

Significant Revisions to OMB Circular A-127

| Section | Revision to A-127 | Purpose of Revision |
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| Section 1. Purpose | Changed to “concerning” from “developing, operation, evaluating, and reporting” | To demonstrate that this Circular addresses all aspects of managing financial management systems |
| Section 5. Definitions | Revised various definitions | To update terminologies and definitions |
| Section 6. Policy | Removed the agency-wide financial information classification structure and integrated financial management systems sub-sections | To eliminate areas that duplicate the core financial system requirements |
| Section 7. Service Provider Requirements | Added a new section on service provider requirements | To incorporate recent policy changes, i.e., agencies are no longer developing their own systems, but instead relying on service providers to help manage their systems |
| Section 8. FFMIA compliance | Added a new section on FFMIA compliance | To clarify the definition of FFMIA substantial compliance |

New Requirements

| New Section | New Requirement |
|--|---|
| Section 6.E Standard Configuration | Agencies must utilize the certified configurations |
| Section 6.G Adoption of Standard Business Processes | Agencies are required to adopt the standard government business processes established by the Financial Systems Integration Office (FSIO) |
| Section 7. Service Provider Requirements | Agencies must use an external provider when upgrading or modernizing their core financial systems and should conduct a public-private competition to procure a provider |
| Section 8. FFMIA Compliance | Agencies should determine its FFMIA compliance by considering FFMIA risk categories |

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS
SUBJECT: Financial Management Systems

1. Purpose
2. Rescission
3. Authorities
4. Applicability/Scope
5. Definitions
6. Policy
7. Service Provider Requirements
8. FFMIA Compliance
9. Assignment of Responsibilities
10. Information Contact
11. Review Date
12. Effective Date

1. Purpose

The Office of Management and Budget (OMB) Circular No. A-127 (hereafter referred to as Circular A-127) prescribes policies and standards for executive departments and agencies to follow concerning their financial management systems.

2. Rescission

This Circular supersedes all previously issued versions dated July 23, 1993, June 10, 1999, and December 1, 2004.

3. Authorities

This Circular is issued pursuant to the Chief Financial Officers Act (CFO Act) of 1990, P.L. 101-576; the Federal Managers' Financial Integrity Act (FMFIA) of 1982, P.L. 97-255 (31 U.S.C. 3512 et seq.); 31 U.S.C. Chapter 11; and the Federal Financial Management Improvement Act (FFMIA) of 1996, P.L. 104-208 (31 U.S.C. 3512 et seq.).

4. Applicability/Scope

- A.** The policies in this Circular apply to the financial management systems of all agencies in the executive branch of the government, including any executive department, military department, independent agency, government corporation, government controlled corporation, or other establishment. Agencies not included in the CFO Act are exempted from certain requirements as noted in Section 8 and Section 9.
- B.** The financial management systems identified in Section 5 are subject to the policies contained in OMB Circular No. A-130, "Management of Federal Information Resources" (hereafter referred to as Circular A-130).
- C.** The financial management systems identified in Section 5 must adhere to the policies and procedures contained in OMB Circular No. A-123, "Management's Responsibility for Internal Control" (hereafter referred to as Circular A-123).

5. Definitions

For the purposes of this Circular, the following definitions apply:

A financial system, hereafter referred to as a core financial system, is an information system that may perform all financial functions¹ including general ledger management, funds management, payment management, receivable management, and cost management. The core financial system is the system of record that maintains all transactions resulting from financial events. It may be integrated through a common database or interfaced electronically to meet defined data and processing requirements. The core financial system is specifically used for collecting, processing, maintaining, transmitting, and reporting data regarding financial events. Other uses include supporting financial planning, budgeting activities, and preparing financial statements. Any data transfers to the core financial system must be: traceable to the transaction source; posted to the core financial system in accordance with applicable guidance from the Federal Accounting Standards Advisory Board (FASAB); and in the data format of the core financial system.

A mixed system² is an information system that can support both financial and non-financial functions.

A financial management system includes the core financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, and controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. The following are examples of financial management systems: core financial systems, procurement systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, and travel systems.

A financial event is any activity having financial consequences to the Federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, or other potential liabilities; distribution of grants; or other reportable financial activities.

6. Policy

A. FSIO Certified Commercial System

Agencies must use a core financial system that is a commercial off-the-shelf (COTS) system and has been certified by the Financial Systems Integration Office (FSIO) as meeting the core financial system requirements. If the core financial system is not up-to-date with FSIO certification, agencies should consider upgrading to a certified version of the same COTS product or implement a different certified product.

