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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

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MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Shalanda D. Young 

SUBJECT: Appendix D, Management of Financial Management Systems – Risk and Compliance

The Administration is committed to ensuring agencies are compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA), while reducing audit burden. We support building on the development and implementation of technology and business standards across the Federal financial systems landscape. We also support the continued adoption by agencies of shared services and other solutions made available through the financial management systems marketplace.

Agencies continue to make progress towards achieving FFMIA compliance and implementing consistent and uniform accounting standards. The continuously developing environment of technology, business processes, and policy present opportunities for agencies to realize these goals in a more effective and efficient manner. The attached update to OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (OMB Circular No. A-123), Appendix D seeks to capitalize on these evolving capabilities.

Pursuant to OMB Circular No. A-123, agencies are required to manage risk in relation to achievement of reporting objectives. Earlier versions of Appendix D, began the transition from a broad to risk-based approach for assessing compliance. This updated version of Appendix D more closely aligns with the risk-based approach promoted by OMB Circular No. A-123.

This revised Appendix is effective for Fiscal Year (FY) 2023 and supersedes all previous versions of Appendix D. Please contact OMB's Office of Federal Financial Management with any questions regarding this guidance.

ATTACHMENT

Appendix D to OMB Circular No. A-123, *Management of Financial Management Systems - Risk and Compliance*

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I. Purpose

To provide guidance in determining compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) for agencies subject to the Chief Financial Officers Act of 1990 (CFO Act) and encourage agency management of financial management systems integrity risk.¹

II. Authority

Appendix D is issued pursuant to the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3512, 3513); the Federal Managers' Financial Integrity Act of 1982, Pub. L. 97-255 (31 U.S.C. 3512(c), (d)) (FMFIA); the Chief Financial Officers Act of 1990, Pub. L. 101-576 (CFO Act); 31 U.S.C. Chapter 11; the Federal Financial Management Improvement Act of 1996, Pub. L. 104-208 (31 U.S.C. 3512 note) (FFMIA); the Clinger-Cohen Act (also known as the Information Technology Management Reform Act of 1996) (Pub. L. 104-106, Div. E); and the Federal Information Security Modernization Act of 2014, Pub. L. No. 113-283 (44 U.S.C. 3551 et seq.), which largely superseded the similar Federal Information Security Management Act of 2002, Pub. L. 104-347 (44 U.S.C. 3541 et seq., repealed 2014) (FISMA).

III. Policy

Developments in technology, business processes, and policy have changed over the years. This update to Appendix D recognizes these developments and hopes to position the government for the continued evolution of technology and modernization efforts.

The goal of OMB Circular No. A-123, *Appendix D, Management of Financial Management Systems – Risk and Compliance* is to define agency requirements for determining compliance with FFMIA. FFMIA requires the 24 CFO Act agencies to implement and maintain financial management systems,² that comply substantially with (1) Federal Financial Management Systems Requirements, (2) Federal accounting standards, and (3) the U.S. Government Standard General Ledger (USSGL) at the transaction level. Federal financial management standards include, but are not limited to, these three requirements.

An aim of Appendix D is to support all federal executive agencies, including those not subject to FFMIA, in modernizing, standardizing, and harmonizing financial management systems by incorporating Federal financial management standards, and achieving alignment with statutory and regulatory requirements. An enterprise risk management framework should be used to

¹ Since 1981, OMB Circular No. A-123 and subsequently the Federal Financial Management Improvement Act of 1996, Pub. L. 104-208 (reprinted in 31 U.S.C. 3512, Statutory Note), (FFMIA) have been at the center of federal requirements to improve accountability in federal programs and operations. This appendix seeks to support agencies efforts to ensure system integrity and the ability to provide timely and reliable financial management reports, and the ability to maintain and record financial transactions by managing the risk to financial management systems.

² See Section IX - Definitions.

achieve related financial management outcomes (e.g., clean audits, effective controls, and timely reporting). As the lead agency for federal financial management policy and standards, the Department of the Treasury's (Treasury) supports these objectives through the promotion of a Financial Management Systems Marketplace,³ of standards-based solutions and services that allow flexibility, choice, an agile response to changing requirements, and data transparency.

The federal government's financial management systems guiding principal is to make the best use of financial management systems to initiate, record, process, and report financial transactions to support agency missions in making business decisions and to provide transparency to the public. These systems help agencies ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

To comply with this financial management systems policy, each agency should:

- Meet financial management information technology needs through cost-effective sharing as applicable, and/or through financial management IT solutions that:
 - Use the Financial Management Systems Marketplace of standards-based solutions;
 - Incorporate financial management systems and data standards.

In all cases, agencies must ensure their financial management systems align with federal financial management standards and other applicable statutes and regulations.

