Chapter 11

Accounting and Reporting for the Federal Government
Learning Objectives

After studying Chapter 11, you should be able to:

 annunciator Describe the financial management structure of the federal government
 annunciator Describe the process for establishing GAAP for the federal government
 annunciator Explain the concepts underlying federal accounting and financial reporting
 annunciator Describe government-wide financial reporting for the federal government
Learning Objectives (Cont’d)

- Describe federal agency performance and financial reporting requirements
- Contrast and compare budgetary accounting with proprietary accounting
- Record budgetary and proprietary journal entries and prepare financial statements for federal agencies
- Contrast and compare accounting for state and local governments with federal agencies
The U.S. federal government is the largest Governmental entity in the world, comprised of:

- Three branches of government (legislative, executive, judicial)
- Many offices (e.g., Office of Management and Budget)
- Many departments (e.g., Department of the Interior)
- Many independent establishments and government corporations (e.g., Postal Service, SEC, CIA)
Several acts of Congress affect financial management in the U.S. government, for example:

- Budget and Accounting Procedures Act of 1950
- Federal Managers Fiscal and Integrity Act (FMFIA) of 1982
- Chief Financial Officer Act (CFO) of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act (GMRA) of 1994
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act (ATDA) of 2002
Federal Financial Management Improvement Act (FFMIA) of 1996

- Requires federal agencies to comply with established federal accounting and reporting standards. Twenty-four specific agencies are designated “Act” agencies by the GPRA of 1993

- Each agency must follow the U.S. Government Standard General Ledger at the transaction level
Three “principals” have joint responsibility under federal statutes for establishing and maintaining a sound financial management structure within the federal government:

- Comptroller General of the United States
- Secretary of the Treasury
- Director of the Office of Management and Budget
In 1950, the three principals and the Office of Personnel Management set up the Joint Financial Management Improvement Program (JFMIP).

JFMIP’s purpose is to carry out responsibilities of establishing and maintaining a sound federal financial management structure.

In 1990, the work of the JFMIP and the CFO Act of 1990 led to establishment of the FASAB – see next slide.

In 2004, the JFMIP realigned and delegated responsibilities to the OMB’s Office of Federal Financial Management, the Office of Personnel Management, and the Chief Financial Officer’s Council.

The JFMIP no longer meets as a stand-alone organization.
In 1990, the three JFMIP principals established the Federal Accounting Standards Advisory Board (FASAB).

Funding for the FASAB comes from the sponsoring organizations and the Congressional Budget Office.

Currently, the FASAB is comprised of four federal and six nonfederal members.

In 1999, FASAB standards were recognized as “Federal GAAP” in SAS No. 91, amending No. 69.

The FASAB board submits proposed statements to the sponsors, and if neither the Director of the OMB nor the Comptroller General object, then the statements are published by FASAB and become GAAP for federal entities.
To date the FASAB has issued:

- 5 Statements of Federal Financial Accounting Concepts (SFFAC)
- 32 Statements of Federal Financial Accounting Standards (SFFAS)
- Several reports, interpretations, technical releases, bulletins, and staff implementation guides
SFFAC No. 1 identifies four objectives of federal financial reporting, based on the foundation of accountability, which are to assist report users in assessing:

- Budgetary integrity
- Operating performance
- Stewardship
- Adequacy of systems and controls
SFFAC No. 2 - Entity and Display

- Specifies the types of entities that should provide financial reports
- Establishes guidelines for defining each type of reporting entity
- Identifies the financial statements each type of reporting entity should provide
- Suggests types of information each statement should convey
The federal government can be viewed from three perspectives:

- Organizational (collection of departments and agencies)
- Budget (collection of expenditures or receipt budget accounts)
- Program (aggregation of programs/functions or activities)
SFFAC No. 3 - MD&A

- SFFAC No. 3 requires that a Management Discussion and Analysis (MD&A) be included in the Performance and Accountability Report (PAR)

- Its purpose is to
  - Communicate managers’ insights
  - Increase understandability and usefulness of the PAR
  - Provide accessible information about the entity and its operations
SFFAC No. 4 identifies five audiences for the consolidated financial report of the U.S. government:

- **Primary audiences:**
  - Citizens
  - Citizen intermediaries

- **Other audiences:**
  - Congress
  - Federal executives
  - Program managers
SFFAC No. 5 provides the definitions of the basic elements of accrual-based financial statements:

- Assets
- Liabilities
- Net position
- Revenues
- Expenses

For an item to be recognized on the face of a financial statement, it must meet the definition of an element and be measurable.
Funds used in Federal Accounting

- Funds derived from general taxing and revenue powers and from business operations
  - General fund (one for entire federal government)
  - Special funds (receipts earmarked for a specific purpose)
  - Revolving funds (similar to internal service funds)
  - Management funds (including working funds)

- Funds held by the government as custodian or trustee
  - Trust funds (both expendable and nonexpendable)
  - Deposit funds (similar to agency funds)
The Government Performance and Results Act of 1993 expanded the requirements of the Chief Financial Officers Act of 1990 and required 24 federal agencies to be audited and comprehensive government-wide financial statements be prepared.

