Financial Policy

Volume VI

Liabilities

Chapter 3

Accounts and Interest Payable

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0301 Overview

This chapter establishes the Department of Veterans Affairs’ (VA) financial policies for recognizing and recording accounts and interest payable.

Key Points covered in this chapter:
- VA will recognize accounts payable when goods or services are received and accepted;
- VA will report accounts payable on the consolidated balance sheet in accordance with the Treasury Financial Manual (TFM) and OMB Circular A-136;
- VA will disclose accounts payable not covered by budgetary resources in accordance with OMB Circular A-136; and
- VA will in accordance with the TFM, present accounts payable balances as cancelled on its fourth quarter Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) submission prior to closing an appropriations account.

0302 Revisions

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<td>Various</td>
<td>Reformatted to new policy format and completed five-year review</td>
<td>OFP (047G)</td>
<td>Reorganize chapter layout</td>
<td>August 2021</td>
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<td>0305 Policies</td>
<td>Updated policy statements</td>
<td>OFP (047G)</td>
<td>Properly reflect VA’s current accounting and recognition of accounts payable, interest payable, and accounts payable in closed appropriation accounts</td>
<td>August 2021</td>
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<td>Appendix A and B</td>
<td>Moved items into policy section</td>
<td>OFP (047G)</td>
<td>Items were policy statements not procedures</td>
<td>August 2021</td>
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0303 Definitions

**Accounts Payable** – Amounts owed by the reporting entity for goods and services received from other entities, progress in contract performance made by other entities and rents due to other entities.
Anti-Deficiency Act (ADA) Violation – Pursuant to 31 U.S.C. § 1341, an ADA violation may occur when an obligation or an expenditure exceeds the authorized available amount of an appropriation or fund.

Appropriations Account – Account established by a statute, under the jurisdiction of the House and Senate Committees on Appropriations, that generally provides legal authority for Federal agencies to incur obligations and to make payments out of Treasury for specified purposes.

Closed or Cancelled Accounts – Pursuant to 31 U.S.C. § 1552, accounts for which any remaining balances are withdrawn (closed or cancelled) or are no longer available for obligation or expenditure for any purpose.

Exchange Revenue – An inflow of resources that the entity has earned. Exchange revenues arise when an entity provides goods and/or services in exchange for payment. Another term for "exchange revenue" is "earned revenue."

Expired Accounts – Appropriation or fund accounts in which the authority for incurring new obligations has expired and is no longer available. Adjustments may be made during this time.

Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) – The GTAS system is used by VA to report budget execution information and proprietary financial reporting information to the Department of Treasury.

Incurred But Not Reported (IBNR) – An actuarial model that is used to accrue VA’s future cash outflows for services rendered that have not yet been paid. Currently used to account for Office of Community Care (OCC) program expenditures subject to obligation at claim approval legislative authority.

Insurance Dividend – A dividend established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

Interest Payable – Interest incurred but unpaid on liabilities of the reporting entity.

Intragovernmental Liabilities. A probable future outflow or other sacrifice of resources as a result of a past transaction or event between Federal entities.

Interest on Late Payments – An amount calculated from the day after payment was due until the day payment is made.

Liability – A probable future outflow or other sacrifice of resources as a result of a past transaction or event.

Liabilities Covered by Budgetary Resources – Liabilities incurred that are covered by realized budgetary resources as of the balance sheet date. Liabilities are considered
covered by budgetary resources if they are to be funded by permanent indefinite appropriations that have been enacted and signed into law and are available for use as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by Congress and without a contingency having to be met first.

**Liabilities Not Covered by Budgetary Resources** – Liabilities not covered by budgetary resources are unfunded liabilities that require Congressional action before budgetary resources can be provided.

**Liabilities Not Requiring Budgetary Resources** – Liabilities that have not and will never require Congressional action.

**Non-exchange Transaction** – Inflows of resources that the Federal Government has not earned but received due to legislation or regulation such as, taxes, duties, fines, and penalties. Donations may be financial resources, such as cash or securities, or nonfinancial resources such as land or buildings.

**Public Liabilities** – Claims against the Government arising from transactions with individuals and entities outside the U.S. Government.

**Recognize** – The recording of financial transactions in the financial records of an entity.

**Refunds** – A return of funds previously disbursed.

**Treasury Account Symbol (TAS)** – an identification code assigned by Treasury, in collaboration with OMB and VA, to an individual appropriation, receipt, or other fund account.