- Follow the policies prescribed in OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,⁴ Appendix A to Circular No. A-123, *Management of Reporting and Data Integrity Risk*,⁵ OMB Circular No. A-130, *Managing Information as a Strategic Resource*,⁶ Code of Federal Regulations (CFR) Title 48 Federal Acquisition Regulation, as well as associated financial management system guidance which includes but is not limited to relevant financial management memoranda and operational directives.
- Use a risk-based approach to determine whether the Agency's financial management systems comply substantially with Federal Financial Management Systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. Agencies have the latitude to apply risk management concepts defined in OMB Circular No. A-123 to determine the scope necessary to meet management assurance requirements.

³ Treasury initiative that offers a new approach to shared services and federal financial management by establishing a marketplace of systems and services that will drive innovation, compliance with federal policies, standardization, and automation.

⁴ https://www.whitehouse.gov/wp-content/uploads/legacy_drupal_files/omb/memoranda/2016/m-16-17.pdf

⁵ <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-16.pdf>

⁶ https://www.whitehouse.gov/wp-content/uploads/legacy_drupal_files/omb/circulars/A130/a130revised.pdf

- Leverage relevant findings, conclusions, and recommendations from audits, assessments, attestations, and other relevant management reports to identify areas of possible FFMIA non-compliance to reduce audit burden. Leveraging audit results from multiple sources should provide greater consistency and transparency in agency reporting.
- For agencies using a shared service provider, the service provider should provide customer agencies with a Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting (also known as a SOC 1),⁷ or other reports compliant with the Financial Audit Manual, Section 260.33.⁸ Agencies are encouraged to use SOC 1 (or equivalent) reports in the assessment of FFMIA compliance provided the report is of appropriate time period, coverage, and scope.

Throughout the Appendix, the terms “Must” and “Will” denote a requirement that management will comply with in all cases. “Should” indicates a presumptively mandatory requirement except in circumstances where the requirement is not relevant for the Agency. “May” or “Could” indicate best practices that may be adopted at the discretion of management.

IV. Effective Date

This Appendix is effective upon release. All other versions of Appendix D are rescinded.

V. Inquiries:

Please contact Michael Landry (michael.c.landry@omb.eop.gov) in OMB's Office of Federal Financial Management with any questions regarding this guidance.

Copies of this Circular may be obtained from <https://www.whitehouse.gov/omb/information-for-agencies/circulars/>.

⁷ SOC 1 is referenced in this document as this report is widely recognized by agencies. SOC is a registered trademark of the Association of International Certified Professional Accountants (AICPA). See <https://us.aicpa.org>. The U.S. Government does not endorse products. Trademarks names appear in this appendix only because they are considered necessary for discussion. Refer to AT-C Section 320 - Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting, <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/ssae-no-18.pdf>.

⁸ <https://www.gao.gov/products/gao-22-105894>

VI. Significant Revisions

Section	Revision to Appendix	Purpose of Revision
Cover Memo	Updated memo to reflect the change in technology, audit, and business process environment.	There is a need for clarity on how the standards should be used to enhance systems capabilities, for improved customer experience, and to sustain compliance with FFMIA while aligning with other statutory and regulatory requirements.
Title	Changed title to Management of Financial Management Systems - Risk and Compliance	Reflect a risk-based approach to enhance systems capabilities by providing more effective and efficient financial management systems to support mission objectives.
Policy	Updated to include language to reflect changes in the technology and business process environment and the move towards a marketplace of shared solutions and standards.	Reflect the move to a shared services environment and management ability to utilize Financial Audit Manual, Section 260.33 compliant reports (such as SOC 1 or equivalent) to determine FFMIA compliance.
FFMIA Compliance	Updated the guidance for FFMIA compliance and provided flexibility for agencies to assess compliance with respect to agency mission goals.	2013 version of Appendix D introduced the risk-based approach. This update further aligns financial management systems with broader A-123 Enterprise Risk Management framework.
Interdependence with other Policy	Clarified role and implication of A-123 (ERM and Internal Controls), Appendix A to A-123 (Reporting/Data Integrity), A-130 (IT as a strategic resource), A-136 (AFR financial reporting), and others.	Show interdependence with other statutes, regulations, and guidance to promote alignment and integration of policies to implement a cross-cutting risk-based approach.
Responsibilities	Added Shared Service Providers (previously “Service Provider Requirements”) role in ensuring FFMIA compliance.	Clarify the coordinating role of the Financial Management marketplace and shared service providers, and the migration to shared services, leveraging the opportunity for planning and coordination.
Applicability/Scope	Provided clarity on the applicability of Appendix D to OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control	Identify and define systems (or aspects of systems) that fall under the scope of Appendix D. Further clarify compliance with FFMIA and FMFIA (Integrity Act), Title 48 CFR, and other requirements.
Definitions	Updated the definitions by building on definitions as presented in FFMIA.	Provide clarity to address the evolving environment with respect to technology and processes and alignment with other statutory or regulatory requirements or responsibilities.
FFMIA Compliance	To reduce audit burden, agencies are encouraged to <i>leverage</i> other compliance audit requirements to satisfy the FFMIA audit and assurance statement requirements.	There are a variety of audit requirements agencies manage. By leveraging the existing audit frameworks, agencies have additional tools to manage their financial management systems integrity risk and compliance with FFMIA.

