

Inventory, Supplies and Materials System Requirements

What is JFMIP?

The Joint Financial Management Improvement Program (JFMIP) is a joint undertaking of the U.S. Department of the Treasury, General Accounting Office (GAO), Office of Management and Budget (OMB), and Office of Personnel Management (OPM), working in cooperation with one another, with other agencies, and with the private sector, to improve financial management in the Federal government. The program was given statutory authorization in the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 65). Leadership and program guidance are provided by the four principals of JFMIP: Comptroller General of the United States, Secretary of the Treasury, Director of OMB, and Director of OPM. Each principal designates a representative to serve on the JFMIP Steering Committee, which is responsible for the general direction of the program. The Executive Director of JFMIP is a permanent member of the steering committee and is responsible for the day-to-day operations of JFMIP. Additionally, a representative from the Federal community serves on the steering committee for a two-year term.

The program promotes strategies and sponsors projects to improve financial management across the Federal government, participates in the financial management activities of central policy organizations, and facilitates the sharing of information about good financial management practices. Information sharing is accomplished through conferences and other educational events, newsletters, meetings with interagency groups and agency personnel, and the Internet.

For more information on JFMIP, call (202) 219-0526, or visit the JFMIP website at <http://www.jfmip.gov>.

Foreword

Inventory, Supplies and Materials System Requirements is one of a series of functional systems requirements documents published by JFMIP dealing with Federal financial management systems. The first of these requirements documents, *Core Financial Systems Requirements*, was originally published by JFMIP in January 1988, and has since been updated. JFMIP also published *Framework for Federal Financial Management Systems* in January 1995, which is currently in the process of being updated. This document provides a comprehensive description of the basic elements of a model for integrated financial management systems in the Federal government including, system integration, data stewardship, and internal controls.

This document is prepared in support of the Federal Financial Management Improvement Act (FFMIA) of 1996 and strategic plan of Chief Financial Officer's (CFO) Council. This act and the CFO Council strongly reaffirm the need for the Federal Government to provide financial systems that facilitate the effective management of government programs and services for the proper stewardship of public resources. Additionally, recent reports from the General Accounting Office (GAO) indicate significant shortcomings in Government's ability to track an item from cradle to grave. Key to overcoming this shortfall is the establishment of robust inventory system requirements. The Department of Defense owns approximately ninety-five percent of the Federal Government's inventory and therefore lead this effort.

This document, in part, meets the goal of the President's Management Council (PMC) and JFMIP to improve the efficiency and quality of financial management in the Federal government. It represents a collaborative effort on the part of more than twenty agencies, led by the U.S. Department of Defense and staffed by finance and inventory professionals throughout government.

Inventory, Supplies and Materials System Requirements addresses the shared information requirements between Federal financial and inventory systems. To this end, it identifies existing government-wide statutory and regulatory requirements associated with the mutual functional interfaces between Finance and Inventory, Supplies and Materials systems (See Appendix A for a complete list of applicable references and authoritative sources). Agencies must use these functional requirements, in addition to agency-unique mission requirements, in planning their financial management and inventory systems improvement projects. The functionality to support the requirements identified in this document does not necessarily reside in a single software application or functional system. In fact, the information may reside in a number of applications or systems, whether automated or manual.

We thank the agency officials and other participants from the logistics, financial, oversight, and information technology communities who contributed to this document. It was particularly gratifying to see the finance and logistics communities unite so effectively behind a common objective. We especially wish to acknowledge the Under Secretary of Defense, Acquisition, Technology and Logistics, U.S. Department of Defense for leading the effort. (See Appendix E for a list of contributors). With continuing support such as theirs, we can confidently face the logistics and financial management challenges of this century.

Karen Cleary Alderman
Executive Director
September 2003

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Acronyms

ALC	Agency Location Code
BPA	Blanket Purchase Agreement
CCR	Central Contractor Registration
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
COTS	Commercial Off-the-Shelf
CS	Cases, Unit of Measure
DoD	Department of Defense
EA	Enterprise Architecture or Each (if used as a unit of measure)
EC	Electronic Commerce
EDI	Electronic Data Interchange
EFT	Electronic Funds Transfer
EOQ	Economic Order Quantity
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FIFO	First-in, First-out
FMFIA	Federal Managers' Financial Integrity Act
FOB	Free On Board (see Glossary)
FSC	Financial Systems Committee (Chief Financial Officers Council)
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
ID	Identification
IPAC	Intra-governmental Payment and Collection
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget

OM&S	Operating Materials and Supplies
PL	Public Law
PMC	President's Management Council
PO	Purchase Order
PR	Purchase Request
RTN	Routing and Transfer Number
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
TFM	Treasury Financial Manual
UID	Unique Identifier
UOM	Unit of Measure
USC	United States Code
USAID	United States Agency for International Development
XML	eXtensible Markup Language

INTRODUCTION

The U.S. Federal Government is the world's largest and most complex enterprise, involving the collection, management, and disposition of billions of taxpayer dollars. Financial, acquisition, inventory, and program officials face tremendous challenges in managing Federal programs. Improvements in agency Inventory, Supplies and Materials and financial systems are critical to government's efforts to obtain complete and reliable information needed to manage this enterprise efficiently. Increasingly, integrated systems are expected to simultaneously support multiple users (program managers, financial managers, acquisition managers, and inventory managers) while systems and data are being shared by agencies with common needs. Information supplied by these systems is expected to become more timely, accurate, and consistent across the government.

Representatives from inventory and financial management functions government-wide formed the partnership that developed this document. Its purpose is to provide a common set of inventory/financial shared information requirements with which each agency's integrated financial management system must be consistent. These information requirements, frequently arising from Federal statutes or regulations, constitute information available in one system that is required for the performance of another system. This document delineates those requirements that are critical to the performance of both functions. These requirements are intended to be available to all users who rely on the information to carry out their responsibilities.

This update of *Inventory, Supplies and Materials System Requirements* demonstrates the sustained commitment of the Federal financial and supply/logistics communities to improving information management systems, providing the best service possible to support program managers, and utilizing the taxpayer dollars entrusted to them as efficiently and as effectively as possible. Changes have been made to reflect new legislation and new policies and to clarify the document's purpose and place within a series of Federal financial management systems requirements documents. When JFMIP first published *Inventory System Requirements* in 1995, it served as a basis for agencies to make improvements to their processes by standardizing requirements for agency systems. This version recognizes an expansion of the basic *inventory* requirements to include requirements for *related property*, such as operating materials and supplies and stockpile, which although similar in many ways to inventory, may have unique accounting, reporting, and other requirements. Specific mandatory requirements for *Inventory, Supplies and Materials* apply only to those agencies which manage such property in their programs, otherwise they are considered value-added.

The Federal government also has consistently recognized the importance of having high-quality information management systems that contain financial, inventory, and other information necessary to support government operations. As a result, Congress enacted a variety of recent statutes, including the Federal Financial Management Improvement Act (FFMIA) of 1996 and the Information Technology Management Reform Act (Clinger-Cohen Act) of 1996 to assure that high-quality information management systems are developed to enable effective and efficient decision making by program officials. The Office of Management and Budget (OMB) also issued several relevant publications, including Circular A-127, "Financial Management Systems" and Circular A-130, which outlines the requirement that all electronic systems,

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including financial and acquisition systems, have a defined association to an agency's enterprise architecture. The FFMIA and OMB Circular A-127 specifically provide the vision for a single, integrated Federal financial management system. As mentioned earlier, in support of that vision, JFMIP publishes requirements documents for financial systems and the financial aspects of mixed systems (such as Inventory, Supplies and Materials systems). *Inventory, Supplies and Materials System Requirements* should be considered in the context of all the other JFMIP requirements documents, which form the basis for total government-wide financial system requirements.¹

The first section of this document references the “Federal Financial Management Framework,” the foundation for the JFMIP Requirements Document.

The next section, “Inventory, Supplies and Materials System Overview,” discusses the high-level processes of the Inventory, Supplies and Materials system, while “Introduction to Inventory, Supplies and Materials Requirements” describes the methodology used to identify and develop specific information requirements.

“Acquisition,” “Control,” and “Disposition” are the sections that define in detail the shared information requirements between inventory and related systems and financial systems and the list the data elements.

Appendix A lists the statutes, laws and regulations upon which these interface requirements are based,

Appendix B is a glossary of the Inventory, Supplies and Materials and financial terms used in this document.

Appendix C describes methods of valuation for inventory, operating materials and supplies, and stockpile materials. This is from Federal Accounting Standards Advisory Board's document entitled, “Accounting for Inventory and Related Property” SFFAS-3

“Appendix D, “Factors Influencing the Environment,” provides highlights of the activities that are particularly relevant to the Inventory, Supplies and Materials and financial management communities.

Appendix E lists those individuals who contributed their time, effort and vision to the development of this document.

¹ The requirements documents and other information are available on the JFMIP website at www.jfmip.gov.

Federal Financial Management Framework

Financial management systems in the Federal government must be designed to support the vision articulated by the government's financial management community. This vision requires financial management systems to support the partnership between Inventory, Supplies and Materials program managers and financial managers and to ensure the integrity of information for decision making and measuring performance. This includes the following abilities:

- Collect accurate, timely, complete, reliable, and consistent information
- Provide for adequate agency management reporting for decision making, measuring performance, and financial reporting
- Support government-wide and agency-wide policy decision making
- Support the preparation and execution of agency budgets
- Facilitate the preparation of financial statements and other financial reports in accordance with Federal accounting and reporting standards
- Provide information to central agencies for budgeting, analysis, and government-wide reporting, including consolidated financial statements
- Provide a complete audit trail to facilitate audits
- Provide adequate security controls to minimize the risk that data could be disclosed to unauthorized individuals, improperly used or manipulated, or destroyed due to unauthorized access or use
- Provide disaster recovery capabilities

The JFMIP document, "Framework for Federal Financial Management Systems" provides the principles, including Enterprise Architecture, that underlie this document.

Federal Inventory, Supplies and Materials System Overview

This section provides an overview of the Inventory, Supplies and Materials system. It is provided as a background for delineating the high-level processes whereby the Inventory, Supplies and Materials and financial management systems, including the core financial, cost accounting, acquisition, and property, must share information requirements.

A Federal Inventory, Supplies and Materials system is a unified mixed system used in administering an Inventory, Supplies and Materials program. Taken as a whole, the components of a unified system accomplish the major functions specified in Section Two. The term Inventory, Supplies and Materials system does not mean that a specific system architecture is required or that only a single software application is used. An Inventory, Supplies and Materials system includes all of the modules, applications and data bases used in fulfilling the major functions as defined in this document regardless of whether the function is performed in one or more information system. For example, the mandatory data elements that are specified in the various sections of this document may reside in a central data base that is accessed by a variety of systems (e.g., core inventory, budget, logistics, or others) or multiple data bases in various locations.

The Federal inventory and related system encompasses the processes, policies, and procedures the government employs to obtain, control, account for, and dispose of Inventory, Supplies and Materials. Those processes, policies, and procedures are applicable to all executive agencies and are published in the Federal Acquisition Regulation (FAR), the Federal Property Management Regulations (FPMR), the Federal Management Regulations (FMR), and various agency regulations that implement or supplement the FAR, OMB guidance, and Statement of Federal Accounting Standards (SFFAS) No. 3: *Inventory and Related property*. In fiscal year 2002, Federal agencies reported over \$183.8 billion in Inventory, Supplies and Materials. Inventory, Supplies and Materials is defined as tangible property, other than long-term fixed assets, held by federal government agencies. Classifications of Inventory, Supplies and Materials discussed in this requirements document include: inventory, operating materials and supplies, and stockpile (see Section 1.2.2 for categories of Inventory, Supplies and Materials that are not addressed in this document.)