The *Financial Report of the United States Government* has been produced by the Department of Treasury and audited by the GAO since FY 1997. Prototype consolidated statements were produced much earlier, in 1980, but not audited.
In FY 2007, 19 of the 24 CFO Act agencies received an unqualified ("clean") opinion on their financial statements by the Comptroller General of the GAO.

All 24 agencies reported within 45 days of year-end.
Government-wide Statements (Cont’d)

- The GAO issued a disclaimer of opinion on the consolidated U. S. Government financial report for all 11 years that it has been audited (i.e., FY 1997 – FY 2007)

- Difficulties cited were:
  - Serious financial management problems at the Department of Defense
  - Difficulty auditing intragovernmental activity and balances between federal agencies
  - Ineffective process for preparing the consolidated financial report
The 2008 revision of OMB Circular A-136 requires a consolidated Performance and Accountability Report (PAR) that includes:

- Annual performance report (APR) required by the GPRA of 1994
- Annual financial statements
- Management’s reports on internal control and other accountability issues
- Inspector General’s assessments of management and performance challenges
Required Sections of a PAR

- Management’s discussion and analysis (overview of the PAR)
- Performance reports (includes Annual Performance Reports-APR)
- Financial statements (see next slide)
- Other accompanying information (a summary table includes information on the audit opinion received and any internal control weaknesses, etc.)
Required Financial Statements

- Balance sheet (see III. 11-4)
- Statement of net cost (see III. 11-5)
- Statement of changes in net position (see III. 11-6)
- Statement of budgetary resources (see III. 11-7)
- Statement of custodial activity (see III. 11-8)
- Statement of social insurance – for specified programs (see III. 11-9)
Balance Sheet: Asset Classification

Assets

Entity Assets
- Intra-Governmental
- Governmental

Nonentity Assets
- Intra-Governmental
- Governmental
Balance Sheet: Asset Classification

- **Entity assets**—are those the entity has authority to use in its own operations
- **Nonentity assets**—are held by the entity, but not available for the entity to spend (e.g., federal income taxes held by the IRS)
- **Intragovernmental assets and liabilities**—arise from transactions among federal entities
- **Governmental assets and liabilities**—arise from transactions between the federal government and nonfederal entities
Most federal entities do not have their own cash

Entities draw against their “Fund Balance with Treasury” account

Checks are sent by the Department of Treasury to pay the entity’s obligations
General PP&E are used to provide general government goods and services, military weapon systems and space exploration equipment.

Heritage asset PP&E include multi-use heritage assets (e.g., the Lincoln Memorial and Statute of Liberty that possess educational and cultural characteristics) and stewardship land (e.g., Yellowstone National Park).
Balance Sheet: Liabilities

- Display funded liabilities (covered by budgetary resources) and nonfunded liabilities (not covered by budgetary resources) on the face of the balance sheet
- Recognize most liabilities on the accrual basis, including amortization of premiums/discounts on Federal debt and pensions
- Disclose in notes contingencies and estimated cost to remedy deferred maintenance on PP&E
- Treat capital lease obligations similar to that of for-profit and state and local governments
Components of net position are:

- Unexpended appropriations (undelivered orders and budget authority still remaining)
- Cumulative results of operations (net difference between expenses/losses and financing sources, including appropriations, revenues, and gains, since the inception of the entity)
Shows the components of the net cost of the reporting entity’s operations (costs less earned revenue)

Reports for the entity as a whole and for each of its responsibility centers or segments.

