Providing Professional Financial Management Services to the Federal Government: Part I - Requirements and Resources

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Introduction

The Cambridge Dictionary defines a profession as “any type of work … that needs a high level of education or a particular skill.” As certified public accountants (CPAs), the particular skills necessary to succeed are ever-expanding. No other client has the unique characteristics of the federal government. Take this into account if you are considering providing services to the federal government.

Federal agencies meet various financial management needs by contracting with CPA firms—annual financial statement audits, ongoing financial management and systems support, internal control consulting services, strategic planning, and enterprise risk management (ERM) support. These opportunities exist for large and small firms. However, do not underestimate the specialized knowledge needed to serve this unique client either as a prime or sub-contractor.

While we cannot tell you all you need to know, this two-part brief will point you in the right direction. Being aware of available resources is an essential first step to supporting federal financial management and accountability and complying with professional standards.

Basics—the Requirements for Financial Statement Audits and the Source for Generally Accepted Accounting Principles

What is the most fundamental difference between serving a federal client and a private sector client? The role of laws in managing federal activities is fundamentally different. For example, while a private client may do most anything that is not barred by law, a federal government client may only do what it is authorized by law to do.

Hundreds of federal entities produce audited financial statements annually to meet requirements enacted in laws and Congress has enacted additional laws that expand financial management requirements and increase transparency. A summary of the financial management related public laws is presented at the end of this brief. (The list does not include all laws and regulations related to the use of budgetary resources).

Three federal officials responsible for federal financial reporting—the Secretary of the Department of the Treasury (Treasury), the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States (GAO)—sponsor the Federal Accounting Standards Advisory Board (FASAB or "the Board") and possess legal authority under various laws to establish accounting and financial reporting standards for the federal government. The Board, a federal advisory committee, establishes

generally accepted accounting principles (GAAP) for the federal government. The American Institute of CPAs (AICPA) recognizes FASAB as the source for GAAP for federal government reporting entities through its Accounting Principles Rule.²

FASAB’s mission is to serve “the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.” FASAB operates through due processes quite similar to the Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) for producing standards and implementation guidance. You can stay abreast of developments by subscribing to the FASAB mailing list. While there are many similarities between federal GAAP and GAAP for non-governmental entities, be mindful that there are differences that are important to understand when providing services.

Requirements and Guidance for Federal Financial Managers

Numerous financial management requirements and resources exist for agencies, accounting firms, and their personnel.

The GAAP Hierarchy and the FASAB Handbook

Statement of Federal Financial Accounting Standards (SFFAS) 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board, identifies guidance applicable to federal reporting entities and establishes the SFFAS as the most authoritative source of guidance. The full document is available at http://files.fasab.gov/pdffiles/handbook_sffas_34.pdf. Other FASAB pronouncements, such as FASAB Technical Bulletins, address implementation matters. Other literature, including FASAB’s concepts statements and pronouncements issued by FASB and GASB, may be useful in the absence of specific FASAB guidance.

Note that SFFAS 47, Reporting Entity, is helpful in determining whether the client is, in fact, a federal reporting entity. Although not effective until fiscal year 2018, it can serve as a guide to resolve sometimes complex issues associated with the classification of the diverse organizations used to accomplish public policy goals.

All FASAB literature is available online at no cost on the FASAB website. FASAB publishes the Handbook of Federal Accounting Standards and Other Pronouncements, as Amended each year. It presents the Board’s final pronouncements as of June 30 each year and incorporates amendments to prior pronouncements.

OMB Circulars

OMB serves the President of the United States as the implementation and enforcement arm of presidential policy government-wide. OMB issues instructions to federal agencies through circulars. Circulars relevant to financial management are available on the OMB website. OMB updates its circulars periodically, but they retain the same number in each update.

OMB Circular A-136 establishes financial reporting requirements and is updated annually. It provides a central point of reference for all guidance related to the annual financial reports. Although not itself a GAAP requirement, it consolidates or references each of the requirements for the reports and is an effective starting point. Think of Circular A-136 as an overarching implementation guide for FASAB standards.

OMB circulars address topics from budget formulation and execution to grant agreements with state and local governments. Becoming familiar with the role of circulars and the topics addressed through circulars is essential to serving a federal client.

² See AICPA ET Section 1.320.001, Accounting Principles Rule.
Treasury’s Bureau of the Fiscal Service Publications and Resources

Treasury’s Bureau of the Fiscal Service (Fiscal Service) promotes the “financial integrity and operational efficiency of the U.S. government through exceptional accounting, financing, collections, payments, and shared services.” To that end, Fiscal Service maintains systems and issues publications to facilitate sharing of financial information government-wide.