Scope

The system requirements for Inventory, Supplies and Materials being addressed in this document apply to the following classifications of Inventory, Supplies and Materials:

- Inventory -- tangible personal property that is: (1) held for sale, (2) in the process of production for sale, or (3) to be used in the provision of services for a fee
- Operating Materials and Supplies -- tangible personal property to be consumed in normal operations
- Stockpile Materials -- strategic and critical materials held due to statutory requirements for use in national defense, conservation, or national emergencies

Inventory, Supplies and Materials System Overview

This table illustrates similarities and differences between Inventory, Supplies and Materials categories.

CATEGORIES	CLASSIFICATIONS		
	INVENTORY	OPERATING MATERIALS & SUPPLIES	STOCKPILE MATERIALS
Held for Sale or Use	X	X	X
Held in Reserve	X	X	X
Excess, Obsolete, Unserviceable	X	X	
Held for Repair	X	X	

The categories of “held for sale or use” and “held in reserve” apply to all three classifications of Inventory, Supplies and Materials.

The term "held for sale" shall be interpreted to include items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities. The principal objective of the sale or transfer of inventory is to provide a product or service for a fee that generally recovers full cost or an identified portion of the cost.

The category of held in reserve for future sale or use are items that may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed. Factors to be considered in developing criteria for identifying inventory held in reserve for future sale are:

- relevant costs associated with holding these items (including the storage, handling, maintenance, repair, and replenishment of out-of-date stock costs)
- expected replacement costs, when needed
- time required to replenish inventory

Inventory, Supplies and Materials classified as excess, obsolete, and unserviceable inventory is awaiting disposal because it is no longer needed or is damaged to the point that it is more economical to dispose of rather than to hold. This classification applies only to the classifications of inventory and operating materials and supplies. The excess, obsolete, and unserviceable inventory is defined as follows:

- "Excess" refers to property under the control of a federal agency that the head of the agency determines is not required to meet the agency's need or responsibilities.
- "Obsolete" refers to items that are no longer needed due to changes in technology, laws, customs, or operations
- "Unserviceable" refers to damaged items that is more economical to dispose of than to repair

Inventory, Supplies and Materials System Overview

Inventory or operating materials and supplies held for repair are items that are worn out or broken and are expected to be repaired when needed and eventually sold or consumed in operations. The category of “held for repair” applies to items being held that are:

- less costly to repair than to replace
- not available in a timely manner, or
- not being manufactured any longer and may be required to service equipment which is no longer being manufactured but is still used in agency operations

Exclusions

There are three other classifications of related property that are not addressed in this document:

- Seized and Forfeited Property
- Foreclosed Property
- Goods Held Under Price Support and Stabilization Programs

System requirements for seized and forfeited property were addressed in JFMIP document entitled, “Seized Property and Forfeited Assets Systems Requirements”, dated December 1999.

The system requirements for foreclosed property was also previously addressed in a JFMIP document entitled, “Guaranteed Loan System Requirements,” dated March 2000.

Goods Held Under Price Support and Stabilization Programs are commodity programs administered by the U.S. Department of Agriculture solely and are not representative of the majority of the types of inventory managed throughout the federal government. The system requirements in this document specifically address classifications of Inventory, Supplies and Materials held and administered by multiple agencies.

Inventory, Supplies and Materials System Interdependencies

The Federal Inventory, Supplies and Materials system relies on, and interacts with, other agency-specific systems. For example, inventory systems may trigger the decision to procure, while the disposition of an inventory end item may be used to establish the agency’s property management system record. The principal system that shares information requirements and creates two-way dependencies with the Inventory, Supplies and Materials system is the core financial system. These dependencies help to ensure integrity and control in the areas of budget, program management and delivery, and external reporting.

The Federal Inventory, Supplies and Materials system is represented in the following high-level flow diagram (Figure 1). The diagram shows critical interfaces between the Inventory, Supplies and Materials system, core financial system and related systems, as well as final disposition of the items.

Inventory, Supplies and Materials System Overview

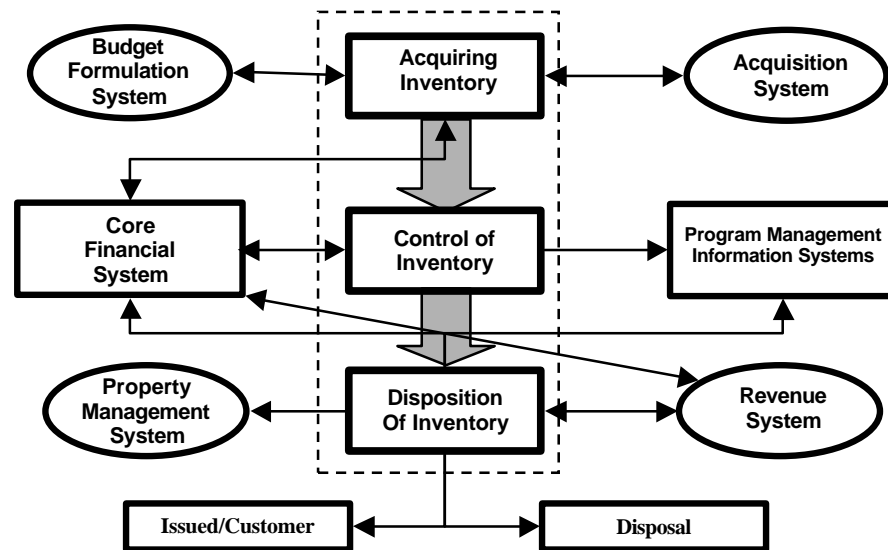


Figure 1 – System Interdependencies

Introduction to Inventory, Supplies and Materials Systems Requirements

This document identifies the shared information requirements necessary within the inventory and financial systems to facilitate efficient and reliable data sharing between the Inventory, Supplies and Materials and financial management processes. These requirements are primarily based upon statute and regulation. Inventory, Supplies and Materials systems must comply with these requirements to ensure the sharing of data among systems and to form the basis for an agency's single integrated financial management system.

Methodology

The following definitions govern the distinction between *mandatory*—signified by the word “**must**”—and *value-added*—signified by the word “**should**.”

- *Mandatory requirements* describe what the system must do and represent the minimum acceptable functionality necessary to establish a system based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.
- *Value-added requirements* describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional, and other similar terminology may be used to describe this category of requirements. Agencies should consider value-added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.

The various steps and information requirements associated with financial and inventory processes do not necessarily occur in all cases in the order presented. Any information requirement identified as mandatory is mandatory throughout the Inventory, Supplies and Materials process, if applicable to the transaction; no matter when in the process the associated data becomes available.

This document should be used when developing new Inventory, Supplies and Materials and financial systems, and related interfaces, or improving/evaluating current systems. It, however, does not provide hardware/software performance requirements for such systems; rather, it provides the high-level requirements necessary for the supply and logistics communities to effectively support integration of their systems in to the financial management system.

Access to Information

The Inventory, Supplies and Materials system requirements in this publication have been identified as essential to the performance of both accountability and financial functions. This information is critical at the time of its initial entry into the agency's single integrated financial management system and retains its importance as long as it is necessary for it to be contained in this system. As such, these requirements, regardless of their form, must be made available to all users—both from the supply/logistics and finance communities—who require it to carry out their respective responsibilities.

GENERAL REQUIREMENTS FOR INVENTORY, SUPPLIES AND MATERIALS SYSTEMS

A requirement is defined as something needed; a necessity. As it applies to this document, a requirement is defined as a necessary system functionality or capability in order to fulfill an information need. In any agency, Inventory, Supplies and Materials management must be defined in terms of what processes and objectives need to be supported by the system. Agency Inventory, Supplies and Materials systems assist managers in collecting and maintaining information for managing various types of items in accordance with generally accepted accounting principles (GAAP).

These requirements are to be used as a guide for agencies when enhancing existing systems or developing new systems and they make the assumption agencies have fully automated systems that encompass the complete scope of requirements in this document. Some agencies may determine that it is not practical to fully automate all functions based on such factors as operating environment and costs. Accordingly, it may be necessary for agencies to make adjustments to their processes to meet the general requirements as well as their specific program and system requirements.

The requirements that follow provide a description of the major information and processing capabilities for inventory systems. The following basic requirements have been identified by Inventory, Supplies and Materials functional requirements. These functional capabilities should be integrated with agency unique requirements in a manner that best supports the agency's programs, operations, technical environment, and management philosophy.

The Inventory, Supplies and Materials system **must** support the following common requirements for all inventory classification functions:

- Record beginning balances (on-hand), acquisitions, withdrawals (dispositions), and calculate ending balances (on-hand) expressed in dollar values and physical units
- Record item identification, classification (e.g., nomenclature, quantity, description, Federal stock classification or national stock number), initial cost, and subsequent costs related to acquisition (i.e. holding/handling cost)
- Be in accordance with FASAB requirements on Valuation Methods, as outlined in Appendix C
- Record the condition of the inventory
- Record changes in value of Inventory, Supplies and Materials due to changes in condition or other impacting circumstances

General Requirements For Inventory, Supplies And Materials Systems

- Record whether material received is hazardous, classified, requires special handling, requires special packaging, requires munitions list controls, requires trade security controls, or has a shelflife
- Identify the type of transaction affecting the item; e.g., initial acquisition, location, change in location, and disposal
- Provide edits (controls) to prevent duplicate entries and reduce the likelihood of creating erroneous inventory documents/records, thereby ensuring the integrity of data recorded in the system
- Permit only authorized users to enter, modify, or otherwise alter inventory records (See section on Security and Internal Controls)
- Provide audit trails to trace transactions from source documents, original input, other systems, and system-generated transactions
- Enable and account for the transfer of responsibility for inventory from one authorized manager to another authorized manager, ensuring that sufficient information is transferred to provide an audit trail at the gaining management activity
- Provide the capability to relate data elements to each other as discussed, through an integrated data query facility that supports ad hoc query access to financial information described in the document and provides reporting tools for data analysis
- Government Paperwork Elimination Act (GPEA) of 1998—requires Federal agencies to allow, by October 21, 2003, individuals or entities, as an option, to interact with them electronically where practicable
- Adhere to the applicable final “Electronic and Information Technology Accessibility Standards” issued by the Architectural and Transportation Barriers Compliance Board, which address technical and functional performance criteria necessary for such technology to comply with section 508 of the Rehabilitation Act Amendments of 1998
- Provide a field for a Unique Item Identifier (UID). A UID is a unique, unambiguous string of alpha numeric characters that enable the identification of a specific item from any other like or unlike it in compliance with ISOs 15434 and 15418.²

² Inventory, Supplies, and Materials systems are required to have this field function at all steps in the process from acquisition to disposal. Use of the field is at the discretion of agency management. However, if an agency decides to enable this field, the data in the field must be maintained throughout the lifecycle of the inventoried item.

