



JFMIP

Financial Management Systems Compliance Review Guide

EXPOSURE DRAFT

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JFMIP-MI-99-15
October 1999

U.S. Government Chief Financial Officers Council

The members of the U.S. Government Chief Financial Officers (CFO) Council—the CFOs and Deputy CFOs of all the 24 largest Federal agencies and senior officials of the Office of Management and Budget and the Department of the Treasury—work collaboratively to improve financial management in the U.S. Government. The CFO Council has become a strong force for active cooperation among agencies dealing with common problems. Its composition of both political appointees and senior career civil servants ensures collaboration and continuity of effort.

Under the Chief Financial Officers Act of 1990, the CFO Council was established to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and other financial management matters.

The CFO Act legislated broad authority for each CFO to oversee all financial management activities relating to the programs and operations of the agency. With this authority, the CFO will ensure that sound financial management practices are applied in all organizational components of his or her agency and that modern automated financial systems and tools are used. Specific CFO authority varies agency by agency, but may include some or all of the following financial and general management components: budget formulation and execution, facilities or property management, financial operations and analysis, financial systems, grants management, information resources management, personnel, and procurement. Information of the CFO Council can be found at its website:

www.financenet.gov/financenet/fed/cfo/cfo.htm

The Joint Financial Management Improvement Program

The JFMIP is a joint and cooperative undertaking of the U.S. Department of the Treasury, the General Accounting Office, the Office of Management and Budget, and the Office of Personnel Management working in cooperation with each other and other agencies to improve financial management practices in government. The Program was given statutory authorization in the Budget and Accounting Procedures Act of 1950 (31 USC 65). Leadership and program guidance are provided by the four Principals of the JFMIP—Comptroller General of the United States, Secretary of the Treasury, and the Directors of the Office of Management and Budget, and the Office of Personnel Management. Each Principal designates a representative to serve on the JFMIP Steering Committee, which is responsible for the general direction of the Program. The JFMIP Executive Director, and a program agency representative (who serves for 2 years) are also on the Steering Committee.

The Program promotes strategies and guides financial management improvement across government; reviews and coordinates central agencies activities and policy promulgations; and acts as catalyst and clearinghouse for sharing and disseminating information about good financial management practices. This information sharing is done through conferences and other educational events, newsletters, meetings with interagency groups and agency personnel, and through FinanceNet, an electronic clearinghouse on the Internet.

The JFMIP has worked on interagency projects that developed a financial systems framework and financial systems requirements. For the future JFMIP plans to assist Federal agencies in improving their financial systems through its Program Management Office. The Office will work on revising the Federal government's requirements definition, testing, and acquisition processes; the first target of opportunity is core financial systems. The objectives of the Office are to develop systems requirements, communicate and explain Federal and agency needs, provide agencies and vendors information to improve financial systems, ensure that products meet relevant system requirements, and simplify the procurement process.

Information on JFMIP can be found at its website: www.financenet.gov/financenet/fed/jfmip/jfmip.htm or call 202/512-9201.

JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM



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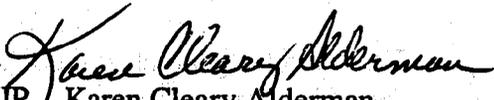
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Date: October 21, 1999

To: Senior Financial Officials

From: Executive Director, JFMIP /  Karen Cleary Alderman

Subject: Financial Management Systems Compliance Review
Guide

The Draft *Financial Management Systems Compliance Review Guide* is attached for comment. This document is sponsored by the Chief Financial Officers (CFO) Council and the Joint Financial Management Improvement Program (JFMIP). It will be issued as a guide similar to the model used to issue the *Managerial Cost Accounting Implementation Guide*. The development and issuance of the *Financial Management Systems Compliance Review Guide* fulfills one of the tasks included in the Office of Management and Budget (OMB) and CFO Council 1998 *Federal Financial Management Status Report and Five-Year Plan*, to support standardizing the financial systems environment. The task recognizes the need to develop tools to assist agencies in satisfying multiple requirements that call for financial management system reviews, such as those required by: the Federal Management Financial Integrity Act (FMFIA) section 4, the Federal Financial Management Improvement Act of 1996, OMB Circulars A-123, A127, and A-130; and OMB Bulletin 98-08. Currently, no governmentwide procedures or instructions on conducting financial management system reviews exist. Current financial system assessment methods vary.

The *Financial Management Systems Compliance Review Guide* draft was developed by a working group of the Financial System Committee under the leadership of R. Schuyler Leshner, Chair of the CFO Financial Systems Committee and Edward Leary, HUD. The working group included selected representatives from agency CFO and Inspector General communities, JFMIP and OMB. The Executive Committee of the CFO Council endorsed the issuance of this exposure draft.

The effort has built on certain agencies' best practices that appear to be working and added practice elements that the working group felt were necessary. The guidance is designed to assist agencies in performing financial management systems compliance reviews. This Guide has been drafted to enable it to grow over time to properly reflect new requirements without having to republish the complete document. For example Appendix C provides a checklist for the Core Financial System Functional Requirements to be used in the process. Over time this appendix would be expanded to provide additional checklists to cover other JFMIP Federal Financial Management Systems Requirements (FFMSR) documents.

In addition to general comments about the guide, we are looking for feedback that addresses the following key questions:

- (1) Would this guide assist your agency in conducting financial management systems reviews?
- (2) Does this guide include the right level of information to assist your agency in conducting an effective and efficient financial management systems review?
- (3) Is the guide sufficiently comprehensive?
- (4) Could this guide be used by your organization in development of education and training for performing financial management systems reviews?

The document is being circulated widely within the Federal government's financial management and oversight communities and to private sector service providers. It is also being posted on FinanceNet at:

www.financenet.gov/financenet/fed/jfmip/jfmipexp.htm

Please provide your comments by December 20, 1999. Comments on any section of this document are encouraged. Responses would be more helpful to the JFMIP and the CFO Council if they also include your rationale. Respondents should also indicate the capacity in which they are responding. Comments should be sent to:

Joint Financial Management Improvement Program
441 G Street NW, Room 3111
Washington, DC 20548

Please be aware that we are working to relocate JFMIP by the middle of November, 1999. We are working closely with the GAO, where JFMIP is currently located, to ensure a smooth transition of U.S. Postal and electronic mail services. When the exact date of the relocation is known, information will be posted on the JFMIP Homepage at:

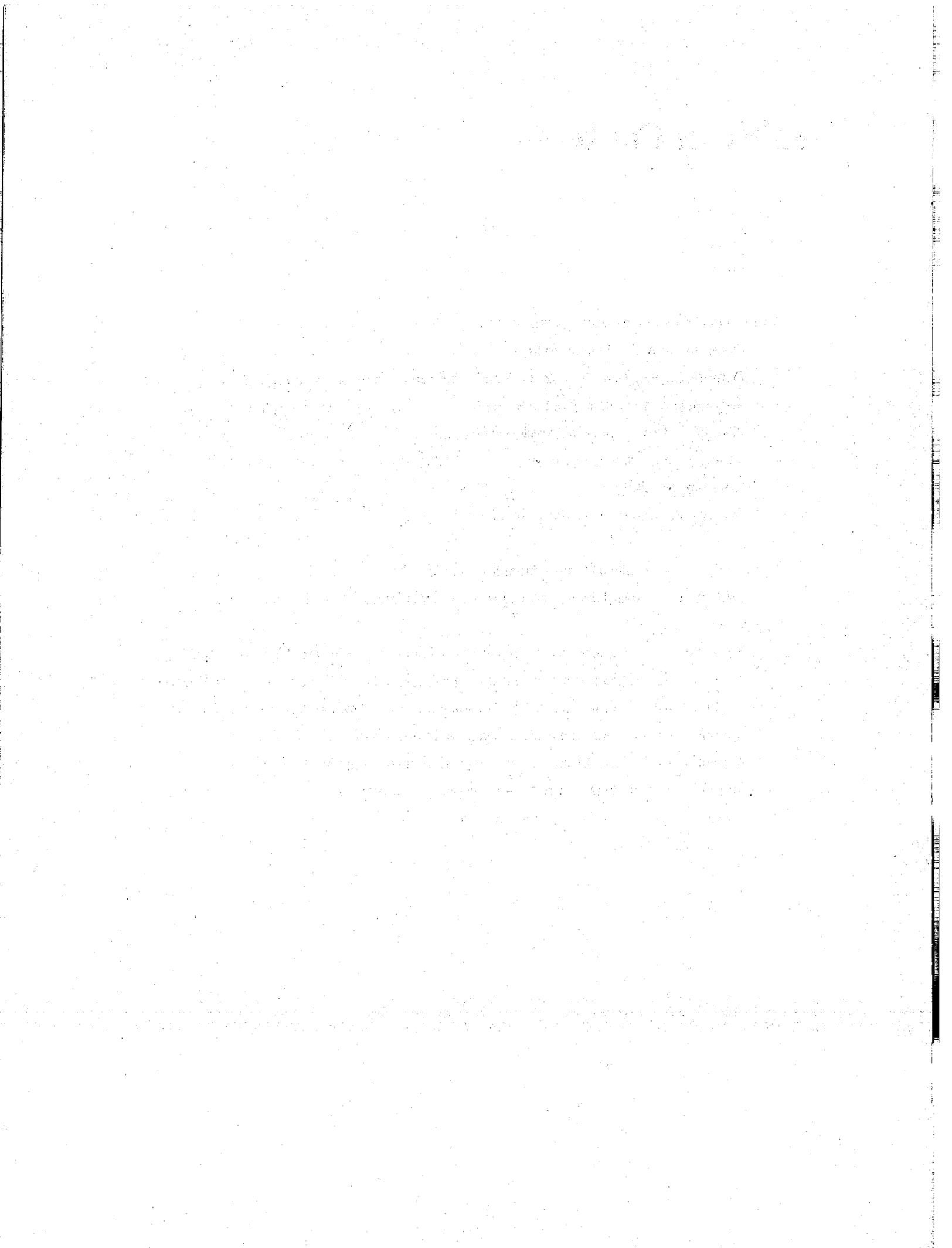
www.financenet.gov/fed/jfmip/jfmip.htm

If you have any questions, please contact Steve Fisher who may be reached by phone at 202-512-6289; Fax at 202-512-9593 or by email at jfmip@mail.com.

Attachment

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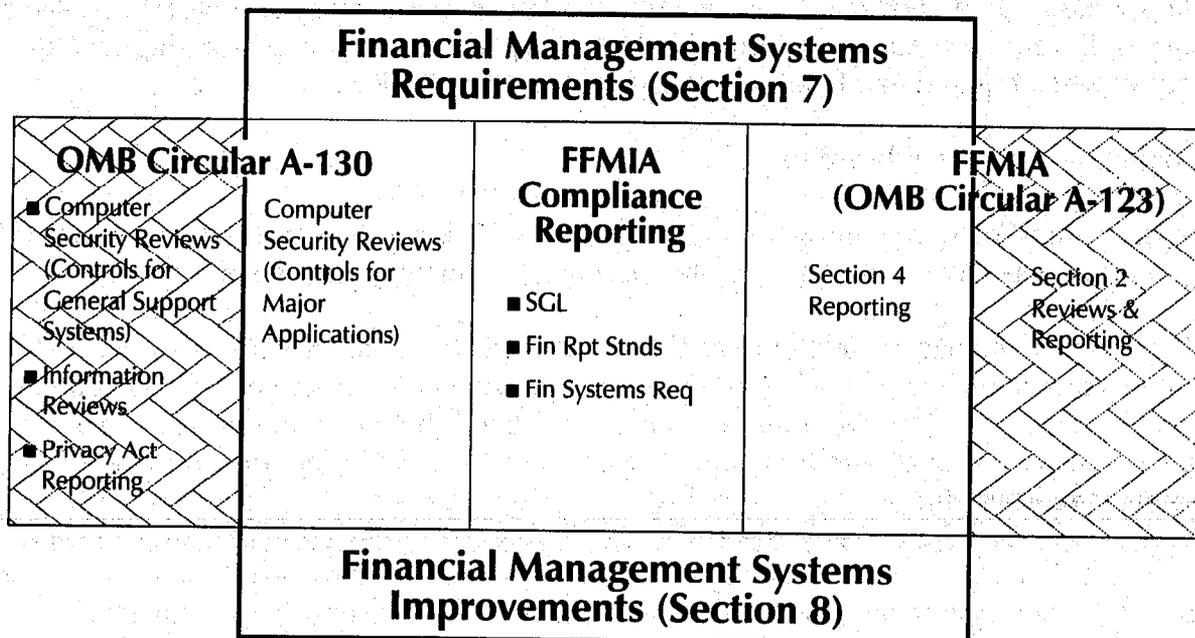
Introduction

Background

The Office of Management and Budget (OMB) issues policy guidance in the form of circulars and bulletins on financial management systems policies based on legislation and other requirements that define what constitutes effective and efficient financial management systems in the Federal government. Agencies are required under the Federal Managers' Financial Integrity Act (FMFIA) Section 4 requirements and under the Federal Financial Management Improvement Act (FFMIA) to assure that their systems meet this guidance and adhere to legislation and various circulars and bulletins.

Agencies are required to conduct various financial management reviews under Federal government policy, e.g. OMB Circular A-127, Financial Management System Requirements; OMB Circular A-123, Management Accountability and Control; and OMB Circular A-130, Management of Federal Information Resources. In addition, OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, defines FFMIA audit requirements. Conducting financial management system reviews should be performed in a streamlined manner using resources in as effective and efficient manner as practical to achieve the intended results. Chart A provides an overview of the elements of these policies and their relationship to financial management systems reviews.

