

ACCOUNTING PRINCIPLES AND STANDARDS HANDBOOK

CHAPTER 5. FINANCIAL REPORTING

Section 1.0 General

Federal financial reporting consists of two types of reports: (1) general purpose and (2) management accounting reports.

General-purpose financial reports include internal financial reports and external management reports.

The objective of internal management reporting is to supply management with clear, concise, and useful budget execution reports and accounting data. Financial reports provide financial management information to users outside of the Department.

The objective of external financial reporting is to comply with the reporting requirements of central agencies.

Management accounting reports shall provide a means of comparing plans to performance, and for comparing similar operations from period-to-period and between organizations. Analyses of variances are integral to reporting results to operating and program managers and to the Chief Financial Officer (CFO).

General purpose financial reports should provide information on the following:

- Sources and uses of budgetary resources;
- Operations and the related resources;
- Government's assets; and
- Government's liabilities and financial responsibilities.

They should also provide information that addresses concerns with the future and discloses the levels of financial controls.

The responsibility for financial and management accounting reports lies with bureau finance officers. General-purpose financial reports shall be based on data maintained by approved Departmental financial management systems(s).

Section 2.0 Authority

The policies and procedures in this chapter are issued pursuant to the following laws, regulations, and guidelines:

- a. [Chief Financial Officers Act of 1990](#), 31 U.S.C. Sec.3512, 3515 (Public Law 101-576). See <http://www.gao.gov/special.pubs/af12194.pdf> for GAO Interpretation
- b. [Government Performance and Results Act of 1993](#)
- c. [Government Management Reform Act of 1994](#)
- d. [OMB Circular A – 11, “Preparation, Submission and Execution of the Budget Estimates”](#)
- e. [OMB Circular A – 127](#), “Financial Management Systems”
- f. [OMB Circular A – 130](#), Appendix III, “Security of Federal Automated Information Systems”
- g. [OMB Bulletin 07 – 04](#), “Audit Requirements for Federal Financial Statements”
- h. [OMB Circular A – 134](#), “Financial Accounting Principles and Standards”
- i. [OMB Circular A – 136](#), “Financial Reporting Requirements”
- j. [Treasury Financial Manual, Volume I Chapter 2-4700](#), Agency Reporting Requirements for the Financial Report of the United States Government
- k. [FASAB Statement of Federal Financial Accounting Concepts, Standards, and Guidance](#)
- l. [Accounting and Auditing Policy Committee: “Audit Legal Representation Letter Guidance](#) (Issued November 13, 1997)”

Section 3.0 External Financial Reports

.01 Financial Section of Performance and Accountability Report

The CFO Act of 1990 requires Executive Departments and Agencies to prepare audited financial statements for revolving funds, trust funds, and “substantial commercial activities.” The Government Management Reform Act of 1994 expands on the CFO Act by requiring audited financial statements for all activities of the Department. The Director of OMB prescribes the form and content of financial statements to be prepared under these Acts. Beginning in FY 1998 and each year thereafter, the Department is required to prepare a Performance and Accountability Report that includes audited financial statements consisting of the following sections:

- a. Message from the Chief Financial Officer. This brief transmittal serves to introduce the statements, as well as summarize highlights of the auditor’s findings and bureau plan for correcting material weaknesses, deficiencies, and instances of non-compliance with laws and regulations.

The transmittal should identify impediments to prompt resolution of reporting problems cited by the auditor reports, particularly those problems identified by previous audit reports that remain unresolved.