Interface Requirements

Agencies must also develop strategies for interfacing or integrating other systems, including its inventory systems, with the Core Financial System. Interface requirements and system architecture necessary to meet management and reporting requirements are determined by each agency. However, all systems, modules, or applications that record, use, or manipulate shared information should be linked. The inventory system, to include subsystems that record or generate inventory management information, should be capable of interfacing with other financial and mixed systems. The inventory system should be able to process transactions from other systems and record and track such transactions and related information, to provide the basis for central control. It is also probable that, where interfaces exist, there will be two-way interfaces associated between systems. If the inventory system relies upon a subsystem for information or data, such as work-in-progress, there should also exist a two-way interface, whereby the inventory system could provide information to the subsystem involved.

Analysts, designers, etc. should consult the *JFMIP Framework for Federal Financial Management Systems* document for guidance on integration or interface issues, e.g., data stewardship, internal controls, and security. The purpose of all system interfaces is to:

- Promote a single point of entry to populate the inventory database and all databases with which the inventory system interfaces at the same time
- Ensure that audit trails of all system transactions are recorded
- Facilitate ease of reconciliation of related records and pertinent data between systems to ensure data accuracy

To facilitate the reconciliation of information that is common to the core financial management system and to one or more of the financial mixed systems (e.g., Inventory, Supplies and Materials, acquisition, and property management systems) described in the JFMIP Framework document and other JFMIP requirements documents, the single integrated financial management system **must** provide for:

- multiple levels of system access, transaction authorization, and approval authority
- single source data entry
- validation of funds available prior to scheduling payment
- communication of the need for additional funds
- simultaneous posting of budgetary and proprietary accounts
- prepayment examinations from diverse locations
- controls to ensure transaction processing in proper chronological/numeric sequence

- standard edits for shared data

To support the Interface function the Inventory, Supplies and Materials system **must**:

- Provide capability to interface with agency core accounting system to record the accounting impact of all financial activity at the SGL level, on a daily basis, to support consolidated financial reporting if an agency's financial management system architecture is configured so that the major functions described herein are performed entirely by the Inventory, Supplies and Materials module
- Provide standard input record format(s) for interface of transactions from other systems to the Inventory, Supplies and Materials system and subject all transactions from interfacing systems to the Inventory, Supplies and Materials financial system edits, validations, and error correction procedures to support data integrity. Erroneous transactions must be maintained and tracked until corrected, posted, or deleted by an authorized user to enable performance measurement
- Provide for capability to interface to the agency's cost accounting system

To support the Internal Interface function the Inventory, Supplies and Materials system **should**:

- Provide capability for a two-way interface with the core system for purposes of funds control and funds availability verification

Technical Requirements

Some technical requirements are included in all JFMIP functional requirements documents, and especially in the *Framework for Federal Financial Management Systems* document and the *Core Financial System Requirements* document. As indicated elsewhere in this document, financial aspects of mixed systems, such as Inventory, Supplies and Materials systems, are part of an agency's single integrated financial management system. As such, mixed systems are subject to the technical requirements contained in the Framework document and to those aspects of the Core System Requirements document that apply in some cases in particular agencies. Agencies must consult these and other documents in determining appropriate technical requirements for a specific agency operating environment.

To support the general technical functionality, the Inventory, Supplies and Materials system **must**:

- Provide for back up and recovery of the system per relevant OMB Circulars
- Allow users to input parameters required to run batch jobs in a production mode either: daily, monthly, quarterly or yearly
- Provide all users the capability to perform a "Print Screen" function

Security and Internal Controls

With regard to security and internal controls, in addition to other Federal security standards, the Inventory, Supplies and Materials system **must**:

- Provide flexible security measures to control user access at varying degrees including: overall system access, capability to perform specific functions (inquiry, update), access to certain functionality
- Provide capability to define access to specific functions by named user, class of user, and position
- Provide for multiple levels of approvals based on user-defined criteria including dollar limits, type of document processed, etc.
- Provide the capability to perform reconciliation routines for internal participant accounts, ledgers, and funds, and to identify unsuccessful reconciliations via error log or error report
- For those systems/applications for which the agency, either on its own or through a contractor, has the ability to direct and implement coding changes, its should provide a mechanism to monitor changes to software coding and the responsible individual (authorized user)
- Provide for adequate management controls, including internal and security controls, policies, and procedures intended to protect the agency's key systems, data, and interfaces from disruption and unauthorized access or alteration, as prescribed in a variety of statutes and regulations

Access to Information

To support the Access to Information process, the Inventory, Supplies and Materials system **must**:

- Comply with the disclosure provisions of the Privacy Act of 1974 (5 U.S.C. § 552A) as amended
- Allow for the information contained in the system to be queried and present detailed data as requested. This will include user-defined criteria to access data for open or closed accounting periods
- Provide users with access to on-line guidance or help for performing system functions
- Allow users to design extract files for their specific requirements, and perform table look-ups and expansion of codes when needed to clarify the information contained within the results of system queries or reports
- Facilitate the analysis of information contained in the system by allowing analysts to obtain report information and the results of system queries in data files that can be transferred to other applications or analytical tools
- Provide for easy access to historical files for comparative, analytical, and trend information

Data Entry

To support the Data Entry technical function, the Inventory, Supplies and Materials system **must**:

- Utilize various automated input devices when hard copy applications and correspondence are received. For example, optical character recognition devices, digital imaging tools or other input streamlining technology must be utilized whenever feasible when processing standard hard copy applications or other required correspondence
- Support both batch and real-time on-line data entry and use the same edit and update rules as appropriate for each mode
- Support simultaneous data entry/access by multiple users in a variety of access modes
- User entry and query screens must support validation of codes entered on the screen. Assist users in determining correct codes if an invalid code is entered. Provide for inquiry by the user to verify valid codes during the data entry process
- Provide the capability to display inputs required to complete transactions by a user based on the selection of transaction type. Whenever possible, keystroke reducing tools such as drop down menus should be utilized to reduce chance of data entry error
- Display a message to the user notifying them of the acceptance or rejection of each transaction once all inputs are completed

To support the Data Entry technical function, the Inventory, Supplies and Materials system **should**:

- Identify erroneous inputs with corrective recommendations.
- Provide the capability for financial users to create comments relating to all types of transactions using free-form text.

Archiving and Purging

Archiving and purging criteria should be developed in accordance with Federal regulations and jointly agreed to by the system administrator. The process supports data management for the Inventory, Supplies and Materials system. It removes data that is no longer needed for immediate access from the system data stores used for inquiry and reporting on current information. Archiving moves data to a storage medium that has a longer access time (i.e. from disk to tape.) Purging deletes data altogether. Archiving and purging criteria should be developed in accordance with Federal regulations and jointly agreed to by the system administrator and users to balance user needs with resource limitations.

To support the Archiving and Purging process, the Inventory, Supplies and Materials system **must:**

- Provide an automated means for permanently storing electronic data
- Archive transactions and related information needed for audit trails in a format accessible by audit software
- Provide the authorized system administrator the flexibility to determine whether records are to be archived or purged. Of those documents that meet the criteria the system must allow selective action. The system must include the capability to establish and maintain user defined archival criteria
- Retain system records in accordance with Federal regulations established by the National Archives and Records Administration (NARA), GAO, and others. Prevent the purging of transactions prior to the proper period in accordance with regulations governing the retention of documents and transactions

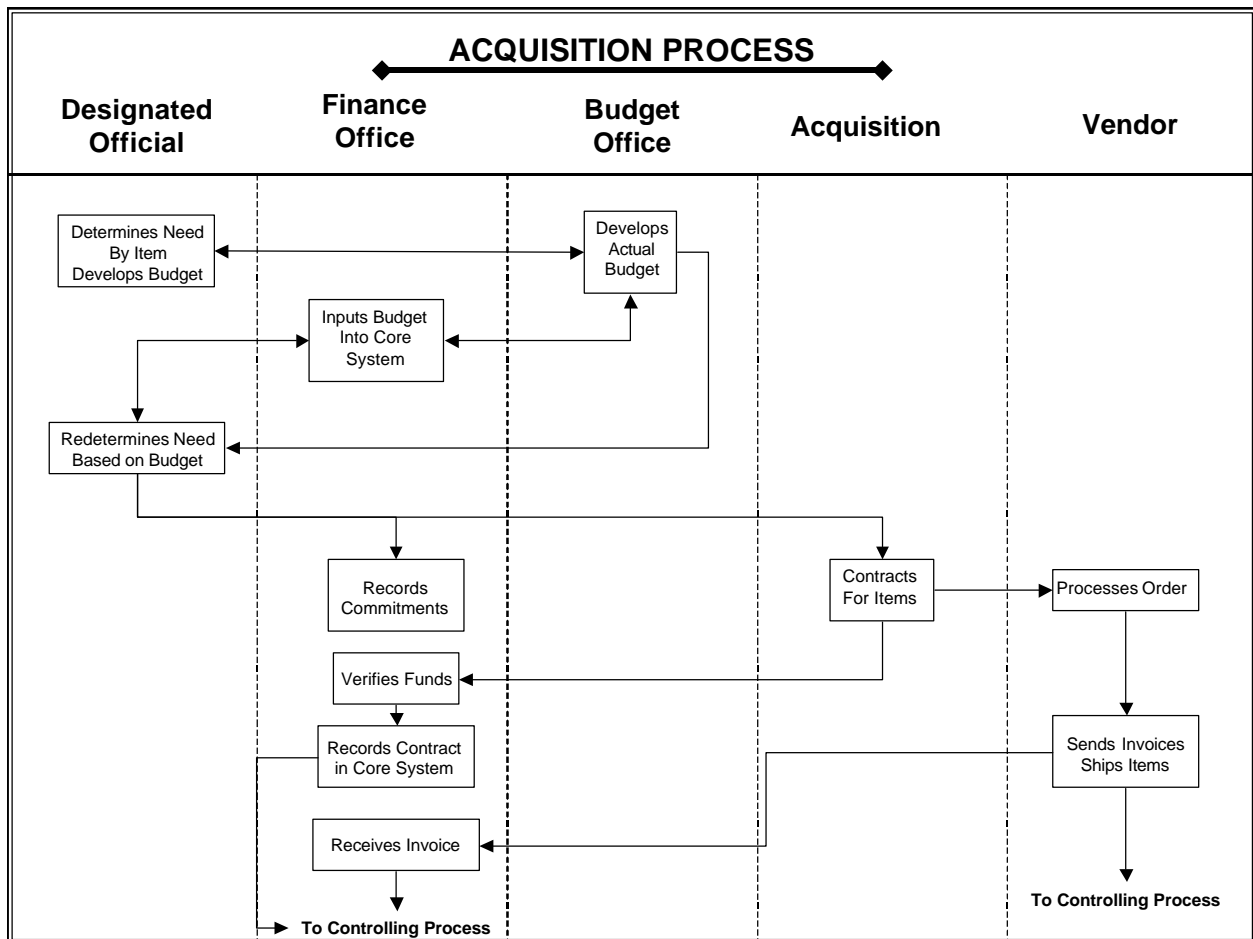
Information Technology in the Inventory, Supplies and Materials Management Process

Advancements in information technology are of particular importance to agency Inventory, Supplies and Materials and financial systems, organizations, and communities. This importance is described in the introduction and other sections of this document, and is demonstrated by the significant amount of information requirements and processes that are common to the Federal Inventory, Supplies and Materials and financial communities, and systems. This document identifies some general and specific information technology requirements. However, each agency meets its unique financial management information requirements through the development of its enterprise architecture.