OMB Circular A-127 Reviews



Financial Management Systems Compliance Review Guide

While the policy guidance mentioned above supplies a comprehensive set of directives, no government-wide instructions are available that provide Federal agencies with implementation guidance for use in deciding whether their financial management systems comply with legislation, circulars and bulletins. However, while OMB establishes financial management systems policies, others have major roles in the financial management compliance review process. For example, the Joint Financial Management Improvement Program (JFMIP) publishes the Federal Financial Management Systems Requirements (FFMSR); auditors review financial management systems under FFMA requirements; the Chief Financial Officers (CFO) Council and the Chief Information Officers Councils oversee initiatives to improve systems and set appropriate standards; and the Government Accounting Office (GAO) oversees the audit of the consolidated financial statements for the Federal government which relies heavily on financial management systems. Coordination of these various groups is critical to the success for the financial management systems compliance review process.

Purpose

This review guide is a tool to assist managers in determining whether financial management systems comply with Federal requirements. This guide is intended to be used by managers responsible for financial management systems and individuals performing financial management systems reviews. Such individuals include finance office staff and managers responsible for financial or mixed systems. Mixed systems are referred to as feeder systems by some Federal agencies. The review of mixed (feeder) systems covers the financial portions of the systems that originate or provide financial data used in by agency management for decision making, financial reporting or being provided to other financial systems for management or control purposes.

This review guide provides a set of steps to assist Federal agencies in deciding whether their financial management systems comply with FMFIA, FFMA, and OMB Circular A-127. As such, the guide is written to be understandable by both financial and non-financial program managers. Agency staff from areas such as information technology should work in partnership to address the various aspects required in a financial management systems review.

The objectives of this guide are to:

1. Assist financial managers, program managers and reviewers of financial systems or mixed (feeder) systems in determining whether a system is a financial management system;
2. Help financial managers, program managers and reviewers of financial systems or mixed (feeder) systems to decide if their financial system is compliant with OMB Circular A-127 requirements (See Appendix A-1) and whether deficiencies identified should be reported by management under FMFIA and/or by auditors under FFMA, once a system is determined to be a financial management system;
3. Provide guidance to financial managers, program managers and reviewers of financial systems or mixed (feeder) systems on how to conduct periodic reviews to ensure their financial management systems stay compliant; and;

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4. Assist auditors who must conduct reviews under FFMIA to understand how financial managers, program managers and reviewers of financial systems or mixed (feeder) systems evaluated their systems.

This document supplements, but does not replace, policy information included in OMB Bulletin 98-08, which provides guidance to auditors in conducting their work related to FFMIA (see Appendix A-2). Further, this document is not intended to be an audit guide. However, this document may be useful to auditors in understanding how financial managers, program managers and reviewers of financial or mixed (feeder) systems assess their financial management systems.

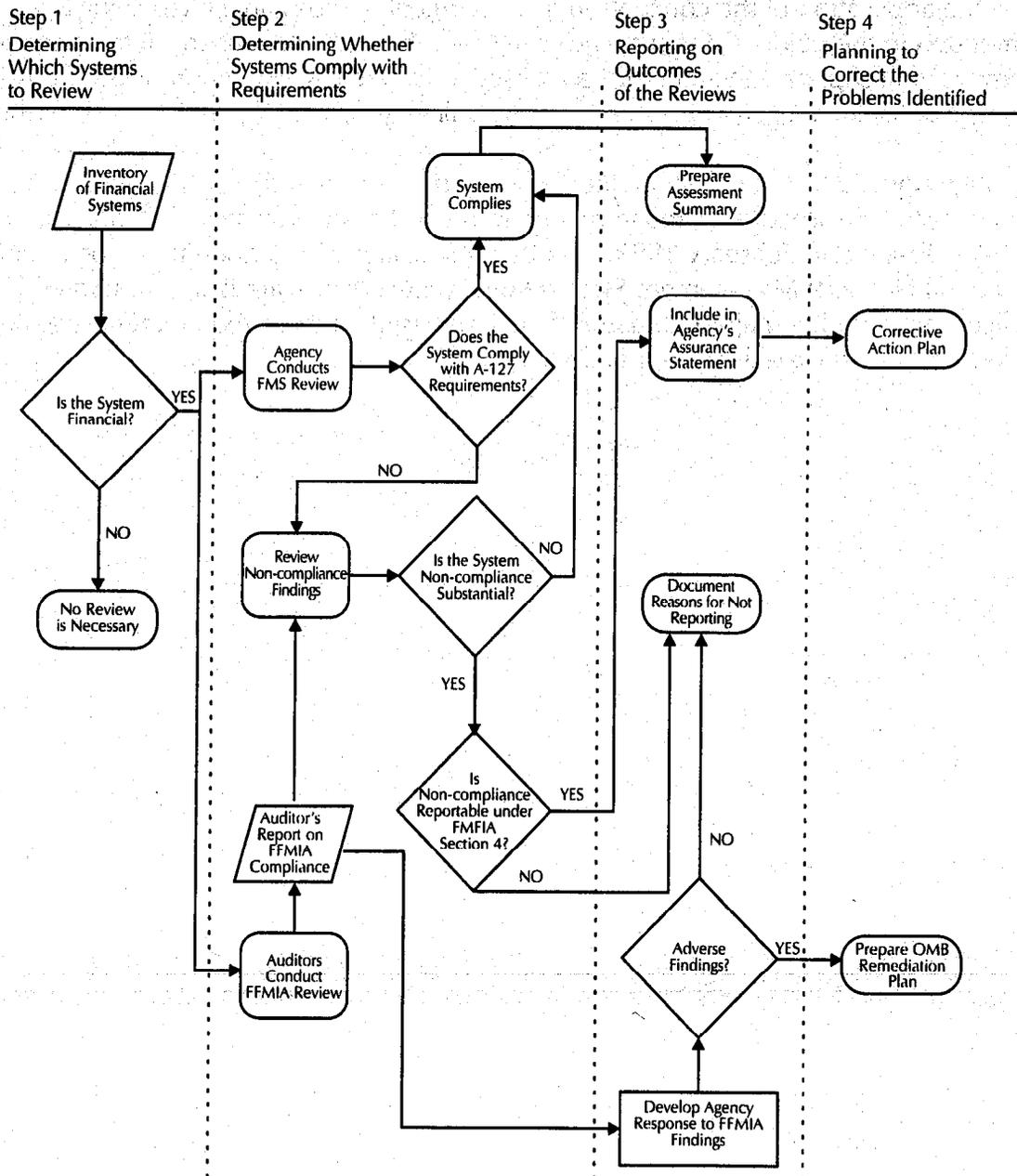
Further, this guidance acknowledges that individual agencies may have unique financial management needs that will need to be incorporated in a financial management system review. Tailoring the application of the concepts in this document is acceptable in applying the approaches recommended in this guide. Certain agencies may emphasize certain financial management systems requirements that support functions and processes which are key to supporting their mission. Therefore, financial management systems reviews will vary depending on the needs of the agency.

Additionally, Appendix C of this guide incorporates the major mandatory functions for a Core financial system. The detailed mandatory requirements that support these functions are contained in JFMIP-SR-99-4 dated February 1999. As other financial system requirement documents in the JFMIP Federal Financial Management System Requirements series are issued or updated, appendices that describe major mandatory functions based on these requirements will be developed and incorporated into Appendix C.

Part I: Financial Management Systems Review Process

The financial management systems review process involves the following steps: (1) determining which systems to review, (2) determining whether the systems comply with the requirements, (3) reporting on the outcome of the reviews and (4) planning to correct the problems identified. The chart below provides an overview of the process:

Financial Management Review Process



Financial Management Systems Compliance Review Guide

The financial management systems review process should support the partnership between program, financial and information technology managers in establishing and maintaining systems for financial management of programs. The partnership between program and financial managers should result in financial management systems that ensure the integrity of information for decision-making, measuring of performance, and financial reporting. 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 consolidated financial statements; and
- provide a complete audit trail to facilitate audits.

In support of this objective, the program manager should establish and maintain their financial management systems with standardized information and electronic data exchange, to support program delivery, safeguard assets, and manage taxpayer dollars.

These systems should be integrated and designed with effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems JFMIP Core Financial System Requirements, February 1999, pg. 3). For that to happen, these systems should have:

- i. standard data classifications (definition and formats) established and used for recording financial events;
- ii. common processes used for processing similar kinds of transactions;
- iii. internal controls over data entry, transaction processing, and reporting applied consistently; and
- iv. a system design that eliminates unnecessary duplication of transaction entry.

Each step of the financial management review process is described below.

Step 1 - Determining Which Systems to Review

The scope of a financial management system review is limited to an agency's financial management systems defined as the "financial systems and the financial portions of mixed systems necessary to support financial management." A system should be classified as a financial management system if it is used for any of the following (OMB Circular A-127, July 23, 1993, Section 5: Definitions):

Financial Management Systems Compliance Review Guide

- collecting, processing, maintaining, transmitting, and reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting cost information; or
- supporting the preparation of financial statements.

Certain information systems may support both financial and non-financial functions. An example is a system that supports grants processing that results in approval of funding. Such systems are called "mixed systems" and, for purposes of OMB Circular A-127, managers must ensure that the financial functions and processes of these systems comply with all applicable factors in OMB Circular A-127 and FFMIA.

A system is considered a "non-financial system" when it supports non-financial functions and any financial data included in the system are insignificant to the agency financial management and/or not required for the preparation of financial statements. Non-financial systems are not subject to financial management system reviews.

Step 2 - Determining Whether the Systems Comply with the Requirements

The second step is to determine whether the financial system is in compliance with Federal financial systems requirements established under OMB Circular A-127. The principal criteria for a financial management systems review are defined by the 12 requirements in Section 7 of OMB Circular A-127 (see Appendix A-1).

The compliance requirements of FFMIA, FMFIA, and Circular A-127 are highlighted in Part II, "Criteria for Financial Management Systems Compliance," including the relationship among:

- Financial Management Systems Compliance Review Guide,
- OMB Circular A-127 Section 7,
- OMB Circular A-130, FFMIA,
- FMFIA Section 4 (Circular A-123).

Appendix B: Financial Management Systems Compliance Review Elements, and Appendix C: Core Financial Systems Functional Requirements in this guide provide the basis upon which agencies should develop detailed system compliance reviews. The elements in Appendix B are comprehensive, but an agency may wish to augment the elements and compliance indicators to address unique agency needs. Appendix C contains the major mandatory functions that should be reviewed as part of the compliance review (see Part II, Table A, "G. Functional Requirements"). The detailed mandatory requirements that support these functions are contained in JFMIP-SR-99-4 dated February 1999. Appendix C will be expanded to incorporate the major functions of other system requirements documents in the JFMIP Federal Financial Management System Requirements series as they are issued or updated.

Financial Management Systems Compliance Review Guide

The process to determine compliance should be as follows:

- 1. Conduct the Financial Management Systems Review** - Conduct a system compliance review to determine whether the system meets all 12 factors in Circular A-127. If a system meets all 12 factors that are applicable, then the system is compliant. For mixed systems, some financial/accounting factors may not be applicable. If the system is determined to not comply with one or more of the factors, then the system is considered to be non-compliant.

The findings concerning the financial management system identified through the audit of an agency's financial statements should be considered in performing a financial management system review. GAO and the Office of Inspector General (OIG) may identify weaknesses and material non-conformances in conducting their respective financial system audits that must be addressed by an agency. It is important to include the review of the audit and inspection findings when an agency conducts a compliance review. Uncorrected weaknesses, planned corrective actions, and the status of each action should be considered in performing financial management systems reviews. Agencies may elect to rely on OIG financial management system audits or other review analyses of financial management systems where such analyses apply to compliance review elements in Appendix B.

It is recommended that an assessment summary detailing the results of the system review be prepared to document that the system is compliant with Circular A-127 requirements, the scope of the review conducted, and the findings of the review. The assessment summary should be supported by appropriate analyses and other documentation, that may be made available to external auditors substantiating a system's compliance or non-compliance with Federal requirements.

When an outside service provider is used to support a financial function, assurance should be obtained from the service provider that the system(s) is in compliance with required financial management systems requirements. If adequate assurance cannot be obtained for all or part of the systems supporting the financial functions, then the department/agency should ensure that additional controls are in place to ensure full compliance with appropriate financial management systems requirements.

- 2. Assess Whether the Financial Management System Non-compliance is Substantial** - A non-compliant system requires further analysis to decide if the deficiency that caused the non-compliance results in the system being "substantially non-compliant" with OMB Circular A-127. If a system's non-compliance is not considered substantial and therefore must be reported as a systems "non-conformance" under FMFIA, then the system should be considered compliant with OMB Circular A-127 requirements and appropriate analysis should be documented and maintained supporting this conclusion.

The assessment of whether the system is substantially non-compliant may be based on factors such as:

- causes material misstatements of financial information for financial reporting or agency decision-making,

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- internal controls are not adequate to ensure the collection of information properly reflects the financial events of the Federal government and follow government reporting requirements;
- merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant congressional oversight committee;
- prevents the primary agency financial system from achieving adequate control over agency financial transactions and resource balances; or
- prevents conformance of financial system with (1) financial information standards and/or (2) financial system function standards.

In the financial management system reviews, particular attention should be directed toward an assessment of whether the system complies substantially with Federal financial management systems requirements, applicable Federal accounting standards, and/or the United States Government Standard General Ledger (SGL) at the Transaction Level. See Appendix A-4 for the FFMIA requirements.