- b. Financial Management and Analysis.
 1. Financial Management and Analysis
 - Financial Management Systems
 - Financial Reporting
 - Grants Management
 - Human Capital
 2. Debt Management
 3. Payment Practices
 - Electronic Funds Transfer
 - Bankcards
 - Prompt Payment
 4. Analysis of PAR Fiscal Year Financial Conditions and Results
 - Composition of Assets and Assets by Responsibility Segment
 - Trends in Assets
 - Composition of Liabilities and Liabilities by Responsibility Segment
 - Trends in Liabilities

- Composition of and Trends in Financing Sources
- Net Cost of Operations by Strategic Goal
- Limitations of the Financial Statements

c. Principal Financial Statements

1. Consolidated Balance Sheets - present, as of a specific time, amounts of future economic benefits owned or managed by the Department (assets), amounts owed by the Department (liabilities), and amounts which comprise the difference (net position).
2. Consolidated Statements of Net Costs - report separately the components of the net cost of the Department's operations for the period by strategic goal. Net cost of operations is the gross cost incurred by the Department less any exchange revenue earned from its activities.
3. Consolidated Statements of Changes in Net Position - report the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole.
4. Combined Statements of Budgetary Resources - provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement predominantly derived from the Department's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. Information on the SBR should be reconcilable to the budget execution information reported on the SF-133 *Report on Budget Execution and Budgetary Resources* to ensure the integrity of the numbers presented. The Statement of Budgetary Resources should be aggregated to reflect all the activity of the Department for the year covered by the financial statement. Budgetary information aggregated for the Statement of Budgetary Resources should be desegregated for each bureau and presented as supplementary information.

5. NOTE: Beginning with the fiscal-year ending 2007 financial statements, the Consolidated Statements of Financing will be presented in the notes to the financial statement entitled “Reconciliation of Net Cost of Operations to Budget,” per [OMB Circular A-136](#), “Financial Reporting Requirements.” The Statement of Financing is no longer considered a major financial statement.
- d. Notes to the Principal Statements – provide details on the information presented in the financial statements. The notes immediately follow the financial statements.
- e. Consolidating Balance Sheet – presents the current fiscal year balance sheet by bureau, with Departmental elimination entries and a total, which reconciles to the consolidated balance sheet.
- f. Required Supplementary Information (RSI) – provides deferred maintenance, general information on stewardship land, collection type heritage assets, and the Statement of Budgetary Resources by Major Budget Account for the Department. A Statement of Custodial Activity, information about social insurance, and risk assumed information would also be included in this section if applicable, per [OMB Circular A-136](#), “Financial Reporting Requirements.”

NOTE: As a result of [SFFAS 29](#), “Heritage Assets and Stewardship Land,” issued in July 2005, changes to Stewardship PP&E are being phased in over time. Changes will be made in both fiscal years 2008 and 2009 reporting to this category.

- g. Required Supplementary Stewardship Information (RSSI) - provides information pertaining to the Department’s Stewardship resources and responsibilities entrusted to it. The Department breaks down reporting stewardship investments into three categories: Non-federal Physical Property, Investments in Human Capital, and Investments in Research and Development (R&D). Information on stewardship reporting requirements definitions, measurement and implementation guidance is found in [OMB Circular A-136](#), [SFFAS 8](#), [SFFAS 11](#), [SFFAS 14](#), [SFFAS 16](#), [SFFAS 25](#), and [SFFAS 29](#). (SFFAS 11, SFFAS 14, and SFFAS 16 include amendments to SFFAS 8.)

- h. Independent Auditor's Report – Consists of the Report of Independent Auditors' – Cover Letter, which is issued by the Commerce Inspector General, and the Independent Auditors' Report (typically including exhibits)

The auditor will submit an audit report to the head of the reporting entity, which is made up of at least three parts:

1. An opinion or disclaimer of an opinion, on whether the financial statements are presented fairly in all material respects in accordance with applicable accounting standards.
2. A report on internal controls which identifies material weaknesses, reportable conditions, and other matters; and
3. A report on the entity's compliance with applicable laws and regulations.