VII. Applicability/Scope

- A. The policies contained in Appendix D apply to the 24 CFO Act agencies and providers of financial management services. Component agencies are not required to be assessed separately but should be included in the agency-wide assessment. Agencies not governed by the CFO Act are encouraged to adopt this appendix.
- B. The financial management systems, and financial components of systems identified in Appendix D, must adhere to the policies and procedures contained in OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,⁹ (Circular A-123).
- C. The policies contained in OMB Circular No. A-130, *Managing Information as a Strategic Resource*,¹⁰ (hereinafter Circular A-130), govern agency management of information systems and technology investments, including financial management systems. The policies contained in Circular A-130 apply to all agency information resources, including financial management systems as defined in Appendix D.
- D. The financial management systems identified in Appendix D must adhere to the policies and procedures contained in OMB Circular No. A-136, *Financial Reporting Requirements*,¹¹ (Circular A-136).
- E. Transactions are posted to the financial system in accordance with the standard general ledger accounting requirements published in the United States Standard General Ledger (USSGL) supplement to the Treasury Financial Manual,¹² (TFM) to permit reporting in accordance with federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB).
- F. CFO Act agencies planning to modernize their financial management systems should engage with the Financial Management Systems Marketplace and work towards standardization, modernization, and innovation. Agencies not identified in FFMIA are encouraged to adopt this guidance as well as engage with the Financial Management Systems Marketplace.

⁹ https://www.whitehouse.gov/wp-content/uploads/legacy_drupal_files/omb/memoranda/2016/m-16-17.pdf

¹⁰ <https://www.cio.gov/policies-and-priorities/circular-a-130/>

¹¹ <https://www.whitehouse.gov/wp-content/uploads/2022/06/2022-A-136.pdf>

¹² <https://www.fiscal.treasury.gov/ussgl/resources-implementation.html>

VIII. Definitions

For the purposes of Appendix D, and viewing the definitions in Section 806 of the FFMIA,¹³ in light of current accounting information system practices, the following definitions apply:¹⁴

A. Financial Management System

The term **financial management system** is defined as the organized collection of software, hardware, processes, procedures, and controls necessary to inform and support the core financial systems; including systems necessary to achieve financial management, operational, performance, and reporting objectives. This definition includes the financial data portion of mixed systems.

B. Financial System/Core Financial System

The term **financial system**, synonymous with **core financial system**, consists of six functional areas: general ledger management, funds management, payment management, receivable management, cost management, and reporting. This information system, comprising one or more software programs (commonly referred to as applications), is used for:

- collecting, processing, recording, maintaining, transmitting, or reporting data about financial events;
- supporting financial activity or budget execution;
- accumulating and reporting costs information; or

¹³ FFMIA, Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996), *reprinted in* 31 U.S.C. § 3512, Statutory Note.

¹⁴ Title 41, U.S. Code references statutory and regulatory authorities related to procurement and to the Federal Acquisition Regulation.

41 U.S.C. § 1121(c)(3), Application of other laws, provides that “the authority of an executive agency under another law to prescribe policies, regulations, procedures and forms for procurement is subject to the authority conferred in this section and sections 1122 (a) to (c)(1), 1125, 1126, 1130, 1131, and 2305 of [Title 41, U.S. Code].”

41 U.S.C. § 1122(a)(2) provides that the functions of the Administrator for Federal Procurement Policy in the Office of Federal Procurement Policy include “coordinating the development of government-wide procurement standards that executive agencies shall implement in their procurement systems.”

National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, div. A, tit. VIII, 126 Stat. 1632, 1859 (Jan. 2, 2013), is reprinted in 41 U.S.C. Subt. I, Div. C, Ch. 31, Statutory Note, Uniform Requirements for Electronic Contract Writing Systems. Section 862(a)(1) provides that the Administrator for Federal Procurement Policy, with respect to the executive agencies other than the Department of Defense and the military departments, shall “establish uniform data standards, internal control requirements, independent verification and validation requirements, and business process rules for processing procurement requests, contracts, receipts and invoices.” Section 862(a)(2) requires establishment and maintenance of one or more approved electronic contract writing systems that conform to the standards as well.

- supporting the preparation of financial statements and federal financial reporting requirements.

C. Mixed System

The term **mixed system** means an information system that supports both financial and nonfinancial functions of the federal government or components thereof. Appendix D requirements apply only to the financial portion of mixed systems.