The “bottom line” is termed *Net Cost of Operations*
Statement of Changes of Net Position

- Purpose is to communicate all changes in the reporting entity’s net position:
  - Cumulative results of operations
  - Unexpended appropriations

- Net costs of operations includes gross costs less exchange (earned) revenues, as well as:
  - Prior-period adjustments
  - Change in cumulative results of operations
  - Unexpended appropriations
This statement presents the budgetary equation:

\[
\text{availability of budgetary resources}^* = \text{status of budgetary resources}^{**}
\]

* New budgetary authority + unobligated authority carried over +/- budgetary adjustments
** Obligations incurred + budgetary authority still available

A third section shows the changes in budgetary resources for the year
Statement of Custodial Activity

Required only by agencies (such as the IRS) that collect nonexchange revenue for

- The General Fund of the Treasury,
- A trust fund, or
- Recipient agencies

to report on an agency’s fiduciary responsibilities as to the how much money was collected and how monies were disbursed
Reports on federal social insurance, such as Social Security, Medicare, Railroad Retirement Benefits, Black Lung Benefits, Unemployment Insurance

SFFAS No. 17 requires that a liability be recognized when payments are due to beneficiaries or service providers

Supplementary stewardship information is required
Disclosures are also required about

- Stewardship PP&E to highlight their long-term benefit
- Deferred maintenance on PP&E
- Stewardship investments - beneficial investments of the government in such items as
  - Nonfederal physical property
  - Human capital
  - Research and development
Other Accompanying Information

- Last section in the PAR
  - Includes a summary table that indicates:
    - Type of audit opinion received
    - List of any material weaknesses and whether they were resolved
  - Includes a table summarizing management’s assurances on internal controls over operations and financial reporting
Dual-Track Accounting System

- Federal agencies are required to comply both with budgetary accounting requirements and accrual basis proprietary accounting requirements.
- Many transactions require an entry to record the budgetary effect and a separate entry to record the proprietary effect (i.e., the effect on net position of the entity).
- Illustration 11-10 presents a comparison of the kinds of transactions and events that affect each track’s accounting requirements.
Relationship among Budgetary Accounts

Budgetary resources

- Other appropriations realized

Status of resources

- Unapportioned authority
- Apportionments
- Allotments
- Commitments
- Undelivered orders
- Expended authority
Illustrative Transactions for a Hypothetical Federal Agency

The agency is notified its appropriation for the new fiscal year is $1,000,000. It would make the following general journal entries:

**Budgetary:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Appropriations Realized</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Unapportioned Authority</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

**Proprietary:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance with Treasury</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Unexpended Appropriations</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>
OMB approved four equal quarterly apportionments to the agency. The agency head, in turn, allotted the full amount to subunits within the agency:

**Budgetary:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unapportioned Authority</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Apportionments</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Apportionments</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Allotments</td>
<td>1,000,000</td>
<td></td>
</tr>
</tbody>
</table>
Commitments were recorded in the amount of $700,000 for goods and services expected to be ordered during the year (note: these are not yet obligations). Purchase orders for goods were issued in the amount of $650,000.

**Budgetary:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allotments</td>
<td>700,000</td>
</tr>
<tr>
<td>Commitments</td>
<td>700,000</td>
</tr>
<tr>
<td>Commitments</td>
<td>650,000</td>
</tr>
<tr>
<td>Undelivered Orders</td>
<td>650,000</td>
</tr>
</tbody>
</table>
Goods were received at an actual cost of $640,000 for which purchase orders had been issued for estimated amounts of $620,000.

**Budgetary:**

<table>
<thead>
<tr>
<th></th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undelivered Orders</td>
<td>620,000</td>
<td></td>
</tr>
<tr>
<td>Commitments</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Expended Authority</td>
<td></td>
<td>640,000</td>
</tr>
</tbody>
</table>

**Proprietary:**

<table>
<thead>
<tr>
<th></th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Materials &amp; Supplies</td>
<td>640,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>640,00</td>
</tr>
<tr>
<td>Unexpended Appropriations</td>
<td>640,000</td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td></td>
<td>640,000</td>
</tr>
</tbody>
</table>
Payrolls were paid in the amount of $100,000. The agency does not record commitments for payroll.

**Budgetary:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allotments</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Expended Authority</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>

**Proprietary:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating/Program Expenses</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Disbursements in Transit</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Unexpended Appropriations</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>
In the preceding proprietary JE, Disbursements in Transit is a current liability account signifying the agency has requested payment from the Treasury. Assume, that payment has also been requested for the Accounts Payable to vendors for goods received (see previous transaction)

**Proprietary:**

| Accounts Payable          | 640,000 |
| Disbursements in Transit  | 640,000 |
Illustrative Transactions (Cont’d)

The agency received notification that all disbursements in transit had been paid

**Proprietary:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursements in Transit</td>
<td>740,000</td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>740,000</td>
</tr>
</tbody>
</table>
The focus of federal accounting is broad, including information needed for management of resources (proprietary track) as well as for compliance with fund control requirements (budgetary track) – dual track.

Legislation over the years charges the Comptroller General, Secretary of Treasury, and Director of the OMB to maintain financial management accounting and reporting systems for federal agencies and the federal government as a whole.

FASAB statements are GAAP for federal agencies.

END