The Treasury Financial Manual is the official publication of policies, procedures, and instructions concerning financial management in the federal government. It covers matters such as disbursement of funds, collection of revenues, and other cash management activities.

The Standard General Ledger provides the standard general ledger accounts federal agencies are required to adopt. The publication includes the chart of accounts, account definitions, account transactions, account attributes, and crosswalks to external reports. It also establishes required validations and edits for the information submitted to the central reporting system.

Internal Control Standards and ERM Guidance

The Government Accountability Office (GAO) adapts the framework and guidance and principles on internal control developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and issues Standards for Internal Control in the Federal Government, also known as “the Green Book.” The Green Book fulfills a requirement of the Federal Managers’ Financial Integrity Act (FMFIA) for GAO to issue internal controls standards and requires federal agency executives to periodically review and annually report on the agency’s internal control systems.

The Green Book’s internal control standards, first issued in 1983, are for federal agencies for both program and financial management. Green Book standards address the policies and procedures federal agencies employ to help ensure effective use of resources in fulfilling their mission, goals, objectives, and strategic plan.

OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, directs agencies to implement policies and procedures consistent with the Green Book. In July 2016, the OMB Director issued new guidance intended to improve the efficiency and effectiveness of the government; stating the following:

The policy changes in this Circular modernize existing efforts by requiring agencies to implement an Enterprise Risk Management (ERM) practices in coordination with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act (GPRAMA), and the internal control processes required by FMFIA and Government Accountability Office (GAO)’s Green Book. This integrated governance structure will improve mission delivery, reduce costs, and focus corrective actions towards key risks.

Federal agencies continue to implement ERM and modernizing their internal controls. This will require collaboration across agencies and mission-support functions.

Another internal control resource and tool available to agencies is the GAO Fraud Risk Management Framework. Designed to help managers combat fraud and preserve integrity in government programs, the framework is based on leading practices for managing fraud risks. The framework encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. In addition, the framework highlights the importance of monitoring and incorporating feedback, which are ongoing practices that apply to all aspects of the framework.

Requirements and Guidance for Auditors

GAO provides extensive resources for the government auditing community through its role as the “congressional watchdog.” GAO’s mission is to “support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.” Federal and state auditors look to GAO to provide standards for internal controls, financial audits, and other types of government audits.

3 COSO consists of the following organizations (1) the American Accounting Associations, (2) the AICPA, (3) the Financial Executives International, (4) the Institute of Management Accountants, and (5) the Institute of Internal Auditors.
The Council of the Inspectors General on Integrity and Efficiency (CIGIE) also provides audit resources. CIGIE is an “independent entity established within the executive branch to address integrity, economy and effectiveness issues that transcend individual Government agencies and aid in the establishment of a professional, well-trained and highly skilled workforce in the Offices of Inspectors General.”

Government Auditing Standards, also known as GAGAS or the Yellow Book, provide a framework for conducting high quality financial and performance audits with competence, integrity, objectivity, and independence. The Yellow Book is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. Knowledge of both AICPA standards and Yellow Book standards is a prerequisite for providing attestation services to federal government clients.

The Financial Audit Manual (FAM) presents a methodology to perform financial statement audits of federal entities in accordance with professional standards. It is tailored to the federal accounting standards and the Yellow Book standards. The FAM addresses audit methodology, identifies audit tools, and provides checklists. The FAM is currently under revision to incorporate the latest Yellow Book and AICPA standards.

The Federal Information System Controls Audit Manual (FISCAM) presents a methodology for auditing information system controls in federal and other governmental entities. FISCAM provides auditors with specific guidance for evaluating the confidentiality, integrity, and availability of information systems consistent with the Yellow Book and the FAM. FISCAM is also consistent with guidelines promulgated by the National Institute of Standards and Technology (NIST) for complying with the Federal Information Security Modernization Act of 2014. This law requires federal agencies to develop, document, and implement agency-wide programs to ensure information security. NIST Special Publication 800-53 provides recommended security controls for federal information systems and organizations, and appendix 3 of FISCAM provides a crosswalk to those controls.

GAO also provides guidance on assessing the reliability of computer-processed data. The guidance provides a flexible, risk-based framework for data reliability assessments that can be geared to the specific circumstances of each engagement. The framework is built on (1) making use of all existing information about the data; (2) performing at least a minimal level of data testing; (3) doing only the amount of work necessary to determine whether the data are reliable enough for the intended purposes; (4) maximizing professional judgment; and (5) bringing the appropriate people, including management, to the table at key decision points.

