Department of Transportation
Office of the Secretary
Washington, D.C.

ORDER

DOT 2700.8A

6-13-78

SUBJECT: ACCOUNTING PRINCIPLES AND STANDARDS

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1. PURPOSE. This Order establishes uniform accounting principles and standards for the Department of Transportation (DOT) thus satisfying legal requirements and objectives stated herein. Implementation of these principles and standards will:

   a. enable effective and economical management of DOT operations and the resources entrusted to it; and,

   b. assist management in the discharge of its stewardship responsibilities for the resources and operations for which it is accountable.

2. CANCELLATION. DOT 2700.8, Accounting Principles and Standards, of 7-27-70.

3. AUTHORITY. Pursuant to the Budget and Accounting Procedures Act of 1950, as amended, each executive agency is required to implement its provisions as stated in Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. In addition, this statement of principles and standards has been approved by the Comptroller General.

4. RESPONSIBILITY. Responsibility for implementing this Order rests with the Assistant Secretary for Administration and the heads of the operating administrations. Such implementation must insure that each accounting system conforms, in all material respects, to the principles, standards, and related requirements for accounting as stated in this Order. In addition, management needs must be a primary concern in development of the accounting system.

DISTRIBUTION: All Secretarial Offices
All Operating Administrations

OPI: Office of Management Systems

5. OBJECTIVES. The objectives of this Order are to:

a. satisfy legal requirements;

b. provide for consistent financial management practices throughout DOT;

c. fully disclose financial results of DOT activities;

d. produce adequate financial information needed for management purposes;

e. effectively control and account for all funds, property and other assets for which responsible;

f. provide reliable accounting results to serve as the basis for preparation and support of budget requests, for controlling the execution of budgets, and for providing financial information required by the Office of Management and Budget (OMB).

g. integrate accounting with the central accounting and reporting operations of the Treasury Department.

FOR THE SECRETARY OF TRANSPORTATION:

DEPARTMENT OF TRANSPORTATION * UNITED STATES OF AMERICA *

Robert L. Fairman
For the Assistant Secretary
for Administration

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CHAPTER I

PRINCIPLES

1. LEGAL COMPLIANCE. The provisions of all laws relating to Federal agency accounting and to the administration of funds and appropriations must be complied with.

2. COMPOSITION. The accounting system comprises the formal books, accounts, supporting records, documents, papers and reports including automated data; and the related procedures used to provide an accounting for resources and operations.

3. INTERNAL MANAGEMENT CONTROL.

   a. Accounting systems within the Department should be so designed that they accomplish fully the basic internal management control objectives for carrying out all duties and responsibilities as efficiently, effectively and economically as possible within the legal, regulatory and operational framework provided. Some of the more important specific objectives are to:

      (1) engender efficiency and economy of operations;

      (2) provide a control over all assets to minimize waste, loss or improper use;

      (3) insure collection and proper accounting for all revenues stemming from agency operations;

      (4) insure the development of accurate and reliable data for financial, statistical and other reports; and

      (5) restrict obligations and costs to a minimum, consistent with efficiency and effectively carrying out the purposes for which the Department exists, within the limits of congressional appropriations and other authorizations and restrictions.

   b. Financial data developed and provided through accounting processes contributes significantly to better management decisions for the achievement of the control system objectives. Hence, the accounting system must be developed to represent an inherent element of the internal management control system. As a result, in development of an accounting system consideration should be given to the following:

(1) Management policies adopted for carrying out functional operations should be stated clearly; systematically communicated throughout the organization; conformed to applicable laws and external regulations and policies; and designed to facilitate the accomplishment of authorized activities effectively, efficiently, and economically.

(2) Duty assignments and functions should be segregated, to the extent practical, as between authorization, performance, record keeping, review and custody of resources to provide proper internal controls on performance and to minimize fraudulent, unauthorized or otherwise irregular acts.

(3) The accounting system must be planned to embrace all significant parts of the organization so that the needs for financial and property resources may be determined and justified and to facilitate a more effective, economical and efficient operation.

(4) Systems developed should be as simple, practicable and efficient as possible considering the legal and regulatory requirements as well as the nature of operations involved.

(5) A system of authorization and record control procedures is essential in order to insure compliance with requirements and restrictions of laws, regulations and DOT management policies. Also this is necessary to enable the maintenance of adequate accounting records.

(6) The accounting system should be designed to disclose timely and reliable financial data of significance from a management decision-making point of view.

(7) Adequate supervision should be provided over the performance of all duties and functions. An effective program of internal audit should be established to provide information as to whether performance is effective, efficient, and economical; management policies are adhered to; applicable laws and prescribed regulations are complied with; and unauthorized, fraudulent, or otherwise irregular transactions or activities are prevented or discovered.

(8) Each official and employee must be fully aware of his assigned responsibilities and understand the nature and consequences of his performance. Each person must be held fully accountable for the faithful, honest and efficient discharge of his duties and functions, including where applicable the custody and administration of public funds and property and compliance with requirements of law, regulations, or other prescribed policies applicable to their conduct or performance.

(9) Effective procedures will be devised to assure that goods and services paid for are actually received; that quality, quantity and prices are in accordance with the applicable contracts or other authorizations; that such authorizations are consistent with applicable statutes, regulations and policies; and that effective use is made of all resources.

(10) All funds, property and other resources should be appropriately safeguarded to prevent misuse, unwarranted waste or deterioration, destruction or misappropriation.

(11) A carefully planned organizational structure should be established under which responsibility for the performance of all duties necessary to carry out the functions for which the Department exists is clearly defined and specifically assigned, and appropriate authority for such performance is delegated.