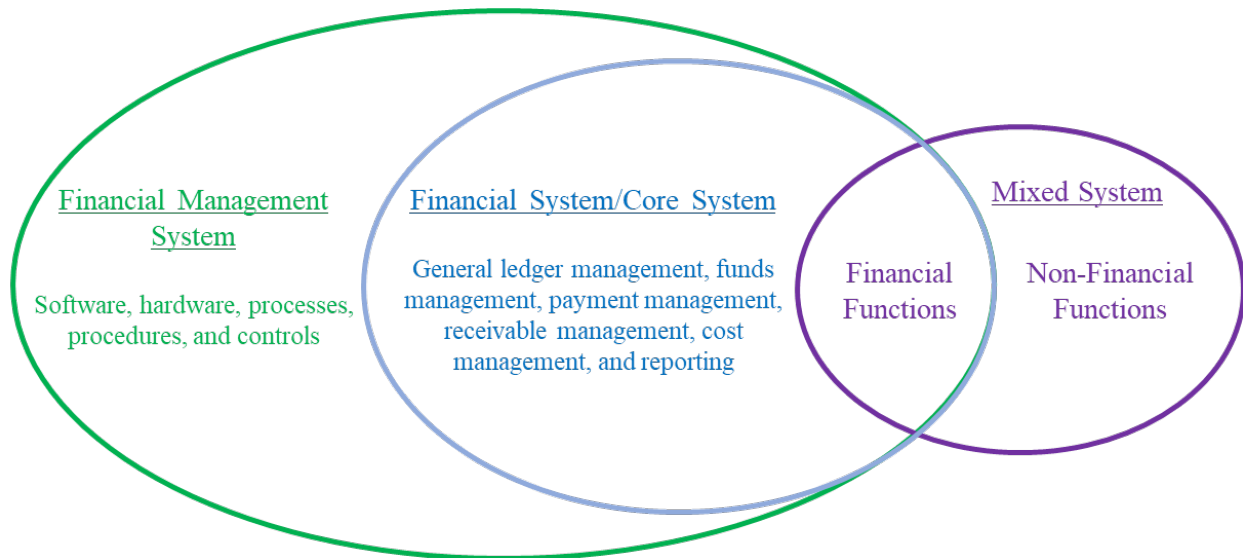


Figure 1- Definitions Relationship Diagram

D. Service Provider

The term **service provider** refers to an external party that performs operational process(es) for an entity.

IX. FFMIA Compliance

FFMIA requires agencies to implement and maintain financial management systems that comply substantially with the following three FFMIA Section 803(a) requirements:¹⁵ (1) Federal Financial Management Systems Requirements, (2) applicable Federal accounting standards, and (3) the US Standard General Ledger (USSGL) at the transaction level.

¹⁵ FFMIA, Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996), *reprinted in* 31 U.S.C. § 3512, Statutory Note.

A. FFMIA Requirements

Agencies will develop a risk-based approach with documented methods to determine if financial management systems comply substantially with FFMIA. For agencies using service providers for financial management systems, documented methods may include the use of SOC 1,¹⁶ (or equivalent) reports, ongoing monitoring, separate evaluations, or a combination as referenced in GAO's Standards for Internal Control in the Federal Government.¹⁷

Documentation must include an explanation for any non-compliant system presenting increased risks to accomplishing the Agency's mission.

B. Federal Financial Management Systems Requirements

The Federal Financial Management System Requirements (FFMSR) implements the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) guidance to help achieve shorter-term, lower-cost, and more incremental financial management system modernization. Agencies should refer to Treasury for current FFMSR.¹⁸

OMB and Treasury will maintain the FFMSR in a business capability framework and publish them in the TFM.¹⁹

C. Federal Accounting Standards

Agency financial management systems will maintain accounting data to permit reporting in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by FASAB. 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*, specifies the GAAP hierarchy for selecting the principles used in the preparation of general-purpose financial reports of Federal reporting entities.

As specified in OMB Circular No. 136 (A-136), Financial Reporting Requirements, certain A-136 requirements that are not specified in SFFAS 34 levels A through C, that are not presentation reporting requirements, and that are considered practices that are widely recognized and prevalent in the Federal Government may be deemed to be level D of the Federal GAAP hierarchy.

¹⁶ <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/ssae-no-18.pdf>

¹⁷ <https://www.gao.gov/greenbook>

¹⁸ <https://tfx.treasury.gov/sites/default/files/pdfs/ffmsr.pdf>

¹⁹ <https://tfm.fiscal.treasury.gov/>

D. The U.S. Government Standard General Ledger at the Transaction Level ²⁰

Financial events shall be recorded applying the requirements of the USSGL guidance in the TFM. This means that each time an approved transaction is recorded in the financial system/core financial system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance.

