A GUIDE TO FEDERAL REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

Prepared by:

Defense Accounting System

Program Management Office

Defense Finance and Accounting Service

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1931 JEFFERSON DAVIS HIGHWAY
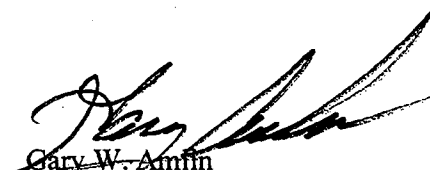## ARLINGTON, VA 22240-5291

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FOREWORD

This guide for federal requirements applicable to financial management systems was prepared by the staff of the Defense Accounting System (DAS) Program Management Office (PMO), at Defense Finance and Accounting Service (DFAS) headquarters. The guide represents the most comprehensive compilation of financial management systems requirements ever developed by DoD. The requirements in this guide are applicable to accounting and finance systems operated and maintained by DFAS. It is also applicable to the "feeder" systems owned by the military services and DoD component agencies that feed DFAS systems.

The overall purpose of this guide is to assist managers in planning, designing, enhancing, modifying, and implementing financial management systems to comply with the myriad of financial requirements. This guide serves as a "roadmap" to those federal requirements by major functional areas and includes references to the authoritative sources for the requirements. This document serves only as a guide for managers who are responsible for financial management systems--managers are still explicitly responsible for being knowledgeable of the various authoritative sources of financial requirements (both legislative and regulatory), and complying with the requirements.

Users of this guide are asked to forward comments and suggested changes to:

Defense Accounting System Program Management Office
Defense Finance and Accounting Service
Attn: Director, Accounting Standards and Requirements
1931 Jefferson Davis Highway
CM 3, Room 411
Arlington, Virginia   22240-5291

This guide is being made available to DoD personnel and organizations in both hardcopy and electronic form. Hardcopy versions may be requested by calling Mr. Gerald Thomas at (703) 607-3799. The electronic version may be accessed on the DFAS homepage at www.dfas.mil.

Gary W. Amlin
Acting Director

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A GUIDE TO FEDERAL REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

INTRODUCTION AND OVERVIEW

The Department of Defense (DoD) is one of the largest and most complex organizations in the world. For fiscal year 1996, DoD reported over $1.3 trillion in assets, including approximately $773 billion in property, plant, and equipment. As of September 30, 1996, the Department reported total liabilities of $619 billion of which $447 billion represented future funding requirements. During fiscal year 1996, DoD recognized almost $302 billion in revenues and financing sources and incurred expenses totaling $321 billion.

The Department, through its war-fighting entities--the Army, the Navy, the Air Force, and the Marine Corps--carries out program and financial operations on a world-wide basis. The scope of DoD's operations dwarf those of large corporations[1] and many autonomous countries. Obviously, it's critical to have high quality financial management systems to support DoD's financial operations and to provide financial and related information to financial and program managers and congressional decision-makers.

DoD operates hundreds of automated information systems--financial, non-financial, and mixed[2]--in executing its missions and programs. Although the Defense Finance and Accounting Service (DFAS) is responsible for the majority of the Department's finance (i.e., disbursing) and accounting systems, DFAS is not responsible for all of the systems that produce financial data. Non-DFAS systems that support other functional areas, including acquisition, medical, logistics, property management, and personnel, generate and process a significant amount of financial data that is ultimately used by the Department for management, analysis, and financial reporting.

DoD's auditors, over the past decade, have issued numerous reports that criticize DoD's financial management

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[1] For example, General Motors Corporation--the largest company in the United States in terms of annual revenues--reported revenues of $168 billion in 1996 and assets of $222 billion.

[2] Mixed systems contain both financial and non-financial data.

systems for their inability to capture, maintain, control, and report reliable, timely, and consistent information. During the last several years, improvement of DoD's financial management has been a top priority of the Department's management. DoD's leaders concluded that the Department's financial management deficiencies were more fundamental and entrenched than previously recognized. The remedy has been the most comprehensive reform of financial management systems and practices in DoD history.[3]

A major component of DoD's reform initiatives is the consolidation and standardization of finance and accounting systems. The first step was to designate certain existing finance and accounting systems as migratory systems, into which similar systems (such as civilian pay, military pay, travel, etc.) were to be consolidated. Simultaneously, DoD undertook improving the accounting systems to make them compliant with generally accepted accounting principles for federal agencies (FEDGAAP). The ultimate goal of the improvement efforts is to make the accounting systems capable of providing accurate, timely, and auditable information to management and decision-makers, including the Congress.

In order for DoD's accounting systems to produce accurate and auditable information, many systems--other than the accounting systems--need to be enhanced. Within the Department dozens of systems provide financial data to the DFAS-operated accounting systems. Much of this data, which flows through a myriad of "feeder systems," is not under adequate general ledger control and does not comply with federal requirements. Therefore, the Department is embarking on an effort to bring these "feeder" systems into compliance with applicable federal requirements.

Various laws and regulations provide specific criteria and requirements for federal financial management systems. The following are synopses of the major laws and regulatory sources that materially impact DoD's financial management systems.

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[3] Annual Report to the President and the Congress, William S. Cohen, Secretary of Defense, April 1997, pg. 95.

STATUTES MANDATING REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

The decade of the 1990s has seen a tremendous change in emphasis by the Congress concerning the federal government's financial management operations. No longer is almost exclusive emphasis on fund control and budget execution the primary driving force behind agencies' financial management operations. Between late 1990 and 1996, the Congress passed a number of laws directing agencies to improve their financial management operations, systems, performance, and internal controls.

Chief Financial Officers (CFO) Act of 1990: The Congress, concerned about the overall state of financial management within the federal sector, passed this law (Public Law 101-576) in November 1990. The Congress' objectives in passing the act were to (1) bring more effective general and financial management practices to the federal government, (2) provide for improvements in federal agencies' systems of accounting, financial management, and internal control, and (3) provide for the production of complete, reliable, timely, and consistent financial information for the use of executive branch managers and the Congress in financing, managing, and evaluating federal programs. This law requires each federal agency to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control, that, among other things, (1) complies with applicable accounting principles, standards, and requirements, and internal control standards, and (2) complies with the policies and requirements prescribed by the Director of the Office of Management and Budget (OMB). The law required, on a pilot basis, certain agencies (including the Air Force and the Army) to prepare financial statements and have them audited. The law also required agencies to prepare and have audited financial statements for revolving funds.

Government Performance and Results Act of 1993: In August 1993 the Congress passed this act (Public Law 103-62) which is intended to improve the operations, programs, and management of federal agencies. By the end of fiscal year 1997, the head of each federal agency was to submit to OMB a

strategic plan for program activities, including performance goals and objectives. Beginning in fiscal year 1999, each agency is required to annually present to OMB a performance plan covering each program activity set forth in the agency's budget. No later that March 31, 2000, and annually thereafter, each agency is required to submit to the President and the Congress a report on program performance for the previous fiscal year.

Government Management Reform Act of 1994: This law (Public Law 103-356) expanded the financial statement audit requirements of the CFO Act of 1990 to all "CFO Act" agencies. This law required the Navy and DoD to prepare and have audited their financial statements for the first time beginning with fiscal year 1996.

Federal Financial Management Improvement Act of 1996: This law requires each Federal agency to implement and maintain financial management systems that comply with applicable accounting requirements and standards. Specifically, agencies' financial management systems are to comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger. Auditors who conduct agency financial audits are required to report whether the agency's financial management systems comply with the aforementioned requirements. In cases where the systems are found to not comply with applicable requirements, the auditors are required to report the entity or organization responsible for the systems not in compliance and "all facts pertaining to the failure to comply with the requirements."

PRIMARY REGULATIONS AND OTHER GUIDANCE AFFECTING FINANCIAL MANAGEMENT SYSTEMS

Several agencies and organizations have promulgated authoritative regulations and guidance relative to financial management systems with which federal agencies are to comply. Principal among these are OMB, the Department of the Treasury, the General Accounting Office (GAO), the Joint Financial Management Improvement Program (JFMIP), and the Federal Accounting Standards Advisory Board (FASAB).

Office of Management and Budget: OMB formulates and coordinates management procedures and program objectives within and among federal departments and agencies. Relative to financial management operations and systems, OMB publishes federal accounting standards that have been recommended by the Federal Accounting Standards Advisory Board (FASAB) and adopted by OMB, the Department of the Treasury, and GAO. Also, OMB has issued circulars and bulletins that establish requirements with which federal agencies are to comply. Principal among these are Circulars A-127, A-123, A-130, and A-11, and Bulletin 97-01. Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Circular A-123 provides guidance to federal managers on improving accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on management controls. Circular A-130 prescribes policies regarding information resource management. Circular A-11 provides guidance on the preparation and submission of agency budget requests, including reporting on the agency's critical financial management systems. Bulletin 97-01 defines the form and content of federal agencies' financial statements beginning for fiscal year 1998.

Treasury: The Department of Treasury publishes various fiscal and accounting policies and requirements in its Treasury Financial Manual. Treasury provides guidance on central accounting and reporting, payroll deductions and withholdings, disbursing, collections, etc.

General Accounting Office: Prior to the establishment of FASAB, GAO established accounting standards for the federal sector. Such standards were published in Title 2 of GAO's Policy and Procedures Manual for the Guidance of Federal Agencies. However, the adopted SFFASs (the eight Statements of Federal Financial Accounting Standards developed by FASAB) have rendered most of the "Title 2" standards inapplicable. Limited portions of Title 2 are still effective. GAO also establishes certain requirements for federal financial management systems in Appendix III, "Accounting Systems Standards," of Title 2. Appendix II of the title contains the Comptroller General's internal control standards for the federal government.

Joint Financial Management Improvement Program: JFMIP is a joint undertaking of OMB, the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout the federal government. As of September 1997, JFMIP had issued eight publications which establish concepts, a framework, and specific requirements for various types of financial management systems.

Federal Accounting Standards Advisory Board: FASAB was established in October 1990 by the Secretary of the Treasury, the Director of OMB, and the Comptroller General to consider and recommend accounting principles for the federal government. FASAB recommends accounting standards, which if adopted by the Board's sponsors, are published by OMB. As of September 1997, FASAB had recommended eight Statements of Federal Financial Accounting Standards (SFFAS) that have been adopted for the federal government.

REQUIREMENTS CONTAINED IN THIS DOCUMENT

The CFO Act specifically requires each federal agency to develop an integrated financial management system, including internal controls and financial reporting, that complies with applicable federal principles, standards, and requirements. OMB, in OMB Circular A-127, prescribes the policies and standards for federal agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

In May 1996, the Director, Defense Finance and Accounting Service (DFAS), established the Defense Accounting System Program Management Office (DAS PMO). The DAS PMO was established to manage the consolidation and modernization of all existing accounting systems that DFAS operates. The scope of the DAS PMO effort includes all migratory and legacy systems that DFAS owns and operates. Except for ensuring that appropriate interfaces are in place, the DAS PMO is not responsible for the accounting and other financial management systems owned and operated by the military departments or Defense agencies. However, the DAS PMO is responsible for developing and disseminating the accounting, financial management, and reporting requirements

pertaining to those systems and related accounts. This document represents those requirements.

While this document represents the most extensive compilation of requirements applicable to DoD's financial management systems ever developed by the Department, it does not necessarily include all requirements that may pertain to such systems. A myriad of requirements applicable to federal financial management systems exists in dozens of different authoritative sources. This document contains several thousand requirements promulgated by FASAB/OMB, GAO, Treasury, JFMIP, and DoD. As such, the document represents a valuable guide for systems managers, operators, programmers, and accountants to use in planning, developing, implementing, modifying, and evaluating financial management systems. This document, as a tool, is intended to focus management's attention on the requirements to be satisfied by financial management systems. Management, however, is explicitly responsible for being knowledgeable of the actual laws and regulations and ensuring that their systems comply with them.

DoD operates hundreds of systems to initiate, process, record, summarize, and report financial transactions and events. The systems, overall, are not integrated and in most cases do not comply with federal financial management and accounting requirements. Currently, DoD, primarily through DFAS, has efforts underway to consolidate and standardize financial operations, systems, and locations. This compilation of federal financial systems requirements will support achieving standardization in financial management and accounting operations and enhancing compliance with laws and regulations.

The requirements contained in this document represent specific federal (including DoD) requirements for financial management systems. The requirements are arranged in major functional categories. For example, separate sections cover requirements for general ledger functions, property accounting, inventory accounting and management, cost accounting, grants, and loans. The authoritative source citation for each requirement is provided.

The following are the major categories of requirements contained in this document:

1. General Ledger
2. Financial Reporting
3. Property, Plant, and Equipment
4. Inventory, Operating Materials and Supplies, Stockpile Materials
5. Revenue (Including Financing Sources) and Accounts Receivable
6. Managerial Cost Accounting
7. Personnel/Payroll
8. Fund Control and Budgetary Accounting
9. Accounts Payable (Payment Management)
10. Travel
11. Direct Loans
12. Guaranteed Loans
13. Grants
14. System Controls and Audit Trails
15. Seized Assets

ORGANIZATIONAL RESPONSIBILITIES FOR ENSURING COMPLIANCE WITH REQUIREMENTS

Within DoD, various organizations operate financial management systems. While in an overall scheme, many of these systems should be linked in an integrated network, often the systems are "stand-alone" or "stovepipe" systems that are not logically integrated with other related systems. Critical financial data, instead of being transferred electronically between systems through well-controlled interfaces, is often transferred manually by means of journal vouchers, hardcopy spreadsheets, or by other inefficient and error-prone methods.

DFAS operates DoD's "core" accounting systems and prepares the Department's various financial statements and reports. Therefore, DFAS is the primary Departmental entity responsible for general ledgers and financial reporting. (DFAS does not own nor operate and maintain every accounting system within the Department.) However, most of the data used by DFAS to carry out DoD's accounting and financial reporting functions--such as property, plant, and equipment

and inventory values--originate in non-DFAS organizations or systems. Therefore, other organizations, primarily the military departments and Defense agencies, should be held responsible for their financial management systems' compliance with all applicable federal requirements.

LEGEND FOR SOURCES OF FEDERAL ACCOUNTING STANDARDS AND REQUIREMENTS

Abbreviation   Source

DoD FMR   DoD Financial Management Regulation, DoD
                        7000.14-R
                   Form of Citation: DoD FMR, Vol., Chap.,
                        Paragraph
                   Example of Citation: DoD FMR,
                        02A,01,010202.A.1

FFMSR   Joint Financial Management Improvement
                        Program's (JFMIP)Federal Financial
                        Management System Requirements

     FFMSR-0   Framework for Federal Financial Management
                        Systems
     FFMSR-1   Core Financial System Requirements
     FFMSR-2   Personal-Payroll System Requirements
     FFMSR-3   Travel System Requirements
     FFMSR-4   Seized/Forfeited Assets System Requirements
     FFMSR-5   Direct Loans System Requirements
     FFMSR-6   Guaranteed Loans System Requirement
     FFMSR-7   Inventory System Requirements
                   Form of Citation: FFMSR-X,pg.
                   Example of Citation: FFMSR-1,29
     FFMSR-8   Managerial Cost Accounting System
                        Requirements FFMS GAO's draft Federal
                        Financial Management Systems evaluation
                        methodology
                   Form of Citation: FFMS, question number
                   Example: FFMS, 2.1.5.2

GAO Title 2   Title 2 of GAO's Policy and Procedure Manual
                        for the Guidance of Federal Agencies
                   Form of Citation: GAO Title,App.number,
                        section (or page number of Appendices II
                        and III)
                   Examples of Citation: GAO Title 2, I, P40.07
                                         GAO Title 2, II, 129
                                         GAO Title 2, III, 2-2

GAO Title 6   Title 6 of GAO's Policy and Procedures Manual
        for the Guidance of Federal Agencies
      Form of Citation: GAO Title 6, section number
        (chapter & paragraph)
      Example of Citation: GAO Title 6, 3-2

GAO Title 7   Title 7 of GAO's Policy and Procedures Manual
        for the Guidance of Federal Agencies
      Form of Citation: GAO Title 7, section number
        (chapter & paragraph)
      Example of Citation: GAO Title 7, 2.1

OMB Bull.   Office of Management and Budget (OMB)
        Bulletin
      Form of Citation: OMB Bull., number
      Example of Citation: OMB Bull. 97-01

OMB Cir.   Office of Management and Budget (OMB)
        Circular
      Form of Citation: OMB Cir., paragraph
      Example of Citation: OMB Cir., A-127,4.a

PL   Public Law
      Form of Citation: PL number, section
      Example of Citation: PL 101-576, 301

SFFAC   Federal Accounting Standards Advisory Board's
        Statement of Federal Financial
        Accounting Concepts
  SFFAC-1 Object of Federal Financial Reporting,
        September 2,1993
  SFFAC-2 Entity and Display, June 6, 1995
      Form of Citation: SFFAC-X, paragraph number
      Example of Citation: SFFAC-1,146

SFFAS   Federal Accounting Standards Advisory Board's
        Statement of Federal Financial
        Accounting Standards
  SFFAS-1 Accounting for Selected Assets and
        Liabilities, March 30, 1993
  SFFAS-2 Accounting for Direct Loans and Loan
        Guarantees, August 23, 1993
  SFFAS-3 Accounting for Inventory and Related
        Property, July 1995

SFFAS-4   Managerial Cost Accounting Concepts and
            Standards for the Federal
            Government, July 31, 1993

SFFAS-5   Accounting for Liabilities of the Federal
            Government, December 20, 1995

SFFAS-6   Accounting for Property, Plant and Equipment,
            November 30, 1995

SFFAS-7   Accounting for Revenue and Other Financing
            Sources and Concepts for Reconciling
            Budgetary and Financial Accounting,
            May 10,1996

SFFAS-8   Supplementary Stewardship Reporting,
            (E.D. August 1995)
            Form of Citation: SFFAS-X, paragraph number
            Example of Citation: SFFAS-1, 75

TFM   Treasury Financial Manual
            Form of Citation: TFM part-section, paragraph
            Example of Citation: TFM 2-2525,65

USC   United States Code
            Form of Citation: Title of USC, section
            Example of Citation: 31 USC 1341

Per GAO, the following are only effective sections of GAO's
Title 2, Appendix I (as of January 1997). FASAB standards
have replaced other Title 2 sections/requirements.

    C30   Compensated absences
    E10   Entitlements
    E20   Equity of US Government (related to reversionary
           interests only)
    F30   Foreign Currency
    F40   Fund Accounting
    G10   Grants & Cooperative Agreements
    I10   Imputed interest
    L10   Leases
    L40   Long-term Contracts (expense recognition)
    P40   Property, Plant and Equipment (reversionary
           interest only)
    R20   Regulatory Accounting
    R40   Research and Development

C1.CHAPTER 1

GENERAL LEDGER

The general ledger, as the central function of a core financial system, is the highest level of summarization within the system. The general ledger provides financial accountability for budgetary resources, stewardship over assets, tracking of cash/fund resources, and control of costs. The general ledger maintains account balances by fund structure and individual general ledger accounts. All transactions to record financial events[1] post, either individually or in summary, to the general ledger regardless of the origin of the transaction.

The general ledger is supported by subsidiary ledgers at various levels of detail. Such subsidiary ledgers may be maintained in the core financial system or in other systems. For example, detailed property records supporting the equipment account in the general ledger may be maintained in a system devoted to controlling and maintaining equipment.

The Office of Management and Budget (OMB) requires federal agencies to implement the United States Standard General Ledger (US SGL) in their financial systems. The US SGL, which is maintained, updated, and published by the Department of the Treasury, is to be implemented by federal agencies at the transaction level. Agencies are permitted to supplement their application of the US SGL to meet agency specific information requirements. However, the agencies' SGL must maintain consistency with the US SGL.

The general ledger, as the ultimate overall control for capturing the effects of all financial events, ensures that debits equal credits for every recorded transaction in a

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[1] A financial event is any factual happening, initiated or caused by either the agency or forces outside the agency, that has financial consequences to the agency or Federal government. Generally, the consequences of financial events are recorded in the agency's financial records. Payment of debts, collection of receivables, receipt of appropriations, incurrence of potential liabilities, signing of contracts, ordering goods or services, and the passage of time are all examples of financial events.

single journal entry. The general ledger maintains accounts for assets, liabilities, equity, revenues, expenses, gains, losses, budgetary data, and "memorandum" information.

The general ledger defines the chart of accounts and transaction posting rules. It is used to update multiple accounts, including budgetary and proprietary accounts, for a single transaction or financial event. It provides for entering journal entries to post transactions, record account adjustments, and perform periodic closings. The general ledger is used to produce external financial reports.

GENERAL LEDGER

ɘneral Ledger Processes

Maintain chart of accounts
·· Maintain transaction posting rules
,. Record journal entries
Post transactions to update the general ledger
·· Perform periodic general ledger postings

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REQUIREMENTS   **SOURCE(S)**

</div>

.: Maintain Chart of Accounts

1.01.01   The system must define and maintain its chart of accounts to be consistent   OMB Cir. A-127, 7c.;
           with the U.S. Standard General Ledger.   DoD FMR, 01, 0702,
                                                                                            0704B; FFMSR-1, 20;
                                                                                            23;   TFM Bull. S2-93-01

           (Note: DoD organizations are responsible for implementing the DoD SGL in
           their financial management systems. The DoD Office of the Comptroller
           (OSD (C)) prescribes the DoD SGL which is required to be consistent with
           the U.S. SGL (See DoD FMR, Vol. 1, Chapter7, sect. 0702.) Although a
           four digit account numbering system has been provided in the DoD SGL,
           DoD Components may expand this numbering system to as many
           characters as are needed to accommodate specific Component subsidiary
           accounts, provided such expansions continue to roll up to the basic
           account structure provided in DoD FMR Vol. 1, Chapter 7, sect. 0704B).

1.01.02   The system must implement the U.S. SGL at the transaction level.   OMB Cir. A-127, 7c.;
                                                                                            TFM Bull. No. S2-93-01

1.01.03   The system must use account titles and numbers that are consistent with   FFMSR-1, 23; DoD
           account titles and numbers provided in the U.S. SGL. The system's   FMR, 01, 07, 0704B
           documentation must list such account titles and numbers.

1.01.04   The system must include both proprietary and budgetary accounts and   FFMSR-1, 23; DoD
           ensure that the proprietary and budgetary accounts are self-balancing   FMR, 01, 0702A
           within themselves.

1.01.05   The system's set of accounts (U.S. SGL "4000" series of accounts) must   FFMSR-1, 23;DoD FMR,
           cover the appropriation, apportionment, allocation, commitment,   01, 07, 0705D, 02023C
           obligations, and expenditure process.

1.01.06   The system design must reflect the agency-wide financial information   OMB Cir. A-127, 7A
           classification structure.

1.01.07	All systems must achieve, to the greatest extent possible, consistency in budget and accounting classifications and synchronizations between those classifications and the agency's organizational structure.	FFMSR-1, 21
1.01.08	The system must have a fund structure that provides for the identification of appropriation or fund accounts.	FFMSR-1, 21
1.01.09	The system must maintain programming, budgeting, accounting, and reporting classifications that are consistent with each other and synchronized with the organizational structure.	GAO Title 2, app. 111, 2-4; DoD FMR 01, 02, Add. 1, sec. D
1.01.10	The system must contain control and related subsidiary accounts consistent with the U.S. SGL (i.e., each control account must be supported by subsidiary account(s) where required for proper control and accountability, and to fulfill management needs).	FFMSR-1, 23; DoD FMR, 01, 07, 0702B
1.01.11	The system must provide general ledger control accounts to balance between the general ledger and the detailed subsidiary accounts in other property and program systems, such as payroll systems, travel systems, payable/disbursements, etc. In other words, the system must ensure that each general ledger control account is supported by subsidiary account(s) or system(s) that track, maintain accountability for, and report the subsidiary/accounts in detail.	FFMSR-1, 24, 29; DoD FMR 01, 02, 020206A
1.01.12	The system's structure must be sufficiently flexible to allow users, to the extent authorized, to make deletions, additions, and changes to the SGL accounts based on periodic changes in accounting requirements or the U.S. SGL accounts, without extensive program or system changes. Also, the system must define roll-ups of subsidiary (posting) accounts to related control (summary) accounts.	FFMSR-1, 22; GAO Title 2, III ; TFM Supp. No.2; DoD FMR, 01, 07, 0708
1.01.13	The system must maintain accounts for multiple appropriations or fund types.	FFMSR-1, 21, 23
1.01.14	The system must maintain, within an appropriation or fund type, balances by year for budget programs, activities, projects, organizational segments, and object classes.	FFMSR-1, 21
1.01.15	The system must provide a program structure with sufficient levels of detail to allow reporting for all categories on which budgetary decisions are made, whether legally binding, or required by policy guidance or internal agency decisions.	FFMSR-1, 21
1.01.16	The system must be organized based on departmental responsibility assignments, such as offices, divisions, branches, etc.	FFMSR-1, 22
1.01.17	The system must use agency location codes assigned by the U.S. Treasury for all transactions and reports involving Treasury disbursing centers.	FFMSR-1, 22

'8   The system must provide an object class structure consistent with the   FFMSR-1, 22; OMB Cir.
standard object class codes in OMB Circular A-11.   A-11

9.   The system must use standardized transactions identified by reference   FFMSR-1, 24
codes to update other information maintained in the system, such as
document balances and available funding.

intain Transaction Posting Rules

.⌐1   The system must define edit and posting rules that specify which general   FFMSR-1, 27
ledger accounts to debit and credit for each transaction.

⌐2   The system must use common processes for processing similar kinds of   FFMSR-1, 23; OMB Cir.
transactions.   A-127, 7b

⌐3   The system must generate all the appropriate debit and credit entries (at   FFMSR-1, 23, 24
least four pairs--budgetary and proprietary accounts) and send them to the
general ledger from a single line of information with a transaction reference
code.

..⌐4   The system must allow a person with proper authority to establish or   FFMSR-1, 24
modify standardized transactions, including system-generated transactions.

'⌐5   The system must define and include such system-generated transactions   FFMSR-1, 24, 28
as automated accruals, closing entries, and recurring payments, or any
other transaction as required.

'.06   The system must provide the capability to liquidate, partially or fully, the   FFMSR-1, 24
balance of existing documents. This capability will be used in the
liquidation of commitments, undelivered orders, payables, receivables, or
other items, as appropriate.

_ 07   The system must define and include accounting classification code   FFMSR-1, 21
structure data elements for each type of transaction. Some examples
include fund, program, organization, object class, project, and revenue
source elements.

2.08   The system must record, store, and report financial management data on a   OMB Cir. A-127,7e
timely basis to facilitate budget preparation, analysis, and execution.

.09   The system must provide the means to measure reported results against   GAO Title 2, III, 3-4
the budget plan in an accurate and timely manner.

3: Record Journal Entries

1.03.01	The system must post transactions to the general ledger in accordance with the transaction definitions established by the core financial system management function.	FFMSR-1, 28
1.03.02	The system must ensure that total debits equal total credits for a single journal entry (i.e. double-entry accounting).	FFMSR-1, 27
1.03.03	The system must ensure that transactions can only be posted to "posting" (subsidiary) accounts and not summary (control) accounts.	DoD FMR, 01, 07, 0702B; TFM Supp. No.
1.03.04	The system must ensure that simultaneous entries are made to budgetary accounts and proprietary accounts for those budgetary and proprietary accounting relationships as defined.	DoD FMR, 01, 07, 0707A
1.03.05	The system must allow users with the proper authorization to correct out-of-balance conditions discovered during reconciliation processes.	FFMSR-1, 29
1.03.06	The system must maintain all audit trail/documentation requirements together with all corrections for out-of-balance conditions.	FFMSR-1, 29
1.03.07	The system must allow for accrual of contract balances or other items that cross fiscal years, such as accrual and reversing entries at month-end and/or year-end.	FFMSR-1, 28
1.03.08	The system must define and include fixed amounts for each recurring entry.	DoD FMR, 01, 02, Add 2, B1 & B5
1.03.09	The system must define and include formula entries with which the system automatically computes input amounts based upon user-entered formulas.	DoD FMR, 01, 02, Add 2, B1 & B5
1.03.10	The system must allow for the selective, automatic generation of recurring accrual entries and reversals in the next fiscal year (e.g., payroll).	FFMSR-1, 28; DoD FMR, 01, 02, Add. 2, E & B5
1.03.11	The system must define and track user-specified journal entries that are to be automatically reversed by the system in a given accounting period.	DoD FMR, 01, 02, Add 2, B1 & B5

4: Post Transactions to Update the General Ledger

1.04.01	The system must post transactions in accordance with general ledger transaction definitions established by management.	FFMSR-1, 28
1.04.02	The system must compare the amounts in the general ledger control accounts with the amounts in the related subsidiary systems accounts and report those accounts which are out of balance.	FFMSR-1, 29

04.03   The system must identify intra- and inter-entity (for example, Air Force to Navy, Army to DLA) offsetting accounts which should be eliminated when reporting on the agency or when the reporting entity (DoD) is one economic entity.   FFMSR-1, 28

ı.04.04   The system must distinguish between entity and non-entity assets.   SFFAS-1, 26

ˈ 04.05   The system should distinguish between, and allow for the proper reporting of, entity cash, nonentity cash, and restricted cash.   SFFAS-1, 28-30

04.06   The system should recognize and record investments by DOD components in U.S. Treasury securities in accordance with *SFFAS-1*.   SFFAS-1, 62-73

ˈ: Perform Periodic General Ledger Closings

.05.01   The system must post to both the current month and prior months concurrently until month-end closing. It must also maintain and report balances separately for both the current month and prior months.   FFMSR-1, 25; DoD FMR 01, 02, Add. 2, B2

.05.02   After year-end, the system must post to the current year by month as well as to the prior year, regardless of when year-end closing occurs.   FFMSR-1, 25; DoD FMR 01, 02, Add. 2, B2

.05.03   The system must maintain current year and required prior years amounts/balances by appropriation, when necessary.   FFMSR-1, 28

..05.04   The system must selectively generate required transactions needed by year-end closing procedures.   FFMSR-1, 28

ı.05.05   The system must provide the capability for month-end and year-end closing as well as the rollover of the general ledger account balances, if directed by an authorized system administrator.   FFMSR-1, 28

.05.06   The system must provide for multiple preliminary year-end closings before the final year-end closing while maintaining the capability to post current period data.   FFMSR-1, 28; DoD FMR 01, 02, Add. 2, B3

.05.07   The system must prepare trial balances and other supporting information needed for all required external reports and financial statements, including the consolidated financial statements for the entity.   FFMSR-1, 28

ˈ.05.08   The system must maintain the historical data needed to produce any required comparative financial reports/statements management may require.   FFMSR-1, 28

ı.05.09   The system (core system) must electronically establish and update a Master Appropriation File (MAF) on the U.S. Treasury's Federal Agencies' Centralized Trial Balance System (FACTS).   TFM Vol 1, 4030:30

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1.05.10	The system must generate relevant data for managers by the fifth working day following the end of the reporting period.	DoD FMR, 01, 02,Add.1,B
1.05.11	The system's general ledger must be the record for all accounting transactions and financial reports.	FFMSR-1, 27; OMB BUL. 97-01
1.05.12	The system must record all financial events that occurred during the period and post them, either individually or in summary, to the general ledger regardless of the origin of the transaction.	FFMSR-1, 27
1.05.13	The system must automatically allow closing balances at the end of the period to become the opening balances for the next period, and not reconstruct them at the beginning of each fiscal year.	DoD FMR 01, 02,Add.2,B
1.05.14	The system must use the U.S. SGL as the basis for preparing internal and external financial reports/statements.	FFMSR-1, 23; OMB A-127, 7C
1.05.15	The system must relate Federal Account Symbols and Titles structures established by the U.S. Treasury to the system's fund structure for financial reporting purposes.	FFMSR-1, 21
1.05.16	The system must be able to select items for review by transaction type or any other user-defined criteria.	FFMSR-1, 25
1.05.17	The system must have query retrieval capabilities for ready access to the information contained therein.	FFMSR-1,50
1.05.18	The system must allow query by appropriation, or fund type and year, for multiple years of data.	FFMSR-1,50

C2. CHAPTER 2

FINANCIAL REPORTING
(INCLUDING USER INFORMATION NEEDS)

Financial reporting represents the culmination of the various processes that initiate, record, classify, and summarize an agency's financial transactions. An agency's core financial system is required to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support budget formulation and execution; (3) support fiscal management of program delivery and program decision-making; (4) support internal and external reporting requirements, including the requirements for financial statements prepared in accordance with the form and content prescribed by OMB, reporting requirements prescribed by the Treasury, and legal, regulatory and other special management requirements of the agency; and (5) monitor the financial management system.

Naturally, information maintained in the core financial system must be provided to users in a variety of formats according to their needs. The general ledger, summarized in the form of a trial balance, provides financial data by fund, fiscal year, etc., for various reporting purposes. DoD, like other federal agencies, is required to periodically prepare a number of financial reports, including annual financial statements, budget execution reports, obligation reports, year-end closing statements, reports on reimbursements, and receivable reports. In addition to these reports, core systems are required to provide various management data to program and fiscal managers.

Federal agencies have traditionally prepared financial reports to monitor and control obligations and expenditure of budgetary resources. However, with the enactment of the Chief Financial Officers Act of 1990, the Congress called for the production of annual financial statements that fully disclose a Federal entity's financial position and results of operations. The Act also requires agencies to provide information with which the Congress, agency managers, the

public and others can assess management performance and stewardship.

OMB, through its "form and content" guidance,[1] defines the structure and content of agencies' annual financial statements required by 31 U.S.C. 3515(d). This guidance establishes the format of the principal financial statements (balance sheet, statement of net cost, statement of changes in net position, etc.) and the content of various required disclosures accompanying the statements beginning with fiscal year 1998 reporting. (In the past DoD has also issued "form and content" guidance for the Department mirroring the OMB guidance. However, that guidance has not yet been revised reflecting the latest OMB reporting requirements.)

This chapter contains numerous disclosures specifically required by the various Statements of Federal Financial Accounting Standards. *OMB Bulletin No. 97-01* incorporates these disclosure requirements. Financial reporting requirements, including disclosures, apply only to material amounts/items.

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[1] OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," dated October 16, 1996.

FINANCIAL REPORTING
(INCLUDING USER INFORMATION NEEDS)

<u>REQUIREMENTS</u>	<u>SOURCE(S)</u>

1. Financial Reporting

02.01.01	Financial statements prepared by DoD components shall be prepared in accordance with the formats and instructions contained in OMB "Form and Content of Agency Financial Statements." Note: OSD(C) issues guidance to DoD components on the form and content of the Department's financial statements. This DoD guidance interprets and implements the OMB requirements.	OMB Bull. 97-01
02.01.02	The core system must provide summarized data electronically to other systems used by the agency for management decision support and financial statement preparation.	FFMSR-1, 51
02.01.03	The core system must provide data, in the formats required (including electronic formats), to the central agency systems used for summary financial reporting.	FFMSR-1, 51
02.01.04	The core system must report events and transactions to the accounting classification structure, within the given accounting period.	FFMSR-1, 51
02.01.05	The core system must use financial data that can be traced directly to U.S. SGL accounts to produce internal or external financial reports.	FFMSR-1, 51
02.01.06	The core system must maintain accounting data that permits financial reporting that conforms to accounting standards (SFFASs) issued by OMB and reporting requirements issued by OMB and the U.S. Treasury.	FFMSR-1, 51
02.01.07	The core system must maintain financial information required for evaluating program and financial performance and for developing financial performance measures. It must also collect and maintain data for budget and financial statement presentation.	FFMSR-1, 51-52
02.01.08	The core system must produce, distribute, and provide access to formatted reports as defined by agency management for the specific requirements of the agency.	FFMSR-1, 52

02.01.09	Financial reports are to be prepared and issued at the end of each fiscal year, or other period, as required by the Department of the Treasury and DoD Financial Management Regulation (DoD 7000.14-R), volume 6.	DoD FMR 06, 01, 010201
02.01.10	Financial reports must be produced from an accounting and budgeting system that is an integral part of a total financial management system.	DoD FMR 06, 01, 010202
02.01.11	Financial reports and the underlying financial system must report on the total operations of the DoD reporting entity and must comply with the policies, procedures and related requirements stipulated in DoD Financial Management Regulation (DoD 7000.14-R).	DoD FMR 06, 01, 010203
02.01.12	DoD Components are responsible for any additional disclosures not specifically provided for in a financial report/statement.	DoD FMR 06, 01, 010204
02.01.13	DoD Components are responsible for ensuring that all disclosures considered necessary for the fair presentation of their financial positions are included in their financial statements.	DoD FMR 06, 01, 010204
02.01.14	Presentation of financial information from the preceding year shall be included in annual financial statements when required by OSD.	DoD FMR 06, 01, 010207
02.01.15	Annual financial statements shall include consolidated comparative financial data from the immediate prior year if the DoD component was in operation during that year.	DoD FMR 06, 01, 010207A
02.01.16	The reclassification of significant prior year amounts to achieve comparability (in annual consolidated comparative financial statements) shall be explained in the notes to the financial statements.	DoD FMR 06, 01, 010207B
02.01.17	Notes and other explanations from prior-year financial statements necessary to properly disclose prior-year data shall be included in current-year financial statements.	DoD FMR 06, 01, 010207C
02.01.18	A DoD component shall not prepare comparative financial statements for the first year that financial statements are prepared.	DoD FMR 06, 01, 010207D
02.01.19	Expenses, losses, gains, transfers out, and financing sources related to the correction of an error in prior period financial statements, or changes in DoD components, shall be reported as adjustments to previously reported results when material.	DoD FMR 06, 01, 010208A, 010208B
02.01.20	A change from an unauthorized accounting principle to an authorized accounting principle shall be reflected in a DoD component's financial statements as an adjustment to prior periods.	DoD FMR 06, 01, 010208C
02.01.21	The nature of a material error in prior-period financial statements shall be disclosed in the financial statements of the period in which it is discovered.	DoD FMR 06, 01, 010208D1&2

^2.01.22	The financial reports and statements delineated in the DoD Financial Management Regulation (DoD 7000.14-R), volume 6, shall be prepared by DoD components, when required.	DoD FMR 06, 02, App. 1
02.01.23	Financial reports should be designed so that they can (1) provide management with feedback when established controls have been violated, (2) alert managers when operations are deviating from financial plans, and (3) predict the financial consequences of alternative courses of action.	GAO Title 2, app. III, 3-4
J2.01.24	Financial NOTES report(s) should correspond to department codes.	TFM, vol. 1, pt 2, sec. 4030.30
J2.01.25	Both entity and non-entity assets--as defined in *SFFAS-1*, paragraph 25--in an entity's custody or under its management should be reported in the entity's financial statements.	SFFAS-1, 25, 26, 43
J2.01.26	Cash (including imprest funds)--as defined in *SFFAS 1*, paragraph 27-- should be recognized and reported as an asset.	SFFAS-1, 27
02.01.27	Financial statements should disclose the reasons for, and the nature of, any restrictions on an entity's cash.	SFFAS-1, 30
02.01.28	A federal entity's Fund Balance with Treasury should be recognized as an asset. The balance should consist of amounts for items listed in *SFFAS-1,* paragraphs 31-36.	SFFAS-1, 31-36
02.01.29	An entity's financial statements should disclose two categories of funds within the entity's Fund Balance with Treasury account: the obligated balance not yet disbursed, and the unobligated balance.	SFFAS-1, 37
02.01.30	An entity's financial statements should disclose restrictions on unobligated balances (such as balances restricted for future use and not apportioned for current use).	SFFAS-1, 38
02.01.31	An entity should explain any discrepancies between its Fund Balance with Treasury account and the corresponding balance in the U.S. Treasury's account. It should describe the causes of such discrepancies in the notes to financial statements.	SFFAS-1, 39
02.01.32	An entity should report receivables from federal entities separately from receivables from nonfederal entities in financial statements.	SFFAS-1, 42
02.01.33	An entity should disclose in its financial statements the major categories of receivables by amount and type and the methodology used to estimate the allowance for uncollectible amounts, as well as the total allowance.	SFFAS-1, 52
02.01.34	An entity should disclose in its financial statements interest accrued on uncollectible receivables.	SFFAS-1, 55

02.01.35	An entity should account for and report interest receivable from federal entities separately from interest receivable from the public.	SFFAS-1, 56
02.01.36	In its financial statements, an entity should not net advances and prepayments (assets) it paid out against advances and prepayments it received (liabilities).	SFFAS-1, 60
02.01.37	An entity should account for, and report on, advances and prepayments made to federal entities separately from advances and prepayments made to nonfederal entities.	SFFAS-1, 61
02.01.38	An entity should account for and report investments in securities issued by the US Treasury or other federal entities separately from investments in securities issued by nonfederal entities.	SFFAS-1, 67
02.01.39	An entity should disclose the market value of investments in market-based and marketable Treasury securities. Investments should be grouped by type of security, such as marketable or market-based Treasury securities.	SFFAS-1, 72
02.01.40	An entity should report amounts owed for goods and services received from federal entities separately from similar amounts owed to nonfederal entities.	SFFAS-1, 76
02.01.41	An entity should disclose accounts payable and other current liabilities not covered by budgetary resources.	SFFAS-1, 80, 86
02.01.42	An entity should report current liabilities due to federal entities separately from those due to employees and the public.	SFFAS-1, 85
02.01.43	An entity should disclose the face value of guaranteed loans outstanding as well as the amount guaranteed.	SFFAS-2, 23
02.01.44	An entity should disclose the nature of modifications of direct loans or loan guarantees, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.	SFFAS-2, 56
02.01.45	An entity should disclose in its financial statements the general composition of inventory.	SFFAS-3, 35
02.01.46	An entity should disclose in its financial statements the basis for determining inventory values, including the valuation method and any cost flow assumptions.	SFFAS-3, 35
02.01.47	An entity should disclose in its financial statements changes from the prior year's accounting methods, if any.	SFFAS-3, 35

J2.01.48	Unless otherwise presented on the financial statements an entity should disclose in its financial statements the balances for each the following categories of inventory: inventory held for current sale; inventory held in reserve for future sale; excess, obsolete and unserviceable inventory; and inventory held for repair.	SFFAS-3, 35
02.01.49	An entity should disclose in its financial statements any restrictions on the sale of material.	SFFAS-3, 35
02.01.50	An entity should disclose in its financial statements the decision criteria for identifying the category to which inventory is assigned.	SFFAS-3, 35
02.01.51	An entity should disclose in its financial statements changes in the criteria for identifying inventory categories.	SFFAS-3, 35
02.01.52	An entity should disclose in its financial statements the criteria used to identify operating materials and supplies held in reserve for future use.	SFFAS-3, 46
02.01.53	The difference between the carrying amount of operating materials and supplies before its identification as excess, obsolete or unserviceable and its estimated net realizable value shall be recognized as a loss/gain and reported separately or disclosed.	SFFAS-3, 48
02.01.54	An entity shall develop and disclose in its financial statements the criteria for identifying excess, obsolete, and unserviceable operating materials and supplies.	SFFAS-3, 49
02.01.55	An entity should disclose in its financial statements the general composition of operating materials and supplies.	SFFAS-3, 50
02.01.56	An entity should disclose in its financial statements the bases for determining the values of operating supplies and materials, including the valuation method and any cost flow assumptions.	SFFAS-3, 50
02.01.57	An entity should disclose in its financial statements any changes from the prior year's accounting methods pertaining to operating supplies and materials.	SFFAS-3, 50
02.01.58	An entity should disclose in its financial statements the balances for each of the categories of operating materials and supplies described in SFFAS-3, paragraph 37 (held for use; held for future use; and excess, obsolete, unserviceable).	SFFAS-3, 50
02.01.59	An entity should disclose in its financial statements any restrictions on the use of material.	SFFAS-3, 50
02.01.60	An entity should disclose in its financial statements the decision criteria for identifying the category to which operating materials and supplies are assigned.	SFFAS-3, 50

02.01.86   During the period in which the standards mandated by *SFFAS-6* are   SFFAS-6, 44
            implemented, an entity must disclose in its financial statements any
            adjustments in its major property, plant, and equipment (PP&E) accounts
            and their associated accumulated depreciation/amortization accounts.

