And Reconciling Subsidiary Ledgers

(TL:FIN-356; 11-30-95)

Whether automated or manual, subsidiary ledgers on current accounts payable will be maintained at the point where the payable was generated and/or the point where the payable is most likely to be certified for payment. Payables will be recorded in U.S. dollars in the general ledger and either U.S. dollars or in local currency in the subsidiary ledgers, depending upon the currency needed to make the payment. To the maximum extent possible, all subsidiary ledger balances should be posted to the general ledger and reconciled against the balance in the general ledger at the end of each accounting period. However, in locations where the existing system does not permit the posting of liabilities to a general ledger, subsidiary ledgers should be maintained in accordance with the accounting principles identified in 4 FAM 034.1 through 4 FAM 034.4 . Items recorded in local currency in the subsidiary ledger will be converted to U.S. dollar equivalents on the last day of the accounting period if the amount is to be posted to the general ledger or used in the generation of a report.

4 FAM 034.6 Accounts Payables Must Be Dated, Grouped And Managed From The Date Created

(TL:FIN-356; 11-30-95)

Each account payable shall be established (dated) when the payable is recognized as an amount owed. The subsidiary ledgers, whether manual or automated shall be designed to group payables by age with the most current increment covering payables less than 30 days old. Other age groupings will be in increments of 30 days (31-60, 61-90, 91-120) and records will be maintained on the age of each payable. To comply with Prompt Pay legislation and OMB Circular A-125, all payables should be processed within 30 days or in accordance with the terms of the agreement establishing the payable. Further, the payables subsidiary ledger should provide sufficient information to isolate and accelerate past due payments.

4 FAM 035 FINANCIAL POSITION OF THE STATE DEPARTMENT

(TL:FIN-356; 11-30-95)

As defined by OMB Bulletin 94-01, the net financial position of the Department (i.e., unexpired appropriations, invested capital, cumulative results of operations) consists of the residual equity of the Department after accounting for all known liabilities and equity of others. The Department shall maintain sufficient financial data to determine a net financial position. Specific data requirements include fund account balances that reflect:

—Unexpended Appropriations;

—Invested Capital;

—Cumulative Results of Operations;

—Other components of net position not specifically identified above; and

—Future Funding Requirements

4 FAM 035.1 Unexpended Appropriations

(TL:FIN-356; 11-30-95)

Unexpended appropriations includes the portion of the Department’s appropriations represented by undelivered orders (unliquidated obligations) and any unobligated balances. Unobligated balances may include both available and unavailable amounts.

4 FAM 035.2 Invested Capital

(TL:FIN-356; 11-30-95)

The net investment of the Department is based on the following components specified by OMB:

(1) the acquisition cost of capitalized fixed assets financed by appropriations;

(2) pre-credit reform loans financed by appropriations;

(3) the additional investment in a revolving fund to commence operations or begin a new activity;

(4) less the reduction in investment due to depreciation, amortization, bad debts related to pre-credit reform loans, sales or exchanges, donations, other disposals; and

(5) the return of initial investment to an investor; or the transfer to another entity of revolving fund.

4 FAM 035.3 Cumulative Results Of Operations

(TL:FIN-356; 11-30-95)

The net difference between (1) expenses and losses and (2) financing sources, including appropriated capital used, revenues and gains, since inception of the Department or fund.

4 FAM 035.4 Other Components

(TL:FIN-356; 11-30-95)

Other components of financial position include the fair market value of:

(1) donated assets accepted from governments (state, local, foreign, individuals or others) that have been capitalized in accordance with Department capitalization criteria, plus

(2) costs incurred to place donated items in use, including assets acquired by discovery, adverse possession, and means other than purchase or transfer, less

(3) reductions for assets sold, transferred out, donated, used or consumed in operations (include the net assets and liabilities) transferred to or from other federal entities without reimbursement.

4 FAM 035.5 Future Funding Requirements

(TL:FIN-356;   11-30-95)

The Department must disclose future funding requirements that represent liabilities which are not covered by available budgetary resources.