(12) The qualifications of officials and other personnel as to education, training, experience, competence and integrity must be appropriate for the responsibilities, duties and functions assigned to them.

4. ACCRUAL BASIS. The accounting records will be maintained monthly on the accrual basis.

a. The accounting systems shall incorporate procedures for obtaining on a monthly basis accrued expenditure data for each appropriation or fund being accounted for. Such data shall be available promptly for reporting monthly, in accordance with prescribed requirements, to the Office of Management and Budget and the Treasury Department for use in preparing periodic reports of budget expenditures of the Federal Government.

b. The accrual basis recognizes the significant and accountable aspects of financial transactions or events as they occur. Under this basis, the accounting system provides a current systematic record of changes in assets, liabilities, and sources of funds growing out of the incurrence of obligations, expenditures, and costs and expenses, the earning of revenues, the receipt and disbursement of cash, and other financial transactions.

c. The accrual basis of accounting does not signify the abandonment of fund control. Proper application of the accrual basis, appropriately supplemented by procedures specifically designed for fund control purposes, will produce not only reliable information on revenues, expenditures, costs, assets, and liabilities but also the information relating to obligations incurred, liquidated, and outstanding that is needed for financial control, budget, and other financial management purposes.

5. ACCOUNT DETAIL.

a. The basic structure of accounts will be as follows:

(1) Accounts for assets

(2) Accounts for liabilities

(3) Accounts for investment of the U. S. Government

(4) Accounts for investment of others (if applicable)

(5) Accounts for revenues and costs

b. The specific accounts and their arrangement in any given case should be specifically adapted to fund structure with the objective of providing an adequate accounting for all resources, liabilities and obligations, expenditures, revenues, and costs.

c. Accounts should be kept in such detail as is necessary to meet management needs, including the furnishing of information needed by other agencies in the executive branch and by the Congress. As a general rule, the transactions recorded in the accounts should not be recopied even in summary form in the accounts at higher organizational levels. Instead, financial reports submitted by subordinate levels should be utilized in preparing summary reports. Provision will be made for technical supervision and interlocking accounting relationships between offices to assure the validity of consolidated reports.

6. STATUS OF APPROPRIATIONS. Periodic reports on the status of fund authorizations will be prepared in accordance with prescribed requirements of the Office of Management and Budget.

7. INTERAGENCY AND INTERFUND TRANSACTIONS. Interagency and interfund transactions should be separately identified in records and statements so that they may be properly treated in preparing consolidated financial reports.

8. INCLUSION OF DATA. Financial transactions shall be recorded in the accounting records for the period in which they occur and their effect shall be included in the financial reports. In determining the degree of precision to be employed in making allocations of cost and income and in computing items where estimates have to be employed, due consideration shall be given to the materiality and relative significance of the items involved. Meticulous procedures which do not produce materially more accurate results or provide other offsetting benefits should be avoided. The objective should be to produce financial data that is useful and reasonably reliable for control, information, and accountability purposes and is not misleading.

9. SIMPLICITY. Accounting procedures shall be as simple and readily understandable as practicable, consistent with the nature of the operations and resources being accounted for. Excessive details and unnecessary refinements in accounting records shall be avoided.

10. DOCUMENTARY SUPPORT. For audit and other purposes all transactions should be so recorded that they can be readily traced from the original documents to summary records and thence to the financial reports issued.

11. COMPLETE AND RELIABLE RECORDS. The accounting system shall provide complete and reliable records of the resources and operations of the entity to which it relates. Such records shall embrace all funds, property, and other assets, as well as liabilities and obligations, receipts and revenues, expenditures, and costs. While accounting records are maintained in monetary terms, records of quantitative data should also be maintained as necessary for producing useful information including unit cost data, for planning, control and other management purposes.

12. CONTROL AND COST REQUIREMENTS

a. The accounting system must provide not only the basis for control over funds, property, and other assets but must provide an accurate and reliable basis for developing and reporting costs of performance in accordance with:

(1) major organizational and responsibility segments;

(2) budget activities; and,

(3) the program structure adopted under the zero-base budgeting system (ZBB).

b. The account structure should be one in which accounts relating to all sources of funds used are incorporated into a single integrated accounting system.

c. Since many fund sources are separate legal entities for purposes of congressional and management authorization and review, it is essential that the system provide appropriate fund identification of financial resources and transactions.

13. USEFULNESS OF DATA. The financial data produced by an accounting system must meet the test of usefulness to the officials requiring it in the proper discharge of their management responsibilities. However, the kind of data produced must not be restricted to internal needs. All proper management needs must be considered including those of the President and other executive agencies, the Congress and the public.

14. MANAGEMENT RESPONSIBILITY. The accounting function is an integral part of management responsibility. It furnishes a framework which can be fitted to assignments of responsibility for specific areas of activity. At the same time, it provides a method of reporting as one basis for evaluating performance. Decisions regarding future operations can be made with greater confidence by management and the Congress where it can be demonstrated through information produced by the accounting system that past performance has been consistent with planned programs and within established financial limits.

15. FUND AND APPROPRIATION USE.

a. The resources of each separate fund and appropriation must be applied only to the purposes authorized by law or pursuant to law. The accounting system should be designed to demonstrate compliance with this requirement.

b. Basic statutes provide that obligations may not be incurred unless there is an appropriation or fund balance available therefor at the time the obligation is created. Also, congressional appropriations are requested, made, and administered in terms of obligational authority. Thus, it is necessary that the accounting system accumulate data on the financial obligations of the United States for which each operating administration is responsible. These procedures should provide for identifying obligations with the applicable appropriation or fund at the time they are incurred. Such information is essential for providing official records and related reports on the status of appropriations and funds.

c. Compliance with dollar limitations imposed by law within the scope of an appropriation must be effectively provided for in the accounting system.