3. Determine If Substantial Non-compliance Should be Reported under FMFIA Section 4

Requirements - For systems determined to be substantially non-compliant, the agency should also determine whether the system is required to be reported under FMFIA Section 4 as a systems "non-conformance". Reporting under FMFIA Section 4 is required if the agency head determines that the system's non-compliance is significant enough to be reported outside the agency as a material financial management system non-conformance. Criteria that may be used in making such a determination would include:

- Is the deficiency serious enough to affect compliance with the Government Management and Reform Act (GMRA).
- The deficiency would cause a material adverse impact to the agency in terms of program efficiency and effectiveness, financial condition, compliance with laws and regulations, or protections of government assets.
- The deficiency is so serious as to warrant the attention of the President, Congress, and OMB.

For consistency in reporting, it is hoped that the OIG would use similar criteria in determining whether a non-compliance is considered substantial and should be reported as part of their assessments of compliance under FFMIA. Also, agencies' OIGs may consider using agency financial management systems review analyses, as appropriate, to support their assessments of compliance under FFMIA.

Step 3 - Reporting on the Outcomes of the Reviews

Upon the completion of a financial management systems review, a summary of the results should be prepared. This summary of review results states whether the system is or is not in substantial compliance with financial systems requirements. If the system is in substantial compliance, then the summary should be held on file to support the assessment conclusions for use in future systems reviews and by auditors. An example of a financial management system assessment summary is provided in Appendix D.

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Systems that are substantially non-compliant with OMB Circular A-127 generally should be reported in an agency's FMFIA assurance statement. In addition, agencies are required to report on systems identified by audit officials that are substantially non-compliant under FFMIA when the systems do not comply with: (1) the U.S. SGL at the transaction level; (2) Federal accounting standards; or (3) Federal financial management systems requirements. Further, systems that are determined by the auditors not to meet FFMIA requirements should be reported in the annual budget submission to OMB in Circular A-11 along with appropriate remediation plans. The effect of substantial financial systems non-compliance under FFMIA on an agency's financial operations should also be disclosed in an agency's financial statements which are distributed to OMB and Congress.

If, based on the results of the review, the agency official is unable to provide reasonable assurance that a system complies in all areas, conditional assessment may be provided identifying the areas where reasonable assurance cannot be provided. An explanation of the identified weaknesses and the actions required for correction (including timeframe, if known) should be included.

Step 4 - Planning to Correct the Problems

If the agency determines that a system is substantially non-compliant and must be reported under FMFIA Section 4 requirements as a system non-conformance, a corrective action plan should be put in place. The plan should include a discussion of the correction efforts needed in sufficient detail that managers can understand the nature of the issues and the result desired when the corrections are completed. A corrective action plan should cover the resources, the remedies and target dates to resolve the identified issues:

Resources - Estimated costs to be incurred to make the system substantially compliant.

Remedies - Specific steps/tasks necessary to fix the non-conforming system and responsible parties.

Target Dates - Target dates for completing the tasks identified in the plan.

Systems reported by an auditor as substantially non-compliant under FFMIA require an agency to develop a separate remediation plan. The remediation plan should be developed in consultation with OMB, and include the same level of detail as a corrective action plan with a description of resources and milestones for achieving compliance. The Inspector General's semi-annual report should include an agency's progress in achieving compliance as required by the IG act, as amended.

Under FFMIA, the remediation plan shall "bring the agency's financial management systems into substantial compliance no later than 3 years after the date a determination [of non-compliance] was made." Specific waiver from this timeframe is permissible with agreement from OMB.

Timing of Financial Systems Reviews

Detailed systems reviews should be conducted for all major financial management systems to provide an agency's management the ability to provide assurance that the systems are in

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compliance with Federal financial systems requirements. Financial management systems that are considered not significant to the financial management of the agency or where the dollar volume of the transactions do not result in the systems being considered material to the preparation of financial statements, may be exempted from financial management system review by the CFO of an agency.

Financial management systems reviews should be conducted at intervals that provide agency heads adequate support for their Annual Assurance Statement covering FMFIA Section 4 requirements. However, assessments are most effective when reviews are conducted at least once every five years or more frequently if (1) major changes have been implemented that would substantially affect the operations of the system, (2) there are management concerns over the integrity of the system or the data in the system, or (3) where the importance of the systems requires management to provide external assurance on the compliance of the systems to Federal Financial Systems Requirements on a more frequent basis. In addition, an independent review or audit of the security controls in each application is required by OMB Circular A-130 at least every three years.

On-Going Monitoring

The system's program manager is responsible for making sure deficiencies are corrected according to plan and working with GAO and the OIG on their reviews. Periodic reviews should be conducted on systems to ensure they continue to comply with FMFIA, FFMIA, and OMB Circular A-127.

Tools for Performing an FFMIA Compliance Review

Currently, methods used by agencies vary from in depth reviews that utilize custom designed guides to the use of external auditors and consultants who develop their own evaluation criteria. This guide is intended to supplement these tools and to provide additional capabilities where tools are not available.

Tools available to agencies to assist them in conducting internal financial management systems compliance reviews include:

- Existing review guides developed by agencies, which can be shared and tailored to meet agency specific needs.
- Use of this guide or other authoritative guidance such as OMB Bulletin 98-08 and related Circulars (i.e. A-123, A-127, A-130).
- The JFMIP core financial management system certification test.
- Checklists that incorporate current financial system requirements as published by JFMIP in the Federal Financial Management System Requirements series (e.g. JFMIP-SR-99-4)¹.

¹ Checklists containing all the requirements of each of the JFMIP system requirements documents are available from GAO. As JFMIP updates existing system documents (or issues new ones), GAO publishes a related checklist document. These checklists can be obtained in hard copy by calling (202) 512-6000 or are available on the internet on GAO's home page (www.gao.gov).

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Given that the JFMIP core financial management system test was designed specifically for the purpose of assessing a software package's ability to comply with core requirements (see JFMIP-SR-99-4). Accordingly, documenting the successful completion of the test on an implemented system would be objective evidence that a core financial system is in compliance with the Federal financial management systems requirements of FFMA. The test is currently available on the Internet at <http://www.financenet.gov/financenet/fed/jfmip/pmo.htm>² for use by program and financial managers and the oversight community. It contains a test plan, test cases (scenarios), assumptions that were made and the expected test results.

2 Proceed to Program Management Offices pages then select topic "Reference Materials."

Part II: Criteria for Financial Management Systems Compliance

The criteria for performing financial management systems reviews included in this guide is intended to enable Federal agencies to meet the requirements of the FFMIA, the FMFIA, and OMB Circular A-127.

Compliance Requirements:

Federal Financial Management Improvement (FFMIA)

All financial management systems within the agency determined to be either financial or mixed, must comply with:

- Federal financial management systems requirements
- Applicable Federal accounting standards
- U.S. SGL at the transaction level

For purposes of review:

Exclude systems under development unless the agency reported them in their financial/mixed systems inventory to OMB

Include systems developed in-house and systems or services supplied by outside vendors in support of agency functions

Financial management system compliance is based on the requirements outlined in Section 7 B Financial Management System Requirements in OMB Circular A-127, and in the FMFIA. The relationship of such reviews to the compliance requirements above is included in Table A .

Federal Managers' Financial Integrity Act (Section 4 reviews (FMFIA))

Section 4. Section 118(b) of the Accounting and Auditing Act of 1950 (31 U.S.C. 661(b)), states that "each annual statement prepared pursuant to subsection (d) of this section shall include a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of the Integrity Act."

Circular A-127 Reviews

Each agency shall ensure appropriate reviews are conducted of its financial management systems. The results of these reviews shall be considered when developing financial management systems plans. OMB encourages agencies to coordinate and, where appropriate, combine required reviews.

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Reviews must comply with policies for (1) reviews of internal controls undertaken and reported on in accordance with the guidance issued by OMB for compliance with the requirements of the FMFIA and Circular A-123, (2) reviews of conformance of financial management systems with the principles, standards and related requirements in Section 7 of A-127 undertaken in accordance with the guidance issued by OMB for compliance with requirements of the FMFIA, and (3) reviews of systems and security as required under provisions of Circular A-130.

The relationships of these reviews are presented in Table A.

**Table for Comparing Financial Management Systems Compliance Guidance,
OMB Circular A-127 Regulations Section 7,
OMB Circular A-130, FFMIA, FMFIA Section 4 (OMB Circular A-123 Requirements)**

Financial Management Systems Compliance Review Criteria	OMB Policy Requirements		External Reporting Requirements	
	OMB Circular A-127 Regulations Section 7	OMB Circular A-130	FFMIA	(OMB Circular A-123) FMFIA Section 4
(See Appendix B for Details)				
A. Comparability and Consistency	A. Agency-wide Financial Information Classification Structure			
B. Efficiency and Economy	B. Integrated Financial Management Systems			B. Integrating financial systems and eliminating duplication
C. Application of the SGL at the transaction level	C. Application of the U.S. Government Standard General ledger at the Transaction Level		C. Government Standard General Ledger (SGL) at the transaction level	
D. Financial Data	D. Federal Accounting Standards		D. Applicable Federal accounting standards	D. Consistency with accounting principles and standards
E. Financial Reporting	E. Financial Reporting			E. Financial information
F. Support for Budgeting and Performance Reporting	F. Budget Reporting			F. Budget formulation and execution
G. Functional Requirements	G. Functional Requirements		G. Federal financial management systems requirements	
H. Computer Security Act Requirements	H. Computer Security Act Requirements	H. Computer security (Controls for Major Applications)		
I. Documentation	I. Documentation	I. Application Security Plan		
J. Systems Integrity	J. Internal Controls	J. Review of Application Controls & Authorized processing		J. Internal controls / accountability for agency assets
K. Training and User Support	K. Training and User Support	K. Specialized Training		
L. Maintenance	L. Maintenance			

Appendix A - 1: References

OMB Circular A-127, Section 7 Financial Management System Requirements

7. Financial Management System Requirements. Agency financial management systems shall comply with the following requirements:

a. Agency-wide Financial Information Classification Structure. The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U. S. SGL, provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

— **Common Data Elements.** Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U. S. SGL) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.

— **Common Transaction Processing.** Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

— **Consistent Internal Controls.** Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

— **Efficient Transaction Entry.** Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

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c. Application of the U. S. SGL at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the U.S. SGL at the transaction level. Application of the SGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

— Data in Financial Reports Consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.

— Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

— Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.

Agencies may supplement their application of the SGL to meet agency specific information requirements in accordance with guidance provided in the U.S. SGL supplement to the Treasury Financial Manual.

d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB, 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. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

— Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making, (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

— Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management systems.

Financial Management Systems Compliance Review Guide

f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular No. A-11 (Preparation and Submission of Budget Estimates), OMB Circular No. A-34 (Instructions on Budget Execution) and other circulars and bulletins issued by the OMB.

g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements issued by the JFMIP. Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to implement expeditiously new functional requirements as they are established and/or made effective.

h. Computer Security Act Requirements. Agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A-130 for those financial management systems that contain "sensitive information" as defined by the Computer Security Act.

i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by JFMIP or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable 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 requirements documents, systems specifications and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

j. Internal Controls. The financial management systems shall include a system of internal controls that 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. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by Circular A-123.

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

l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices and make appropriate modifications.

Appendix A – 2: References

OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements

Relationship to Section 4 of FMFIA (the Integrity Act)

There is a close, if not overlapping, relationship between FFMIA and the FMFIA. Since the acronyms are similar, this guidance refers to FMFIA as the Integrity Act. The Integrity Act requires that the agency head, on an annual basis no later than December 31, provide an assurance statement with respect to agency management controls (Section 2) and agency compliance with financial management system requirements (Section 4). For the most part, in many agencies, the Integrity Act statement of assurance for Section 4 provides management's assertion of compliance with section 803(a) of FFMIA.

Section 803, Implementation of FFMIA

Section 803 (a), cited above, states: "In General — Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. SGL at the transaction level."

This section of the guidance more fully describes (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the SGL at the transaction level. In each section, information is provided on substantial compliance and types of indicators to be used in assessing whether an agency is in substantial compliance. The criteria are broad and flexible; yet, they provide a practical basis for measuring achievement in complying with the FFMIA requirements.

(1) Federal Financial Management Systems Requirements

Circular A-127 prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. In addition, Circular A-127 also incorporates by reference: Circular A-123, "Management Accountability and Control;" Circular A-130, "Management of Federal Information Resources;" other operating policies and related requirements prescribed by OMB; and Federal Financial Management Systems Requirements issued by JFMIP.

The financial management systems subject to the requirements of FFMIA are included in the inventory of financial management systems subject to the requirements of Section 4 of the Integrity Act.

Compliance with the financial management systems requirements of FFMIA applies to all financial management systems essential to meeting financial statement preparation and budgetary reporting requirements.

An agency of the Federal government is considered to be in substantial compliance with financial management system requirements if:

Financial Management Systems Compliance Review Guide

- Financial management systems meet Circular A-127 requirements which, for purposes of complying with this Act, call for systems to: support management's fiduciary role; support the legal, regulatory, and other special management requirements of the agency; support the budget execution functions; support fiscal management of program delivery and program decision-making; comply with internal and external reporting requirements, including, as necessary, the requirement for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and be monitored by agency staff to ensure the integrity of financial data. This is accomplished through a unified set of systems comprised of financial systems and financial portions of mixed systems. These systems may or may not be operated by the CFO's office.
- Financial management systems follow requirements published in JFMIP's Federal Financial Management System Requirements series which prescribe the functions that must be performed by systems to capture information for financial statement preparation.
- Compensating procedures are applied to financial management information produced by third parties, such as service bureaus, when it is determined that systems used by third parties to provide those services do not comply with the provisions of the FFMIA.
- Security over financial information is provided in accordance with Circular A-130, Appendix 3.
- Internal controls over financial management systems are designed properly and operating effectively. Internal controls are described in OMB Bulletin 98-08. It is not expected that the scope of the auditor's work in this area would extend beyond the requirements of the Bulletin.