4 FAM 035.6 Prior Period Adjustments

(TL:FIN-356;   11-30-95)

The opening balance associated with the Department's net financial position should equal the closing balance of the previous accounting period. However, the opening balance of net position is to be adjusted for material accounting changes or error corrections.

4 FAM 035.7 Working Capital Fund

(TL:FIN-356;   11-30-95)

An annual Departmental financial statement for the Working Capital Fund operations will be prepared and published as required by CFO legislation. The net gains and losses from Working Capital Fund operations shall be reflected from year to year in the equity accounts of the Fund and the following principles shall be applied to Working Capital Fund accounting and reporting:

(1) The accumulated net income or loss from operations shall be separately accounted for and disclosed in financial reports.

(2) The determination of net income shall take into consideration all costs of operations and revenues during the reporting period, with the exception of adjustments applicable to prior years.

(3) Extraordinary items shall be segregated from the results of ordinary operations on financial reports.

(4) Direct charges to accumulated net income shall be restricted to distribution of income to the U.S. Treasury and prior period adjustments.

4 FAM 036 REVENUES

4 FAM 036.1 Types Of Revenues

(TL:FIN-356;   11-30-95)

The Department realizes revenues from various sources, such as:

(1) Foreign Affairs Administrative Support

(2) Sales of services and products by the Working Capital Fund Centers.

(3) Proceeds from sale of property and equipment.

(4) Assorted fees for consular services such as passport and visa services, deposit and transfer of trust accounts, and interested party messages.

(5) Interest on repatriation loans and outstanding accounts receivable.

(6) Late payment penalties on amounts owed to the U.S. Government.

4 FAM 036.2 Revenue Policy

(TL:FIN-356; 11-30-95)

The policy for establishing Department rates shall be as follows:

(1) For the Working Capital Fund goods and services, rates shall be established to recover direct and indirect costs of operation. The basis for establishing the rates shall be documented and the frequency for periodic review shall be established.

(2) For fees, such as passport services, rates shall be established by law.

(3) For interest and late payment penalties, rates shall be based on Treasury’s cost of capital.

4 FAM 036.3 Accounting For Revenues

(TL:FIN-356; 11-30-95)

a. All revenues shall be recorded and reported in accordance with Federal accounting standards which, for the Department, will be in the month earned. The revenue which shall be recorded and reported monthly includes:

(1) those established through billings;

(2) those earned through performance pursuant to advances received;

(3) those received from fees; and

(4) unbilled revenues established through accruals.

All revenues shall be billed and collected promptly when due.

b. Revenues shall be classified in general ledger accounts and subsidiary records according to (1) type of revenue, and (2) availability or non-availability for expenditure. They shall also be identified by appropriation or fund symbol.

c. Reports shall be prepared for each Working Capital Fund Center and for consolidated fund operations in order to compare revenues earned with the cost of services provided.

d. Amounts received in advance of performance shall be accounted for as liabilities until revenues are earned.

e. Contingencies that may result in gains or losses shall be explained in financial statements.

4 FAM 037 COSTS

4 FAM 037.1 Introduction

(TL:FIN-356; 11-30-95)

The Department shall accumulate and record, on the accrual basis, all significant elements of cost incurred in Department operations. Both funded costs (e.g., personnel compensation, materials and supplies, utilities, etc.) and unfunded costs (e.g., depreciation, bad debt, loan loss, etc.) shall be captured and reported. In addition, the Department must be able to determine total costs associated with major acquisitions, proposed projects, system developments and other clearly defined activities requiring Department resources. This cost information shall be systematically accumulated by organizational structure, function, and budget activity, and by other attributes as needed (e.g., property identification and project numbers, etc.).

4 FAM 037.1-1 Organizational Structure

(TL:FIN-356; 11-30-95)

One of the principal purposes of the accounting system shall be the accumulation of costs of management responsibility in an organization.