02.01.87   An entity should disclose in its financial statements the following for general   SFFAS-6, 45
            PP&E: the cost, associated accumulated depreciation, and book value by
            major class; the estimated useful lives for each major class; the method(s)
            of depreciation for each major class; capitalization threshold(s) including
            any changes in threshold(s) during the period; and restrictions on the use
            or convertibility of general PP&E.

02.01.88   An entity shall disclose in its financial statements (Statement of Net Cost)   SFFAS-6, 53
            the periodic cost of acquiring, constructing, improving, reconstructing, or
            renovating Federal mission PP&E.

02.01.89   An entity shall remove from its balance sheet federal mission PP&E (and   SFFAS-6, 55
            related contra accounts) which were previously recognized as assets.

02.01.90   An entity shall report in its Statement of Changes in Net Position any prior   SFFAS-6, 55
            period adjustments for the amount of federal mission PP&E assets
            removed from the balance sheet.

02.01.91   An entity shall disclose in the notes to its financial statements the total   SFFAS-6, 55
            amount of assets removed from the balance sheet for federal mission
            PP&E.

02.01.92   An entity shall not restate prior years' financial statement information for   SFFAS-6, 56
            federal mission PP&E assets removed from the balance sheet.

02.01.93   An entity shall disclose the cost of improving, reconstructing, or renovating SFFAS-6, 61
            heritage assets as "Cost of Heritage Assets" in its financial statements.

02.01.94   An entity that receives a heritage asset (by transfer to the entity) but does SFFAS-6, 61
            not know the book value of the asset shall disclose its fair market value in
            the notes to the Statement of Net Cost.

02.01.95   An entity that receives heritage assets but does not know their book   SFFAS-6, 61
            values, and cannot estimate such values, shall disclose in the notes to the
            Statement of Net Cost information regarding the quantities and types of
            assets transferred to it.

02.01.96   An entity that receives a heritage asset through donation shall disclose in   SFFAS-6, 61
            the notes to the Statement of Net Cost the fair market value of the asset, if
            known and material.

02.01.97	An entity that receives a heritage asset through donation but does not know or cannot reasonably estimate the asset's fair market value shall disclose in the notes to the Statement of Net Cost information regarding the quantity and type of asset received.	SFFAS-6, 61
02.01.98	An entity shall remove from its balance sheet heritage assets previously recognized as assets.	SFFAS-6, 63
02.01.99	An entity shall charge to its Net Position the total amount of heritage assets removed from its balance sheet which was previously recognized as assets.	SFFAS-6, 63
02.01.100	An entity shall record as a prior period adjustment the total amount of heritage assets removed from its balance sheet which was previously recognized as assets.	SFFAS-6, 63
02.01.101	An entity shall disclose in the notes to its financial statements the total amount of heritage assets removed from the balance sheet which was previously reported as assets.	SFFAS-6, 63
02.01.102	An entity shall not restate prior years financial data for heritage assets removed from the balance sheet and which were previously reported as assets.	SFFAS-6, 65
02.01.103	An entity shall disclose the acquisition cost of stewardship land as "cost of stewardship land" in its financial statements.	SFFAS-6, 69
02.01.104	An entity shall disclose in the notes to the Statement of Net Cost the fair market value, if known and material, of stewardship land donated to the entity.	SFFAS-6, 71
02.01.105	An entity shall disclose in the notes to the Statement of Net Cost information related to the type and quantity of stewardship land donated to it if the land's fair market value is unknown and not estimable.	SFFAS-6, 71
02.01.106	The receiving entity of a stewardship land transfer shall disclose the transfer in the notes to its financial statements, if material.	SFFAS-6, 72
02.01.107	An entity shall remove from its balance sheet stewardship land that had previously been recognized as an asset.	SFFAS-6, 75
02.01.108	An entity shall charge to Net Position the amounts of stewardship land removed from the balance sheet that had been previously recognized as an asset.	SFFAS-6, 75
02.01.109	An entity shall show in the Statement of Changes in Net Position a prior period adjustment for amounts related to stewardship land which had been previously recognized as an asset.	SFFAS-6, 75

02.01.110   An entity shall disclose in the notes to its financial statements amounts   SFFAS-6, 75
removed from the balance sheet for stewardship land which had previously
been recorded as assets.

02.01.111   An entity shall not restate prior years' balances for amounts related to the   SFFAS-6, 76
stewardship assets removed from the balance sheet and which had been
previously recognized as assets.

02.01.112   An entity shall present in its Statement of Net Cost a line item for deferred   SFFAS-6, 79
maintenance amounts with a note reference in lieu of a dollar amount. No
amounts shall be recognized for deferred maintenance.

02.01.113   An entity that discloses amounts for deferred maintenance may measure   SFFAS-6, 80
the amounts using condition assessment surveys or life cycle forecasts.

02.01.114   At a minimum, an entity must present in its financial statements, for all   SFFAS-6, 83
categories of PP&E (general PP&E, federal mission PP&E, heritage assets,
and stewardship land): (1) the identification of each major
class of asset, as determined by the entity, for which maintenance has
been deferred, and (2) the method of measuring deferred maintenance for
each major class of PP&E.

02.01.115   If an entity uses the condition assessment survey method of measuring   SFFAS-6, 83
deferred maintenance, then it should present in its financial statements the
following for each major class of PP&E: (1) a description of requirements
or standards for acceptable operating conditions, (2) any changes in the
condition requirements or standards, and (3) the asset condition and the
range estimate of the dollar amount of maintenance needed to return it to
its acceptable operating condition.

02.01.116   An entity that uses the total life cycle cost method of measuring deferred   SFFAS-6, 83
maintenance should present in its financial statements the following for
each major class of PP&E: (1) the original date of the maintenance
forecast and an explanation for any changes to the forecast, (2) the prior
year balance of the cumulative deferred maintenance amount, (3) the
dollar amount of maintenance that was defined by the professionals who
designed, built or managed the PP&E, (4) the amount of maintenance
actually performed during the period, (5) the difference between the
forecast and actual maintenance, and (6) the ending cumulative balance for
the reporting period.

02.01.117   If an entity elects to disclose in its financial statements critical and   SFFAS-6, 84
noncritical amounts of deferred maintenance for PP&E, then the disclosure
shall include management's definition of these categories.

02.01.118   An entity shall recognize the offsetting change in any liability upon   SFFAS-6, 105
implementation of cleanup costs standards in *SFFAS-6*. The change shall
be made to Net Position of the entity.

02.01.119   An entity must show as a prior period adjustment in its Statement of   SFFAS-6, 105
Changes in Net Position the amount of the liability that was changed due to
implementing the cleanup costs standard in *SFFAS-6*.

02.01.120   An entity must recognize as a liability the cleanup costs for stewardship   SFFAS-6, 106
PP&E in service on the effective date of *SFFAS-6* (October 1, 1997). An
adjustment reflecting the liability shall be made to the Net Position of the
entity. The adjustment shall be shown as a prior period adjustment.

02.01.121   An entity shall disclose in its financial statements the sources (laws and   SFFAS-6, 107
regulations) for cleanup requirements.

02.01.122   An entity must disclose in its financial statements the method for assigning   SFFAS-6, 108
estimated total cleanup costs to current operating periods.

02.01.123   An entity shall disclose in its financial statements the unrecognized portion   SFFAS-6, 109
of estimated cleanup costs associated with general PP&E.

02.01.124   An entity must disclose in its financial statements material changes in total   SFFAS-6, 110
estimated cleanup costs due to changes in laws, technology, or plans.

02.01.125   An entity shall disclose in its financial statements the portion of the change   SFFAS-6, 110
in estimated cleanup costs that relates to prior period operations.

02.01.126   An entity shall disclose in its financial statements the nature of clean-up   SFFAS-6, 111
estimates and other related information regarding possible changes in
estimates due to inflation, deflation, technology, or applicable laws and
regulations.

02.01.127   An entity that provides goods or services to the public or another   SFFAS-7, 46a
government entity should disclose in its financial statements any
differences in the pricing policy from full cost or market pricing guidelines
in exchange transactions with the public, as set forth in *OMB Circular A-25*.

02.01.128   An entity that provides goods or services to the public or another   SFFAS-7, 46b
government entity should disclose in its financial statements those
exchange transactions with the public in which prices are set by law or
executive order and are not based on full cost or market price.

02.01.129   An entity that provides goods or services to the public or another   SFFAS-7, 46c
government entity should disclose in its financial statements the nature of
those intragovernmental exchange transactions in which the entity
provides goods or services at a price less than the full cost or does not
charge a price at all. Disclosures must include an explanation of the
amount and the reason for the disparity between the billing (if any) and full
cost.

02.01.130   An entity that provides goods or services to the public or another   SFFAS-7, 46d
government entity should disclose in its financial statements the full amount
of the expected loss when specific goods are made to order
under a contract, or specific services are produced to order under a
contract, and a loss on the contract is probable and measurable.

02.01.131   An entity should limit prior period adjustments to the correction of errors   SFFAS-7, 76
and accounting changes with retroactive effect. Adjustments should be
recognized as changes in the cumulative results of operations. Prior
period financial statements should not be restated for prior period
adjustments recognized in the current period.

02.01.132   An entity whose funding comes wholly or partially from the U.S. Budget   SFFAS-7, 77a
should present total budgetary resources available to the entity during the
period.

02.01.133   An entity whose funding comes wholly or partially from the U.S. Budget   SFFAS-7, 77b
should present the status of those resources, including obligations
incurred.

02.01.134   An entity whose funding comes wholly or partially from the U.S. Budget   SFFAS-7, 77c
should present any outlays.

02.01.135   An entity should disclose the amount of budgetary resources obligated for   SFFAS-7, 79a
undelivered orders at the end of the period.

02.01.136   An entity should disclose the available borrowing and contract authority at   SFFAS-7, 79b
the end of the period.

02.01.137   An entity should disclose repayment requirements, financing sources for   SFFAS-7, 79c
repayment, and any other terms of borrowing authority used.

02.01.138   An entity should disclose any material adjustments that occurred during the   SFFAS-7, 79d
reporting period to those budgetary resources that were available at the
beginning of the year. An explanation should be included.

02.01.139   An entity should disclose the existence, purpose, and availability of   SFFAS-7, 79e
indefinite appropriations.

02.01.140   An entity should disclose information about any legal arrangements   SFFAS-7, 79f
affecting the use of unobligated balances of budget authority. Such
information should include the time limits, purposes, and obligation
limitations.

02.01.141   An entity should disclose explanations of any material differences between   SFFAS-7, 79g
the information required by *SFFAS-7*, paragraph 77, and the amounts
described as "actual" in the <u>Budget of the United States.</u>

02.01.142 When recognized unfunded liabilities do not equal the total financing sources an entity should disclose the amount of the difference. The disclosure shall also include an explanation that identifies the relevant balance sheet accounts.   SFFAS-7, 79h

02.01.143 An entity should disclose the amount of any capital infusion received during the reporting period.   SFFAS-7, 79i

02.01.144 An entity should include in its financial statements a statement of reconciliation thats explains the relationship between budgetary resources obligated during the period and the net cost of operations.   SFFAS-7, 80

02.01.145 An entity's Statement of Financing should present information in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial accounting.   SFFAS-7, 95

02.01.146 An entity must report federal mission PP&E as required supplementary stewardship information accompanying its financial statements. The information, at a minimum, shall include: (1) a description of the major types of mission PP&E, the values assigned, and the valuation method used, (2) the value of federal mission PP&E added and withdrawn during the year, (3) a description of methods of acquisition and withdrawal, (4) the condition of the assets, and (5) a reference to the applicable note to the financial statements if deferred maintenance is reported for the assets.   SFFAS-8, 68

02.01.147 An entity shall report federal mission PP&E using either the total cost or the latest acquisition cost method.   SFFAS-8, chap. 3

02.01.148 An entity shall show no assets on its balance sheet for federal mission PP&E.   SFFAS-8, 65

02.01.149 An entity shall show no assets on its balance sheet for stewardship land.   SFFAS-8, 75

02.01.150 At a minimum, an entity shall report the following information in its financial statements regarding stewardship land: (1) the number of physical units by category of major use, and broken down within each category by principal holding agency, (2) the predominant use for parcels that have more than one use, (3) acquisitions, withdrawals, and ending balances by major categories of use, with methods of acquisition and withdrawal identified, (4) the condition of the land, and (5) a reference to the note in the financial statements if deferred maintenance is reported for the land.   SFFAS-8, 81

02.01.151 The core system must produce internal and external reports that agree or are congruent with each other and are prepared from the same source data.   GAO Title 2, III, 3-1

02.01.152 The core system must provide financial information that is accurate and available to users on a timely basis.   GAO Title 2, III, 3-4

02.01.153   The core system must be sufficiently reliable and timely to eliminate the   GAO Title 2, III, 3-4
             need to maintain duplicate or "cuff" accounting records.

02.01.154   The core system must have a report generator and ad hoc reporting   GAO Title 2, III, 3-3
             capability that provides versatile, timely reporting.

02.01.155   The core system must provide each functional accounting area with an   GAO Title 2, III, 4-1;
             early warning report which provides sufficient information to alert   OMB Cir. A-127
             management to potential problem areas.

02.01.156   The core system must have the capability to alert management/users to   GAO Title 2, III, 3-4
             such account problems as abnormal balances and control accounts that
             are out of balance with related subsidiary accounts.

02.01.157   The core system must have the capability to readily extract needed data   GAO Title 2, III, 3-1
             from non-financial systems to produce required internal and external
             reports.

02.01.158   The core system must produce financial statements that comply with   GAO Title 2, III, 3-5
             requirements of applicable laws and regulations.

02.01.159   The core system must support the partnership between program and   FFMSR-0, 8
             financial managers to assure the integrity of information for decision-
             making and measuring of performance. This includes the ability to:

             - collect accurate, timely, complete, reliable, and consistent information,
             - provide for adequate agency management reporting,
             - support government-wide and agency level policy decisions,
             - support the preparation and execution of agency budgets,
             - facilitate the preparation of financial statements and other financial reports
             in accordance with federal accounting and reporting standards,
             - provide information to central agencies for budgeting, analysis, and
             government-wide reporting, including developing and preparing
             Consolidated Financial Statements, and
             - provide a complete audit trail to facilitate audits.

02.01.160   The core system must be compatible with government-wide accounting   FFMSR-0, 9
             systems as well as other agency systems. To be compatible, agency
             systems must be able to supply information to government-wide systems
             and be consistent with government-wide standards.

C3. CHAPTER 3

PROPERTY, PLANT AND EQUIPMENT

DoD owns more capital assets than any other Federal agency, annually reporting over three quarters of a trillion dollars in property, plant, and equipment (PP&E). PP&E represents almost sixty percent of DoD's total assets ($1.3 trillion).

Within DoD, the three military departments and assorted Defense agencies operate and maintain property accountability systems that track, maintain visibility, manage and report on DoD's mammoth PP&E holdings. These property accountability systems, for the most part, maintain records that are used to prepare general ledger balances for PP&E financial reporting.

Of the total PP&E reported by DoD, over $580 billion represents military equipment. Effective October 1, 1997, military equipment is now categorized as Federal defense assets and is no longer required to be reported on DoD's Statement of Financial Position. Instead, information regarding this property is required to be presented as supplemental stewardship information accompanying the Department's financial statements. These changes were mandated by *SFFAS No. 6, Accounting for Property, Plant, and Equipment*, and *SFFAS No. 8, Supplementary Stewardship Reporting*. (Financial reporting requirements related to various PP&E categories, including Federal mission PP&E, are incorporated in chapter 2, "Financial Reporting," of this document.)

PROPERTY, PLANT, AND EQUIPMENT

Functional Requirements
1: Maintain/Update Property Information
2: Record Acquisition of Property, Plant, and Equipment
3: Record Asset Value Changes
4: Depreciate, Amortize, or Deplete Asset
5: Record Disposition/Retirement of Asset
6: Deferred Maintenance Costs and Cleanup Costs
7. Stewardship Property, Plant, and Equipment (Including Federal Mission PP&E)

REQUIREMENTS	SOURCE(S)

1: Maintain/Update Property Information

03.01.01	The property system should categorize PP&E assets as: - general PP&E, - Federal mission PP&E, - heritage assets, or - stewardship land (i.e., land not included in general PP&E).	SFFAS-6, 21
03.01.02	For entities operating as business-type activities, the property system must categorize all PP&E as general PP&E whether or not it meets the definition of any other PP&E categories (federal mission, heritage assets, etc.).	SFFAS-6, 24
03.01.03	The property system must include land and land rights acquired for, or in connection with, other general PP&E, as general PP&E.	SFFAS-6, 25
03.01.04	For construction-in-progress, the property system must: - track it, - record its completion, and - allow categorizing as general PP&E, Federal mission PP&E, or heritage assets.	DoD FMR, 04, 0604
03.01.05	The property system must reclassify construction-in-progress for completed assets as general PP&E (i.e., buildings, equipment, ADP software, other structures and buildings, leasehold improvements, and other fixed assets).	DoD FMR, 04, 0604
03.01.06	The property system must identify capitalization criteria and allow authorized users to revise the capitalization criteria, including changing dollar limits and the useful life of assets by asset category.	DoD FMR, 04, 0105(060207
03.01.07	The property system must provide balances or detailed data to the general ledger property account. (Each general ledger account is to be supported by subsidiary account(s) or system(s) that tracks transactions, maintains accountability, and reports the appropriate subsidiary details.)	FFMSR-1, 24, 29; D(FMR 01, 02, 020206

| 03.01.08 | The property system must generate journal entries for adjustments to the acquisition value of PP&E assets based on transportation charges or other costs incurred to place the asset into operation. | DoD FMR, 04, 060303 |

03.01.08   The property system must generate journal entries for adjustments to the acquisition value of PP&E assets based on transportation charges or other costs incurred to place the asset into operation.   DoD FMR, 04, 060303

03.01.09   The property system must generate journal entries for self-constructed assets based on the construction costs incurred.   DoD FMR, 04, 0604

03.01.10   The property system must generate journal entries for assets constructed by a contractor while providing for contract holdbacks (i.e., liabilities) based on the construction costs incurred.   DoD FMR, 04, 0604

03.01.11   The property system files must contain such vital information as equipment description, date of acquisition, original cost, estimated life, location, depreciation data, and accumulated repair costs, etc.   DoD FMR, 04, 060301

03.01.12   The property system should identify agreements with foreign governments to occupy facilities where DoD provides maintenance as part of a capital lease.   DoD FMR, 04, 070308B1

03.01.13   The property system must maintain an individual subsidiary account for each construction project to facilitate the transfer of costs to the applicable real property or expense account.   DoD FMR, 04, 060408B

03.01.14   The property system must maintain records of government-furnished property (GFP) in order to track its existence, status, and ultimate disposition.   DoD FMR, 04, 010514

03.01.15   The property system must quantify heritage assets in terms of physical units (e.g., the number of items in a collection or the number of national parks).   SFFAS-8, 43-51

03.01.16   The property system must maintain GFP data by contractor.   DoD FMR, 04, 010514

03.01.17   The property system must maintain the three general ledger accounts applicable to GFP (WIP-GFM, CIP-GFM, and GFE).   DoD FMR, 04, 010514A

2: Record Acquisition of Property, Plant, and Equipment

03.02.01   The property system must record all general PP&E assets at cost. The cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. (SFFAS-6, paragraph 26, provides examples of costs to be capitalized.)   SFFAS-6, 26

03.02.02   The property system must generate the journal entries, or the data required for the journal entries, to record the acquisition of PP&E upon its receipt.   DoD FMR, 04, 060303

03.02.03   The property system may include internally-developed software as general   SFFAS-6, 27-28
            PP&E if its cost is intended primarily to be recovered through charges to
            users. Other internally-developed software costs shall be expensed when
            incurred. Capitalizable costs are limited to:
            - those clearly identifiable with major new software projects and
            distinguishable from recurring maintenance-type activities,
            - costs incurred after technological feasibility has been established, and
            - direct costs of developing major new software, initial training material, and
            documentation manuals incurred after technological feasibility has been
            established.

03.02.04   The property system must record general PP&E assets acquired under a   SFFAS-6, 29
            capital lease at the amounts taken from the liability of the capital lease at its
            inception.

03.02.05   The property system must be able to record general PP&E acquired   SFFAS-6, 30
            through donation, devise (a will), or judicial process (excluding forfeiture) at
            the estimated fair market value at the time it is acquired by the government.

03.02.06   The property system must record items transferred from other federal   SFFAS-6, 31
            entities at the costs recorded by the transferring entity, net of accumulated
            depreciation or amortization (i.e., book values). If the receiving entity
            cannot reasonably ascertain those amounts the costs of the PP&E shall be
            the fair market value at the time they are transferred.

03.02.07   The following conditions apply when determining at what cost general   SFFAS-6, 32
            PP&E assets must be recorded:
            - the property system must record the cost of general PP&E acquired
            through exchange at the fair market value of the PP&E surrendered at the
            time of exchange,
            - if the fair market value of the PP&E acquired is more readily determinable
            than that of the PP&E surrendered, then the cost shall be the fair market
            value of the PP&E acquired,
            - if neither fair market value is determinable, then the cost of the PP&E
            acquired shall be the cost recorded for the PP&E surrendered net of any
            accumulated depreciation or amortization,
            - any difference between the net recorded amount of the PP&E
            surrendered and the cost of the PP&E acquired shall be recognized as a
            gain or loss,
            - in the event that cash consideration is given in the exchange, the cost of
            general PP&E acquired shall be increased by the amount of cash
            consideration surrendered, or decreased by the amount of cash
            consideration received.

03.02.08   The property system must record the cost of general PP&E acquired   SFFAS-6, 33
            through forfeiture in accordance with *SFFAS No. 3, Accounting for
            Inventory and Related Property* (i.e. fair market value less allowance for
            liens/claims from a third party).

)3.02.09   The property system must record PP&E when the title passes to the   SFFAS-6, 34
           acquiring entity or when the PP&E is delivered to the entity or to an agent
           of the entity. In the case of constructed PP&E, it shall be recorded as
           construction in progress until it is placed in service, at which time the
           balance shall be transferred to general PP&E.

03.02.10   If historical cost information for existing general PP&E has not been   SFFAS-6, 40
           maintained, the property system must record the assets at estimated
           valuations. Estimates shall be based on:
           - the costs of similar assets at the time or acquisition, or
           - the current costs of similar assets discounted for inflation since the time of
           acquisition (i.e., by deflating current costs to costs at the time of acquisition
           by the general price index).

03.02.11   The property system, when recording existing general PP&E, must credit   SFFAS-6, 43
           the difference in the amounts added to asset and contra-asset accounts to
           the Net Position of the entity. (The amount of the adjustment shall be
           shown as a "prior period adjustment" in the Statement of Changes in Net
           Position.)

03.02.12   The property system must be able to record an intransit transaction for   DoD FMR, 04, 060513A
           purchased property which has not yet been received. The system must
           reverse the intransit transaction when the property is received and is
           recorded in the property system.

03.02.13   The property system must create journal entries, or the data required for   DoD FMR, 04, 060303
           journal entries, to record PP&E assets acquired through nonreciprocal or
           reciprocal transfers.

03.02.14   The property system must capitalize R&D projects if the assets can be   DoD FMR, 04, 060205
           used for other purposes after completion of the research efforts.

03.02.15   The property system should be able to record the total amount of   DoD FMR, 04, 060514
           recoverable natural resources for each natural resource item (e.g, the
           number of estimated recoverable tons of coal or barrels of oil).

03.02.16   The property system must be able to record the value of stewardship land   SFFAS-8, 4-75
           in terms of physical units (acres) rather than in monetary values.

03.02.17   The property system must record the cost for stewardship land as an   SFFAS-8, 4-77
           expense in the period acquired.

03.02.18   The property system must record as an expense any cost required to   SFFAS-8, 4-80
           prepare stewardship land for its intended use .

03.02.19   The property system must maintain the book value of GFP shipped or   DoD FMR, 04, 010514
           furnished to contractors as well as GFP reported by contractors as used
           up, returned as damaged, destroyed, sold, purchased, or retained via
           transfer of title.

03.02.20   The property system should record the capitalized value of DoD property   DoD FMR, 04, 070:
            that is stored for future use to meet mobilization requirements as "Industrial
            Property in Layaway."

3: Record Asset Value Changes

03.03.01   The property system must identify capitalization criteria for additions,   DoD FMR, 04, 010:
            betterments, or replacements that extend the life of a general PP&E asset.   and 060401

03.03.02   The property system must capitalize additions, betterments, or   DoD FMR, 04, 010
            replacements made to a general PP&E asset that meets the capitalization   and 0602103.I
            criteria.

03.03.03   The property system must generate the journal entries, or data for journal   DoD FMR, 04, 060
            entries, for additions, betterments, or replacements made to a general
            PP&E asset.

03.03.04   The property system must allow authorized users to revalue general PP&E   DoD FMR, 04, 010
            assets and to specify formulas to use in revaluing assets, when revaluation
            criteria are met.

03.03.05   The property system must generate the journal entries, or the data required   DoD FMR, 04,060<
            for journal entries, for recording changes in the valuation of general PP&E,
            as well as any resulting gains/losses.

03.03.06   The property system must capitalize the costs for enhancements that either   SFFAS-6, 37
            extend the useful life of existing general PP&E or enlarge/improve its
            capacity.

4: Depreciate, Amortize, or Deplete Asset

03.04.01   The property system must record depreciation expense on all general   SFFAS-6, 35
            PP&E, except land and land rights of unlimited duration. (Various methods
            can be used to compute periodic depreciation expense so long as the
            method is systematic, rational, and best reflects the use of the PP&E. Any
            changes in estimated life or salvage/residual value must be treated
            prospectively. The change must be accounted for in the period
            of the change and in future periods. No adjustments should be made to
            previously recorded depreciation or amortization.)

03.04.02   The property system must be able to estimate the useful life of an asset for   DoD FMR, 4, 01(
            depreciation purposes based on DoD experience with similar assets.   and 060210
            However, in no case shall the initially estimated useful life exceed 40 years.

03.04.03	The property system should calculate depreciation/amortization (where applicable) by using one of the following methods, as appropriate: - straight line, - physical usage, - sum-of-the-years-digits, - declining balance, or - double-declining balance.	DoD FMR, 04, 010505
03.04.04	The property system must accumulate depreciation expense in a contra asset account: accumulated depreciation. It must also accumulate amortization expense in a contra asset account: accumulated amortization.	SFFAS-6, 36
03.04.05	Costs for enhancements that either extend the useful life of existing general PP&E or enlarge/improve its capacity must be depreciated over the remaining useful life of the associated general PP&E asset.	SFFAS-6, 37
03.04.06	The property system should stop depreciating general PP&E assets that have been removed from the general PP&E account in anticipation of disposal, retirement, or removal from service.	SFFAS-6,39
03.04.07	The property system should record accumulated depreciation/amortization based on the estimated cost and the number of years the general PP&E has been in use relative to its estimated useful life. Alternatively, the PP&E may be recorded at its estimated net remaining cost and any depreciation/ amortization charged over the remaining life will be based on that net remaining cost. (This standard applies to general PP&E for which estimates of costs are recorded--historical cost has not been maintained.)	SFFAS-6, 40; 41
03.04.08	The property system must specify the depreciation method based on asset group, class, and category.	DoD FMR, 04, 010505
03.04.09	The property system must allow authorized users to adjust depreciation or amortization in exceptional cases.	DoD FMR, 04, 010505
03.04.10	The property system must generate journal entries for depreciation expense, accumulated depreciation, amortization expense, and the write-down of amortized assets.	DoD FMR, 04, 060302 and 03
03.04.11	The property system should account for the amount of natural resources recovered or consumed (i.e. depleted) in the period.	DoD FMR, 04, 060514 and 060515
03.04.12	The property system should calculate the amount of depletion expense based on the recoverable amount of resources, historical cost, and the amount of natural resources recovered in the period.	DoD FMR, 04, 060514 and 060515
03.04.13	The property system must generate journal entries, or the data for such entries, for depletion expense and the allowance for depletion.	DoD FMR, 04, 060514 and 060515

03.04.14   The property system must allow authorized users to specify parameters for   DoD FMR, 04, 0605
            calculating depletion in exceptional cases.   and 060515

03.04.15   The property system must calculate revised depreciation if the useful life is   DoD FMR, 04, 0602
            later determined to be shorter than originally estimated. This should be   and 010505G/H
            done by recognizing as a current expense the difference between
            what should have been recognized and what was recognized, and
            adjusting future depreciation expenses based on the revised useful life of
            the asset.

03.04.16   The property system must calculate revised depreciation if the useful life is   DoD FMR, 04, 0602
            later determined to be longer than originally estimated. This should be   and 010505G/H
            done by recognizing future years depreciation as a function of the asset's
            book and estimated life value at the time of estimated life evaluation and
            the updated estimated life.

03.04.17   When revisions to initial estimates of life or residual value are made, the   DoD FMR, 04, 010
            property system should change only future period depreciation calculations
            (no prior period adjustments).

03.04.18   The property system must be able to generate journal entries, or data for   DoD FMR, 04, 060
            such entries, for depreciation expense and accumulated depreciation
            related to a shorter revised estimated life.

03.04.19   The property system must maintain subsidiary accounts for accumulated   DoD FMR, 04, 060
            depreciation on the equipment that corresponds to the those accounts.

03.04.20   The property system must be able to depreciate capital lease assets for   SFFAS-6,20
            those activities authorized to enter into capital lease agreements.

03.04.21   The property system should be able to calculate depreciation for donated   DoD FMR, 11B, 58
            assets (assets procured from an appropriation other than the user's   1
            appropriation).

03.04.22   The property system should generate a journal entry for the "other   DoD FMR, 11B, 58
            financing source" that equals the amounts of depreciation on donated   1
            assets.

03.04.23   The property system must record, and allow authorized users to change,   DoD FMR, 04, 010
            the estimated useful life of an asset, the date it was placed in operation, the
            depreciation method used, and the estimated salvage value.

03.04.24   Using the same basis of accounting as used for financial statement   SFFAS-8, 84
            purposes the property system must be able to measure the following:
            - expenses incurred for nonfederal property, and
            - investments for R & D.

03.04.25   The property system must recognize and report as expenses cash grants   SFFAS-8, 85
            related to nonfederal property programs.

5: Record Disposition/Retirement of Asset

03.05.01	For the sale/disposition/retirement of depreciated/non-depreciated general PP&E, the property system must perform the following: - record the establishment of a receivable, - record cash proceeds, - create a journal entry, - calculate the resulting gain/loss, and - recognize the transaction in the accounting period in which it occurred, e.g., when title is transferred for sales, or as of the date the asset was retired.	DoD FMR, 04, 060303 and 060211A ,0703
03.05.02	The property system must record disposed assets in the property intransit account when the disposed items are transferred to DRMS.	DoD FMR, 04, 070307E
03.05.03	The property system must remove assets from the property intransit account when received and accepted by DRMS.	DoD FMR, 04, 070307E
03.05.04	The property system must maintain subsidiary accounts, or the data for subsidiary accounts, in order to manage and report on property awaiting disposal.	DoD FMR, 04, 070307G
03.05.05	The property system must record the value of property officially designated for disposal in the "Property Awaiting Disposal" account.	DoD FMR, 04, 070307
03.05.06	The property system must record the difference between the value of an asset before its identification as excess, obsolete, and unserviceable, and its net realizable value after such identification as a loss. The loss must be recognized in the current period by the DoD activity from which the asset is to be disposed.	DoD FMR, 04, 070307F
03.05.07	The property system must remove general PP&E assets from the asset accounts along with associated accumulated depreciation/amortization in the period of disposal, retirement, or removal from service. Any difference between the capitalized value of the PP&E and amounts realized must be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.	SFFAS-6, 38

6: Deferred Maintenance Costs and Cleanup Costs

03.06.01	The property system must record estimated cleanup costs for PP&E assets when the assets are placed in service. (The estimate shall be referred to as the "estimated total cleanup cost." There are two approaches to recognizing estimated cleanup costs - one applies to general PP&E and another to stewardship PP&E.)	SFFAS-6, 94

03.06.02   The property system must record revised cleanup cost estimates made   SFFAS-6, 96
            periodically to account for material changes due to inflation or deflation and
            for changes in regulations, plans, and/or technology.

03.06.03   During each period that general PP&E is in operation, the property system   SFFAS-6, 97, 98
            must record a portion of the estimated total cleanup costs as an expense.
            This expense allocation must be done in a systematic and rational
            manner based on the use or physical capacity of the associated PP&E,
            whenever possible. If physical capacity is not applicable or estimable, the
            estimated useful life of the associated PP&E may serve as the basis
            for allocating expenses to the period. Such allocation must begin during
            the first period that the PP&E is in operation.

03.06.04   The property system must record a reduction in the liability for cleanup   SFFAS-6, 100
            costs as payments are made (for the cleanup).

03.06.05   For stewardship assets, the property system must record total estimated   SFFAS-6, 101
            cleanup costs during the expected life of the assets as an expense and
            establish a corresponding liability during the period that stewardship PP&E
            is placed into service.

03.06.06   The property system must adjust the cleanup cost liability when the costs   SFFAS-6, 102
            are reestimated. Adjustments to the liability must be recognized as an
            expense entitled, "changes in estimated cleanup costs from prior periods."

03.06.07   The property system must identify the method for assigning estimated total   SFFAS-6,108
            cleanup costs to current operating periods (e.g., physical capacity versus
            passage of time).

03.06.08   The property system must recognize material changes in total estimated   SFFAS-6, 110
            cleanup costs due to changes in laws, technology, or plans; such changes
            shall be disclosed. In addition, the portion of the change in estimate that
            relates to prior period operations shall be disclosed.

03.06.09   The property system must anticipate and disclose possible changes due to   SFFAS-6, 111
            inflation, deflation, technology, or alterations in applicable laws and
            regulations.

03.06.10   The property system should stratify critical and noncritical amounts of   SFFAS-6, 84
            maintenance needed to return each major class of asset to its acceptable
            operating condition.

03.06.11   The property system must record a liability for cleanup costs for   SFFAS-6, 106
            stewardship PP&E assets that are in service as of the effective date of
            SFFAS-6 (October 1, 1997). (An adjustment made for this amount is to be
            made to the Net Position of the entity.)

7. Stewardship Property, Plant, and Equipment (Including Federal Mission PP&E)

03.07.01	The property system must record the acquisition costs of Federal mission PP&E assets as an expense during the period in which they are incurred. No asset amount will appear on balance sheet for Federal mission PP&E.	SFFAS-8, 3-66; SFFAS-6, 53
03.07.02	The property system must identify the cost of acquiring or constructing heritage assets as an expense in the period incurred.	SFFAS-6, 61
03.07.03	The property system must record the cost of improving, reconstructing, or renovating heritage assets as an expense in the period incurred.	SFFAS-6, 61
03.07.04	The property system must not capitalize any of the costs for heritage assets acquired through donation or devise. The assets' fair market values, if known and material, shall be disclosed in notes to the Statement of Net Cost in the year received. If the fair market value is not known or cannot be reasonably estimated, information related to the type and quantity of the assets received shall be disclosed.	SFFAS-6, 61
03.07.05	The property system must remove from the balance sheet heritage assets previously recognized as assets. The amounts removed shall be charged to the Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the Statement of Changes in Net Position. Also, the amount removed from the balance sheet will be disclosed in a footnote.	SFFAS-6, 63
03.07.06	The property system must record the acquisition cost of stewardship land as an expense in the period incurred.	SFFAS-6, 69
03.07.07	The property system must record the cost of stewardship land transferred from another Federal entity. The amount recognized shall be the book value of the land recorded on the transferring entity's books. If the receiving entity does not know the book value the transfer shall be disclosed in notes, if material. In other cases, stewardship land may be transferred between Federal entities. Such transfers of stewardship land shall be disclosed in the notes, if material.	SFFAS-6, 72
03.07.08	The property system must value Federal mission PP&E using either the total cost or the latest acquisition cost valuation method. (Note: Although SFFAS No.8 permits either total cost or latest acquisition cost valuation methods, the latest acquisition cost method is only permitted if the increase or the decrease in value resulting from revaluations can be determined and reported.)	SFFAS-8, 3-60
03.07.09	The property system must record as an expense those costs incurred to bring the Federal Mission PP&E to a form and location suitable for its intended use.	SFFAS-8, 3-64

C4. <u>CHAPTER 4</u>

<u>INVENTORY</u>

DoD is the largest holder of inventory assets in the Federal government, owning and controlling over such assets with values exceeding $175 billion. These inventories include approximately $50 billion of items held by the Defense Working Capital Fund for sale primarily to DoD customers.