B. FSIO Testing

FSIO will establish processes for testing COTS software products supporting core financial system requirements. The test will verify that the COTS products meet the core financial system requirements. The product configuration used in the test will become the certified configuration for that software product.

C. Frequency of FSIO Testing

The FSIO certification tests are to be conducted as prescribed in the Core Federal Financial System Software Qualification Testing Policy issued by FSIO.

¹ See Core Systems Functions from the Financial Systems Integration Office (FSIO) *Core Financial System Requirements*.

² Often referred to as a feeder system.

D. Policy Exceptions

In general, agencies will not be exempt from any part of the policy. However, there may be two exceptions given a legitimate need: (1) deviation from the standard configurations (see Section 6.E; and (2) exception to competition when upgrading or modernizing core financial systems (see Section 7.D).

E. Standard Configuration

Agencies must utilize the certified configurations as defined, tested and certified by FSIO as they become available. However, exceptions may be granted if there is a legitimate and valid need for them. To obtain an exception to deviate from the certified configurations, OMB must first be provided with a justification for approval. Agencies will be required to register any approved configuration changes with FSIO. FSIO will issue guidance, as needed, with respect to implementing the certified configurations and requesting and reporting deviations.

F. Periodic Review of Standard Configuration

Agencies that have implemented core financial systems with the certified configurations will undergo periodic reviews which will be performed by FSIO. The reviews will assess whether deviations occurred from the certified version. FSIO will issue guidance with respect to these periodic reviews.

G. Adoption of Standard Business Processes

Agencies are required to adopt the standard government business processes³ as established by FSIO. These standards will be included in the FSIO's core financial system requirements documentation. The standards should be adopted as agencies upgrade to the next major release of their current core financial system or migrate to a different core financial system.

H. Implementation

During implementation, agencies must monitor the project's progress and institute performance measures⁴ to ensure that it is on schedule and within budget. Agencies must also assess risks regularly and mitigate them in a timely manner. To do so, agencies must provide periodic briefings to OMB, at its request, that detail the project's progress.

I. Maintenance

Agencies must ensure that their service provider periodically performs on-going maintenance of the core financial system to support the most current Federal business practices and systems requirements. Agencies must also verify whether their service provider is continuing to meet its Service Level Agreement.

³ The standard business processes are defined by FSIO in *the Standard Federal Financial Business Processes (SFFBP) Document*.

⁴ See OMB Memorandum M-05-23, Improving Information Technology (IT) Project Planning and Execution.

J. Continuity of Operation Plan (COOP) and Disaster Recover (DR) Plan

Agencies must continually evaluate that their core financial systems' Continuity of Operation Plan and Disaster Recovery Plan are both adequate and feasible. The plan shall be tested on an annual basis.

K. Documentation

Core financial systems' processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the core financial system requirements document issued by FSIO or (b) other applicable requirements. All documentation (e.g., software, system, operations, user manuals, and operating procedures) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person with knowledge of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as systems specifications and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

L. Training and User Support

Adequate training and appropriate user support shall be provided to the users of the core financial systems, based on the level, responsibility, and roles of individual users. Training shall enable the users of the systems at all levels to understand, operate, and maintain the system.

M. Core Financial System Requirements Title Change

The core financial system requirements document previously issued under the Office of Federal Financial Management (OFFM) will be considered to have been issued under the Financial Systems Integration Office (FSIO).

N. Non-Core Financial System Requirements

Specific non-core financial system requirements, previously published by the Joint Financial Management Improvement Program (JFMIP) and known as the JFMIP Federal Financial Management System Requirements (FFMSR) series, should be regarded as guidance when defining system requirements for acquisition. The FFMSR requirements are not part of the Federal financial management systems requirements for FFMIA and therefore should not be used to determine substantial compliance.

7. Service Provider Requirements

A. Use of External Providers

When upgrading to the next major release of its current core financial system or modernizing to a different core financial system, an agency must use an external provider which is either a Federal shared service provider that has been designated by OMB or a commercial vendor. The implemented system must also be maintained by the external provider. If agencies cannot migrate to an external provider immediately, then they should take incremental steps by moving their hosting or application management support to a provider.

B. Minimum Requirements of External Providers

The external provider must demonstrate to the Federal agency its ability to:

- 1) meet applicable Federal requirements, (e.g., the Federal Information Security Management Act of 2002 (FISMA) and compliance with Section 508 of the Rehabilitation Act and FFMIA);
- 2) operate and maintain a COTS software package that complies with FSIO's core financial system requirements;
- 3) meet the requirements of the Financial Management Due Diligence Checklist; and
- 4) provide a SAS 70 audit report to its customers or allow customer auditors to perform appropriate tests of internal controls at its organization.

