

VA Financial Policies and Procedures
Interest Payable

CHAPTER 4

0401 OVERVIEW.....	2
0402 POLICIES	2
0403 AUTHORITY AND REFERENCES	2
0404 ROLES AND RESPONSIBILITIES	3
0405 PROCEDURES.....	3
0406 DEFINITIONS.....	4
0407 RESCISSIONS.....	5
0408 QUESTIONS	5
APPENDIX A	6
APPENDIX B	7

0401 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for reporting and recording interest payable in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Assets and Selected Liabilities* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government* and for reporting interest payable as prescribed by the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Interest may result from borrowing funds from the Department of the Treasury (Treasury), the Federal Financing Bank or other Federal entities or from late payment of invoices to the public.

Refer to Volume VI, Chapter 1, *Definition and General Principles for Recognition of a Liability*, for additional information on defining and recognizing liabilities.

040101 ACCOUNTING AND RECORDING INTEREST PAYABLE. VA will record interest payable in its Standard General Ledger (SGL) liability account to reflect the amount of interest owed by VA.

040102 FINANCIAL REPORTING AND DISCLOSURE OF INTEREST PAYABLE. VA will report and/or disclose interest payable in the financial statements, as prescribed by OMB Circular A-136, *Financial Reporting Requirements*. Interest payable (e.g., interest payable on insurance dividends, Appendix A and interest on borrowing funds from Treasury) will be reported in the financial statements with related disclosure.

0402 POLICIES

040201 ACCOUNTING AND RECORDING INTEREST PAYABLE. VA will record interest payable for the amount of interest expense incurred and unpaid, as prescribed in SFFAS No. 1 and No. 5.

040202 FINANCIAL REPORTING AND DISCLOSURE OF INTEREST PAYABLE. VA will report interest payable as either Intra-Governmental Debt or Public Liabilities or both, as appropriate. VA will incorporate the interest payable amount as part of the related debt on the face of the Consolidated Balance Sheet, with appropriate footnote disclosure.

0403 AUTHORITY AND REFERENCES

040301 [26 U.S.C. 6611, Interest on Overpayments](#)

040302 [31 U.S.C. Chapter 39, Prompt Payment](#)

040303 [Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards \(SFFAS\) No. 1, Accounting for Selected Assets and Liabilities](#)

040304 FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Government

040305 Office of Management and Budget (OMB) Circular A-136, Revised,
Financial Reporting Requirements

040306 Department of the Treasury, United States Standard General Ledger (USSGL)

040307 Department of the Treasury, Prompt Payment

0404 ROLES AND RESPONSIBILITIES

010401 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. Specific 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.

010402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Finance Officers, Chiefs of Finance Activities, Fiscal Officials, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

0405 PROCEDURES

040501 ACCOUNTING AND RECORDING INTEREST PAYABLE.

A. VA will record interest payable in accordance with the Treasury's illustrative journal entries as contained in Treasury's USSGL.

B. VA will record interest on late payment of bills (see 31 U.S.C. 3901 - 3907, *Prompt Payment*) and on refunds (see 26 U.S.C. 6611, *Interest on Overpayments*), if applicable.

1. The interest rate in effect on the day after the payment due date is used to calculate the interest penalty.
2. When an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid. Refer to Appendix B for guidance on the calculation of interest penalty (payable) for late payments.
3. The prompt payment interest rates change every six months. Current prompt payment rates may be found on the Treasury FMS Web site under Prompt Payment.

4. In accordance with 31 U.S.C 3907, interest will not continue to accrue after one year or if a claim has been filed under the Contract Disputes Act of 1978.

C. VA may pay interest, when applicable, to other Federal agencies for any intra-Governmental transaction between VA and the other Federal agency. All of VA's intra-Governmental debt is due to Treasury and is primarily related to borrowing for the Direct Loan and Loan Guaranty Program. The interest rates may vary as prescribed by Treasury. These transactions will be accounted for separately from interest payable on Public Liabilities.

Refer to Volume VII, Chapter 5, *Intra-Governmental Activities and Reconciliations*, and Volume VI, Chapter 2, *Intra-Governmental vs. Public Liabilities*, for additional information on intra-Governmental transactions.