16. RESPONSIBILITY TO OTHER AGENCIES. The accounting system must also provide for the requirements of other organizations of the executive branch, particularly those of the OMB in assisting the President in the discharge of his budgetary and other management responsibilities and those of the Treasury Department in connection with its central accounting and reporting responsibilities.

17. RESPONSIBILITY TO THE CONGRESS. The accounting system must be capable of producing the financial information needed to keep the Congress fully informed on the financial status and operations within the Department and to provide such financial data as are required by law or by congressional committees.

18. UPDATING.

a. The accounting system shall be reviewed from time to time to assure that it continues to meet the test of usefulness to all officials in the proper discharge of their management and control responsibilities.

b. New organizational arrangements, shifting emphasis on program activities, revised legislation, and technological changes require appropriate changes in the accounting system so that the information produced can continue to be useful in exercising financial control over resources and in promoting efficiency and economy in Departmental operations.

CHAPTER II

STANDARDS

1. COMPLIANCE WITH FUND LIMITATIONS. The control objectives prescribed for DOT accounting reflect the need to comply with the specific requirements and limitations of such laws as:

   a. Section 3679 of the Revised Statutes (31 U.S.C. 665) (the Anti-Deficiency Act), the principal purposes of which are to prevent the incurring of obligations or the making of expenditures which would create deficiencies in appropriations and funds, to fix responsibility within the Department for excess obligations and expenditures, and to assist in bringing about the most effective and economical use of appropriations and funds. The Department's system of administrative control of funds, as approved by the Director of the Office of Management and Budget, is contained in DOT 2700.7A.

   b. The Impoundment Control Act of 1974 which provides guidelines and procedures for the establishment of reserves or other deferral of budget authority. Under the Act, restraint on obligations for any reason--Anti-Deficiency Act, policy, or other--must be reported by the President to the Congress as proposed recissions or deferrals. Proposed recissions cannot be effected without affirmative action by the Congress; proposed deferrals take effect unless disapproved by either the House of Representatives or the Senate.

2. RECORDING AND REPORTING OBLIGATION INFORMATION. Obligation information must be accurately and promptly reported. Specific criteria that govern the recording and reporting of obligations are prescribed in Section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200). This law provides that no amount shall be recorded as an obligation unless it meets the specified criteria and that statements of obligations furnished to the Congress or to any of its committees shall include only amounts representing valid obligations as so defined.

3. ADMINISTRATIVE RESERVATIONS. Recording of administrative reservations of funds should be limited to the extent needed to insure fund control and as otherwise practicable. Accounting records should clearly distinguish administrative reservations of funds from obligations. In no event shall amounts purporting to reflect obligations include amounts for administrative reservations or any other transactions not conforming to (31 U.S.C. 200) criteria.

4. ALLOTMENTS AND OTHER FUND AUTHORIZATIONS.

   a. The use of a multiplicity of allotments and other administrative subdivisions of funds should be avoided. Subdivision of fund authorizations for budgetary control and other financial management purposes should be established at the highest practical level, consistent with assignments of responsibility, and should be limited in number to those essential for effective and efficient administration.

   b. Accounting procedures of DOT should provide for appropriate recognition of apportionments of appropriations made pursuant to law and for subdivisions of fund authorizations made to facilitate their management and compliance with applicable limitations.

   c. In accordance with the prescribed objectives of the Anti-Deficiency Act, subdivisions of fund authorizations for budgetary control purposes should be established at the highest practical level, consistent with assignments of responsibility, and should be limited in number to those essential for effective and efficient administration. For example, an allotment or other authorization of funds to the head of an operating unit should usually provide an appropriate basis for fund control without making further subdivisions by object classes of expenditure or other categories.

5. ASSET CONTROL. Procedures must provide full control over assets to insure:

   a. proper use for authorized purposes only;

   b. that they do not improperly leave possession of the Government;

   c. that adequate measures are taken for their care and preservation; and,

   d. that no assets are improperly written off, written down or disposed of.

6. CASH RESOURCES. Procedures must provide effective control over cash resources including fund balances with the U. S. Treasury which represent available expenditure authorizations granted by the Congress. Such procedures should attain the following objectives:

   a. Complete, honest, and accurate accounting for all cash receipts, disbursements, and balances on hand or otherwise available for use.

(1) All receipts shall be deposited promptly, and appropriate records of all cash received shall be made immediately rather than held in abeyance pending transmission to a depository.

(2) Disbursements shall be recorded promptly on the basis of paid vouchers unless disbursing is performed by another agency. In the latter case recording may be on the basis of approved vouchers provided such recording facilitates reconciliation with the records of the U. S. Treasury.

(3) Accounting records for cash transactions shall be closed as of the end of period for which reports are to be prepared so that all transactions consummated during those periods, and only such transactions are included.

(4) Separate accounts should be maintained for major categories of cash resources, i.e., cash on hand, cash on deposit with banks, fund balances with U. S. Treasury, etc. to facilitate full disclosure in financial statements with further subdivision, as necessary, to disclose important restrictions on availability for use.

b. Compliance with all requirements imposed externally including specific requirements of law and related regulations.

c. Minimizing the possibility of errors and the misuse or other irregularity involving cash resources and providing for disclosure of errors or losses that may occur. This calls for:

(1) dividing duties among officials and employees for handling and keeping records of cash transactions to provide routine checks on performance;

(2) establishing effective procedures for the preaudit and approval of vouchers before they are paid subject to the use of statistical sampling techniques, authorized by 31 USC 82b-1, in the examination of vouchers when determined to be in the interest of economy;

(3) adequate controls to prevent duplicate payments; and

(4) supplementing the operation of established procedures with independent internal audit review into the effectiveness of the control system.

d. Cash resources in the form of foreign currencies, no matter how acquired, are subject to the same accounting principles and standards as domestic cash resources.

