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# The Methods for Tracking Funds in the Federal Government

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The federal government uses two different but overlapping methods for tracking funds. This reflects the fact that the federal government is made up of many different entities and serves multiple constituencies. Financial information generated by federal entities serves a range of purposes. For example, Congress seeks to monitor the obligation and expenditure of federal funds it appropriates and evaluate the need for additional funds; managers of federal entities seek to control the cost of operations; and economists seek to understand the effects of federal operations and financing on different markets.

The two methods for tracking funds are generally known as obligational accounting and proprietary accounting. While each method involves different processes, people, and information systems that rely on a given nomenclature, each system plays an important part in ensuring the financial accountability of the government to the American people, and agencies cannot overlook either of them.

Although the budget and budget process largely use obligational accounting, users of this glossary should recognize that terms used in obligational accounting might have different meanings when used in proprietary accounting.<sup>1</sup> The purpose of this appendix is to describe, briefly, the two methods, their statutory bases, and the role each plays in federal government financial accountability. This appendix also supplies references for detailed information on each method. In its simplest form obligational accounting means that an obligation must be recorded when an agency enters into a contract for goods or services. In contrast, under proprietary or financial accounting no transaction is recorded until the entity accepts the goods or services when an “accounts payable” is recorded. The following paragraphs explain these two systems further.

Obligational accounting involves the accounting systems, processes, and people involved in collecting financial information necessary to control, monitor, and report on all funds made available to federal entities by legislation—including both permanent, indefinite appropriations and appropriations enacted in annual and supplemental appropriations laws that may be available for 1 or multiple fiscal years. It is through obligational accounting that agencies ensure compliance with fiscal

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<sup>1</sup> Some, including OMB, refer to obligational accounting as budgetary accounting. Budgetary accounting, however, more specifically refers to a bookkeeping refinement of obligational accounting. Obligational accounting is also sometimes referred to as funds control accounting or appropriation accounting. See Cornelius E. Tierney, *Handbook of Federal Accounting Practices* (Reading, Mass.: 1982). See also Senate Committee on Government Operations, *Financial Management in the Federal Government*, S. Doc. No. 87-11 at 85 (1961) (explaining new statute for recording obligations to support agency budget information).

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laws, including the Antideficiency Act<sup>2</sup> and the “purpose” and “time” statutes.<sup>3</sup> Obligational accounting rests on the central concepts of the obligation and disbursement of public funds, as those terms are defined in this glossary. The Antideficiency Act and the “recording statute”<sup>4</sup> provide the fundamental components of obligational accounting. The Antideficiency Act requires each agency head to establish an administrative system of funds control designed to restrict obligations or expenditures and to affix responsibility for obligations or expenditures. The recording statute requires agencies to account for obligations as a key mechanism for measuring compliance. The basic premise of obligational accounting is that if an agency controls its obligations, it is unlikely to overspend, or improperly use, its appropriations.

In obligational accounting, the Department of the Treasury (Treasury), in collaboration with the Office of Management and Budget (OMB), establishes federal appropriations and fund accounts to record information on the amount and period of availability of funding appropriated by acts of Congress. Imbedded in the information fields and symbols assigned by Treasury to appropriations and fund accounts are the same Treasury account symbols OMB assigns for budget accounts.<sup>5</sup> For additional levels of control, OMB and federal entities subdivide the appropriations and fund accounts, and then the entities record transactions in these accounts as they occur. (See Apportionment.) Treasury publishes guidance in the *Treasury Financial Manual*, available at [www.fms.treas.gov/tfm/](http://www.fms.treas.gov/tfm/), for agencies to follow in accounting for use of funds and in preparing financial reports on their accounts.<sup>6</sup> Reports on the status of funds obligated and expended are periodically reported through Treasury’s FACTS II and presented in a manner that is compatible with the federal budget. The Comptroller General also has statutory authority to settle the accounts of the U.S.

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<sup>2</sup> Codified in part at 31 U.S.C. §§ 1341, 1514, and 1517.

<sup>3</sup> The “purpose” statute states that “appropriations shall be applied only to the objects for which the appropriations were made.” 31 U.S.C. § 1301(a). The “time” statutes relate to limits on the availability of appropriations for more than a fiscal year for a definite appropriation. 31 U.S.C. §§ 1301(c) (limitation on constraining the availability of appropriations for more than a fiscal year); and 1502(a) (limitations on use of funds appropriated for obligation during a definite period).

<sup>4</sup> 31 U.S.C. § 1501.