040502 FINANCIAL REPORTING AND DISCLOSURE OF INTEREST PAYABLE. VA will report interest payable as either Intra-Government Debt (e.g., interest payable on Treasury borrowings) or Other Public Funded Liabilities (e.g., interest payable on insurance dividends left on deposit). VA will include information on interest payable in footnote disclosures in compliance with OMB No. A-136.

0406 DEFINITIONS

040601 Dividend. A refund of excess premium paid to the owner of a participating life insurance policy.

040602 Interest Payable. Interest incurred but unpaid on liabilities of the reporting entity. The amount of payable should be reported as a component of the appropriate liability accounts.

040603 Intra-Governmental Liabilities. A claim against VA by other Federal entities. These liabilities are reported separately from claims against VA by non-Federal entities.

040604 Interest on Late Payments. An amount calculated from the day after payment was due until the day payment is made on a debt. The interest rate in effect on the day after the payment due date is used to calculate the interest penalty. When an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid; however, interest will not continue to accrue after one year or if a claim has been filed under the Contract Disputes Act.

040605 Liability. 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.

040606 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.

040607 Refunds. Returns of advances, collections for overpayments, adjustments for previous amounts disbursed or recovery of erroneous disbursements from appropriations or fund accounts that are directly related to, and are reductions of, previously recorded payments from the accounts.

0407 RESCISSIONS

None required.

0408 QUESTIONS

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

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

APPENDIX A

INTEREST PAYABLE ON INSURANCE DIVIDENDS (Refer to Volume VI, Chapter 15)

A. VA has the authority to deposit dividends into interest bearing accounts for beneficiaries. VA will pay interest on insurance policy dividends left on deposit.

B. In relationship to this type of interest payable, VA will perform quarterly reconciliations for the amount of dividends left on deposit and accrued interest, the amount of policy loans and the accrued interest, policy count and insurance in-force prior to preparing the quarterly and annual financial statements.

C. VA's Philadelphia Insurance Center will pay the current dividends on insurance policies that it administers for the following insurance funds:

- United States Government Life Insurance (USGLI);
- National Service Life Insurance (NSLI);
- Veterans' Reopened Insurance (VRI); and
- Veterans' Special Life Insurance (VSLI).

D. VA will pay the dividends for the above funds when premiums have been paid for at least one month in the dividend year.

1. Dividends will be calculated and disbursed on an annual basis generally four days before the anniversary date of each individual policy.

2. Dividends may be used for the following purposes:

- Disbursed as cash payments (includes direct deposits into an account);
- Used to prepay insurance premiums;
- Used to repay loans and liens;
- Used to purchase paid-up additional life insurance;
- Deposited into a tax-free interest bearing credit account;
- Deposited into a tax-free interest bearing deposit account; and
- Used for net premium billing for net cash, net Paid up Additions (PUA) or net loans/liens.

E. Interest earned on these dividends will be paid annually to insurance policyholders on the policy anniversary dates.

APPENDIX B

CALCULATION OF PROMPT PAY INTEREST PENALTY

Simple Daily Interest. The following formula may be used to determine simple daily interest:

$$P(r/360*d)$$

- P is the amount of principal or invoice amount;
- r equals the Prompt Payment interest rate; and
- d equals the number of days for which interest is being calculated.

For example, if payment is due on April 1 and the payment is not made until April 11, a simple interest calculation will determine the amount of interest owed to the vendor for the late payment. Using the formula above, an invoice in the amount of \$1,500 paid 10 days late and at an interest rate of 6.5% would be calculated as follows:

$$\$1,500 (.065/360*10) = \$2.71$$

Monthly Compounding Interest. The following formula can be used to determine monthly compounding interest:

$$P(1+r/12)^n * (1+(r/360*d)) - P$$

- P is the amount of principal or invoice amount;
- r equals the Prompt Payment interest rate;
- n equals the number of months; and
- d equals the number of days for which interest is being calculated.

The first part of the equation calculates compounded monthly interest. The second part of the equation calculates simple interest on any additional days beyond a monthly increment.

For example, if the amount owed is \$1,500, the payment due date is April 1, the agency does not pay until June 15 and the applicable interest rate is 6%, interest is calculated as follows:

$$\$1,500(1+.06/12)^2 * (1+(0.06/360*15)) - \$1,500 = \$18.83$$