The magnitude of the Department's inventory holdings and their significance to financial management and program operations require stringent systems of accountability and control. Inventory systems must be an integral part of DoD's total financial management system. Inventory system requirements are published by JFMIP in *FFMSR-7*.

In addition to systems requirements promulgated by JFMIP, the FASAB has recommended, and OMB has accepted and published, specific accounting requirements for inventories and related assets in *SFFAS-3, "Accounting for Inventory and Related Property."* SFFAS-3 stipulates that inventories be accounted for at (1) historical cost or methods which approximate historical costs, or (2) last acquisition cost. Under last acquisition costing of inventory, an entity is required to revalue inventory periodically (but at least at the end of the fiscal year) to recognize unrealized holding gains/losses which result from changing prices.

INVENTORY
(INCLUDING OPERATING MATERIALS AND SUPPLIES, AND STOCKPILE MATERIALS)

Functional Requirements
1: Inventory Recognition and Valuation
2: Determining Inventory Needs
3: Inventory in Storage
4: Inventory Undergoing Repair or in Production
5: Inventory Disposition
6: Inventory Program Planning and Monitoring
7: Operating Materials and Supplies
8: Stockpile Materials
9: General

REQUIREMENTS	SOURCE(S)

1: Inventory Recognition and Valuation

04.01.01	The system must categorize inventory, as defined in *SFFAS 3*, Paragraph 17, as (1) inventory held for sale, (2) inventory held in reserve, (3) excess, obsolete, or unserviceable inventory, or (4) inventory held for repair. (Note: *DoD FMR 11B* identifies a fifth category - (5) inventory in transit.	SFFAS-3, 18; FFMSR-7, 28; DoD FMR 11B, 55, 55-9 G3
04.01.02	The system must record inventory when title passes or when the goods are delivered to the purchasing entity.	SFFAS-3, 19; DoD FMR 11B, 55, 55-8 G2
04.01.03	The system must record expenses related to the sale of inventory or its use in the provision of a service. It must also remove the cost of those goods from inventory .	SFFAS-3, 19; DoD FMR 11B, 55, 55-8 G2
04.01.04	The system must maintain separate accounts to identify transactions that result in inventory gains, losses, and adjustments.	DoD FMR 11B, 55-5, E
04.01.05	The system must value inventory at either historical cost or latest acquisition cost.	SFFAS-3, 20; DoD FMR 11B, 55, 55- G1
04.01.06	When using historical cost, the system must include all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location.	SFFAS-3, 21

04.01.07	When using historical cost, the system must charge any abnormal costs, such as excessive handling or rework costs, to the cost of operations of the period.	SFFAS-3, 21
04.01.08	When using historical cost, the system must value donated inventory at its fair market value at the time of donation.	SFFAS-3, 21
04.01.09	When using historical cost, the system must value inventory acquired through exchange of nonmonetary assets (e.g., barter) at the fair market value of the asset received at the time of the exchange. It must record as a gain or loss any difference between the recorded amount of the asset surrendered and the fair market value of the asset received.	SFFAS-3, 21
04.01.10	The system may apply either the first-in, first-out (FIFO), weighted average, or moving average cost flow assumptions in arriving at the historical cost of ending inventory and cost of goods sold. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods.	SFFAS-3, 22; FFMSR-7, 31
04.01.11	When using the latest acquisition cost method the system must provide the last invoice price and apply it to all like units held, including those units acquired through donation or nonmonetary exchange.	SFFAS-3, 23; DoD FMR 11B, 55, 55-11, H2
04.01.12	When using the latest acquisition cost method the system must revalue the inventory periodically, but at least once by the end of each fiscal year. It must then adjust for unrealized holding gains/losses.	SFFAS-3, 23
04.01.13	When using the latest acquisition cost method, the system must establish an allowance for unrealized holding gains/losses in inventory; in which the ending balance of the allowance account will be the cumulative difference between the historical cost, based on estimated or actual valuation, and the latest acquisition cost of ending inventory.	SFFAS-3, 24; DoD FMR 11B, 55, 55-11, H1
04.01.14	When using the latest acquisition cost method, the system must adjust the balance of the allowance for unrealized holding gains/losses each time the inventory balance is adjusted. The adjustment necessary to bring the allowance to the appropriate balance shall be a component of cost of goods sold for the period, as described in SFFAS 3, Paragraph 25.	SFFAS-3, 24
04.01.15	The system may value inventories at expected net realizable value if there is (1) an inability to determine approximate costs, (2) immediate marketability at quoted prices, and (3) unit interchangeability.	SFFAS-3, 26; FFMSR-7, 31
04.01.16	The system must value inventory held in reserve for future sale using the same basis (historical cost, latest acquisition cost, or net realizable value when appropriate) as inventory held for sale in normal operations.	SFFAS-3, 27; DoD FMR 11B, 55, 55-11, H3a

04.01.17	The system must record any subsequent adjustments to the net realizable value of excess, obsolete, and unserviceable inventory, or any loss (or gain) upon disposal, as a loss (or gain).	SFFAS-3, 30; DoD FMR 11B, 55, 55-13, H3c

2: Determining Inventory Needs

04.02.01	The system must record customer demand and replenishment lead time data for a period of years, analyze it for anomalies, and compute demand and lead time forecasts on a regular, frequent schedule.	FFMSR-7, 21
04.02.02	The system must compute and routinely update the ordering cost of each inventory item, which might include: (1) reviewing the stock position, (2) preparing the purchase request, (3) selecting the supplier, (4) receiving, inspecting, and placing the material in storage, and (5) paying the vendor.	FFMSR-7, 21
04.02.03	The system must estimate and routinely update the per unit inventory holding cost, which is an estimate of the cost to hold each additional unit of inventory.	FFMSR-7, 21
04.02.04	The system must recompute the Economic Order Quantity (EOQ) on a regular, frequent schedule using the demand forecast, ordering cost, inventory holding cost, and unit cost of the material.	FFMSR-7, 21
04.02.05	The system must recompute the safety stock, if any, on a regular and frequent schedule.	FFMSR-7, 22
04.02.06	The system must recompute the reorder point level on a regular and frequent schedule.	FFMSR-7, 22
04.02.07	The system must determine if replenishment is needed on a regular and frequent schedule, basing the determination on net stock and reorder point.	FFMSR-7, 22
04.02.08	The system must provide information on current inventories and historical usage necessary for capacity planning.	FFMSR-7, 22
04.02.09	The system must support the incorporation of component availability and anticipated lead times for delivering orders into a master production schedule.	FFMSR-7, 22
04.02.10	The system must record special orders, orders for services or goods to be manufactured to specification, and other similar orders in order to determine inventory needs.	FFMSR-7, 39
04.02.11	The system must support predefined inspection plans and quality standards.	FFMSR-7, 22
04.02.12	The system must be consistent with the core financial system in how it supports budget execution and funds control.	FFMSR-7, 23

14.02.13   The system must support the budgeting of resources for inventories.   FFMSR-7, 23

1.02.14   The system must identify available funds by inventory commodity.   FFMSR-7, 23

1.02.15   The system must distinguish available funds for items that are slow-moving and are carried in the inventory for more than one accounting cycle.   FFMSR-7, 23

14.02.16   The system must be able to access the core financial system to ensure that funds are available prior to the approval of a request for acquisition of inventory items.   FFMSR-7, 23

4.02.17   The system must provide for reducing or terminating acquisitions when funds are limited or not available for new buys.   FFMSR-7, 23

4.02.18   The system must identify funds utilized and rates of fund utilization by inventory commodity.   FFMSR-7, 24

4.02.19   The system must control the availability of funds by inventory commodity.   FFMSR-7, 24

14.02.20   The system must calculate fund usage and project the date on which funds will be exhausted at the current rate of usage.   FFMSR-7, 24

14.02.21   The system must provide at least the following types of management information to determine inventory needs: demand, procurement lead time, procurement cycle time, assets, available funds, budgeted funds versus actual use, and rates of fund utilization.   FFMSR-7, 24-5

3: Inventory in Storage

04.03.01   The inventory system must be integrated, at a minimum, with the acquisition and core financial systems to share information on items ordered, received, in storage, and sold, or otherwise disposed of.   FFMSR-7, 26

04.03.02   The system must record information on material returned by customers.   FFMSR-7, 27

04.03.03   The system must record information on receipts in sufficient detail to allow the matching of receipt, purchase order/contract, and invoice for payment purposes.   FFMSR-7, 27

04.03.04   The system must record the date of receipt to be used for purposes of the Prompt Pay Act and to monitor the timeliness of placing items into inventory. It will also be used to monitor the age of inventory items.   FFMSR-7, 27

04.03.05   The system must differentiate between partial receipts against an undelivered order and full receipts.   FFMSR-7, 27

04.03.06	The system must be able to perform quantity and price conversions between different units of measure.	FFMSR-7, 27
04.03.07	The system must identify transportation discrepancies and initiate the transportation discrepancy report.	FFMSR-7, 27
04.03.08	The system must record all items in-transit, and the quantities of each, if the title to inventory items transfers at the point of origin.	FFMSR-7, 27
04.03.09	The system must record the acceptance or rejection of new or returned items at their destination as well as the quantities of each.	FFMSR-7, 27
04.03.10	The system must record the date of acceptance for purposes of the Prompt Pay Act.	FFMSR-7, 27
04.03.11	The system must provide information on items received and accepted in order to support the payment management function of the core financial system.	FFMSR-7, 27
04.03.12	The system must be able to provide customer credit/refund on items returned in accordance with the agency's return policy.	FFMSR-7, 27; DoD FMR 11B, 55, 55-7 F5a-b
04.03.13	The system must be able to identify shipping discrepancies as well as product quality deficiencies between the items received and the information provided on shipping documents and purchase orders.	FFMSR-7, 27
04.03.14	The system must identify the intended location of the item and track its movement from the point of initial receipt to its final destination.	FFMSR-7, 28
04.03.15	The system must record identifiers, quantities, condition, location, and other elements necessary to establish physical control.	FFMSR-7, 28
04.03.16	The system must classify inventory items by commodity class to meet agency needs for management and control.	FFMSR-7, 28
04.03.17	The system must distinguish between the unit cost of an inventory item and its selling price.	FFMSR-7, 28
04.03.18	The system must include all appropriate purchase, transportation, and production costs in the cost of an item.	FFMSR-7, 28
04.03.19	The system must provide financial information in the appropriate format, using the appropriate method, to other financial management systems used by the agency.	FFMSR-7, 28, 35
04.03.20	The system must provide the information needed to support the reconciliation between the inventory system's records and other systems' records.	FFMSR-7, 29

| 04.03.21 | The system must provide support for physical verification of inventory balances by location and type. | FFMSR-7, 29 |

04.03.21   The system must provide support for physical verification of inventory   FFMSR-7, 29
            balances by location and type.

04.03.22   The system must record changes in physical condition, quantities, etc.,   FFMSR-7, 29
            based on the results of physical inventory verifications.

04.03.23   If the agency maintains perpetual inventory records the system must   FFMSR-7, 29;
            provide for the matching of physical counts with inventory quantity and   DoD FMR 11B, 55-5, E3
            financial records through cycle counting or other inventory management
            techniques.

04.03.24   If the agency does not maintain perpetual inventory records the system   FFMSR-7, 29
            must provide for reconciliation using beginning of period inventory
            balances, receipts, and dispositions up to the cutoff point for the physical
            inventory.

04.03.25   The system must ensure the retention of records of physical inventory   FFMSR-7, 29-30
            counts until (1) the count is reconciled, (2) all adjusting entries for the
            physical count are resolved and entered into the financial records, and
            (3) the next physical count is accomplished, reconciled, and entered into
            the records.

04.03.26   The system must provide for identification of all errors arising from   FFMSR-7, 30
            reconciliation processes that apply to a time period prior to the last
            inventory adjustment.

04.03.27   The system must record changes in the location of an inventory item, such   FFMSR-7, 30
            as from one warehouse to another, and any associated changes in the
            person or organization responsible for stewardship of the item.

04.03.28   The system must record losses as a result of destroyed, lost, or pilfered   FFMSR-7, 30
            items.

04.03.29   The system must send the appropriate information to the core financial   FFMSR-7, 30
            and cost accounting systems to ensure that they stay in balance with the
            inventory system when financial adjustments are required as a result of a
            physical verification.

04.03.30   The system must adjust inventory item costs for significant differences   FFMSR-7, 30
            between the amount recorded for the items upon receipt and the invoiced
            amounts paid for the goods.

04.03.31   The system must generate financial transactions to record the transfer of   FFMSR-7, 30
            inventory between accounts such as from inventory held for sale and
            excess, obsolete, and unserviceable inventory, or between other accounts.

4-Inventory, Operating Materials and Supplies, Stockpile Materials

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04.03.32	The system must value excess, obsolete, and unserviceable inventory at expected net realizable value.	FFMSR-7, 30; DoD FMR 11B, 55, 55-13, H3c
04.03.33	The system must make any subsequent adjustments to the inventory's net realizable value upon disposal, i.e., it shall also be recorded as a loss (or gain).	FFMSR-7, 30
04.03.34	The system must record unrealized holding gains/losses when using the latest acquisition cost method for valuing inventory.	FFMSR-7, 31; DoD FMR 11B, 55, 55-13, H4a
04.03.35	The system must compute the value of items on the property records by multiplying quantities on hand or on loan by the unit cost of the applicable item.	FFMSR-7, 31
04.03.36	The system must record the value and quantity of items shipped from contractors or vendors for which title has passed to the government.	FFMSR-7, 31
04.03.37	The system must record the value and quantity of items shipped from the inventory organization, if it retains accountability, to another organization until receipt by that organization.	FFMSR-7, 31
04.03.38	The system must, at the least, provide some management information about the following financial quantities: unfilled orders, discrepancies, acceptance and rejection summaries, days supply, item expiration/shelf life, cycle count, and inventory accuracy.	FFMSR-7,32

4: Inventory Undergoing Repair

04.04.01	The system must be able to record the transfer of an inventory item from its current status to the status of "in repair" and record the change in the financial category.	FFMSR-7, 33
04.04.02	The system must be able to account for inventory held for repair using either the allowance method or the direct method.	SFFAS-3, 32; FFMSR-7, 33
04.04.03	The system must identify the costs of repair activities.	FFMSR-7, 34
04.04.04	When using the allowance method, the system must value inventory held for repair at the same value as a serviceable item, but must also establish an allowance for repairs contra-asset account (i.e. repair allowance).	SFFAS-3, 32; FFMSR-7, 33-34
04.04.05	When using the allowance method, the system must record the annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs. They must be noted as current period operating expenses.	SFFAS-3, 32; FFMSR-7, 34

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04.04.06	When using the allowance method, the system must charge (debit) the cost of repairs, as they are made, to the allowance for repairs account.	SFFAS-3, 32; FFMSR-7, 34
04.04.07	When using the direct method, the system must value inventory held for repair at the same value as a serviceable item less the estimated repair costs.	SFFAS-3, 33; FFMSR-7, 34
04.04.08	When using the direct method, and as repairs are actually made, the system must capitalize as the cost of the repair in the inventory account an amount up to the value of a serviceable item.	SFFAS-3, 33; FFMSR-7, 34
04.04.09	When using the direct method, the system must identify any difference between the initial estimated repair cost and the actual repair cost and either debit or credit that difference to the repair expense account.	SFFAS-3, 33; FFMSR-7, 34
04.04.10	The system must separately identify or estimate prior period amounts for repairs to avoid overstating repair expense for the first period that repair expense is accrued. The estimated amount to repair inventory that is attributable to prior periods shall be credited to the repair allowance under the repair allowance method or to the inventory account under the direct method, and reported as an adjustment to equity.	SFFAS-3, 34
04.04.11	The system must identify prior period amounts for repair expenses and record the appropriate accounting adjustments when transitioning to a new repair accounting method.	FFMSR-7, 34
04.04.12	The system must record the transfer of an inventory item from the status of "in repair" to its proper status and location.	FFMSR-7, 34 & 38
04.04.13	The system must determine if the item is unserviceable and transfer it to the disposal process.	FFMSR-7, 34
04.04.14	The system must support the establishment of orders to be placed with a contractor or other government entity to perform production work .	FFMSR-7, 34
04.04.15	The system must project the production elements necessary to complete the production cycle.	FFMSR-7, 34
04.04.16	The system must be able to support cost accumulation by work elements such as job order, activities, products, etc., and accept costs and other appropriate information from the cost accounting system.	FFMSR-7, 35
04.04.17	The system must track accumulated costs. The costs must include the value of direct materials, direct labor, and overhead, where applicable for work-in-process.	FFMSR-7, 35
04.04.18	The system must provide features to record unit costs and the prices of products and services.	FFMSR-7, 35

04.04.19	The system must transfer work-in-process to finished goods for inventory categorization and accounting purposes.	FFMSR-7, 35
04.04.20	The system must identify the intended location of the item and track its movement from the point of initial receipt to its final destination.	FFMSR-7, 35
04.04.21	The system must record identifiers, quantities, condition, location, and other elements necessary to establish physical control.	FFMSR-7, 35
04.04.22	The system must classify inventory items by commodity class or type to meet agency needs for management and control.	FFMSR-7, 35
04.04.23	The system must provide at least the following types of management information regarding inventory undergoing repair or in production: repair status, production order, and work-in-process tracking.	FFMSR-7, 36

5: Inventory Disposition

04.05.01	Upon sale or upon use of inventory in the provision of a service, the system must record the related expense and the cost of removing those goods from inventory.	FFMSR-7, 37; DoD FMR 11B, 55, 55-15, H4b
04.05.02	The system must record changes in the location of the inventory items and the associated changes in the person or organization responsible for stewardship of the item.	FFMSR-7, 37
04.05.03	The system must record the transfer of an inventory item from the status of "on loan" to its proper status and location.	FFMSR-7, 38
04.05.04	The system must adjust the value of items being returned in worse condition or that are not returned at all. If the financial category needs to be changed to "held for repair" or "excess, obsolete, or unserviceable," the system must generate the appropriate accounting and financial transactions.	FFMSR-7, 38
04.05.05	The system must verify that the customer order is received from an eligible customer who is authorized to use the system and order the items.	FFMSR-7, 39
04.05.06	The system must record the fund citation provided by the customer so that it may be included on billings.	FFMSR-7, 39
04.05.07	The system must ensure that inventory items issued are limited to available funds provided by the customer.	FFMSR-7, 39
04.05.08	If available funds are expected to be exceeded because of price changes, the system must advise the customer of the new price. The system must withhold performance and/or shipment until the customer has provided	FFMSR-7, 39

the additional funds required or has been given an opportunity to cancel or reduce the order.

04.05.09	The system must establish and maintain customer records if customers are billed.	FFMSR-7, 39
04.05.10	The system must record relevant information, such as customer name, customer identification number, phone number, multiple customer addresses (ship to, bill to), key contracts, shipping restrictions and shipping location.	FFMSR-7, 39
04.05.11	If the customer is a federal agency, the system must record the fund citation provided.	FFMSR-7, 39
04.05.12	To support the customer order process, the system must, when insufficient stock is available to fulfill the total requirement, issue stock and back order the balance as policy permits.	FFMSR-7, 39
04.05.13	The system must determine and record the value of a customer order.	FFMSR-7, 39
04.05.14	The system must send a transaction to the core financial system to record receipt of an unfilled customer order.	FFMSR-7, 39
04.05.15	If the customer is not a federal agency, the system must record the budgetary resources only up to the amount of cash received, unless otherwise authorized by statute.	FFMSR-7, 39
04.05.16	If the customer is a federal agency, the system must record the budgetary resources for the entire amount.	FFMSR-7, 39
04.05.17	To support the customer order process, the system must, if checks or cash are received with the customer order, record it against the customer order and send the information to receivables.	FFMSR-7, 39
04.05.18	The system must prepare picking lists to be used in pulling inventory items from storage and then reduce quantities on hand by the number of items removed.	FFMSR-7, 40
04.05.19	The system must provide information to customers on shipments of material so that the customers may establish financial controls, as applicable, over shipments in transit from suppliers. Information transfer also facilitates transfer of title.	FFMSR-7, 40
04.05.20	The system must maintain records of items issued, including quantities, shipment methods, dates, destinations, etc., to assist in the resolution activities.	FFMSR-7, 40
04.05.21	The system must compare customer order records to issue records and flag any differences for follow-up.	FFMSR-7, 40

04.05.22	The system must be able to determine the appropriate price for a particular customer order using pricing models and formulas.	FFMSR-7, 40
04.05.23	The system must provide quality controls to ensure that all appropriate costs have been provided to the pricing formula for a particular customer order.	FFMSR-7, 40
04.05.24	The system must develop the information necessary to prepare an initial invoice for a customer that provides adequate support for the prices charged.	FFMSR-7, 40
04.05.25	The system must either prepare the initial invoice itself or pass the necessary information to the core financial system to prepare the invoice.	FFMSR-7, 40
04.05.26	The system must provide the core financial system with the data necessary to establish the receivable and support subsequent administration of the receivables management and collection processes.	FFMSR-7, 40
04.05.27	The system must decrease the inventory account and increase the cost of goods sold account by the value of the inventory items sold.	FFMSR-7, 41
04.05.28	The system must record revenue and the appropriate offsetting account at the amount the inventory items are sold.	FFMSR-7, 41
04.05.29	The system must record the value of items issued from storage or shipped to customers when the title does not pass to the customer until a subsequent event occurs.	FFMSR-7, 41
04.05.30	The system must decrease the quantity of the inventory items on hand by the number of items sent to the disposal organization.	FFMSR-7, 41
04.05.31	The system must be able to confirm receipt of the items by the disposal organization.	FFMSR-7, 41
04.05.32	The system must record asset transfers and/or losses as appropriate, and in accordance with *SFFAS Number 3,* for items: designated as excess, obsolete, or unserviceable, including items (1) transferred to other federal agencies under mandated federal utilization programs, (2) sold as scrap, or (3) donated to state and local governments under mandated federal donation programs.	FFMSR-7, 41
04.05.33	The system must be able to transfer balances between financial categories; for example, from "inventory held for sale" to "excess, obsolete, and unserviceable inventory."	FFMSR-7, 42
04.05.34	The system must account for the proceeds resulting from disposition of inventory items as scrap.	FFMSR-7, 42

04.05.35   The system must provide at least the following types of management   FFMSR-7, 42-43
           information regarding the disposition of inventory: numbers of loaned
           items, stock availability, customer orders, inventory turnover, stock usage,
           losses, and disposals.

6: Inventory Program Planning and Monitoring

04.06.01   The system must establish price computation models or formulas to be   FFMSR-7, 45
           used in calculating customer's bills.

04.06.02   The system must provide methods to support pricing by groupings or   FFMSR-7, 45
           commodities.

04.06.03   The system must identify separate methods of pricing, as needed, based   FFMSR-7, 45
           on statutory authority or other agency policy.

04.06.04   The system must provide quality controls over input data to the pricing   FFMSR-7, 45
           model to ensure that all appropriate costs are included and accurate.

04.06.05   The system must establish methods or formulas to be used in valuing and   FFMSR-7, 45
           accounting for inventory based on cost.

04.06.06   The system must establish appropriate cost methods that apply to the   FFMSR-7, 45
           various types of inventories held by an agency.

04.06.07   The system must be able to ascertain the net realizable value of inventory   FFMSR-7, 45
           items.

04.06.08   The system must establish methods or formulas to be used in valuing and   FFMSR-7, 46
           accounting for inventory in the process of production based on cost.

04.06.09   The system must establish appropriate cost methods that apply to the   FFMSR-7, 46
           various types of inventories involved in the production process.

04.06.10   The system must establish methods to capture and accumulate costs for   FFMSR-7, 46
           work-in-process that account for repair or manufacturing performed by an
           independent third party such as contractors or other government activities.

04.06.11   The system must allow for work-in-process to be based on documented   FFMSR-7, 46
           cost incurred.

04.06.12   When the standard cost method is being used to record costs for work-in-   FFMSR-7, 46
           process, the system must be able to record standard costs and actual
           costs for each inventory item, in order to support usage and cost variance
           analysis.

04.06.13   The system must develop standard costs that will include anticipated   FFMSR-7, 46
           amounts of material, labor, overhead, and other relevant cost factors.

04.06.14	The system must track actual and standard cost variances for materials, labor, and overhead when a standard cost method is used.	FFMSR-7, 47
04.06.15	The system must establish exception thresholds, perform cost analysis, and monitor trends and variances.	FFMSR-7, 47
04.06.16	The system must record reasons for significant deviations between standard and actual costs.	FFMSR-7, 47
04.06.17	The system must be able to support adjustments of rates and dispositions of variances by performing periodic allocations.	FFMSR-7, 47
04.06.18	The system must match costs and revenues within the time periods in which they were incurred or realized to provide for the identification of gains or losses from sales.	FFMSR-7, 47
04.06.19	The system must support analysis of operations on an annual basis to determine if revenues are sufficient to cover the costs of the entire inventory program.	FFMSR-7, 47
04.06.20	The system must provide sufficient transaction audit trails to support the balances of inventory shown on the agency's general ledger, as well as any changes in those balances.	FFMSR-7, 49
04.06.21	The system must maintain the supporting documentation for inventory transactions until audited for accuracy and approved by external financial auditors; for a period of not less than 3 years. Retention may be longer when (1) required by regulations, (2) there is a possibility of legal action involving the inventories, or (3) contract terms or modifications require longer retention.	FFMSR-7, 49
04.06.22	The system must provide at least the following types of management information regarding inventory program planning and monitoring: costs per dollar of sales, operations costs, and performance measures.	FFMSR-7, 49

7: Operating Materials and Supplies

04.07.01	The system must categorize operating materials and supplies, as defined in *SFFAS 3*, Paragraph 36, as (1) operating materials and supplies held for use, (2) operating materials and supplies held in reserve for future use, or (3) excess, obsolete, and unserviceable operating materials and supplies.	SFFAS-3, 37; DoD FMR , 04, 04, 040107
04.07.02	The system must apply the consumption method of accounting when recognizing expenses for operating materials and supplies. Operating materials and supplies shall be recorded and reported as assets when produced or purchased.	SFFAS-3, 38; DoD FMR , 04, 04, 040105

04.07.03	The system must remove the cost of goods from operating materials and supplies and report them as an operating expense in the period they are issued.	SFFAS-3, 39; DoD FMR , 04, 04, 040105A
04.07.04	The system may apply the purchases method to operating materials and supplies if (1) they are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting. The purchases method requires that operating materials and supplies be expensed when purchased.	SFFAS-3, 40; DoD FMR , 04, 04, 040105B
04.07.05	The system must value operating materials and supplies on the basis of historical cost, which shall include all appropriate purchase and production costs incurred to bring the items to their current condition and location.	SFFAS-3, 42-3; DoD FMR , 04, 04, 040107A
04.07.06	The system must charge any abnormal costs, such as excessive handling or rework costs, to operations of the period.	SFFAS-3, 43; DoD FMR , 04, 04, 040107A
04.07.07	The system must value donated operating materials and supplies at their fair market value at the time of donation.	SFFAS-3, 43; DoD FMR , 04, 04, 040107A
04.07.08	The system must value operating materials and supplies acquired through exchange of nonmonetary assets at the fair market value of the asset received at the time of the exchange and record as a gain or loss any difference between the recorded amount of the asset surrendered and the fair market value of the asset received.	SFFAS-3, 43
04.07.09	The system may apply either the first-in, first-out (FIFO), weighted average, or moving average cost flow assumptions in arriving at the historical cost of ending operating materials and supplies and cost of goods consumed. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods.	SFFAS-3, 44; DoD FMR , 04, 04, 040107A
04.07.10	The system must value operating materials and supplies held in reserve for future use using the same basis as operating materials and supplies held for use in current normal operations.	SFFAS-3, 45; DoD FMR , 04, 04, 040107B
04.07.11	The value of operating materials and supplies held in reserve for future use shall be either (1) included in the operating materials and supplies line item on the face of the financial statements with a separate disclosure in footnotes, or (2) shown as a separate line item on the face of the financial statements.	SFFAS-3, 45

04.07.13	The system must value excess, obsolete, and unserviceable operating materials and supplies at their estimated net realizable value.	SFFAS-3, 48, DoD FMR , 04, 04, 040107C4
04.07.14	The system must record as a loss (or gain) the difference between the carrying amount of the operating materials and supplies before identification as excess, obsolete, or unserviceable and their estimated net realizable value; and then either report it separately or disclose it in the financial statements.	SFFAS-3, 48; DoD FMR , 04, 04, 040107C4
04.07.15	The system must record any subsequent adjustments to the net realizable value of excess, obsolete, and unserviceable operating materials and supplies upon disposal as a loss (or gain).	SFFAS-3, 48; DoD FMR , 04, 04, 040107C4

8: Stockpile Materials

04.08.01	The system must apply the consumption method of accounting for the recognition of expense for stockpile materials. These materials are recorded as assets and reported when produced or purchased.	SFFAS-3, 52; DoD FMR , 04, 04, 040105
04.08.02	The system must remove the cost of stockpile materials from stockpile materials and report it as an operating expense when issued for use or sale.	SFFAS-3, 52
04.08.03	The system must value stockpile materials, except for war reserve materials, on the basis of historical cost, which shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location.	SFFAS-3, 53; DoD FMR , 04, 04, 040106
04.08.04	The system must value war reserve materials on the basis of latest acquisition cost.	DoD FMR, 11B, 55, 55-30, O4a
04.08.05	The system must allow the cost of war reserve items to be separately maintained and reported from inventory costs.	DoD FMR, 11B, 55, 55-30, O3
04.08.06	The system must charge any abnormal costs, such as excessive handling or rework costs, to operations of the period.	SFFAS-3, 53; DoD FMR , 04, 04, 040106
04.08.07	The system may apply the first-in, first-out (FIFO), weighted average, or moving average cost flow assumptions in arriving at the historical cost of stockpile materials.	SFFAS-3, 53; DoD FMR , 04, 04, 040106
04.08.08	The system must reduce the carrying amount of materials to the expected net realizable value for those materials that have suffered (1) a permanent decline in value to an amount less than their cost, or (2) damage or decay. The decline in value shall be recorded as a loss or an expense in the period in which it occurs.	SFFAS-3, 54; DoD FMR 11B, 55, 55-30, O4c

04.08.09	When stockpile materials are authorized to be sold the system must disclose those materials as stockpile materials held for sale.	SFFAS-3, 55
04.08.10	The system must value the stockpile materials held for sale using the same basis used before they were authorized for sale.	SFFAS-3, 55
04.08.11	The system must record/maintain any difference between the carrying amount of the stockpile materials held for sale and their estimated selling price.	SFFAS-3, 55
04.08.12	When stockpile materials are sold, the system must remove the cost of stockpile materials from the stockpile materials account and report it as cost of goods sold. Any gain (or loss) upon disposal shall be recorded as a gain (or loss) at that time.	SFFAS-3, 55

C5. CHAPTER 5

REVENUE (INCLUDING FINANCING SOURCES) AND ACCOUNTS RECEIVABLE

DoD, like most federal agencies, receives the vast majority of its operating funds through appropriations authorized by the Congress. From the proprietary accounting perspective, appropriations are accounted for as financing sources when used. Appropriations are used when an entity acquires goods and services or provide grants that are authorized to be paid out of those appropriations. DoD annually uses over $200 billion of appropriated capital.

However, in addition to appropriations, DoD annually earns over $50 billion of revenues from providing goods and services to the public and other governmental entities. DoD's revenue arose as a result of exchange transactions, i.e., the Department provided goods and services in exchange for monetary resources. In any given year, DoD receives about $300 billion in revenues and financing sources (including interest earned, gains, donations, and other miscellaneous inflows of resources).

Accounting and systems requirements for recognizing revenue and financing sources and establishing and managing receivable/debts are primarily contained in *FFMSR-1* and *SFFAS-7*.

REVENUE AND ACCOUNTS RECEIVABLE

Functional Requirements
1: Recognize Revenue (Including Financing Sources)
2: Establish Receivables, Maintain and Update Account Information
3. Generate bills/statements
4: Record Collections
5: Manage Delinquent Debt

REQUIREMENTS	SOURCE(S)

1: Recognize Revenue (Including Financing Sources)

05.01.01	The system must recognize revenue from exchange transactions when goods or services are sold to the public or another Government entity.	SFFAS-7, 34
05.01.02	When a transaction with the public or another Government entity is at a price that is unusual or nonrecurring, the system should recognize a gain or loss rather than revenue or expense (so as to differentiate such transactions).	SFFAS-7, 35
05.01.03	The system must recognize revenue when services are performed for the public or another government entity (except for specific services produced to order under a contract).	SFFAS-7, 36
05.01.04	When specific goods are made to order under a contract, or specific services are produced under a contract, the system should recognize revenue in proportion to the estimated total costs for the goods or services acquired to fulfill the contract.	SFFAS-7, 36
05.01.05	When goods are kept in inventory so that they are available to customers when ordered, the system should recognize revenue only when the goods are delivered to the customer.	SFFAS-7, 36
05.01.06	When services are rendered continuously over time, or the right to use an asset extends continuously over time (such as the use of borrowed money or the rental of space in a building), the system should recognize revenue in proportion to the passage of time or the use of the asset.	SFFAS-7, 36
05.01.07	When an asset other than inventory is sold, the system should recognize any gain (or loss) when the asset is delivered to the purchaser.	SFFAS-7, 36

05.01.08	When advance fees or payments are received, such as for large-scale, long-term projects, the system should recognize revenue only after costs are incurred from providing the goods and services. (The liability, unearned revenue, should be recorded for advances received.)	SFFAS-7, 37
05.01.09	To the extent that realization of the full amount of revenue is not probable due to returns, allowances, price redeterminations, or other reasons apart from credit losses, the system should reduce recognized revenue by separate provisions (such as through the use of a sales return account) for amounts that can be reasonably estimated.	SFFAS-7, 41
05.01.10	The system should recognize revenue arising from donations. Such inflows of resources must meet the recognition criteria for assets. (Revenue should be measured at the estimated fair market value of the contribution/donation.)	SFFAS-7, 62
05.01.11	The system must recognize appropriations used as a financing source. (Until used, appropriations are not a financing source but are recognized as capital, and placed in a capital account.)	SFFAS-7, 71-72
05.01.12	To the extent a government entity receives goods and services from other government entities without reimbursing the other entity for all related costs, the system should recognize an imputed financing source equal to the imputed cost.	SFFAS-7, 73
05.01.13	To the extent that a government entity incurs costs, such as pension costs, that are paid in total or in part by other entities, the system should recognize an imputed financing source equal to the imputed costs.	SFFAS-7, 73

2: Establish Receivables, Maintain/Update Account Information

05.02.01	The system must record a receivable when the entity establishes a claim to cash or other assets from other entities, based on either goods and services provided or on legal provisions. (If an exact amount is not known, then a reasonable estimate should be made.)	FFMSR-1, 42
05.02.02	When cash has not yet been received at the time revenue is recognized, the system must record a receivable.	SFFAS-7, 39
05.02.03	The system must record the establishment of receivables along with the corresponding revenues, expenditure reductions, or other appropriate offsets.	FFMSR-1, 43
05.02.04	The system must track receivables to be collected under installment payment plans, including those plans for which such collections have been rescheduled.	FFMSR-1, 43

05.02.05	The system must accept transactions from other systems in a standard format to allow for standardized data flow into the core financial system.	FFMSR-1, 43
05.02.06	The system must maintain accounts for reimbursable orders and be able to identify government and nongovernment accounts.	FFMSR-1, 44
05.02.07	The system must record billing information in order to identify the type of customer from which revenue was earned, such as: other federal agency, state/local govt., commercial , individual, employee, loan recipient, etc.	FFMSR-1, 43
05.02.08	The system must maintain detailed information by customer account (e.g., name, address, account balance, account number, date due, reimbursable order number, government agency, etc.).	FFMSR-1, 43
05.02.09	The system must update each account when billing documents are generated and collections are received.	FFMSR-1, 44
05.02.10	The system must provide for the calculation and assessment of interest, administrative charges, and penalty charges on overdue receivables.	FFMSR-1, 44
05.02.11	The system must allow for the waiver of interest, administrative charges, and penalties on overdue receivables.	FFMSR-1, 44
05.02.12	The system must provide an on-line query capability for accounts receivable as well as other revenue account information.	FFMSR-1, 44
05.02.13	The system must provide information regarding the age of receivables, both on a summary basis and on individual receivables (to allow for adequate management and prioritization of collection activities).	FFMSR-1, 44
05.02.14	The system must match receipts to account numbers or bill numbers and apply them to the appropriate receivable(s).	FFMSR-1, 44-45
05.02.15	The system must update receivables on a document-by-document basis, classifying and posting them against principal, interest, fees, etc., as appropriate.	FFMSR-1, 45
05.02.16	The system must record adjustments to bills and post the adjustments to customer accounts.	FFMSR-1, 43
05.02.17	The system must maintain a history of billings and receipts for each receivable and account, in accordance with agency requirements.	FFMSR-1, 44
05.02.18	The system must allow authorized personnel to add, modify, or delete nonfinancial account data.	FFMSR-1, 44
05.02.19	The system must maintain individual account receivable balances along with references to the appropriate supporting documentation.	FFMSR-1, 44

05.02.20   The system must record the source of receivables revenue, such as from   FFMSR-1, 42
           the sale of goods and services, interest and penalties, taxes (individual,
           corporate, excise, estate and gift), royalties, fees, and other revenue and
           financing sources.

05.02.21   The system must be able to adjust receivables which have been reduced   FFMSR-1, 45
           by some means other than cash collections, such as by a journal entry.

05.02.22   The system must establish/reestablish a receivable for checks returned   FFMSR-1, 45
           due to insufficient funds (NSF).

05.02.23   The system must be able to record transactions in subsidiary ledgers or   FFMSR-1, 12-13
           journals and then summarize them or roll them up to the standard general
           ledger.

05.02.24   The system should record losses on receivables when it is more likely than   SFFAS-1, 44
           not that the receivables will not be totally collected.

05.02.25   The system should record an allowance for uncollectible amounts to   SFFAS-1, 45
           reduce the gross amount of receivables to net realizable value. (The
           allowance for uncollectible amounts should be reestimated on each annual
           reporting date and when information indicates that the latest estimate is no
           longer correct.)

05.02.26   The system should record an interest receivable for the amount of interest   SFFAS-1, 53
           income earned but not received for an accounting period.

05.02.27   The system should recognize no interest on accounts receivable or   SFFAS-1, 54
           investments that are determined to be uncollectible unless the interest is
           actually collected.

3: Generate Bills/Statements

05.03.01   The system must support the calculations concerning the generation of   FFMSR-1, 42-43
           customer bills. These actions will be based on billing source, event and/or
           time period, and type of claim, in accordance with agency requirements.

05.03.02   The system must be able to print standard government forms such as the   FFMSR-1, 43
           SF-1080 or SF-1081, as well as turnaround documents to be used as a
           remittance advices.

05.03.03   The system must have capabilities for simultaneous online billing to, and   FFMSR-1, 43
           collection from, intragovernmental agencies. These capabilities will
           support:
           - the U.S. Treasury On-line Payment and Collection procedures (OPAC)
           system , and
           - the Simplified Intragovernmental Billing and Collection system (SIBAC).

