

VA Financial Policies and Procedures
Intra-Governmental vs. Public Liabilities

CHAPTER 2

| | |
|--|----------|
| 0201 OVERVIEW | 2 |
| 0202 POLICIES | 2 |
| 0203 AUTHORITY AND REFERENCES | 3 |
| 0204 ROLES AND RESPONSIBILITIES | 3 |
| 0205 PROCEDURES | 4 |
| 0206 DEFINITIONS..... | 5 |
| 0207 RESCISSIONS..... | 7 |
| 0208 QUESTIONS | 8 |
| APPENDIX A: ILLUSTRATIVE BALANCE SHEET – LIABILITIES..... | 9 |

0201 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for accounting and reporting of Intra-Governmental and Public liabilities¹, as authorized by statute and by other rules issued by such regulatory entities as the Financial Accounting Standards and Advisory Board (FASAB), the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury). Intra-Governmental liabilities arise from transactions among Federal agencies, representing debts of one Federal agency against another Federal agency. Public liabilities arise from debts of the Federal Government, or an entity of the Federal Government, with non-Federal entities.

020101 ACCOUNTING FOR INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES.

VA will adhere to accounting guidance issued by FASAB, OMB and Treasury in recording both its intra-Governmental and public liability transactions. VA will distinguish intra-Governmental from public liabilities in the accounting records by using separate classifications.

020102 FINANCIAL REPORTING AND DISCLOSURE OF INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES. VA will report intra-Governmental and public liabilities separately in the financial statements, as required by the guidance identified in the Authority and References Section of this chapter, and prepare descriptive footnote disclosures as required.

0202 POLICIES

020201 ACCOUNTING FOR INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES.

A. VA will recognize all liabilities when they are incurred regardless of whether they are covered by available budgetary resources.

B. VA will distinguish liabilities covered by budgetary resources from those not covered by budgetary resources.

C. VA will maintain complete supporting documentation of the Departmentwide finance activities for all transactions, including sources of information used to compile the consolidated financial statements.

¹ For additional information on intra-Governmental transactions, refer to Volume VII, Chapter 5, *Intra-governmental Activity and Reconciliation* and Volume V, Chapter 1, *Intra-governmental vs. Governmental (Public) Assets*.

020202 FINANCIAL REPORTING AND DISCLOSURE OF INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES.

VA will report intra-Governmental liabilities in the consolidated financial statements separately from public liabilities, including accompanying footnote disclosure. VA will also disclose any accounts payable not covered by budgetary resources.

0203 AUTHORITY AND REFERENCES

[020301 Financial Accounting Standards and Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards \(SFFAS\), No. 1, Accounting for Selected Assets and Liabilities, March 30, 1993](#)

[020302 Office of Management and Budget \(OMB\) Circular A-136, Financial Reporting Requirements - Revised](#)

[020303 OMB Memorandum M07-03, Business Rules for Intra-Governmental Transactions](#)

[020304 Treasury Financial Manual \(TFM\) Treasury Bulletin No. 2007-03, Intra-Governmental Business Rules](#)

0204 ROLES AND RESPONSIBILITIES

020401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

020402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

020403 The Office of Financial Policy (OFP), under the CFO's direction, provides Departmentwide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates and reviews VA financial policies, systems and procedures for compliance with all financial laws and regulations.

0205 PROCEDURES

020501 ACCOUNTING FOR INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES.

A. VA will recognize both intra-Governmental and public liabilities when they are incurred regardless of whether they are covered by available budgetary resources.

1. When VA accepts title to goods, whether the goods are delivered or in transit, VA will recognize a liability for the unpaid amount of the goods.

2. When a contractor provides VA with goods suitable for sale to others, VA will recognize the liability when the contractor physically delivers the goods and VA receives and takes formal title of the goods. However, when a contractor builds or manufactures facilities or equipment to VA's specifications (e.g., a medical center), formal acceptance of the facility by VA is not the determining factor for accounting recognition.

Constructive or de facto receipt occurs in each accounting period, in accordance with the following paragraph:

a. For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable will be based on an estimate of work completed under the contract or the agreement. The estimate of such amounts will be based primarily on VA's engineering and management evaluation of actual performance progress and incurred costs.