Further:

- Section 803 (b)(1) of the "[Federal Financial Management Improvement Act of 1996](#)" (FFMIA), requires that auditors include in their financial statement audits a report on compliance with FFMIA;
- [FFMIA](#) Section 803 (c)(1) requires that the head of each agency determine whether the agency's financial management systems comply with the Act based on a review of the report on the applicable agency-wide audited financial statement and any other information the head of the agency considers relevant and appropriate;
- [FFMIA](#) Section 803 (c)(3) requires that when the agency head disagrees with the auditor's findings, the Director of OMB shall review such determinations and provide a report on the findings to the appropriate committees of the Congress; and
- [FFMIA](#) Section 803 (c)(3) requires that when the agency agrees with the auditor's findings of noncompliance, a remediation plan be developed in consultation with OMB that describes the resources and milestones for achieving compliance. It is recommended that the plan not exceed three years.

- i. In addition, the annual financial statement should include other accompanying information that, in the judgment of management, provides users of the financial statement with relevant information useful for obtaining a better understanding of the entity's programs and the extent to which they are achieving their intended objectives.

Refer to the current and the current [OMB Circular A-136](#) for guidance on the presentation of agency financial statements. Please note that financial statement preparers should follow the conventions noted in the general instructions of the OMB Circular and the Commerce Financial Statement Guidance (e.g., round dollar amounts...)

NOTE: The Department prepares consolidated financial statements, based upon bureau submissions. Only one bureau (USPTO) prepares audited stand-alone financial statements. All audited financial statements, Department and bureau level, need to be in compliance with all applicable standards. For guidance on bureau submission to the Departmental financial statements, refer to the Commerce Financial Statements Guidance from the Office of Financial Management.

.02 Closing Package

The Closing Package is a methodology developed by Treasury to directly link information from federal agencies' audited financial statements to amounts reported in the consolidated financial statements of the U.S. Government. A complete closing package consists of the special purpose audit opinion, the management representation letter for the closing package, audit trail report (reclassification journal voucher report), closing package financial statement report, trading partner summary report, notes reports, and other data reports.

Commerce bureaus submit, or the data is otherwise collected (i.e. from the Hyperion Financial Management (HFM) system, the following information to the Office of Financial Management for the Department's submission:

- a. Expanded Trial Balances, submitted through the HFM system;
- b. Closing Package Reclassified Balance Sheet, Statements of Net Cost, Changes in Net Position, and Custodial Nonexchange Activity;
- c. Closing Package Notes and Other Data submitted through HFM and manual Closing Package submissions; and

- d. Closing Package federal trading partners and amounts for federal line items.

For further information on the Closing Package requirements, please refer to the current Commerce Financial Statements Guidance issued by the Office of Financial Management.

.03 Other Reports to OMB and Treasury

Departmental accounting system(s) shall have the capability of producing financial and budgetary reports, and supporting schedules, as required by OMB and Treasury.

In addition to the formal financial statements and budget reports, other financial reports required by OMB and Treasury include those listed in Exhibit 5-1, Major External Financial Reports, Exhibit 5-2, Major Credit and Debt Management Reports, Exhibit 5-3, Major Cash Management Reports, and Exhibit 5-4, Major Performance Metrics Reports.

Section 4.0 Financial Management Systems

Financial management systems should be designed and operated to meet external reporting requirements of oversight agencies, and internal information needs of managers. In addition, financial management systems should be flexible enough to produce, or assist in producing, special purpose financial reports on an as-needed basis. Therefore, bureau financial management systems must:

- a. Meet [OMB Circular A-127](#), “Financial Management Systems,” requirements which 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;
- b. Follow requirements published in Office of Federal Financial Management (OFFM) Federal Financial Management System Requirements series that prescribe the functions that must be performed by systems to capture information for financial statement preparation;
- c. Provide security over financial information in accordance with [OMB Circular](#)

[A-130](#), Appendix III, “Security of Federal Automated Information Systems.” And, the financial management system’s internal controls are designed properly and operating effectively in accordance with [OMB Bulletin 07-04](#), “Audit Requirements for Federal Financial Statements” (see Sec. 4.01-Security below);

- d. Support strategic planning and performance measurement requirements of GPRA;
- e. Incorporate the U.S. SGL chart of accounts;
- f. Incorporate the OMB Object Classification codes included in [OMB Circular A-11](#), “Preparation, Submission and Execution of the Budget;”
- g. Support managerial cost accounting for Departmental responsibility segments;
- h. Support proper accrual accounting in compliance with generally accepted accounting principles of the Federal Government; and
- i. Provide that compensating procedures are applied to financial management information produced by third parties, such as service bureaus, when it is determined that financial systems used by third parties to provide those services do not comply with the provisions of the FFMIA.