Under this concept, specific costs incurred by the Department may be considered to be the primary responsibility and accountability of a designated official. Accordingly, cost data shall be identified and reported by organizational structure for major organizations and suborganizations. Both funded and significant unfunded costs for major projects, procurements incurred by these organizational units shall be included in the cost information.

4 FAM 037.1-2 Function Structure

(TL:FIN-356; 11-30-95)

Cost information shall be accumulated and reported by function, subfunction and functional element. Where necessary to meet specific management requirements, cost information may be accumulated for projects, programs, activities and subactivities within functional elements. (See 4 FAH-1 H-510).

4 FAM 037.1-3 Budget Activity

(TL:FIN-356; 11-30-95)

Cost information shall be accumulated and reported by budget activity. Costs for budget activities shall be inferred from functional cost information.

4 FAM 037.2 Common Classification

(TL:FIN-356; 11-30-95)

a. Planned and actual costs shall be accumulated and reported in accordance with the common classification adopted for planning, programming, budgeting, accounting and reporting to function and major organization managers. The common classification adopted shall be responsibility-oriented and shall provide information for budget projections as well as when actual costs deviate from planned or budgeted cost estimates.

b. In addition to classifying costs by function structure, organization structure, and budget activity, costs shall be classified by major type of cost incurred (such as labor, materials, lump-sum contractual services, etc.). Costs shall also be classified by the major object classes prescribed by OMB. The accounting system shall also classify expenditures in a manner that separates operating costs from costs arising from the use of assets. For example, separate accounts shall be maintained for unusual costs or losses, which are non-recurring but substantial, and classified separately in operating statements.

4 FAM 037.3 Basic Principles and Elements of Costs

(TL:FIN-356; 11-30-95)

a. Costs shall be recorded on an accrual basis in the accounting period to which they apply. Examples of costs that must be accrued include:

(1) payroll and related benefits;

(2) materials and supplies;

(3) unfunded costs such as depreciation, leave costs;

(4) travel, transportation and storage; and

(5) rents, communications, and utilities.

b. Accrual procedures for main elements of costs are summarized in 4 FAH-3 H-030. Exceptions to the general principles are noted in the text below.

4 FAM 037.3-1 Personal Services

(TL:FIN-356; 11-30-95)

Where needed, base salaries and benefits of employees shall be recognized in the accounts on an effective "duty status" time cost basis (e.g., cost of a course at the National Foreign Affairs Training Center). The accounting systems shall record personal services costs at the time and basis of work performed. Salaries and benefits earned but unpaid while in "duty status" shall be an element of cost that must be included in determining the actual cost of an organization, activity, program, or project requiring financial management controls.

4 FAM 037.3-2 Accounting for Leave

(TL:FIN-356; 11-30-95)

As employees earn the right to be compensated for leave or other absences, a current cost shall be recognized for the amount of leave earned, regardless of when taken or paid. Leave costs constitute an element of personal compensation earned by employees while in pay status, regardless of when the leave earned is actually credited to the employee. The recognition of leave costs as they accrue has the effect of stating in accounts and reports personnel compensation costs on an effective (duty status) time cost basis. The difference between leave costs thus accrued and leave paid or payrolled represents the connection between personnel compensation costs to be recognized for general and cost accounting purposes and obligations incurred and accrued expenditures for personnel compensation needed for fund control purposes. The leave liability and related costs shall be accrued monthly and reported quarterly at the major organization, function and budget activity levels. At the end of the fiscal year the leave liability accounts in the general ledger will be reconciled to employee leave records and adjusted for any differences, leave lost, etc.

4 FAM 037.3-3 Depreciation

(TL:FIN-356; 11-30-95)

Depreciation is an element of cost. The accounting system of the Department shall be designed to include accounting for depreciation as a cost whenever a periodic determination of the cost of all resources consumed in performing is needed. Examples of activities or decisions where depreciation must be considered include:

(1) financial reports comparing performance costs with revenues earned;

(2) determining the total cost of in-house constructed property to be capitalized;

(3) determining total cost of an program, project or activity as required by law; and

(4) assisting management in making cost comparisons, evaluating performance, and devising future plans.