B. VA will maintain a distinction between liabilities covered by budgetary resources and those not covered by budgetary resources, as required by OMB Circular A-136.

1. VA will provide other information needed to understand the nature of liabilities not covered by budgetary resources. These types of liabilities are liabilities for which Congressional action is needed before budgetary resources may be provided. Refer to OMB Circular A-136, *Notes to the Financial Statements*, for the informational requirement.

C. VA will ensure the proper transaction support documentation, along with any other sources of information used to compile the consolidated financial statements, is maintained for review and validation purposes. VA will make its documentation readily available for review by VA management, auditors and others who may have oversight responsibilities over VA operations.

020502 FINANCIAL REPORTING AND DISCLOSURE OF INTRA-GOVERNMENTAL AND PUBLIC LIABILITIES.

A. VA will ensure separate reporting and disclosure is made in the consolidated financial statements for intra-Governmental liabilities compared to public liabilities. This requirement applies to all of the selected liabilities addressed in this chapter and SFFAS No. 1. Specifically, SFFAS No. 1 and OMB Circular A-136 provide that:

1. Intra-Governmental liabilities will be reported separately from other liabilities on the face of the Balance Sheet and accompanying disclosure note.
2. Liabilities from Federal entities are intra-Governmental liabilities and will be reported separately from liabilities from non-Federal entities.
3. Interest payable to Federal entities (e.g., housing loans) will be accounted for and reported separately from interest payable to the public.
4. Advances and prepayments made to Federal entities are intra-Governmental items and will be accounted for and reported separately from those made to non-Federal entities.

See Appendix A for an illustration of the form and content used for presenting intra-Governmental and public liabilities in a balance sheet. For extensive details on intra-Governmental transactions, required reconciliations and other financial reporting requirements, refer to Volume V, Chapter 1; Volume VII, Chapter 5; OMB Memorandum M07-03; and TFM Treasury Bulletin No. 2007-03.

0206 DEFINITIONS

020601 Accounts Payable. Accounts payable are amounts owed for goods and services received (i.e., actual or constructive delivery). These accounts represent amounts owed to Federal or non-Federal entities for goods and property ordered and received and for services rendered by organizations and people other than employees.

020602 Debt. Amounts borrowed from Treasury, the Federal Financing Bank, other Federal agencies or the public under general or special financing authority (e.g., Treasury bills, notes, bonds and Federal Housing Administration debentures).

020603 Environmental and Disposal Liabilities. An Environmental Liability should be recognized when there is a probable and measurable future outflow of resources as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. Estimated Disposal Liability represents the estimated liability for projected future cleanup costs (for which funding has not been appropriated) associated with removing, containing and/or disposing of (1) contamination or hazardous waste from property or (2) material and/or property consisting of hazardous waste or other

environmentally regulated substances at permanent closure, temporary closure or shutdown of the associated property, plant and equipment.

020604 Federal Employee and Veterans Benefits. Entities responsible for accounting for pensions, other retirement benefits (e.g., health benefits for retirees) and other post-employment benefits will calculate and report these liabilities and related expenses in accordance with SFFAS No. 5. Liabilities for Federal employee and Veteran benefits include the actuarial portion of these benefits. They do not include liabilities related to ongoing continuous expenses such as employees' accrued salary and accrued annual leave.

020605 Intra-Governmental Liabilities. Intra-Governmental liabilities are amounts a Federal entity owes to other Federal entities and may include accounts payable and interest payable to Federal entities and other current liabilities due to Federal entities, such as receipt of Federal advances and prepayments. Examples of intra-Governmental liabilities include debts owed to the Treasury that are primarily related to borrowing by the Direct Loan and Loan Guaranty Program.

020606 Liability. Liability is a future outflow or other sacrifice of resources as a result of past transactions or events. SFFAS No. 5 describes the general principles governing the recognition of a liability.

020607 Liabilities Covered by Budgetary Resources. Liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) offsetting collections credited to an appropriation or fund account, (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations and, (4) unobligated balances of such resources at the beginning of the year or transferred in during the year. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the balance sheet date, provided the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

020608 Liabilities for Loan Guarantees. For post-1991 loan guarantees, the present value of the estimated net cash flows to be paid as a result of loan guarantees. For pre-1992 loan guarantees, the amount of known and estimated losses to be payable. VA will disclose the components of the line in the notes to the financial statement.