Indicators:

- Annual assurance statement issued pursuant to the Section 4 Integrity Act report does not reflect any material non-conformance related to financial management systems covered by FFMIA.
- Audit procedures performed for the purpose of obtaining evidence in support of the auditor's opinion on the financial statements did not disclose material weaknesses or noncompliance with legal or regulatory requirements of the agency.³
- Standard budget execution information is provided on a timely basis to OMB and Treasury in the manner requested and is consistent with budget execution information used internally within the agency.
- Agency senior management and program managers have access to timely financial information on the status of funds (commitments, reservation and obligations) by operating units and programs that allows analysis of data for decision-making.

3 In very limited circumstances, reportable conditions that significantly impair an entity's ability to meet Federal financial management systems requirements (such as reportable conditions related to computer security over financial information covered by OMB Circular A-130, Appendix 3) may represent conditions reportable under FFMIA.

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- Funds control decisions are based on information provided from the agency's financial management systems.
- The agency core financial system, supported by other systems containing the detailed data summarized in the core financial system, is the source of information used in the preparation of the annual financial statements and other internal and external reporting requirements. Detailed information contained in these other systems also may be used as the source information for reporting where summarized information contained in the agency core system does not provide the details necessary to meet reporting requirements.
- The agency has a management control program that identifies and reports deficiencies in financial management systems, including deficiencies resulting in a lack of substantial compliance with the three requirements of FFMIA, and ensures such deficiencies are corrected.

(2) Federal Accounting Standards

An agency of the Federal Government will be considered in substantial compliance with Federal accounting standards if the agency prepares audited financial statements in accordance with the hierarchy of Federal accounting standards included in paragraph 5 of OMB Bulletin 98-08. Substantial compliance does not require all transactions to be in full compliance with Federal accounting standards at the point of original entry, but that financial information used in the preparation of financial statements, based on such transactions, is adequately supported by detailed financial records (automated or manual).

Indicators:

- An unqualified opinion on the agency's financial statements. For a qualified opinion, a review of the underlying reasons for the qualified opinion is needed to determine whether or not the agency is in substantial compliance with this requirement. In limited circumstances, a qualified opinion on the agency's financial statements may indicate substantial compliance with this requirement when it is solely due to reasons other than the agency's ability to prepare auditable financial statements. Further, a disclaimer of opinion may not indicate that there is a lack of substantial compliance with this requirement when it results from a material uncertainty, such as resolution of litigation or projecting future economic events.

The audit disclosed no material weaknesses in internal controls that affect the agency's ability to prepare auditable financial statements and related disclosures.⁴

(3) SGL at the Transaction Level

Implementing the SGL at the transaction level requires that the Core Financial System General Ledger Management Function is in full compliance with the SGL chart of accounts descriptions and

⁴ In very limited circumstances, reportable conditions that significantly impair an entity's ability to meet Federal financial management systems requirements (such as reportable conditions related to computer security over financial information covered by OMB Circular A-130, Appendix 3) may represent conditions reportable under FFMIA.

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posting rules; transactions from feeder systems are summarized and fed into the Core Financial System's General Ledger following SGL requirements through an interface (automated or manual); detail supporting the interface transactions can be traced back to the source transactions in the feeder systems; and the feeder systems process transactions consistent with SGL account descriptions and posting.

An agency of the Federal government will be considered in substantial compliance with the SGL at the transaction level requirement if the agency's classification of financial events for its financial statements and required financial information provided to the Department of the Treasury and OMB is consistent with the account descriptions and posting rules as approved by the SGL Board and published by the Treasury Department's Financial Management Service in the Treasury Financial Manual.

Indicators:

- The agency's core financial system uses the SGL number to capture financial information, or the agency uses an alternative code (pseudo-code) following the same account descriptions and posting rules that are used by the SGL to capture financial information, and the information can be appropriately matched to SGL codes for reporting to OMB or Treasury and for preparing financial statements. The use of the SGL code in the feeder system is not necessary as long as the code definitions used to capture information are consistent with the SGL definitions.
- Systems must capture information using the same descriptions and posting rules as in the SGL. Detailed information captured in feeder systems can be summarized in the core financial system; however, information shall be captured and summarized so that it follows the SGL descriptions and posting rules and is captured at the level necessary to meet OMB or Treasury reporting requirements and for preparing financial statements.
- Transactions can be traced back to the source/point-of-entry in the feeder systems and to supporting information.

Audit Considerations

Based on the foregoing, the auditor shall use professional judgment in determining substantial compliance with the systems requirements of FFMIA. However, lack of substantial compliance with the requirements in any one or more of the three areas included in FFMIA — Federal financial management system requirements, Federal accounting standards, and the SGL — would result in lack of substantial compliance with FFMIA.

Further, a lack of substantial compliance with any one or more of the indicators described herein would typically result in a lack of substantial compliance with one or more of the three areas described above and, thus, a lack of substantial compliance with the systems requirements of FFMIA. Judgment shall be used in determining a lack of substantial compliance with an indicator. For instance, if an auditor finds that a few budget execution reports were submitted late to OMB and contained minor inaccuracies, this may not result in a lack of substantial compliance with the indicator regarding standard budget execution information.

Appendix A - 3: References

OMB Circular A-130, Section 3 Automated Information Security Programs

Automated Information Security Programs. Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

Each agency's program shall implement policies, standards and procedures which are consistent with government-wide policies, standards, and procedures issued by OMB, the Department of Commerce, the General Services Administration and the Office of Personnel Management (OPM). Different or more stringent requirements for securing national security information should be incorporated into agency programs as required by appropriate national security directives. At a minimum, agency programs shall include the following controls in their general support systems and major applications:

a. Controls for general support systems.

1) Assign Responsibility for Security. Assign responsibility for security in each system to an individual knowledgeable in the information technology used in the system and in providing security for such technology.

2) System Security Plan. Plan for adequate security of each general support system as part of the organization's information resources management (IRM) planning process. The security plan shall be consistent with guidance issued by the National Institute of Standards and Technology (NIST). Independent advice and comment on the security plan shall be solicited prior to the plan's implementation. A summary of the security plans shall be incorporated into the strategic IRM plan required by the Paperwork Reduction Act (44 U.S.C. Chapter 35) and Section 8(b) of this circular. Security plans shall include:

a) Rules of the System. Establish a set of rules of behavior concerning use of, security in, and the acceptable level of risk for, the system. The rules shall be based on the needs of the various users of the system. The security required by the rules shall be only as stringent as necessary to provide adequate security for information in the system. Such rules shall clearly delineate responsibilities and expected behavior of all individuals with access to the system. They shall also include appropriate limits on interconnections to other systems and shall define service provision and restoration priorities. Finally, they shall be clear about the consequences of behavior not consistent with the rules.

b) Training. Ensure that all individuals are appropriately trained in how to fulfill their security responsibilities before allowing them access to the system. Such training shall assure that employees are versed in the rules of the system, be consistent with guidance issued by NIST and OPM, and apprise them about available assistance and technical security products and techniques. Behavior consistent with the rules of the system and periodic refresher training shall be required for continued access to the system.

c) Personnel Controls. Screen individuals who are authorized to bypass significant technical and operational security controls of the system commensurate with the risk and

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magnitude of harm they could cause. Such screening shall occur prior to an individual being authorized to bypass controls and periodically thereafter.

d) Incident Response Capability. Ensure that there is a capability to provide help to users when a security incident occurs in the system and to share information concerning common vulnerabilities and threats. This capability shall share information with other organizations, consistent with NIST coordination, and should assist the agency in pursuing appropriate legal action, consistent with Department of Justice guidance.

e) Continuity of Support. Establish and periodically test the capability to continue providing service within a system based upon the needs and priorities of the participants of the system.

f) Technical Security. Ensure that cost-effective security products and techniques are appropriately used within the system.

g) System Interconnection. Obtain written management authorization, based upon the acceptance of risk to the system, prior to connecting with other systems. Where connection is authorized, controls shall be established which are consistent with the rules of the system and in accordance with guidance from NIST.

3) Review of Security Controls. Review the security controls in each system when significant modifications are made to the system, but at least every three years. The scope and frequency of the review should be commensurate with the acceptable level of risk for the system. Depending on the potential risk and magnitude of harm that could occur, consider identifying a deficiency pursuant to OMB Circular No. A-123, "Management Accountability and Control" and the FMFIA, if there is no assignment of security responsibility, no security plan, or no authorization to process for a system.

4) Authorize Processing. Ensure that a management official authorizes in writing the use of each general support system based on implementation of its security plan before beginning or significantly changing processing in the system. Use of the system shall be re-authorized at least every three years.

b. Controls for Major Applications.

1) Assign Responsibility for Security. Assign responsibility for security of each major application to a management official knowledgeable in the nature of the information and process supported by the application and in the management, personnel, operational, and technical controls used to protect it. This official shall assure that effective security products and techniques are appropriately used in the application and shall be contacted when a security incident occurs concerning the application.

2) Application Security Plan. Plan for the adequate security of each major application, taking into account the security of all systems in which the application will operate. The plan shall be consistent with guidance issued by NIST. Advice and comment on the plan shall be solicited from the official responsible for security in the primary system in which the application will operate prior to the plan's implementation. A summary of the security plans shall be incorporated into the strategic IRM plan required by the Paperwork Reduction Act. Application security plans shall include:

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- a) **Application Rules.** Establish a set of rules concerning use of and behavior within the application. The rules shall be as stringent as necessary to provide adequate security for the application and the information in it. Such rules shall clearly delineate responsibilities and expected behavior of all individuals with access to the application. In addition, the rules shall be clear about the consequences of behavior not consistent with the rules.
 - b) **Specialized Training.** Before allowing individuals access to the application, ensure that all individuals receive specialized training focused on their responsibilities and the application rules. This may be in addition to the training required for access to a system. Such training may vary from a notification at the time of access (e.g., for members of the public using an information retrieval application) to formal training (e.g., for an employee that works with a high-risk application).
 - c) **Personnel Security.** Incorporate controls such as separation of duties, least privilege and individual accountability into the application and application rules as appropriate. In cases where such controls cannot adequately protect the application or information in it, screen individuals commensurate with the risk and magnitude of the harm they could cause. Such screening shall be done prior to the individuals' being authorized to access the application and periodically thereafter.
 - d) **Contingency Planning.** Establish and periodically test the capability to perform the agency function supported by the application in the event of failure of its automated support.
 - e) **Technical Controls.** Ensure that appropriate security controls are specified, designed into, tested, and accepted in the application in accordance with appropriate guidance issued by NIST.
 - f) **Information Sharing.** Ensure that information shared from the application is protected appropriately, comparable to the protection provided when information is within the application.
 - g) **Public Access Controls.** Where an agency's application promotes or permits public access, additional security controls shall be added to protect the integrity of the application and the confidence the public has in the application. Such controls shall include segregating information made directly accessible to the public from official agency records.
- 3) **Review of Application Controls.** Perform an independent review or audit of the security controls in each application at least every three years. Consider identifying a deficiency pursuant to OMB Circular No. A-123, "Management Accountability and Control" and the FMFIA if there is no assignment of responsibility for security, no security plan, or no authorization to process for the application.
- 4) **Authorize Processing.** Ensure that a management official authorizes in writing use of the application by confirming that its security plan as implemented adequately secures the application. Results of the most recent review or audit of controls shall be a factor in management authorizations. The application must be authorized prior to operating and re-authorized at least every three years thereafter. Management authorization implies accepting the risk of each system used by the application.

Appendix A - 4

Federal Financial Management Improvement Act of 1996

An Act

Making omnibus consolidated appropriations for the fiscal year ending September 30, 1997, and for other purposes. «NOTE: Sept. 30, 1996 - [H.R. 3610]»

Be it enacted by the Senate and House of Representatives of the United States of America «NOTE: Omnibus Consolidated Appropriations Act, 1997.» in Congress assembled,...

TITLE VIII—FEDERAL FINANCIAL «NOTE: Federal Financial Management Improvement Act of 1996. 31 USC 3512 note.» MANAGEMENT IMPROVEMENT

SEC. 801. SHORT TITLE

This title may be cited as the "Federal Financial Management Improvement Act of 1996."

SEC. 802. «NOTE: 31 USC 3512 note.» FINDINGS AND PURPOSES.

(a)(Findings.—The Congress finds the following:

- (1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.
- (2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to—
 - (A) identify costs fully;
 - (B) reflect the total liabilities of congressional actions; and
 - (C) accurately report the financial condition of the Federal Government
- (3) Current Federal accounting practices do not accurately report financial results of the Federal Government or the full costs of programs and activities. The continued use of these practices undermines the Government's ability to provide credible and reliable financial data and encourages already widespread Government waste, and will not assist in achieving a balanced budget.
- (4) Waste and inefficiency in the Federal Government undermine the confidence of the American people in the government and reduce the federal Government's ability to address vital public needs adequately.
- (5) To rebuild the accountability and credibility of the Federal Government, and restore public confidence in the Federal Government, agencies must incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal Government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal Government.
- (6) Since its establishment in October 1990, the Federal Accounting Standards Advisory Board (hereinafter referred to as the "FASAB") has made substantial progress toward developing and recommending a comprehensive set of accounting concepts and standards for the Federal Government. When the accounting concepts and standards developed by FASAB are

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incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs and activities, and will therefore provide important information that has been lacking, but is needed for improved decision making by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these standards and concepts will, over the long term, improve Federal financial management.