INVENTORY, SUPPLIES AND MATERIALS ACQUISITION

General Requirements for Inventory, Supplies and Materials Acquisition Process

Inventory, Supplies and Materials Acquisition Process Flow



General Mandatory Requirements for Inventory, Supplies and Materials Acquisition

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Provide asset identifier in order to include all costs incurred and track total acquisition/contracting cost
- Track the asset identifier to the specific document used to acquire the asset, e.g., purchase order, task order, etc.

Needs Determination Process

Needs determination process and ultimately the specific requirements, including the quantity and cost of items acquired, consist of:

- customer demand
- lead time
- internal process costs
- item levels
- timely replenishment

Managers should seek to minimize Inventory, Supplies and Materials levels through the use of economic order quantity (EOQ) or by the use of other acceptable methods. The primary means of doing so are (1) working closely with customers to develop accurate long-term demand forecasts, and (2) working closely with vendors to ensure accurate forecasts of delivery time and to minimize delivery times by shortening lead time and using other just-in-time techniques. The budgetary process is used when the level of inventory balances and activity must be approved through the agency's budget justification and/or legislative procedures.

Mandatory Requirements for Needs Determination

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record customer demand and replenishment lead time data for a period of time (as specified by management), identify anomalies (such as unusual spikes in customer demand), and compute demand and lead time forecasts based upon a regular schedule determined by management
- Compute and routinely update the ordering costs, as determined by management
- Estimate and routinely update the per unit holding cost
- Either Economic Order Quantity (EOQ) or any other management approved method, may be used to minimize total costs of inventory, supplies, and materials, including the sum of ordering and holding costs may be used to compute the optimum order quantity
- Compute the safety level of an item, if any, on a regular schedule. The safety level may include variables stipulated by management to establish intended service levels.
- Recompute the reorder point level on a regular schedule, considering the item's acquisition lead time, quantity, safety level, repair cycle level, if applicable, and any

applicable non-demand-based levels. Demand-based items may be procured when the items on-hand and on-order are equal to or less than the reorder point

- Record the authorization and expiration of non-demand based requirements, i.e., special program requirements, war reserve requirements, and provisioning requirements
- Determine if replenishment is needed on a regular schedule, basing the determination on net item and reorder point
- Schedule replenishment reviews on a regular basis
- Access to the following information:
 - fiscal year
 - organization code
 - cost center
 - estimated amount
 - estimated quantity
 - project code
 - program code
 - transaction date
 - action code (new/modification)
 - subject to funds availability indicator
 - interagency agreement number
 - performance measure code
 - description
 - estimated amounts increased and/or decreased
 - revenue source code
 - agency location code
 - shelf life

Acquiring Process

Value-Added Requirements for Needs Determination

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Compute overall production targets necessary to fill customers' orders and meet operating schedules.
- Support predefined inspection plans and quality standards, as determined by management.
- Access the estimated quantity associated with establishing the obligation where applicable.
- Enable electronic approvals, notification alerts, and point-of-entry automated requisition forms.
- Allow for collection of scrap and waste rates on Inventory, Supplies and Materials
- Systems should make contract termination recommendations based on mathematical models of termination costs, ordering costs, and holding costs

Budget Establishment Process

This process establishes budgetary limitations for Inventory, Supplies and Materials. This process also supports the control of funds allocated to Inventory, Supplies and Materials in a manner consistent with OMB Circular A-11 and the JFMIP Core Financial System Requirements.

Mandatory Requirements for Budget Establishment Process

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Support the budgeting of resources for Inventory, Supplies and Materials.
- Identify available funds by item.
- Distinguish available funds for items that are slow moving and carried in the inventory for more than one accounting cycle
- Provide access to the core financial system to ensure that funds are available prior to submitting approval of a request for acquisition of inventory items
- Disallow the creation of any obligation that would exceed the available funding
- Identify funds utilized and rates of fund utilization by item
- Control availability of funds by item
- Calculate fund usage and project the date on which funds will be exhausted at the current rate of usage

Purchase Planning Process

The principal purpose of the purchase planning process is to determine item replenishment quantities in sufficient time to meet demand without excessive holding costs. Primary factors that influence the process in determining order quantities mirror the factors used in Section 3.1 Needs Determination Process; however, inventory models may produce constrained purchase quantities based on approved budget levels.

Acquiring Process

This process addresses the requirements for assuming initial physical control of items. Initial physical control begins when title passes to the entity obtaining the item or when the items are delivered. When there is an interface, the inventory, supplies, and materials system may share information with the acquisition system, such as when an item is ordered or received. For example the inventory, supplies, and materials system records item receipt and the results of an initial physical inspection regarding the condition of the item, whether purchased, donated, or transferred. Upon receipt of the item, the inventory, supplies, and materials system records confirmation information about physical receipt and forwards the information to the acquisition system and the Core Financial System (see section on Interface Requirements). This section describes functional requirements for recording information relative to the acquisition and receipt of item.

Mandatory Requirements for Acquiring

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Provide access to the core financial system to obtain the following information:
 - fiscal year
 - appropriation/treasury fund symbol
 - organization code
 - cost center
 - object classification
 - project code
 - program code
 - commitment amount
 - obligation amount
 - contractor name, including any previous company names prior to any notation agreements; (management will determine the number or necessary names required)
 - supplier TIN
 - interagency agreement number
 - trading partner

Acquiring Process

- award date
 - transaction date
 - effective date
 - action code
 - product or service description
 - amounts increased and/or amounts decreased
 - subject to funds availability indicator
 - Use account definitions consistent with the account definitions in the USSGL. Any expansion to the chart of accounts must roll up to the accounts as defined in the USSGL (as provided in the Treasury Financial Manual)
- Access to the full estimated cost of the interagency agreement (both direct and indirect costs need to be provided for evaluation)
- Maintain transaction details to support account balances
- Provide access to a hard copy or an electronic copy (where cost effective) of the entire executed (signed) contract,³ including the following data elements recorded at obligation and necessary for payment and/or other financial processes:
 - contract number and all associated delivery order numbers or task order numbers (including modification number, if any); Purchase Order (PO) number (including modification number, if any); blanket purchase agreement (BPA) number and all associated BPA call numbers (including modification number, if any); or obligating document number (if different from contract number)
 - contractor name and address
 - contract administration office
 - payment office
 - unit of issue/measure
 - unit price
 - extended price
 - quantity

³ Per FAR 4.201, the entire signed contract is provided to the paying office.

- variance amount allowed
 - total amount
 - payment terms and conditions, e.g., discount terms, applicable payment clauses, withhold indicator, withhold percentage, etc.
 - delivery/performance schedule
 - estimated completion date
 - payment type (e.g., prompt pay, fast pay, progress pay, or partial pay)
 - names of government-designated receiving, invoice-approving, and acceptance officials.
 - shipping terms, e.g., FOB destination
- Identify the method of acquisition, e.g., purchase, donated, etc.
- Create a skeletal record or other mechanism for capturing information on item in-transit from the providing entity (e.g., vendor, donator, etc.). The skeletal record or other mechanism is required only for Inventory, Supplies and Materials for which the Government has taken title. For example, the skeletal record or other mechanism may identify the following on newly acquired property:
 - Name and address of the shipper/vendor
 - Estimated date of delivery
 - Shipping address (“ship to” address)
 - Requisition information (e.g., contract/purchase order, or other requisition document number; name and address of requisitioning organization)
 - Order Date
- Complete the skeletal inventory record, or create an inventory record for items with no skeletal record, upon assuming possession of the inventory item
- Record the method of acquiring each inventory item or bulk inventory items (e.g., direct purchase, completed work-in-process, donation, non-reciprocal transfer or reciprocal transfer), and the date of acquisition
- Record quantity, date of physical receipt, and condition of item received when a condition assessment is required
- Record the inspection date for items delivered
- Record the acceptance date for items delivered

Acquiring Process

- Forward physical receipt information, including quantity and date of physical receipt, to the acquisition system and core financial system

Value-Added Requirements for Acquiring

To support this process, the agency's Inventory, Supplies and Materials system **should**

- Access other information where applicable and available, such as
 - performance measure code
 - revenue source code
 - additional funding indicator, including increases and decreases
 - line item number, including access to contract line item data
 - agency location code
 - name and phone number of agency contracting/acquisition/procurement official responsible for acquiring the Inventory, Supplies and Materials item(s)
 - minimum acceptable shelf-life date
 - warranty information
- Access to the following information related to an EFT payment
 - contract number and all associated delivery order numbers or task order numbers (including modification number, if any); PO number (including modification number, if any); BPA number and all associated BPA call numbers (including modification number, if any); name and remittance address
 - automated access to government-wide systems such as, Business Partner Network (includes Central Contractor Registration), E-authentication, Integration Acquisition Environment
 - the Fedwire Transfer System telegraphic abbreviation of the contractor's financial agent
 - name, address, telegraphic abbreviation, and nine-digit RTN of the financial institution receiving the wire transfer payment if the contractor's financial agent is not connected directly to the Fedwire Transfer System online.
- Provide the ability to cross-reference requisition orders, contract numbers, and related interagency agreements.

- Enable electronic obligation of funds, approvals and signatures, and notification alerts for pending actions
- Enable periodic obligations such as, contract-specified cost escalations to existing contract line numbers

The next interface process, control of Inventory, Supplies and Materials is discussed in the following section.

INVENTORY, SUPPLIES AND MATERIALS CONTROL

The control requirements define the processing and data requirements for Inventory, Supplies and Materials. The principal objective of controlling Inventory, Supplies and Materials is to be able to process the sale or transfer of Inventory, Supplies and Materials or to provide a product or service for a fee that generally recovers full cost or an identified portion of the cost. Inventory, Supplies and Materials shall be recognized when title passes from vendor to the purchasing activity or when the product is delivered to the purchasing entity, whichever is earlier. Upon sale (when the title passes or the goods are delivered) or upon use in the provision of a service, the related expense shall be recognized and the cost of those goods shall be removed from inventory. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery. Custodial Inventory, Supplies and Materials may not require financial accountability by the custodian depending on the interagency agreement.