4 FAM 037.3-4 Grants

(TL:FIN-356; 11-30-95)

Federal grants are cash assistance payments for specified purposes. In general, the Department will maintain subsidiary records at the recipient level and report the cost of its grant activities on the basis of actual or accrued earning of grant funds on the part of the grantee. In addition, the accounting records will track grant costs by organization and functional element.

(1) Advances. The acceptance of a grant from the Department creates a legal duty on the part of the grantee to use the funds or property in accordance with grant provisions. Payments to grantees in advance of work performed shall be recorded in a subsidiary ledger

and accounted for as Department advances until evidence is received from the grantees that document performance and the earnings of the funds advanced.

(2) Grants Made on a Reimbursable Basis. Accrued expenditures shall be recorded for unreimbursed work that constitute a Department liability to grantees. However, the accrued amounts must be based on quarterly reports received from grantees and/or grantee estimates in lieu of reports, when necessary for periodic reporting purposes.

(3) Grants with No Reporting Requirements. Payments to grantees under grants where no performance or reporting by grantees is required or where the payments are scheduled to correspond approximately with performance shall be accounted for as an accrued expenditure and as a cost incurred.

(4) Frequency and Level of Recording Costs. Grant costs shall be recorded against major organization and functional element levels. In general, these costs will be accrued monthly, (not less than quarterly) by the Department

4 FAM 037.3-5 Gains Or Losses On Foreign Currency Transactions

(TL:FIN-356; 11-30-95)

Significant gains or losses resulting from exchange rate fluctuations shall be recognized monthly for assets held by the Department under dollar accountability that are valued in foreign currency

4 FAM 037.4 Cost Finding

(TL:FIN-356; 11-30-95)

When cost data that is not regularly produced on a recurring basis becomes required, or where the cost of compiling costs on a regular basis exceeds the benefit, appropriate use shall be made of analytical and sampling methods or some other appropriate cost finding technique. The total of any such analysis should agree with any related totals in the cost records.

4 FAM 037.5 Overhead Costs

4 FAM 037.5-1 Allocations

(TL:FIN-356;   11-30-95)

Indirect and overhead costing techniques shall be used to allocate the cost of the Department's administrative support functions to the benefiting functions within the Department, in order to determine the full (or loaded) cost.

4 FAM 037.5-2 Consistent Methods

(TL:FIN-361;   04-28-2003)

Allocations of overhead in accumulating costs for similar purposes shall follow consistent practices and procedures unless different circumstances justify a deviation. For instance, if the salary of an *management officer* is considered as overhead in accumulating costs for one function, the salary of similar *management officers* shall likewise be considered in accumulating costs of other functions for the same general purpose.

4 FAM 037.5-3 Simplicity

(TL:FIN-356;   11-30-95)

The system for distributing overhead shall be such that cost data can be extracted from the expense accounts to disclose overhead costs. In making allocations of indirect costs, the basis that shall be used must be simple, reliable and in keeping with the purposes to be served.

4 FAM 038 ACCOUNTING FOR PAY, LEAVE, AND ALLOWANCES

4 FAM 038.1 General

(TL:FIN-356;   11-30-95)

The systems for processing pay, leave and allowances shall be designed to ensure:

(1) Prompt payment in the proper amount to employees entitled to be paid;

(2) Payments are in compliance with applicable law and related regulations;

(3) Proper disposition of all authorized deductions from pay;

(4) Adequate and reliable payroll records and reports are maintained;

(5) Adequate control over all phases and segments of the system; and

(6) Coordination of pay, leave and allowance operations with personnel functions and other related activities.

4 FAM 038.2 Principles And Standards

(TL:FIN-356; 11-30-95)

The following principles and standards shall apply to the accounting of pay, leave and allowances.