.01 Security

Bureau financial systems are required to adhere to all security controls that are set out for Federal automated information systems in [OMB Circular A-130, Appendix III](#), “Security of Federal Automated Information Systems.” “Bureaus shall maintain adequate security for all financial records. At a minimum, the security for automated systems will provide for the following:

- a. A password system that provides for:
 - 1. Entry into the system only by those individuals that are authorized to enter data into the system;
 - 2. Entry of data into the system only during authorized hours; and
 - 3. Restrict certain types of transactions to personnel that are authorized to enter that type of data;

- b. A password system that has the capability of periodic change controlled by the user and a mandatory change at least annually;
- c. Recording of users' identification as part of each transaction;
- d. Safeguards of Privacy Act information;
- e. The capabilities to limit access to certain files;
- f. Prevention for the alteration of data except through the posting of transactions that are entered through the normal edits and update process under proper security; and
- g. Control over all changes to the system.

In compliance with the Computer Security Act of 1987," the Department has established and implemented an Information Technology (IT) security program to ensure (1) that IT systems operate effectively and accurately; (2) that there are appropriate technical, personnel, administrative, physical, environmental, and telecommunications safeguards in IT systems, and (3) the continuity of the operations of IT systems that support critical agency functions are preserved. For further information on IT security, consult the Chief Information Officer (CIO) [Information Technology Security Program Policy and Minimum Implementation Standards](#).

Section 5.0 Fairness of Presentation

All financial reports must identify their purpose and present logical data consistent with that purpose. If the report classifications do not provide the means of disclosing significant factors affecting the financial data, proper footnotes and references shall be appended to the report.

Reports shall be prepared on a consistent basis from period-to-period. Where significant changes are made in accounting classifications or other concepts underlying a financial report, which significantly impairs comparability, the effect of the change shall be disclosed until a proper transition to the new concept(s) can be made.

Financial and operational reports, compiled on a monthly basis, shall include both current and cumulative transactions recorded on a timely basis. The integrity of financial reports should not be compromised by the inclusion of prior-period adjustments. Adjustments and corrections shall be set forth separately in the statements in such a manner that their financial significance can be readily determined.

Section 6.0 Accuracy

Financial data shall be defined by the chart of accounts as established for the U.S. Standard General Ledger. Financial reports to central agencies shall be prepared directly from general ledger accounts, or from records under general ledger control and reconciliation. System design and procedures shall ensure that all financial transactions pertaining to an accounting period have been accounted for, either by direct processing into the accounting system, or by identification and provision of a reasonable estimate if the transaction cannot be received in time for direct processing. To ensure accuracy and completeness of reports, closeout procedures shall provide a review of accounts before final closing of the books for the accounting period.

Procedures will provide for all accounting work to be supervised by a professional accountant. Such procedures may provide for day-to-day processing controls, proof of batch listings, and journals of original entry. Closeout procedures, journal vouchers, general ledger reconciliation and corrections, and formal statements shall be the assigned responsibility of professional accountants.

One of the most important functions of a finance office is to ensure the accuracy of the financial data. Steps that need to be taken to increase the likelihood of accurate numbers on financial statements include:

- a. Ensure that the financial data is drawn from the information contained in the system;
- b. Require that adequate work papers and documentation exists to support the flow of numbers from the system to the financial statements;
- c. Document all adjustments to amounts derived from the accounting system;
- d. Reconcile internal records timely with data from outside sources, such as reports from the Department of the Treasury;
- e. Review the numbers for reasonableness, including a comparison against prior-year amounts and an explanation of unusual variances; and
- f. Disclose any uncertainty regarding the reliability of the numbers and the reasons thereof in the notes to the financial statements.