E. FFMIA Audit

Each audit required by 31 U.S.C. 3521(e) must report whether the agency financial management systems comply with the requirements of FFMIA Section 803(a). Auditors of CFO Act agency financial statements are required to report on whether the agency's financial management systems comply substantially with the three FFMIA requirements. Further, the head of an agency subject to the CFO Act must annually determine whether its financial management systems comply with the requirements of Section 803(a). Management's determination must be based upon the performance of the three requirements of Section 803(a) and the consideration of the results of that performance. Management should use the performance results from various sources, including the auditor report on its annual financial statements, reports on the effectiveness of internal controls, shared service providers' SOC 1 (or equivalent) reports, and other performance results or evaluations as appropriate.

F. FFMIA Compliance Framework

The FFMIA Compliance Determination Framework (Attachment 1) was developed to assist agencies in determining whether they are following the Section 803(a) requirements of FFMIA. The Framework is a risk and evidence-based assessment model that leverages existing audit tests, evaluations, and reviews that auditors, agency management, and others already perform. This work may include the external audit report and internal reports prepared by the agency in providing any assurances over the financial statements. Agencies should use the framework to provide documentation of the evidence utilized. The major elements of the framework are as follows:

1. There are a series of financial management goals common to all Federal agencies and agreed upon by the financial management community which includes greater modernization and consolidation, alignment and engagement.

²⁰ Individual transactions may be recorded in the financial system in detail or in summary as long as the transaction is traceable to the transaction source.

For example, one goal is to “promote the government’s financial integrity and operational efficiency.”²¹

2. One or more compliance indicator(s) is associated with each financial management goal. The indicators specify the recommended evidence agencies should consider when determining whether it meets each goal. For example, one compliance indicator for the above-referenced goal is the agency's audit opinion on its financial statements. Each compliance indicator corresponds to one or more of the Section 803(a) requirements. The authoritative references include the applicable USSGL and FASAB sources.
3. Each compliance indicator has recommended risk or performance levels agencies should consider when evaluating fulfilment of the goal. For example, an agency with an unmodified opinion on its financial statements and no material weaknesses may be at low risk for not being in compliance with FFMIA, while an agency that has material weaknesses, even with an unmodified opinion, may be at higher risk of non-compliance with FFMIA. The final determination by management should be based on the impact to the FFMIA compliance requirements.

Building on the framework, agencies should develop a risk-based method or approach to assess and determine financial management systems’ FFMIA compliance focusing on the risks and potential impacts to achieving the objectives in financial reporting, financial operations, and financial transaction compliance with laws and regulations. Agencies may consider the financial management systems:

- Materiality to the financial statements;
- Alignment to agency missions;
- Previous year’s systems compliance determination; and
- Risk introduced due to system and program changes.

For shared services, agencies may rely on the available service organization reports (e.g., SOC 1 or equivalent) provided the assessments is of appropriate coverage and scope.

Agencies should provide documentation of the evidence relied on when determining whether the agency financial management systems comply with the requirements of Section 803(a).

Agency compliance indicators may consist of a mix of risk levels (i.e., some indicators may be at low risk while others at a medium or high level of risk).

In assessing the financial management systems integrity risk to make the compliance determination, each agency head will need to assess the relative importance or weight of the

²¹ <https://tfm.fiscal.treasury.gov/home.html>

financial management goals for the agency and apply judgment when making the final compliance determination.

An agency does not have to be at low risk for each compliance indicator to be in compliance with FFMIA. Generally, lower risk should decrease the likelihood that an agency is not in compliance, while higher risk may increase the likelihood that an agency is not in compliance.

Agencies that use shared service providers are encouraged to use the service organization reports, for example, the SOC 1 report. The SOC 1 (or equivalent) is an important tool for agency management and auditors as they evaluate the effect of the controls at the service organization on the user entities' controls for financial reporting. Agency and auditor testing of a service provider's controls could take the form of input/output controls, performance monitoring, process controls, or complimentary controls.

X. Responsibilities

Entities will perform the financial management system responsibilities prescribed by the statutes listed in Section II ("Authority") and the policy listed in Section VIII ("Applicability/Scope") of this Appendix. The responsibilities include, but are not limited to, the following:

A. Office of Management and Budget

- Issue policy on the management of systems risk in support of federal government financial management systems.
- Ensure that CFO Act agencies work with Treasury to incorporate financial management systems standards and use the Financial Management Systems Marketplace. This includes relevant coordination between policy and budget responsibilities within OMB to incorporate a shared/standardized solutions approach towards planning and funding for financial management system IT capital expenditures.
- Ensure that Treasury and lead agencies for other lines of business collaborate effectively and continue to meet customer agency needs for solutions that effectively support their missions.
- Monitor the implementation and operation of federal government financial management systems and their compliance with Section II ("Authorities") of this Appendix.
- Maintain a governance structure that provides clear roles and responsibilities of key stakeholders to ensure the intended outcomes of the FFMIA are achieved.

- Provide additional guidance and criteria for how ongoing and future financial management systems modernization projects will be evaluated or evaluate any proposed changes to the Financial Management Systems Requirements.