4 FAM 038.2-1 Payroll Relationship To The Department's Financial Management System

(TL:FIN-356; 11-30-95)

The payroll system will be an integral part of the Department's financial management system with detailed accounts and records maintained as subsidiary to controlling accounts in the general ledger. Procedures shall be designated to produce payroll data classified by budget activity, function, organization structure, and other needed attributes contained in the Account Classification Structure identified in 4 FAH-1.

4 FAM 038.2-2 Uniformity Of Procedures

(TL:FIN-356; 11-30-95)

The procedures for processing pay, leave and allowances shall be uniform within the Department. The granting and paying of allowances to individuals at foreign posts of duty will be in accordance with regulations issued by the Department.

4 FAM 038.2-3 Controls

(TL:FIN-356; 11-30-95)

Suitable control records and other control features over detailed payroll operations shall be maintained in order to provide evidence of the accuracy of such operations and to serve as a deterrent to payroll irregularities. The controls will include the following:

(1) Systematic control procedures will be applied to all pertinent

documents affecting the payroll process to assure that the documents are properly taken into account in determining payroll amounts payable. No employee shall perform all phases of a transaction without the intervention of another person or persons. Employees engaged in the preparation and maintenance of documents authorizing or evidencing payments shall not service their own individual pay accounts.

(2) Control procedures will be incorporated in the payroll process to ensure that the processing of payroll data is accurately performed.

(3) Regular employees will be paid every two weeks and the time lag between the close of the pay period and the next payment will not be in excess of twelve calendar days. Special procedures shall apply where approved.

(4) To the maximum extent possible, payroll payments will be made by an electronic means approved by the GAO and Treasury. United States savings bonds will be mailed to the individual's home address, mission of assignment if overseas or other safekeeping address as authorized by the individual. Bonds will not be hand delivered to an employee.

(5) Persons assigned to deliver paychecks will be prohibited from:

(a) Participating in the preparation, approval, and certification of payroll vouchers and personnel action documents; and

(b) Maintaining payrolls, time and attendance records, and leave records.

(6) All checks will be kept in a safe or locked fireproof cabinet pending distribution or return to the issuing officer. Undelivered checks will be promptly returned to the issuing officer.

(7) All officials who sign authorizing documents will be precluded from performing other payroll functions. Prior to payment, payroll vouchers prepared for recording and authorizing payroll payments shall be certified by a duly authorized certifying officer who does not compute the individual amounts payable, maintain payroll records, or distribute paychecks.

(8) All overtime must be properly authorized and approved in writing.

(9) Employees will be given written notice on the nature and amount of pay changes that are not Government-wide in scope.

(10) A record of an employee’s pay status (time and attendance report) will be maintained daily for each employee. The exact time of absences, less than one day, will be recorded. All absences must be initialed by the employee or supported by a signed application. Sick leave in excess of three days will be supported by a medical certification or other evidence of illness that is administratively acceptable.

(11) Time and attendance reports will be maintained by individuals who:

—Take no part in preparing the payroll or distributing the checks;

—Have positive knowledge as to the employee’s presence or absence.

(12) Time and attendance reports will be approved by the employee’s supervisor.

(13) Employees are prohibited from certifying or approving their own time and attendance reports unless specifically authorized.

(14) The establishment, change, or cancellation of non-statutory deductions, allotments or assignments must be authorized in writing by the employee.

(15) The system will provide for amounts to be deducted from pay as authorized by law and pursuant to administrative regulations.

(16) If the gross pay of an individual is not sufficient to permit all deductions to be made, the following order of precedence shall apply:

—Retirement or FICA;

—Federal Income Tax;

—Health Benefits;

—Group Life Insurance;

—State Income Taxes;

—Local Income Taxes;

—Garnishment for Alimony or Child Support;

—Court-Order Bankruptcy Payments under Chapter 13 of the Revised Bankruptcy Act;

—Optional Life Insurance;

—Indebtedness due the United States; and

—Other Voluntary Deductions.