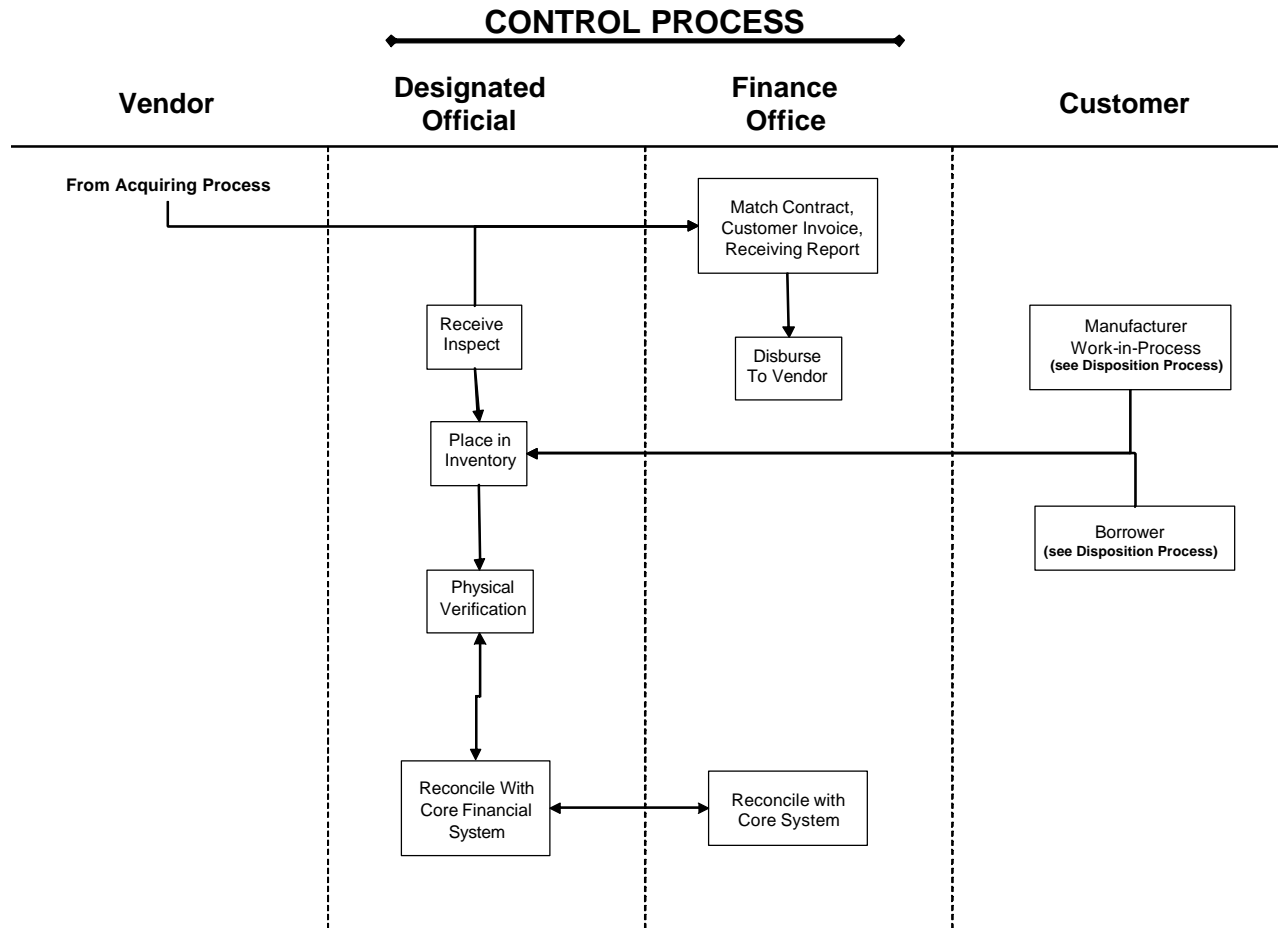
General Requirements for Inventory, Supplies and Materials Control Process

Inventory, Supplies and Materials control is the accountability of Inventory, Supplies and Materials of the Federal Government. Control is a critical management function exercised in concert with acquiring, and disposing of Inventory, Supplies and Materials. Accountability begins when the item is received or when ownership passes to the Government.

The general requirements for control of Inventory, Supplies and Materials consist of the processes of receipt and inspection, storing, and item in transit. Receipt and inspection establishes physical control over items received and supports the valuation of and accounting for items received. Storing supports the monitoring of and accounting for items on hand. The process consists of those activities in which all return and repair functions are performed and monitored (e.g., customer interactions, problem capture, returns, exchanges, loaners, diagnosis, estimates, repair processes, and tracking of return/repair status and respective activities), as opposed to work-in-progress, which is discussed later. In transit maintains financial data and accounting control over inventory items that are in transit between storage locations, including to entities, e.g. government contractors, outside the agency.

To maintain control of inventories, all acquisitions of, and expenditures for, inventory should be substantiated by accounting records and recorded in inventory records as close as feasible to the time the transactions occur; i.e., the receipt (purchase, production, return, transfer, recognition of gain) or expenditure (issue, transfer, sale, write-off). Internal control procedures and records are required to reflect the existence, completeness, rights/obligations, condition, valuation, pricing, presentation and disclosure and associated with the inventory. Inventory, supplies, and materials in the possession of contractors have significant accountability and financial control risk, therefore, special attention should be given to these assets in agency procedures designed to ensure that these assets are properly safeguarded and reflected in agency accountability and financial systems. In addition, management should be provided sufficient information via system query or reporting capabilities to monitor its inventory, supplies, and materials management activities and performance.

Inventory, Supplies and Materials Control Process Flow



General Mandatory Requirements for Control of Inventory, Supplies and Materials

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record changes in quantities, including unit of issue/measure, where applicable, for beginning balance adjustments, additions, and deletions, and compute ending balances by category
- Provide an audit trail for all adjustments, to include who made the adjustment and when, to quantities and units
- Record the estimated value of donated inventory
- Generate data for the journal entries necessary for recording changes in the valuation including any associated gains or losses

Inventory, Supplies and Materials Control

- Record asset identifier
- Record location
- Record the current owner (e.g., the agency, contractor, grantee, etc.)
- Record an item's condition
- Record identity of inventory custodian and/or accountable organization
- Record in-transit information to establish/maintain accountability and control over Government Inventory, Supplies and Materials, (e.g., name and address of the shipper/vendor, estimated date of delivery, shipping address, item identification, and source information)
- Provide for Physical Inventory/Cycle Counting functionality and processing
- Record the acquisition cost of individual items acquired through bulk purchase

General Value-Added Requirements for Control of Inventory, Supplies and Materials

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Provide information on current inventories and historical usage to be used in capacity planning
- Compute overall production targets necessary to fill customers' orders and meet operating schedules
- Support the incorporation of item availability and anticipated lead times for delivering orders into a master production schedule
- Support predefined inspection plans and quality standards
- Identify the type of cost or basis of valuation recorded (e.g., acquisition cost, estimated fair market value, revaluation, present value)
- Support lot control and serial control of inventory for traceability requirements
- Support shelf life tracking
- Support ownership status (i.e. owned, non-owned, or consigned)
- Support unit of measure (UOM) conversion for various functions (i.e. shipping, stocking, and ordering)

- Support multiple sources of supply and cost

Receipt and Inspection Process

The receipt and inspection process consists of item receipt, inspection, placement into inventory, and initial valuation and financial categorization activities.

Item Receipt Process

Mandatory Requirements for Item Receipt

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record information on material returned by customers and provide customer credit/refund on items returned in accordance with the agency's return policy
- Record information on the procurement receipt document in sufficient detail to allow matching of receipt, purchase order/contract, and invoice for payment purposes. Examples of data to collect include item numbers, quantities, units of measure, vendor, purchase order number, and storage location
- Complete skeletal record of donated (including gifted or bequeathed items) items to include such information as quantity, description, estimated fair market value of each item received, receipt date, method of acquisition, etc. in sufficient detail to initiate appropriate accountability and financial control
- For Prompt Pay Act purposes, record the date of receipt or the date of acceptance is used, whichever is later
- Record partial and full receipts of orders along with item that are backordered
- Provide for performing quantity and price conversions between different units of issue/measure. For example, the item purchase unit may be cases (cs) and the receiving activity unit of issue/measure may be each (ea)
- Identify transportation discrepancies (i.e., any discrepancy between the government or commercial bill of lading and item received), and generate the transportation discrepancy report (e.g., SF 361, Transportation Discrepancy Report)

Value Added Requirements for Item Receipt

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Assign lot control and serialization numbers
- Provide disposition codes for subsequent actions of rejected materials

- Record items being returned to vendor, including items on backorder
- Ensure incoming materials are appropriately labeled or marked and readily visible

Inspection Process

Mandatory Requirements for Inspection

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record the acceptance or rejection of new or returned items at their destination and the quantities of each. Update inventory on hand information as a result
- Update accountability records to record acceptance or rejection of new or returned items
- Record the date of acceptance for purposes of the Prompt Payment Act
- Provide information, such as quantity, asset identifier, and cost on items received and accepted necessary to support the payment management function of the core financial system,
- Identify shipping discrepancies (e.g., SF 364, Report of Discrepancy) and product quality deficiencies (e.g., SF 368, Product Quality Deficiency Report) between the items received and the information provided on shipping documents and purchase orders, to support follow-up

Value Added Requirements the Inspection

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Identify shipments of components for any inventoried items

Placement Into Inventory Process

Mandatory Requirements for Placement Into Inventory

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Identify the intended location of the item and track its movement from the point of initial receipt to its final destination
- Record identifiers, quantities, condition, location, and other information as determined by management, necessary to establish physical control

Receipt and Inspection Process

- Record items within an item class or category as determined necessary by management for maintaining control over inventory, supplies, and materials
- Provide an identifier for identifying restrictions on the sale, or use, or disposal of inventory, supplies, and materials by category and item

Initial Valuation and Financial Categorization Process

Mandatory Requirements for Initial Valuation and Financial Categorization

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Capture both unit cost and sales price of an inventory item
- Maintain sufficient information to support the inventory valuation method chosen in the Budgeting and Purchase Planning functions, consistent with Federal accounting requirements outlined in Appendix C
- Include all appropriate purchase, transportation, and production costs incurred to get the item to its current condition and location
- Categorize inventory items as (1) inventory held for sale, (2) inventory held in reserve for future sale, (3) excess, obsolete, and unserviceable inventory, or (4) inventory held for repair
- Categorize operating material and supplies as (1) operating material and supplies held for use, (2) operating material and supplies held for repair and (3) operating material and supplies excess, obsolete, and unserviceable
- Categorize stockpile materials as (1) held for sale or use and (2) held in reserve
- Provide interface data required to meet core financial system requirements
- Provide total cost information by financial category as described in section 1.2.1 for items added into inventory to the core financial system for posting by the General Ledger Management function and the Cost Management function
- If the agency has a cost accounting system to support a manufacturing, industrial fund, or similar activities, provide the cost of items, and other information as determined by management, needed to determine item consumption/usage and assess performance
- Provide information, such as description, quantity, asset identifier, and other information as specified by management, needed to support reconciliation between the inventory system's records and other systems' records

Storing Process

The storing process supports the monitoring of and accounting for inventory on hand. This process focuses on inventory which is held as inventory as opposed to work-in-process, which is handled in the work-in-progress tracking process below. The storing process consists of those activities intended to provide appropriate physical and financial accountability within a storage location. Activities may include physical verification functions, tracking of assets within a location to maintain accurate location information, the condition of items in storage, and the status of those items that have been deemed to have use, have no further use, or will be reentered into the system as reutilized items.

Physical Verification Process

Mandatory Requirements for Physical Verification

Physical verification is the internal control process of verifying records of items on hand through comparisons with physical counts. If the data maintained in the system does not match the actual inventory, the system must be updated to reflect actual. These adjustments may affect physical control data, financial data, or both.