Section 7.0 Timeliness

Official financial accounting reports to central agencies shall be prepared from financial accounting systems or subsystems as directed by the Deputy CFO in accordance with due dates established by the central agency. Such financial reporting system(s) must be able to produce reports timely enough to meet the mandatory internal and external reporting deadlines.

Financial transactions issued or approved by management through the last workday of the reporting period shall be processed for inclusion in the reports. Cutoffs (including yearend) may be made for specific types of transactions which would not be available for timely processing at specified reporting periods, provided that action is taken to prevent distortion of results by such cutoffs. The basis and justification for earlier cutoffs shall be presented by the bureau finance officer in charge to the Deputy CFO for approval.

Special provisions may be made for reporting accounting transactions relating to operations overseas or at remote locations, providing that reasonable estimates of obligations, costs, and expenditures are included in each regular report, and that procedures are established for adjusting such estimates to actual at the earliest practicable date. Such operations shall be identified in the accounts as separate cost centers.

Timely financial accounting information is especially critical to the successful preparation of the reporting entity's annual financial statements. A major factor in obtaining an unqualified audit opinion on the Department's financial statements is ensuring that bureau audits stay on time. Any bureau audits which fall behind risk the possibility of a scope limitation, and subsequent disclaimer of an opinion by the auditors. Since the preparation of the Department-wide consolidated financial statement and subsequent audit opinion relies on the cumulative results of the individual bureau audits, any one bureau that falls behind will hold up the whole Department and may adversely affect the Department's audit opinion.

Section 8.0 Budgetary Accounting

Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are necessarily different because of the difference in focus. Budget information focuses on the obligation and outlay of financial resources to acquire or provide goods and services as defined by budget concepts. Operating performance information focuses on the cost of resources used as defined by accrual accounting standards.

The Statement of Budgetary Resources mirrors OMB's SF-133, "*Report on Budget Execution*" which provides information on budgetary resources and the status of these resources. In addition to information on the status of budgetary resources, information is needed to help users determine how information on the use of budgetary resources relates to information on the costs of program operations, and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities. This objective arises because accrual-based expense measures used in financial statements differ from the obligation-based measures used in the budgetary reports. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This is accomplished through the Reconciliation of Net Cost of Operations to Budget, which reconciles the budgetary resources obligated for a federal entity's programs and operations to the net cost of operating that entity.

Budgetary accounting is governed by [OMB Circular A-11](#), "Preparation, Submission and Execution of the Budget," and [31 U.S.C. Ch. 15- Appropriation Accounting](#). In addition, Treasury's Financial Management Service has developed an instruction manual entitled "*Budgetary Accounting in the Federal Government*."

Section 9.0 Measuring Successful Reporting

As previously stated, the Department's financial management system and the reports that it generates must serve Department decision-makers and managers at various levels. Such information should support:

- a. Informed program and resource decisions--this requires information to support the budget and management decision process, both within the agency and at the executive and Congressional level.
- b. Compliance with law, policy requirements, and budget and management decisions--this requires the establishment of controls and the tracking of spending against requirements.
- c. Efficient, effective program delivery--this requires reporting on service efforts, accomplishments, and costs.
- d. Proper stewardship over Federal resources--this requires reporting on management's accountability for resources, as well as their cost and service potential.
- e. Protection from future liabilities resulting from current decisions and events-- this requires information on such things as loan guarantees, insurance exposures, pension commitments, and environmental clean-up decisions.

- f. Meeting external reporting requirements--this requires budget formulation and execution presentation, as well as financial statements describing the financial position, results of operations, cash flows, and reconciliation to budget reports.

