Defense Finance and Accounting Service

DFAS 7900.4-M

Financial Management Systems Requirements Manual

General and Administrative Information

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Strategy, Policy and Requirements

OVERVIEW

The Department of Defense (DoD), which services the Army, Navy, Air Force, Marine Corps, and combatant commands, carries out its mission and programs on a worldwide basis. The scope of DoD operations dwarfs those of most large U.S. corporations and many similar operations in autonomous countries as well. It is critical that DoD have high quality financial management systems in place to provide meaningful data from its operational and support systems. The financial management systems must help DoD to comply with the financial requirements efficiently and effectively.

Over the past few years, DoD auditors have issued numerous reports that criticized DoD's financial management systems for their inability to capture, maintain, control, and report reliable and consistent information in a timely manner. As a result, substantial improvement of DoD's financial management has been a top priority of the Department's leadership. DoD's leaders concluded that the Department's financial management deficiencies were more fundamentally entrenched than previously recognized. The remedy has been the most comprehensive reform of financial management systems and practices in DoD history.

A major component of DoD's reform initiative is the consolidation and standardization of finance and accounting systems. The first step was to designate certain existing finance and accounting systems as migratory systems, into which similar systems (such as civilian pay, military pay, travel, etc.) were to be consolidated. Simultaneously, DoD began improving accounting systems to make them more compliant with generally accepted accounting principles for Federal agencies. The ultimate goal of the improvement effort has been to make the accounting systems capable of providing accurate, timely and auditable information to management and decision-makers, including the Congress.

In order for its accounting systems to produce more accurate and auditable information, DoD needs to enhance many systems other than just the accounting systems. Within the Department, dozens of systems provide financial data to the DFAS-operated systems. Much of this data, which flows through a myriad of "feeder systems," is not under adequate internal and data controls and does not comply with Federal requirements. Therefore, the Department has embarked on an effort to bring its critical feeder systems into compliance with applicable Federal requirements.

Various laws and regulations provide specific criteria and requirements for Federal financial management systems. The following are captions of the major laws and regulatory sources that materially affect DoDs financial management systems.

POLICY

PRINCIPAL STATUTES MANDATING REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

The decade of the 1990s saw a tremendous change in emphasis by the Congress concerning the Federal government's financial management operations. No longer is the emphasis exclusively on fund control and budget execution as the primary driving force behind financial management operations of the agencies. From late 1990 through 1996, the Congress passed a number of laws directing the agencies to improve their financial management operations, systems, performance, internal controls, and financial reporting.

Federal Financial Management Improvement Act of 1996:

This law requires each Federal agency to implement and maintain financial management systems that comply with applicable accounting standards and systems requirements. Specifically, agencies' financial management systems are to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. If an agency's financial management system does not substantially comply with the FFMIA requirements, it must develop a remediation plan that will achieve substantial compliance.

Auditors who conduct agency financial audits are required to report whether the agency's financial management systems substantially comply with the aforementioned requirements. In cases where the auditors find systems not in compliance with applicable requirements, the auditors are required to report the entity or organization responsible for the systems not in compliance. They must also report "all facts pertaining to the failure to comply with the requirements."

To meet the requirements of the FFMIA, OMB provided the following explanations in Circular A-127 (See Appendix 5):

1) Federal Financial Management System Requirements

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

a. Computer Security Requirements

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

b. Internal Controls

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

c. FSIO Core Financial System Requirements

The core financial system requirements are defined by Financial Systems Integration Office (FSIO).

2) Federal Accounting Standards

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

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

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

Government Management Reform Act of 1994:

This law (Public Law 103-356) expanded the financial statement audit requirements of the CFO Act of 1990 to all "CFO Act" agencies. As one of the 24 CFO Act agencies, DoD is required to prepare and submit to the Director the Office of Management and Budget audited financial statements beginning in FY 1996.