B. CFO Act Agencies

- Work with OMB and the Federal Financial Systems Marketplace to further the goals of modernization, standardization, and harmonization of financial management systems and stakeholders.
- Through coordination with the Federal Financial Systems Marketplace, implement and maintain financial management systems, in accordance with Circular A-130 and Circular A-123, which comply with Section III ("Policy") of this Appendix.
- Determine annually whether financial management systems of the agency comply with Section III ("Policy") of this Appendix.
- When required, establish remediation plans to identify resources, remedies, and target dates to bring the agency's financial management systems into compliance.
- Report, as needed, compliance with the Federal Financial Management Systems Requirements, Federal accounting standards, and USSGL at the transaction level through the reporting structure established by Section VI of Circular A-123.
- If applicable, communicate FFMIA and FMFIA (as applicable) reporting requirements to service organizations if a system being provided / supported is a financial management system and implement complementary controls.

C. Department of the Treasury

- Maintain a process to evaluate and approve, as necessary, any proposed changes to the FFMSR,²² and other standards in the business capability framework.
- Coordinate approved changes to the FFMSR and other standards in the business capability framework with OMB and agencies to help achieve federal financial management goals at minimized cost and organizational impact of the changes.
- Develop and maintain the FFMSR and other standards in the business capability framework that agencies' financial management systems must support to be in compliance with Section III ("Policy") of this Appendix.
- Support OMB with other financial management system responsibilities.

²² <https://tfx.treasury.gov/sites/default/files/pdfs/ffmsr.pdf>

D. Financial Management Systems Marketplace

- Manage a Financial Management Systems Marketplace of standards-based solutions and services that support effective and efficient financial management and focus on the needs of the customer.
- Coordinate and collaborate with federal and commercial financial management service providers to incorporate standards into solutions and services and promote the continued adoption of shared services.
- Support OMB and Treasury with other financial management systems responsibilities.

E. Financial Management Systems Shared Service Providers

- Provide customer agencies with an annual,²³ Financial Audit Manual, Section 260.33 compliant or other relevant service organization reports.
- Maintain controls that take the form of input/output controls, performance monitoring, process controls, or other documentation supporting FFMI compliance determination.

²³ OMB Circular No. A-123 states Agencies may use roll forward procedures for timing differences in different types of internal control assessments (e.g., timing differences between June 30 and September 30).

XI. Attachment 1 – FFMIA Compliance Determination Framework

Organization and Content

The updated FFMIA Compliance Determination Framework adds incremental steps and is designed to walk the user from goal through risk assessment, to conclusion. The information contained in this Attachment is organized as follows:

- **Categories:** Categories are groupings of related goals. The two categories are (1) financial information management and reporting and (2) financial management and internal controls.
 - **Goals:** Goals articulate clear statements of what the agency wants to achieve to advance its mission and address relevant problems, needs, and challenges. The first two digits of a goal's reference ID correspond to the first two digits of each requirement's ID from the "Federal Financial Management Systems Requirements" contained in the *Treasury Financial Manual*. For example, requirement 1.1.1.1, "provide GL account classifications," corresponds to goal 1.1, "consistently, completely, and accurately record and account for federal funds, assets, liabilities, revenues, expenditures, and costs." Further, each requirement has a reference to the associated financial management policy that promulgates the three requirements of Section 803(a) of the FFMIA. Achievement of goals should be assessed to determine whether an agency is in compliance with FFMIA.
- **Management Assessment of Goal:** This column allows management to apply and further refine/define the goals in a manner specific to achieving the agency mission.
- **Implementation Indicator:** Implementation indicators are quantifiable or otherwise observable characteristics used to measure progress towards goals and demonstrate how well or at what level a goal has been achieved. Indicators are a subset of the information already being produced by agencies and auditors.
- **Management Assessment of Indicator:** This column allows management to assess the compliance indicator with respect to the agency mission.
- **Conditions Noted:** This column provides for management reportable conditions, non-conformances or material weaknesses.
- **Risk Level:** Risk levels identify the degree of risk that the agency is not in compliance with FFMIA.
- **Goal Met:** This column is management's determination of having met the goal.
- **Management Assessment and Conclusion:** This column is for managements final assessment of FFMIA compliance.

The figure below provides an overview of the compliance model framework for determining FFMIA compliance.