Annual reviews shall be performed to determine if current reports are still needed, or if revisions are required to meet the changing needs of program managers. New reports may also need to be provided in order to enhance or maintain sound decision-making. Additional changes in budget or program classifications may be necessary during this annual review. Regular review to keep abreast of management's ever changing information requirements is another "measure" of successful reporting.

Section 10.0 Bureau Evaluations of Material or Significant Possible or Actual Unusual Accounting Transactions

Bureaus are required to evaluate material or significant possible or actual unusual accounting transactions (e.g. a possible or actual accrued receivable/revenue or accrued payable/expense or asset, a possible, anticipated, or actual transfer, a possible, anticipated, or actual budgetary resource or reduction of budgetary resources, a possible or actual contingency), regardless of whether the item has been apportioned or not apportioned on the SF 132, *Apportionment and Reapportionment Schedule*, and research if a) a proprietary accounting transaction(s) should be recorded; b) a budgetary accounting transaction should be recorded; and c) if yes to either a) or b), the appropriate accounting transactions that should be recorded and when (month/year) the accounting transactions should be recorded.

For these material or significant possible or actual unusual accounting transactions, the bureau's evaluation is required to include consultation with a) the bureau's CFO or equivalent, of both the underlying bureau and that bureau's accounting service provider, if applicable, or his or her designee(s); and b) the Department's Office of Financial Management. As appropriate, consultations should also include c) other bureau or Departmental offices; d) the U.S. Department of the Treasury, the Office of Management and Budget, and/or the Federal Accounting Standards Advisory Board; e) any other federal agencies; and f) any other relevant or applicable sources.

Exhibit 5-1
MAJOR EXTERNAL FINANCIAL REPORTS

FORM NUMBER	FORM TITLE	REQUIRED BY	REPORT FREQUENCY
SF-224	Statement of Transactions	ITFM 2-3300	Monthly
Various	Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) (Trial Balances, Intragovernmental Modules, SF 133s, etc.)	OMB Circular A-11	Quarterly
SF-133 for Child Activity	Report on Budget Execution for Child Activity for GSA Federal Buildings Fund	OMB Circular A-136	Quarterly
N/A	CFO Representation for Intra-Governmental Activity and Balances	ITFM 2-4700	Annual
Various	Closing Package	ITFM 2-4700	Annual
Various	Closing Package Material Differences/ Status of Disposition Certification Reports	ITFM 2-4700	Annual
N/A	DOC Agency Financial Report (AFR)	GPRA	Annual
N/A	Federal Activities Inventory Reform Act Submission	FAIR Act (P.L. 105-270)	Annual
N/A	Publication of Civil Monetary Penalties Adjustments for Inflation	Pub. L. 101-410, as amended by Pub. L. 104-134 and Sec. 701 of Pub. L. 114-74	Annual

Exhibit 5-2
MAJOR CREDIT & DEBT MANAGEMENT REPORTS

FORM NUMBER	FORM TITLE	REQUIRED BY	REPORT FREQUENCY
N/A	Treasury Report on Receivables Due from the Public (TROR)	I TFM 2-4100	Quarterly
OMB Calculator	Subsidy Re-estimates/Technical Re-estimates	OMB Circular A-11	Annual
OMB Calculator	Calculation of Interest Earnings on Invested Funds	I TFM 2-4600	Annual
N/A	Interest Payments to Treasury by IPAC	I TFM 2-4635.20	Annual

**Exhibit 5-3
MAJOR CASH MANAGEMENT REPORTS**

FORM NUMBER	FORM TITLE	REQUIRED BY	REPORT FREQUENCY
N/A	Civil Monetary Penalties Adjustments For Inflation	DOC Cash Mgmt. Handbook, Appendix I	Annually

Exhibit 5-4
MAJOR PERFORMANCE METRICS REPORTS

FORM NUMBER	FORM TITLE	REQUIRED BY	REPORT FREQUENCY
Various	Financial Management Performance Metrics Statistics (e.g. Prompt Payment, QuickPay, Debt Management)	CFO Act of 1990	Quarterly