**Unexpired Accounts** – Appropriation or fund accounts in which the authority for incurring or adjusting obligations has not yet expired.

**0304 Roles and Responsibilities**

**Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and Other Key Officials** are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

**Financial Service Center (FSC)** is responsible for appropriately recognizing, estimating, and recording of account payable.

**Office of Financial Reporting (OFR)** is responsible for reporting accounts payable and interest payable in the financial statements.
0305 Policies

030501 General Policies

A. VA will support all amounts recognized as accounts or interest payable with valid documentation, and evidence of authorizations and approvals.

B. VA will make adjusting entries to accounts and interest payable in cases of error, miscalculation or relief of payment, as necessary.

C. When recording and reporting accounts and interest payable, VA will comply with the provisions of:
   - Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities;
   - SFFAS No. 5, Accounting for Liabilities of the Federal Government;
   - Office of Management and Budget (OMB) Circular A-136; and

030502 Recognizing Accounts Payable

A. VA will recognize and report accounts payable in accordance SFFAS No. 1.

B. VA will recognize a liability for exchange transactions in accordance with SFFAS No. 5. VA will record a liability, for the unpaid amount of goods and services, when VA accepts title to the goods or receives the services.

C. VA will, in accordance with SFFAS No. 5, recognize a liability for non-exchange transactions for any unpaid amounts due to a federal entity.

030503 Calculating and Recording Accruals

A. Monthly, VA will estimate amounts owed for goods and/or services that have been ordered and received, but not billed/invoiced by the vendor.

B. VA will record the estimated accruals using the appropriate TFM USSGL Transaction Code (TC).

C. During the third and fourth quarter reporting process, VA will perform an analysis of the accruals and make adjustments to the payables based on the methodology described in Appendix A: Accrual Methodology for Vendor Pay Obligations.

D. VA will reverse accruals at the beginning of the next accounting period.
030503 Accounting and Recording Interest Payable

A. VA will record interest on late payment of invoices (see 31 U.S.C. § 3901 - 3907, Payment) and on refunds (see 26 U.S.C. § 6611, Interest on Overpayments), if applicable.

1. The interest rate in effect on the day after the payment due date is used to calculate the interest penalty.

2. When an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid.

3. The prompt payment interest rates change every six months. Current prompt payment rates and interest calculators may be found on the Treasury Bureau of Fiscal Service web site under Prompt Payment (see 0306 Authorities and References).

4. In accordance with 31 U.S.C § 3907, interest will not continue to accrue after one year or if a claim has been filed under the Contract Disputes Act of 1978.

B. VA will pay interest to other Federal agencies, when applicable, for any intragovernmental transaction between VA and the other Federal agency. The interest rates may vary as prescribed by Treasury.

C. Interest earned on these dividends will be paid annually to insurance policyholders on the policy anniversary dates.

030504 Financial Reporting for Accounts and Interest Payable

A. VA will report accounts payable and interest payable in accordance with the Fiscal Service TFM Crosswalks to Standard External Reports and OMB Circular A-136.

B. VA will report Intragovernmental transactions separately from amounts owed to the public. See Volume VII, Chapter 5, Intragovernmental Activities and Reconciliations, and Volume VI, Chapter 2, Intragovernmental vs. Public Liabilities.

030505 Accounts Payable in Closed Appropriation Accounts

A. VA will allow 5 days prior to an appropriation account closing for any payments to clear Treasury.

B. Prior to closing an appropriation account, VA will identify valid payables on obligations.
C. In accordance with USSGL postings specified in the TFM, VA’s annual close team will cancel valid payables in the appropriation account to be closed and re-establish the payable as an unfunded payable, in an unexpired fund related to the original appropriation.

D. VA will seek guidance from the Treasury if valid cancelled payable exist, but a similar purpose VA appropriation account does not exist.

E. VA will not use cancelled appropriation account balances to satisfy payables once the appropriation account has closed.

F. Payments of unfunded payables (cancelled/re-established accounts payables) may not exceed one percent of the appropriation of the unexpired TAS and may not exceed the original appropriation limit. In order to prevent overpayments of cancelled accounts payables that may cause an Anti-Deficiency Act violation and to ensure that applicable limitations are not exceeded, VA will:

1. Identify the maximum amount that is permissible to charge current appropriations for payments that otherwise would have been properly chargeable to a cancelled appropriation.