<sup>5</sup> Three appropriation and fund accounts are excluded by law from the U.S. budget even though OMB assigns each a budget account symbol (i.e., U.S. Postal Service Fund and the Social Security trust fund accounts). Balances in these accounts are included as the “off-budget” component in the presentation of the total receipts and expenditures of the federal government’s “unified budget.”

<sup>6</sup> See 31 U.S.C. §§ 331 and 3513, and GAO’s *Policy and Procedures Manual for Guidance of Federal Agencies, Title 7 – Fiscal Guidance*, available at [www.gao.gov](http://www.gao.gov).

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government that involves the review and determination that obligations and disbursements from an account were made in accordance with law.<sup>7</sup> GAO's *Principles of Federal Appropriations Law*, available at [www.gao.gov](http://www.gao.gov), provides a comprehensive discussion of the relevant statutes and case law, including Comptroller General decisions and opinions applicable to obligational accounting.

Proprietary accounting, also referred to as financial accounting, involves federal entities recording and accumulating financial information on transactions and balances for purposes of reporting both internally to management and externally in an entity's financial statements in accordance with a comprehensive basis of accounting.<sup>8</sup> Proprietary accounting is usually based on generally accepted accounting principles, which follow established conventions such as the recognition of transactions on an accrual basis instead of recognition based on strict association with the obligation or expenditure of appropriated funds. For example, in proprietary accounting, the expense associated with a capital asset would be recognized over the asset's life as depreciation. In obligational or budgetary accounting, capital asset costs are recognized as obligations when the commitment to purchase the asset is made and as expenditures when cash is paid for the asset. Most federal entities are subject to proprietary accounting standards promulgated through the Federal Accounting Standards Advisory Board (FASAB).<sup>9</sup> FASAB was established jointly by GAO, Treasury, and OMB to promulgate accounting standards for the executive branch. The Consolidated Financial Statements of the U.S. Government, required by law to be prepared annually by Treasury and audited by GAO, are to be prepared in accordance with FASAB accounting standards.<sup>10</sup> All executive agencies that are not required by another provision of federal law to prepare audited financial statements

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<sup>7</sup> 31 U.S.C. § 3526. See B-161457, August 1, 1969, for guidance on account settlement procedures.

<sup>8</sup> In the private sector, the internal system of accounting within organizations to support planning (e.g., budgeting) and decision making by managers is also known as managerial accounting or managerial cost accounting. While both systems of accounting used in the federal government contain elements of or may support managerial accounting, the federal government generally does not use such a discrete system of accounting. Federal agencies may also use other special types or applications of accounting for discrete functions or purposes carried out under their cognizance. For example, the Board of Governors of the Federal Reserve System publishes national economic data in its quarterly *Flow of Funds Accounts of the United States*. See [www.federalreserve.gov/releases/Z1](http://www.federalreserve.gov/releases/Z1). See also Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*.

<sup>9</sup> See [www.fasab.gov](http://www.fasab.gov).

<sup>10</sup> 31 U.S.C. § 331(e).

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are required by 31 U.S.C. § 3515 to prepare audited financial statements. Government corporations are also required to prepare audited financial statements.<sup>11</sup>

Most agencies and some government corporations follow FASAB accounting standards. These agencies use accounts established in the Standard General Ledger (SGL). The SGL accounts, established by Treasury and published in a chart of accounts, record similar types of transactions and balances that aggregate to specific classifications in the financial statements. The SGL accounts are structured differently than, but integrate information from, appropriations and fund accounts. Some federal entities, however, such as government corporations, may follow other generally accepted proprietary accounting standards (such as those issued by the Financial Accounting Standards Board) unless they chose to adopt FASAB standards and the SGL. Other small federal entities, such as boards and commissions, and some legislative and judicial branch entities may not engage in proprietary accounting.

The differences between obligational accounting and proprietary accounting are most apparent in their application to federal entities' transactions, as the following hypothetical text illustrates:

When an agency official enters into a contract for goods or services, obligational accounting rules dictate that the entity record an obligation of federal funds that will be due for the expected payment. An expenditure is recorded when payment is made (typically, after acceptance of the goods or services). Under proprietary accounting, no transaction is recorded until the entity accepts the goods or services, at which point an account payable and related expense will be recorded.

As illustrated above, each method of tracking funds serves a different purpose, and users need to be cognizant of the different purposes and the different views that these systems provide regarding federal entities' status of funds and financial condition at any given point in time.

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<sup>11</sup> 31 U.S.C. §§ 9101 *et seq.*