Government Performance and Results Act of 1993:

In August 1993, the Congress passed this act (Public Law 103-62) to improve operations, programs, and management of Federal agencies. By the end of fiscal year 1997, the head of each Federal agency was to submit to OMB a strategic plan for program activities, including performance goals and objectives. Annually, beginning in fiscal year 1999, each agency was to present to OMB a performance plan covering each program activity set forth in the agency's budget. No later than March 31, 2000, and annually thereafter, each agency is required to submit to the President and the Congress a report on program performance for the previous fiscal year.

Chief Financial Officers (CFO) Act of 1990:

The Congress, concerned about the overall state of financial management within the Federal sector, passed this law (Public Law 101-576) in November 1990. The Congress' objectives in passing the act were to: (1) bring more effective general and financial management practices to the Federal government; (2) provide for improvements in Federal agencies' systems of accounting, financial management, and internal control; and (3) provide for the production of complete, reliable, timely, and consistent financial information for the use of executive branch managers and the Congress in financing, managing, and evaluating Federal programs. This law requires each Federal agency to

develop and maintain an integrated agency accounting and financial management system that includes a financial reporting capability and adequate internal controls. The system must, among other things, (1) comply with applicable accounting principles, standards, and requirements, and internal control standards, and (2) comply with the policies and requirements prescribed by the Director of the Office of Management and Budget (OMB). The law required, on a pilot basis, certain agencies (including the Air Force and the Army) to prepare annual consolidated financial statements and have them audited. The law also required agencies to prepare, and have audited, financial statements for revolving funds.

PRIMARY REGULATIONS AND OTHER GUIDANCE AFFECTING FINANCIAL MANAGEMENT SYSTEMS

Several agencies and organizations promulgate authoritative regulations and guidance relative to financial management systems with which Federal agencies are to comply. Principal among these are OMB, the Department of the Treasury, the Government Accountability Office (GAO), the Financial System Integration Office (FSIO), and the Federal Accounting Standards Advisory Board (FASAB).

Office of Management and Budget:

OMB formulates and coordinates management procedures and program objectives within and among Federal departments and agencies. Relative to financial management operations and systems, OMB publishes Federal accounting standards that FASAB has recommended, and which OMB, the Department of Treasury, and GAO have adopted. In addition, OMB has issued circulars and bulletins that established financial management requirements with which Federal agencies are to comply. Principal among these are Circulars A-127, A-123, A-130, A-11, A-136 and Bulletin 07-04. Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, maintaining, evaluating, and reporting on financial management systems. Circular A-123 provides guidance to Federal managers on improving accountability and effectiveness of programs and operations by establishing, assessing, correcting, and reporting on management controls. Circular A-130 prescribes policies regarding information resource management. Circular A-11 provides guidance on the preparation and submission of agency budget requests, including reporting on the agency's critical financial management systems. Circular A-136 defines the form and content of Federal agencies' financial statements while Bulletin 07-04 provides guidance to Federal agencies' Inspectors General and financial management personnel on complying with the Federal Financial Management Improvement Act of 1996.

Treasury:

The Department of the Treasury publishes various fiscal and accounting policies and requirements in its *Treasury Financial Manual* (TFM). Treasury provides guidance on central accounting and reporting, payroll deductions and withholdings, disbursing and collections. Treasury also officially publishes the USSGL and related information pertaining thereto.

Government Accountability Office:

Prior to the establishment of FASAB in 1990, GAO promulgated accounting standards for the Federal sector. GAO published such standards in Title 2 of GAO's *Policy and Procedures Manual for the Guidance of Federal Agencies*. However, the adopted Statements of Federal Financial Accounting Standards (SFFAS) have rendered most of the "Title 2" accounting standards inapplicable. GAO also establishes certain requirements for financial systems as well as internal control standards for the Federal government.