05.03.04   The system must be able to send supporting data to the agencies it has   FFMSR-1, 43
           billed. The data will be used by them to verify the OPAC charges.

05.03.05   The system must allow authorized personnel to update the records of those   FFMSR-1, 43
           transactions pertaining to manually prepared bills.

05.03.06   The system must date bills using an internally generated date or with the   FFMSR-1, 43
           date supplied by an authorized user.

05.03.07   The system must print account statements as well as bills.   FFMSR-1, 43

05.03.08   The system must accept transactions from other systems that update the   FFMSR-1, 43
           billing data. These transactions must be in a standard format that allows
           for entry into the core financial system.

05.03.09   The system must initiate and automatically compute penalties, penalty   FFMSR-1, 44
           interest, and administrative charges based on agency predefined criteria
           for overdue receivables.

05.03.10   The system must generate dunning (collection) notices automatically for   FFMSR-1, 44
           overdue receivables, in accordance with Treasury requirements.

05.03.11   The system must customize dunning process parameters and dunning   FFMSR-1, 44
           letter text.

4: Record Collections

05.04.01   The system must be able to update each account based on collections   FFMSR-1, 45
           related to billings.

05.04.02   The system must provide information to allow the offset of funds due to   FFMSR-1, 45
           delinquent indebtedness by using the appropriate means, such as
           administrative offset, federal employee salary offset, or income tax refund
           offset.

05.04.03   The system must record complete and partial receipts against accounts, in   FFMSR-1, 45
           accordance with the Debt Collection Act and applicable regulations.

05.04.04   The system should provide the capability to record the receipt of funds by   FFMSR-1, 45
           EFT, or check, when this type of receipt is cost effective, practical, and
           consistent with statutory authority.

05.04.05   The system should be able to record collections from various external   FFMSR-1, 43
           sources using EFT mechanisms such as OPAC, Fedwire, Automated
           Clearing House, or any other EFT mechanisms.

05.04.06   The system must maintain and update receivable data referred to other   FFMSR-1, 44
           federal agencies and/or outside organizations for collection.

05.04.07   The system must be able to apply related debit vouchers to customer   FFMSR-1, 45
           accounts from the banking system.

05.04.09   The system should be able to process credit card payments.   FFMSR-1, 45

05.04.10   The system must track and reconcile deposits in transit, deposits   FFMSR-1, 45
           confirmed, and related debit vouchers (SF-5515) provided by the Treasury.

05.04.11   The system must be able to record complete and partial collections to   FFMSR-1, 45
           customer/debtor accounts and apply the amounts to the appropriate bills
           and accounts receivable.

05.04.12   The system must record revenues, expenditure reductions, or other   FFMSR-1, 45
           appropriate offsets associated with collections for which no receivable was
           previously established.

5: Manage Delinquent Debt

05.05.01   The system must provide information, on a summary basis and by   FFMSR-1, 44
           individual receivable, about the age of receivables to management. This
           allows for adequate management attention and the prioritization of
           collection activities.

05.05.02   The system must identify delinquent receivables that are candidates for   FFMSR-1, 44
           referral to a commercial collection entity, workout groups, the agency
           counsel, or are candidates for salary, tax refund or administrative offset.

05.05.03   The system should be able to provide information, in either a manual or   FFMSR-1, 44
           automated fashion, about delinquent accounts to commercial credit
           bureaus and private collection contractors, or other appropriate
           organizations as noted in OMB Circular A-129.

05.05.04   In order to track referred accounts, the system must maintain a record of   FFMSR-1, 44
           each referred account and its status.

05.05.05   The system should be able to generate an IRS Form 1099.   FFMSR-1, 44

05.05.06   The system must be able to record the write-off of delinquent or   FFMSR-1, 44
           uncollectible receivables and maintain the data needed to monitor closed
           accounts.

05.05.07   Based on predetermined agency guidelines, the system must be able to   FFMSR-1, 44
           identify and report on delinquent receivables that need to be written off as
           bad debts.

05.07.08   To the extent that the realization of the full amount of revenue is not   SFFAS-7, 40
            probable due to credit losses, the system should increase expenses and its
            allowance for bad debts, if the bad debts can be reasonably estimated.

05.05.09   Authorized users must be allowed access to the system in order to waive   FFMSR-1, 44
            administration charges when necessary.

C6. CHAPTER 6

MANAGERIAL COST ACCOUNTING

Reliable information on the cost of DoD programs, operations, and activities is crucial for effective management of the Department. Managerial cost accounting is especially important for fulfilling the objective of assessing an agency's operating performance. Therefore, cost accounting should be a fundamental part of an agency's financial management system and, to the extent practicable, should be integrated with other parts of the system. Cost accounting should use a basis of accounting, recognition, and measurement appropriate for the intended purpose (such as costing of goods to be sold to other parties or costing the operations of a DoD organization). Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

Cost accounting systems should be fully integrated with other agency systems in order to eliminate unnecessary duplication of transaction entries and to share data elements without rekeying or reformatting. By its nature, a cost accounting system requires more linkages with other agency systems than do most other financial management systems. For example, a cost accounting system needs to accept financial and nonfinancial (e.g., units) data from the core financial system, inventory system, payroll or labor distribution system, property management system, and others. Such data includes but is not limited to labor costs, material costs, depreciation, labor hours, exchange revenues, and number of items produced.

Cost accounting standards are published in *SFFAS Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government*. At the time of compilation of the requirements in this document, JFMIP has out for comment an exposure draft, *Managerial Cost Accounting System Requirements* (April 1997). Once it is finalized and promulgated to Federal agencies, the document will establish specific functional requirements for DoD's cost accounting systems. (The requirements contained in the exposure draft

have been included in this document.) In addition, DoD has established cost accounting requirements and processes in its *Financial Management Regulation (DoD 7000.14-R)*.

MANAGERIAL COST ACCOUNTING

Functional Requirements/Processes

1: System administration
2: Data Capture
3: Cost distribution
4: Cost and revenue calculations
5: Cost monitoring/reporting
6: Core financial system requirements

<u>REQUIREMENTS</u>   <u>SOURCE(S)</u>

1: System Administration

06.01.01	The cost accounting system must support the information requirements contained in chapter 2 of *FFMSR-8*(ED).	FFMSR-8(ED), III-1
06.01.02	Where possible and practical, an entity's cost accounting system should access the entity's tables in other financial management systems that define accounting codes in the data classification structure. It should not maintain its own set of tables.	FFMSR-8(ED), III-1
06.01.03	If the cost accounting system is required to maintain its own set of data classification tables, then reconciliation and replication of duplicated data between the systems must be easy, frequent, and reliable.	FFMSR-8(ED), III-2
06.01.04	The cost accounting system must allow authorized users to change data classification elements and use the change elements for editing and reporting purposes.	FFMSR-8(ED), III-2
06.01.05	The cost accounting system must maintain rules for assigning/distributing indirect costs to cost objects.	FFMSR-8(ED), III-2
06.01.06	The cost accounting system's cost distribution rules must define indirect costs, intermediate and final cost objects, cost drivers, allocation bases, links from resource costs to cost objects, and the order of performing cost distribution processes.	FFMSR-8(ED), III-2
06.01.07	Security for the cost accounting system must be established and maintained following the computer security policies set forth in *OMB Circular A-130*, App. III.	FFMSR-8(ED), III-3
06.01.08	The cost accounting system must be able to archive data for a period of at least 5 years and further, if necessary for comparative analysis and the presentation of historical information.	FFMSR-8(ED), III-3

06.01.09   The cost accounting system must provide for archiving or purging data   FFMSR-8(ED), III-3
           associated with closed projects, old time periods, etc.

06.01.10   The cost accounting system must define and maintain methods and   FFMSR-8(ED), III-2
           algorithms to calculate and match exchange revenues to the specific costs
           incurred in generating the revenue.

06.01.11   The cost accounting system must support multiple revenue recognition   FFMSR-8(ED), III-3
           methods.

06.01.12   The cost accounting system must satisfy the "minimum criteria" contained   SFFAS-4, 71
           in *SFFAS-4*, paragraph 71.

06.01.13   The cost accounting system should perform costing by preferred   SFFAS-4, 124-137
           methodologies, namely (1) direct tracing, (2) cause and effect analysis, or
           (3) allocation.

06.01.14   The job order cost system must base the development of its job orders on   DOD FMR, 04, 20,
           the criteria delineated in *DoD FMR*, 04, 20, 200301.   200301

2: Data Capture

06.02.01   The cost accounting system must capture several types of data (such as   FFMSR-8(ED), 3
           data on costs, units, exchange revenues, and gains and losses) from other
           systems or by direct input from authorized users.

06.02.02   The cost accounting system must capture all data needed to determine the   FFMSR-8(ED), 4
           costs of outputs and the total net cost of the entity's operations, and must
           include appropriate disclosures of the components of net cost.
           The data capture must also include information on units produced.

06.02.03   The cost accounting system must capture summary information (the   FFMSR-8(ED), 4
           system is not required to capture detailed transactions) on all costs, and
           units, from the core financial system, as well as any other systems of
           original entry for cost transactions.

06.02.04   The cost accounting system must allow for direct input of cost information   FFMSR-8(ED), 4
           by authorized users, with an appropriate audit trail, in order to capture
           costs that are not entered into any other system.

06.02.05   For costs entered directly into the cost accounting system, it must   FFMSR-8(ED), 4
           summarize and send them to the core financial system for reporting to the
           general ledger.

06.02.06	The cost accounting system must capture summary information on exchange revenues (net of adjustments) and gains and losses resulting from exchange transactions (net of adjustments) from the core financial system and other systems original entry.	FFMSR-8(ED), 5
06.02.07	The cost accounting system must allow for the direct input of exchange revenue, gain, and loss information by authorized users in order to capture amounts that are not entered into any other system.	FFMSR-8(ED), 5
06.02.08	The system must be able to summarize revenues, gains, and losses entered directly and send them to the core financial system for posting to the general ledger.	FFMSR-8(ED), 5
06.02.09	The cost accounting system should accumulate and report data on the full cost of the output. (Full cost includes the responsibility segment's direct costs and indirect costs associated with the identifiable supporting services provided by responsibility segments and other entities.)	SFFAS-4, 89, 90, 91; DOD FMR, 04, 19, 190101B
06.02.10	The cost accounting system must include the direct costs defined in *SFFAS-4*, paragraph 90.	SFFAS-4, 90; DOD FMR, 04, 19, 190101B
06.02.11	The cost accounting system must identify and tabulate the indirect costs defined in *SFFAS-4*, paragraph 91.	SFFAS-4, 91; DOD FMR, 04, 19, 190101B
06.02.12	The cost accounting system must identify and tabulate the cost elements presented in *SFFAS-4*, paragraphs 93 through 104.	SFFAS-4, 93-104
06.02.13	The cost accounting system must identify and tabulate the cost of goods and services received from other entities (inter-entity costs) in calculating the entity's full cost of goods and services.	SFFAS-4, 105
06.02.14	The "providing" entity's cost accounting system should record/recognize the full cost of goods and services provided to other entities regardless of whether full reimbursement is received.	SFFAS-4, 108
06.02.15	The "receiving" entity's cost accounting system should record/recognize the full cost of goods and services received from other entities as an expense or an asset.	SFFAS-4, 109
06.02.16	For non-reimbursed or partially reimbursed goods and services for which the providing entity does not provide complete cost information, the "receiving" entity should make and record a reasonable estimate of the costs.	SFFAS-4, 109
06.02.17	The "receiving" entity should recognize as a financing source the difference between the full cost of goods and services it receives from another entity and the reimbursement it made for those goods and services.	SFFAS-4, 109

06.02.18	The "providing" and "receiving" entities' cost accounting systems should recognize the cost of only material, individual inter-entity transactions based on the factors listed in *SFFAS 4*, paragraph 112.	SFFAS-4, 112
06.02.19	The cost accounting system should accumulate costs for responsibility segment(s) by type of resource (employees' labor, materials, utilities, etc.) and for each output (good or service) produced.	SFFAS-4, 119
06.02.20	The cost accounting system must be integrated with the entity's core accounting system and each system must draw costs from a common data source. Costs must be reconcilable between various output reports.	SFFAS-4, 41; DOD FMR, 04, 19, 190102C
06.02.21	The cost accounting system should accumulate reliable and useful cost information in sufficient detail for management to meet its decision making needs while avoiding unnecessary precision and refinement of data.	SFFAS-4, 71
06.02.22	The cost accounting system should distinguish between funded and unfunded costs (in order to implement cost-based budgets).	DOD FMR, 04, 20, 0102B
06.02.23	The cost accounting system should include unallowable costs (costs for which the entity cannot legally be reimbursed by a customer) as a cost of operations.	DOD FMR, 04 19, 190205
06.02.24	The cost accounting system may use standard costs for estimating, accumulating, and reporting the costs of direct material and direct labor only when the four criteria in *DOD FMR*, 04, 19, 190207A are met.	DOD FMR, 04, 19, 190207A.1-4
06.02.25	The cost accounting system shall group business unit general and administrative expenses in a separate indirect cost pool to be allocated to final cost outputs.	DOD FMR, 04, 19, 190210B
06.02.26	For allocating general and administrative expenses, items produced or worked on for stock or product inventory must be accounted for as final cost objectives as stipulated in *DOD FMR* 04, 190210G.	DOD FMR, 04, 190210
06.02.27	The *job order* cost system must be subsidiary to, but integrated with, the pertinent general accounting system.	DOD FMR, 04, 20, 200201
06.02.28	The job order cost accounting system will use job order numbers assigned by the appropriate accounting department for each defined cost output (objective).	DOD FMR, 04, 20, 200302
06.02.29	The job order cost system should utilize standard shop rates that include direct and indirect labor and indirect material costs, as stipulated in *DOD FMR*, 04, 20, 200304C.	DOD FMR, 04, 20, 200304C
06.02.30	The job order cost system should provide sufficient detail to track all costs back to source documents (such as time cards, labor hour distribution tickets, material source documents, etc.).	DOD FMR, 04, 20, 200310

06.02.31   The job order cost system should accumulate unfunded costs (such as   DOD FMR, 04, 20,
military labor, unfunded civilian labor, unfunded material, etc.) in   200311
accordance with *DOD FMR* 04, 20, 200311.

06.02.32   The job order cost system must account for all production costs (for   DOD FMR, 04, 20, 2004
example direct labor, direct material, and overhead) associated with
producing a product/end item.

06.02.33   The *process cost* accounting system must be fully integrated with the   DOD FMR, 04, 21,
general ledger accounting system.   210201

06.02.34   The process cost accounting system should clearly identify the cost   DOD FMR, 04, 21,
centers and products to be produced.   210301

06.02.35   The process cost accounting system must utilize standard costs,   DOD FMR, 04, 21,
accumulate actual costs, and identify variances between the two to allow   210303
for a managerial analysis of efficiency and effectiveness.

06.02.36   The process cost accounting system must provide sufficient detail to track   DOD FMR, 04, 21,
all costs back to source documents (such as time cards, labor hour   210304
distribution tickets, material source documents, etc.).

3: Cost Distribution

06.03.01   The cost accounting system must distribute indirect costs periodically (no   FFMSR-8(ED), 6
less than annually [for financial statement preparation]) in accordance with
management's reporting and analysis needs.

06.03.02   The cost accounting system must support one or more of the costing   FFMSR-8(ED), 6
methodologies (such as activity-based costing, job order costing, process
costing, and standard costing) that comply with the principles in *SFFAS-4*.

06.03.03   The cost accounting system must send the summarized impact of cost   FFMSR-8(ED), 6
distributions to the core financial system for posting to the general ledger
and for external reporting.

06.03.04   The cost accounting system must assign supporting segments' costs to the   SFFAS-4, 122
responsibility segments that received the goods and services (referred to
as intra-entity cost assignments).

06.03.05   The cost accounting system must assign the following costs to a segment's   SFFAS-4, 123
outputs: (1) the segment's direct and indirect costs, (2) other responsibility
segments' costs assigned to the segment, and (3) inter-entity costs for
goods and services received.

06.03.06   Costs that can be traced to an activity (or output) must be assigned to it SFFAS-4, 139
directly by a cost accounting system.

06.03.07   The cost accounting system must assign indirect common costs to outputs   SFFAS-4, 140
            or activities that share resources.

06.03.08   The cost accounting system should assign indirect common costs to   SFFAS-4, 140
            outputs or services on a cause-and-effect basis, if feasible, or through
            reasonable allocation.

06.03.09   The cost accounting system must ensure that each type of cost is allocated   DOD FMR, 04, 19,
            only once, and on only one basis, to any output or activity (cost objective).   190202A & B

06.03.10   The cost accounting system must ensure that costs are properly allocated   DOD FMR, 04, 19,
            between accounting periods.   190206

06.03.11   The cost accounting system must ensure that the cost of compensated   DOD FMR, 04, 19,
            absences are assigned to the cost accounting period(s) in which earned.   190208A

06.03.12   The cost accounting system shall allocate pro-rata, on an annual basis, the   DOD FMR, 04, 19,
            cost of compensated absences to the applicable outputs/activities of the   190208B
            entity.

06.03.13   The cost accounting system shall assign depreciation on tangible assets to   DOD FMR, 04, 19,
            the cost accounting periods in accordance with criteria stipulated in *DOD*   190209A
            FMR, 04, 19, 190209A.1-2. The assignment of depreciation cost will
            be consistent with the methods used by the core accounting system.

06.03.14   The cost accounting system shall allocate depreciation costs to   DOD FMR, 04, 19,
            outputs/activities in accordance with criteria stipulated in *DOD FMR*, 04,   190209B
            19, 190209B,1-3.

06.03.15   The cost accounting system must allocate business unit general and   DOD FMR, 04, 19,
            administrative expenses to outputs based on their beneficial or causal   190210A
            relationship.

06.03.16   The cost accounting system must allocate business unit general and   DOD FMR, 04, 19,
            administrative expenses for the accounting period to final cost outputs by   190210C
            means of a cost input basis representing the total activity of the unit.

06.03.17   The cost accounting system must allocate headquarters expenses to   DOD FMR, 04, 19,
            responsibility segments/outputs in accordance with *DOD FMR*, 04, 19,   190210D
            190210D.1-2.

06.03.18   The cost accounting system must segregate headquarters function   DOD FMR, 04, 19,
            expenses for responsibility segments that perform headquarters functions   190210F
            and operational activities, and allocate those expenses to the benefiting
            segments.

06.03.19	The cost accounting system must assign the cost of deferred compensation (except annual leave, sick leave and pension costs) to the appropriate cost accounting period, as stipulated in *DOD FMR*, 04, 19, 190215B, C & D.	DOD FMR, 04, 19, 190215B-D
06.03.20	The *job order* cost system must be able to update appropriate general ledger control accounts, such as work in process (in house), construction in progress (in house), cost of goods sold, etc.	DOD FMR, 04, 20, 200202
06.03.21	The job order cost system must add unfunded costs financed by other DoD organizations or prior appropriations to shop rate charges; and must do the same when billing customers.	DOD FMR, 04, 20, 200305B
06.03.22	General and administrative expenses are to be accumulated by the system in the activity's indirect cost accounts and equitably charged to customers by prorating the expenses to job orders.	DOD FMR, 04, 20, 200309

4: Cost and Revenue Calculations

06.04.01	The cost accounting system must be able to calculate and match exchange revenues related to the specific costs incurred for inventory, or to related property being produced to order under a contract.	FFMSR-8(ED), 7
06.04.02	The cost accounting system must support the inventory system or other property systems by accumulating costs from multiple sources for inventory and related property that has been acquired, is being repaired, or is in production.	FFMSR-8(ED), 8
06.04.03	The cost accounting system must provide accumulated costs, including applicable indirect costs, to the appropriate systems for recording as to appropriate asset or expense type.	FFMSR-8(ED), 8
06.04.04	The cost accounting system must recognize and calculate revenue in proportion to the estimated total cost when goods and services are acquired to fulfill a contract.	FFMSR-8(ED), 8
06.04.05	The cost accounting system must send calculated revenue amounts to the appropriate system(s) for billing and recording.	FFMSR-8(ED), 8
06.04.06	The cost accounting system must accumulate costs for, and determine the full cost of, general property, plant, and equipment under construction.	FFMSR-8(ED), 8
06.04.07	The cost accounting system must maintain current period costs for each construction project and item of property, as well as the total cost for each item.	FFMSR-8(ED), 8

| 06.04.08 | For completed projects, the cost accounting system must transfer construction in progress amounts to the appropriate asset account and pass the information to the core financial system and property management system(s) for asset valuation purposes. | FFMSR-8(ED), 8 |

| 06.04.09 | The cost accounting system must capture and classify the costs of acquiring, constructing, improving, and reconstructing or renovating heritage assets, federal mission PP&E, and stewardship land (including preparing it for use). | FFMSR-8(ED), 9 |

| 06.04.10 | The cost accounting system must accumulate and maintain for 5 years costs that are related to stewardship assets (for stewardship reporting purposes). | FFMSR-8(ED), 9 |

| 06.04.11 | The *job order* cost system must calculate actual shop rates from the same database used to prepare general ledger control account entries. | DoD FMR, 04, 20, 200305A |

5: Cost Monitoring/Reporting

| 06.05.01 | The cost accounting system must be able to produce the Statement of Net Costs, which is one of the agency's required financial statements; or at least produce the data needed for it. | FFMSR-8(ED), 10 |

| 06.05.02 | The cost accounting system must be able to produce the data needed for reporting on stewardship resources. | FFMSR-8(ED), 10 |

| 06.05.03 | The cost accounting system must accumulate costs in agency-defined cost centers that are associated with agency-defined performance measures. | FFMSR-8(ED), 10 |

| 06.05.04 | The cost accounting system must accumulate numerically valued agency-defined output/outcome information. | FFMSR-8(ED), 10 |

| 06.05.05 | The cost accounting system must calculate the unit cost of outputs/outcomes. | FFMSR-8(ED), 10 |

| 06.05.06 | The cost accounting system must produce unit cost reports by output. | FFMSR-8(ED), 10 |

| 06.05.07 | The cost accounting system must produce project, job order, and work order reports showing costs for a project from its inception up to the current date. | FFMSR-8(ED), 10 |

| 06.05.08 | The cost accounting system must produce contract reports showing the revenues and costs associated with each contract. | FFMSR-8(ED), 10 |

| 06.05.09 | General management and administrative support costs that cannot be traced, assigned, or allocated to specific responsibility segments or outputs should be reported in the entity's financial statements as costs not assigned to programs. | SFFAS-4, 92 |

06.05.10	A *job order* cost system should easily forward cost data to the accounting department. Such data must be recorded by that department in subsidiary job cost ledgers and used to update the appropriate general ledger control accounts.	DOD FMR, 04, 20, 200302
06.05.11	Inter-entity expenses/assets and financing sources must be eliminated for any consolidated financial statements covering both receiving and providing entities. All inter-entity costs are to be recognized based on the criteria in *SFFAS-4*, paragraph 112.	SFFAS-4, 109, 111, 112
06.05.12	The job order cost system must maintain or update all subsidiary accounts necessary to satisfy management's information requirements.	DOD FMR, 04, 20, 200308
06.05.13	The job order cost system must be able to produce any required management reports (such as month-end reports).	DOD FMR, 04, 20, 2005
06.05.14	The *process cost* accounting system must update the appropriate general ledger control accounts, such as work in process (in house), construction in progress (in house), etc.	DOD FMR, 04, 21, 210202
06.05.15	The process cost accounting system must maintain or update the subsidiary accounts necessary to satisfy management's information requirements.	DOD FMR, 04, 21, 210307
06.05.16	The process cost accounting system must produce required cost reports (such as month-end reports).	DOD FMR, 04, 21, 2104

6: Core Financial System Requirements

06.06.01	To support cost recognition, the core financial system must use the accrual basis of accounting when recognizing costs.	FFMSR-1, 46
06.06.02	To support cost recognition, the core financial system must be able to reduce asset balances such as inventories and prepaid expenses as they are used and expensed.	FFMSR-1, 47
06.06.03	To support cost recognition and the cost accumulation and distribution processes, the core financial system must use the agency's accounting classification structure to identify information such as fund codes, program, organization, and object class.	FFMSR-1, 47
06.06.04	To support the cost accumulation process, the core financial system must provide support for the fees, royalties, rents and other charges imposed by the agency for the products it provides.	FFMSR-1, 47

06.06.05	To support the cost accumulation process, the core financial system must identify all costs incurred by the agency in support of the activities of revolving funds, trust funds, or commercial functions.	FFMSR-1, 47
06.06.06	To support the cost accumulation process, the core financial system must provide a wide variety of information that supports the decision making process, the management of the agency, and external reporting.	FFMSR-1, 47
06.06.07	To support the cost distribution process, the core financial system must be able to identify costs based on the agency's accounting classification structure.	FFMSR-1, 48
06.06.08	To support the cost distribution process, the core financial system must be able to distribute costs to cost objects regardless of how they have originally been posted to the system (e.g., for financial statement presentation).	FFMSR-1, 49
06.06.09	To support the cost distribution process, the core financial system must have an audit trail that can trace transactions from the original cost pool to the final cost object.	FFMSR-1, 49

C7. CHAPTER 7

PERSONNEL/PAYROLL

A federal agency's personnel and payroll systems must be designed and implemented in order to:
-- operate in accordance with laws, regulations, and judicial decisions;
-- completely, accurately and promptly pay employees and withhold their deductions;
-- completely, accurately and promptly generate personnel/payroll records and transactions;
-- provide timely access to complete, correct, and accurate information to those within and outside of the agency who require the information;
-- interact timely and properly with core financial system; and
-- provide adequate internal controls to ensure that the personnel/payroll system(s) is operating as intended.

JFMIP has established requirements for federal personnel/payroll systems in *FFMSR-2*. This document contains systems requirements for human resource and personnel management, time and attendance, and payroll processing. The requirements are applicable to both civilian and military personnel/payroll systems.

Personnel and payroll functions are necessarily closely linked. An individual's payroll record is created only after Personnel has hired (enlisted/appointed) the person and has brought him/her onto the organization's rolls and established his/her salary, grade, entitlements, etc. Any changes to the basic authorizations and entitlements must be made by Personnel before being reflected in the payroll system.

DoD employs over 800,000 civilians and 2.5 million military personnel. The Department's personnel (civilian and military) costs and benefits totaled over $103 billion in fiscal year 1996--almost 40 percent of total expenses ($257.4 billion) for the year.

7-Personnel/Payroll

AI #4

PERSONNEL-PAYROLL

Functional Requirements
1. Human Resource Data Collection/Maintenance
   and Personnel Processing
2: Time and Attendance Processing
3: Leave Processing
4: Payroll Withholdings/Deductions Processing
5: Computing Gross Pay
6: Payroll Processing and Distribution
7. Military Pay

REQUIREMENTS	SOURCE(S)

**1: Human Resource Data Collection/Maintenance
and Personnel Processing**

07.01.01	The personnel system must identify employee records by employee name and valid social security number.	DoD FMR 08,02,0205
07.01.02	The personnel system must maintain records for each employee that show: 1) the nature and type of each allowance or special entitlement granted, 2) the period of time and any other conditions for which the allowance or special entitlement is granted or on which its continued payment depends, 3) the date on which each allowance is effective, and when it terminates.	GAO Title 6, 6.5b
07.01.03	The personnel system must accept and edit award data, EEO data, and employee training data, if required.	FFMSR-2, 11
07.01.04	The personnel system must be able to establish, modify, or delete personnel records whenever appropriate; and implement *FPM Supplement 296-33* and *FPM Supplement 298-1* changes in a timely fashion.	FFMSR-2, 11
07.01.05	The personnel system must accept edited employee-related data, based on nature-of-action codes and effective dates, in accordance with *FPM Supplement 296-33, FPM Supplement 298-1,* and *FPM 530* guidelines and post this data to the Master Employee Record.	FFMSR-2, 11
07.01.06	The personnel system must update all related employee records (including salary rate, leave accrual, and expense record) based on each personnel action.	FFMSR-2, 11
07.01.07	The personnel system must update all affected employee records to reflect across the board entitlement and/or deduction changes.	FFMSR-2, 11

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07.01.08	The personnel system must update the Central Personnel Data File with both activity and status reporting.	FFMSR-2, 11
07.01.09	The system must update retirement data, including name, service history, and fiscal history for each employee, maintaining separate records for military (post-1956) and civilian (re-employed annuitant) deposits. The system must also provide cumulative agency employment totals.	FFMSR-2, 12
07.01.10	The personnel system must update appointment limitation balances, health benefit rates, and FEGLI codes.	FFMSR-2, 12
07.01.11	The personnel system must maintain current organizational component identifiers for reporting to OPM's Central Personnel Data File.	FFMSR-2, 14
07.01.12	The personnel system must provide the capability to support pending performance evaluations.	FFMSR-2, 14
07.01.13	The personnel system must provide the capability to support employee benefit entitlements (life, health, and retirement) in response to employee inquiry or policy changes.	FFMSR-2, 14
07.01.14	The personnel system must generate a Monthly Employee Report (SF 113A) and a Monthly FTE Report (SF 113G) to OPM.	FFMSR-2, 26
07.01.15	The personnel system must be able to compile data from SF 182, Request, Authorization, Agreement, and Certification of Training forms, for annual reporting to OPM.	FFMSR-2, 15
07.01.16	The personnel system must compile training data from the SF 182s for management information support.	FFMSR-2, 15
07.01.17	The personnel system must generate training data related to EEO training.	FFMSR-2, 15
07.01.18	The personnel system must automatically adjust date fields (e.g., service computation date, not-to-exceed dates) based on the processing of personnel actions.	FFMSR-2, 11
07.01.19	The personnel system must process completed adverse actions.	FFMSR-2, 14
07.01.20	The personnel system must produce union dues withholding information.	FFMSR-2, 14
07.01.21	The personnel system must provide union data on retention registers, merit promotion lists, and reductions-in-force.	FFMSR-2, 14
07.01.22	The personnel system must produce data on employee union activities that includes steward and employee time involved in adverse actions, grievances, and appeals processing.	FFMSR-2, 14

07.01.23   The personnel system must maintain the labor agreement and other labor   FFMSR-2, 14
           contracts identifying:
           1) positions which are and are not eligible,
           2) limits of official time charges by position, and
           3) grievance procedures established by the union.

07.01.24   The personnel system must accept edited position-related data, as   FFMSR-2, 11
           required, for use in managing the organization within established dollar,
           FTE, and position limitations and post this data to the PMR.

07.01.25   The personnel system must maintain records on applicants (from both   FFMSR-2, 13
           within and outside the government).

07.01.26   The personnel system must track internal recruitment and competitive   FFMSR-2, 13
           (merit) and non-competitive promotions and transfers.

07.01.27   The personnel system must track external recruitment and   FFMSR-2, 13
           expert/consultant recruitment.

07.01.28   The personnel system must provide information to support quarterly,   FFMSR-2, 15
           annual, and ad hoc reporting to OPM, the Equal Employment Opportunities
           Commission, and other reporting authorities.

07.01.29   The personnel system must provide information to support a wide variety of   FFMSR-2, 15
           comparative studies using human resource data to identify possible
           discriminatory trends. The data should be generated from such sources as
           the applicant supply file and best-qualified lists.

07.01.30   The personnel system must provide information to support reviews   FFMSR-2, 15
           concerning recruitment procedures to determine whether women,
           minorities, and handicapped individuals are included in the applicant pools.

07.01.31   The personnel system must perform mass updates of employee and   FFMSR-2, 9
           position records in response to reference changes, ensure proper
           treatment of manually calculated pay, ensure proper payment of
           lump sum leave and generate Civil Service Retirement and Federal
           Employee Retirement System data.

07.01.32   The personnel system should accept and edit position-related data, if   FFMSR-2, 10
           required by agency management, for use in controlling the overall agency
           ceilings as established by dollar, FTE, and position limitations.

07.01.33   The personnel system must provide information to establish, maintain, and   FFMSR-2, 13
           abolish positions.

07.01.34   The personnel system must provide management with various forms of   FFMSR-2, 13
           information data (e.g., open positions, positions filled by part-time
           employees, etc.).

07.01.35	The personnel system must associate position numbers with employee IDs.	
07.01.36	The personnel system must provide information to support position reviews to determine if the restructuring of positions could improve the efficiency of operations, enhance EEO, and/or support management goals.	FFMSR-2, 13 & 15
07.01.37	The personnel system must accommodate the entry of multiple personnel actions for an employee in one pay period, and/or on the same day.	FFMSR-2, 10
07.01.38	The personnel system must process appointments and position changes (e.g., promotions, reassignments, and changes to lower grades).	FFMSR-2, 14
07.01.39	The personnel system must process all suspense actions regarding "not to exceed" (NTE) appointments and be able to support (1) termination of grade retention, and (2) conversion to lower grades after temporary promotions. The personnel system must also provide the data for pending NTE terminations, tenure changes, and the completion of probationary periods and within-grade waiting periods.	FFMSR-2, 14
07.01.40	The personnel system must generate reemployment priority data and retained-grade program data.	FFMSR-2, 14
07.01.41	The personnel system must generate a checklist report for each separating or transferring employee to ensure proper procedural treatment.	FFMSR-2, 11
07.01.42	The personnel system must process resignations and retirements and generate data for (1) SF 50s, Notification of Personnel Actions, (2) SF 2806s, Individual Retirement Records, (3) SF 2807s, Registers of Separations and Transfers, and (4) SF 1150s, Records of Leave Data.	FFMSR-2, 14
07.01.43	The personnel system must support retirement estimates for requesting employees.	FFMSR-2, 14
07.01.44	The personnel system must be able to compute retirement benefits, as well as to anticipate retirements and track personnel through the retirement process.	FFMSR-2, 15
07.01.45	The personnel system must generate certain required reports--e.g., SF 1150, SF 2806, and SF 2807.	FFMSR-2, 25

2: Time and Attendance (T&A) Processing

07.02.01	The T&A system must be able to identify the individual who is responsible for recording data in the system.	GAO Title 6, 3.5B
07.02.02	In automated T&A systems, electronic signatures are required to be used for indicating approvals.	GAO Title 6, 3.6A

07.02.03   The T&A system must collect time and attendance data for hours worked,   GAO Title 6, 3.5A
            leave taken, and all other pay related hours taken by civilian personnel
            during a bi-weekly pay period.

07.02.04   The T&A system must support the collection of time and attendance data   FFMSR-2,16; GAO T
            based upon an established tour of duty, including alternative work   6, 3.3B
            schedule/flextime information. This requires, at a minimum,
            positive acknowledgment from the timekeeper that the employee worked
            the established tour and that time and attendance data are available for
            supervisory review and approval.

07.02.05   The T&A system must provide capabilities for the collection of work hours,   FFMSR-2, 16
            leave hours, and all other pay-related hours, as well as labor-related hours
            from one source document for each employee.

07.02.06   The T&A system must support the collection of labor distribution hours by   FFMSR-2, 16
            the classification code structure defined in the core requirements
            document.

07.02.07   The T&A system must provide capabilities for the collection of time and   FFMSR-2, 16
            attendance data on a daily, weekly, biweekly, semi-monthly, and/or monthly
            basis.

07.02.08   The T&A system must calculate and adjust weekly hours based on Fair   FFMSR-2, 16
            Labor Standards Act (FLSA) requirements.

07.02.09   The T&A system must accept time and attendance data through various   FFMSR-2, 16
            processing modes.

07.02.10   The T&A system must support the correction of current- and prior-pay   FFMSR-2, 16
            period time and attendance records.

07.02.11   The T&A system must input the time spent by employees who work   FFMSR-2, 16
            temporarily in a higher classification (1) within the department but in
            different organizations or work centers, or (2) in other departments.

07.02.12   The T&A system must be able to capture time and attendance data in   FFMSR-2, 16
            fractions of hours.

07.02.13   The T&A system must generate a hardcopy time and attendance report.   FFMSR-2, 16

07.02.14   The T&A system must allow supervisors to independently verify the hours   GAO Title 6, 3.6a
            worked and the leave taken by civilian employees.

07.02.15   The T&A system must be able to receive electronic approvals from   FFMSR-2, 17
            authorized supervisory personnel and then release data for further system
            processing.

07.02.16   The personnel system must be able to adjust labor distribution hours
            charged to an accounting classification code structure and move those
            hours to another code structure.

07.02.17   The personnel system must contain computer files with all the data   DoD FMR,08,02,0402D
            elements itemized in *DoD FMR 08*, 02, 020205, which would appear on a
            hardcopy T&A form.

07.02.18   The T&A system must record and report the dates and time that leave is   DoD FMR,08,02,0205G
            taken.

07.02.19   The T&A system must protect data from unauthorized change or alteration   GAO Title 6, 3.7
            and must generate a record of any change made.

3: Leave Processing

07.03.01   The payroll system must track civilian leave for all types by amount earned GAO Title 6, 3A2
            and taken.

07.03.02   The payroll system must ensure that any leave taken is supported by a   FFMSR-2, 18
            sufficient leave balance and should automatically convert insufficient leave
            balances based upon an established leave priority scheme.

07.03.03   For each pay period, the payroll system must accrue each type of leave   FFMSR-2, 18
            which should be accrued and to which an employee is entitled, based on
            entitlements established by Human Resources; and including partial
            accruals and carryovers.

07.03.04   The payroll system must process variable leave accruals for part-time   FFMSR-2, 18
            employees. The accruals shall be based on actual hours in a pay status.

07.03.05   The payroll system must determine compensatory time to be forfeited or   FFMSR-2, 18
            compensatory hours to be paid. This determination should be based on
            predetermined elapsed time limits for compensatory time earned and
            the maximum earnings ceiling for combined leave and earnings.

07.03.06   The payroll system must generate detailed audit trail and control data that FFMSR-2, 18
            ensure that all reported leave hours have been processed accurately and
            that the hours used in pay calculations are correct.

07.03.07   The payroll system must track and report job-related injury time   FFMSR-2, 18
            (continuation of pay).

07.03.08   The payroll system must provide capabilities for fiscal year-end and   FFMSR-2, 18
            calendar year-end processing in accordance with established guidelines.

07.03.09   The payroll system must provide capabilities for year-end leave forfeiture   FFMSR-2, 19
            processing using the maximum carryover amounts maintained in the
            Human Resources function.

07.03.10   The payroll system must modify leave accruals for employees who change   FFMSR-2, 19
            leave systems, biweekly tours-of-duty, or move from full-time to part-time
            status.

07.03.11   The payroll system must process both current- and prior-period leave   FFMSR-2, 19
            transactions on an effective pay period basis.

07.03.12   The payroll system must provide capabilities for recomputing leave   FFMSR-2, 19
            balances resulting from prior-period hour adjustments or retroactive
            entitlement changes for each period, subsequent to the effective period
            of the change in the following period. Such recomputations will be
            processed in the following order: (1) retroactive entitlement changes, and
            then (2) prior period hour adjustments.

07.03.13   The T&A/payroll system must record and report the number of hours of   DoD FMR, 08,02,02(
            leave (by type), credit hours, and compensating time used.

07.03.14   The personnel system must compile information for active military   GAO Title 6,3-10
            personnel on absences which would affect each pay period calculation.

07.03.15   The personnel system must maintain leave records that show for each   DoD FMR,08,05,01(
            employee or service member: GAO Title 6,6-3A
            1) the rate of accrual for each type of leave,   GAO Title 6,6-3A4
            2) the hours or days accrued, used, and available by leave type,   GAO Title 6,6-3A5
            3) any advance leave authorized, including the date through which the
            leave is authorized, the type of leave advanced, and the total hours or days
            advanced,
            4) any leave received or given under a leave sharing program authorized in
            5 USC.6331 et reg., and
            5) the number of hours for any leave ceiling, by type of leave.

07.03.16   The T&A/payroll system must calculate projected annual leave balances.   FFMSR-2, 11

07.03.17   The T&A/payroll system must update leave data to reflect leave and   FFMSR-2, 14
            balance for each employee.