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Provide support for physical verification of inventory balances by location and item type in accordance with management selection criteria such as by (1) sequential selection of rows or areas within a warehouse or facility, (2) random selection, (3) weighed selection towards higher dollar, higher turn-over activity items, or (4) blind count (performance of a physical inventory without the knowledge of, or access to, the on-hand quantity balance in the inventory records)
- Record changes in physical condition (e.g., excellent, good, fair, poor), quantities, etc., based on the results of physical inventory verifications
- If the agency maintains perpetual inventory records, provide for the matching of physical counts with inventory quantity and financial records through cycle counting or other inventory management techniques
- If the agency does not maintain perpetual inventory records, provide for reconciliation using beginning of period inventory balances, receipts, and dispositions up to the cutoff point for the physical inventory
- Retain records of physical inventory counts until (a) the count is reconciled and (b) all adjusting entries for the physical count are resolved and entered into the financial records

Storing Process

- Identify all errors arising from reconciliation processes that apply to a time period prior to the last inventory adjustment. All such errors must be corrected, to include appropriate adjustments to prior gains and losses
- Enable the use of management determined error codes (such as incorrect entities, leaks or spills, wrong location, receipt error, stock picking error, shipping error, etc.) that would aid in the consistent identification and reporting of the causes of variance between Inventory, Supplies and Materials records and physical counts
- Provide the ability to (1) identify historically slow periods of operation when there is little movement of Inventory, Supplies and Materials items, (2) prevent or minimize the movement of Inventory, Supplies and Materials items to be counted on the day the items are selected for counting, and (3) use transaction histories to trace the movement of items and reconcile the count
- Restrict access to approve adjustments resulting from physical counts to only authorized individuals, including those having tiered or restricted levels of access
- Record approval of management of inventory adjustments and referrals of potential fraud or theft to investigators
- Calculate the inventory accuracy rate, based on management approved methodology (A common method used is number of accurate items or records divided by the number of items or records counted.)
- Record management identified assessment of risk (based on activity or turnover, dollar value, sensitivity/classification of item(s), and criticality of the item(s) to production or mission readiness) and degree of control required by segment, class, or type of Inventory, Supplies and Materials
- Record management determined frequency of physical count verification by segment, class, or type of Inventory, Supplies and Materials
- Record management established tolerances or criteria for selection of variances to research such as: (1) effect on operations or mission readiness, (2) quantity and dollar value, and (3) characteristics of the items with the variance, such as sensitive, classified, or items susceptible to fraud or theft
- Provide cut-off date to ensure that all inventory and related items that should get counted do and aid in identifying items, for which title has not passed, that are received after the cut-off date are not included
- Provide information, such as (1) shipping and receiving records, (2) relocation of inventory items within a warehouse or facility, and (3) production usage records, to aid in the research of variance causes and to ensure the proper adjustment of inventory records

- Identify and compare performance goal(s) established by management, such as an inventory count accuracy goal of 95 percent, adjustments and number of accurate physical counts, dollar value and quantity of adjustments, to the results of actual physical counts by warehouse, facility, item type, or other agency specific selection/performance measurement criteria
- Identify the existence of inventory stored at outside/off-site locations and the personnel or organization responsible for verifying its physical existence
- Record the identity (including description, location, condition, quantity, etc.) of slow moving or excess obsolete inventory and related items that could be segregated and precounted

Value Added Requirements for Physical Verification

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Record the identity of the employee/supervisor responsible for establishing and maintaining physical control over items by location, segment, type of item , etc., to compare to inventory accuracy rates to aid in holding appropriate personnel accountable for achieving the organization's performance goals (e.g., accuracy rate)
- Provide or interface with the tools used to perform the count (e.g., prenumbered count cards or tags, count sheets, or electronic or radio frequency devices)
- Record electronic confirmation from other parties responsible for storing items that are recorded in the Inventory, Supplies and Materials system

Accounting for Stored Items Process

Mandatory Requirements for Accounting for Stored Items

Accounting for stored items maintains financial data on items in storage.

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record reductions in the dollar value and quantity of inventory items destroyed, lost, or pilfered
- If financial adjustments are required as a result of a physical verification, send the appropriate information to the core financial system and cost accounting system to ensure that they stay in balance with the inventory system
- Adjust inventory item costs for significant differences between the amount recorded for the items upon receipt and the invoiced amounts paid for the goods or any refunds/rebates

Storing Process

- Generate financial transactions to record the transfer of inventory between financial categories such as from inventory held for sale to excess, obsolete, and unserviceable inventory, or between cost categories as defined for internal management. Send this information to the core financial system and cost accounting system as appropriate
- Recognize and record unrealized holding gains/losses when using the latest acquisition cost method for valuing inventory. See Appendix C for categories of inventory, supplies, and materials that can value items using latest acquisition costs
- Calculate the historical cost of ending inventory and cost of goods sold using a cost flow assumption method
- Make adjustments to inventory valuations to reflect net realizable value instead of historical cost or latest acquisition cost if the conditions specified in SFFAS Number 3 under “Exception to Valuation” are met or if the inventory is declared to be excess, obsolete, or unserviceable in accordance with SFFAS Number 3
- Maintain the distinction between the cost of inventory items and selling price. Make adjustments to them separately
- Compute the value of items on the inventory record by multiplying quantities on hand or on loan by the unit cost of the applicable item (consistent with the allowable inventory valuation methods, as described in Appendix C). These values are totaled and the data given to management reconcile with the general ledger value

Items in Transit Process

Items in transit are items being moved from one location to another, including between storage locations, and being moved from suppliers, for which title has passed to the government, to warehouse or from warehouse to customer. This process consists of movement and tracking and accounting for items in transit activities.

Movement and Tracking Process

Mandatory Requirements for Movement and Tracking

Movement and tracking monitors inventory items that are moved from one location to another but still remain on the books of the agency and under its control.

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record changes in the location of an inventory item, such as from one warehouse to another, and any associated changes in the person or organization responsible for stewardship of the item
- Record the asset identifier, description, cost, and quantities of items in transit from one location to another

Value Added Requirements for Movement and Tracking Items

To support this process, the agency's Inventory, Supplies and Materials system **should**:

- Provide a confirmation receipt to losing organization

Accounting for Items In-Transit Process

Mandatory Requirements for Accounting for Items In-Transit

Accounting for items in transit maintains financial data and accounting control over inventory items which are in transit between storage locations.

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record the asset identifier, description, cost, and quantities of items shipped from contractors or vendors for which title has passed to the government
- Record the cost and quantity (including asset identifier and description data) of items shipped from the inventory organization to another organization for which

Items in Transit Process

accountability has been retained by the inventory organization until receipt by the recipient

- Record the cost, quantity, and identity (including asset identifier and description data) of items in transit to the initial storage location, between storage locations, to a customer, or to a disposal activity
- Require systematic review and follow-up of aged in-transit deliveries. Specifically, the system must require review and follow-up on a scheduled basis, i.e., after 30 days and 60 days. Require a mandatory disposition review after 90 days

Inventory Undergoing Repair and Work-in-Progress Tracking Process

The Inventory Undergoing Repair process and Work-in-Progress Tracking process are value-added modules for any agency that does manufacturing or repair of consumables. If an agency is involved in manufacturing or repair of consumables, the following would be mandatory.

Inventory Undergoing Repair Process

The repair process supports the monitoring of and accounting for inventory in need of repair consisting of the transfer to repair status, account for repair costs, and return to inventory activities.

Transfer to Repair Status Process

Mandatory Requirements for Transfer to Repair Status

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record the asset identifier, description, cost, and quantities of items transferred from its current status to "in repair". Provide information to the core financial system to record the change in financial category
- Adjust the valuation of inventory items in accordance with the repair accounting treatment selected by the agency in conformance with SFFAS Number 3
- Using the allowance method, establish an allowance for repairs consistent with the estimated annual cost of repairs or consistent with impaired status in the case of items which will not be repaired within the year.

Account for Repair Cost Process

Mandatory Requirements for Account for Repair Cost

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Capture the direct and indirect costs of repair activities using either the direct or allowance methods of accounting for inventory held for repair
- If the allowance method of accounting for repairs is used, see appendix C for valuation of items

Inventory Undergoing Repair and Work-in-Progress Tracking Process

- Capture estimates for repair, via annual (or period) credit(s), to an allowance for repairs account
 - Capture the actual cost of repair, by asset identifier, and create a debit charge to an allowance for repairs account
- If the direct method of accounting for repairs is used, See appendix C for valuation of items
 - Capture the estimated cost of repair by item, including asset identifier, within the category of inventory held for repair
 - Capture the actual cost of repair for each item by asset identifier
 - Calculate the difference between estimated and actual costs of repair and provide to the core financial accounting system as either a debit or credit, as appropriate, to the repair expense account.
- Record the method of accounting, e.g., direct or allowance, used to account for repair of an item held in inventory held for repair

Return to Inventory Process

Mandatory Requirements for Return to Inventory

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Record the transfer of an inventory item from the status of "in repair" to its proper status and location. Provide information, such as cost, quantity, asset identifier, description, change in status, etc., to the core financial system to record the change in financial category
- If the item is determined to be unserviceable, transfer it to the disposal process and remove item information from the inventory system once accepted by the disposal system

Work-in-Progress Tracking Process

The work-in-progress tracking process supports the monitoring of and accounting for inventory in a production process, such as manufacturing. The process consists of the production ordering, accounting for work-in-process costs, and recording finished goods activities.

Production Ordering Process

Mandatory Requirements for Production Ordering

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Support the establishment (including technical specifications and accounting classification needed by the inventory system) of orders to be placed with a contractor or other government entity to perform production work on items needed
- Project the production elements necessary to complete the production cycle. These production elements must reflect bills of material, manufacturing requirements, and production time to produce or repair products

Accounting for Work-in-Progress Costs Process

Mandatory Requirements for Accounting for Work- In-Progress Costs

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Provide financial information in the appropriate format and method to other financial management systems used by the agency. For example, provide work-in-process costs by the designated accounting classification structure (e.g., fund, program, organization, project, object class) to the core financial system and cost accounting system
- Accept cost and other appropriate information from a separate cost accounting system to support cost accumulation by work elements such as job order, activities, products, etc
- Track accumulated costs, by asset identifier, including the cost of direct materials, direct labor, and overhead where applicable (including standard costs and rates, if applicable) for work-in-process. Percentage of completion methodology should be used to value work-in-process
- Provide features to record unit costs and prices of products and services

Recording Finished Goods Process

Mandatory Requirements for Recording Finished Goods

To support this process, the agency's Inventory, Supplies and Materials system **must**:

Inventory Undergoing Repair and Work-in-Progress Tracking Process

- Transfer work-in-progress to finished goods for inventory categorization and accounting purposes
- Identify the intended location of the item and track its movement from the point of initial receipt to its final destination
- Record identifiers, quantities, condition, location, and other elements necessary to establish control
- Classify inventory items by item class or type to meet agency needs for management and control

Inventory, Supplies and Materials Management Information Process

The process for the management of Inventory, Supplies and Materials provides the mechanism to aggregate information regarding Inventory, Supplies and Materials upon which management awareness can be achieved and decisions can be made.