FSIO will maintain and publish the most current list of OMB designated Federal service providers and the Due Diligence Checklist.

C. Competitive Process

Agencies are required to hold a competition among the OMB designated Federal providers and commercial vendors when upgrading their current core financial system or modernizing to a different core financial system.

D. Competition Exemption

Agencies may be allowed to conduct a non-competitive migration or a competitive migration involving only commercial providers (if authorized by law) or OMB designated providers if they prepare a full justification, generally including the type of information called for by section 6.303-2 of the Federal Acquisition Regulation (FAR). The justification shall be approved by the agency's Chief Financial Officer, Chief Information Officer, and Chief Acquisition officer. Agencies shall confer with OMB prior to proceeding with a migration that is noncompetitive or is otherwise limited in accordance with this paragraph.

An agency may rely on its in-house operations if the agency demonstrates to OMB that its internal operations represent a best value and lower risk alternative. This demonstration shall be made through the establishment of a most efficient organization and public-private competition, unless there is a justified basis for foregoing competition or for using a limited form of competition, such as public-public competition. The justification shall be documented in the same general manner prescribed in Part 6 of the FAR for the use of other than full and open competition.

E. Tracking Results

Agencies shall monitor performance, regardless of the selected service provider, for all performance periods stated in the solicitation. Performance measurement and reporting shall be consistent with OMB guidance on earned value management. See OMB Memorandum M-05-23.

8. FFMIA Compliance

A. Definition of Substantial Compliance

Substantial compliance is achieved when an agency's financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as to produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. FFMIA substantial compliance will be determined annually at the department-wide or agency-wide level for the 24 major CFO Act agencies.⁵ Agencies can determine whether the requirements are being met by applying the FFMIA risk model, which ranks risks from nominal to significant (See Figure 1). The risk indicators in the model assist agencies in determining whether reliable and consistent information is available for decision making. The higher the risk, the more likely the agency is non-compliant.