07.03.18   The payroll system must store lump sum leave hours to be paid to   FFMSR-2, 11
            separating employees and reduce annual leave balances to zero after lump
            sum payments are made.

07.03.19   The payroll system must offset the dollar amount of the advance leave   FFMSR-2, 23
            balance (computed at the rate of pay in effect when the leave was taken)
            against the dollar amount of final net pay and any unused
            annual leave (based on the current pay rate) when an employee leaves
            Federal employment.

07.03.20   The personnel system must establish leave earnings for sick leave.   FFMSR-2, 18

4: Payroll Withholdings/Deductions Processing

07.04.01   The payroll system must interface with the core financial system or another   FFMSR-2, 18
designated system and alert either system to establish receivables or
follow up on types of leave that may create an expense to the government.
These expenses could be caused by health and life insurance premiums
for employees on approved leave without pay or certain jury duty fees while
on court leave.

07.04.02   The payroll system must provide for percentage computations of   FFMSR-2, 21
deductions (e.g., 20 percent federal taxes on awards).

07.04.03   The payroll system must support Unemployment Compensation for Federal   FFMSR-2, 21
Employees processing as well as responses to `931' requests.

07.04.04   The payroll system must calculate the following deductions for each   FFMSR-2, 21
employee: (1) mandatory deductions (e.g., federal, state, local and FICA
taxes), (2) voluntary deductions (e.g., life insurance, health insurance,
thrift saving, deductions, allotments, and bonds), and (3) involuntary
deductions (e.g., IRS levies and administrative debt collection).

07.04.05   The payroll system must provide the capability to handle deductions that   FFMSR-2, 22
apply to various pay periods.

07.04.06   The payroll system must adjust taxable gross pay by deducting untaxed   FFMSR-2, 22
items (e.g., thrift saving deductions) and civil service retirement annuity
offsets.

07.04.07   The payroll system must compute the maximum variable levy deduction   FFMSR-2, 22
based on available net pay and any outstanding amount owed the IRS.

07.04.08   The payroll system must prorate insurance deductions for part-time,   FFMSR-2, 22
seasonal, and newly hired employees using the "four day rule."

07.04.09   The payroll system must accelerate deductions for employees paid an   FFMSR-2, 22
annual salary in less than one year (e.g., teachers).

07.04.10   The payroll system should compute deductions, employer contributions,   FFMSR-2, 22
and net pay based on manually calculated earnings amounts (e.g.,
supplemental pay for commissions or tip earnings).

07.04.11   The payroll system must calculate the deductions specified in chapter 5,   FFMSR-2, 22
Title 6 of GAO's *Policy and Procedures Manual for Guidance of Federal
Agencies*, providing for such things as (1) limitations on the maximum

amount of salary subject to certain deductions, (2) limitations on the maximum amount allowed for certain other deductions, (3) adjustments of taxable gross pay for certain purposes by deducting untaxed items, i including penalties before computing taxes, and (4) proration of deductions for part time or seasonal employees. (Note: Title 6 changed no limitations.)

07.04.12	The payroll system must subtract deductions in the order of precedence provided for in GAO's Title 6, while ensuring that net pay is not negative.	FFMSR-2, 22
07.04.13	The payroll system must determine when a bond may be issued, given its denomination per pay deduction. It must also record the amount deducted each pay period from the pay of each employee in an individual bond account.	FFMSR-2, 22; TFM 1, 3, 6050
07.04.14	The payroll system must deduct some items in every pay period and others in selected pay periods only.	FFMSR-2, 22
07.04.15	The payroll system must offset the dollar amount of any other receivables owed the agency against final net pay or, if applicable, lump sum annual leave payments on separation from the agency.	FFMSR-2, 23
07.04.16	The payroll system must deduct 7 percent of the basic pay of an employee for Civil Service Retirement System (CSRS) contributions.	5 USC 8334(a)(1)
07.04.17	The payroll system must calculate health benefits for full time employees based on the type of insurance plans maintained by OPM.	5 USC 8906(b)(3)
07.04.18	The payroll system must calculate health benefits for part time employees based on the ratio of the number of scheduled part-time hours to the number of scheduled regular hours for an employee on a full-time basis.	5 USC 8906(b)(3)
07.04.19	The payroll system must calculate an eligible employee's basic amount of group life insurance using the following process: (1) Obtain the annual rate of basic pay earned by the employee, round to the next higher multiple of $1,000, and add $2,000, (2) Compare amount in (1) above to $10,000, and (3) Record an amount of basic insurance as the greater of (1) or (2) above.	5 USC8701(c)
07.04.20	Where separate payroll and general ledger systems are maintained, the total deductions accumulated in the payroll system must be reconciled periodically to the deductions posted to accounts in the general ledger.	GAO Title 6,5-2C2
07.04.21	The payroll system must ascertain, after applying the withholding precedence of deductions, if the remaining available pay is sufficient to entirely fund the next deduction. The deduction, if voluntary, will not be made if the remaining earnings are not sufficient. If the next deduction is mandatory, it will be made to full extent of the remaining available earnings, in which case the net pay will be zero.	DoD FMR,08,04,02(

07.04.22	The payroll system must determine, among multiple garnishments for alimony and child support, if those filed earliest are withheld first.	DoD FMR 08, 04, 04021
07.04.23	The payroll system must be able to determine, when garnishing for both alimony and child support, if funds are sufficient to pay both. If earnings are not sufficient for both, a proportionate share should be provided to each.	DoD FMR 08, 04, 04021
07.04.24	When a bankruptcy court orders that a certain amount of net pay shall be paid an employee regardless of deductions, the payroll system must deduct the amount of net pay from gross pay first. Any remaining deductionss shall then be withheld in accordance with *DoD FMR 08*, 04, 040201-2.	DoD FMR,08,04,1301A
07.04.25	The system must be able to reduce the gross pay of a service member by a forfeiture of pay action, if required by a UCMJ judgment.	GAO Title 6,5-3
07.04.26	The payroll system must interface with the general ledger and cost accounting systems to ensure prompt and accurate collection of the following: (1) health and life insurance premiums from employees on unpaid leave, (2) court reimbursements for time served as a juror while on court leave, and (3) leave taken in excess of leave earned at separation.	DoD FMR,08,05,0107; GAO Title 6.,6.D31,p6-4
07.04.27	The payroll system must maintain calendar year-to-date and fiscal year-to-date balances for targeted deductions and payments in order to stop deductions when the deduction target is realized.	FFMSR-2, 14

5: Computing Gross Pay

07.05.01	The payroll system must process both current period and prior period adjustments as an integral part of the payroll cycle.	FFMSR-2,20
07.05.02	The payroll system must compute pay according to the time worked and/or leave taken, based on data approved by the relevant supervisor.	FFMSR-2, 20
07.05.03	The payroll system must be able to compute the correct values for allowements, entitlements, and awards of back pay and interest, and include them in the determination of gross pay.	GAO Title 6,4-2A2
07.05.04	The payroll system must compute pay of various types (e.g., entitlements for employees eligible for foreign service allowances, special and retention pay for commissioned officers, awards for SES employees, merit pay, cash awards, etc.).	FFMSR-2, 21
07.05.05	The payroll system must (1) compute employee earnings for partial pay periods when entitlement dates do not coincide with the pay period's beginning and ending dates, and (2) process earnings adjustments on a begin-date/end-date basis.	FFMSR-2, 21

07.05.06	The payroll system must initiate the pay calculation cycle only after time and attendance data have been certified and leave documents have been processed.	FFMSR-2, 21
07.05.07	The payroll system must calculate overtime based on FLSA and Title 5 requirements.	FFMSR-2, 21
07.05.08	The payroll system must calculate premiums and differentials as a percentage of base pay, and base dollar amounts thereon.	FFMSR-2, 21
07.05.09	The payroll system must calculate shift differential amounts based on hours actually worked and certified by a supervisor.	FFMSR-2, 21
07.05.10	The payroll system must accommodate processing of supplemental pay actions.	FFMSR-2, 21
07.05.11	The payroll system must accept allowance and premium pay entitlements as fixed dollar amounts, or be able to compute them as percentages of pay with some or all of the entitlement, as defined by laws and regulations.	FFMSR-2, 21
07.05.12	The payroll system must not allow a single lump-sum pay advance that exceeds three months' net pay for those employees authorized a permanent change of station to a foreign area.	DoD FMR,08,03,090
07.05.13	The payroll system must limit repayments of salary advances to civilians being made made by payroll deduction to a maximum of 26 pay periods.	DoD FMR, 08, 03, 030905A
07.05.14	The payroll system must collect in full the outstanding balance of a salary advance when an employee separates or transfers.	DoD FMR,08,03,090
07.05.15	The payroll system must not allow employees more than one payroll advance at a time unless circumstances warrant and the employee has not received the full amount of the maximum advance consistent with the employee's pay grade.	DoD FRM,08,03,090
07.05.16	The payroll system must adjust gross pay, including allowances and entitlements, to account for leave without pay or absence without leave.	GAO Title 6,4-2A3
07.05.17	The payroll system must support mass rate changes and individual entitlement changes for both current and retroactive processing.	FFMSR-2, 22
07.05.18	The payroll system must accurately compute the dollar values for allowances and special entitlements in accordance with applicable criteria and promptly enter them into the payroll system.	GAO Title 6, 6.5C
07.05.19	The payroll system must prohibit employees and service members from entering any personal information directly into the payroll system.	GAO Title 6, 6.5C; DoD FMR 08, 01, 010406A4

07.05.20 The payroll system must prohibit employees and service members engaged in payroll activities from maintaining or servicing their own payroll and personnel records.

GAO Title 6,2-2.e.a.d

07.05.21 The payroll system must provide relevant information (1) to compute related expenses and liabilities according to designated controlling general ledger and cost accounting classifications, and (2) for internal and external reporting.

GAO Title 6, 6-5C1&2

07.05.22 Systems integrated through a common database must contain edits that ensure accurate reconciliations among different modules or functions.

GAO Title 6,4-2D4C

6. Payroll Processing and Distribution

07.06.01 The payroll system must accept and edit employee-related data based on effective date and nature-of-action codes (NOAC). The codes must agree with *FPM Supplement 296-33*, *FPM Supplement 298-1*, and *FPM 530* guidelines.

FFMSR-2, 10

07.06.02 The payroll system should accept and edit payroll-related data, as required, in accordance with Title 5 and other related regulatory guidelines.

FFMSR-2, 10

07.06.03 The payroll system must update a timesheet history data base each pay period and include current-period and prior-period adjusted timesheet information in it for each employee.

FFMSR-2, 11

07.06.04 The payroll system must update a pay history data base each pay period. The database must include current period, quarter-to-date, and year-to-date pay data for each employee.

FFMSR-2, 11

07.06.05 The payroll system must accept edited payroll-related data in accordance with Title 5 and other related regulatory guidelines for posting to the MER.

FFMSR-2, 11

07.06.06 The payroll system must recognize, through the use of effective dates, when a transaction requires current, future, or retroactive processing. It must then generate the appropriate action and/or payment.

FFMSR-2, 11

07.06.07 The payroll system must allow an authorized user to add a new payline manually, or to change or delete an erroneous payline, prior to the calculation and disbursement of payroll.

FFMSR-2, 12

07.06.08 The payroll system must process incentive awards as a result of personnel actions, for both current and prior-period effective dates, and ensure that duplicate awards are not processed.

FFMSR-2, 14

07.06.09	The payroll system must be able to make unique pay adjustments as well as regular calculations for transactions that cross fiscal and/or calendar years, and provide the updated information to the core financial system.	FFMSR-2, 21
07.06.10	The payroll system must record gross pay, deductions, and net pay while generating information to update other functions and systems, including the standard general ledger maintained in the core financial system.	FFMSR-2, 21
07.06.11	The payroll system must provide adequate information to implement allotment actions that comply with legal and regulatory requirements.	GAO Tile 6,5-3
07.06.12	The payroll system must pay back payment awards and other payroll liabilities promptly to minimize interest costs.	GAO Title 6,7-2D4
07.06.13	The payroll system must be able to generate payments for severance pay.	FFMSR-2, 23
07.06.14	The payroll system must accommodate various methods of payment (e.g., electronic funds transfer, direct deposit, home leave, etc.).	FFMSR-2,23; DoD FMR,08,010301
07.06.15	The payroll system must generate supplemental payments and recertified checks.	FFMSR-2, 23
07.06.16	The payroll system must be able to generate payments to the beneficiaries of employees owed unpaid compensation.	FFMSR-2, 23
07.06.17	Using electronic funds transfer, the payroll system should be able to send any amounts withheld to the appropriate organizations.	FFMSR-2, 23
07.06.18	The system must retain information on gross pay by type, deductions by type, and net pay by pay period.	FFMSR-2, 23
07.06.19	The payroll system must produce magnetic tapes or other media to be sent, with any accompanying reports, to the U.S. Treasury or an authorized disbursing officer. Relevant accompanying reports of deductions, net pay, and employer contributions to payees should be included in the designated media.	FFMSR-2, 23
07.06.20	The system must produce magnetic tapes or other media to be sent to the U.S. Treasury to generate the issuance of U.S. savings bonds.	FFMSR-2, 23
07.06.21	The payroll system must produce magnetic tapes or other media transmitting information about federal retirement thrift plan contributions and loan repayments. The tapes should be sent to the Thrift Investment Board.	FFMSR-2, 23
07.06.22	The payroll system must provide employee earnings statements detailing the composition of gross pay, deductions, and net pay for the pay period and year to date.	FFMSR-2, 23

| 07.06.23 | The payroll system must provide information on the transfer of dues withheld for labor organizations. | FFMSR-2, 23 |

| 07.06.24 | The payroll system must pass information to the core financial and cost accounting systems to update Fund Balances with Treasury and other asset, expense, and liability accounts, appropriation accounts, and relevant cost centers for payroll, including employer contributions. | FFMSR-2, 23 |

| 07.06.25 | The payroll system should send payroll information to other payroll system modules, or other systems, to generate internal and external payroll reports not created directly in the payroll system. | FFMSR-2, 24 |

| 07.06.26 | The payroll system must maintain payroll records for each employee that show each pay period's gross pay, deductions, net pay, and leave balances. | GAO Title 6,7-2B |

| 07.06.27 | The payroll system must produce and send, at the required time, any reports required by the U.S. Treasury, the IRS, the Social Security Administration, the Department of Labor, OPM, OMB, and state and local taxing authorities. | FFMSR-2, 25 |

| 07.06.28 | The payroll system must produce all reports and vouchers necessary to account for payroll expenses and deductions, and establish related receivables. It must also produce supporting detail registers or subsidiary ledgers. | FFMSR-2, 25 |

| 07.06.29 | The payroll system must produce managerial reports to facilitate monitoring of personnel costs, leave authorizations, and personnel actions by personnel/payroll staff members and management. | FFMSR-2, 25 |

| 07.06.30 | The payroll system should generate any tickler reports requested by management (e.g., pending NTE terminations, pending performance evaluations, etc.). | FFMSR-2, 25 |

| 07.06.31 | The payroll system must provide for tax deduction reporting and reconciliation, as well as correction processing. These functions should be available for each tax authority (federal, state, local). | FFMSR-2, 26 |

| 07.06.32 | The payroll system must derive summary totals for earnings, deductions, contributions, and paid hours for internal control purposes and to facilitate reporting. | FFMSR-2, 26 |

| 07.06.33 | The payroll system must generate any reports of pay and benefit transactions required by the agency ore financial system. | FFMSR-2, 26 |

| 07.06.34 | The payroll system must generate reports that account for and reflect various methods of payments (e.g., check, direct deposit/ electronic funds transfer, etc.). | FFMSR-2, 26 |

07.06.35   The payroll system must generate accounting transactions for accruals of   FFMSR-2, 26
           pay and benefits. This process is to provide for reversals and accrued pay
           as well as benefits paid other than on a monthly basis.

07.06.36   The payroll system must provide a means for correcting erroneous   FFMSR-2, 26
           accounting transactions for an employee that affects one or more pay
           periods. The correction should also generate adjusting accounting
           transactions to reverse the improper charges and record the correct ones.

07.06.37   The payroll system must notify agency payroll and personnel office staff of   FFMSR-2, 26
           incorrect or missing data.

07.06.38   The payroll system must store audit trail data in the standard   FFMSR-2, 26
           personnel/payroll data files.

07.06.39   The payroll system must generate detail registers or subsidiary ledgers   FFMSR-2, 26
           which support all vouchers, accounting entries, and disbursements
           authorized by the payroll office.

07.06.40   The payroll system must provide a report for health benefit deductions not   FFMSR-2, 26
           taken (e.g., for an employee on leave without pay).

07.06.41   The payroll system must provide a report of employee debt caused by prior   FFMSR-2, 26
           period adjustments or current-period computation.

07.06.42   The payroll system must provide an output matrix of reports that describes   FFMSR-2, 26
           a report by its title, purpose, frequency, distribution level, and distribution
           method.

07.06.43   The payroll system must generate retention records for a Reduction in   FFMSR-2, 27
           Force (RIF) based on competitive position, tenure, and retention
           requirements.

07.06.44   The payroll system must provide edits to assure that data and/or   FFMSR-2, 28
           transactions are:
           1) appropriately alphabetical, numeric, or both,
           2) within established ranges or consistent with predefined values,
           3) properly authorized,
           4) not executed before the minimum time for execution, in accordance with
           legal criteria, has passed,
           5) not executed after the maximum time for execution, in accordance with
           legal criteria and agency policy, has passed,
           6) not executed in violation of legal criteria, and
           7) executed for all employees, locations, or other parameters intended.
           In addition, the system editing components should further provide:
           8) for some errors to be defined as "fatal," in which case processing stops
           until the problem is resolved,
           9) for other errors to be defined as "nonfatal," in which case processing
           may continue,

10) easily understood messages to identify the nature of errors, and
11) the capability to correct errors immediately on-line or have them placed in suspense files for later correction.

07.06.45	The payroll system must report events and transactions according to the personnel/payroll code structures.	FFMSR-2, 30
07.06.46	The payroll system should generate reports at specific time intervals or upon request, including reports that span fiscal and calendar years.	FFMSR-2, 30
07.06.47	The payroll system must produce transaction listings and error listings (or before and after images of the database) to validate each process.	FFMSR-2, 30
07.06.48	The payroll system must provide the capability to query current, historical, and/or archived data.	FFMSR-2, 30
07.06.49	The payroll system must provide the capability to produce schedules, listings, and reports to support each functional area.	FFMSR-2, 30
07.06.50	The payroll system must support the production of external reports in the prescribed format at the required interval. Reports for external reporting purposes include, but are not limited to:	FFMSR-2, 30

1) reports on federal, state, and local taxes withheld and forwarded for disbursement,
2) reports on retirement data, and health and life insurance information-and forwarded to OPM,
3) reports of pending payroll and personnel transactions for which the effective date has not yet been reached,
4) reports of transactions or actions for which "not-to-exceed" dates are about to be reached, and
5) reports to accompany magnetic media used for certifying and disbursing net pay and deductions.

07.06.51	The payroll system should be able to accept data from multiple media that recognize the user agencies' unique data input requirements.	FFMSR-2, 33
07.06.52	The payroll system must subject all transactions from interfacing systems to the standard personnel/payroll system edits, validations, and error-correction procedures.	FFMSR-2, 33
07.06.53	The payroll system must have the capability to (1) customize data input, processing rules, and edit criteria, and (2) provide agencies with the flexibility in defining internal system operating procedures and in supporting agency requirements.	FFMSR-2, 33
07.06.54	The payroll system must be able to identify and process transactions that enter and update the standard personnel/payroll system from other systems.	FFMSR-2, 33

07.06.55   The payroll system must use software that allows for the uploading and   FFMSR-2, 33
           downloading of data.

07.06.56   The payroll system should be able to provide multiple-media output reports   FFMSR-2, 33
           and recognize the user agencies' data use requirements.

07.06.57   The payroll system should allow users to customize output for reporting. It   FFMSR-2, 33
           must also be connected to any other systems necessary to meet agency
           requirements for external processing (e.g., general budget reconciliation
           and execution).

07.06.58   To facilitate prior-period adjustment processing the payroll system must   FFMSR-2, 12
           maintain historical data by pay period and retain transactions by effective
           date.

07.06.59   The payroll system must allow for the immediate correction of erroneous   FFMSR-2, 10
           input. It must also allow for later correction by maintaining a suspense file
           that has preserved the input as initially entered and edited.

7. Military Pay

07.07.01   The military pay system must compute a service member's monthly pay as   DoD FMR, 7A, 0202(
           if each month had 30 days.

07.07.02   The military pay system must compute a service member's pay at the rate   DoD FMR, 7A, 0202(
           of 1/30 of the monthly rate for each day served when less than the full
           month is served.

07.07.03   The military pay system must deduct 1/30th of 1 month's pay for each day   DoD FMR, 7A, 0202(
           the service member is in a nonpay status during a month.   B, C

07.07.04   The military pay system must compute a service member's forfeiture of pay   DoD FMR, 7a, 0302(
           and allowances for unauthorized absences and other lost time in
           accordance with Table 3-2, *DoD FMR, 7A*.

07.07.05   The military pay system must compute monthly pay by dividing the annual   DoD FMR, 7A, 0202
           salary into 12 equal installments.

07.07.06	The military pay system must compute the pay of an enlisted member who accepts an appointment as an officer at the greater of: 1. the pay and allowances to which such member would be entitled if the member had remained in the last enlisted grade held before the appointment as an officer and had continued to receive increases in pay and allowances authorized for that grade, or 2. the pay and allowances to which the member thereafter becomes entitled as an officer.	DoD FMR, 7A, 020301A
07.07.07	The military pay system must compute the pay of a warrant officer who accepts an appointment as an officer at the greater of: 1. the pay and allowances to which the member thereafter becomes entitled as a commissioned officer, or 2. the pay and allowances to which such member would be entitled if the member had remained in the last warrant officer grade held before appointment as a commissioned officer and continued to receive increases in pay and allowances authorized for that grade, or 3. the pay and allowances to which entitled under subparagraph 020301A, DoD FMR, 7A, before appointment as an officer, in the case of an officer who was formerly an enlisted member.	DoD FMR, 7A, 020301B
07.07.08	For reserve members called to active duty, the military pay system must compute the pay and allowances for the necessary travel time from the reservist's home to first duty station and from last duty station to home (when released/dismissed/discharged from active duty).	DoD FMR, 7A, 020501
07.07.09	For service members on authorized leave the military pay system must compute pay and allowances in accordance with Table 3-1, *DoD FMR, 7A*.	DoD FMR, 7A, 030301, table 3-1
07.07.10	The military pay system must compute pay and allowances for service members under investigation or determined to be serving in fraudulent enlistments for the periods shown in table 4-1, *DoD FMR, 7A*.	DoD FMR, 7A, 0402
07.07.11	The military pay system must compute the pay and allowances for a service member whose physical condition would ordinarily warrant rejection for military service, yet was not discovered at time of enlistment/induction.	DoD FMR, 7A, 0405
07.07.12	The military pay system must compute special pay, continuation pay, bonuses, incentive pay, etc., for service members as authorized in *DoD FMR, vol. 7A*, chapters 5 through 24.	DoD FMR, 7A, chapters 5 - 24
07.07.13	The military pay system must compute a service member's authorized allowances (BAS, BAQ, FSA, etc.) in accordance with *DoD FMR, 7A*, chapters 25 through 31.	DoD FMR, 7A, chapters 25 - 31
07.07.14	The military pay system must compute advance pay and allowances, as well as casual and partial pay, as authorized in *DoD FMR, 7A*, chapter 32.	DoD FMR, 7A, chapter 32

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07.07.15   The military pay system must compute payment for unused accrued leave   DoD FMR, 7A, 3501C
            for a service member who is discharged under honorable conditions.

07.07.16   The military pay system must compute a service members' allotments in   DoD FMR, 7A, chapt
            accordance with *DoD FMR, 7A*, chapters 41 through 43.   41-43

C8. CHAPTER 8

FUNDS CONTROL
AND
BUDGETARY ACCOUNTING

By law (31 U.S.C. 3512), each agency of the federal government is responsible for establishing and maintaining systems and internal controls that ensure that it does not obligate or disburse funds in excess of those appropriated and/or authorized by the Congress. Also, 31 U.S.C. 1341 and 1517--the Antideficiency Act--provide criminal penalties for knowingly over-obligating or over-expending budgetary resources. Therefore, an agency's fund control system is the primary tool for ensuring that it complies with Congressional spending mandates.

An agency may have various systems, such as procurement and travel systems, that affect funds management by committing and obligating funds. These and other systems that affect fund management should access data and use other processes to verify that funds are available, and to update affected balances. Whenever possible and cost effective, these systems should access the funds availability editing activity (of the fund control system) before allowing an obligation to be incurred.

For purposes of budget formulation and execution, an agency's systems of accounting and internal controls should provide information on actual obligations, outlays, and budgetary resources. An agency is required to use United States Standard General Ledger accounts for budgetary accounting and reporting purposes.

Requirements for fund control systems are contained in JFMIP's "Core Requirements" (FFMSR-1) document. OMB Circular A-34, "Instructions on Budget Execution," and, to a lesser degree, OMB Circular A-11, "Preparation and Submission of Budget Estimates," set government-wide policies for fund management to which a fund control system must conform.

The U.S. Treasury has issued a comprehensive illustrative guide, *Budgetary Accounting in the Federal Government* (last updated in September 1996) along with *Reimbursables, A Supplement to Budgetary Accounting in the Federal Government,* to provide information and proforma SGL entries for budgetary accounting.

FUNDS CONTROL AND BUDGETARY ACCOUNTING

Functional Requirements

1: Record Budget Authority/Fund Allocation
2: Maintain Fund Availability
3: Record Commitments, Obligations, and Expenditures
4: Fund Analysis
5: Budgetary Accounting

<u>REQUIREMENTS</u>	<u>SOURCE(S)</u>

1. Record Budget Authority/Fund Allocation

08.01.01	The system must be able to record pertinent information from funding warrants and related budget execution documents.	FFMSR-1, 30
08.01.02	The system must be able to establish limitations on the use of funds to maintain consistency with appropriation and authorization language.	FFMSR-1, 30
08.01.03	The system should be able to establish fund limitations in accordance with credit reform objectives for loan programs, including program lending limits and available subsidy amounts.	FFMSR-1, 30
08.01.04	The system must have the capability to distribute, track, control, and report upon expenditures at various funding levels, based upon the standard general ledger and accounting classification code structure.	FFMSR-1, 30
08.01.05	The system must be able to record the receipt of funds that are transferred from one appropriation account to another.	FFMSR-1, 30
08.01.06	The system must be able to record and control the receipt of contract authority.	SFFAS-1, 34
08.01.07	The system must be able to record and control the receipt of borrowing authority.	SFFAS-1, 35
08.01.08	The system must allow users to modify budgetary limitations to accord with rescissions, apportionment actions, reprogramming, and other adjustments.	FFMSR-1, 31
08.01.09	The system must record and control funds that receive other types of budgetary authority in addition to appropriation authority. It must also be able to identify and note the type of authority received.	FFMSR-1, 31

08.01.10   The system must be able to record the expiration and cancellation of   FFMSR-1, 31
            appropriation authority in accordance with OMB Circular A-34. The system
            must use the standard general ledger in carrying out all such actions.

08.01.11   The system must be able to maintain operating plans and resources which   FFMSR-1, 31
            can be used at all levels of the classification structure.

08.01.12   The system must allow authorized personnel to reallocate funds at   FFMSR-1, 31
            designated levels.

08.01.13   The system must be able to account for budgetary resources at a lower   FFMSR-1, 31
            level in the accounting classification structure than that at which they are
            budgeted and controlled.

08.01.14   The system must be able to maintain different levels of funds control using   FFMSR-1, 31
            elements of the classification structure, including object class, program,
            organization, project, and fund.

08.01.15   The system must be able to record the receipt of apportionments from   DoD FMR, 03, 13,
            OMB which the agency can then use to procure goods and services   130204
            through a specified period of time.

08.01.16   The system must be able to categorize funds received based on how they   DoD FMR, 03, 13,
            are apportioned, e.g. monthly, quarterly, annually, by project, or by object. 130204

2. Maintain Fund Availability

08.02.01   The system must provide for notification of funds availability prior to the   FFMSR-1, 30-31
            issuance of a commitment, obligation, or expenditure. (Users should be
            alerted to transactions failing the funds availability edit.)

08.02.02   The system must be able to update funds availability to prevent the   FFMSR-1, 31-32
            incurrence of commitments, obligations, and expenditures in excess of
            available fund balances. It must also be able to provide complete,
            accurate, and timely data on the status of each account.

08.02.03   The system must allow designated authorities to establish and modify the   FFMSR-1, 31
            level of funds control using elements of the classification structure,
            including object class, program, organization, project, and fund.

08.02.04   The system must provide a response indicator (either reject the transaction   FFMSR-1, 31
            or provide a warning) for the failure of a funds availability check for each
            transaction type.

08.02.05   The system must allow authorized users to override funds availability   FFMSR-1, 32
            checks and controls. It must also provide a record of the occasions when
            "checks" have been overridden.

08.02.06   The system must be able to record the financial impact of all transactions   FFMSR-1, 32
that will affect the availability of funds, such as commitments, liquidations,
obligations, and expenditures.

08.02.07   The system must be able to update all appropriate budgetary accounts to   FFMSR-1, 32
ensure that the current status of funds is always available.

08.02.08   The system must update the general ledger accounts on a routine basis to   DoD FMR, 01, 07, 070
ensure that the current funds status is known to management.

08.02.09   The system must use appropriate calculations for determining funds   FFMSR-1, 32
availability on adjustments to obligations or expenditures; they should be
based on whether the funds cited are current year, expired, or canceled.

08.02.10   The system must check commitment transactions against available funds.   FFMSR-1, 32

08.02.11   The system must check for available funds when the expenditure exceeds   FFMSR-1, 32
the obligating document due to quantity or price variances. The system
must be able to determine the reason for the extra cost.

08.02.12   The system must adjust available fund balances as reimbursable orders   FFMSR-1, 32
are accepted. (In the case of reimbursable orders from the public, an
advance should also be received before additional funding authority is
recorded.)

08.02.13   The system must be able to check available funds for commitments and   FFMSR-1, 32
obligations incurred in support of reimbursable agreements.

08.02.14   The system must maintain the original funding amounts separate from the   DoD FMR, 01, 02,
reprogramming amounts, yet be able to combine the two at the appropriate   app.2C1
levels for funds control checking.

08.02.15   The system must identify unobligated balances restricted for future use and   SFFAS-1, 38
not apportioned for current use.

08.02.16   The system should restrict obligations and expenditures to the amount of   OMB Cir. A-34, 21.3
the appropriation, apportionment, or subdivision.

08.02.17   In the case of multiple-years appropriation accounts whose periods of   DoD FMR, 03, 15,
availability for obligation overlap, the system should apply reimbursable   150204A (3)(b)
customer orders and their related transactions only to the most current
account available, and in the period that orders are received.

08.02.18   The system must be able to identify the unobligated balances and unpaid   DoD FMR, 03, 10020'
obligations of all *expired* appropriations at the time they expire.

08.02.19   The system must identify the unobligated balances and unpaid obligations   DoD FMR, 03, 10020'
of all *cancelled* appropriations at the time they expire.

08.02.20   The system must be able to match (prevalidate) an expenditure   DoD FMR, 03, 110:
            amount/document with the obligation amount/document.

3. Record Commitments, Obligations, and Expenditures

08.03.01   The system must allow a commitment or obligating document to be entered   FFMSR-1, 33
            on-line and from multiple locations, as well as through interfaces with other
            systems.

08.03.02   The system should identify, at a minimum, the following elements of a   FFMSR-1, 33
            commitment: requisition number, line item number, classification structure,
            estimated amount, and estimated delivery date.

08.03.03   The system should be able to modify commitment documents, including   FFMSR-1, 33
            making changes to the dollar amount or the accounting classification
            structure.

08.03.04   The system must allow commitment documents to be future-dated, stored,   FFMSR-1, 33
            and posted at the appropriate date.

08.03.05   The system must be able to partially reduce commitments in the case of a   DoD FMR, 01, 0:
            partially-obligated requisition.   app.2C5

08.03.06   The system should be able to close commitment documents in the   FFMSR-1, 33
            following circumstances: by the system upon issuance of an obligating
            document, by the user with the appropriate authorization, and as part of the
            year-end closing.

08.03.07   The system should be able to record commitments to cover contingent   DOD FMR, 3, 8, 0
            liabilities for price or quantity increases and other variables related to
            contracts.

08.03.08   The system must be able to record obligations for reimburseable orders   DOD FMR, 3, 8, 0
            placed by a DoD component.

08.03.09   The system must be able to record obligations based on obligating   FFMSR-1, 33
            documents and liquidate the related commitments either partially or fully.

08.03.10   The system must be able to record obligations for which there are no   FFMSR-1, 33
            related commitments.

08.03.11   The system should record and maintain information related to each   FFMSR-1, 33
            obligation document, such as document number, vendor number,
            accounting classification structure, and dollar amount.

08.03.12   The system must allow those transactions creating anticipated obligation   FFMSR-1, 34
            documents to be entered early and stored, and then posted at the
            appropriate date. If the anticipated obligation does not occur,

the system must permit the user to delete the transaction without posting it.

08.03.13 The system must allow multiple commitments to be combined into one obligating document. It must also permit one commitment document to be split between multiple obligating documents.   FFMSR-1, 34

08.03.14 The system must be able to cancel obligating documents when properly authorized.   FFMSR-1, 34

08.03.15 The system must provide on-line access to all obligations by selection criteria, e.g. document number.   FFMSR-1, 34

08.03.16 The system must maintain an on-line history of closed out documents for a user-defined period of time.   FFMSR-1, 34

08.03.17 For audit trail purposes the system must retain the original machine readable records, along with all amendments.   FFMSR-1, 34

08.03.18 The system should be able to close obligating documents either (1) by the system automatically, upon complete performance/delivery, or (2) by the user, with appropriate authorization.   FFMSR-1, 34

08.03.19 The system must be able to record Blanket Purchase Agreements and maintain a record of calls for the BPA.   FFMSR-1, 34

08.03.20 The system must be able to record the delivery orders from outstanding contracts.   FFMSR-1, 34

08.03.21 The system should maintain contracts and grants information so that fiscal year-to-date, and inception-to-date, information is maintained.   FFMSR-1, 34

08.03.22 The system should be able to record various intragovernmental acquisition types, such as GSA Personal Property Center, reimbursable orders, and printing from the Government Printing Office.   FFMSR-1, 34

08.03.23 The system must be able to record expenditures related to payments made using an imprest fund, third-party drafts, and government credit cards.   FFMSR-1, 34

08.03.24 The system must record expenditures claimed against advance payments such as travel advances, contract advances, and grant payments made in advance.   FFMSR-1, 34

08.03.25 The system should be able to record obligations for contingent liabilities for which the contingent condition(s) have materialized.   GAO Title 7, 3.4C

08.03.26 The system must be able to cancel obligated and unobligated balances on September 30th of the 5th fiscal year after an appropriation's period of availability for incurring new obligations expires.   DOD FMR, 03, 10, 100201B

4. Fund Analysis

08.04.01	The system must be able to maintain current information on commitments and obligations according to classification structure and on a fund-by-fund basis.	FFMSR-1, 35
08.04.02	The system must track and report the use of funds against operating or financial plans.	FFMSR-1, 35
08.04.03	The system must report planned to actual funds at the level of operating plans.	FFMSR-1, 35
08.04.04	The system must be able to summarize and compare operating plans and then report the analysis to the appropriate level of funds control (e.g., departmental, command-level, claimant-level, activity level).	FFMSR-1, 35
08.04.05	The system must be able to produce detailed listings and summary reports by the defined level of funds control for those documents which represent commitments, undelivered orders, and expenditures.	FFMSR-1, 35
08.04.06	The system must provide control features which ensure that the amounts reflected in the funds control structure agree with the general ledger account balances at the end of each update cycle.	FFMSR-1, 35
08.04.07	The system must record and maintain commitment data according to the classification structure and by each fund or appropriation.	FFMSR-1, 35
08.04.08	The system must be able to maintain historical data on all commitment, undelivered order, payable, and payment transactions.	FFMSR-1, 35
08.04.09	The system should be able to track estimated or anticipated reimbursements expected to be earned.	GAO Title 7,
08.04.10	The system must be able to track actual reimbursements, (i.e., reimbursable orders received from the public and federal agencies).	FFMSR-1, 44
08.04.11	The system must be able to track obligation adjustments and disbursements that previously would have been chargeable to the expired appropriation account but were charged to current appropriations.	DoD FMR, 03, 10, 100201
08.04.12	The system must maintain appropriation and fund identification for current and prior years, including tracking those funds for which the period for obligation has expired.	DoD FMR, 03, 10
08.04.13	The system must not allow current year obligations and/or expenditures to be charged against expired appropriations/funds.	GAO Title-2, III, :

5. Budgetary Accounting

Note: General ledger requirements pertaining to the SGL's budgetary accounts (4000 series) are contained in chapter 1, "General Ledger," of this document.

08.05.01	The system must be able to account for budgetary resources at a lower lever in the accounting classification structure than that at which they are budgeted and controlled.	FFMSR-1, 31
08.05.02	The system must allow users to consistently classify and post budget estimates and transactions in accordance with *OMB Circulars A-11* and *A-34* requirements.	OMB Cir. A-127, 7F
08.05.03	The system must distinguish between two categories of funds within the entity's Fund Balance with Treasury account, i.e., the obligated balance not yet disbursed and the unobligated balance.	SFFAS-1, 37
08.05.04	The system must be able to provide information on the agency's unused funds in those expired appropriation accounts that are returned to the U.S. Treasury at the end of the fiscal year.	SFFAS-1, 39
08.05.05	The system must provide the necessary data to conform to, and prepare reports persuant to, *OMB Circular 34, "Budget Execution"* and *Circular A-11, "Preparation and Submission of Budget Estimates."* The system must also provide the appropriate supporting details.	OMB Cir A-11 & A-34
08.05.06	The system must be able to show total budgetary resources available within the relevant legal limitations (e.g., appropriation, apportionment, statutory limitation, allotment, suballotment, or other administrative subdivision).	FFMSR-1, 30
08.05.07	The system must be able to summarize and classify expenditures in accordance with management's operating plan.	FFMSR-1, 30 & 31

C9. CHAPTER 9

ACCOUNTS PAYABLE
(PAYMENT MANAGEMENT)

Each federal agency is responsible for providing appropriate control over all payments made by it or on its behalf. *OMB Circular A-125,* "Prompt Pay," specifies government policy for payments made by federal entities. Various systems in the DoD architecture perform functions relating to payments. For example, fund control systems establish obligations and other systems record accounts payable. Still other systems actually make the payments. Finally, summary data regarding payments are provided to accounting systems for proprietary and budgetary accounting purposes.

ACCOUNTS PAYABLE
(PAYMENT MANAGEMENT)

Functional Requirements

1: Maintain and Update Payee Information
2: Recognize Liabilities/Establish Payables
3: Schedule Payments for Disbursement
4: Execute Payments
5 Confirm and Follow-up on Payments
6: Reporting

REQUIREMENTS	SOURCE(S)

1: Maintain and Update Payee Information

09.01.01	The system must update and provide information on payees, including individuals, employees, other federal agencies, private sector organizations, recipients of direct loans, grants, and entitlements.	FFMSR-1, 37
09.01.02	The system must maintain year to date and calendar year information to support IRS 1099 income reporting.	FFMSR-1, 37, 41
09.01.03	The system must maintain payee information that includes data to support obligation, accounts payable, and disbursement processes.	FFMSR-1, 37
09.01.04	The system must support payments (i.e., provide documentation) made to third parties that act as agents for the payee.	FFMSR-1, 37
09.01.05	The system must allow for multiple payment addresses and/or bank information for a single payee.	FFMSR-1, 37
09.01.06	The system must have a search capability for all payee information.	FFMSR-1, 37
09.01.07	The system must be able to produce payee listings based on agency defined criteria, e.g., payee name and number.	FFMSR-1, 37
09.01.08	The system must maintain information needed to support IRS 1099 reporting, including Taxpayer Identification Numbers and payee type (e.g., sole proprietorship, partnership, corporation). In cases where a third party acting as an agent receives the payment, the system must be able to maintain Form 1099 information for the principal party rather than the agent.	FFMSR-1, 37

2: Recognize Liabilities/Establish Payable

09.02.01   The system must be able to warehouse and schedule payments in   FFMSR-1, 38
           accordance with applicable regulations (e.g., *OMB Circular A-125*, the
           Cash Management Improvement Act, and travel regulations).