(1) Procedures prescribed by the Secretary of the Treasury relating to the administration, including accounting and reporting, of all foreign currency assets must be observed by all operating administrations and their disbursing officers.

(2) Financial reports on programs that include transactions in foreign currencies that are not freely convertible to U. S. currency may, for purposes of reporting in terms of a common denominator be stated in dollars based on conversion at the appropriate rate. However, to avoid misinterpretation, the reports should clearly disclose that the amounts shown for foreign currency transactions and balances do not represent revenues, expenditures and assets in terms of realizable U. S. currency.

7. ADVANCES AND PREPAYMENTS. Advances and prepayments for travel, construction contracts, grants and other purposes shall be recorded assets. When performance occurs, the accrued expenditure shall be recorded and the asset account reduced accordingly.

8. RECEIVABLES.

a. Amounts due from others should be recorded accurately and promptly when earned as a result of sales of materials or other assets or performance of services or loans or advances made. Such amounts should be reflected in the accounts until liquidated by collection or determined to be uncollectible. Collection may be accomplished in various ways such as cash payment, payment in other assets or payment in services. Accounting for receivables is an essential facet of control over resources and provides a systematic method of controlling amounts that must be accounted for.

b. Separate accounts for major categories of receivables should be maintained to facilitate clear and full disclosure of the nature of resources reflected in financial reports.

c. Loans to others become receivables only at the time funds are disbursed. Loans authorized but for which no funds have been disbursed, are a form of commitment which may be disclosed in explanatory notes to financial reports if the amount appears to be significant.

d. Prompt billings should be made and aggresssive actions taken to collect amounts due. Also, regular estimates shall be made from time to time of the portion of accounts receivable which may not be collectible. Amounts not collectible should be written off as provided by P. L. 89-508 (Federal Claims Collection Act of 1966, 80 Stat 308) and the joint regulations thereunder of the Comptroller General of the United States and the Attorney General of the United States, Title 4, Chapter II, Code of Federal Regulations. Such amounts shall be accounted for and disclosed separately in financial reports.

9. PROPERTY ACCOUNTING.

a. Monetary Property Records. Monetary property records should be established as an integral part of the accounting system to insure adequate and reliable accounting and related procedures providing proper control over the Government's investment for which management responsibility exists. This includes Government owned property in the hands of others as well as property under direct Government control. The importance of adequately accounting for property stems primarily from the fact that public funds are invested in such resources. This investment creates the management need to be able to account for these resources and to use all appropriate techniques, including reliable financial information, to procure, use, and manage them properly, efficiently, and effectively. Accurate and reliable financial and quantitative information on property resources, for use by internal management and for preparing financial reports for the Congress and others, can be obtained only from a properly designed and operated system of accounts and related procedures.

b. Classifications. Classifications of property will be established for accounting and reporting purposes to clearly disclose the nature of the property assets.

c. Other Elements. Other elements to be considered in accounting for property include:

(1) the primary basis of accounting for property is cost to the agency responsible for its management. Where incurred costs are not measurable, not known, or not significant, reasonable estimates or alternative bases such as appraised values will be used, and the basis for such estimates shall be adequately documented.

(2) Purchase discounts are reductions of cost, representing savings achieved through payment of bills within the vendors' stipulated time limits. They are not income and should not be accounted for as such, since they do not produce an increase in assets based on the sale of goods or the performance of services.

(3) Whether costs of handling and storage are prorated as a part of the cost of materials and supplies before use or accounted for separately as operating costs, are refinements of procedure to be determined in each case. This determination should be made after considering:

(a) the possible benefits to be gained in the form of improved management over such operations; and,

(b) the administrative costs.

d. Property. Property accounting must provide for the accumulation of all significant costs applicable to property acquisitions so that the accounts will disclose the full extent to which public funds are applied thereto. More specifically property accounting procedures must provide for:

(1) recording in accounts all transactions affecting investment in property, including:

(a) all acquisitions, whether by purchase, transfer from other agencies, authorized donation, or other means, as of the date title passes,

(b) the use or consumption of property;

1 for long-lived property, where such information is deemed necessary, the cost of consumption should be accounted for as an operating cost over its estimated useful life through appropriate depreciation accounting techniques;

2 materials and supplies issued for use shall be charged to using activities on the basis of cost, determined by the simplest method that produces reasonable and useful measures of cost. (Acceptable methods include (a) specific identification of cost of items issued; (b) cost determined on first-in, first-out assumption; (c) computed average cost; and (d) cost adjusted from time to time to reflect changes in actual cost); and,

(c) all disposals or retirements of the property.

(2) keeping appropriate records of physical quantities of Government-owned property and its location. (These records should be designed to be of maximum assistance in the procurement and utilization of such property, including the identification of excess property and its use, transfer, or disposal in accordance with statutory and regulatory requirements); and,

(3) independent checks on the accuracy of the accounting records through periodic physical count, weight, or other measurement.

e. Basic Cost. The basic cost of property acquired shall include the amounts paid to acquire it, including transportation, installation, and related costs of obtaining the property in the form and place to be used or managed. Easements and rights-of-way are included in the basic cost of property acquired.

f. Trade-Ins. The cost of property acquired from external suppliers as a result of trade-ins shall be measured by the cash paid or payable, plus the amount allowed by the seller on the traded-in property.

g. Foreclosure. Property acquired by foreclosure processes shall be capitalized at the lesser of (1) the appraised (or fair market) value or (2) the amount owed by the borrower plus any other costs incurred by the Operating Administration.

h. Donation, Devise, Forefeiture, or Confiscation. Property acquired by donation, devise, forefeiture, or confiscation should be carried in agency accounts at an estimated amount representing what the Government would have been willing to pay for it, giving due consideration to usefulness to the agency, condition, and estimated market value.

i. Interagency Transfers of Property.