(b) Purpose—The purposes of this Act are to—

- (1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government;
- (2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;
- (3) increase the accountability and credibility of federal financial management;
- (4) improve performance, productivity and efficiency of Federal Government financial management;
- (5) establish financial management systems to support controlling the cost of Federal Government;
- (6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101-576; 104 Stat 2838), the Government Performance and Results Act of 1993 (Public Law 103-62 107 Stat. 285) and the Government Management Reform Act of 1994 (Public Law 103-356; 108 Stat. 3410); and (7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

SEC. 803. «NOTE: 31 USC 3512 note.» IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.

(a) In General.—Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) Audit Compliance Finding.—

[[Page 110 STAT. 3009-391]]

(1) In general.—Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection (a) (2) Content of Reports.—When the person performing the audit required by section 3521(e) of title 31, United States Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the person performing the audit shall include in the report on the audit—

(A) the entity or organization responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

- (i) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;

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- (ii) the primary reason or cause of the noncompliance;
 - (iii) the entity or organization responsible for the non-compliance; and
 - (iv) any relevant comments from any responsible officer or employee; and
- (C) a statement with respect to the recommended remedial actions and the time frames to implement such actions.
- (b)(Compliance Implementation.-
- (1) Determination.—No later than the date described under paragraph (2), the Head of an agency shall determine whether the financial management systems of the agency comply with the requirements of subsection (a). Such determination shall be based on—
 - (A) a review of the report on the applicable agency-wide audited financial statement;
 - (B) any other information the Head of the agency considers relevant and appropriate.
 - (2) Date of determination.—The determination under paragraph (1) shall be made no later than 120 days after the earlier of—
 - (A) the date of the receipt of an agency-wide audited financial statement; or
 - (B) the last day of the fiscal year following the year covered by such statement.
 - (3) Remediation plan.—
 - (A) If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.
 - (B) If the determination of the head of the agency differs from the audit compliance findings required in subsection (b), the Director shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

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- (4) Time period for compliance.—A remediation plan shall bring the agency's financial management systems into substantial compliance no later than 3 years after the date a determination is made under paragraph (1), unless the agency, with concurrence of the Director—
 - (A) determines that the agency's financial management systems cannot comply with the requirements of subsection (a) within 3 years;
 - (B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and
 - (C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

SEC. 804. «NOTE: 31 USC 3512 note.» REPORTING REQUIREMENTS.

- (a) Reports by the Director.—No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and the 5-year financial management plan submitted under section 3512 (a) (1) of title 31, United States Code.
- (b) Reports by the Inspector General—Each Inspector General who prepares a report under section 5(a) of the Inspector General Act of 1978 (5 U.S.C. App.) shall report to Congress instances and

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reasons when an agency has not met the intermediate target dates established in the remediation plan required under section 3(c). Specifically the report shall include-

- (1) the entity or organization responsible for the non-compliance;
- (2) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and
- (3) a statement of the remedial actions needed to comply.

(c) Reports by the Comptroller General.—No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the Congress concerning—

- (1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal Government have been prepared in accordance with applicable accounting standards; and
- (2) the adequacy of applicable accounting standards for the Federal Government.

SEC. 805. «NOTE: 31 USC 3512 note.» CONFORMING AMENDMENTS.

(a)(Audits by Agencies.—Section 3521(f) (1) of title 31, United States Code, is amended in the first sentence by inserting “and the Controller of the Office of Federal Financial Management” before the period.

(b)(Financial Management Status Report.—Section 3512 (a) (2) of title 31, United States Code, is amended by—

- (1) in subparagraph (D) by striking “and’ after the semicolon;
- (2) by redesignating subparagraph (E) as subparagraph (F); and

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(3) by inserting after subparagraph (D) the following:

(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of Section 3(a) the Federal Financial Management Improvement Act of 1996, and a summary statement of the efforts underway to remedy the noncompliance; and’ (c) Inspector General Act of 1978.—Section 5(a) of the Inspector «NOTE: 5 USC app.» General Act of 1978 is amended- (1) in paragraph (11) by striking “and” after the semicolon; (2) in paragraph (12) by striking the period and inserting and”; and (3) by adding at the end the following new paragraph:(13) the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.”

SEC. 806. «NOTE: 31 USC 3512 note.» DEFINITIONS.

For purposes of this title:

- (1) Agency.—The term “agency” means a department or agency of the United States Government as defined in section 901(b) of title 31, United States Code.
- (2) Director.—The term “Director” means the Director of the Office of Management and Budget.
- (3) Federal Accounting Standards.—The term “Federal accounting standards” means applicable accounting principles, standards, and requirements consistent with section 902 (a) (3) (A) of title 31, United States Code.
- (4) Financial management systems.—The term “financial management systems” includes the financial systems and the financial portions of mixed systems necessary to support financial

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management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

(5) Financial system.—The term “financial system” includes an information system, comprised of one or more applications, that is used for— (A) collecting, processing, maintaining, transmitting, or reporting data about financial events; (B) supporting financial planning or budgeting activities; (C) accumulating and reporting costs information; or (D) supporting the preparation of financial statements.

(6) Mixed system.—The term “mixed system” means an information system that supports both financial and nonfinancial functions of the Federal Government or components thereof.

SEC. 807. «NOTE: 31 USC 3512 note.» EFFECTIVE DATE.

This title shall take effect for the fiscal year ending September 30, 1997.

Appendix B

Financial Management Systems Compliance Review Elements

Elements	Compliance (Yes/No - with explanation)	Implication
<p>A. Comparability and Consistency</p> <p>Financial management data should be recorded and reported in the same manner throughout the Agency, using uniform definitions. Accounting should be synchronized with budgeting. Consistency over time should be maintained. New and revised systems should adopt common, existing definitions and classifications.</p> <ul style="list-style-type: none"> · If system maintains and records activities such as funding (commitments, obligations, etc.), disbursement of funds, receipt of funds, budgeting — are the transactions consistent with the U.S. Government Standard General Ledger (SGL)? · Are similar type of activities processed in a similar way throughout the Agency (e.g., are obligations processed consistently for all programs)? · Are standard formats used for transaction processing? <p>Is information available in a consistent format throughout the Agency for budget formulation, budget execution, programmatic and financial management, performance measurement, and financial statement preparation?</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>Data are recorded and reported in a consistent manner throughout the Agency, using standard definitions and classifications.</p> <p>The system permits the organization classification of data on at least the following levels of aggregation: agency, office, or division.</p> <p>Accounts are established and maintained at a level that enables data to be aggregated readily into appropriation or fund accounts.</p> <p>The system permits the fund classification of data to support the distribution of funds at the following levels: allotment, suballotment or Agency limitation (allowance, target, operating budget, etc.)</p> <p>Accounts may be summarized by responsibility center, object of expenditure and by program, and permit reclassification to reflect organizational and other changes.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>B. Efficiency and Economy</p> <p>Financial management systems should be designed and operated with reasonable total costs and transaction costs, in accordance with OMB guidelines. Financial systems which are excessively costly should be identified and phased out. This should be accomplished through installation of effective systems of planning and evaluation, sharing of data, elimination of overlap and duplication, and use of the best contemporary technology, including commercially available packages with proven success in other agencies or the private sector.</p> <ul style="list-style-type: none"> • Does the system use standard data classifications for recording financial events, consistent with Agency and Government-wide standards? • Are common processes used for processing similar kinds of transactions? • Is there adequate internal controls over data entry, transaction processing, and reporting? Are there reconciliations (either automated or manual) to verify the accuracy of transactions processing and reporting? • Are data entered one time into the system and updates are passed to other systems through electronic means? 		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>Systems components are designed in an integrated but modular and table-driven fashion so that if an extensive change is required, the pertinent tables can be localized, revised as needed, and installed.</p> <p>A single datum entry automatically provides the updating of all accounts and records affected by the event for which the entry is made.</p> <p>The data base is structured to reduce redundancy, is available to a variety of users for update and concurrent retrieval (consistent with proper internal controls) and permits a variety of application modules to run independently.</p> <p>The database is naturalized or common data definitions are actively maintained in the system's data dictionaries.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>The existing data base is responsive to user needs in terms of both efficiency and effectiveness, and provides timely change/corrective actions.</p> <p>The system is periodically evaluated to see if the application of newer technology/software could improve its efficiency and/or effectiveness.</p> <p>The system provides all data needed on a timely basis.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>C. Application of the SGL at the transaction level</p> <p>The general ledger function of a financial system, must be in full compliance with the Standard General Ledger chart of accounts descriptions and posting rules; transactions from feeder systems are summarized and fed into the GL following SGL requirements; and audit trail supporting the interface transactions to the source transactions; and feeder system process transactions consistent with SGL account descriptions and posting.</p> <ul style="list-style-type: none"> • Is the core financial system in full compliance with the SGL chart of accounts and posting rules? • Are transactions from feeder systems summarized and fed into the General Ledger following SGL requirements through an interface (automated or manual)? • Can the details supporting the interface transactions be traced back to the source transactions in the feeder systems? • Do the feeder systems follow business rules that are consistent with SGL account definitions and processing rules? 		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>The general ledger account structure supports required OMB and Treasury reports and conforms with the United States Government Standard General Ledger.</p> <p>The general ledger account classification structure is organized and classified in a manner that facilitated budget control and program/functional management.</p> <p>The system permits recording and reporting in accordance with the major object and sub-object classes prescribed in OMB Circular A-11.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>D. Financial Data</p> <p>D1. Usefulness</p> <p>Financial data should be gathered and processed only where necessary to meet specific internal management needs or external requirements. Reports should be tailored to specific user needs and if report usage does not justify cost, reports should be terminated. Usefulness should be determined in partnership with users.</p> <p>Compliance Indicators</p> <p>The system processes transactions, generates outputs, and produces final corrected data in time to meet reporting and user requirements.</p> <p>The system timely records and processes financial data, and generates financial reports to meet both functional and statutory requirements.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>D2. Full Financial Disclosure</p> <p>Financial management data are to be recorded and reported as required by OMB or Treasury, to provide for full financial disclosure and accountability in accordance with appropriate budget and accounting principles and standards. Full disclosure is required to central management agencies, such as OMB and Treasury, and to Agency management officials.</p> <ul style="list-style-type: none"> · Is accounting data maintained that permits reporting in accordance with Federal Accounting Standards Advisory Board (FASAB) and reporting requirements issued by OMB and Treasury? · Are the details that support the numbers maintained in the core financial system supported in the feeder systems? <p>Compliance Indicators</p> <p>Sufficient data are maintained on each account to provide a history of all activity related to amounts due and/or paid.</p> <p>Data outputs by this system are periodically evaluated to ensure that they are necessary, useful, and justified.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>E. Financial reporting</p> <p>E1. Timeliness</p> <p>Financial management data should be recorded as soon as practicable after the occurrence of the event, and relevant preliminary data should be made available to managers by the fifth working day following the end of the reporting period. Other standards of timeliness may be established where the Agency has inventoried reports and set specific standards, with user participation. Final, corrected data should be available in time to meet external reporting requirements.</p> <p>Compliance Indicators</p> <p>Standards of timeliness have been established and fully documented (e.g. user requirements).</p> <p>Transactions are recorded at the time of the event or soon afterward and are properly classified.</p> <p>The system publishes the information as close as possible to the report date, or the end of the reporting period, consistent with the need for reliability and economy.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>E2. Support for Management</p> <p>Financial management consists of protecting resources against loss, waste, and misuse; preparing and properly executing the budget; and, managing resources. The latter in turn consists of managing not only the resource balances, but also the claims against those resources, the resource flows, measuring performance and reporting on the results of these efforts. Financial management systems should provide meaningful and relevant information to assist managers in the discharge of these responsibilities.</p> <p>Compliance Indicators</p> <p>The system generates reports which alert management when established controls have been violated or significant deviations from program have accrued.</p> <p>Financial reports generated by the system for internal Agency management contain meaningful, coherent and reliable information responsive to the Agency's need.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>E3. Reliability and Completeness</p> <p>Financial management information should be reasonably complete and accurate, verifiable, drawn from the official records and systems, and no more detailed than necessary to meet the needs of management and external requirements.</p> <p>Financial data should be gathered and processed only where necessary to meet specific internal management needs or external requirements. Reports should be tailored to specific user needs and if report usage does not justify cost, reports should be terminated. Usefulness should be determined in partnership with users.</p> <ul style="list-style-type: none"> · Does the system provide information in a timely and useful manner that supports management's fiduciary role, supports budget formulation and execution functions, supports the fiscal management of program delivery and decision making, complies with internal and external reporting requirements? · Does the system capture and produce financial information necessary to measure program and financial management performance to support budgeting, program management and financial statement presentation? <p>Compliance Indicators</p> <p>Adequate audit trails are in place to establish individual accountability for transactions.</p> <p>If the system is a batch system, the process use control totals for batches.</p> <p>If the system is using electronic documents, document control numbers are assigned.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>Adequate audit trails are in place to establish individual accountability for transactions.</p> <p>If the system is a batch system, the process use control totals for batches.</p> <p>If the system is using electronic documents, document control numbers are assigned.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>F. Support for Budgeting and Performance Reporting</p> <p>An essential function of each financial management system is to record, control and report the Agency's collections, obligations and spending in a manner that supports execution of the budget, to include detailed support for reports required by OMB Circular A-34 and budget preparation as outlined in OMB Circular A- 11.</p> <ul style="list-style-type: none"> · Does the system provide the information necessary to prepare, execute and report on the agency's budget in conformance with government-wide standards? · Does the system address GPRA (Government Performance and Results Act) requirements as well as account for agency goals and performance measures? 		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>The system produces measurement data which permit comparisons with other units and other periods (such as ratios, comparative measures of activities in different locations or units, trends, etc.)</p> <p>The system provides performance measures which permit tracking performance at the lowest level of the organization directly responsible for accomplishment.</p> <p>The system provides measurement data on the system's performance (number of and type of transactions processed within identified time periods; cost per type of transaction; percentage of items processed within target timeframe; percentage of workload growth met through automation; etc.).</p> <p>The system accurately forecasts and reports outlays (the measure of payments by various means) for each legal or Agency limitation.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>G. Functional Requirements</p> <ul style="list-style-type: none">Does the system conform to the functional requirements issued by the Joint Financial Management Improvement Program (JFMIP), OMB, and the Treasury?Are systems updated in a timely manner to support new functional and legal requirements?		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>Systems functional requirements comply with the latest JFMIP financial systems requirements as identified in Appendix C.</p> <p>The systems functional requirements were determined by users and the technical staff before being approved by management.</p> <p>Systems components are designed in an integrated but modular and table-driven fashion so that if an extensive change is required, the pertinent tables can be localized, revised as needed, and installed.</p> <p>Is a change management process in place to ensure proper change management including evaluation, implementation, monitoring and documentation.</p> <p>Procedures are in place to document problems identified in operational systems, to monitor corrective actions and to report to management on resolution status.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>H. Computer Security Act Requirements</p> <ul style="list-style-type: none">• If agency has conducted an A-130, Management of Federal Information Resources review, what was the outcome?• If agency has not conducted an A-130 review, what actions have been taken to ensure compliance with the provisions of the computer Security Act and A-130? <p>Does the agency have a security plan in place?</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>The system is included in the contingency plan or backup recovery plan. That plan has been documented, tested, and regularly updated to ensure both continuity of operations and availability in disaster situations.</p> <p>The contingency plan complies with the governing directive guidance for automated information systems issued by various oversight agencies, e.g. OMB and the National Institute of Standards and Technology.</p> <p>The system ensures continuing availability of information processing by providing backup, recovery, and retention procedures.</p> <p>Systems managers routinely consider the degree of vulnerability in this system to destruction, modification, disclosure and delay of information availability when making safeguard and protection decisions.</p> <p>Systems managers have certified that system security controls for the system operate.</p> <p>An adequate security awareness program is in place to help personnel prevent and detect security violations.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>I. Documentation</p> <ul style="list-style-type: none">• Documentation may be maintained in hard copy or electronic format.• Documentation includes software, system manuals, operations manuals, user manuals, operating procedures, etc.• Is documentation kept current and readily available?• Does user documentation provide detail to enable a person to obtain an understanding of the system?• Does the technical documentation provide the technical personnel with the information necessary to operate the system in an effective and efficient manner?		