Chief Financial Officers Council:

The Chief Financial Officers Council, established pursuant to Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), is an organization of the CFOs and Deputy CFOs of the largest Federal agencies, senior officials of the Office of Management and Budget and the Department of the Treasury who work collaboratively to improve financial management in the U.S. Government. The Council was established under the provisions of the CFO Act of 1990 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 any other financial management matter.

Members of the Council identify the key issues that need to be addressed to successfully implement the Chief Financial Officers Act of 1990 and to improve financial management leadership. Since the Act was signed into law there has been substantial progress and many positive achievements. Improvement of financial management systems is one of the Council's priorities.

Financial System Integration Office:

The Financial Systems Integration Office (FSIO) within the General Services Administration was formerly known as the Joint Financial Management Improvement Program (JFMIP) staff office. FSIO publishes financial management systems concepts, framework, and requirements. OMB incorporates FSIO's systems concepts and requirements by reference in Circular A-127, thereby making the concepts and requirements applicable to Federal agencies.

Federal Accounting Standards Advisory Board:

In October 1990, the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States established FASAB to consider and recommend accounting principles for the Federal government. The process by which an accounting standard becomes "generally accepted" in the Federal government is as follows:

1. FASAB recommends accounting standards
2. Congress accepts the accounting standard
3. FASAB sponsor (OMB, GAO, and Treasury) adopts
4. OMB publishes.

REQUIREMENTS CONTAINED IN THIS MANUAL

The CFO Act specifically requires each Federal agency to develop an integrated financial management system, which incorporates adequate internal controls and a financial reporting capability. The system must comply with applicable Federal principles, standards, and requirements. OMB, in Circular A-127, prescribes the policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

In May 1996, DFAS established the Defense Accounting System Program Management Office to manage the consolidation, integration, and modernization of existing DFAS accounting systems. The scope of the Directorate's efforts includes all migratory and legacy accounting systems that DFAS owns and operates. Except for ensuring that appropriate interfaces are in place, the Directorate's responsibility does not extend to the accounting and other financial management systems owned and operated by the military services and Defense Agencies. However, the Directorate has compiled Federal accounting, financial management and financial reporting requirements pertaining to those systems and related accounts. This document, now known as Manual 7900.4-M (Financial Management Systems Requirements) or the Blue Book, represents that compilation.

While this Blue Book manual represents an extensive compilation of Federal and DoD requirements applicable to DoD's financial management systems, it does not necessarily include all requirements that pertain to such systems. A myriad of requirements applicable to Federal financial management systems exists in dozens of different authoritative sources. This manual contains hundreds of requirements promulgated by the central agencies and DoD. As such, the manual represents a valuable tool for systems managers, operators, programmers, and accountants to use in planning, developing, implementing, modifying, and evaluating financial management systems. The intent of this manual, as a tool, is to focus management's attention on the requirements financial management systems must satisfy. Management, however, is explicitly responsible for being knowledgeable of the actual laws and regulations and ensuring that their systems comply with them. Additionally, DoD has published the *Department of Defense Financial Management Regulations*, DoD 7000.14-R (DoDFMR), which contains Department-wide financial management policies and detailed requirements with which components are to comply. While this manual contains some of the systems requirements stipulated in the DoDFMR, it does not contain all.

DoD operates hundreds of systems, designed to initiate, process, record, summarize, control, and report financial transactions and events. In general, these systems are not integrated and in many cases, do not adequately comply with applicable Federal financial management and accounting requirements. Currently, DoD, primarily through DFAS, has efforts underway to consolidate and standardize financial operations, systems, and locations. This compilation of Federal financial management systems requirements will support the standardization of financial management and accounting operations and enhance compliance with laws and regulations.

The requirements contained in this manual represent specific requirements for financial management systems arranged by major functional categories. For example, separate sections cover requirements for general ledger functions, property accounting, inventory management and accounting, managerial cost accounting, grants, and loans. This manual also provides the authoritative source citation(s) for each requirement.