CIGIE consolidates resources for the inspectors general community at IGNet. The site provides links to resources provided by others (such as the Yellow and Green Books produced by GAO) and presents resources produced by CIGIE. For example, quality standards for digital forensics and investigations are provided under the link “Quality Standards.” Similarly, the link “Manuals, and Guides” leads to a collection of guides for activities such as desk reviews and peer reviews, as well as links to relevant GAO and OMB documents.

Conclusion

Hopefully this summary of requirements and available resources will be helpful. Even if you do not offer services to the federal government, as a professional and a citizen, you will find ways to support improvements to federal financial management. You can do this by following the activities of the Board and others who are working to ensure there is a sound professional framework for public servants working in the federal financial management community.

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The Inspector General Act of 1978 introduced statutory inspector generals (IGs) for federal agencies. There are now 72 statutory IGs within the federal government who are considered independent and report to both the agency head and to Congress. Each IG is responsible for conducting audits and investigations relating to the programs and operations of its agency and for providing leadership and coordination in recommending policies. The IG also conducts, supervises, or coordinates other activities for the purpose of promoting economy, efficiency, and effectiveness and preventing and detecting fraud and abuse in those programs and operations.
Summary of Relevant Laws

This statute established the General Accounting Office (later renamed the Government Accountability Office). The legislation authorized GAO to act as the independent congressional auditor of executive branch expenditures.

The statute requires that the President’s budget set forth balanced statements of the condition of the U.S. Treasury at the close of the preceding fiscal year, the end of the current fiscal year, and the estimated condition at completion of the following fiscal year. The statute mandates that GAO establish accounting standards and principles for executive branch agencies to follow in their respective financial accounting. BAPA prescribed that agencies enact adequate systems of accounting and internal controls and prepare audited financial statements of agency activities which involve substantial commercial functions.

FMFIA requires that each agency establish internal controls in accordance with standards prescribed by GAO that provide reasonable assurances that (1) obligations and costs are in compliance with applicable law, (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use and misappropriation, and (3) revenues and expenditures are properly recorded and accounted for to permit accurate financial reporting. FMFIA requires the head of each executive agency to prepare a statement of whether the agency’s financial statements comply with the criteria.

The CFO Act requires 24 enumerated agencies to appoint a chief financial officer who is responsible for oversight of all financial management activities relating to the programs and operations of the agency. The CFO must develop and maintain an integrated accounting and financial management system which includes internal controls relating to reporting of financial information. Each agency is required to annually submit a five-year financial management plan to the agency head and the Director of OMB. Agencies must submit audited financial statements on each revolving fund, trust fund, and substantial commercial function.

GMRA amended the CFO Act to require the head of each covered agency to submit an audited financial statement for the previous fiscal year to the OMB Director. This statement covers all accounts and associated activities of each office, bureau, and activity of the agency. The financial statement must reflect the overall financial position of the activity as well as include the results of operations. GMRA also requires annual government-wide financial statements.

The Accountability of Tax Dollars Act expands the requirement to conduct annual audits of the agency’s finances beyond the 24 CFO Act agencies to all executive branch agencies in the federal government.

GPRA requires agencies to submit annual performance plans for each program activity set forth in the agency’s budget that establishes performance goals to define the level of performance to be achieved by that program activity. GPRA also requires agencies to submit an annual report on program performance for the previous fiscal year detailing the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year. GPRA establishes requirements for strategic plans, annual performance plans and reports, managerial accountability and flexibility, pilot projects, and training.

GPRAMA strengthened the reporting requirements by adding, among other things, a review period by OMB to the agency performance reporting cycle, new requirements for quarterly reviews, and progress assessments of government-wide and agency-level priority goals.

FFMIA emphasizes the need for agencies to have systems that can generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. FFMIA requires the 24 major departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Standard General Ledger at the transaction level. FFMIA also requires auditors to report in their CFO Act financial statement audit reports whether the agency's financial management systems comply with FFMIA requirements.


This series of legislation is aimed at identifying and reducing improper payments. Agencies are required to perform risk assessment of all programs that are susceptible to significant improper payments. Agencies must perform these risk assessments every three years based on risk factors enumerated in the statute. Once a program or activity has been identified as susceptible to significant improper payments, agencies are required to estimate the amount of improper payments made under each and report on the actions they have taken to reduce improper payments. Agencies are required to perform recovery audits on each program or activity with expenditures of more than $1 million per year. IPERA and IPERIA also contain requirements for recovery audits and pre-payment checks against certain databases, respectively.


The DATA Act imposes various disclosure and reporting requirements on executive agency spending to achieve uniformity in agency reporting. The DATA Act requires Treasury and OMB to issue guidance on government-wide data standards for federal spending. Agencies will report financial and payment information in accordance with the government-wide data standards and agency inspectors general will report on the timeliness, quality, and accuracy of each agency's standardized spending data.

Author's Bio

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