(1) Property received from another agency shall be accounted for at the transfer price as determined by agreement, application of appropriate statutory requirements or estimated value in accordance with Departmental regulations. Property transferred on a nonreimbursable basis shall be accounted for by the receiving agency on the basis of its estimated useful value for operations.

(2) Transportation, installation, and related costs incurred shall be added to the accounting basis.

(3) Original cost information on transferred property needed for report purposes should be a matter of record in the accounting system.

j. Accounting for Property of Others.

(1) Adequate records shall be maintained for seized property or other property held in custody but not owned. The system of procedures employed shall provide adequate records of accountability for such property, including its receipt, custody, and disposition in accordance with responsibility.

(2) The system of records used to account for such property may be integrated into the financial accounting system in conformity with the principles prescribed for owned property.

k. Capitalization of Fixed Assets.

(1) Fixed assets owned or acquired shall be capitalized in the accounts in accordance with capitalization criteria to be considered as follows:

(a) length of useful service life - normally at least one year;

(b) repetitive use;

(c) frequency of replacement;

(d) retention of identity when placed in use;

(e) cost or estimated value; and,

(f) significance of improvements in terms of increases in usefulness, productivity, service life, capacity or other values.

(2) Criteria should be defined in terms of identifiable property units or dollar minimums below which expenditures for acquisitions will be accounted for as current operating costs rather than as investments in property. However, a minimum amount below or above $300 may not be prescribed without prior approval by the Assistant Secretary for Administration.

(3) Single items costing less than established dollar minimums should not normally be capitalized even though they meet other capitalization criteria. However, if current costs would be distorted in a given period by charging a large quantity of items which cost less than the minimum, such items should be recorded in a separate asset account and amortized over a reasonable period of time. (An example would be where a substantial amount of office furniture is purchased involving items which individually cost less than the minimum.) The separate account established for the items which cost less than the minimum need not be supported by individual property records. In addition, certain sensitive and/or popular items such as tape recorders, cameras, and pocket calculators, which would not normally be capitalized under the criteria for capitalization, shall be physically accounted for in the property records.

(4) Capitalization costs include all direct and indirect expenditures applicable to the asset involved. Such costs include:

(a) engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

(b) acquisition of land, buildings, and other facilities;

(c) labor, materials and supplies, and other direct charges;

(d) an appropriate share of the equipment and facilities used in construction work;

(e) applicable indirect costs;

(f) fixed and severable collateral equipment and the installation thereof to complete the facility for the use for which it is intended;

(g) inspection, supervision, and administration of construction contracts and construction work;

(h) legal fees and damage claims;

(i) fair value of contributed or donated land, facilities, utilities, labor, materials, supplies, services, and equipment; and,

(j) appropriate interest charges.

(5) Regardless of differences in the way in which these costs are financed, the costs incurred should be accumulated as part of the cost of each project so that reliable information on total cost will be available for management and financial reporting purposes.

l. Accounting for Changes in Fixed Assets.

(1) Fixed assets may be changed by additions, alterations, betterments, rehabilitations, or replacements. The basic principle to be observed in accounting for such changes is to capitalize the costs incurred in making such changes, where they significantly extend the useful life of property or increase its capacity to render service, and to remove from the property accounts the cost of features superseded or destroyed in the process.

(2) Repair and maintenance costs incurred to keep property in satisfactory operating condition shall be accounted for as current operating costs.

(3) The costs of improvements (including such improvements as carpeting, space partitions, soundproofing of ceilings or walls, and alterations) which have an estimated useful life longer than one year and are made to leased properties or to properties occupied by DOT and owned by another Government agency should be capitalized as leasehold improvements.

m. Property Retirements and Transfers.

(1) The cost or other basis for accounting for property retired from service, whether by sale, transfer to another agency, dismantlement, destruction, or other means, shall be removed from the accounts along with any depreciation that has been accumulated in the accounts. Removal costs and amounts realized from sale, reimbursable transfer, or other salvage should be considered in determining the loss or gain on the retirement.

(2) Property retired from service but not immediately disposed of should be classified separately to disclose its status.

n. <u>Property Acquired Under Installment Contracts</u>. The property should be capitalized at the time of receipt or acceptance by the Government rather than periodically as payments are made or when title passes to the Government. The amount capitalized should include the purchase price plus related costs. For example, costs incurred for site preparation, installation, and similar costs related to making the equipment ready for use, incurred separately from the installment purchase contract or separately identified for payment in the contract, should be capitalized when incurred.

o. <u>Property Acquired Under Lease Purchase Contracts</u>. Property acquired under lease purchase contracts should be capitalized at the time the option to purchase is exercised. The amount capitalized will normally be the purchase price stipulated in the contract less any cumulative allowances. Property acquired under lease purchase contracts which are in fact installment contracts (the decision to purchase having already been made) will be treated for capitalization purposes as installment purchases.

p. <u>Depreciation</u>.