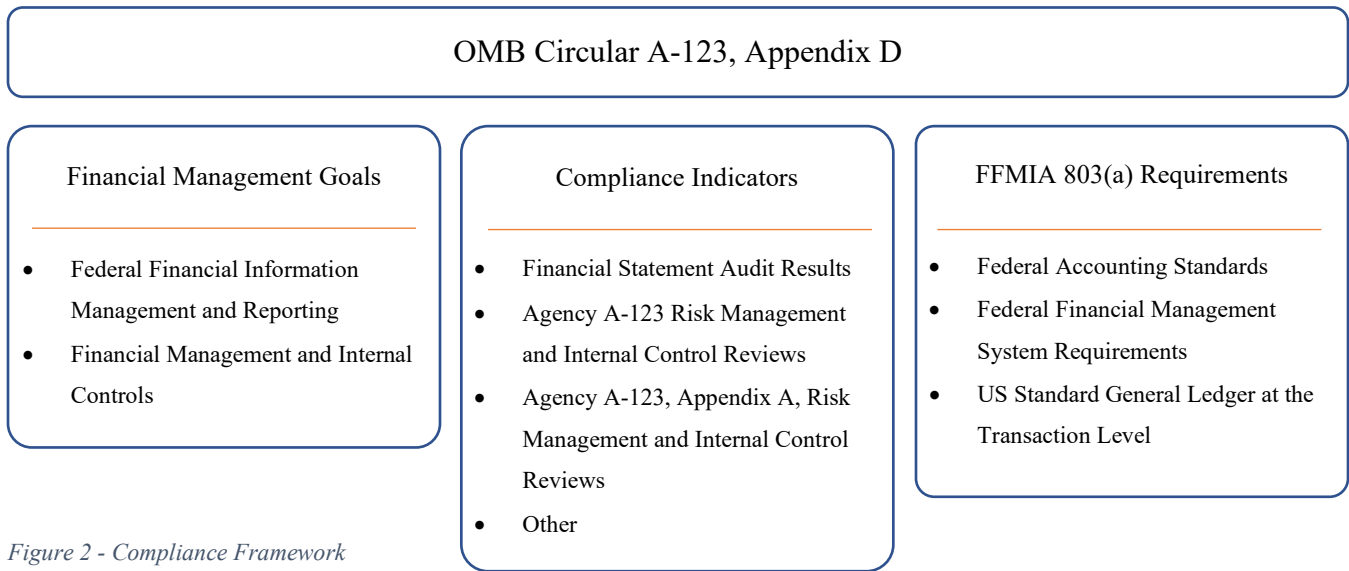


Figure 2 - Compliance Framework

Intended Use

Each CFO Act agency will utilize this risk-based framework to assess the financial management systems integrity risk to comply substantially with the three requirements of Section 803(a) of the FFMIA. The FFMIA Compliance Determination Framework includes performance results based on annual financial statements, the Federal Financial Management Systems Requirements contained in the Treasury Financial Manual, and other information considered relevant and appropriate. The FFMIA Compliance Determination Framework goals and compliance indicators are intended to be used throughout the operation of federal financial management systems.

- Agency heads should use the table to assist in the determination of systems integrity risk and meeting the goals of FFMIA compliance. If a goal is not met, then the agency head should evaluate the associated financial management systems requirements and the effectiveness of related internal controls to help identify the root cause(s) of failure to meet the goal. Financial management systems requirements are defined in the FFMSR contained in the *Treasury Financial Manual*.
 - While the compliance indicators are the key ones to be considered in the determination of compliance, they are not meant to provide a complete list of what can be considered in assessing achievement of each goal. In other words, a low-risk rating for compliance indicator 1.2.a does not necessarily provide full assurance that goal 1.2 has been achieved.
 - It is anticipated that an agency's compliance indicators will fall into a mix of risk levels, for example, compliance indicator 1.1.a may be at the low risk level, while 1.2.a might be at the medium risk level.
 - Agency heads will need to assess the relative importance of the various compliance

indicators and risk levels for their agencies and apply their judgment in making the determination of substantial compliance with the three Section 803(a) requirements of FFMIA.

- Auditors will use professional judgment in determining what internal control weaknesses rise to the level of a material weakness and in making their determination of FFMIA compliance.
 - Auditors may use these goals and compliance indicators to help determine FFMIA compliance. For example, auditors performing the financial statement audits may use the results of other types of audits and assessments (e.g., other financial, performance, compliance, SOC 1 or equivalent reports), as appropriate, in their determination of FFMIA compliance.
 - OMB audit guidance provides auditors with information on determining FFMIA compliance, which should be combined with any auditor assessments of agency goal achievement.

Table 1 – FFMIA Compliance Determination Framework

1.0 Federal Financial Information Management and Reporting							
Categories/Goal	Management Assessment of Goal	Implementation Indicator	Management Assessment of Indicator	Conditions Noted	Risk Level	Goal Met	Management's Assessment and Conclusion
1.1: Consistently, completely, and accurately record and account for federal funds, assets, liabilities, revenues, expenditures, and costs.		1.1a: Current/prior year's agency-reported material weaknesses, significant deficiency, or non-conformances, ²⁴ or auditor-reported material weaknesses, or significant deficiencies, ²⁵ related to accounting for, and recording, Federal funds, assets, liabilities, revenues, expenditures, and costs.					
1.2: Provide timely and reliable Federal financial management information, ²⁶ of appropriate form and content to agency program managers for managing current government programs and activities.		1.2a: Current/prior year's agency-reported material weaknesses, significant deficiencies, or non-conformances related to internal reporting of financial management information used for managing current Government programs and activities.					