Mandatory Requirements for Management Information

To support this management need, the agency's Inventory, Supplies and Materials system **must** support a summary of the following information, which may be provided in the form of a report:

- **Accept Unfilled Orders.** The dollar amount of orders accepted from other accounts within government for goods and services to be furnished on a reimbursable basis. In the case of transactions with the public, these orders are amounts advanced or collected for which the account or fund has not yet performed the service or incurred its own obligations for that purpose [GAO: A Glossary of Terms Used in the Federal Budget Process]
- **Post Discrepancies.** The numbers and types of discrepancies found between items ordered and received. This enables managers to identify potential problem areas in the ordering and distribution processes. It is supported by detailed information on specific discrepancies to support follow-up and resolution activities
- **Record Acceptance and Rejection Summary.** The number of items received, accepted, and rejected from each supplier. This can be used to evaluate the performance of suppliers and in reconciling with payment and general ledger posting activities
- **Identify Days Supply.** The number of days until the current on-hand quantity of an item or group of items is likely to become zero, based on current demand forecasts
- **Master Inventory.** Information regarding all items in inventory at a location, such as item numbers, descriptions, quantity on hand, unit cost, and location
- **Inactive Inventory.** Information regarding items that have not been used over a user-defined period to allow managers to identify slow-moving items
- **Item Expiration/Shelf Life.** Information regarding items that have expired or are due to expire
- **Cycle Count.** Provides the status of cycle counting in each warehouse, for inventory verification purposes
- **Inventory Accuracy.** Provides information regarding variances between actual counts and on-hand quantities as a result of performing a physical inventory

Inventory, Supplies and Materials Management Information Process

- **Inventory Undergoing Repair or in Production.** Inventory in the process of production for sale or to be consumed in the production of goods for sale are classified as inventory under SFFAS Number 3. The inventory system must be able to account for items or activities associated with these types of inventory
- **Repair Status.** Identifies items, by management specified criteria, transferred from an inventory facility to a repair facility and either the return of the item back into active inventory or the transfer to the disposal process because the item was determined to be unserviceable
- **Production Order.** Provides information, including technical specifications and accounting classifications, regarding work to be performed for items needed in inventory. The order should identify projected bills of material, manufacturing requirements, and production time to produce or repair products
- **Work-in-Process Tracking.** Accumulated costs of work-in-progress, by asset identifier, program, project code, or other management specified criteria, including the cost of direct materials, direct labor, and overhead, where applicable

INVENTORY, SUPPLIES AND MATERIALS DISPOSITION

General Requirements for Inventory, Supplies and Materials Disposition Process

The Inventory, Supplies and Materials Disposition process addresses the (1) *distribution* and (2) *disposal* of items. Disposition is the action taken to physically transfer property from one's accountability to another's accountability. Disposal is the act of getting rid of excess, obsolete property. According to SFFAS 3, the point of having inventory is to sell it or use it in the provision of goods or services for a fee. This activity takes items out of inventory and delivers them to the customer. In addition to the General Requirements outlined here, mandatory and value-added requirements for the sub-processes follow this section.

Inventory, Supplies and Materials Distribution

In a typical distribution operation, customer requests, customer orders, or other written agreements are filled by issuing or loaning items. A discussion of the two distinct distribution processes follows: Issuance and Loan.

Issuance Process

The issuing process generally involves the passing of title from one entity to another with the intention that the item be consumed in use, sold, or retained on hand for later use or sale. Different types of transactions can bring about the issuing process including sales, transfers, donations, , and the issuance of items to an end user or accountable activity without charge. The passage of title, regardless of the type of issuing transaction encountered, requires the quantity and cost information related to the item be removed from the Inventory, Supplies and Materials system.

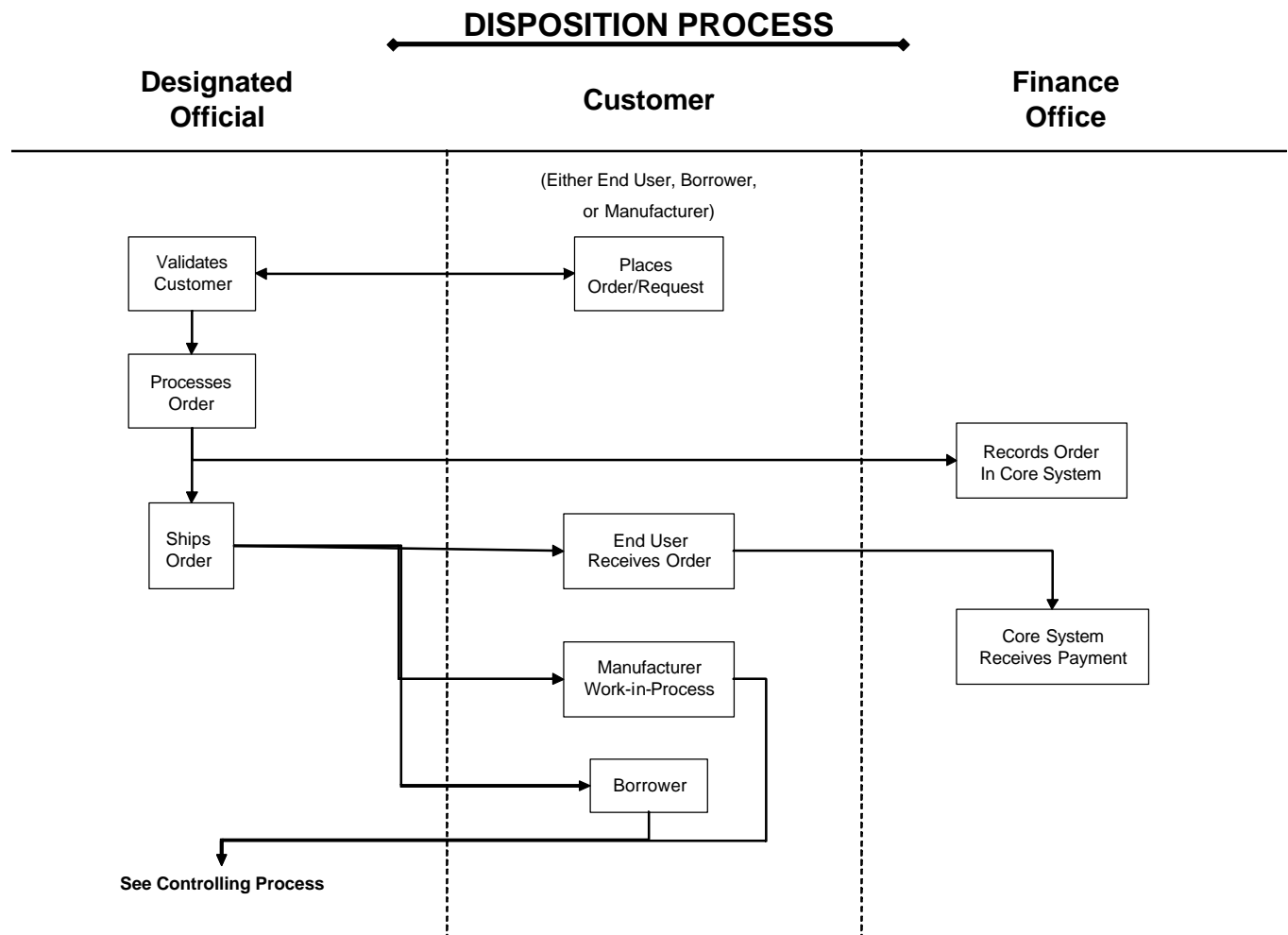
Loan Process

The loaning process supports the monitoring of and accounting for items which have been loaned out to others, such as government contractors, but are still owned and maintained on the books of the loaning agency. The accounting and controlling of loaned items is the same as the process employed in the Inventory, Supplies and Materials Control section.

Inventory, Supplies and Materials Disposal Process

The disposal process involves the passage of title of an item(s) from one entity to another with the intent to ultimately dispose of the items. Item quantity and cost information is removed from the Inventory, Supplies and Materials system with title transfer. Items subject to the disposal process include items that are excess, obsolete, unserviceable, or not issuable and subject to direct disposal. Direct disposal methods are commonly used when addressing health safety and environmental issues.

Inventory, Supplies and Materials Disposition Process Flow



General Mandatory Requirements for Inventory, Supplies and Materials Disposition

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Provide access to the following information:
 - fiscal year
 - transaction code (e.g. sale, transfer, loan, disposal)
 - item description
 - asset identifier

Inventory, Supplies and Materials Disposition

- performance measure code
 - transaction dates (date item issued/disposed and received by customer)
 - status (in storage, in transit, etc.)
 - quantity distributed, in transit, disposed
 - quantity of items remaining on hand subsequent to distribution/disposal activities
 - item condition
 - unit of issue/measure for each item
 - unit price of items distributed
 - unit cost of items distributed/disposed
 - extended price of items distributed/disposed
 - shipping costs of items distributed/disposed
 - date customer/disposal activity received the items
 - name, address, contact information regarding transporter
 - contract terms regarding delivery (e.g., FOB) or constructive delivery
 - date item received by customer
 - increase in the cost of goods sold account
 - gain or loss recognized as a result of the item's distribution
- Reflect changes in the quantity and cost of items on hand due to distribution/disposal activities
 - Support account balances by providing an audit trail with access to specific transaction details
 - Use a chart of accounts consistent with the basic number structure and titles provided in the USSGL. Any expansion to the numbering system must roll up to the posting accounts provided in the USSGL

Inventory, Supplies and Materials Disposition

- Access to the following customer information:
 - authorization of customer eligibility
 - organization code
 - trading partner (Treasury Dept code)
 - loan agreement number and all associated delivery order numbers or task order numbers (including change order number, if any)
 - purchase order number (including change order number, if any)
 - blanket purchase agreement (BPA) number and all associated BPA call numbers (including change order number, if any)
 - Change in product or service descriptions
 - Change in unit of measure
 - Change in quantity
 - Change in total amount
 - Change in delivery/performance schedule
 - Provide the ability to compare customer order records to issue records and flag any differences for follow-up
 - cost center code
 - object classification
 - project code
 - program code
 - funded through date (for those contracts that are incrementally funded)
 - variances between available funds provided prior to order fulfillment and the sales price of items requested
 - quantities requested

Inventory, Supplies and Materials Disposition

- customer name and address, specifications such as government-designated receiving, certifying, and acceptance official, if appropriate
 - date request received; and other data needed consistent with the inventory program
- Record unfilled orders if checks or cash are received with the customer order, record it against the customer order and send the information to the Receipt Management function of the core financial system for proper recognition of the associated liability to reflect the customer advance
- Differentiate between price and historical cost
- Record revenue earned and the appropriate offsetting account (e.g., cash, receivables, advances) in the amount for which the inventory items are sold (price)
- Identify item requests/orders for which the funds designated by the customer to purchase the items is less than the sales price of the items due to price changes, etc.
- Record the consumption (including cost, asset identifier, description, quantity, etc.) of operating materials and supplies by management identified cost object identifier code to facilitate cost accounting and program management
- Provide indicators to identify any sensitive, classified, or other management determined items which restrict the loan or disposal process of an inventory, supplies, or material item
- Flag any restricted inventory, supplies, or materials items that are designated for loan or disposal and provide a system control, which must be overridden by management, to prevent improper loan or disposal activities

General Value Added Requirements for Inventory, Supplies and Materials Disposition

To support this process, the agency's Supplies and Materials system **should** provide the following capabilities:

- Access other information where applicable and available:
 - revenue source code
 - additional funding indicator, including increases and decreases
 - line item number, including access to contract line item data

Inventory, Supplies and Materials Disposition

- signature (or electronic alternative) of acceptance official at agency or organization receiving the items
 - name, title, phone number, and mailing address of acceptance official at agency or organization receiving the items
 - Unique Item Identifier (note: When UIDs are used, data syntax and semantics for high capacity advanced information technology devices should conform to ISO 15434 and ISO15418 respectively)
- Capability to use Electronic Data Interchange (EDI) to obtain customer orders electronically without the need for manual keying