020609 Liabilities Not Covered by Budgetary Resources. This category is for liabilities which are not considered to be covered by budgetary resources as provided in 020607 above.

020610 Non-Federal Entities. Encompasses domestic and foreign persons and organizations outside the U.S. Government. The term public is also used to represent non-Federal entities.

020611 Other Current Liabilities. Other current liabilities are those that are not recognized in specific categories, such as accounts payable, interest payable, debt owed to the public, Treasury or other entities and liabilities for loan guarantee losses. They may also include unpaid expenses accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date. Such liabilities may be presented on the face of the financial reports as Other Current Liabilities or as one or more separate categories depending on the materiality of the amounts.

020612 Other Liabilities. This line item covers liabilities not recognized in specific categories. This includes liabilities that are immaterial to the agency and that do not warrant separate reporting. It includes (but is not limited to) liabilities related to: grants payable, capital leases, insurance, advances and prepayments, deposit fund amounts held in escrow and accrued liabilities related to ongoing continuous expenses such as Federal employee salaries and accrued employee annual leave. This item also covers adjudicated losses due to litigation, claims and contingencies. Clean up costs are reported as “Other Liabilities” if they are not material to the balance sheet. Clean up costs that exceed the materiality threshold are reported separately as “Environmental and Disposal Liabilities.” Separate reporting of items normally characterized as “Other Liabilities” is appropriate if the amounts are significant to the balance sheet. Disclose the items within this line and any additional information necessary to understand the liabilities in the notes to the financial statement.

020613 Public Liabilities. Amounts the Federal Government or an entity within the Federal Government owes to non-Federal entities and may include accounts and interest payable to non-Federal entities, other liabilities due to non-Federal entities and advances and prepayments received from non-Federal entities. Examples of Public liabilities include accounts payable owed to the public, Federal Employee and Veterans Benefits Liability, insurance liabilities and environmental and disposal liabilities.

0207 RESCISSIONS

020701 VA Directive 4668, Liabilities, paragraph 2e (1) - (2).

020702 OF Bulletin 08GA1.11, Intragovernmental Transaction Accounting Policy

0208 QUESTIONS

Questions concerning these financial policies and procedures should be directed as follows:

| | |
|------------|---------------------------------|
| VHA | VHA Accounting Policy (Outlook) |
| VBA | VAVBAWAS/CO/FINREP (Outlook) |
| All Others | OFP Accounting Policy (Outlook) |

APPENDIX A: ILLUSTRATIVE BALANCE SHEET – LIABILITIES

| Department/Agency/Reporting Entity | | |
|---|------------------------|------------------------|
| BALANCE SHEET | | |
| As of September 30, 2xxx (CY) and 2xxx (PY) | | |
| (in dollars/thousands/millions) | | |
| | 2xxx (CY) | 2xxx (PY) |
| LIABILITIES | | |
| INTRA-GOVERNMENTAL: | | |
| Accounts Payable | \$ xxx | \$ xxx |
| Debt | xxx | xxx |
| Other Liabilities (Note 14) ² | <u>xxx</u> | <u>xxx</u> |
| Total Intra-Governmental Liabilities | xxx | xxx |
| PUBLIC: | | |
| Accounts Payable | xxx | xxx |
| Liabilities for Loan Guarantees (Note 7) | xxx | xxx |
| Federal Employee and Veterans Benefits Liability (Note 12) | xxx | xxx |
| Environmental and Disposal Liabilities (Note 13) ³ | xxx | xxx |
| Other Liabilities (Note 14) | <u>xxx</u> | <u>xxx</u> |
| Total Public Liabilities | xxx | xxx |
| Total Liabilities | \$ <u>x,xxx</u> | \$ <u>x,xxx</u> |
| The accompanying notes are an integral part of these statements. ⁴ | | |

² Other Liabilities, both intra-Governmental and public, are liabilities not reported elsewhere, consisting of both funded and unfunded liabilities.

³ Unfunded and based on known contamination that exist today and computed by engineering staff or by independent contractors.

⁴ Refer to OMB Circular A-136 for description of notes' contents.