Implication	Compliance (Yes/No - with explanation)	Elements
		<p>Compliance Indicators</p> <p>Documented procedures exist to ensure that systems managers consult with the users and reach a timely decision as to what, if any, corrective actions will be taken to resolve systems errors.</p> <p>The system documentation is complete, well organized, understandable, regularly updated, and readily accessible.</p> <p>Documentation is maintained and updated appropriately to provide an audit trail of the system modifications which are required, being planned, implemented or recently completed.</p> <p>Documentation includes information which specifies who the authorized users are of data/software resources.</p> <p>The system design was documented, reviewed and approved before development or major enhancement to assure that it satisfied both user and control requirements.</p>

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>J. Systems Integrity</p> <p>The design, operation and evaluation of financial management systems should reflect the general and specific management control standards in OMB Circulars A-123 and A-130.</p> <ul style="list-style-type: none"> · Does system have controls to adequately safeguard resources against waste, loss, and misuse? · Are controls adequate to ensure that resource use is consistent with laws, regulations, and policies? · Are controls applied to system inputs, processing and outputs? · Are there any Material Weaknesses identified with this system? If so, has a remediation plan been formulated showing milestones and target dates? 		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Compliance Indicators</p> <p>Management controls have been established and implemented to identify program errors, specification deficiencies or other systems problems in a timely manner.</p> <p>Procedures to control access, such as passwords, are used and software generated transactions are displayed on appropriate media and made available for authorization and reconciliation with related data.</p> <p>Access control procedures have been established and documented to limit access by authorized users based on the principles of "need to know" or "least privilege."</p> <p>The system includes procedures and controls which protect hardware, software, data and documentation from physical damage, loss, modification and unauthorized access, whether inadvertent or deliberate.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>The system includes management controls to prevent and/or detect the following situations:</p> <ul style="list-style-type: none"> · Failure to record or process a transaction · Incorrect or incomplete recording/processing of a transaction; · Recording/processing duplicate transactions; · Processing out-of-balance conditions; · Loss of a transaction document in processing; · Directly changing account/master file/data base records without an authorized transaction; and · Use of erroneous files or records in processing. <p>Key duties such as authorizing, approving, performing, processing, recording and reviewing transactions, are assigned to different individuals or compensating controls exist. Transactions are authorized and executed only by persons acting within the scope of their authority.</p> <p>Controls and safeguards exist to ensure that outputs which contain sensitive data are adequately protected (i.e., safeguards are commensurate with the value of the data).</p> <p>The ability to override or bypass edit and validation system features is restricted to authorized personnel.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>Error handling routines and controls are included in the system to ensure that, within a defined level of tolerance, only valid and correct records are processed.</p> <p>The system generates reports which alert management when established controls have been violated or significant deviations from the program have occurred.</p> <p>The system contains audit trails of original documents and transactions which are reviewed periodically to ensure reliability.</p> <p>This system is periodically evaluated by component personnel to minimize susceptibility to waste, loss, errors, unauthorized use or misappropriation.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>K. Training and User Support</p> <ul style="list-style-type: none"> · Is there adequate training and support to enable users to understand, operate and maintain the system? · Are new users trained prior to providing authority to access the system? · Is there periodic training available, such as Computer Based training, on-going training programs, video training, etc.? <p>Compliance Indicators</p> <p>The technical staff and management who are associated with this system have received or are scheduled to receive required training on security and management controls.</p> <p>Helpdesk and problem resolution process is in place to respond to users.</p>		

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Elements	Compliance (Yes/No - with explanation)	Implication
<p>L. Maintenance</p> <ul style="list-style-type: none"> • Is on-going maintenance performed to keep system current and operating in an effective and efficient manner? • When was the system last updated? <p>Compliance Indicators</p> <p>Major modifications to this system are developed, released, and documented according to agency system design.</p> <p>Agency system design guidelines define configuration management procedures and standards for the review, approval, and oversight of agency's evolving software. Control mechanisms are in place to ensure timely, concurrent handling of changes to system software and all affected documentation.</p> <p>Sufficient resources for operations and/or maintenance are in place to prevent significant downtime.</p> <p>The system was designed and developed to be easily modified to accommodate changing needs and new requirements in a timely manner.</p> <p>Maintenance actions are routinely quantified and analyzed to help evaluate the overall health of the system.</p>		

Appendix C

Core Financial Systems Functional Requirements (Based on JFMIP FFMSR-1)

The governmentwide functional requirements for a core financial system to support the fundamental financial functions of a Federal agency. The major functions supported by a core financial system are:

- Core Financial System Management
- General Ledger Management
- Funds Management
- Payment Management
- Receipt Management
- Cost Management
- Reporting

These functions together provide the basic information and control needed to carry out financial management functions, manage the financial operations of an agency, and report on the agency's financial status to central agencies, Congress, and the public, including data needed to prepare the principal financial statements for federal agencies as defined by OMB.

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I. Core Financial System Management Function

The Core Financial System Management function consists of the processes necessary to maintain system processing rules consistent with established accounting policy. The Core Financial System Management function consists of the following processes:

- Accounting Classification Structure Management
- Standard General Ledger
- Transaction Control
- Archiving and Purging

[Comments: Within each department or agency, the accounting classification structure, standard general ledger and subsidiary account structure, and definitions must be standardized to ensure consistency, uniformity, and efficiency in accounting treatment, classification, and reporting. Furthermore, the procedures for capturing, classifying, communicating, processing, and storing data and transactions must be uniform (or translatable among the various subsystems or system components as necessary).]

	Compliance (Yes/No)	Implications
<p>I (a) Accounting Classification Structure Management Process</p> <p><input type="checkbox"/> Does the system support a Accounting Classification Structure Management process provide a consistent basis for:</p> <ul style="list-style-type: none"> • Consolidating governmentwide financial information. • Integrating planning, budgeting, and accounting. • Capturing data at the lowest level of detail -- at the point of data entry -- throughout the agency in a manner that ensures that when the data is rolled up to the level that is standardized, it is consistent at the standardized level. • Comparing and combining similar programs across agencies and calculating overall program results. <p><i>[Comments: :OMB Circular A-127 requires financial management systems to reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger (SGL), provides for tracking of specific program expenditures, and covers financial and financially related information. Financial management system designs shall support agency budget, accounting, and financial management reporting processes by providing consistent financial information for budget formulation, budget execution, programmatic and financial management, performance measurement, and financial statement preparation.]</i></p>		

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<p>I (b) Standard General Ledger Process</p> <p><input type="checkbox"/> Does the system support a general ledger account structure for the agency in accordance with the U.S. Government Standard General Ledger (SGL) and the transaction edit and posting rules to record financial events.</p> <p><i>[Comments: The Standard General Ledger process consists of two activities: Account Definition and Transaction Definition.</i></p> <p>Account Definition. OMB Circular A-127 requires implementation of the SGL at the transaction level. The SGL is described in a supplement to the Treasury Financial Manual, which includes the chart of accounts, account descriptions and postings, accounting transactions, suggested data elements/subaccounts, and crosswalks to standard external reports. Each agency must implement a chart of accounts that is consistent with the SGL and meets the agency's information needs.</p> <p>Transaction Definition. The Transaction Definition activity defines the editing and posting rules for transactions in the Core financial system. OMB Circular A-127 requires common processes to be used for processing similar kinds of transactions throughout an integrated financial management system to enable transactions to be reported in a consistent manner. It also requires financial events to be recorded applying the requirements of the SGL at the transaction level. Many of the SGL accounting transaction descriptions require a single accounting event to update multiple budgetary and proprietary accounts.]</p>		
<p>I (c) Transaction Control Process</p> <p><input type="checkbox"/> Is the Core financial system able to process transactions originally entered into the Core financial system as well as transactions originating in other systems, recording and keeping track of such transactions and related information, in order to provide the basis for central financial control? <i>[The Transaction Control process requirements are grouped under two activities: Audit Trails and Transaction Processing.]</i></p> <p><input type="checkbox"/> Does the system have adequate audit trails critical to providing support for transactions and balances maintained by the Core financial system? <i>[Audit Trails]</i></p> <p><input type="checkbox"/> Does the Transaction Processing activity ensure that all transactions are handled consistently, regardless of their point of origin? Are transactions controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured. <i>[Transaction Processing]</i></p>		
<p>I (d) Archiving and Purging Process</p> <p><input type="checkbox"/> Does the Archiving and Purging process support data management for the Core financial system?</p> <p><i>[Comments: Archiving removes data which is no longer needed for immediate access from the system data stores used for inquiry and reporting on current information. Archiving moves data to a storage medium that has a longer access time, for example, from disk to tape. Purging deletes data altogether. Archiving and purging criteria should be jointly agreed to by the system administrator and users to balance user needs with resource limitations.]</i></p>		

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II. General Ledger Management Function

General Ledger Management is the central function of the Core financial system. The general ledger is the highest level of summarization and must maintain account balances by the fund structure and individual general ledger accounts established in the Core Financial System Management function. Depending on the agency's reporting requirements, some or all general ledger accounts may have balances broken out by additional elements of the accounting classification structure.

The General Ledger Management function consists of the following processes:

- General Ledger Posting
- Accruals, Closing, and Consolidation
- General Ledger Analysis and Reconciliation

[Comments: The general ledger is supported by subsidiary ledgers at various levels of detail. These subsidiary ledgers may be maintained within the Core financial system or in other systems. For example, detailed property records supporting the equipment account in the general ledger might be maintained in a system devoted to controlling and maintaining equipment. The payroll system might contain detailed employee pay records which support records of expenditure by object class and organization in the Core financial system, which in turn provide partial support for expenditure and expense accounts in the general ledger.]

All transactions to record financial events must post, either individually or in summary, to the general ledger, regardless of the origin of the transaction. Posting of transactions whose initial point of entry is the Core financial system would normally be expected to occur for each transaction individually. Posting of transaction originated in other systems may occur either for individual transaction or for summarized transactions as long as an adequate audit trail is maintained. The Core financial system is not expected to maintain duplicates of every transaction occurring in other systems. For example, rather than posting every payroll transaction for every employee, summary transactions by organization could be passed to the Core financial system for posting.]