09.02.02   The system must record an accrued liability upon receipt of goods and   FFMSR-1, 38
           services and identify them as capital assets, expenses, prepaid expenses,
           and construction-in-progress.

09.02.03   The system must be able to access previously entered information and/or   FFMSR-1, 38
           record additional information necessary to determine the due date and
           amount of vendor payments, in accordance with *OMB Circular A-125*.
           Such information must be based on invoices, receiving reports, and
           contracts or purchase orders. Due date determination must consider
           special situations such as contract provisions specifying non-standard
           acceptance periods, laws specifying payment terms for certain
           commodities such as meat or dairy products, the failure to return a
           defective invoice in a timely fashion, and other situations specified in *OMB
           Circular A-125*.

09.02.04   The system must be able to record additional shipping and other charges   FFMSR-1, 38
           and adjust the payment amount when authorized.

09.02.05   The system must be capable of splitting an invoice into multiple payments FFMSR-1, 38
           on the appropriate due dates when items on the invoice have different due
           dates.

09.02.06   The system must be able to record discount terms and also determine   FFMSR-1, 38
           whether taking the discount is cost effective, as defined in the *U.S.
           Treasury Financial Manual*, Volume I, section 6-8040.

09.02.07   The system must update the funds control and budget execution balances   FFMSR-1, 38
           to reflect changes in the status of undelivered orders and expended
           appropriations, as well as changes in prices or other authorized charges.

09.02.08   The system must adjust the asset or expense records with the liability   FFMSR-1, 38
           amount when the amount on the invoice is different from the receipt.

09.02.09   The system must be able to adjust the asset or expense recorded with the   FFMSR-1, 38
           liability if the authorized payment (based on the invoice) is different from
           the amount accrued (based upon receipt and acceptance). It must
           also be able to adjust the obligation amount and determine if funds are
           available to cover a possible increase.

09.02.10   The system must be able to establish payables and make payments on   FFMSR-1, 38
           behalf of another agency, citing the other agency's funding information.

09.02.11	The system must allow orders to be reopened by authorized staff after final payment has been made.	FFMSR-1, 39
09.02.12	The system must allow changes to payment schedules by authorized staff prior to submission to the disbursing office.	FFMSR-1, 39
09.02.13	The system must be able to handle credit memoranda for returned goods, as well as other adjustments. The system must apply a credit memorandum for a payment due to the account of the vendor from whom it was issued.	FFMSR-1, 39
09.02.14	The system must reestablish a payable for voided checks or checks that have been returned but have not been negotiated; and allow for reversing the accounting transaction leading to the disbursement.	FFMSR-1, 39
09.02.15	The system must record obligations, expenses, assets, etc., associated with payments made through the use of imprest funds, third-party drafts, and government credit cards. It must also establish a payable to replenish the imprest fund or pay the financial institution handling the third-party drafts and credit cards.	FFMSR-1, 39
09.02.16	The system must schedule payments of advances, prepaid expenses, loan, grants, etc., and generate the appropriate accounting entries for each.	FFMSR-1, 39
09.02.17	The system must record expenses, assets, etc., based upon performances funded by advances, prepaid expenses, and grants, and make the appropriate liquidations. It must also update funds control balances to reflect obligation changes.	FFMSR-1, 39
09.02.18	The system must generate the appropriate transactions to reflect discounts or withholdings, and add interest or penalties when appropriate.	FFMSR-1, 39 FMR, 01, 020
09.02.19	The system must allow authorized users to override quantity variances and dollar variances. Tolerances must be established within which such changes can be made.	DoD FMR, 0 2, D3a
09.02.20	The system must use the correct interest rate (issued by the U.S. Treasury every 6 months, beginning January 1 and July 1 of each year) for prompt payment of interest.	DoD FMR, 1 070306
09.02.21	The system must update other systems or other parts of the core system by electronic means wherever appropriate; unnecessary duplication of the transaction entry must be avoided.	OMB Cir.A-1
09.02.22	When an entity accepts title to goods, whether the goods are delivered or in transit, the system must recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available, then the amounts owed must be estimated.	SFFAS-1, 7

09.02.23	The system must record interest payable for the amount of interest expense incurred and unpaid.	SFFAS-1, 81
09.02.24	The system must identify interest payable to federal entities separately from interest payable to the public.	SFFAS-1, 82
09.02.25	The system must adjust accounts payable when available cash discounts are to be taken.	DoD FMR, 04, 09, 090102B
09.02.26	The system must record a liability for goods and services purchased under a long-term contract in the period in which the goods and services are received or accepted.	DoD FMR, 04, 08, 080210
09.02.27	When evidence of performance is received, the system must record the transaction simultaneously in the budgetary accounts as accrued expenditures unpaid and in the proprietary accounts as an accounts payable.	DoD FMR, 04, 09, 090102B
09.02.28	The system must identify those instances where an invoice is missing a receiving report or an acceptance. It must also identify when goods or services have been received and accepted without an invoice being recorded.	DoD FMR, 01, 02, 2, D3c
09.02.29	The system must record expenditures claimed against advanced payments made.	FFMSR-1, 34
09.02.30	The system must allow transactions to be entered directly for those events that will result in payment but are not part of the normal commitment, obligation, and matching process.	DoD FMR, 01,02,A 2,D5a
09.02.31	The system must reject interfacing system transactions which do not have a valid vendor identified, except when overrides are properly authorized.	DoD FMR, 01,02,A 2,D8g
09.02.32	The system must account for and report incurred liabilities, regardless of whether funds are available or authorized for payment.	DoD FMR, 04, 08, 080206
09.02.33	The system must record liabilities for advances or prepayments received from the public and other government agencies for goods and services the agency will be providing.	DoD FMR, 04, 13, 130201
09.02.34	The system must reflect contractual holdbacks as liabilities.	DoD FMR, 04, 08, 080211
09.02.35	The system must be able to record a liability to pay for work incurred for contracts involving constructive delivery.	DoD FMR, 04, 08, 080211
09.02.36	The system must record as liabilities: - amounts withheld from a contractor pending final payment, and - amounts received in advance of performance.	DoD FMR, 04, 08, 080209,080211

| 09.02.37 | When facilities or equipment is constructed according to contract specifications, the system must record a payable for the estimated work completed. | SFFAS-1, 79 |

| 09.02.38 | The system must identify accounts payable not covered by budgetary resources. | SFFAS-1, 80 |

| 09.02.39 | The system must record advances and prepayments (received from other entities for goods to be delivered or performed) as other current liabilities. | SFFAS-1, 85 |

| 09.02.40 | The system must recognize a liability when one party receives goods or services in return for a promise to provide money or other resources in the future. | SFFAS-5, 22 |

3: Schedule Payments for Disbursement

| 09.03.01 | The system must notify the user when the number of payments is less than a user defined number (100 payments under current U.S. Treasury requirements). | I TFM 4- 2055.15 |

| 09.03.02 | The system must generate a hard copy SF-1166 for those scheduled payments that total less than 100 payments. | I TFM 4- 2055.15 |

| 09.03.03 | The system must cancel the automated payment request for scheduled payments that total less than 100 payments. | I TFM 4- 2055.15 |

| 09.03.04 | The system must include a special certification for vouchers involving payments for printing and long distance telephone calls. | I TFM 4- 2035.40; I 4- 2035.50 |

| 09.03.05 | The system must be able to identify and consolidate multiple payments to a single payee in order to produce one check. All the payments must be itemized on the documentation accompanying the check (or on the check itself). | I TFM 4- 2055.25 |

| 09.03.06 | The system must be able to record the details (invoice numbers, voucher numbers, contract number, etc.) of a consolidated payment. | I TFM 4- 2055.25 |

| 09.03.07 | The system must be able to prepare separate schedules for the general classifications of payment, such as travel vouchers, vouchers payable in foreign currency, vendor payment vouchers, transportation vouchers, etc. | I TFM 4- 2055.20B |

| 09.03.08 | The system must cross reference each voucher to the voucher schedule by agency identification numbers and be able to match one with the other. | I TFM 4- 2055.20A |

| 09.03.09 | The system must assign a unique identification number to each voucher that will be used for accounting and auditing purposes. | I TFM 4- 2050.40 |

09.03.10 The system must record, in the accounting classification space on each voucher, the account symbol or other reference number which identifies the specific appropriation(s) affected.

I TFM 4- 2035.10

09.03.11 The system must schedule payments that are $1 million or more by preparing multiple payment records.

I TFM 4- 2020.40

09.03.12 The system must report disbursements of $50 million or more to the U.S. Treasury on the day of the disbursement.

I TFM 4- 2020.20

09.03.13 The system must generate a report listing any payments scheduled on a particular day.

DoD FMR, 01, 02 Add. 2, D10h

09.03.14 The system must recognize payments for services of a continuing nature which are performed under agency-vendor agreements. Such payments, which are for definite amounts at fixed intervals, may not be made without submission of vouchers, invoices, or bills by the vendor.

I TFM 4-2025.30

09.03.15 The system must require that each agency certifying officer be assigned a range of prenumbered voucher-schedules and that the range be transmitted to the U.S. Treasury.

I TFM 4-2030.40

09.03.16 The system must ensure that a comparison of the paid copy with the pending copy of the voucher-schedule is made. If any errors or alterations are noted, they must be reported immediately to the Inspector General's office and the disbursing officer.

I TFM 4-2055.15

09.03.17 The system must schedule payments in the currency billed unless the payee is located in a restricted country, or in an excess or near-excess currency country.

I TFM 4-2075.40b

09.03.18 The system must provide features allowing authorized personnel to amend in-transit payment schedules based on notification by the disbursing office.

I TFM-1, 2055.15

09.03.19 The system must generate a payment due date of 30 days if a due date is not specified in the contract.

OMB A-125, 4e

09.03.20 The system must allow recoveries of unused advances to be recorded as a negative disbursement (as a debit to account 1012, Funds Disbursed).

DoD FMR, 04, 05, 050304

4: Execute Payments

09.04.01 The system must identify and select payments to be disbursed in a particular payment cycle based on their due dates. It must also allow an authorized certifying officer access to the system for review and certification.

FFMSR-1, 39

09.04.02   The system must allow specific payments selected for disbursement to be   FFMSR-1, 39
            excluded from the payment cycle and held for later payment.

09.04.03   The system must be able to compute certain amounts related to payables,   FFMSR-1, 39
            including: discounts, withholdings, and interest or penalties. It must also
            generate the appropriate transactions to reflect the above deductions and
            additions.

09.04.04   The system must include on each payment relevant identification   FFMSR-1, 40
            information (e.g., contract number, invoice number, and interest penalty
            amount and calculations).

09.04.05   The system must collect information on discounts taken, discounts lost,   FFMSR-1, 40
            and interest penalties in order to comply with applicable prompt pay
            reporting requirements.

09.04.06   The system must calculate totals by appropriation symbol for inclusion on   FFMSR-1, 40
            the payment schedule, except for unidentified appropriations.

09.04.07   The system must provide for various forms of payment to be used, i.e.,   FFMSR-1, 40
            check, or electronic transfer of funds (e.g., ACH, wire). The requirements
            related to these payments include:

            - consolidating multiple payments to a single payee, up to the prescribed
            limitation in order for the disbursing office to produce one check and
            itemize all payments covered by the one check. Allowing for separate
            check to a payee in specific instances where needed,
            - allowing a payment to be removed from the automated scheduling stream
            and scheduled as a manual payment,
            - providing the capability to schedule and make payments in various forms.

09.04.08   The system must prepare and send reports to the U.S. Treasury showing   FFMSR-1, 40
            the disbursements made by an agency under its own disbursing authority.

09.04.09   The system must process transactions resulting from payments made   FFMSR-1, 40
            using other systems, such as payroll. It must also record disbursements,
            assets, expenses, and obligations. The system must not
            schedule, or make a payment already scheduled by the core financial
            system, as the payment may already been made by the other system.

09.04.10   The system must record disbursements made through OPAC by another   FFMSR-1, 40
            agency against the agency's funds.

09.04.11   The system must record payments made by another entity, such as a   FFMSR-1, 40
            finance center, on behalf of the agency using agency funds.

5. Confirm and Follow-up on Payments

09.05.01   The system must provide information about each payment that reflects the   FFMSR-1, 41
stage of the scheduling process that the payment has reached, and the
date each step was reached. Such stages include:

- the date payment scheduled,
- the date the schedule was sent to appropriate disbursing office, and
- the date payment issued by appropriate disbursing office.

09.05.02   The system must provide for the comparison of the agency's payment   FFMSR-1, 41
schedule and the disbursing office's accomplished payment schedule.

09.05.03   The system must update the agency's records when payment information   FFMSR-1, 41
is received from the disbursing office, and should include: the paid
schedule number, check numbers, and date and amount of payment.

09.05.04   The system must maintain a payment history of every payment by the core   FFMSR-1, 41
financial system, and should include: authorizing document number,
payment schedule number, payment date, invoice number, vendor number,
and appropriation charged.

09.05.05   The system must provide on-line access to vendor and payment   FFMSR-1, 41
information.

09.05.06   The system must provide on-line access to open documents based on   FFMSR-1, 41
agency selection criteria, e.g. document number.

09.05.07   The system must produce the supporting information needed to prepare   FFMSR-1, 41
the Prompt Pay report in accordance with requirements in *OMB Circular A-*
125.

09.05.08   The system must generate a completed monthly Statement of   FFMSR-1, 41; I TFM
Transactions, SF 224.   3300

09.05.09   The system must generate a completed Statement of Accountability, SF   FFMSR-1, 41; I TFM
1219, each month.   3100

09.05.10   The system must generate a completed Statement of Transactions, SF   FFMSR-1, 41; I TFM
1220, each month.   3100

09.05.11   The system must maintain an on-line history file of closed out documents   DoD FMR, 01, 02, A
for a user-defined period of time.   2, D3c

6: Reporting

09.06.01	The system must generate aged requisitions.	DoD FMR, 01,0: 2,D10a
09.06.02	The system must generate aged outstanding obligating documents by entry date and expected receipt date.	DoD FMR, 01,0 2,D10c
09.06.03	The system must generate aged receiving reports without an acceptance.	DoD FMR, 01,0 2,D10b
09.06.04	The system must generate an aged, unmatched vendor invoice report.	DoD FMR, 01,0 2,D10d
09.06.05	The system must report the number and amount of interest penalties paid.	DoD FMR, 01,0 2,D11d
09.06.06	The system must generate the status and procurement history for documents such as multi-task contracts, grants, and blanket purchase agreements.	DoD FMR, 01,C 2,D2g
09.06.07	The system must produce a detailed listing by (1) level of funds control and specific contract for commitment documents, (2) obligation document, and (3) expenditure of funds.	DoD FMR, 01,C 2,D10e
09.06.08	The system must generate a cash requirement projection report indicating the dollar amount of disbursements due to be made on a particular day.	DoD FMR, 01,(2,D10g

C10. CHAPTER 10

TRAVEL

Travel policies, rules, and regulations for the federal agencies are established by the General Services Administration (GSA) and the Office of Personnel Management (OPM). The Joint Federal Travel Regulations (JFTR) directly implements travel and transportation entitlements authorized by law. The JFTR prescribes travel and transportation allowances authorized for federal civilian employees. DoD's travel policy and procedures are contained in volume 9 of the Department's *Financial Management Regulation (DoD 7000.14-R)*. JFMIP has established specific requirements for agencies' systems that process, control, and report on employees' travel.

Travel

Functional Requirements/Processes
1: System Overview
2: Travel Authorizations
3: Travel Advances
4: Travel Vouchers
5: Local Travel
6: Sponsored Travel
7: Interface Requirements
8: Reporting

<u>**REQUIREMENTS**</u>   <u>**SOURCE(S)**</u>

1: System Overview

10.01.01	The travel system must be able to track the status of a travel order and a travel voucher as it goes through the various stages of preparation and approval.	FFMSR-3, 5
10.01.02	The travel system must incorporate the preparation and approval of travel and transportation authorizing documents, including: (1) fund certification, (2) preparation and authorization of travel advances, and (3) computation, preparation, and approval of travel voucher.	FFMSR-3, 5
10.01.03	The travel system must record travel transactions in chronological and systematic order.	FFMSR-3, 5
10.01.04	The travel system must document travel information so that it is easily and readily available for analysis, decision support, operational control management, and external regulatory reports.	FFMSR-3, 5-6
10.01.05	The travel system must provide the traveler or support clerical staff with the capability to produce travel information and to control the processing of travel and financial data.	FFMSR-3, 6
10.01.06	If automated, the travel system must provide the user with prompts and readable, logically-ordered screens that make the travel process as easy as possible. It must also make the maximum functional use of previously-entered data.	FFMSR-3, 6
10.01.07	The travel system should provide on-line and hard-copy information to the traveler (such as warning messages, identification of sources of additional information, certification levels required, etc.).	FFMSR-3, 17
10.01.08	For centralized control and system administration, the travel system must maintain various tables, such as locality/M&IE allowances, locality/lodging rates, travelers/government credit card data, rental car rates/types, etc.	FFMSR-3, 17-18

2: Travel Authorization

10.02.01	The travel system should be able to create travel orders (in accordance with DOD regulations) and provide funds certification for both unlimited and limited travel authorizations.	FFMSR-3, 9 DoD FMR 09, 02, 020201
10.02.02	The travel system must be able to maintain the order of precedence for executing each travel step.	FFMSR-3, 9
10.02.03	The travel system must be able to change the order of precedence of the processing steps to handle unusual travel demands or local travel.	FFMSR-3, 9
10.02.04	The travel system must be able to determine whether the traveler is a holder of a government-issued charge card or is eligible for a charge card based on frequency of travel.	FFMSR-3, 9; DoD FMR 09, 02, 020202A, 030303
10.02.05	The travel system must be able to process unlimited open-travel authorizations, limited open-travel authorizations, and trip-by-trip authorizations.	FFMSR-3, 9
10.02.06	The travel system must have coding and processing structures that will link all phases of travel together.	FFMSR-3, 9
10.02.07	The travel system must show whether a travel authorization exists and that the travel ceilings have not been exceeded.	FFMSR-3, 9
10.02.08	The travel system should record detailed itinerary information.	FFMSR-3, 9
10.02.09	The travel system must calculate authorized per diem, meals, and incidental expenses (M&IE) for both the planned itinerary and the actual travel performed.	FFMSR-3, 9
10.02.10	The travel system must be able to electronically rout various kinds of travel, including those that have special routing considerations. It must also be able to electronically send travel authorization requests to approving and reviewing officials.	FFMSR-3, 9
10.02.11	The travel system must be able to cite multiple funding sources for each planned and authorized trip.	FFMSR-3, 9
10.02.12	The travel system must be able to process travel orders with split fiscal year funding and with multiple funding and object classification codes.	FFMSR-3, 9
10.02.13	The travel system must be able to identify who constitutes a valid traveler and retain relevant information about the traveler in the system.	FFMSR-3, 9
10.02.14	The travel system must maintain an adequate separation of duties.	FFMSR-3, 10

10.02.15   The travel system must allow for the correction, amendment, and   FFMSR-3, 10
cancellation of a travel order. It must also provide reports to the traveler,
approving official, and accounting office concerning any changes made to
the travel order.

10.02.16   The travel system must capture the traveler's personal information (e.g.,   FFMSR-3, 10
staff ID, SSN, payment address, permanent duty station, organization,
position title, office phone, etc.) at the entry point of the travel transaction.
The personal information collected at that time will be retained for
subsequent travel actions.

10.02.17   The travel system should be able to record travel authorizations for official   FFMSR-3, 10
travel that is performed at no expense to the government. It must also
have strict administrative and funds control and be able to protect
the rights and entitlements of the traveler.

3: Travel Advances

10.03.01   The travel system must be able to approve and process the payment and   FFMSR-3, 10
liquidation of government funds used to defray travel expenses of
employees or non-employees (travel advances).

10.03.02   The travel system must be able to set, change, and enforce established   FFMSR-3, 10
limits on travel advances, in whatever mode selected for payment.

10.03.03   The travel system should be able to use Automated Teller Machines (ATM)   FFMSR-3, 10
for advances. It must also account for handling charges, in accordance
with the travel regulations or other criteria established by the agency.

10.03.04   The travel system must be able to age outstanding travel advances based   FFMSR-3, 10
on the end of trip date. The system must then generate follow-up letters
and memoranda to the travelers and administrative staff concerning
delinquent advances; which may result in payroll offsets or other means of
collection.

10.03.05   The travel system must allow for properly authorized and approved travel   FFMSR-3, 10
advance transactions. The system should be able to process travel
advances for direct deposit or give the traveler cash or cash equivalents
(cash, travelers checks, third party drafts, etc.).

10.03.06   The travel system must be connected with the accounts receivable module   FFMSR-3, 10-11
of the agency's core financial system. Both the travel and core systems
must use the U.S. Standard General Ledger to establish receivables
for overdue travel advances. Both systems must ensure that the
receivables are collected in accordance with agency collection procedures.

10.03.07 The travel system should provide for limiting the allowed advance based upon transportation method (Government Transportation Request vs. non-GTR), subsistence rates, miscellaneous expenses, and traveler possession of or eligibility for a charge card. FFMSR-3, 11

10.03.08 The travel system must be able to age outstanding advances and identify and report upon travelers who have not submitted travel vouchers within the period stipulated in *DoD FMR, volume 9,* chapter 2. DoD FMR 09, 02, 02030

4: Travel Vouchers

10.04.01 The travel system should provide for input by both the traveler and support clerical staff, at central and remote locations. FFMSR-3, 11

10.04.02 The travel system should provide for automated points-of-entry to collect the information necessary to prepare the voucher. FFMSR-3, 11

10.04.03 The travel system should be able to send messages to the user regarding required receipts, unused tickets, refunds, certificates, or any other supporting documentation that may be needed. FFMSR-3, 11

10.04.04 In order to expedite the liquidation of an outstanding advance the travel system must be able to process partial claims against travel orders. (A travel order is the basis for a traveler's reimbursement.) FFMSR-3, 11; DoD FMR 09, 02, 020202C

10.04.05 The travel system must capture the information on entry dates and provide reports that track information that management requires. FFMSR-3, 11

10.04.06 The travel system must be able to enter subsistence rates, mileage allowances, or other important values when they not available from the tables resident in the travel system. FFMSR-3, 11

10.04.07 The travel system must be able to draw upon the information provided by the traveler. Using that information the system should format and prepare the voucher/claim as required. FFMSR-3, 11

10.04.08 The travel system must provide the capability to calculate entitlements after the entry of required information. It should make required reductions or adjustments in allowances against standard parameters. FFMSR-3, 11-12

10.04.09 The travel system must provide for certification statements and other standard clauses required on the vouchers. They should be made part of the system and either automatically entered on the voucher or be available for selection by the operator. FFMSR-3, 12

10.04.10 The travel system must be able to cite multiple funding sources. FFMSR-3, 12

10.04.11 The travel system should provide information to the user about required   FFMSR-3, 12
receipts and documentation. The system should provide for partial
vouchering and for amended vouchers and shall have the capability to
update related systems/modules.

10.04.12 The travel system should provide the traveler with the capability to create   FFMSR-3, 12
and modify travel vouchers before final approval. The voucher then would
be electronically transferred to the approval official. The approving official
would either deny and remand it to the traveler or approve it through
electronic signature and forward it for audit and payment certification.

10.04.13 The travel system must have a tracking system that will allow travelers,   FFMSR-3, 12
payment offices, etc., to determine the status of any voucher/claim.

10.04.14 The travel system should provide for the generation of notices to the   FFMSR-3, 12
traveler when information has not been submitted in a timely manner.

10.04.15 The travel system must provide interfaces with the accounts receivable   FFMSR-3, 12
module to allow salary offsets or the generation of management reports.
This will support fiscal period cut-offs or a demand for interim period
reports.

10.04.16 The travel system must provide the capability to allow a requesting office to   FFMSR-3, 12
generate a request for approval and transmit it through appropriate agency
channels to the approving official for review and action.

10.04.17 The travel system must have special routing and approval levels for certain   FFMSR-3, 12
classes of travel, e.g., international travel or travel external to the agency.

10.04.18 The travel system must provide for the matching of travel vouchers with   FFMSR-3, 12-13
travel authorizations and/or centrally issued passenger tickets, and provide
for an audit of the claim in accordance with: (1) the Federal Travel
Regulation for relocation of civil service employees and the temporary duty
travel of all government travelers (domestic and international), (2) the Joint
Federal Travel Regulations (JFTR) for the travel of all military members,
and (3) Foreign Service relocations or special allowance travel of foreign
service employees.

10.04.19 The travel system must integrate the issuance and control of the travel   FFMSR-3, 13
advances with the travel system payment process to ensure that the
advance is liquidated or collected prior to the issuance of a payment to the
traveler, unless the traveler has been authorized a "retained" travel
advance.

10.04.20 The travel system should provide for a mechanism that is flexible in   FFMSR-3, 13
defining sampling criteria, such as dollar amount, travel type, etc. It should
also be able to randomly select sample voucher packages
(approved voucher receipt) for submission to the finance or other
designated office for voucher examination and receipt verification.

10.04.21   The travel system must track and report travel obligation and liquidation   FFMSR-3, 13
            information based on OMB-defined travel purposes.

10.04.22   The travel system should be able to determine taxable and nontaxable   FFMSR-3, 17
            relocation expenses, and withhold and remit taxes on relocation travel
            expenses.

10.04.23   The travel system should provide the capability to process more than one   FFMSR-3, 17
            Relocation Income Tax allowance if reimbursement is received in more
            than one calendar year.

5: Local Travel

10.05.01   The travel system must produce the local travel voucher and prepare
            additional copies as needed.
                                                                                              FFMSR-3, 13
10.05.02   The travel system must allow the authorizing official to sign or otherwise
            indicate that the travel for reimbursable claim is authorized.
                                                                                              FFMSR-3, 13
10.05.03   The travel system must provide for funds certification.
                                                                                              FFMSR-3, 13
10.05.04   The travel system must be able to allow the user to assign the appropriate
            accounting classification data to update the accounting system.
                                                                                              FFMSR-3, 13
10.05.05   The travel system must record the obligations and disbursements for
            registration fees for attendance at non-government sponsored meetings
            (where no travel expenses other than transportation are involved).
                                                                                              FFMSR-3, 13
10.05.06   The travel system must automatically create a transaction code to record
            an obligation and payment into the system along with other appropriate
            accounting information. The system must record the type of
            disbursement and the appropriate schedule number in the system and also   FFMSR-3, 14
            update the subsidiary ledgers and the standard general ledger.

6: Sponsored Travel

10.06.01   The travel system should track the approval process for the acceptance of   FFMSR-3, 14
            payment in-cash, or the acceptance of in-kind services from non-federal
            sources that defrays in whole or in part the travel or related expenses of
            civilian employees.

10.06.02   The travel system should enter the approval, or disapproval, by a   FFMSR-3, 14
            designated individual of the approving office; and be able to accommodate
            an approving official at an off-site location.

10.06.03   The system must ensure that sponsored travel be administratively   FFMSR-3, 14
approved prior to final approval of the travel order (with exception of an
override ability to approve sponsored travel after the fact if necessary).
Upon approval of a travel request, the travel management system should
prompt the traveler through the system or generate a report to advise the
traveler (or the travel office) to enter the travel order in the system.

10.06.04   The travel system should provide notification to the accounting office of   FFMSR-3, 14
information required to establish an accounts receivable for travel deposits
or collections.

10.06.05   The travel system should provide the capability to indicate the amounts and   FFMSR-3, 14
entitlements to be paid by the government and those to be paid by the
sponsoring organization.

10.06.06   The travel system should interface with the accounting system to allow the   FFMSR-3, 14
recording of cash or in-kind services.

10.06.07   The travel system should be able to generate the appropriate obligation   FFMSR-3, 15
records to reflect how much of the cost of the trip is to be funded by the
government. It must also be able to record the receipt of income from non-
federal sources.

10.06.08   The travel system must provide reports to the accounting office that   FFMSR-3, 15
indicate any outstanding vouchers.

7: Interface Requirements

10.07.01   The travel system must provide travel activity transactions to the core   FFMSR-3, 15
financial system by generating obligation records, including deobligations
(cancellations) and adjustments (amendments).

10.07.02   The travel system must provide travel activity transactions to the core   FFMSR-3, 15
financial system by updating funds control.

10.07.03   The travel system must provide travel activity transactions to the core   FFMSR-3, 15
financial system by updating the standard general ledger.

10.07.04   The travel system must provide travel activity transactions to the core   FFMSR-3, 15
financial system by generating disbursement actions by check, EFT, etc.,
with corresponding accounting transactions. To the extent possible, and
consistent with the current GAO, GSA, and Treasury requirements, the
system should provide for electronic transfer of funds.

10.07.05   The travel system must provide travel activity transactions to the core   FFMSR-3, 15
financial system by recording travel advance issuance and liquidation
actions against corresponding obligation and expenditure records.

10.07.06	The travel system should interface with the accounts payable function to provide automated scheduling of travel and transportation voucher payments and provide a medium to facilitate payment of travel orders with the cashier function.	FFMRS-3, 15

10.07.07   The travel system should record airline ticket information that is essential to   FFMSR-3, 15
the airline ticket payment process. This will allow the accounting office to
review the ticketing information, verify the amount cited on the airline bill,
determine if a refund is due, and reconcile any other ticketing differences.

8: Reporting

10.08.01   The travel system must be able to generate the required standard reports   FFMSR-3, 16
for control purposes.

10.08.02   The travel system should provide for the generation of prospective and   FFMSR-3, 16
retrospective managerial reports to be used for budgeting purposes, trip
planning, and travel management.

10.08.03   The reports must maintain all the information entered by the traveler as well   FFMSR-3, 16
as the status of all the travel documents.

10.08.04   The reports must provide for the retrieval of balances and costs by traveler   FFMSR-3, 16
name and SSN, including data elements for non-Federal travelers, funds
source(s), organization, project, purposes of travel, travel dates, etc.

10.08.05   Based on the estimated dates of return, the system should be able to: FFMSR-3, 16
follow-up on travel advances with balances outstanding, generate letters
and memoranda delinquent notices to travelers, conduct payroll
offsets, accomplish other collections, and report payments as earned
income if appropriate.

10.08.06   The system must maintain all data elements required to perform on-line   FFMSR-3, 16
queries and to generate standard and ad hoc reports.

10.08.07   The system must provide an outstanding travel voucher report.   FFMSR-3, 16

10.08.08   The system must provide for the automatic aging of travel advances and   FFMSR-3, 16
regular reporting on the status of the advances.

10.08.09   The system must provide a total travel and cost comparison in a destination   FFMSR-3, 16
report.

10.08.10   The system must generate a letter of notice to travelers with outstanding   FFMSR-3, 16
travel advances who have not submitted a voucher within a given time
period.

10.08.11   The reports must generate a letter to the traveler noting specific expenses   FFMSR-3, 16
which were disallowed on the voucher, and why.

10.08.12   The reports should provide travel data to GSA for oversight.   FFMSR-3, 16

C11. <u>CHAPTER 11</u>

<u>DIRECT LOANS</u>

Federal agencies make billions of dollars of direct loans to American citizens and companies annually. Direct loans disbursed and outstanding are recognized as assets of the federal government. Due to the magnitude of federal loan activity, JFMIP has established specific requirements for those agency systems that are used to manage direct loan portfolios. *SFFAS Number 2* prescribes accounting requirements for direct loans.

DIRECT LOANS

Functional Requirements/Processes

1: Loan Extension: Application Screening Process
2: Loan Extension: Loan Origination Process
3: Account Servicing: Billing and Collection Process
4: Account Servicing: Account Status Maintenance Process
5: Portfolio Management: Portfolio Performance Process
6: Portfolio Program Financing Process
7: Portfolio Management: Portfolio Sales Process
8: Delinquent Debt Collection: Collection Actions Process
9: Delinquent Debt Collection: Write-offs and Close-outs Process
10: Foreclose and Liquidate Collateral: Foreclose on Collateral Process
11: Foreclose and Liquidate Collateral: Manage Liquidate Collateral Process
12: Cost of Post-1991 Direct Loans

REQUIREMENTS	**SOURCE(S)**

1: Loan Extension: Application Screening Process

11.01.01	The direct loan system must record critical credit application data needed to support application screening.	FFMSR-5, 25
11.01.02	The direct loan system must provide access to application information to all agency staff participating in the screening and credit-granting decisions.	FFMSR-5, 25
11.01.03	The direct loan system must process and record collections of fees remitted with the application in both the direct loan system and the core financial system.	FFMSR-5 ,25
11.01.04	The direct loan system must compare loan application information to agency program eligibility criteria.	FFMSR-5, 25
11.01.05	The direct loan system must check the appropriate system data files to determine whether the applicant has submitted a duplicate application or has had a recent loan application rejected. These situations may indicate attempts by applicants to subvert agency credit policies.	FFMSR-5, 25
11.01.06	The direct loan system must document that borrowers have certified that they have been unable to obtain credit from private financial sources, where such certification is a program requirement.	FFMSR-5, 25

11.01.07	The direct loan system should provide an automated interface with credit bureaus that allows an agency to obtain applicant credit history information.	FFMSR-5, 25
11.01.08	The direct loan system must document that applicant financial data, repayment ability, and repayment history have been verified through the use of supplementary data sources such as employment and financial statements, tax returns, and collateral appraisals.	FFMSR-5, 25-26
11.01.09	The direct loan system must compare the applicant's credit worthiness information to system-stored program credit worthiness criteria and, where a program requirement, calculate a credit risk rating for the applicant.	FFMSR-5, 26
11.01.10	The direct loan system must document whether the Credit Alert Interactive Voice Response System (CAIVRS) identified the applicant as a borrower who is delinquent or has defaulted on a previous federal debt.	FFMSR-5, 26
11.01.11	The direct loan system must compute the credit subsidy amount associated with a loan. It should do this by using projected cash flows and the applicable U.S. Treasury interest rate, in accordance with *OMB Circular A-34*.	FFMSR-5, 26
11.01.12	The direct loan system must provide an automated interface with the core financial system to determine if sufficient funds are available in the Program Account to cover the subsidy cost. It must also determine if available lending limits in the Financing Account are sufficient to cover the face value of the proposed loan.	FFMSR-5, 26
11.01.13	The direct loan system must provide an automated interface with the core financial system to be able to commit funds for the loan.	FFMSR-5, 26
11.01.14	The direct loan system must update the application information store to reflect the status of the loan.	FFMSR-5, 26
11.01.15	The direct loan system must accept, identify, track, and report supervisor overrides of system-generated acceptance/rejection recommendations.	FFMSR-5, 26
11.01.16	The direct loan system must create and maintain a system record of accepted and rejected loan applications.	FFMSR-5, 26
11.01.17	The direct loan system must generate a letter notifying the applicant of rejection or acceptance of the loan application.	FFMSR-5, 26

2: Loan Extension: Loan Origination Process

11.02.01	The direct loan system must record loan terms and calculate disbursement schedules. It must also determine repayment amounts and schedules.	FFMSR-5, 28
11.02.02	The direct loan system must record the cohort and risk category, as defined in OMB Circular A-34, associated with the loan.	FFMSR-5, 28
11.02.03	The direct loan system must assign a unique account number to the loan that will remain unchanged throughout the life of the loan.	FFMSR-5, 28
11.02.04	The direct loan system must support the generation of loan documents for the borrower and the agency.	FFMSR-5, 28
11.02.05	The direct loan system must record information concerning the loan closing process, including date of closing.	FFMSR-5, 28
11.02.06	The direct loan system must record the applicable Treasury interest rate for the loan at the time of obligation, in accordance with *OMB Circular A-34*.	FFMSR-5, 28
11.02.07	The direct loan system must provide an automated interface with the core financial system to record the direct loan obligation, including the obligation for the subsidy. The interface must also allow for the liquidation of commitments previously recorded.	FFMSR-5, 28
11.02.08	The direct loan system must include in credit bureau reporting all commercial accounts in excess of $100.	FFMSR-5, 28
11.02.09	The direct loan system must calculate and deduct the loan application and origination fee from disbursements if not previously remitted by the applicant.	FFMSR-5, 28
11.02.10	The direct loan system must provide the capability to cancel, thus deobligating, undisbursed loans.	FFMSR-5, 28
11.02.11	The direct loan system must update debtor accounts to reflect management override of offsets.	FFMSR-5, 28
11.02.12	The direct loan system must record important information needed for each loan disbursement, including the amount and applicable Treasury interest rates (to support the computation of accrued interest expense on borrowings from the U.S Treasury), and subsidy reestimates.	FFMSR-5, 28
11.02.13	The direct loan system must record and track the amount of borrowings from the U.S. Treasury by cohort.	FFMSR-5, 29

11.02.14   The direct loan system must provide an automated interface with the   FFMSR-5, 29
           core financial system to initiate and record the disbursement,
           the receivable, and the movement of the subsidy funds from the
           program account to the financing account.

11.02.15   The direct loan system must capture the estimated useful economic   FFMSR-5, 29
           life of any pledged collateral and compare it to the proposed term of
           the loan.

11.02.16   The direct loan system must document that transactions over   FFMSR-5, 29
           $100,000 have had a collateral appraisal done by a licensed or
           certified appraiser (or more stringent standards set by the agency).

11.02.17   The direct loan system must compute the loan-to-value ratio and flag   FFMSR-5, 29
           those loans with a ratio exceeding 100% (or more stringent
           standards set by the agency).

11.02.18   The direct loan system should provide the following types of   FFMSR-5, 30
           management information: approval and rejection monitoring,
           override exception, potential application fraud, detailed transaction
           history, exceptions, and disbursement management summaries.

3: Account Servicing: Billing and Collection Process

11.03.01   The direct loan system must calculate outstanding balances for each   FFMSR-5, 33
           loan account invoiced. The calculation should include principal,
           interest, late charges, and other amounts due.

11.03.02   The direct loan system must identify loan accounts to be invoiced   FFMSR-5, 33
           based on agency program invoicing criteria and other loan account
           information, such as amount outstanding, most recent payment,
           payment amount due, and date due.

11.03.03   The direct loan system must provide the capability to analyze   FFMSR-5, 33
           escrow balances to adjust required deposit amounts. This will help
           prevent deficiencies in tax and insurance deposits and payments for
           housing and other long-term real estate loans.

11.03.04   The direct loan system must generate and transmit an invoice to   FFMSR-5, 33
           each borrower.

11.03.05   The direct loan system must apply any collections, using the   FFMSR-5, 33
           agency's program receipt application rules, to the appropriate
           liquidating or financing account.

11.03.06   The direct loan system must have a partial, full, or late payment   FFMSR-5, 33
           indicator.

11.03.07   The direct loan system must identify payments that cannot be   FFMSR-5, 33
            applied and document why the payments cannot be applied.

11.03.08   The direct loan system must be able to compare a borrower's pre-   ، FFMSR-5, 33
            authorized debits, received from financial institutions and other
            external sources, to expected collections.

11.03.09   The direct loan system must provide an automated interface with the FFMSR-5, 33
            core financial system to record the collection.

4: Account Servicing: Account Status Maintenance Process

11.04.01   The direct loan system must support evaluation of accounts   FFMSR-5, 35
            proposed for modification by the agency or borrower by comparing
            loan data to the agency's program loan modification criteria.