(17) leave record will be maintained for each employee. Leave accrual rates will be determined in accordance with laws and regulations. Controls will be maintained to assure that the proper rate is applied.

(18) leave taken will be approved and certified as correct by persons having direct supervision of the individuals. Employees are prohibited from certifying the correctness of their own leave taken.

(19) Leave records will be reviewed annually and a reduction made at the end of each leave year for leave accumulated in excess of applicable statutory limitations.

(20) Leave records will be reviewed upon termination of employment and necessary pay adjustments will be made for unearned advance leave or accumulated limitations.

(21) The appropriation from which the payroll is paid will be charged with the gross payment including the agency's contribution toward employee benefits.

(22) Pay, leave and allowance records and documents for each individual will be retained for audit purposes.

(23) Disposal of such records and documents will be made in accordance with the Department's fiscal records program subject to the requirements of the General Accounting Office.

(24) The system will incorporate procedures for payment of employees during periods of emergency evacuation.

(25) Reports will be issued on pay, leave and allowances which:

—Are clear, concise, and timely;

—Provide information which will assist management to operate more effectively; and

—Meet the requirements of other agencies as applicable.

(26) Designers or programmers of the automated aspects of a payroll system will not be involved in preparing payrolls.

4 FAM 038.2-4 Documentation Of Transactions

(TL:FIN-356; 11-30-95)

The following procedures shall apply to the processing of payroll transactions:

(1) Transactions recorded in the pay, leave and allowance records shall be adequately supported by properly authorized documents.

(2) The gross amount of deductions for civil service retirement, life insurance, health benefits, plus agency contributions for civilian employees, shall be paid to the Office of Personnel Management in accordance with regulations issued by the employing agency.

(3) The gross amount of deductions for foreign service retirement plus agency contributions shall be paid by the Department in accordance with regulations issued by that agency.

(4) The gross amount of deductions for Federal income taxes and Federal Insurance Contributions Act (FICA) taxes, plus agency contributions for FICA shall be paid to the Internal Revenue Service as provided by that agency's regulations.

(5) The amount of state income taxes withheld, including the District of Columbia, shall be paid to authorities in accordance with Treasury Department agreements with individual States.

(6) Payments made to the Internal Revenue Service and state and city taxing authorities will be reconciled at least monthly with amounts withheld and documented on pay and other records.

(7) Amounts withheld for non-tax reasons shall be paid in accordance with applicable regulations and instructions furnished by the individuals from whose pay the deductions are made. These payments shall be reconciled monthly with the amounts withheld and documented on payroll or other records.

(8) A current file of all deductions authorized, including withholding certificates showing the number of exemptions claimed for Federal and state income taxes, shall be maintained as justification for each deduction.

4 FAM 038.2-5 Collection Of Indebtedness

(TL:FIN-356; 11-30-95)

Prompt action shall be taken for the collection of employee debts due to erroneous payments. The regulations established covering collection of erroneous payments to employees will comply with the requirements of the Office of Personnel Management and the procedures detailed in 4 FAH-3 H-490.

4 FAM 038.2-6 Pay, Leave And Allowance Records

(TL:FIN-356; 11-30-95)

a. A complete and accurate record shall be maintained for every individual. The records shall identify the pay, leave and allowance amounts that the individual is entitled and the payments thereof. These records shall be adequate to provide control over pay, leave and allowances and to provide information necessary to:

—Properly pay each individual;

—Meet budgeting and reporting requirements; and

—Establish a permanent record of the actions taken.

b. The amount recorded on the individual pay records will be reconciled at least quarterly with the control records.

c. Subsidiary payroll records shall be established and maintained as necessary to provide information needed for management purposes and to comply with the prescribed requirements of other administering agencies. Such subsidiary payroll records include:

(1) Retirement record. An individual retirement record for each employee for whom retirement deductions are made shall be maintained in accordance with the requirements of the Office of Personnel Management and the Department of State. The individual retirement records and the related control accounts shall be maintained as an integral part of the financial accounting system. The amounts recorded in the individual retirement records will be reconciled at least annually with the total retirement deduction shown on the employee's earning records and related control accounts.