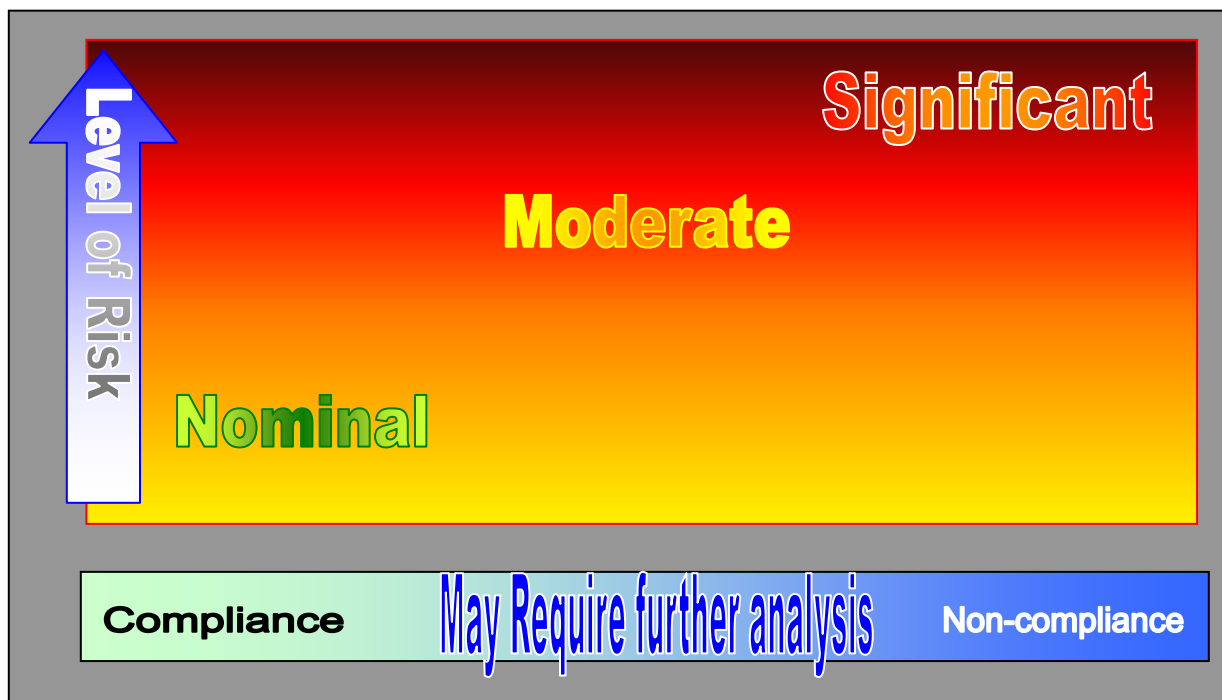


Figure 1. FFMIA Compliance Risk Model

If agencies fall under a nominal risk category, then the risk of noncompliance is low. Meeting the indicators for nominal risk signals that substantial compliance is adequately supported and additional supporting information should not be necessary. However, during the course of its financial statements audit, the financial statement auditor may request additional information to support compliance or, at its discretion, perform further testing. If agencies are under a significant risk category, then they are not in compliance with FFMIA and must identify remediation plans and resolve them. Agencies under moderate risk may need to provide further information to support compliance. Specific guidance may be found in the FFMIA Implementation Guide of 2008.⁶

⁵ The 24 CFO Act agencies are defined in Appendix A of the OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

⁶ http://www.whitehouse.gov/omb/assets/agencyinformation_memoranda_2009_pdf/m09-06.pdf.

B. FFMIA Risk Indicators

Table 1 provides key indicators within each of the three risk categories for determining the level of risk for each agency. The indicators represent the major criteria for determining FFMIA compliance, but may not reflect indicators that would be unique to specific agency missions.

| Risk Category | Indicators | FFMIA Determination |
|-------------------------|--|--|
| Nominal Risk | <ol style="list-style-type: none"> 1. FSIO certified system; 2. No internal control findings reported under Section 2 FMFIA over financial reporting and Section 4; 3. No FISMA significant deficiencies impacting financial management systems; 4. Unqualified audit opinion; 5. No auditor-reported material weakness; 6. No persistent⁷ auditor-reported significant deficiencies related to financial management systems; and 7. No significant manual year-end adjustments both in number of entries and value of transactions. | Substantial compliance may be determined without additional supporting information |
| Moderate Risk | <ol style="list-style-type: none"> 1. Non-FSIO certified system; 2. Internal control findings reported under Section 2 FMFIA 3. Qualified audit opinion; 4. Auditor-reported material weakness; 5. Persistent auditor-reported significant deficiencies related to financial management systems; or 6. Significant manual year-end adjustments both in number of entries and value of transactions. | Substantial compliance only if agencies provide additional information to demonstrate compliance |
| Significant Risk | <ol style="list-style-type: none"> 1. Findings reported under FMFIA Section 4; 2. FISMA significant deficiencies impacting financial management systems; or 3. Disclaimer or adverse opinion. | Noncompliance |

Table 1

⁷ Refers to auditor-reported significant deficiencies lasting 3 or more years

C. Section 803(a) Requirements

1) Federal Financial Management System Requirements

The Federal Financial management system requirements consist of three parts: (1) computer security requirements; (2) internal controls; and (3) FSIO core financial system requirements.

a. Computer Security Requirements

The security controls requirements are defined by FISMA and Circular A-130 and/or successor documents.

b. Internal Controls

The internal controls requirements are internal control objectives of Circular A-123 (including the body of the A-123 and Appendix A), which ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports.

c. FSIO Core Financial System Requirements

The core financial system requirements are defined by FSIO's core financial system requirements.

2) Federal Accounting Standards

When applicable, agency financial management systems shall maintain accounting data to permit reporting in accordance with Federal accounting standards, and reporting requirements issued by the Director of OMB and/or the Secretary of the Treasury. Where no accounting standards have been recommended by FASAB and issued by the Director of OMB, the systems shall maintain data in accordance with the applicable accounting standards used by the agency for preparation of its financial statements.

3) Application of the U.S. Government Standard General Ledger at the Transaction Level

Financial events shall be recorded applying the requirements of the U.S. Government Standard General Ledger (USSGL). Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance.

D. Applicability of FFMIA

Agencies covered by the CFO Act must comply with the FFMIA Section 803(a) requirements. Agencies not covered under the Act are not required to comply with the FFMIA requirements, but are still encouraged to adhere to them.

The FFMIA law requires all financial management systems to adhere to FFMIA Section 803(a) requirements. However, certain Section 803(a) requirements will only be applicable to the core financial system. All systems must be in compliance with computer security and internal controls requirements. However, only core financial systems must be compliant with FSIO core financial system requirements and accounting standards as well as apply the USSGL at the transaction level. The core system requirements do not apply to mixed systems unless the systems perform the core system function. Additionally, mixed systems should only adhere to the specific

accounting standards that are applicable to mixed systems (e.g., loans). Finally, mixed systems do not have to record transactions using USSGL accounts. Nonetheless, data coming from the mixed system must be posted to the core financial system using proper USSGL accounts and accounting standards.