The following are the major functional requirements categories contained in this manual:

- General Ledger
- Financial Reporting
- Property, Plant and Equipment
- Inventory, Materials, and Supplies
- Revenue and Accounts Receivable
- Managerial Cost Accounting
- Personnel Pay
- Funds Control and Budgetary Accounting
- Accounts Payable (Payment Management)
- Travel
- Direct Loans
- Guaranteed Loans
- Audit Trails and System Controls
- Personnel Benefits
- Disbursing
- Foreign Military Sales (Security Assistance)
- Non-Appropriated Fund Instrumentalities

ORGANIZATIONAL RESPONSIBILITIES FOR ENSURING FFMIA COMPLIANCE

Within DoD, various organizations operate financial management systems. While in an overall scheme, many of these systems should be linked in an integrated network. Often, the systems are "stand-alone" or "stovepipe" systems that are not logically integrated with other related systems. Critical financial data, instead of being transferred electronically between systems through well-controlled interfaces, are often transferred manually by means of journal vouchers, hardcopy spreadsheets, "data calls," or other inefficient and error-prone methods.

DFAS operates most of the DoD's core accounting systems and functions as the primary Departmental entity responsible for generating general ledgers and financial reports. Much of the data used by DFAS to carry out the DoD's accounting and financial reporting functions—such as property and inventory values—originate in non-DFAS organizations or systems. Therefore, other organizations, primarily the military components and Defense agencies, should be held responsible for the compliance of their financial management systems with all applicable Federal requirements. Appendix 5 of DFAS 7900.4-M contains Federal and DoD guidance on FFMIA compliance, evaluation, and reporting.

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Mandatory and Value-Added Requirements

This manual follows the FSIO practice of identifying requirements as either mandatory or value-added. FSIO defines mandatory requirements as follows: "The mandatory requirements describe what the system must do and consist of the minimum acceptable 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 system requirements under the FFMIA. These requirements apply to existing systems in operations and new systems planned or under development."

FSIO defines value-added requirements as follows: "The 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.

Agencies may augment the mandatory requirements with value-added features or with agency unique requirements, which must be carefully defined to assure consistency with government-wide standard requirements. Further, each agency must also integrate the standard requirements with existing systems and with the major program systems that are unique to the agency."

In this manual, all requirements are mandatory (as defined by FSIO above), unless specifically identified as value-added. We identify value-added requirements by adding a "Y" in the column labeled 'Value Added" for each value-added requirement.

Additionally, in keeping with the FSIO practice, value-added requirements usually use the terms "*should*" or "*may*". Therefore, it is important that users of this document make this distinction and not construe "*should*" or "*may*" as "must".

SIGNIFICANT REVISIONS AND/OR UPDATES CONTAINED IN THIS VERSION

Since DFAS first published this manual, which in January 1998 was known as a "guide", a number of significant revisions in financial management systems requirements have occurred. For example, FSIO has revised and re-issued several of its financial management systems requirements documents and DoD has revised and re-issued several DoDFMR volumes and/or chapters. In addition, FASAB has formally published guidance on a number of new SFFAS. Various requirements contained in previous versions of this manual have been deleted since they are no longer contained in current authoritative pronouncements. In addition, some requirements were quite similar or redundant with one another. Whenever practical, redundant requirements have been merged. Within each release, we identify added, changed, deleted and merged requirements

Within each volume, we have included a summary of these changes. Requirements with a "C", "D", or 'A" in the column labeled "Change Type" is used to indicate requirements change, deleted, or added.

A-Added FFMRs These are new requirements due to revised and updated source documents.

C-Changed FFMRs These requirements were contained in previous versions, but were changed for various reasons, as described in the Requirement Changes Appendix.

D-Deleted FFMRs These requirements were removed from this version or from a certain volume because they were no longer required by the source document, more applicable to another functional area or were redundant with another FFMR.

Note: If there is no code in the requirements value added or change type columns for an FFMR, it is by definition, unchanged from previous versions.