²⁴ As used in this model, "agency-reported material weaknesses or reportable conditions or non-conformances" refers to terminology for agencies defined in OMB Circular No. A-123.

²⁵ As used in this model, "auditor-reported material weaknesses or significant deficiencies" refers to terminology for auditors defined in OMB Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, and subsequent guidance.

²⁶ As used in this model, "financial management information" is generated from both agency administrative operations (for example, obligations/disbursements for office furniture, facilities, utilities, or personnel) and agency program operations (for example, disbursements for benefits/services to the public or collections of tax revenue).

Table 1 – FFMIA Compliance Determination Framework

1.0 Federal Financial Information Management and Reporting							
Categories/Goal	Management Assessment of Goal	Implementation Indicator	Management Assessment of Indicator	Conditions Noted	Risk Level	Goal Met	Management's Assessment and Conclusion
<p>1.3: Provide timely and reliable federal financial management information of appropriate form and content for continuing use by stakeholders external to the agency, including the President, the Congress, and the public.</p>		<p>1.3a: Audit opinion on agency financial statements.</p>					
		<p>1.3b: Unaudited interim financial statements must be submitted 21 business days after the end of the third quarter of the fiscal year and unaudited interim notes 45 business days after the end of the third quarter.</p>					
		<p>1.3c: Agency financial reports submitted to OMB, the GAO, and Congress by 11/15 (or other date set out in applicable OMB guidance).</p>					

Table 1 – FFMIA Compliance Determination Framework

1.0 Federal Financial Information Management and Reporting							
Goal	Management Assessment of Goal	Implementation Indicator	Management Assessment of Indicator	Conditions Noted	Risk Level	Goal Met	Management’s Assessment and Conclusion
1.4: Provide timely and reliable federal financial management information of appropriate form and content that can be linked to strategic goals and performance information. ²⁷		1.4a: Agency costs, as presented in the Statement of Net Costs, in accordance with OMB-Circular A-136, are clearly linked to major agency programs and are free from agency-reported material weaknesses, significant deficiencies, or non-conformances or auditor-reported material weaknesses or significant deficiencies.					
		1.4b: Financial and performance information, as presented in the performance section of the Annual Financial Report (AFR) or Performance and Accountability Report (PAR), is free from agency-reported material weaknesses, significant deficiencies, or non-conformances.					

²⁷ This goal is meant to present OMB's long-term intention for linking financial management information to strategic goals and performance information. The compliance indicators to assess progress on achieving this goal vary widely across agencies, are evolving, and should be viewed as interim ones to help move agencies towards accomplishment of the goal overtime.

Table 1 – FFMIA Compliance Determination Framework

2.0 Financial Management and Internal Controls							
Goal	Management Assessment of Goal	Implementation Indicator	Management Assessment of Indicator	Conditions Noted	Risk Level	Goal Met	Management's Assessment and Conclusion
2.1: Provide internal control to restrict federal obligations and outlays to those authorized by law and within the amount available.		2.1a: Current/prior year's agency-reported material weaknesses, significant deficiencies, or non-conformances or auditor-reported material weaknesses or significant deficiencies related to restricting agency obligations and outlays to those authorized by law and within the amount available.					
		2.1b: Anti-deficiency Act (ADA), ²⁸ Violation Report required to be submitted.					
2.2: Perform Federal financial management operations effectively within resources available.		2.2a: Current/prior year's instances of non-compliance with laws and regulations related to prompt payments, ²⁹ or debts owed to the federal government.					

²⁸ 31 U.S.C. § 1341.

²⁹ In 1982, Congress enacted the Prompt Payment Act (Pub. L. 97-177) to require Federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. The Prompt Payment Act, as amended, is found at 31 U.S.C. Chapter 39. In 1999, OMB issued a final rule on, and codification of, regulations for the Prompt Payment Act, which are found at 5 CFR Part 1315. See 64 FR 52580 (Sep. 29, 1999).

Table 1 – FFMIA Compliance Determination Framework

2.0 Financial Management and Internal Controls							
Goal	Management Assessment of Goal	Implementation Indicator	Management Assessment of Indicator	Conditions Noted	Risk Level	Goal Met	Management's Assessment and Conclusion
2.3: Minimize waste, loss, unauthorized use, or misappropriation of federal funds, property, and other assets within resources available.		2.3a: Current/prior year's agency-reported material weaknesses, significant deficiencies, or non-conformances or auditor-reported material weaknesses or significant deficiencies related to minimizing waste, loss, unauthorized use, or misappropriation of federal funds, property, and other assets.					
2.4: Minimize Federal financial management systems security risks to an acceptable level.		2.4a: FISMA or other (for example, NIST-related) significant deficiencies impacting financial management systems in the agency Security Certification and Accreditation of Federal Information Systems.					