2. Identify and monitor payments of the unfunded accounts payables to ensure overpayments of the total original (cancelled) obligation are not made.

G. VA will reverse the unfunded re-established accounts payable when payment is made with current year funds.

030506 Reporting Accounts Payable in Closed Appropriation Accounts

A. Within 15 days after the close of each fiscal year, VA will submit to the President and the Secretary of the Treasury a report regarding the obligations and cancelled balances for each closing appropriation account made. For the cancelled accounts payable, the report will provide a description, a reference to the fiscal year of the appropriation, the balances cancelled, and any payments made for cancelled accounts payable (31 U.S.C. § 1554).

B. VA will present accounts payable balances as cancelled on its fourth quarter GTAS submission before an appropriations account will be closed. For further accounting guidance, refer to the USSGL TFM, Section III, Account Transactions, Part F, Year-end Preclosing and Closing Entries, on the USSGL Web site.

C. VA will report accounts payable from cancelled appropriations in accordance with the Fiscal Service TFM Crosswalks to Standard External Reports and OMB Circular A-136.
0306 Authorities and References

Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities

FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Government

OMB Circular A-136, Financial Reporting Requirements

Department of the Treasury, United States Standard General Ledger (USSGL)

Department of the Treasury, Prompt Payment

OMB Circular A–11, Preparation, Submission and Execution of the Budget

Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4200, Agency Reporting on Unexpended Balances of Appropriations and Funds


VA Office of Financial Policy Publications Web site

U.S.C. Title 26, Sub-Title F, Chapter 67, Sub-Chapter B-Interest on Overpayments

U.S.C. Title 31, Sub-Title II, Chapter 13, Sub-Chapter III, Sec. 1341-Limitations on Expending and Obligating Amounts

U.S.C. Title 31, Sub-Title II, Chapter 15, Sub-Chapter IV, Sec. 1552-Procedure for Appropriation Accounts Available for Definite Periods

U.S.C. Title 31, Sub-Title II, Chapter 15, Sub-Chapter IV, Sec. 1553-Availability of Appropriation Accounts to Pay Obligations

U.S.C. Title 31, Sub-Title II, Chapter 15, Sub-Chapter IV, Sec. 1554-Audit, Control, and Reporting

U.S.C. Title 31, Sub-Title II, Chapter 15, Sub-Chapter IV, Sec. 1555-Closing of Appropriation Accounts Available for Indefinite Periods

U.S.C. Title 31, Sub-Title III, Chapter 39, Prompt Payment
0307 Rescissions

A. Volume VI, Chapter 3 – Accounts Payable

B. Volume VI, Chapter 4 - Interest Payable

C. Volume VI, Chapter 19 - Accounts Payable in Closed Appropriation Accounts

0308 Questions

Questions concerning these financial policies should be directed to the following points of contact:

VHA VHA 10A3A Accounting Policy (Outlook)
VHA VAFSC Nationwide Accounting (Outlook)
VBA VAVBAWAS/CO/FINREP (Outlook)
VBA VAVBAWAS/CO/OPERATIONS (Outlook)
NCA NCA Financial Policy Group (Outlook)
NCA NCA Budget Service (Outlook)
All Others Travel Policy, VAFSC (Outlook)
All Others OFP Accounting Policy (Outlook)
Appendix A: Accrual Methodology for Vendor Pay Obligations

A. VA will calculate and estimate accrual adjustments for Vendor Pay Obligations in quarter three and quarter four of each fiscal year.

B. Accruals for service and supply-based contracts (Vendor Pay) are posted in the financial system using an automated process. In the third and fourth quarters, VA reviews the automated estimated accrual balances and records adjustments to the accruals. In subsequent quarters, the adjusted vendor pay accrual balances are reviewed and evaluated for reasonableness.

C. VA will calculate separate estimates for two groups of VA funds to adjust Vendor Pay accruals. They are referred to as the “Traditional Funds” and “Medical Services Funds” estimates.

D. VA will calculate two rates (Aged Liquidation, and Current Liquidation) that will be applied to the accrual estimate for Traditional Funds and Medical Services Funds.

1. The first rate, called the “Aged Liquidation Rate” is applied to accruals for prior year obligations as part of the accrual estimate calculation for Traditional Funds and Medical Services Funds.

2. The second rate, called the “Current Liquidation Rate” is applied to accruals for current year obligations as part of the accrual estimate calculation for Traditional Funds and Medical Services Funds.