11.04.02   The direct loan system must calculate rescheduled loan terms,   FFMSR-5, 35
            including repayment amounts and schedules, where appropriate.

11.04.03   To verify the availability of a subsidy the direct loan system must FFMSR-5, 35
            perform a funds control check through an automated interface with
            the core financial system.

11.04.04   The direct loan system must produce selected loan account   FFMSR-5, 35
            information listings for review by internal modification groups.

11.04.05   The direct loan system must establish a new loan account and   FFMSR-5, 35
            collateral record for each new debt instrument and assign a unique
            loan account number to the new account record.

11.04.06   The direct loan system must update the loan information store to   FFMSR-5, 35
            reflect the modified status of the loan, including changes in the value
            or status of any collateral.

11.04.07   The direct loan system must provide an automated interface with the FFMSR-5, 35
            core financial system to record direct loan modifications.

11.04.08   The direct loan system must be able to generate a new loan   FFMSR-5, 35
            document which displays information concerning both the original
            and modified direct loan.

11.04.09   The direct loan system must identify past-due loan accounts for   FFMSR-5, 35
            collection action.

11.04.10   The direct loan system must update the system to reflect delinquent FFMSR-5, 35
            loan status.

11.04.11   The direct loan system should initiate interest penalties,   FFMSR-5, 36
           administrative charges, and, after ninety days, penalties for
           delinquent loan accounts.

11.04.12   The direct loan system should provide for automatic acceleration of   FFMSR-5, 36
           delinquent loans based on the agency's program criteria and the
           provisions of the note.

11.04.13   The direct loan system must track and age receivables by type.   FFMSR-5, 36

5: Portfolio Management: Portfolio Performance Process

11.05.01   The direct loan system should compare loan data to the agency's   FFMSR-5, 39
           program portfolio evaluation criteria in order to identify loans that
           require review or evaluation.

11.05.02   The direct loan system should compare loan data to the agency's   FFMSR-5, 39
           program portfolio evaluation criteria to identify loans with the
           potential for graduation to private sector financing.

11.05.03   The direct loan system must compute and maintain program   FFMSR-5, 39
           performance trends such as:
           - number and dollar value of loans made,
           - average loan size,
           - loans made by geographical region,
           - number and amount of delinquent and defaulted loans,
           - number and amount of rescheduled loans, and
           - amount of loan write-offs.

11.05.04   To help assess the credit soundness of a loan program the direct   FFMSR-5, 39
           loan system must compute and maintain financial measures such
           as:
           - average loan to value ratio (for collateralized programs),
           - current loans as a percentage of total loans,
           - delinquent loans as a percentage of total current loans,
           - write-offs as a percentage of seriously delinquent loans,
           - overall portfolio risk rate, and
           - loan loss rates.

11.05.05   To help determine the effectiveness of use of agency resources the   FFMSR-5, 40
           direct loan system must compute and maintain efficiency measures
           such as:
           - administrative cost per loan approved,
           - time required to process a loan application,
           - administrative cost per loan serviced,
           - administrative cost per delinquent dollar collected, and
           - net proceeds on real property sold compared to appraised value.

6: Portfolio Program Financing Process

11.06.01   Together, the core financial system and the direct loan system   FFMSR-5, 42
should execute SF-1151's and record amounts borrowed from the
U.S. Treasury to finance loans.

11.06.02   Together, the core financial system and the direct loan system   FFMSR-5, 42
should be able to apply and record U.S. Treasury borrowings to
finance interest payments.

11.06.03   Together, the core financial system and the direct loan system must   FFMSR-5, 42
track the amount of uninvested funds in the financing account. This
function is needed to support the calculations of interest earnings.

11.06.04   Together, the core financial system and the direct loan system must   FFMSR-5, 42
compute interest expense on borrowings and interest earnings on
uninvested funds.

11.06.05   Together, the core financial system and the direct loan system must   FFMSR-5, 42
execute and record the repayment of principal using SF-1151's, and
the repayment of interest using SF-1081's.

11.06.06   The core financial system and the direct loan system must execute   FFMSR-5, 42
and record the receipt of interest earnings from the U.S. Treasury on
uninvested funds using SF-1081's.

11.06.07   The core financial system and the direct loan system must both be   FFMSR-5, 42
able to record all calculations pertaining to interest earnings.

11.06.08   The system must support the reestimate of the subsidy cost for each   FFMSR-5,42
cohort and risk category of loans at the beginning of each fiscal year
in accordance with *OMB Circular A-34*. The reestimate must be
calculated in two parts:
- the difference in the estimate resulting from changes in the
applicable interest rates between the time of obligation and
disbursement, and
- the difference in the estimate resulting from changes in the
projected cash flows.

11.06.09   The direct loan system should document the reasons for observed   FFMSR-5, 43
or expected changes in cash flows that result in a subsidy cost
increase or decrease, and determine whether the changes in cash
flows are expected to be temporary or permanent.

11.06.10   The direct loan system must compare the current year reestimated   FFMSR-5, 43
subsidy cost to the latest year reestimated loan subsidy cost to
determine whether subsidy costs for a risk category increased or
decreased.

11.06.11   The direct loan system must transfer loan subsidy from those risk   FFMSR-5, 43
            categories with an excess of loan subsidies to those risk categories
            in the same cohort that are deficient in loan subsidies.
            This will help provide adequate funding for each risk category.

11.06.12   The direct loan system must group those cohorts that need indefinite   FFMSR-5, 43
            appropriation loan subsidy funds separately from those cohorts that
            have excess funds.

11.06.13   The direct loan system must provide an automated interface with the   FFMSR-5, 43
            core financial system to record the transactions associated with
            subsidy reestimates.

11.06.14   The direct loan system should set aside funds to create and maintain   FFMSR-5, 43
            the working capital cash balance in accordance with OMB guidance.

11.06.15   The direct loan system should record any costs incurred which are   FFMSR-5, 43
            funded by working capital.

11.06.16   The direct loan system should compute the amount of Treasury   FFMSR-5, 43
            interest earned by working capital funds and provide this amount to
            the core financial system.

11.06.17   The direct loan system should maintain cash flow data that permits   FFMSR-5, 42
            comparison of actual cash flows each year (and new estimates of
            future cash flows) to the cash flows used in computing the latest loan
            subsidy estimate.

7: Portfolio Management: Portfolio Sales Process

11.07.01   The direct loan system must compare loan information to agency   FFMSR-5, 45
            program criteria to select loans for inclusion in a potential sales pool
            or to identify debtors or purchasers eligible for a prepayment
            program.

11.07.02   The direct loan system must provide information on selected loans to   FFMSR-5, 45
            the financial advisor.

11.07.03   The direct loan system should record OMB/Treasury approval or   FFMSR-5, 45
            disapproval of the sale/prepayment of a loan.

11.07.04   The direct loan system must generate a prepayment offer to be sent   FFMSR-5, 45
            to eligible borrowers for participation in the prepayment program.

11.07.05   The direct loan system must record receipt of commitment letters   FFMSR-5, 45
            from borrowers.

| 11.07.06 | The direct loan system must record collection of prepayments. | FFMSR-5, 45 |

| 11.07.07 | The direct loan system must have an automated interface with the core financial system to record the receipt of a prepayment and the changes in subsidy costs. | FFMSR-5, 45 |

| 11.07.08 | The direct loan system must identify loans with incomplete documentation in the loan information store and generate a request for information to ensure loan files are complete. | FFMSR-5, 45 |

| 11.07.09 | The direct loan system must generate documents and other information necessary to finalize the sales agreement with the purchaser. | FFMSR-5, 46 |

| 11.07.10 | The direct loan system must update the loan information store to identify loans sold using information received from the underwriter. | FFMSR-5, 46 |

| 11.07.11 | The direct loan system must provide an automated interface with the core financial system to record the sale of receivables and any changes in subsidy costs. | FFMSR-5, 46 |

| 11.07.12 | The direct loan system must provide at least the following types of management information: detailed transaction history, standard management control/activity, portfolio sale historical payments, portfolio sale performance, and program credit reform status. | FFMSR-5, 46 |

8: Delinquent Debt Collection: Collection Actions Process

| 11.08.01 | The direct loan system must identify delinquent commercial and consumer accounts for reporting to credit bureaus and CAIVRS by comparing reporting criteria to delinquent loan data. | FFMSR-5, 49 |

| 11.08.02 | The direct loan system must calculate outstanding balances, including interest, penalties, and administrative charges, and include this information in credit bureau reports. | FFMSR-5, 49 |

| 11.08.03 | The direct loan system should generate a notice to inform consumer borrowers of the referral of a delinquent debt to a credit bureau in accordance with resolutions. | FFMSR-5, 49 |

| 11.08.04 | The direct loan system must maintain a record of each account reported to credit bureaus to allow tracking of referred accounts. | FFMSR-5, 49 |

| 11.08.05 | The direct loan system should prepare tapes, on a monthly basis, of delinquent debtors to be included in the CAIVRS database. | FFMSR-5, 49 |

| 11.08.06 | The direct loan system must generate and transmit dunning letters to debtors with past-due loan accounts. | FFMSR-5, 49 |

11.08.07   The direct loan system must identify debtors who do not respond to   FFMSR-5, 49
            dunning letters within a specified time period.

11.08.08   The direct loan system must track demand letters and borrower   FFMSR-5, 49
            responses to document borrower due process notification.

11.08.09   The direct loan system must track and document debtor appeals   FFMSR-5, 49
            received in response to demand for payment.

11.08.10   The direct loan system must provide automated support to the   FFMSR-5, 50
            collection process.

11.08.11   The direct loan system must compare delinquent account data to   FFMSR-5, 50
            agency program offset referral criteria to identify accounts eligible for
            federal tax refund offset, federal employee salary offset, or
            administrative offset.

11.08.12   The direct loan system must calculate outstanding interest,   FFMSR-5, 50
            penalties, and administrative charges for each loan account eligible
            for offset.

11.08.13   The direct loan system must generate debtor due process notices of   FFMSR-5, 50
            intent to implement an administrative offset, tax refund offset, or
            salary offset.

11.08.14   The direct loan system should be able to generate files of delinquent   FFMSR-5, 50
            loan account data on loans meeting referral criteria for each offset
            type and electronically transmit them to: (1) the IRS for federal tax
            refund offset matching, (2) DoD for salary offset matching, and (3)
            other agencies which make disbursements for administrative offset
            matching.

11.08.15   The direct loan system should generate salary offset requests to   FFMSR-5, 50
            employing agencies for delinquent borrowers identified as federal
            employees.

11.08.16   The direct loan system should update the loan information store to   FFMSR-5, 50
            reflect offset referral status.

11.08.17   The direct loan system should accept matched/unmatched account   FFMSR-5, 51
            data and update the loan information store to incorporate data
            received from the IRS, DoD, employing agencies, or other agencies.

11.08.18   The direct loan system must match offsetting agency delinquency   FFMSR-5, 51
            collection listings and totals with agency records and deposit data.

11.08.19   The direct loan system must update the loan information store to   FFMSR-5, 51
            reflect receipts, adjustments, and status changes.

11.08.20   The direct loan system must interface with the core financial system   FFMSR-5, 51
            to record collections by offset.

11.08.21   The direct loan system must compare delinquent account data to   FFMSR-5, 51
            agency program collection referral criteria to select delinquent loan
            accounts for referral to collection agencies.

11.08.22   The direct loan system must sort and group delinquent loan   FFMSR-5, 51
            accounts based on type of debt, age of debt, and location of debtor.

11.08.23   The direct loan system must calculate outstanding interest,   FFMSR-5, 51
            penalties, and administrative charges for each delinquent loan
            account to be referred.

11.08.24   The direct loan system should assign selected delinquent loan   FFMSR-5, 51
            account groupings to appropriate collection agencies based on
            collection agency selection criteria for agency programs.

11.08.25   The direct loan system must document that the delinquent account   FFMSR-5, 51
            has been referred to a collection agency.

11.08.26   The direct loan system should generate and receive electronic   FFMSR-5, 51
            transmissions of account balance data and status updates to and
            from collection agencies.

11.08.27   The direct loan system must record receipts remitted to the   FFMSR-5, 51
            collection agency.

11.08.28   The direct loan system must update the loan information store to   FFMSR-5, 51
            reflect receipts, adjustments, and other status changes, including
            rescheduling, compromise, and other resolution decisions.

11.08.29   The direct loan system should accept and match collection agency   FFMSR-5, 52
            invoices with agency records.

11.08.30   The direct loan system should be able to request, reconcile, and   FFMSR-5, 52
            record returned accounts from collection agencies.

11.08.31   The direct loan system must interface with the core financial system   FFMSR-5, 52
            to be able to record collections processed through collection
            agencies.

11.08.32   The direct loan system should compare delinquent loan account   FFMSR-5, 52
            information against the agency's litigation referral criteria to identify
            delinquent loan accounts eligible for referral.

11.08.33	The direct loan system should provide an electronic interface with credit bureaus to obtain credit bureau reports that will enable assessment of the debtor's ability to repay before a claim is referred to legal counsel.	FFMSR-5, 52
11.08.34	The direct loan system must calculate the outstanding balance, including principal, interest penalties, and administrative charges, for each delinquent loan account to be referred to legal counsel.	FFMSR-5, 52
11.08.35	The direct loan system should generate the Claims Collection Litigation Report (CCLR).	FFMSR-5, 52
11.08.36	For referrals, the direct loan system should receive electronic transmissions of account data and status updates from the Department of Justice's (DOJ's) Central Intake Facility, or the agency's Office of General Counsel's (OGC) automated system. It should also be able to send corresponding account data and status updates back to those organizations or offices.	FFMSR-5, 52
11.08.37	The direct loan system must update the loan status to reflect referrals for litigation so that the loan can be excluded from other collection actions, and to alert the agency to obtain approval from counsel before accepting voluntary debtor payment.	FFMSR-5, 52
11.08.38	The direct loan system should match agency litigation referrals with the Department of Justice listing of agency litigation referrals.	FFMSR-5, 52
11.08.39	The direct loan system must record and track recovery of judgment decisions.	FFMSR-5, 53
11.08.40	The direct loan system must update the loan information store to reflect receipts and adjustments.	FFMSR-5, 53
11.08.41	The direct loan system must interface with the core financial system to record any collections resulting from litigation.	FFMSR-5, 53

9: Delinquent Debt Collection: Write-offs and Close-outs Process

11.09.01	The direct loan system must compare delinquent loan account information to agency program write-off criteria to select delinquent loan accounts for possible write-off.	FFMSR-5, 54
11.09.02	The direct loan system must classify debtors based on financial profile and ability to repay.	FFMSR-5, 54
11.09.03	The direct loan system should produce a CCLR for each loan account to be referred to agency counsel or the Department of Justice for approval of termination of collection action.	FFMSR-5, 54

11.09.04   The direct loan system must update the loan information store to   FFMSR-5, 54
reflect approval or disapproval by agency counsel or the Department
of Justice for termination of collection action.

11.09.05   The direct loan system must update the loan information store and   FFMSR-5, 54
provide an automated interface with the core financial system to
record the write-off of the receivable.

11.09.06   The direct loan system must maintain a suspense file of inactive loan   FFMSR-5, 54
accounts.

11.09.07   The direct loan system must reactivate written-off loan accounts at a   FFMSR-5, 54
system user's request if the debtor's financial status or the account
changes.

11.09.08   The direct loan system must compare loan account data to agency   FFMSR-5, 54
close-out criteria to identify debtor accounts eligible for close-out and
1099-G reporting.

11.09.09   The direct loan system must be able to generate a letter that informs   FFMSR-5, 54
the debtor of the intended submission of the 1099-G to the IRS.

11.09.10   The direct loan system should prepare and send a Form 1099-G to   FFMSR-5, 54
the IRS if the debtor has not responded within the required time
period.

11.09.11   The direct loan system must update the loan information store to   FFMSR-5, 55
reflect receipts, adjustments, and other status changes, including
rescheduling, compromise, and other resolution decisions.

11.09.12   The direct loan system must retain electronic summary records of   FFMSR-5, 55
closed out account activity for a period of five years for use in the
agency's screening of new loan applications.

10: Foreclose and Liquidate Collateral: Foreclose on Collateral Process

11.10.01   The direct loan system must be able to compare delinquent account   FFMSR-5, 57
data to collateral foreclosure selection criteria.

11.10.02   The direct loan system must be able to sort and group selected   FFMSR-5, 57
delinquent accounts by type of collateral, its location, and the
amount of debt associated with it.

11.10.03   The direct loan system must be able to calculate outstanding   FFMSR-5, 57
principal, interest, penalties, and administrative charges for each
loan account selected for review for foreclosure.

11.10.04	The direct loan system must transmit a foreclosure notice to the borrower.	FFMSR-5, 57
11.10.05	The direct loan system should transmit information necessary for the foreclosure to the Department of Justice and/or the agency's Office of General Counsel, as applicable.	FFMSR-5, 57
11.10.06	The direct loan system must record the results of the foreclosure proceedings and title conveyance to the agency.	FFMSR-5, 57
11.10.07	The direct loan system must provide an automated interface of data on acquired collateral to the property management system for management and liquidation of the property.	FFMSR-5, 57
11.10.08	The direct loan system must provide an automated interface to the core financial system that permits it to record the value of the property acquired and to reduce the receivable amount.	FFMSR-5, 57

11: Foreclose and Liquidate Collateral: Manage Liquidate Collateral Process

11.11.01	The direct loan system should generate payments to property management contractors for services rendered.	FFMSR-5, 59
11.11.02	The direct loan system must track, record, and classify operations and maintenance expenses related to the acquired collateral.	FFMSR-5, 59
11.11.03	The direct loan system must document rental income and other collections related to the acquired collateral.	FFMSR-5, 59
11.11.04	The direct loan system must post the expenses and income to the core financial system through an automated interface.	FFMSR-5, 59
11.11.05	The direct loan system must update the loan information store to record receipts resulting from the liquidation of collateral.	FFMSR-5, 59
11.11.06	The direct loan system must provide an automated interface to the core financial system and the property management system to record disposal of the property and associated receipts.	FFMSR-5, 59
11.11.07	The direct loan system must identify any deficiency balances remaining for the loan after collateral liquidation to allow for further collection activities.	FFMSR-5, 59

12: Cost of Post-1991 Direct Loans

11.12.01   The direct loan system must record Post-1991 direct loans as assets   SFFAS-2, 22
            at the present value of their estimated net cash inflows. (The
            difference between the outstanding principal of the loans and
            the present value of their net cash inflows is recognized as a subsidy
            cost allowance.)

11.12.02   The direct loan system must record a subsidy expense for Post-   SFFAS-2, 24
            1991 direct loans disbursed during a fiscal year. The amount of the
            subsidy expense equals the present value of estimated cash
            outflows over the life of the loans minus the present value
            of estimated cash inflows, discounted at the interest rate of
            marketable Treasury securities with a similar maturity term, and
            applicable to the period during which the loans are disbursed.

11.12.03   The direct loan system must record, for the fiscal year during which   SFFAS-2, 25
            new direct loans are disbursed, the components of subsidy expense
            of those new direct loans separately among interest subsidy costs,
            default costs, other collections, and other subsidy costs.

11.12.04   The direct loan system must record the present value of fees and   SFFAS-2, 28
            other collections as a deduction from subsidy costs.

11.12.05   The direct loan system must amortize the subsidy cost allowance for   SFFAS-2, 30
            direct loans by the interest method using the interest rate that was
            originally used to calculate the present value of the direct loans
            when the direct loans that were disbursed.
            (The amortized amount is recognized as an increase or decrease in
            interest income.)

11.12.06   The direct loan system must reestimate the subsidy cost allowance   SFFAS-2, 32
            for direct loans each year as of the date of the financial statements.

11.12.07   The direct loan system must record any increase or decrease in the   SFFAS-2, 32
            subsidy cost allowance resulting from the reestimates as a subsidy
            expense (or a reduction in subsidy expense).

11.12.08   The direct loan system must record interest accrued on direct loans,   SFFAS-2, 37
            including amortized interest, as interest income.

11.12.09   The direct loan system must record interest due from the U.S.   SFFAS-2, 37
            Treasury on uninvested funds as interest income.

11.12.10   The direct loan system must record interest accrued on debt to the   SFFAS-2, 37
            U.S. Treasury as interest expense.

11.12.11	The direct loan system must record losses and liabilities of direct loans obligated before October 1, 1992, when it is more likely than not that the direct loans will not be totally collected.	SFFAS-2, 39
11.12.12	The direct loan system must record the allowance of the uncollectible amounts for pre-1992 direct loans each year as of the date of the financial statements.	SFFAS-2, 39
11.12.13	The direct loan system must record the amount of the modification cost of direct loans as a modification expense when the loans are modified.	SFFAS-2, 45
11.12.14	The direct loan system must record any difference between the change in book value and the cost of modification of direct loans as a gain or loss.	SFFAS-2, 48
11.12.15	For post-1991 direct loans the direct loan system must record, as a financing source, the modification adjustment transfer paid or received to offset any gain or loss.	SFFAS-2, 48
11.12.16	The direct loan system must record any difference between the book value loss (or gain) and the cost of modification on a sale of a direct loan as a gain or loss.	SFFAS-2, 55
11.12.17	The direct loan system must record acquired loans at the present value of the estimated net cash inflows expected from selling the loans or from collecting payments from the borrowers, discounted at the original discount rate.	SFFAS-2, 59

C12. CHAPTER 12

GUARANTEED LOANS

Annually Federal agencies guarantee billions of dollars of loans made by various lending institutions to American citizens and companies. Outstanding guaranteed loans represent liabilities to the federal government. Due to the magnitude of federal loan activity, JFMIP has established specific requirements for agencies systems used to manage guaranteed loan processes and portfolios. *SFFAS Number 2* prescribes accounting requirements for guaranteed loans.

GUARANTEED LOANS

Functional Requirements/Processes
1: Lender Management: Lender Eligibility
2: Lender Management: Lender/Servicer Monitoring
3: Guarantee Extension and Maintenance: Guarantee Origination
4: Guarantee Extension and Maintenance: Guaranteed Loan Maintenance
5: Portfolio Management: Portfolio Performance
6: Portfolio Management: Program Financing
7: Acquired Loan Servicing: Claim Processing
8: Acquired Loan Servicing: Account Status Maintenance
9: Foreclose and Liquidate Collateral: Foreclose on Collateral
10: Foreclose and Liquidate Collateral: Manage/Liquidate Collateral
11: Delinquent Debt Collection: Collection Actions
12. Accounting Requirements

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REQUIREMENTS   **SOURCE(S)**

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1: Lender Management: Lender Eligibility

12.01.01	A guaranteed loan system must record and update lender application information, ensuring that all required data are present and valid.	FFMSR-6, 27
12.01.02	A guaranteed loan system must document that any required lender application fee has been received and calculated correctly.	FFMSR-6, 27
12.01.03	A guaranteed loan system must provide an automated interface with the core financial system to record the receipt of any application fee.	FFMSR-6, 27
12.01.04	A guaranteed loan system must compare lender application information against information on firms currently debarred/suspended from participating in a government contract or delinquent on a debt to the government.	FFMSR-6, 27
12.01.05	A guaranteed loan system must compare lender application information against qualification requirements and provide the results to principal officers and staff.	FFMSR-6, 27
12.01.06	A guaranteed loan system must compare lender application information against information concerning the lender's financial credentials gathered from banking regulatory agencies, rating services, and other information sources.	FFMSR-6, 27
12.01.07	A guaranteed loan system must compare lender application information against lender performance data gathered from other credit agencies.	FFMSR-6, 27

12.01.08	A guaranteed loan system must update the lender information store to reflect the agency's decision on the lender application.	FFMSR-6, 27
12.01.09	A guaranteed loan system must generate and electronically transmit a notice to inform the lender of approval or disapproval of the lender's application.	FFMSR-6, 27
12.01.10	A guaranteed loan system must maintain data on lender disapprovals as an historical reference to support effective monitoring of future lenders.	FFMSR-6, 27
12.01.11	A guaranteed loan system must record text comments related to approval or disapproval of the lender application.	FFMSR-6, 28
12.01.12	A guaranteed loan system must record relevant data concerning the lender agreement.	FFMSR-6, 28
12.01.13	A guaranteed loan system must generate the lender agreement for signature by the lender.	FFMSR-6, 28
12.01.14	A guaranteed loan system must document that the lender agreement has been consummated by the agency and lender.	FFMSR-6, 28
12.01.15	A guaranteed loan system must provide a tracking mechanism to identify expiring agreements needing renewal.	FFMSR-6, 28

2: Lender Management: Lender/Servicer Monitoring

12.02.01	A guaranteed loan system must compare lender/servicer financial and performance information against agency portfolio evaluation criteria to identify lenders/service for regular or special review.	FFMSR-6, 29
12.02.02	A guaranteed loan system must compare performance statistics for effective monitoring, including delinquency rates, default rates, and claim rates.	FFMSR-6, 30
12.02.03	A guaranteed loan system must provide the capability to record lender/servicer financial data, including balance sheets, income statements, and lender profitability.	FFMSR-6, 30
12.02.04	A guaranteed loan system must compute a quantified risk for each lender/servicer.	FFMSR-6, 30
12.02.05	A guaranteed loan system must compare the quantified lender/servicer risk to risk rating criteria to assign a risk rating to each lender/servicer.	FFMSR-6, 30
12.02.06	A guaranteed loan system must enter high risk lenders/servicers on a problem watchlist and generate a notice to each affected lender/servicer.	FFMSR-6, 30

12.02.07	A guaranteed loan system must provide financial and historical information on lenders and servicers identified for review to the review team.	FFMSR-6, 30
12.02.08	A guaranteed loan system must provide for scheduling and tracking of the review team's activities.	FFMSR-6, 30
12.02.09	A guaranteed loan system must document review results including date of review, name(s) of reviewer(s), and any deficiencies and associated explanations.	FFMSR-6, 30
12.02.10	A guaranteed loan system must record text comments relevant to the review process.	FFMSR-6, 30
12.02.11	A guaranteed loan system must generate a notice to inform the lender/servicer of a finding of non-compliance, including any penalties or sanctions, and the right to appeal.	FFMSR-6, 31
12.02.12	A guaranteed loan system must document and track corrective action plans agreed to by the agency and the lender/servicer, including proposed resolution dates, and update lender/servicer data to reflect any changes in status resulting from the corrective actions.	FFMSR-6, 31
12.02.13	A guaranteed loan system must update the status of lenders and servicers that do not comply with agency standards for continued program participation, or do not correct deficiencies identified through reviews in a reasonable period of time.	FFMSR-6, 31
12.02.14	A guaranteed loan system must document and track appeals received from the lender/servicer and agency appeal decisions and generate a decision notice to the lender/servicer.	FFMSR-6, 31
12.02.15	A guaranteed loan system must record penalties and/or sanctions imposed by the agency review board on those lenders or servicers found to be in serious and frequent non-compliance with federal problem standards.	FFMSR-6, 31
12.02.16	A guaranteed loan system must update the guaranteed loan information store to reflect the revocation of a guarantee and provide an automated interface with the core financial system to record the decommitment of the guarantee and the deobligation of a subsidy when a guarantee has been revoked.	FFMSR-6, 31
12.02.17	A guaranteed loan system must record critical data on the lender's guarantee request to support the guarantee evaluation process.	FFMSR-6, 36
12.02.18	A guaranteed loan system must provide access to guarantee request information to each individual participating in the guarantee decision.	FFMSR-6, 36
12.02.19	A guaranteed loan system must record text comments relevant to the guarantee decision.	FFMSR-6, 36

12.02.20   A guaranteed loan system must compare borrower information on the   FFMSR-6, 36
           lender's guarantee request to agency program borrower eligibility criteria.

12.02.21   A guaranteed loan system must check the appropriate system data files   FFMSR-6, 36
           to determine whether a lender has recently submitted a duplicate
           guarantee request for the applicant, or a guarantee request for the
           applicant has been previously denied.

12.02.22   A guaranteed loan system must document that the lender obtained a credit   FFMSR-6, 36
           bureau report.

12.02.23   A guaranteed loan system must compare the applicant's credit worthiness   FFMSR-6, 36
           information to system-stored program credit worthiness criteria and, where
           a program requirement, assign a credit risk rating to the applicant.

12.02.24   A guaranteed loan system must document that borrower financial data,   FFMSR-6, 36
           repayment ability, and repayment history have been verified.

12.02.25   A guaranteed loan system must document whether the Credit Alert   FFMSR-6, 36
           Interactive Voice Response System (CAIVRS) identified the applicant as a
           borrower who has previously defaulted on debt to the federal government.

12.02.26   A guaranteed loan system must compute the credit subsidy amount   FFMSR-6, 37
           associated with the guaranteed loan using projected cash flows and the
           applicable Treasury interest rate in accordance with OMB Circular A-34.

12.02.27   A guaranteed loan system must provide an automated interface with the   FFMSR-6, 37
           core financial system to determine if sufficient funds are available in the
           program account and if available lending limits in the financing account are
           sufficient to cover the subsidy cost and the face value of the proposed
           guarantee.

12.02.28   A guaranteed loan system must reflect the approved guarantee status.   FFMSR-6, 37

12.02.29   A guaranteed loan system must accept, identify, track, and report   FFMSR-6, 37
           supervisor overrides of system-generated acceptance/rejection
           recommendations.

12.02.30   A guaranteed loan system must create and maintain a system record of   FFMSR-6, 37
           rejected guarantee requests.

12.02.31   A guaranteed loan system must notify the lender of approval or   FFMSR-6, 37
           disapproval.

12.02.32   A guaranteed loan system must provide at least the following types of   FFMSR-6, 32
           management information: lender eligibility activity, completed reviews,
           lender performance, and exceptions.

3: Guarantee Extension and Maintenance: Guarantee Origination

12.03.01	A guaranteed loan system must record the cohort and risk category, as defined in OMB Circular A-34, associated with the guaranteed loan.	FFMSR-6, 38
12.03.02	A guaranteed loan system must assign a unique account number to the guaranteed loan that remains unchanged throughout the life of the guarantee.	FFMSR-6, 38
12.03.03	A guaranteed loan system must generate a guarantee endorsement to confirm that the loan is guaranteed and transmit it to the lender.	FFMSR-6, 39
12.03.04	A guaranteed loan system must calculate and record the guarantee origination fee in accordance with the terms and conditions of the guarantee agreement.	FFMSR-6, 39
12.03.05	A guaranteed loan system should, if applicable, transmit the origination fee invoice to the lender.	FFMSR-6, 39
12.03.06	A guaranteed loan system must record collections of origination fees received.	FFMSR-6, 39
12.03.07	A guaranteed loan system must record the applicable Treasury interest rate for the guaranteed loan at the time of commitment, in accordance with OMB Circular A-34.	FFMSR-6, 39
12.03.08	A guaranteed loan system must provide an automated interface with the core financial system to record the guaranteed loan commitment, the obligation for the related subsidy, and the origination fee, receivable, and collection.	FFMSR-6, 39
12.03.09	A guaranteed loan system should provide the capability to receive electronic transmission of disbursement data by the lender.	FFMSR-6, 39
12.03.10	A guaranteed loan system must record information on loan disbursements by the lender, including amounts and applicable Treasury interest rates, to support interest computations and subsidy reestimates.	FFMSR-6, 39
12.03.11	A guaranteed loan system must provide an automated interface with the core financial system to record the outlay of subsidy from the program account to the financing account related to the lender loan disbursement.	FFMSR-6, 39

4: Guarantee Extension and Maintenance: Guaranteed Loan Maintenance

12.04.01	A guaranteed loan system must support reevaluation of the modified loans in accordance with OMB Circular A-34 and program policy.	FFMSR-6, 41

12.04.02	A guaranteed loan system should reflect the modified status of the guaranteed loan.	FFMSR-6, 41
12.04.03	A guaranteed loan system must establish a new loan account and collateral record for each new debt instrument and assign a unique loan account number to the new account record.	FFMSR-6, 41
12.04.04	A guaranteed loan system must perform a funds control check to verify the availability of subsidy through an automated interface with the core financial system.	FFMSR-6, 41
12.04.05	A guaranteed loan system must provide an automated interface with the core financial system to record the subsidy changes associated with the guaranteed loan modification.	FFMSR-6, 41
12.04.06	A guaranteed loan system must compare guaranteed loan data to guaranteed fee criteria to determine which lenders owe guarantee fees.	FFMSR-6, 41
12.04.07	A guaranteed loan system must compute the amount of the guarantee fee.	FFMSR-6, 41
12.04.08	A guaranteed loan system must compare guaranteed loan fee data to fee penalty criteria to identify those lenders with overdue fee payments.	FFMSR-6, 41
12.04.09	A guaranteed loan system must calculate penalties on loans for which lenders have not submitted guarantee fee payments.	FFMSR-6, 41
12.04.10	A guaranteed loan system should generate invoices, including penalties assessed for late payment and guarantee fee payments due from lenders.	FFMSR-6, 41
12.04.11	A guaranteed loan system must provide an automated interface with the core financial system to record the receipt of guarantee fees from lenders.	FFMSR-6, 41
12.04.12	A guaranteed loan system must identify guaranteed loans requiring interest supplement payments.	FFMSR-6, 42
12.04.13	A guaranteed loan system must compare current interest rates to the interest rates in the agreement to determine the appropriate levels of interest supplements required.	FFMSR-6, 42
12.04.14	A guaranteed loan system must record the interest supplement payment as an interest subsidy expense and a loan guarantee interest supplement liability.	FFMSR-6, 42
12.04.15	A guaranteed loan system must provide an automated interface with the core financial system to initiate and record disbursements for interest supplement payments.	FFMSR-6, 42
12.04.16	A guaranteed loan system must capture the estimated useful economic life of the pledged collateral and compare it to the proposed term of the loan.	FFMSR-6, 42

12.04.17   A guaranteed loan system must document that transactions over $100,000   FFMSR-6, 42
            have had an appraisal prepared by a state-licensed or certified appraiser.

12.04.18   A guaranteed loan system must compute the loan-to-value ratio and flag   FFMSR-6, 42
            those loans with a ratio exceeding 100%.

12.04.19   A guaranteed loan system must provide at least the following types of   FFMSR-6, 43-44
            management information: approval and rejection monitoring, override
            exception, potential application fraud, approval/rejection statistics, detailed
            transaction history, median loan-to-value ratio, loan guarantee fee
            collection, loan guarantee periodic fee collection, and exceptions.

5: Portfolio Management: Portfolio Performance

12.05.01   A guaranteed loan system must receive and document loan guarantee   FFMSR-6, 47
            information from lenders.

12.05.02   A guaranteed loan system must maintain standard information on the   FFMSR-6, 47
            history and status of each guaranteed loan.

12.05.03   A guaranteed loan system must maintain data from the lender which   FFMSR-6, 47
            identifies delinquent accounts and potential defaults.

12.05.04   A guaranteed loan system must accept lender data by cohort and risk   FFMSR-6, 47
            category.

12.05.05   A guaranteed loan system must provide departmental access to the loan   FFMSR-6, 47
            status information.

12.05.06   A guaranteed loan system must compute and maintain program   FFMSR-6, 47
            performance trends such as:
            - number and dollar value of loans made,
            - average loan size,
            - loans made by geographical region,
            - number and amount of defaulted loan accounts,
            - number and amount of claims paid, and
            - amount of loan write-offs.

12.05.07   A guaranteed loan system must compute and maintain financial measures   FFMSR-6, 48
            to help assess the credit soundness of a loan program, such as:
            - overall portfolio risk rate,
            - average loan to value ratio,
            - write-offs as a percentage of seriously delinquent acquired loans,
            - net proceeds on real property sold compared to appraised value, and
            - loan loss rates.

12.05.08	A guaranteed loan system must compute and maintain efficiency measures to help determine the effectiveness of use of agency resources, such as:	FFMSR-6, 48

- administrative cost per loan guarantee approved,
- administrative cost per acquired loan serviced, and
- administrative cost per dollar collected.