E. Review of Financial Management Systems

Agencies should perform an annual review of their financial management systems to verify compliance with computer security and internal controls. When reviewing their systems, agencies should leverage the results of related reviews such as those required by FISMA and Circular A-123. In general, agencies using the latest FSIO certified financial system are not required to perform a separate review of their core financial system to verify compliance with the FSIO core financial systems requirements, accounting standards, or USSGL. Agencies that do not use the latest version of the FSIO certified system may be required to perform self assessments of their core financial system.

9. Assignment of Responsibilities

A. Agency Responsibilities

Agencies shall perform the financial management system responsibilities prescribed by legislation referenced in Section 3 "Authorities" of this Circular. In addition, each agency shall take the following actions:

1) Oversight of Financial Management Systems

Agencies are responsible for managing their financial management systems even when they utilize a service provider to implement, operate and maintain the systems. Agencies must also ensure that their financial management systems meet applicable Federal requirements and are adequately supported throughout the systems' life cycle. All agreement and contracts with service providers must clearly outline the goals necessary to achieve sound financial management. Furthermore, agencies must monitor the service providers' performance and ensure that service failures are resolved promptly.

2) Develop and Maintain Agency-wide Financial Management System Plans

Agencies must prepare a plan for their financial management systems, which incorporates their strategic plan, financial management plan, enterprise architecture, and budget request. Once a plan is established, it must be updated at least annually or earlier when a significant event occurs (e.g., reorganization).

In establishing a plan, an agency must consider its own financial management systems' life cycle. Specifically, it must project a reasonable useful life of the investment and plan the next system upgrade accordingly. Technology trends and product support schedules should be considered when projecting the useful life. The plan must also identify existing problems related to the current system.

Each financial management system plan must:

- a.** describe the existing financial management system architecture and any changes needed to implement a targeted architecture;
- b.** be consistent with the enterprise architecture, information resource management plan, and IT capital plan;

- c. provide a strategy for maintaining adequacy, consistency, and timeliness of financial information;
- d. identify projects necessary to achieve FFMIA substantial compliance within three years from the date of noncompliance;
- e. contain milestones for correcting any material weaknesses;
- f. identify and make proposals to eliminate duplicative and unnecessary systems;
- g. include a strategy to migrate to an external provider;
- h. contain milestones for equipment acquisitions and other actions necessary to implement the plan;
- i. identify financial management personnel needs and actions to ensure those needs are met; and
- j. estimate the costs of implementing the plan.

Once a plan is established, an agency must obtain approval from its Investment Review Board (IRB) if major changes are needed. The approved financial management systems plan will provide a basis for the agency's business case. The business case must include an estimate of the full cost necessary to complete the upgrade, and have considered different alternatives in measuring the risks and costs for the plan. The business case will be used to justify funding and, therefore, must be clearly stated in the agency's budget request. Agencies should communicate progress against the approved business case and financial management systems plan with OMB throughout the financial management system lifecycle.

A summary of the plan should be included in the agency's annual financial report as instructed in OMB Circular No A-136, "Financial Reporting Requirements." For agencies not covered under the CFO Act, they need to prepare the plans but are not required to report them in their annual financial reports.

3) Develop and Maintain an Agency-wide Inventory of Financial Management Systems

Agencies are required to maintain an inventory of their existing and proposed financial management systems. Annually, agencies will provide FSIO with an annual inventory of their financial management systems.

4) Develop and Maintain Agency Financial Management System Directives

Agencies shall issue, update, and maintain agency-wide financial management system directives to reflect policies defined in this Circular.

B. FSIO Responsibilities

FSIO will issue and maintain all financial management business processes standards, core financial system requirements documents and all software certifications. Additionally, FSIO will develop and administer the certification test; notify the public and agencies when a software package successfully completes the certification test; and provide interested parties with information on the results of the certification tests for certified software products.

C. GSA Responsibilities

GSA will make procurement vehicles available to agencies for acquiring software that has been certified according to the processes in Section 6.B.

10. Information Contact

All questions or inquiries should be referred to the OFFM Financial Analysis and Systems Branch at (202) 395-3993.

11. Review Date

This Circular shall be reviewed three years from its issuance date to ascertain its effectiveness.

12. Effective Date

This Circular is effective as of October 1, 2009. However, early implementation, where applicable, is encouraged.