(2) Employee's bond record. A record shall be maintained for each employee for whom United States Savings Bond deductions are made. The records must show the deductions, purchases or refunds of unapplied balances. All bond deductions will be supported by written authorizations from employees, and the bonds

shall be issued in accordance with their denomination and payee instructions. Employer's bond records will be reconciled at least quarterly in the general ledger control account of unliquidated bond balances.

(3) Life insurance record. A record shall be maintained by the payroll office for each calendar year of the total amounts withheld from employees' salaries and the total amount of the employer's contributions for group life insurance. Such record may be in the ledger or other appropriate form or may be represented by file copies of vouchers upon which such information has been reported to the Office of Personnel Management. The totals shown on the record shall be reconciled at least quarterly with the totals of the deductions shown on the individual earnings records plus the related agency contributions.

(4) Health benefits record. A record shall be maintained by each enrollment code number of the employee deductions and the Department contributions for health benefits. The number of enrollees included in this record shall be reconciled at least monthly with the number of enrollees in the perpetual inventory reported to each carrier, in order to maintain the accuracy of this report.

d. The paying document or attachments shall contain the information necessary for proper recording and payments of the amounts involved. Effective procedures shall be followed to provide assurance that the amounts shown on the paying documents are correctly recorded in the applicable pay accounts. Independent periodic tests shall be made to determine whether the payments have in fact been properly entered in the pay accounts.

e. Corrections to the pay, leave and allowance records will be made promptly and supported by documentation approved by a responsible person or designee.

4 FAM 039 FINANCIAL REPORTING

4 FAM 039.1 Financial Reporting

(TL:FIN-356; 11-30-95)

Basic financial reports covering numerous aspects of Department operations shall be prepared from data recorded in the Department's financial management system. In addition to external financial reports required by controlling agencies (OMB, Treasury, etc.) and the Congress, data shall be captured as necessary for internal reports that meet the specific needs of Department managers.

4 FAM 039.2 Purpose

(TL:FIN-356; 11-30-95)

This section provides the objectives of the Department of State's financial reporting and the applicable standards for all types of financial reporting.

4 FAM 039.3 Objectives

(TL:FIN-356; 11-30-95)

The accounting system shall be designed to facilitate the timely preparation of internal financial reports needed, external reports to OMB, Treasury and other government agencies, and the financial statements required under the Chief Financial Officer's Act. Reports produced by the financial management system shall be designed to meet operational and management needs, external reporting requirements, and any other requirement needed to exercise financial control over budgetary resources and efficient operations.

4 FAM 039.4 Standards For Internal Reporting

(TL:FIN-356; 11-30-95)

The following standards shall apply to all types of financial reporting:

(1) **Pyramidal Concept**. The pyramidal concept of reporting shall be applied. This concept involves reducing the amount of detail in reports to each higher level of management. Reports shall be designed to provide for the accumulation of essential cost and financial information to satisfy the needs of the management level where the information will be used. The distribution of reports that are unnecessary, not useful, or too detailed shall be avoided.

(2) **Accounting Period**. The accounting period for the Department will be the calendar month. Generally, reports will be issued on a monthly cycle. However, in some cases, (e.g., cost reports) reports will be issued quarterly or at other intervals.

(3) **Full Disclosure**. Reports shall provide for full disclosure of the financial results of operations for the period covered. To meet the statutory objectives of full disclosure, the requirement of adequate financial information for management, and the support of budget

justifications, the accounting system shall provide for accumulating and reporting all financial transactions as described in these Principles and Standards.

(4) **Accounting Support.** The official accounting system records shall be the source for all financial data used in preparing prescribed external and internal financial reports unless the use of any other source is clearly explained.