6: Portfolio Management: Program Financing

12.06.01	A guaranteed loan system should execute SF-1151's, and also record amounts borrowed from the Treasury to cover temporary shortfalls in subsidy estimates.	FFMSR-6, 50
12.06.02	A guaranteed loan system must track the amount of uninvested funds in the financing account as needed to support interest earnings calculations.	FFMSR-6, 50
12.06.03	A guaranteed loan system must compute interest expense on borrowings and interest earnings on uninvested funds.	FFMSR-6, 50
12.06.04	A guaranteed loan system must execute and record receipt of interest earnings from the Treasury on uninvested funds using SF-1081's.	FFMSR-6, 50
12.06.05	A guaranteed loan system must support the reestimate of the subsidy cost for each cohort and risk category of loans at the beginning of each fiscal year in accordance with OMB Circular A-34. The reestimate must be calculated in two parts: - the difference in the estimate resulting from changes in the applicable interest rates between the time of obligation and disbursement, and - the difference in the estimate resulting form changes in the projected cash flows.	FFMSR-6, 50
12.06.06	A guaranteed loan system should maintain cash flow data that permits comparison of actual cash flows each year to the cash flows used in computing the latest loan subsidy estimate.	FFMSR-6, 50
12.06.07	A guaranteed loan system must document the reasons for observed or expected changes in cash flows that result in a subsidy cost increase or decrease, and whether the changes in cash flows are expected to be temporary or permanent.	FFMSR-6, 50
12.06.08	A guaranteed loan system must compare the current year reestimated subsidy cost to the latest year reestimated subsidy cost to determine whether subsidy costs for a risk category increased or decreased.	FFMSR-6, 50
12.06.09	A guaranteed loan system must transfer loan subsidies from those risk categories with an excess of loan subsidies to those risk categories in the same cohort that are deficient in loan subsidies to provide adequate funding for each risk category.	FFMSR-6, 51

12.06.10	A guaranteed loan system must group those cohorts that need indefinite appropriation loan subsidy funds separately from those cohorts that have excess funds.	FFMSR-6, 51
12.06.11	A guaranteed loan system must provide an automated interface with the core financial system to record the transactions associated with subsidy reestimates.	FFMSR-6, 51
12.06.12	A guaranteed loan system must set aside funds to create and maintain the working capital cash balance in accordance with OMB guidance.	FFMSR-6, 51
12.06.13	A guaranteed loan system should record those costs incurred which are funded by working capital.	FFMSR-6, 51
12.06.14	A guaranteed loan system should compute the amount of Treasury interest earned by working capital funds and provide this amount to the core financial system.	FFMSR-6, 51
12.06.15	A guaranteed loan system should execute and record repayment of principal using SF-1151's, and repayment of interest to the U.S. Treasury using SF-1081's.	FFMSR-6, 50
12.06.16	A guaranteed loan system should provide at least the following types of management information: detailed transaction history, profile of guaranteed loan portfolio, and program credit reform status.	FFMSR-6, 52

7: Acquired Loan Servicing: Claim Processing

12.07.01	A guaranteed loan system must record key claim data.	FFMSR-6, 56
12.07.02	A guaranteed loan system must compare the claim application information to the agency's program claim application evaluation criteria.	FFMSR-6, 56
12.07.03	A guaranteed loan system should suspend processing for claims that are incomplete; and the claims should remain in suspension until they are corrected.	FFMSR-6, 56
12.07.04	A guaranteed loan system must identify claims not meeting agency program requirements and notify the lender of the rejection.	FFMSR-6, 56
12.07.05	A guaranteed loan system must document information on accepted and rejected claims and the reason for the rejections.	FFMSR-6, 56
12.07.06	A guaranteed loan system must reflect the status of the claim.	FFMSR-6, 56
12.07.07	A guaranteed loan system must calculate the claim payment to be made, making adjustments for any disallowed amounts.	FFMSR-6, 56

| 12.07.08 | A guaranteed loan system must provide an automated interface with the core financial system to initiate a disbursement of the claim payment to the lender. | FFMSR-6, 56 |

| 12.07.09 | A guaranteed loan system must record acquired loan information and establish a receivable. | FFMSR-6, 56 |

| 12.07.10 | A guaranteed loan system should notify the borrower of the claim payment. | FFMSR-6, 56 |

8: Acquired Loan Servicing: Account Status Maintenance

| 12.08.01 | A guaranteed loan system must compare data on new receivables to program criteria for pursuing repayment. | FFMSR-6, 58 |

| 12.08.02 | A guaranteed loan system should compare debtor data against program criteria to assess the likelihood of repayment. | FFMSR-6, 58 |

| 12.08.03 | A guaranteed loan system must identify accounts that should be written-off. | FFMSR-6, 58 |

| 12.08.04 | A guaranteed loan system must identify accounts for which collection is to be pursued. | FFMSR-6, 58 |

| 12.08.05 | A guaranteed loan system must calculate outstanding balances for each loan account invoiced, including principal, interest, late charges, and other amounts due. | FFMSR-6, 58 |

| 12.08.06 | A guaranteed loan system must identify loan accounts to be invoiced based on agency program invoicing criteria and loan account information. | FFMSR-6, 58 |

| 12.08.07 | A guaranteed loan system should generate and transmit an invoice to each borrower. | FFMSR-6, 58 |

| 12.08.08 | A guaranteed loan system should provide for automatic acceleration of delinquent rescheduled installment payment notes based on an acceleration clause indicator. | FFMSR-6, 58 |

| 12.08.09 | A guaranteed loan system must track and age receivables by type. | FFMSR-6, 58 |

| 12.08.10 | A guaranteed loan system must provide an automated interface with the core financial system to record accrual of interest, administrative charges, and penalties for delinquent loan accounts. | FFMSR-6, 58 |

| 12.08.11 | A guaranteed loan system must apply collections according to agency program receipt application rules to the appropriate liquidating or financing account. | FFMSR-6, 58 |

12.08.12	A guaranteed loan system must include a partial, full, or late payment indicator.	FFMSR-6, 58
12.08.13	A guaranteed loan system must identify payments that cannot be applied and document the reasons why the payments cannot be applied.	FFMSR-6, 59
12.08.14	A guaranteed loan system must provide the capability to compare borrower's pre-authorized debits received from financial institutions and other external sources to expected collections.	FFMSR-6, 59
12.08.15	A guaranteed loan system must provide an automated interface with the core financial system to record the collection.	FFMSR-6, 59

9: Foreclose and Liquidate Collateral: Foreclose on Collateral Process

12.09.01	A guaranteed loan system must provide information on collateral for use in the foreclosure process.	FFMSR-6, 62
12.09.02	A guaranteed loan system must update the acquired loan information store with additional information obtained during the foreclosure preparation process, such as recent appraisal values and property condition.	FFMSR-6, 62
12.09.03	A guaranteed loan system must calculate outstanding principal, interest, penalties, and administrative charges for each loan with collateral to be foreclosed.	FFMSR-6, 62
12.09.04	A guaranteed loan system should transmit a foreclosure notice to the borrower.	FFMSR-6, 62
12.09.05	A guaranteed loan system should transmit information necessary for the foreclosure to the Department of Justice and/or agency Office of General Counsel, as applicable.	FFMSR-6, 62
12.09.06	A guaranteed loan system must record the results of the foreclosure proceedings and title conveyance to the agency.	FFMSR-6, 62
12.09.07	A guaranteed loan system must provide an automated interface of data on acquired collateral to the property management system for management and liquidation of the property.	FFMSR-6, 62
12.09.08	A guaranteed loan system must provide an automated interface to the core financial system to record the value of the property acquired and to reduce the receivable amount.	FFMSR-6, 62

10: Foreclose and Liquidate Collateral: Manage/Liquidate Collateral

12.10.01	A guaranteed loan system must generate payments to property management contractors for services rendered.	FFMSR-6, 63
12.10.02	A guaranteed loan system must track, record, and classify operations and maintenance expenses related to the acquired collateral.	FFMSR-6, 63
12.10.03	A guaranteed loan system must document rental income and other collections related to the acquired collateral.	FFMSR-6, 63
12.10.04	A guaranteed loan system must post the expenses and income to the core financial system through an automated interface.	FFMSR-6, 63
12.10.05	A guaranteed loan system must update the acquired loan information store to record receipts resulting from the liquidation of the collateral.	FFMSR-6, 64
12.10.06	A guaranteed loan system must identify any deficiency balances remaining for the loan after collateral liquidation for further collection activities.	FFMSR-6, 64
12.10.07	A guaranteed loan system must provide an automated interface to the core financial system and the property management system to record disposal of the property and associated receipts.	FFMSR-6, 64
12.10.08	A guaranteed loan system should provide at the least the following types of management information: guaranteed loan claim activity, summary data of claim losses paid out, detailed transaction history, standard management control/activity, exceptions, portfolio sale historical payments, portfolio sales performance, and collateral management activity and expense.	FFMSR-6, 64-65

11: Delinquent Debt Collection: Collection Actions

12.11.01	A guaranteed loan system must identify delinquent commercial and consumer accounts for reporting to credit bureaus and CAIVRS by comparing reporting criteria to delinquent loan data.	FFMSR-6, 68
12.11.02	A guaranteed loan system must calculate outstanding balances, including interest, penalties, and administrative charges and include this information in credit bureau records.	FFMSR-6, 68
12.11.03	A guaranteed loan system must generate a notice to inform the borrower of the referral of a delinquent debt to a credit bureau, in accordance with regulations.	FFMSR-6, 69
12.11.04	A guaranteed loan system must maintain a record of each account reported to credit bureaus to allow tracking of referred accounts.	FFMSR-6, 69

12.11.05   A guaranteed loan system must prepare tapes, on a monthly basis, of   FFMSR-6, 69
            delinquent debtors to be included in the CAIVRS database.

12.11.06   A guaranteed loan system should generate and transmit dunning letters to   FFMSR-6, 69
            debtors with past-due loan accounts.

12.11.07   A guaranteed loan system should identify debtors who do not respond to   FFMSR-6, 69
            dunning letters within a specified time period.

12.11.08   A guaranteed loan system must track demand letters and borrower   FFMSR-6, 69
            responses in order to document borrower due process notification.

12.11.09   A guaranteed loan system should track and document debtor appeals   FFMSR-6, 69
            received in response to demands for payment.

12.11.10   A guaranteed loan system must provide automated support to the   FFMSR-6, 69
            collection process.

12.11.11   A guaranteed loan system must compare delinquent account data to the   FFMSR-6, 70
            agency's program offset referral criteria to identify accounts eligible for
            federal tax refund offset, federal employee salary offset, or administrative
            offset.

12.11.12   A guaranteed loan system must calculate outstanding interest, penalties,   FFMSR-6, 70
            and administrative charges for each loan account eligible for offset.

12.11.13   A guaranteed loan system should generate debtor due process notices of   FFMSR-6, 70
            intent to implement an administrative offset, tax refund offset, or salary
            offset.

12.11.14   A guaranteed loan system should generate files of delinquent loan account   FFMSR-6, 70
            data on loans meeting referral criteria for each offset type and electronically
            transmit to: (1) the IRS for federal tax refund offset matching,
            (2) DoD for salary offset matching, and (3) other agencies which make
            disbursements for administrative offset matching.

12.11.15   A guaranteed loan system should generate salary offset requests to   FFMSR-6, 70
            employing agencies for delinquent borrowers identified as federal
            employees.

12.11.16   A guaranteed loan system must update the acquired loan information store   FFMSR-6, 70
            to reflect offset referral status.

12.11.17   A guaranteed loan system should accept matched/unmatched account   FFMSR-6, 70
            data and update the acquired loan information store to incorporate data
            received for IRS, DoD, employing agencies, or other agencies.

12.11.18   A guaranteed loan system should match offsetting agency delinquency   FFMSR-6, 70
            collection listings and totals with agency records and deposit data.

12.11.19   A guaranteed loan system must update the acquired loan information store to reflect receipts, adjustments, and status changes.   FFMSR-6, 70

12.11.20   A guaranteed loan system must interface with the core financial system to record collections by offset.   FFMSR-6, 70

12.11.21   A guaranteed loan system should compare delinquent account data to agency's program collection referral criteria to select delinquent loan accounts for referral to collection agencies.   FFMSR-6, 71

12.11.22   A guaranteed loan system must sort and group delinquent loan accounts based on type of debt, age of debt, and location of debtor.   FFMSR-6, 71

12.11.23   A guaranteed loan system must calculate outstanding interest, penalties, and administrative charges for each delinquent loan account to be referred.   FFMSR-6, 71

12.11.24   A guaranteed loan system should assign selected delinquent loan account groupings to appropriate collection agencies based on collection agency selection criteria for agency programs.   FFMSR-6, 71

12.11.25   A guaranteed loan system must document that the delinquent account has been referred to a collection agency.   FFMSR-6, 71

12.11.26   A guaranteed loan system should generate and receive electronic transmissions of account balance data and status updates to and from collection agencies.   FFMSR-6, 71

12.11.27   A guaranteed loan system must record receipts remitted to the collection agency and forwarded to the agency.   FFMSR-6, 71

12.11.28   A guaranteed loan system must update the acquired loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.   FFMSR-6, 71

12.11.29   A guaranteed loan system must accept and match collection agency invoices with agency records.   FFMSR-6, 71

12.11.30   A guaranteed loan system should request, reconcile, and record returned accounts from collection agencies.   FFMSR-6, 71

12.11.31   A guaranteed loan system must interface with the core financial system to record collections processed through collection agencies.   FFMSR-6, 71

12.11.32   A guaranteed loan system must compare delinquent loan account information against the agency's litigation referral criteria to identify delinquent loan accounts eligible for referral.   FFMSR-6, 72

12.11.33   A guaranteed loan system should provide an electronic interface with credit   FFMSR-6, 72
           bureaus to obtain credit bureau reports that will enable assessment of the
           debtor's ability to repay before a claim is referred to legal counsel.

12.11.34   A guaranteed loan system must calculate the outstanding balance,   FFMSR-6, 72
           including principal, interest penalties, and administrative charges, for each
           delinquent loan account to be referred to legal counsel.

12.11.35   A guaranteed loan system should generate the Claims Collection Litigation   FFMSR-6, 72
           Report (CCLR). The CCLR is used to capture collection actions and
           current debtor information and transmit this information to DOJ.

12.11.36   A guaranteed loan system should receive electronic transmissions of   FFMSR-6, 72
           account data and status updates to and from DOJ's Central Intake Facility
           or the agency's Office of General Counsel's (OGC) automated system for
           referrals.

12.11.37   A guaranteed loan system should update the loan status to reflect referral   FFMSR-6, 72
           for litigation so that the loan can be excluded from other
           collection actions and to alert the agency to obtain approval from counsel
           before accepting voluntary debtor payment.

12.11.38   A guaranteed loan system must track filing of pleadings and other motions,   FFMSR-6, 72
           including proofs of claims in bankruptcy to ensure swift legal action and to
           monitor litigation activity.

12.11.39   A guaranteed loan system must match agency litigation referrals with DOJ   FFMSR-6, 72
           listing of agency litigation referrals.

12.11.40   A guaranteed loan system should record and track recovery of judgment   FFMSR-6, 72
           decisions.

12.11.41   A guaranteed loan system must update the acquired loan information store   FFMSR-6, 72
           to reflect receipts and adjustments.

12.11.42   A guaranteed loan system must interface with the core financial system to   FFMSR-6, 72
           record any collections resulting from litigation.

12: Accounting Requirements

12.12.01   A guaranteed loan system must record as a liability the present value of   SFFAS-2, 23
           estimated net cash outflows of the outstanding Post-1991 guaranteed
           loans. Disclosure is made of the face value of loans outstanding and the
           amount guaranteed.

12.12.02   A guaranteed loan system must record a subsidy expense for Post-1991   SFFAS-2, 24
           guaranteed loans disbursed during a fiscal year. The amount of the
           subsidy expense equals the present value of estimated cash outflows over

the life of the loans minus the present value of estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term, applicable to the period during which the loans are disbursed.

12.12.03	For the fiscal year during which new guaranteed loans are disbursed, a guaranteed loan system must record the components of the subsidy expense of new loan guarantees separately among interest subsidy costs, default costs, fees and other collections, and other subsidy costs.	SFFAS-2, 25
12.12.04	A guaranteed loan system must record default costs for loan guarantees that result from any anticipated deviation, other than prepayments, by the borrowers from the payment schedule in the loan contracts.	SFFAS-2, 27
12.12.05	A guaranteed loan system must accrue and compound interest on loan guarantee liabilities at the interest rate that was originally used to calculate the present value of the loan guarantee liabilities when the guaranteed loans were disbursed. (The accrued interest is recorded as interest expense.)	SFFAS-2, 31
12.12.06	A guaranteed loan system must compute a reestimate of the subsidy cost allowance for loan guarantee liabilities each year as of the date of the financial statements.	SFFAS-2, 32
12.12.07	A guaranteed loan system must record any increase or decrease in the subsidy cost allowance or the loan guarantee liability resulting from the reestimates as a subsidy expense (or a reduction in subsidy expense).	SFFAS-2, 32
12.12.08	A guaranteed loan system must record interest accrued on the liability of loan guarantees as interest expense.	SFFAS-2, 37
12.12.09	A guaranteed loan system should record costs for administering credit activities, such as salaries, legal fees, and office costs, that are for credit policy evaluation, loan and loan guarantee origination, closing, servicing, monitoring, maintaining accounting and computer systems; and other credit administrative purposes, which are recorded as administrative expense.	SFFAS-2, 38
12.12.10	A guaranteed loan system should record losses and liabilities for loan guarantees committed before October 1, 1992, when it is more likely than not that the loan guarantee will require a future cash outflow to pay default claims.	SFFAS-2, 39
12.12.11	A guaranteed loan system should record the liability for loan guarantees for pre-1992 loan guarantees. The liability must be reestimated each year as of the date of the financial statements.	SFFAS-2, 39
12.12.12	A guaranteed loan system must record modification costs as an expense when loan guarantees are modified.	SFFAS-2, 49

12.12.13   A guaranteed loan system must record any difference between the change   SFFAS-2, 52
            in liability and the cost of modification of loan guarantees as a gain or loss.

12.12.14   A guaranteed loan system must record, for post-1991 loan guarantees, the   SFFAS-2, 52
            modification adjustment transfer paid or received to offset the gain or loss
            as a financing source.

12.12.15   A guaranteed loan system must, for loan sales with resource, record   SFFAS-2, 54
            estimated potential losses under guarantee obligations (liabilities) at their
            present value.

12.12.16   A guaranteed loan system should record when property is transferred from   SFFAS-2, 57
            borrowers to a federal credit program, through foreclosure or other means,
            in partial or full settlement as compensation for losses that the
            government sustained under post-1991 loan guarantees. (The foreclosed
            property is an asset recorded at the present value of estimated future net
            cash inflows discounted at the original discount rate.)

C13. **CHAPTER 13**

GRANTS

Various federal agencies operate grant programs in which they provide financial assistance to researchers, corporations, universities and colleges, etc. for research, or specified activities/projects. Grant programs, for which payments are made, should be based on specific program objectives.

Agencies involved in grant programs are required to determine grantees' eligibility, execute grant agreements, award funds, and administer the grant. Grant payments may be made in advance or on a reimbursable basis as costs are incurred by the grantee.

GRANTS

Functional Requirements
1: Management Information Requirements
2: Establish Grant Eligibility
3: Establish Grant Agreement
4: Process Grantee Payment Requests
5: Administer Grant
6: Close Grant

<u>REQUIREMENTS</u>   <u>SOURCES(S)</u>

1: Management Information Requirements

       Note: The information found in the grant requirement chapter was obtain from the Federal Financial Management Systems (FFMS) evaluation methodology.

13.01.01   The grant management system must record and maintain vital grantee   FFMS,1,Ch16,P3
information, including: (1) entity name and address, (2) grant type, (3)
grant amount, and (4) period of performance.

2: Establish Grant Eligibility

13.02.01   The grant management system must have the capability to determine   FFMS,1,Ch16,P3
eligibility based on specific program requirements, including: (1) the
funding support required by the potential grantee, and (2) the means to
execute the grant.

13.02.02   The grant management system must have the capability to track grant   FFMS,1,Ch16,P3
applications and record the acceptance or rejection for discretionary and
non-discretionary (e.g. formula based) grants.

13.02.03   The grant management system must have the capability to support and   FFMS,1,Ch16,P3
track the grant application review process, including the ability to record:
(1) reviewers of grant applications and grant proposals, if applicable,
(agency and non-agency personnel), and (2) reviewer ratings and
comments.

13.02.04   The grant management system must have the capability to monitor grant   FFMS,1,Ch16,P3
distribution objectives against the aggregate grant funding ceiling.

13.02.05   The grant management system must have the capability to estimate grant   FFMS,1,Ch16,P3
awards to be made in future periods.

3: Establish Grant Agreement

13.03.01	The grant management system must be able to record grant agreement data, including the grant ceiling amount, purpose of the grant, accounting classification code structure information, and the period of performance.	FFMS,1,Ch16,P3
13.03.02	The grant management system must be able to generate the appropriate grant agreement documents and track: (1) applicant award notification, (2) grant payment type (e.g., advance, cost reimbursable), and (3) Government-furnished material.	FFMS,1,Ch16,P3

4: Process Grantee Payment Requests

13.04.01	The grant management system must have the capability to identify the reviewers and approving officials who approve grantee payment requests.	FFMS,1,Ch16,P4
13.04.02	The grant management system must have the capability to record grant payment requests as well as the method of payment (e.g., check, electronic funds transfer, letter of credit, etc).	FFMS,1,Ch16,P4
13.04.03	The grant management system must have the capability to schedule incremental grant payment amounts, including the capability to prevent cumulative grant payments in excess of total grant award.	FFMS,1,Ch16,P4

5: Administer Grant

13.05.01	The grant management system must be able to process requests for grant amendments.	FFMS,1,Ch16,P4
13.05.02	The grant management system must be able to identify parties designated to monitor and audit grant activity (e.g., contractors, public accounting firms, GAO, agency inspector general).	FFMS,1,Ch16,P4
13.05.03	The grant management system must have the capability to produce grantee progress report summaries and record the results of single audits and triennial reviews.	FFMS,1,Ch16,P4
13.05.04	The grant management system must have the capability to track and record assessments of grantee performance.	FFMS,1,Ch16,P4
13.05.05	The grant management system must have the capability to track year-to-date and cumulative grant payments against grant ceilings and generate notices as the payments approach the ceilings.	FFMS,1,Ch16,P4

6: Close Grant

13.06.01   The grant management system must have the capability to record the   FFMS,1,Ch16,P4
            completion of activities by individual grant, including the capability to: (1)
            track the completion of the grant close-out audit, and (2) track the reason
            for closing the grant (e.g., suspension, completion, etc.).

13.06.02   The grant management system must have the capability to track and verify   FFMS,1,Ch16,P4
            the return of excess, unused, or improperly used grant payments.

C14. CHAPTER 14

AUDIT TRAILS AND SYSTEMS CONTROLS

Financial management systems must be able to record and keep track of financial transactions and related information in order to provide a basis for central financial control. Audit trails--documentation of transactions from their inception to final disposition and reporting--are critical to providing support for transactions and account balances. While audit trails are essential to auditors and system evaluators, they are also necessary for the day-to-day operations of systems. Reliable audit trails permit verification of transactions to ensure that they are properly recorded, classified, coded and posted to all affected accounts. Additionally, audit trails allow for the detection and tracing of rejected or suspended transactions and correction in a timely manner. All transactions, including computer-generated computations, must be traceable to individual source records. Adequate audit trails allow easy tracing forward from source documents of financial events to general ledger account balances and financial reports/statements; or vice versa, from reports/statements backward to originating documents.

Commensurate with adequate documentation for transactions are adequate systems controls and documentation. Financial management systems must comply with a myriad of functional and technical requirements to ensure that DoD's financial management and accounting objectives are met in an economical and efficient manner. Systems requirements are promulgated by OMB, JFMIP, GAO, and DoD. The design of an accounting system must include the required interfaces with other systems or connections within the various segments of the immediate accounting system. System documentation should be detailed and comprehensive and include the internal controls incorporated in the system. Such documentation should be in enough detail to be understood by computer personnel and/or systems accountants assigned to develop applicable software. Documentation also provides information used to test systems to ensure that they process transactions and financial data in accordance with requirements.

AUDIT TRAILS AND SYSTEMS CONTROLS

Functional Requirements
1. Audit Trails (Transaction Documentation)
2. Systems Controls and Documentation

<u>**REQUIREMENTS**</u>   <u>**SOURCE(S)**</u>

1: Audit Trails (Transaction Documentation)

> Note: The "audit trail/transaction documentation" requirements discussed here are also contained in other chapters. Those chapters include the specific documentation required for payroll, property, inventory, etc.

14.01.01   A system must provide audit trails that allow transactions to be traced from   FFMSR-1, 24
source documents, original input, other systems, system-generated
transactions, and internal allocation transactions through the entire
system. (The system must be able to link transaction details to account
balances.)

14.01.02   A system must have audit trails that allow for the tracing of source   FFMSR-1, 24
documents through successive levels of summarization to the financial
statements, and vice versa.

14.01.03   A system must be able to archive transactions and related information   FFMSR-1, 26
needed for audit trails in a format accessible by audit software.

14.01.04   A system must have the capability to archive or purge closed documents.   FFMSR-1, 26

14.01.05   A system must allow documents to be reopened.   FFMSR-1, 26

14.01.06   A system must be able to purge (or archive) core financial systems data   FFMSR-1, 26
that are unneeded and maintain those data that are necessary for analysis
and control.

14.01.07   A system must retain system's records in accordance with the federal   FFMSR-1, 26
regulations established by the National Archives and Records
Administration (NARA), GAO, and others.

14.01.08   A system must be able to archive the data needed for comparative analysis   FFMSR-1, 26
and the presentation of historical information.

14.01.09   A system must be able to retain (for audit trail purposes) the original   FFMSR-1, 34
machine-readable records along with all amendments.

14.01.10   A system must be able to generate dates, perform month-end closing   FFMSR-1, 24-25
transactions automatically, and reprocess erroneous transactions.

14.01.11   A system must have audit trails that allow the complete tracing of data   FFMSR-1, 52
errors as well as the results of the various operations of the system.

14.01.12   A system must have an audit trail for detected errors, corrections to out-of-   FFMSR-1, 29
balance accounts (either internal or external to the system), the correction
process, and the disposition of any erroneous transactions.

14.01.13   A system must be able to describe the procedures by which it detected and   FFMSR-1, 52
corrected errors. It must also be able to generate reports by error category
for related corrective actions.

14.01.14   A system must have control over the processing and reprocessing of all   FFMSR-1, 25
erroneous transactions through the use of error file(s) and/or suspense
accounts.

14.01.15   A system must track and record erroneous transactions until they are either   FFMSR-1, 25
corrected and posted, or deleted at the request of an authorized user.

14.01.16   To support data transferred from external systems, the core financial   FFMSR-1, 24-25
system must be able to generate audit trail reports which include the
appropriate computations and computer generated transactions. Such
reports will include an error listing.

14.01.17   A system must link related transactions to ensure that they are accurate   GAO Title 7,2.1B
and legitimate (e.g., purchase order, receiving report, vendor bill, and
payment).

14.01.18   A system must provide reference and control lists of transactions that are   GAO Title 2, III,2-9
processed during a specific processing cycle or a given period of time.

14.01.19   A system must retain a record of the transactions pertaining to a specific   GAO Title 7,4.5
appropriation after the period of availability for the appropriation
expires. This helps to ensure compliance with any potential audit
requirement, financial obligation query, or financial statement reporting
requirement.

14.01.20   A system must record the number, type, and dollar amount of transactions   DoD FMR
received from each customer, including those transactions generated by   6,02,020203B2
DFAS. It must also ensure that all transactions are
processed in a timely manner and entered accurately into the finance and
accounting systems.

14.01.21   A system must identify transactions failing to pass edits so that they are   DOD FMR
controlled, assigned for research and correction by DFAS and/or the   6,02,020203B4
customer, and recorded in an suspense account in the accounting system,
whenever feasible.

14.01.22   A system must have audit trails that will allow an auditor or accountant to   GAO Title 2,III,2-6
            verify the total number of computer and non-computer generated
            transactions when the individual items are not otherwise listed.

14.01.23   A system must have audit trails that permit the verification of general ledger   OMB Cir. A-127,6
            account balances and show that the balances are supported by detailed
            computer and non-computer generated computations.

14.01.24   A system must provide an audit trail that will permit verification of computer-   GAO Title 2,III,2-6
            generated transactions.

14.01.25   A system must be able to reconcile data with interfacing systems to ensure   FFMSR-1, 25
            accuracy of the data.

14.01.26   A system must subject all transactions, including transactions from   FFMSR-1, 25
            interfacing systems, to the core financial system's edit, validation, and error
            correction procedures.

2. Systems Controls and Documentation

14.02.01   A system must provide an audit trail that will show changes made to the   FFMSR-1, 25
            system's parameters, files, tables, databases, and user-defined tables.

14.02.02   A system must comply with the management controls designed to ensure   FFMSR-1, 26
            that: (1) transactions are processed in accordance with prescribed
            standards and procedures, (2) the integrity of data
            is maintained, and (3) the access to the data is restricted to authorized
            users.

14.02.03   A system must provide supporting information needed: (1) to monitor the   FFMSR-1, 52
            overall operations of the system, (2) to determine if the operations of the
            system are on schedule, (3) to ensure that all necessary operating
            steps have been completed successfully, and (4) to alert the system
            manager to malfunctions on a timely basis.

14.02.04   A system must provide the system manager with sufficient information to   FFMSR-1, 52
            determine if the functions and operations required by specific users are
            being performed satisfactorily. It must also tell the manager that the
            users are receiving the reports they requested.

14.02.05   A system must provide audit trails and user reports which specify the   FFMSR-2, 24-25
            application system and internal module from which the transaction
            originated.

14.02.06   To reduce the risk of error or improper data manipulation due to manual   FFMSR-1, 6
            intervention, a system must make the maximum use of electronic interfaces
            when transferring accounting data.

14.02.07   To ensure the accuracy of the transferred data at connecting points where   FFMSR-0, 56
            interface linkages are appropriate, there must be an easy reconciliation
            between systems.

14.02.08   A system's processing controls must include validation checks to ensure   GAO Title 2,III,2-8
            that all transactions are properly authorized, processed, and completed.

14.02.09   A system must provide comprehensive edits for both batch processing and   FFMSR-1, 25
            on-line review of individual data fields. It must also be able to assess the
            relationships among those data fields.

14.02.10   A system should be designed to comply with the resource management   OMB Cir. A-127,6
            information policy defined in OMB Circular A-130 and successor
            documents.

14.02.11   Financial management systems that contain sensitive information should   OMB Cir. A-
            incorporate the appropriate security controls that will ensure compliance   127,7.h
            with the Computer Security Act of 1987 and OMB Circular A-130.

14.02.12   A system's documentation should be kept up-to-date and readily available   OMB Cir. A-127,7.i
            for examination.

14.02.13   A system's user documentation should be in sufficient detail (e.g.,   OMB Cir. A-127,7.i
            accounting policies, processes, and procedures) to permit a person with a
            general knowledge of the agency's programs and systems to obtain
            a comprehensive understanding of the entire operation of the system.

14.02.14   The technical documentation of a system should be adequate enough to   OMB Cir. A-127,7.i
            allow technical personnel to operate the system in an effective and efficient
            manner.

14.02.15   To allow a system to operate effectively and efficiently in a continuous   OMB Cir. A-127,7.l
            manner, maintenance should be performed on a regularly scheduled basis.

14.02.16   An overall design for financial and mixed systems should be based on the   OMB Cir. A-
            requirements of the agency for financial and programmatic information.   127,8.a

14.02.17   A system's user documentation must describe the system's objectives and   GAO Title 2, III, 5-3
            must include diagrams of modules or accounting processing cycles,
            including the appropriate explanatory notes.

14.02.18   A system's user documentation must describe the significant aspects of the   GAO Title 2,III, 5-3
            system, such as:
            - the account structure and definitions,
            - transaction codes,
            - the accounting cycles and procedures (including the year-end closing
            process and reporting procedure),

- transaction and data flows (explained in terms of the accounting or financial user organization's year-end closing process and reporting procedure),
- computer support for each activity and/or task, and
- the coordination needed with other groups or systems.

14.02.19 A system's user documentation must describe and implement control objectives and techniques.   GAO Title 2,III, 5-3

14.02.20 A system's user documentation must include the purpose, description, and format of all input forms and screens, along with their sources, frequency of use, and distribution.   GAO Title 2,III, 5-3

14.02.21 A system's user documentation must include the description, in general terms, of the computer system's hardware and software, supplemented with graphic illustration.   GAO Title 2,III, 5-3

14.02.22 A system's user documentation must include a description of the system's organization and of its master record files. It must also include a data dictionary describing the attributes or explaining the meaning of each of the data elements, including its size and format.   GAO Title 2,III, 5-3

14.02.23 A system's user documentation must include the purpose, description, and format of recurring output reports, as well as their sequence, frequency, and distribution.   GAO Title 2,III, 5-4

14.02.24 A system's user documentation must be of sufficient scope and depth to provide management, users, systems operations and maintenance personnel, and auditors and other evaluators with an understanding of the design and operation of each component in the system, as well as its integration with and relation to all other components.   GAO Title 2,III, 5-1

14.02.25 A system must perform and report the result of data integrity assessments, such as reconciliations between reports produced and data sets within the system, and the results of validity, combination and balancing edits.   FFMSR-1, 52

14.02.26 An accounting system should protect government information commensurate with the risk and magnitude of harm that could result from the loss, misuse, unauthorized access to, or modification of, such information.   OMB Cir. A-130,8.a.1.(g)

14.02.27 An accounting system should record, preserve, and make accessible sufficient information to: (1) ensure the adequate management and accountability of an agency program, and (2) protect the legal and financial rights of the Federal Government.   OMB Cir. A-130,8.a.1.(j)

14.02.28 An accounting system should have management and archival recording functions that conform to *OMB Circular A-130*.   OMB Cir. A-130,8.a.1.(k)

| 14.02.29 | An accounting system should collect or create only the information necessary for the proper performance of agency functions. | OMB Cir. A-130,8.a.1.(k).2 |

14.02.29 An accounting system should collect or create only the information necessary for the proper performance of agency functions.
OMB Cir. A-130,8.a.1.(k).2

14.02.30 An accounting system should use electronic collection techniques where such techniques reduce the compliance burden on the public, increase the efficiency of government programs, reduce the cost to the government and the public, and/or provide better service to the public.
OMB Cir. A130,8.a.1.(k).3

14.02.31 An accounting system must provide adequate and proper documentation of agency financial activities.
OMB Cir. A-130,8.a.1.(k).4.(a)

14.02.33 An accounting system should limit the sharing of information that identifies individuals or contains proprietary information.
OMB Cir. A-130,8.a.9.(c)

14.02.34 An accounting system should be designed and documented in an manner that ensures effective and accurate operations. The design should allow easy modification as the systems environment changes.
OMB Cir. A-130,App.III-3,OMB A-127,8

14.02.35 A system must allow access only to those individuals who need such access to do their job.
OMB Cir. A-130,8.a.9

14.02.36 A system must have backup and recovery provisions to help ensure timely report generation in cases of processing interruptions or emergency situations.
GAO Title 2,III,3-5

14.02.37 Appropriate administrative, physical, and technical safeguards must be built into an existing accounting system and all new applications.
OMB Cir. A-130, App. III-3a(1)

14.02.38 Upon completion of a system's implementation tests, an agency official must certify that an accounting system meets all applicable Federal policies, regulations, and standards, and that the results of the tests demonstrate that the installed security safeguards are adequate for the application.
OMB Cir. A-130, App.III-3a(1)(c)

14.02.39 A system must have an appropriate level of security at all locations where it is installed (including those locations not owned by the Federal Government).
OMB Cir.A-130, App.III-3c

14.02.40 A system must have adequate controls to protect information that is shared with other systems.
OMB Cir. A-130,App.III,A.3.(b).2.(f)

14.02.41 The reports produced by a system must comply with all restrictions that are relevant to information that is classified for security purposes.
GAO Title 2,III,3-1

C15. CHAPTER 15

SEIZED ASSETS

The United States Government's authority to seize and take ownership (forfeiture) of private property from individuals involved in civil and criminal wrongdoing has been in place for many years. However, within the last decade much more emphasis has been placed on the use of forfeiture--particularly in the "war" against illegal drugs--to provide economic punishment for criminals and their enterprises. Numerous agencies have forfeiture authority (including DoD), although the two principal agencies engaged in this law enforcement activity are the Department of Justice and the Department of Treasury.

Due to the importance and materiality of activities related to the seizure of property by the government, the JFMIP has prescribed certain requirements for financial systems that track the status of seized assets from the time of seizure to final disposition.

SEIZED ASSETS

Functional Requirements
1: Seizure Activities
2: Asset Custody Activities
3: Asset Disposition Activities
4: Interfacing Systems

<u>**REQUIREMENTS**</u>   <u>**SOURCE(S)**</u>

1: Seizure Activities

15.01.01	The system must provide coding that will facilitate tracking the asset through seizure, forfeiture, holding, and disposition.	FFMSR-4, 13
15.01.02	The system must provide timely recording of the date of seizure, the type of asset, the location where seized, the physical condition, the physical location, the owner(s) if known, and the entities involved in the seizure.	FFMSR-4, 13
15.01.03	The system must provide timely and accurate recording of the original assigned value of the asset as well as the basis for that value. It must also identify who assigned and recorded the asset value.	FFMSR-4, 13
15.01.04	The system must provide timely recording of any mortgage and claim liabilities against each seized asset.	FFMSR-4, 13
15.01.05	The system must be able to query the database and receive real-time information regarding the processing status of any seized asset.	FFMSR-4, 13
15.01.06	The system must provide the information needed to prove that seizure authorization exists and that the seizure/forfeiture criteria established by management have been observed.	FFMSR-4, 13
15.01.07	The system must be able to correct, amend, and cancel the seizure authorization within the stipulated management controls. It must also send reports concerning the changes to responsible program officials and other affected parties.	FFMSR-4, 13
15.01.08	The system must provide prompt payment of properly authorized and billed services.	FFMSR-4, 13

2: Asset Custody Activities

15.02.01   The system must have the capability to capture, record, and maintain accurate information on the current physical condition, legal status, geographic location, responsible custodian, and current recorded value of each seized asset in custody.   FFMSR-4, 13

15.02.02   The system must have the capability, if required, to provide a record to show that the advertising of the property and the issuance of notice of property seized have been accomplished.   FFMSR-4, 13

15.02.03   The system must be able to show that seized cash has been deposited promptly into cash holding accounts.   FFMSR-4, 13

15.02.04   The system must have the capability to track and promptly record the deposit of income generated by selling seized assets. It must be able to track such sales on an asset-by-asset basis.   FFMSR-4, 14

15.02.05   The system must have the capability to segregate forfeited assets from those in a seized status.   FFMSR-4, 14

15.02.06   The system must have the capability to allocate and record all maintenance and overhead costs on an asset-by-asset basis.   FFMSR-4, 14

15.02.07   The system must have the capability to record and account for all theft, loss, and damage expenses on an asset-by-asset basis.   FFMSR-4, 14

15.02.08   The system must have the capability to provide accurate and timely reconciliations between agency records of seized assets and the records of contractors being used to maintain, store, and dispose of seized assets.   FFMSR-4, 14

15.02.09   The system must be able to provide information that independent verifies the existence of each asset and that the recorded physical condition, legal status, geographic location, and asset value are accurate.   FFMSR-4, 14

15.02.10   The system must be able to provide information that independently verifies that all billed contractor/vendor services were actually performed.   FFMSR-4, 14

15.02.11   The system must have the capability to record and track cost bonds.   FFMSR-4, 14

15.02.12   The system should have the capability to obtain collateral coverage from financial institutions as needed.   FFMSR-4, 14

15.02.13   The system should have the capability to accumulate performance histories on all vendors and contractors that perform asset custodial/maintenance services.   FFMSR-4, 14

15.02.14	The system must have the capability to promptly pay all contractors or vendors performing asset maintenance/management services.	FFMSR-4, 14
15.02.15	The system must give users access to asset custody controls to permit them to perform compliance checks.	FFMSR-4, 14
15.02.16	The system must have the capability to quickly retrieve detailed information on the current location, value, and condition of individual assets.	FFMSR-4, 14
15.02.17	The system must have the capability to record in an accurate and timely manner the forfeiture action for each asset.	FFMSR-4, 14
15.02.18	The system must have the capability to produce exception reports.	FFMSR-4, 14

3: Asset Disposition Activities

15.03.01	The system must have the capability of recording accurately and promptly each asset disposition, including the unique identifier of the specific asset, type of asset, type of disposition, location of disposition, responsible official, and current asset value at time of disposition.	FFMSR-4, 14
15.03.02	The system must have the capability to flag low-value and time-sensitive assets to assure their timely recording and liquidation.	FFMSR-4, 15
15.03.03	The system must have the capability to record and account accurately, on an asset-by-asset basis, all revenues and asset specific expenses generated from asset disposition activities.	FFMSR-4, 15
15.03.04	The system must be able to show that proper authorization exists for all seized asset dispositions.	FFMSR-4, 15
15.03.05	The system must have the capability to record detailed information about each specific asset disposition transaction, including the name, Social Security or Tax Identification number, address, and employment affiliations of the person(s) receiving the asset.	FFMSR-4, 15
15.03.06	The system must have the capability to record and account accurately for all distributions of excess revenues over expenses.	FFMSR-4, 15
15.03.07	The system must be able to provide a complete accounting for both the applicable Asset Forfeiture Fund balance and the Seized Asset Deposit Fund balance.	FFMSR-4, 15
15.03.08	The system must have the capability to access and record deposits of funds associated with the asset seizure and forfeiture program previously made into other law enforcement related accounts.	FFMSR-4, 15

| 15.03.09 | The system must have the capability to provide an audit trail for assets distributed to other entities. | FFMSR-4, 15 |

15.03.09   The system must have the capability to provide an audit trail for assets distributed to other entities.   FFMSR-4, 15

15.03.10   The system must have the capability to promptly record the deposit of all proceeds from the sale of forfeited assets into the applicable Asset Forfeiture Fund account.   FFMSR-4, 15

15.03.11   The system must have the capability to promptly record transfers of cash from the applicable Seized Asset Deposit Account to the applicable Forfeiture Fund account.   FFMSR-4, 15

15.03.12   The system must have the capability to periodically test asset disposition transactions to ensure that the process is not being victimized by "insider" transactions.   FFMSR-4, 15

15.03.13   The system must be able to independently verify that all billed contractor services were actually performed.   FFMSR-4, 15

15.03.14   The system must have the capability to promptly pay innocent owners or approved petitions for mitigation.   FFMSR-4, 15

4: Interfacing Systems

15.04.01   The system should be able to accept data input from various forms of media that recognize the user agencies' unique data input requirements.   FFMSR-4, 20

15.04.02   The system should be able to: (1) customize data input, processing rules, and edit criteria; and (2) provide agencies with flexibility in defining internal operating procedures and in supporting agency requirements.   FFMSR-4, 20

15.04.03   The system should be able, if necessary, to identify and process transactions from other systems that interface with the standard seized/forfeited asset system.   FFMSR-4, 20

15.04.04   The system must provide the capability to upload and download data in an interface environment.   FFMSR-4, 20

15.04.05   The system must be able to provide multiple-media output reports and to recognize the user agencies' unique data output requirements.   FFMSR-4, 20

15.04.06   The system must allow users to customize output for their reporting needs. It should also have interfaces to other systems that are necessary to link financial and program results, and must meet agency requirements for external processing.   FFMSR-4, 20

15.04.07 The system must be able to transmit information on the results of   FFMSR-4, 20
seizure/forfeiture transactions to the core financial system in accordance
with the requirements specified in Part II. Data would then be used for the
following purposes:

- generating requests for disbursements,
- updating the standard general ledger,
- generating obligation records,
- generating requests for funds transfer, and
- updating funds control.