(1) <u>Basic Responsibility</u>. A basic responsibility of management is to fully and fairly account for all resources entrusted to or acquired by the agency. This responsibility extends to the consumption of those resources through use in carrying out operations and is just as applicable to long-lived physical facilities as it is to expendable materials.

(2) <u>Basic Principles</u>.

(a) Depreciation as an element of cost is an estimate of the portion of the total cost of a long-lived capital asset consumed through use, approaching obsolescence, or other reason to be assigned as a cost of operation or performance over its estimated useful life.

(b) The purpose of accounting for depreciation (or amortization of cost) of long-lived capital assets is to systematically allocate their cost over the period of their estimated usefulness or capacity to render service so that all significant costs will be included in total costs of performance reported for the information and use of management officials, the Congress and the public.

(c) Regardless of the fact that depreciation is not represented by current expenditures of funds and although there is no precise way to arrive at an accurate measure of depreciation as a current cost, it is nonetheless a real cost of carrying out operations. Accounting for depreciation as a cost is an integral part of the accrual basis of accounting. However, the activities carried on in the Department are so varied in nature that the prescribing of a general requirement to account for depreciation of capital assets cannot be justified.

(d) Procedures shall be adopted to account for depreciation (or amortization of cost) of capital assets whenever a periodic determination of the cost of all resources consumed in performing services is needed. The principal circumstances in which such information is needed include the following:

1 The financial results of operations in terms of costs of performance in relation to revenues earned, if any, are to be fully disclosed in financial reports.

2 Amounts to be collected in reimbursement for services performed are to be determined on the basis of the full cost of performance pursuant to legal requirements or administrative policy.

(e) No specific method of estimating depreciation is prescribed. Undue precision and detail in maintaining depreciation accounting records should be avoided. Simple procedures should be devised to provide periodic estimates of depreciation cost for accounting and financial reporting purposes.

(3) Estimates of Useful Life. The period selected for writing off costs of capital assets should be estimated with due regard to available information on physical life; technological, social, and economic forces; and any other factors having a bearing on the probable period over which the facilities can reasonably be expected to render service. Provision should be made to review the periods selected from time to time and appropriate changes made to give effect to improved estimates that become possible with experience and the passage of time.

(4) Costs to be Written Off. Where depreciation is to be accounted for, provision will be made to write off the costs of all capitalized assets acquired and used in performing services over the estimated period of their usefulness. The amounts to be written off shall be reduced by reasonable estimates of realizable salvage values at the end of the projected period of usefulness. Costs of leasehold improvements shall be amortized, where amortization is to be accounted for, over the period of the lease, including the period of renewal options, or the life of the improvement, whichever is shorter.

g. Physical Inventories.

(1) Physical inventories of both expendable materials and supplies and fixed assets shall be taken at regular intervals.

(2) The frequency of physical inventories, which may be taken on a cycle basis over a period of time, should be determined on the basis of such factors as nature and value of property; physical security and control procedures relating to receipt, issuance, and custody; turnover; and results of previous inventories.

(3) Differences between quantities determined by physical inspection and those shown in the accounting records shall be investigated to determine the causes of difference and identify necessary improvements in procedures to prevent errors, losses, or irregularities. Accounting records shall be brought into agreement with the results of physical inventories.

10. LIABILITIES. Liabilities represent amounts payable to others, usually as a result of the receipt of funds, property, or services.

a. Specific Principles and Standards. Specific principles and standards to be observed in accounting for liabilities follow:

(1) All liabilities relating to programs shall be measured and recorded in accounts in the period in which incurred and shall be removed from the accounts in the period in which they are liquidated, so that the financial position may be fully and properly disclosed in reports.

(2) Amounts to be recorded as liabilities shall represent the amounts actually owing under contractual or other arrangements governing the transactions which give rise to liabilities to make payments or render services.

(3) Incurred liabilities shall be accounted for and reported irrespective of whether funds are available or authorized for their payment.

(4) Separate accounts for major categories of liabilities should be maintained to facilitate clear and full disclosure of the nature of the liabilities.

(5) Separate identification of funded and unfunded liabilities will be maintained.

b. Contingent Liabilities. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to the agency that will ultimately be resolved when one or more future events occur or fail to occur. Examples of loss contingencies are (1) collectibility of receivables, (2) pending or threatened litigation, (3) actual or possible claims and assessments, (4) guarantees of indebtedness of others, and (5) agreements to repurchase receivables or the related property that has been sold. A loss contingency may be recognized by either recording the accrual in the accounts or by disclosing the contingency in a footnote to the financial statements.

(1) An estimated loss from contingency shall be accrued as an expense if both of the following conditions are met:

(a) Information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

(b) The amount of the loss can be reasonably estimated.

(2) If no accrual is made for a contingency because one or both of the conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss may be incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.

(3) Appropriate records of contingent liabilities shall be maintained as part of the accounting system. Material amounts of such liabilities shall be fully disclosed and explained in financial reports.

c. Liabilities Under Installment or Lease-Purchase Contracts. The purchase price included in installment or lease-purchase contracts, which are in substance installment purchases, shall be recorded as a liability when the property is received or accepted from the contractor. For lease-purchase contracts, the purchase price shall be recorded as a liability when the option to purchase is exercised.

d. Liabilities Under Contract Work.

(1) Under some contracts, such as where a contractor builds facilities or manufactures goods or equipment to the Government's specifications, the liability to pay for work is incurred as it is performed by the contractors rather than when deliveries are made. Under these circumstances, materials or services being acquired shall be recorded as accrued expenditures on the basis of reported performance of work, rather than as invoices are received or disbursements are made, and a related liability shall be recognized.