	Compliance (Yes/No)	Implications
<p>II (a) General Ledger Posting Process</p> <p><input type="checkbox"/> Does the general ledger posing process use double-entry accounting?</p> <p><i>[Comment: The posting rules that specify which accounts to debit and credit for each transaction are defined in the Standard General Ledger process of the Core Financial System Management function.]</i></p>		
<p>II (b) Accruals, Closing and Consolidation Process</p> <p><input type="checkbox"/> Does the system support creating accrual transactions and closing entries needed at the end of a period (month or year) for reporting purposes?</p> <p><input type="checkbox"/> Does the system control and execute period-end system processes needed by the system to open a new reporting period, such as rolling forward account balances to supports the preparation of consolidated financial statements by identifying information needed in that process?</p>		
<p>II (c) General Ledger Analysis and Reconciliation Process</p> <p><input type="checkbox"/> Does the system support the control functions of the General Ledger?</p> <p><i>[Comments: The Core financial system provides information for accountants to use in determining that amounts posted to general ledger control accounts agree with more detailed subsidiary accounts and in reconciling system balances with reports from Treasury and other agencies. As internal controls improve and system integration increases, the likelihood of out-of-balance conditions decreases; however, the possibility will always exist as a result of system failures, incorrect transaction definitions, etc.]</i></p>		

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III. Funds Management Function

Each agency of the federal government is responsible for establishing a system for ensuring that it does not obligate or disburse funds in excess of those appropriated and/or authorized. The Funds Management function of the Core financial system is an agency's primary tool for carrying out this responsibility.

The Funds Management function consists of the following processes:

- Budget Execution
- Funds Allocation
- Funds Control

[Comments: OMB Circular A-34, Instructions on Budget Execution, and, to a lesser extent, OMB Circular A-11, Preparation and Submission of Budget Estimates, set government-wide policy for funds management with which the Core financial system must conform. In addition to supporting the government-wide policies, the Funds Management function must support agency policies on internal funds allocation methods and controls.]

An agency may have many other systems in addition to the Core financial system that affect funds management. For example, procurement and travel systems prepare documents that commit and obligate funds. These and other systems that affect funds availability should access data and use processes of the Core financial system to verify that funds are available and to update balances. When possible and cost-effective, these systems should access the funds availability editing activity before allowing an obligation to be incurred, such as a contract being signed. In some cases, such as payroll, this may not be practical.]

	Compliance (Yes/No)	Implications
<p>III (a) Budget Execution Process</p> <p>Does the system support agency funds control through the ability to track budget authority at multiple levels of distribution and the capability to track actual amounts (e.g. commitments and obligations) against the original and revised budgeted amount consistent with each financial planning levels and fiscal year requirements?</p> <p><i>[Comments: The Budget Execution function is the highest level of an Agency's fund control and consists of processes where the agency fund control systems will be fully supported by agency accounting systems. It also consists of processes needed to track an agency's budget authority and manage prior year's funds in the current year. The timeframe covered by an agency's fund control systems will correspond to the agency's financial plans. Allotment systems should be design so that responsibility for budget control is placed at the highest practical organizational level consistent with effective and efficient management and control.]</i></p>		
<p>III (b) Funds Allocation Process</p> <p><input type="checkbox"/> Does the system record an agency's budgetary resources and support the establishment of budgetary limitations at each of the levels required within the agency.</p> <p><i>[Comments: The higher levels, such as appropriation, apportionment and allotment, have the weight of legal authority behind the limitations. Lower levels of control are generally used for internal management purposes.]</i></p>		

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<p>III (c) Funds Control Process</p> <p><input type="checkbox"/> Does the system record transactions affecting the resource usage accounts in the budgetary section of the U.S. Government Standard General Ledger (e.g., commitments, undelivered orders, expenditures, reimbursements earned)?</p> <p><input type="checkbox"/> Does the system provide appropriate warnings and controls to ensure that budgetary limitations are not exceeded?</p> <p><i>[Comments: The Funds Control process consists of the following activities: Funds Availability Editing, Commitments, Obligations, and Analysis.]</i></p>		
<p>III (c) (1) Funds Availability Editing.</p> <p><input type="checkbox"/> Does the system verify that sufficient funds are remaining at the various control levels specified in the Funds Allocation process for each transaction processed which may affect available funds balances?</p> <p><input type="checkbox"/> If sufficient funds are not available, is notification provided so that appropriate action may be taken?</p>		

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<p>III (c) (2) Commitments.</p> <p><input type="checkbox"/> Does the system record commitment documents, such as requisitions?</p> <p><i>[Comments: Commitments are an optional stage prior to the establishment of an obligation. Commitments can be a useful tool in funds management by helping users to anticipate future procurements. They should be used when helpful to an agency's management process, but are not necessary, or even appropriate, for all obligations.]</i></p>		
<p>III (c) (3) Obligations.</p> <p><input type="checkbox"/> Does the system track obligations following rules established in OMB Circular A-34?</p> <p><i>[Comments: OMB Circular A-34 defines obligations as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Such amounts include outlays for which obligations had not been previously recorded and reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.]</i></p>		
<p>III (c) (4) Analysis.</p> <p><input type="checkbox"/> Does the system provide information for funds management including information on funds availability at the levels defined?</p> <p><input type="checkbox"/> Does the system provide information to compare data in the Funds Management function to data in other functions to ensure consistency?</p>		

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IV. Payment Management Function

The Payment Management function provides appropriate control over all payments made by or on behalf of an agency. Agencies make payments to vendors in accordance with contracts; to state governments under a variety of programs; to employees for salaries and expense reimbursements; to other federal agencies for reimbursable work performed; to individual citizens receiving federal benefits; to recipients of federal loans; and for many other reasons.

The Payment Management function consists of the following processes:

- Payee Information Maintenance
- Payment Warehousing
- Payment Execution
- Payment Confirmation and Follow-up

[Comments: OMB Circular A-125, Prompt Payment, specifies government policy for payments made to vendors against contracts, stating, in part, that agencies must make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date and when it is advantageous to the government. The Cash Management Improvement Act (CMIA) specifies requirements for payments made to states. Regulations implementing CMIA are at 31 CFR Part 205. Other regulations affect payments made for travel, payroll, benefits, etc.]

Depending on an agency's system architecture, specific activities performed relating to payments may be supported by other systems which provide summary data to the Core financial system for control and management purposes. For example, payroll systems usually trigger the actual disbursement process to pay employees through direct deposit or by check and send only the expense and disbursement information to the Core financial system for recording by the general ledger, funds control, and cost accumulation processes. Likewise, large loan and grant programs might be supported by systems that maintain their own detailed information on payees and payments and send summary data to the Core financial system. If this situation exists, these other systems must meet the requirements listed here for payment management.

Other systems may also support activities which lead up to the payment stage, such as recording obligations and expenditures and establishing payables, but depend on the Core financial system to manage the actual payment process itself. For example, a travel system might calculate the amount to be paid on a travel voucher and send transactions to the Core financial system to record the expenses and a payable to the traveler. The Core financial system would then take over to schedule the payment for disbursement and confirm that it occurred.]

	Compliance (Yes/No)	Implications
<p>IV (a) Payee Information Maintenance Process</p> <p><input type="checkbox"/> Does the system provide for the ability to collect and maintain information on payees?</p> <p><i>[Comments: The term payee is used here to include any entity to whom a disbursement may be made, for example, individuals and organizations providing goods and services, employees, grant recipients, loan recipients, and other government agencies. In an integrated system, payee information needed to make payments should be coordinated with information needed for other purposes and in other systems. For example, a company that provides goods and services to an agency should have a common identifier associated with it that is shared by the procurement and payment processes, so that contract information and payment information can be linked, even if the addresses or ordering and paying are different. Furthermore, if the same company was also to receive payments from the agency, such as a loan, that information should also be available to the procurement and payment processes.]</i></p>		

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<p>IV (b) Payment Warehousing Process</p> <p><input type="checkbox"/> Does the system recognize and record payments due to another entity in the near term?</p> <p><i>[Comments: These payments may be due for any of several reasons, for example, as a result of receiving goods and services in accordance with contract terms, under a loan or grant agreement, as an advance payment for goods or services to be provided in the future, or as a progress payment under a construction contract. OMB Circular A-125 requires documentation to support payment of invoices and interest penalties, including information from contracts, invoices, and receiving reports. These documents should be matched through a process, which may be automated, manual, or a combination, that ensures that payments are made in accordance with contract terms and applicable regulations. Adequate internal controls should be in place to verify that goods and services paid for were actually ordered and received and are paid for only once and at the agreed-upon price.]</i></p>		
<p>IV (c) Payment Execution Process</p> <p><input type="checkbox"/> Does the system support activities required to make a payment which was warehoused or to record a payment made by another system?</p> <p><i>[Comments: Agencies for whom Treasury does the actual disbursing prepare requests for disbursements that are transmitted to Treasury. Some agencies have their own disbursing authority and can print checks or make electronic transfers themselves.]</i></p>		
<p>IV (d) Payment Confirmation and Follow-up Process</p> <p><input type="checkbox"/> Does the system confirm that disbursements were made as anticipated and support inquiries from vendors regarding payments and reporting requirements relating to the Payment Management function?</p>		

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V. Receipt Management Function

The Receipt Management function supports activities associated with recording agency cash receipts, including servicing and collecting receivables. Receivables are established to account for amounts due from others as the result of performance of services by the agency, delivery of goods sold, the passage of time (e.g., interest earned), loans made to others which must be repaid, or other actions. Some receipts may be collected without the prior establishment of a receivable, as in the case of goods sold for cash.

The Receipt Management function consists of the following processes:

- Receivable Establishment
- Receivable Management
- Collections
- Offsets

[Comments: A receivable is recognized when the agency establishes a claim to cash or other assets against other entities, either based on goods or services provided or on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due). If the exact amount is unknown, a reasonable estimate is made. Receivables are accounted for as assets until funds are collected, converted into other resources, or determined to be uncollectible in whole or in part.

Depending on an agency's system architecture, servicing and collection activities for some receivables may be supported by other systems which provide data to the Core financial system. This would be particularly appropriate for receivables resulting from large programs with complex supporting data requirements, such as loan programs, grant programs, or fee-for-service programs. Servicing and collection for receivables with simpler requirements for supporting data, such as those resulting from erroneous payments, may be supported directly by the Core financial system with no support by other systems.

The Receipt Management function includes recording, billing, monitoring, and collection amounts due the government whether previously established as a receivable or not. These activities must be supported by aging schedules, exception reports, and reports used to monitor due diligence efforts.

	Compliance (Yes/No)	Implications
<p>V (a) Receivable Establishment Process</p> <p><input type="checkbox"/> Does the system support activities to produce bills for amounts due to the agency and to record receivables in the system as they are recognized?</p>		
<p>V (b) Receivable Management Process</p> <p><input type="checkbox"/> Does the system support activities to maintain information on entities owing the government (name, address, etc.); age receivables; make efforts to collect amounts due including related interest, penalties, and administrative charges; liquidate receivables; record adjustments to receivables including OPAC charge-backs; maintain a proper allowance for uncollectible amounts; and record write-offs?</p>		
<p>V (c) Collections Process</p> <p><input type="checkbox"/> Does the system support activities to record the receipt of funds either by currency (e.g., cash, electronic funds transfer) or check and the deposit of such funds in accordance with Treasury and agency regulations?</p>		
<p>V (d) Offsets</p> <p><input type="checkbox"/> Does the system support the capture of TINs of federal payment recipients to ensure they are available to facilitate debt collection or offset of federal payments under the DCIA, and for vendor income reporting to the Internal Revenue Service (IRS) as mandated.</p>		

VI. Cost Management Function

The Cost Management function of the Core Financial System attempts to measure the full cost of federal programs, their activities, and outputs. This is essential for providing accurate program measurement information, performance measures, and financial statements with verifiable disclosure of the cost of activities. Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, published by OMB based on FASAB's recommendations prescribes the managerial cost accounting concepts and standards for the federal government. The term cost refers to monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service.

The Cost Management function consists of the following processes:

- Cost Recognition
- Cost Accumulation
- Cost Distribution
- Revolving Fund Process

[Comments: The level of sophistication of the Cost Management function is dependent on the operational nature (appropriation only, appropriation with reimbursable authority, revolving fund), the programs involved, and the requirements of the agency. For example, in an environment where the primary mission is to produce a product for sale, the costing function necessary for product costing is done in the Managerial Cost Accounting System which is integrated with the Core Financial System. However, in any Core system there are certain basic functions that must be present.]

Once costs have been recognized, the system accumulates costs in accordance with agency requirements, then provides for the distribution of costs to cost objectives.]