(5) **Timely Reports.** Reports shall be prepared and issued on a timely basis to be responsive to internal and external requirements, including those of control Agencies (OMB, Treasury, etc.) and the Congress.

(6) **Legal and Other Requirements.** Provisions shall be made for complying with legal and other requirements relating to the preparation and issuance of reports.

(7) **Report Disclosure**. Reports shall be complete, truthful, reliable and clear; shall reveal their purpose and the period covered; and shall be as simple as possible to serve the intended purpose. Reports shall direct attention to deviations from plans, limitations, or goals and to unsatisfactory conditions. Performance in relation to statutory or other limitations prescribed by higher authority shall be reported. Cost reports shall identify any significant, excluded costs.

(8) **Accruals.** All reports shall include the transactions through (and including) the end of the reporting period.

(9) **Quantitative and Comparative Data.** In many situations financial data, to be of maximum usefulness, shall be associated with quantitative program data, i.e., personnel strength, vehicles, vouchers, etc. Similarly, comparative data by periods or by organizations shall be reported.

(10) **Consistency.** Data shall be reported on a consistent basis from one period to another. In those cases where deviations are necessary, they shall be fully explained and their effect pointed out. All reports shall be in agreement with other reports which cover the same information and have the same cut-off date.

(11) **Terminology**. Consistent and non-technical terminology shall be used wherever possible for purposes of clarity and uniformity.

(12) **Periodic Reviews.** Reports (including related reporting procedures) shall be reviewed periodically for significance and

materiality of subject matter to determine whether the reports include information useful to and needed by management officials to carry out their responsibilities.

4 FAM 039.5 Types Of Internal Financial Reports

(TL:FIN-356; 11-30-95)

There are basic internal financial reports that should be prepared for different levels of Department management. Examples of these reports shall include but not be limited to:

(1) Statements to demonstrate compliance with prescribed limitations;

(2) Cost reports by major organization, organization, and sub-organization; budget activity; and function structure; and

(3) Other reports specifically designed to meet the various management review levels and controls over financial resources (see FAH04-03H-0260. and the user documentation for current financial management systems).

4 FAM 039.6 Required External Financial Reports For OMB

(TL:FIN-356; 11-30-95)

Basic financial reports are to be prepared in accordance with OMB requirements and shall include:

(1) Statement of Financial Position as of September 30, ____: Statements of assets, liabilities, and net position (balance sheet disclosing financial position).

(2) Statement of Operations And Changes In Net Position For The Period Ended September 30, ____: Statements of operations (operating statements matching revenues and costs) conducted for all Department operations.

(3) Statement Of Cash Flows For The Period Ended September 30, ____ (Indirect Method): Statement of changes in cash flow and investment of the United States to supplement balance sheets and operating statements.

(4) Statement of Budgetary Resources And Actual Expenses For The Period Ended September 30, ____: Reports on budget activities and

also identifies the relationship between budgeted amounts and actual expenses.

4 FAM 039.7 External Reports To Treasury

(TL:FIN-356; 11-30-95)

a. USDO officers overseas operate under delegated authority from the Treasury Department and are required to submit disbursing and collection information on Departmental and other agency transactions conducted in accordance with this delegation. The specific reports that Treasury requires are identified in the Treasury Financial Manual (TFM).

b. The Department, as an independent U.S. Government agency, shall also submit accounting reports on Departmental transactions to Treasury. Such reports will be automated to the maximum extent possible and submitted in accordance with the TFM or other Treasury instructions as appropriate.

4 FAM 039.8 Audited Financial Statements For OMB And The General Public To Comply With CFO And Government Management Reform Legislation

(TL:FIN-356; 11-30-95)

The Department must prepare financial statements in accordance with CFO and Government Management Reform Act financial statement requirements. In meeting this requirement, the financial data used in the statements must be accurate, supported by related information, and prepared with sufficient financial management controls to support an audit by an independent audit group. Further, the financial reports and statements generated must be prepared and presented in accordance with the generally accepted accounting principles and standards identified in 4 FAM 030.