(2) Payments in the form of advances to contractors not directly related to performance shall be accounted for as advances for materials and services to be received rather than as materials and services received.

e. Liabilities Under Working Fund Advances. When materials or services are sold to other agencies and financed through the use of working fund advances, the advances shall be accounted for as liabilities until performance has been completed. Correspondingly, the advancing agency shall account for the amounts advanced as advances until the materials or services ordered are received.

11. INVESTMENT OF THE U. S. GOVERNMENT. The investment of the United States in assets controlled and utilized by the DOT consists of the excess of such assets over total DOT liabilities.

a. Accounting for Investment. Separate accounts shall be maintained to disclose all transactions pertaining to all major elements of the Government's investment and to permit reflection of such elements in financial reports.

b. Major Fund Transactions. Increases and decreases of funds and property from which a significant portion of the Government investment is generated are:

(1) Increases.

(a) Congressional appropriations.

(b) Borrowings from the U. S. Treasury.

(c) Property and services obtained without reimbursement.

(d) Accumulated income from operations.

(2) Decreases.

(a) Appropriations and funds returned to the U. S. Treasury.

(b) Property transferred to others without reimbursement.

(c) Accumulated net loss from operations.

12. REVENUES. Revenues shall be recorded monthly in the accounts on the accrual basis, i.e., when earned.

a. Revenues represent the increase in assets or decrease in liabilities which result from carrying out operations.

b. Careful accounting for revenues is essential to enable proper discharge of management responsibility pertaining thereto and to insure the integrity of other facets of the accounting system.

c. The system shall be designed to contain positive controls over transactions to insure the prompt recording and collection and proper disposition of all revenues due.

13. COST ACCOUNTING. Cost accounting is that part of the accounting system which provides for the assembling and recording of all elements of cost incurred which represent the financial measure of resources consumed to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or specified job.

a. Techniques. The accounting system shall incorporate appropriate cost accounting techniques so that needed cost information will be produced to meet statutory objectives. Such objectives include full disclosure of the financial results of operation, adequate financial information for management purposes and support of cost-based budget justifications. Costs should be accumulated by: organizational segments, budget activities, and program structures for ZBB. In addition, to the extent deemed appropriate, cost information should be accumulated by operational cost centers, projects, units of work and other cost areas. The cost accounting system should provide for information on all significant elements of cost such as labor, materials and contractor services. Other cost elements such as accrued annual leave, interest, grants, losses, depreciation and transportation should be recorded in those areas where appropriate. Such classifications are to be determined on the basis of management needs according to type of program, project or organizational element involved.

b. Leave Costs. Accrued annual leave shall be reflected in the accounts as of the close of each fiscal year whether or not funds have been made available to pay for such leave. The total amount of annual leave reflected on the personnel leave records shall be recorded as a liability in financial reports at the end of the fiscal year. Other forms of leave need not be reflected in the accounts unless specifically required by law or unless for management purposes such costs are needed.

c. Interest.

(1) Actual interest costs incurred which must be paid shall be treated in the same manner as any other costs which must be paid. If the interest required to be paid is less than interest cost to the Treasury, the difference should be accounted for in the same manner as interest costs not required by law to be paid. Interest costs not required to be paid should nevertheless be determined and included in costs of services performed or property sold outside of the Government or in order to reasonably state the financial results of operations.

(2) Interest costs for each year should be determined on the net Federal investment in the program or activity at the beginning of the year and on the net additions to such investment during the year. Accumulated net income or deficit should not be included in the interest base.

(3) The rate of interest should be as determined by the Secretary of the Treasury, taking into consideration the current average yields on outstanding marketable obligations of the United States having maturities reasonably comparable to the estimated period for which Federal funds are invested.

(4) Interest determined to be applicable to an investment in property being constructed should be added to construction costs as interest during construction; the interest cost after such property is placed in service should be classified as an operating cost.

(5) It is not necessary that interest be disclosed as a cost or included in the accounts in those cases where services are performed or products produced for use within the Government. However, cost data for such activities used in making comparisons for purposes of management decisions (such as, for example, on make-or-buy alternatives) should include an interest factor whether or not recorded in the accounts.

d. Nonrecurring Costs, Gains or Losses. All actual costs, gains or losses shall be recorded in the accounts and reflected in financial reports on operations. Unusual or nonrecurring types of costs, gains or losses should be maintained separately in the accounts and separately classified in operating statements.

e. Costs Incurred and Paid by Other Agencies. Accounting systems should be designed to incorporate costs for interest, office space, etc., paid by other agencies whenever periodic determinations of total costs of performance are needed and the amounts of such costs are significant in relation to the activity or operation involved. In some cases reasonable estimates should be utilized based on information provided by the performing agency. Needless and burdensome detail pertaining to these estimates should not be requested. Such costs should be separately identified in the accounting records and reports.

f. Grants.

(1) Definitions.

(a) Except as otherwise expressly authorized by law, Federal grants are payments in cash or in kind made to provide assistance for specified purposes.

(b) The acceptance of a grant from the United States creates a legal duty on the part of the grantee to use the funds or property made available in accordance with the conditions of the grant. Grant payments may be made in advance of work performed or as a reimbursement for work performed or costs incurred by grantees.

(c) The United States generally has a reversionary interest in the unused balances of advance payment grants, in any funds improperly applied whether received as an advance or reimbursable payment, and in property or facilities purchased or otherwise made available under the conditions of the grants, unless title thereto is specifically vested unconditionally in the grantee by the terms of the grant under authority of law.

(2) Responsibility. It is the responsibility of the grantor to insure that:

(a) Grants are applied solely in accordance with the conditions of the grants.

(b) Unused balances of grants, including funds improperly applied, are returned to the United States.