	Compliance (Yes/No)	Implications
<p>VI (a) Cost Recognition Process</p> <p><input type="checkbox"/> Does the systems appropriately recognize costs consistently for financial statement and management purposes to support SFFAS No. 4 standards and related guidance from OMB?</p> <p><i>[Comments: Recognition of the effects of transactions in financial systems is fundamental to the accounting process. Recognition determines when the results of an event are to be included in financial statements and ensures that the effects of similar events and transactions are accounted for consistently within the federal government.]</i></p>		
<p>VI (b) Cost Accumulation Process</p> <p><input type="checkbox"/> Does the systems accumulate costs on a timely basis to support the requirements of SFFAS No. 4 standards and related OMB guidance?</p> <p><i>[Comments: Cost Accumulation refers to the measurement of resources used in accomplishing a mission objective, such as performing a service, providing a product, or carrying out an activity such as a project or a program. This process provides for the collection of cost data in some organized way. SFFAS No. 4 requires that costs be accumulated by responsibility segments and classified by type of resource such as costs of employees, materials, utilities, etc. Cost Accumulation provides the information needed for accountability over the financial execution of public programs, meaningful comparisons to measure compliance with management policies, evaluation of the efficiency and economy of resources used in the various activities, and support for fees, services or products.]</i></p>		

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<p>VI (c) Cost Distribution Process</p> <p><input type="checkbox"/> Does the system provide information on cost objectives on a periodic basis to support reporting of information consistent with SFFAS No. 4 Standards and related requirements?</p> <p><i>[Comments: In order to achieve increased uniformity and consistency in accounting for costs, agency standards should provide criteria for the assignment of accumulated costs to reporting periods and cost objects in accordance with SFFAS No. 4. A cost object is a function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of activities, products, jobs, capitalized projects, etc. SFFAS No. 4 states that the purpose of cost accounting by a responsibility segment is to measure the costs of its outputs. Thus, the final costs objects of a responsibility segment are its outputs: the services or products that the segment produces and delivers, the missions or tasks that the segment performs, or the customers or markets that the responsibility segment serves. There may be intermediate cost objects that are used in the course of the cost assignment process.]</i></p> <p><i>When identifying cost objects, consideration must be given to the need to support the preparation of financial statements (e.g., Statement of Net Cost, supplemental data, performance measures). The cost distribution basis used must provide for meaningful information supportive of the management decision processes. Agency cost accounting standards provide the basis for consistent allocation of cost including: (a) the determination of the methods by which costs are to be allocated to cost objects, (b) the definition of costs which may be assigned to cost objects, and the determination of the accounting period to which such costs are assignable.]</i></p>		
<p>VI (d) Revolving Fund Process</p> <p><input type="checkbox"/> Does the systems support revolving fund requirements for working capital programs including creating and tracking service level agreements for customer projects, billing of customers based on appropriate fee structures, tracking costs to meet working capital requirements and generating summary statements of activity?</p> <p><i>[Comments: Agencies may elect to use revolving funds, which include working capital funds and franchise funds, for their organizations. These funds separate legislation and have specific charters which focuses on specific purposes. Such charters have the potential to make revolving funds quite flexibility by lifting apportionment controls while adding operational safeguards. If an agency elects to use revolving funds, the core system must be able to track service level agreements, verify funds availability, bill customers, and measure costs.]</i></p>		

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VII. Reporting Function

The Core financial system must be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support budget formulation and execution functions; (3) support fiscal management of program delivery and program decision making; (4) support internal and external reporting requirements, including, as necessary the requirements for financial statements prepared in accordance with the form and content prescribed by OMB, reporting requirements prescribed by Treasury, and legal, regulatory and other special management requirements of the agency; and (5) monitor the financial management system.

The Reporting function consists of the following processes:

- Access to Information
- Financial Reporting
- System Monitoring

[Comments: Information maintained by the Core financial system must be provided in a variety of formats to users according to their needs. Methods of providing information include on-line inquiries, extract data files, and hard-copy reports. These requirements could be satisfied by (1) application software that is part of the Core financial system (2) generalized reporting/inquiry software that works with a variety of applications, or (3) a combination of both, the most likely case.]

	Compliance (Yes/No)	Implications
<p>VII (a) Access to Information Process</p> <p><input type="checkbox"/> Does the systems provide for ready access to financial information on a timely basis and in a form useful to managers.</p> <p><i>[Comments: For financial information to be timely and useful, the Core financial system must provide for the ready access to the information it contains. That information must be easily available and understandable to personnel with varying levels of technical knowledge of systems and financial data. Personnel with relatively limited knowledge of the system or of financial accounting concepts and principles should be able to perform access functions with minimal training on the system, and save access requirements for later use if needed.]</i></p>		
<p>VII (b) Financial Reporting Process</p> <p><input type="checkbox"/> Does the system provide complete, reliable, consistent, timely and useful financial management information on operations to enable central management agencies, individual operating agencies, divisions, bureaus and other subunits to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of resources; and facilitate efficient and effective delivery of programs by relating financial consequences to program performance.</p> <p><input type="checkbox"/> Does the system support agency budget, accounting, and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.</p>		
<p>VII (c) System Monitoring Process</p> <p><input type="checkbox"/> Does the systems provide diagnostic tools necessary to alert system management to problems with the operation of the system to ensure the efficient operation of the system, the safeguarding of the data contained within the system, and the integrity of the data within the system.</p>		

Appendix D

Assessment Summary Example

Name of System: _____

Type of System: _____ Financial/Administrative _____ Program/Mixed _____

Date of Review: From _____ To _____

This document summarizes the results of the review of the financial management system titled **(specific system title)** undertaken pursuant to Section 4 of the Federal Managers' Financial Integrity Act (FMFIA). This financial management systems review provides the system manager's subjective evaluation as to whether there is reasonable assessment that the agency complies with FMFIA, FFMIA, and OMB Circular A-127.

The review was conducted during the period in accordance with Federal standards and the policies and procedures contained in FMFIA, FFMIA, the Office of Management and Budget (OMB) Circular A-127 and agency guidelines.

The review was conducted on the above system by:

1. Identifying all the system's components;
2. Surveying all recent audit, inspection and review reports;
3. Surveying the system's documentation; and
4. Completing Appendix B in Part II for all **(or selected)** system's components.

The results of the review, contained in the attached review summary indicate that the **(system name)** generally conforms to Federal standards implemented through OMB Circular A-127, except as follows:

[Note: List new and existing material weaknesses, if any. Nonmaterial weaknesses, which will be listed in the systems review summary, need not be listed in the Assessment Summary.]

The summary also identifies system deficiencies and recommends corrective actions, further study or detailed review. The summary is supported by the attached review assessment document and its supporting documents.

System Manager

Signature _____

Date _____

Name: _____

Title _____

Appendix E

Glossary

This section prescribes certain terms that have been used throughout this document. The source of each definition is identified in parentheses following the definition; the terms are all found in one of the following sources:

- OMB Circular A-34, "Instructions on Budget Execution"; referred to as A-34.
- OMB Circular A-11 "Preparation and Submission of Budget Estimates"; referred to as A-11.
- *Treasury Financial Manual*; referred to as TFM.
- Government Standard General Ledger; referred to as SGL.
- Public Law 104-208 "Federal Financial Management Improvement Act of 1996" (FFMIA)
- Commonly used terms within the Federal sector; referred to as Common Term.

<i>Agency</i>	Any department, agency, commission, authority, administration, board, or other independent establishment in the executive branch of the government, including any corporation wholly or partly owned by the United States that is an independent instrumentality of the United States, not including the municipal government of the District of Columbia. (A-34, Part 11, Section 21.1, p. 11-2)
<i>Appropriation</i>	One of the basic forms of budget authority. Statutory authority that allows Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. An appropriation act is the most common means of providing budget authority, but in some cases the authorizing legislation itself provides the budget authority. (A-34, Part 11, Section 21.1 (Budget authority), p. 11-3)
<i>Assurance Letter</i>	This is a requirement under the FMFIA of 1982, and incorporated into OMB Circular A-127. It is a statement by the responsible official that the financial systems meet applicable requirements (sometimes referred to as statement of assurance) (Common Term).
<i>Assessment Summary</i>	Summary prepared by the program manager responsible for the financial management system reviewed under the Financial Management Systems Compliance Review Guide.
<i>Commitment</i>	The amount of allotment or lower level authority committed in anticipation of an obligation. (SGL, definition of account 4700)
<i>Corrective Action Plan</i>	A plan developed by agency management to rectify problems or weaknesses identified. This plan has a limited distribution and is usually not distributed to external parties.
<i>Disbursements</i>	Payments made using cash, checks, or electronic transfers. Disbursements include advances to others as well as payments for goods and services received and other types of payments made. (Common Term)
<i>Fund account</i>	(See Appropriation or fund account)
<i>Letter of Assurance</i>	(See Assurance Letter)

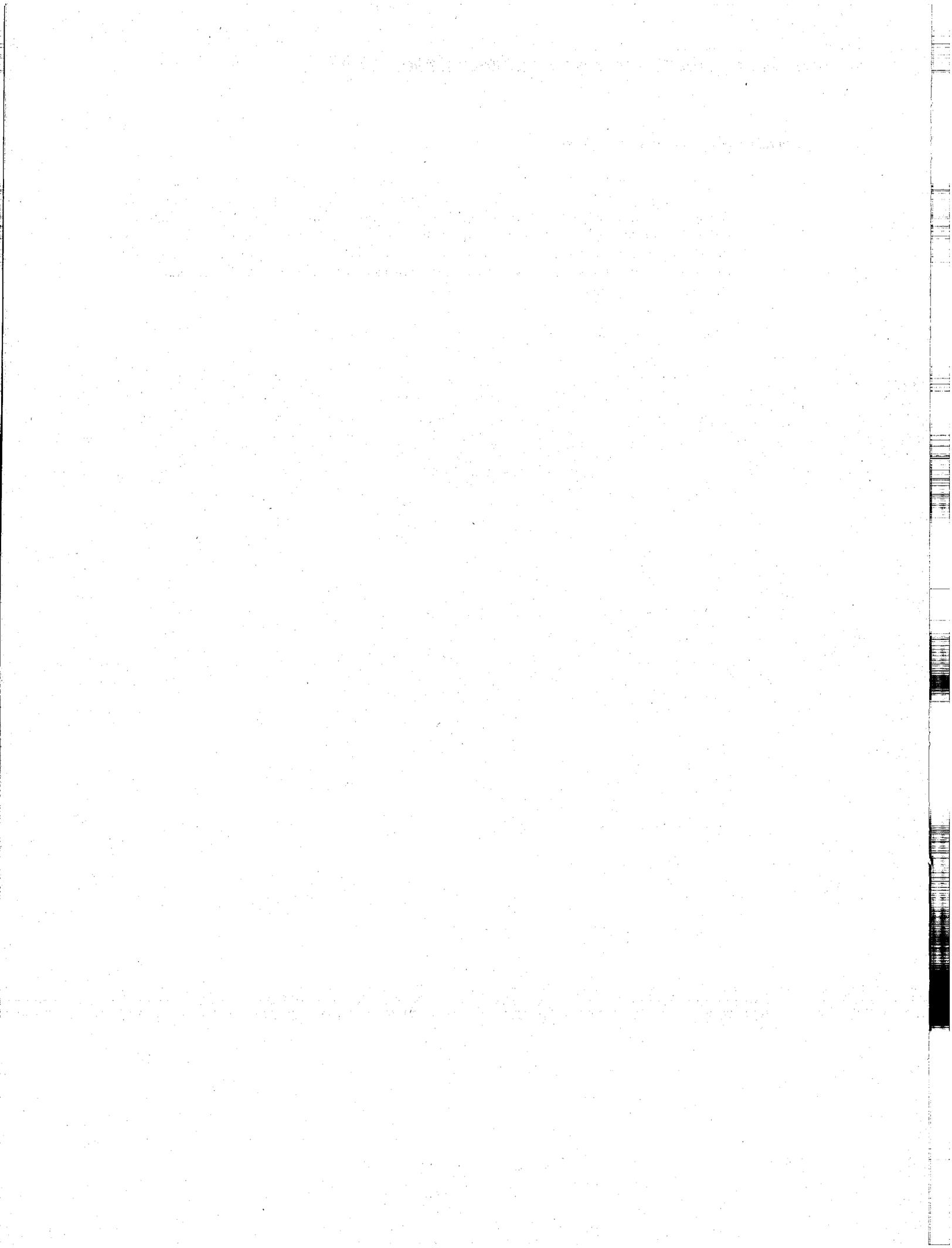
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<i>Limitation</i>	A funding restriction, imposed by OMB, a department, or an agency, that places a ceiling for obligational/spending authority. The limitation may exist at any level within a funding structure or may be imposed using an independent structure. (Common Term)
<i>Mixed System</i>	An information system that supports both financial and non-financial functions of the Federal government. (FFMIA)
<i>Obligation</i>	Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions for bona fide needs existing during a given period that will require payments during the same or a future period and that comply with applicable laws and regulations. Such amounts will include outlays for which obligations had not been previously recorded and will reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations. (A-34, Sec. 21.1, p.11-7)
<i>Outlay</i>	The measure of government spending for budget purposes. Payments to liquidate obligations (other than the repayment of debt). Except where outlay figures are labeled as gross, they are stated net of any related refunds and offsetting collections. Outlays generally are equal to cash disbursements, but they are also recorded for cash-equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of the public debt. (A-11, Section 14.1, p. 35) (Note that, although not technically correct, the terms 'expenditures' and 'net disbursements' are sometimes used interchangeably with 'outlays'.)
<i>Program</i>	Generally defined as an organized set of activities directed toward a common purpose, or goal, undertaken or proposed by an agency in order to carry out its responsibilities. In practice, however, the term program has many uses and thus does not have well-defined, standard meaning in the legislative process. Program is used to describe an agency's mission, programs, functions, activities, services, projects, and processes.
<i>Requirements</i>	<p>JFMIP systems requirements are either mandatory or value added. The definitions of these two categories are:</p> <p><i>Mandatory</i> - Mandatory requirements describe what the system must do and consists of the minimum functionality necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the Federal Financial Management Improvement Act (FFMIA). These requirements apply to existing systems in operation and new systems planned or under development.</p> <p><i>Value-added</i> - Value added requirements describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional, and other similar terminology may be used to describe this category of requirements. Agencies should consider value-added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.</p> <p>Remediation Plan</p>
<i>Remediation Plan</i>	This is a formal document required under the FFMIA when the head of an agency determines that the agency's financial management systems do not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the US SCL at the transaction level. This plan is required to be reported to the appropriate committees of Congress. (FFMIA)

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Standard General Ledger at the transaction level

Implementing the SGL at the transaction level requires that the core financial system general ledger management function is in full compliance with the SGL chart of accounts descriptions and posting rules; transactions from feeder systems are summarized and fed into the core financial system's general ledger following SGL requirements through an interface (automated or manual); detail supporting the interface transactions can be traced back to the source transactions in the feeder systems; and the feeder systems process transactions consistent with SGL account descriptions and post



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