(c) Property or facilities purchased with such funds, or otherwise made available, are utilized and disposed of in accordance with the terms of the grant or other instructions of the grantor agency.

(d) Advance payments made to grantees under the terms of the grants do not exceed the current or revised needs of grantees.

(3) Accounting and Reporting.

(a) Accounting for grants shall include all aspects of grant transactions from approval of the proposed grants to final action by the grantees and grantors.

(b) Accounting for a grant begins with the execution of an agreement or the approval of an application or similar document in which the amount and purposes of the grant, the performance periods, the obligations of the parties to the grant, and other applicable basic terms are set out. This action establishes a commitment of funds and the agreement, application or similar document is the obligating instrument, provided that the United States is bound thereunder to disburse the grant funds either unconditionally or under conditions solely within the control of the grantee.

(c) Payments to grantees in advance of work performed shall be accounted for as advances of the grantor agencies until evidence of performance has been received from the grantees.

(d) Payments to grantees as reimbursement for work performed or costs incurred shall be accounted for as reductions of liabilities to pay for such work or costs.

(e) Payments to grantees under grants where no performance or reporting by grantees is required or where the payments are scheduled to correspond approximately with performance shall be accounted for as liquidations of the obligations and costs incurred.

(f) Reports under advance payment grants shall be required of grantees at reasonably frequent periods and to show, as a minimum, how the funds or property were applied, details of property acquired, and unused fund balances. Upon acceptance by the grantor agencies, such reports shall be used as the bases for liquidating obligations, reducing the advance accounts, and making charges to appropriate cost and property accounts.

(g) Reports under reimbursable grants also shall be required at reasonably frequent periods and used as support for recording the agency liability for costs incurred and for liquidating the obligation under the grant.

(h) Estimates may be used in lieu of reports where necessary for monthly reporting purposes.

(i) Where title to grantee-acquired property vests in the Government, appropriate property records shall be established.

(j) At termination of a grant, unused and improperly applied funds shall be collected by the grantor agency or appropriately adjusted by offset or otherwise utilized in accordance with the conditions of the grant and arrangements shall be made for disposition of Government-owned property.

14. PAYROLL. The payroll system shall be an integral part of the accounting system, with detailed accounts and records maintained as subsidiary to controlling accounts in the general ledger. Such systems must be devised to accomplish the following requirements:

a. prompt payment in the proper amount to all persons entitled to be paid in compliance with applicable laws and regulations, with consideration being given to all authorized deductions from gross pay;

b. integration of the payroll system with the general accounting system;

c. timely preparation of reliable payroll records as a part of the regular accounting system needed for (1) management purposes, (2) preparation, support, and control of budget, (3) internal and external reporting requirements, and (4) support of valid payments;

d. effective communication between employer and employee on payroll matters;

e. control over all phases and segments of the payroll system including the amount of leave earned and used and the balance remaining for each employee entitled to leave in accordance with applicable laws and regulations; and,

f. coordination of pay, leave, and allowance operations with personnel functions and other related activities.

15. FINANCIAL REPORTS.

a. The accounting system should be designed to facilitate the preparation of all needed financial reports. To be of maximum use to both internal and external management, all reports and copies of reports must be legible and prepared very carefully pursuant to instructions. Normally, internal financial information requirements are in much greater detail than external needs. To the extent feasible, external requirements should be met by a summarization of the detailed data prepared for internal use. Basic financial reports to be prepared are:

(1) statements of assets and liabilities (balance sheets);

(2) statements of operations of programs and activities conducted;

(3) statements of sources and application of funds;

(4) statements of changes in investment of the United States; and,

(5) other specialized reports as needed.

b. Financial reports should be prepared in conformance with standards as follows:

(1) Fairness of Presentation. This refers to the overall propriety in disclosing financial information and requires observance of the following:

(a) Completeness and Clarity. All essential financial facts pertaining to the purpose and scope of each report and the time period involved must be included and clearly displayed.

(b) Accuracy, Reliability and Truthfulness. All data presented must be accurate, reliable and truthful. This does not exclude reasonable estimates when warranted. Under no condition should bias, obscurement of significant facts or presentation of misleading information be reflected in reports.

(c) Accounting Support. Official records, i.e., the general ledger and subsidiary records thereto, constitute the accounting support for financial reports. Any deviation should be clearly explained.

(d) Excluded Costs. Any significant amounts excluded from reports should be clearly explained in accompanying notes to the report together with estimates of such amounts.

(e) Form, Content, and Arrangement. Each report shall be as simple as possible and designed to communicate significant financial information clearly to the users.

(f) Extent of Detail. Unnecessary detail can obscure relevant data and should be avoided. However, all detail needed to provide a clear and complete report, such as explanatory notes for unusual items, graphic presentations and interpretative comment should be included.

(g) Consistency. Data reported shall be on a consistent basis from period to period. Any significant procedural change from one period to another shall be clearly explained.

(h) Terminology. Nontechnical consistent terminology shall be used to promote clarity and usefulness.

(i) Major Changes. Major changes in each fiscal period should be summarized in separate financial schedules.

(2) Compliance With Prescribed Requirements. Financial reports must comply with:

(a) the specific requirements of applicable laws and regulations as to nature, accounting basis, content, frequency and distribution; and,

(b) all applicable restrictions pertaining to information that is classified for national security purposes.

(3) Timeliness. Reports must be prepared and submitted promptly to serve their maximum usefulness.

(4) Usefulness. Internal reports should be designed to disclose information that is needed by and useful to the recipients. Unnecessary data and distribution of reports should be avoided. Periodic updating of reporting requirements should be accomplished.