Inventory, Supplies and Materials Distribution Process

Mandatory Requirements for Inventory, Supplies and Materials Distribution

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Access to the following information:
 - pick lists to be used in pulling inventory items from storage
 - person or organization responsible for stewardship of loaned item(s)
 - location of loaned items
- Identify unfilled customer orders
- Provide the ability to backorder unfilled customer orders as policy permits when insufficient stock is available to fulfill the total requirement
- Provide the ability to compare customer order records to issue records and flag any differences for follow-up
- Provide quality controls to ensure that all appropriate costs have been provided to the pricing formula for a particular customer order
- Provide the ability to develop the information necessary, (e.g., payment terms, invoice date, item quantity, unit price, extended price, invoice amount, and additional charges such as transportation, etc.) to prepare an initial invoice for a customer that provides adequate support for the prices charged

Inventory, Supplies and Materials Disposal

Mandatory Requirements for Disposal of Inventory, Supplies and Materials

To support this process, the agency's Inventory, Supplies and Materials system **must**:

- Account for the proceeds resulting from the disposal process
- Quantity and cost of items designated as “excess, obsolete, unserviceable, or unissuable”
- Identify Munition List Items, small arms, and other controlled items such as Flight-Safety Critical Aircraft Parts (FSCAP) and items requiring trade security controls

Appendices

Appendix A: References/Authoritative Sources

Public Law

PL 97-177, Prompt Payment Act of 1982

PL 97-255, Federal Managers' Financial Integrity Act (FMFIA) of 1982

PL 100-496 Prompt Payment Act Amendments of 1988

PL 101-576, Chief Financial Officers (CFO) Act of 1990

PL 103-62, Government Performance and Results Act (GPRA) of 1993

PL 103-355, Federal Acquisition Streamling Act (FASA) of 1994

PL 103-356, Government Management Reform Act (GMRA) of 1994, as amended

PL 104-106, Division E, Information Technology Management Reform Act (ITMRA) of 1996, as amended (AKA Clinger-Cohen Act of 1996)

PL 104-134, Debt Collection Improvement Act (DCIA) of 1996

PL 104-208, Federal Financial Management Improvement Act (FFMIA) of 1996

PL 105-277, Government Paperwork Elimination Act of 1998

PL 106-229, Electronic Signature in Global and National Commerce (E-SIGN) Act of 2000

PL 106-398, Government Information Security Act of 2000

United States Code

26 USC 6941A, Returns regarding payments of remuneration for services and direct sales

31 USC 1535, Money and Finance—Agency agreements

31 USC 3512 Chief Financial Officers Act of 1990

31 USC 3901-3908, Money and Finance—Prompt payment

44 USC 35, Coordination of Federal Information Policy

Appendix A: References/Authoritative Sources

Code of Federal Regulations

5 CFR, Part 1315, Prompt Payment

41 CFR, Parts 100-128, Subtitle C, Federal Property Management Regulations System

41 CFR, Parts 101-127, Inventory Management

48 CFR, Chapter 1, Federal Acquisition Regulations (FAR), Part 45, “Government Property”

Regulations

Federal Acquisition Regulation

Federal Property Management Regulations

Federal Management Regulations

Treasury Financial Manual

TFM S2-02-03 September 2002 (SGL)

Vol. I TFM 2-1500, Description of Accounts Relating to Financial Operations (T/L 598)

Vol. I TFM 6,-4000, On-Line Payment and Collection (OPAC) System

Vol. I TFM 6-5000, Administrative Accounting Systems Requirements in Support of the Debt Collection Improvement Act of 1996

Vol. I TFM 6-8000, Cash Management

Financial Accounting Standards Advisory Board

SFFAS 3, Accounting for Inventory and Related Property

SFFAS 4, Managerial Cost Accounting Concepts and Standards

SFFAS 10, Accounting for Internal Use Software

Technical Release No. 4, Reporting on Non-Valued Seized and Forfeited Property

Technical Release No. 5, Implementation Guidance on SFFAS No. 10: Accounting for Internal Use Software

Office of Management and Budget Documents

OMB Bulletin 01-09, Form and Content of Agency Financial Statements

Appendix A: References/Authoritative Sources

OMB Circular A-11, Overview of the Budget Process, June 27, 2002

OMB Circular A-123, Management Accountability and Control, June 21, 1995

OMB Circular A-127, Financial Management Systems, including Transmittal Memorandum No. 2, June 10, 1999

OMB Circular A-130, Management of Federal Information Resources, November 28, 2000

OMB Bulletin 01-09, Form and Content of Agency Financial Statements, September 25, 2001

OMB Memorandum M-00-15, Guidance on Implementing the Electronic Signatures in Global and National Commerce Act.

OMB Memorandum M-03-01, Business Rules for Intra-governmental Transactions, October 4, 2002

Joint Financial Management Improvement Program

JFMIP Core Financial System Requirements (SR-02-01)

JFMIP Framework for Federal Financial Management Systems (FFMSR-0)

JFMIP Guaranteed Loan System Requirements (SR-00-01)

JFMIP Property Management Systems Requirements (SR-00-4)

JFMIP Seized Property and Forfeited Assets Systems Requirements (SR-99-4)

JFMIP Acquisition/Financial Systems Interface Requirements (SR-02-02)

Additional Cross-Reference Information

Statutory, regulatory, accounting standards, and other guidance used as a basis for identifying the information requirements and capabilities discussed in this document is available on the JFMIP website at JFMIP.gov.

Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventories and Related Property (GAO-02-447G, March 2002)

Appendix B: Glossary

Term	Definition	Source, if Available
Acceptance	Also referred to as acceptance of work. The act of an authorized representative of the government by which the government, for itself or as agent of another, assumes ownership of existing identified supplies tendered or approves specific services rendered as partial or complete performance of the contract.	Federal Acquisition Institute (FAI) <i>Glossary of Acquisition Terms</i>
Accounting	The system of recording and summarizing business and financial transactions in books of accounts and analyzing, verifying and reporting the results.	
Accountability	The assignment of duties and responsibilities to ensure that property entrusted to an individual or organization is properly used and cared for and that proper custody, safeguarding, record keeping, and proper final disposal are provided.	
Accounting Classification	A subset of the agency financial information classification. The accounting classification structure provides a means for categorizing financial information along several dimensions as needed to support financial management and reporting functions. The data elements a particular agency includes in its accounting classification structure will depend in part on the implementation strategy for the SGL, data aggregation requirements for preparation of financial statements under the CFO Act, appropriation structure, and other reporting and management needs of the agency.	JFMIP <i>Core Financial System Requirements</i>
Acquisition	Acquisition of Inventory, Supplies and Materials means to procure, purchase, or obtain in any manner, including transfer, acquisition from excess, donation, manufacture, or production at government-owned plants or facilities.	
Action Code	Identifies whether the transaction is a new action or a modification of an existing record.	JFMIP <i>Seized Property and Forfeited Assets Systems Requirements</i>

Term	Definition	Source, if Available
Agency Location Code	A numeric symbol used to identify accounting reports and documents prepared by or for agency accounting stations and disbursing offices, e.g., eight-digit agency accounting station code, four-digit disbursing office symbol, and three-digit Treasury disbursing center symbol (I TFM 2-3315 and 3320).	Vol. I TFM, 5-1030
Agency Single Integrated Financial Management System	A unified set of financial systems and the financial portions of mixed systems (e.g., acquisition) encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage the financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public.	OMB Circular A-127
Anti-Deficiency Act	Enacted legislation that: prohibits the making of expenditures or the incurring of obligations prior to appropriations; prohibits the incurring of obligations or the making of expenditures in excess of amounts available in appropriation or fund accounts unless specifically authorized by law; requires agencies to apportion appropriated funds and other budgetary resources; requires a system of administrative controls within each agency; prohibits incurring any obligation or making any expenditure in excess of an apportionment or reappportionment or in excess of other subdivisions; specifies penalties for anti-deficiency violations; requires apportionment of appropriation or fund accounts to prevent the need for supplemental or deficiency appropriation; and assists in bringing about the most effective and economical use of appropriations and funds.	
Appropriation	A provision of law (not necessarily an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.	JFMIP <i>Core Financial System Requirements</i>

Appendix B: Glossary

Term	Definition	Source, if Available
Asset Identifier	A string of alpha numeric characters that enable the identification of group of like items. The asset identifier is a new information requirement used to identify assets or multiple assets, as in the case of inventory or pooled property, plant, and equipment (PP&E) items, for which costs are incurred. Federal accounting standards require that recorded costs for inventory and PP&E assets include all costs incurred to bring these assets to the form and location suitable for their intended use. Since more than one contract or acquisition activity may be utilized to acquire and place PP&E (including national defense PP&E) in the form and location suitable for its intended use, this code will facilitate the accounting for total acquisition/contracting costs. The need for total costs is important for cost accounting, financial reporting, and asset valuation purposes. Therefore, the asset-identifier code has been included throughout the interface processes. Agencies will have to determine what organization will determine the coding of assets, e.g., program or finance. (See <i>Unique Item Identifier</i> for more information and context)	
Award Date	Date contract signed by contracting officer.	
Blanket Purchase Agreement (BPA)	A simplified method of filling anticipated repetitive needs for supplies or services by establishing charge accounts with qualified sources of supply.	FAR 13.303 - 1(a)
Blanket Purchase Agreement Call Number	A unique number assigned by the BPA issuing office that is used to track orders against the BPA.	
Budget Authority	The authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections.	OMB Circular A-34, 2000
Bulk Funding	A system whereby the contracting officer receives authorization from a fiscal and accounting officer to obligate funds on purchase documents against a specified lump sum of funds reserved for the purpose for a specified period of time rather than obtaining individual obligation authority on each purchase document. Bulk funding is particularly appropriate if numerous purchases using the same type of funds are to be made during a	FAR 13.101 (b) (4)

Term	Definition	Source, if Available
	given period.	
Cardholder	Any Federal employee that has a purchase card issued in his or her name.	GSA Card Program definitions
Certifying Officer	An accountable officer responsible for and required to reimburse personally the government for any illegal or otherwise improper payment made by a disbursing officer because of his or her certification.	GAO <i>Policy and Procedures Manual</i>
Claim	A written demand or written assertion by one of the contracting parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of contract terms, or other relief arising under or relating to the contract.	FAI <i>Glossary of Acquisition Terms</i>
Commitment	An administrative reservation of funds (including increases to existing commitments) in anticipation of obligation(s).	
Condemned Inventory	See Unserviceable Inventory.	
Consumption Method	A method of accounting for goods, such as materials and supplies, where the goods are recognized as assets upon acquisition and are expensed as they are consumed.	SFFAS-3
Contra Account	One of two or more accounts which partially or wholly offset another or other accounts; on financial statement, they may be either merged or appear together.	Kohler's Dictionary for Accountants
Contract	A mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as POs, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301, et seq.	FAR 2.101

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Term	Definition	Source, if Available
Contract Number	An alphanumeric designator created by each agency for a contract. Per GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7—Fiscal Guidance (Feb 1990): The contract number should consist of alpha characters in the first positions to indicate the agency, followed by alpha-numeric characters identifying bureaus, offices, or other administrative subdivisions authorized to enter into contacts. The last portion of the contract number should be sequential with a unique number series for each contracting activity.	
Contracting	Purchasing, renting, leasing, or otherwise obtaining supplies or services from nonfederal sources. Contracting includes description (but not determination) of supplies and services required, selection and solicitation of sources, preparation and award of contracts, and all phases of contract administration. It does not include making grants or cooperative agreements.	FAR 2.101
Contracting Officer	A person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings. The term includes certain authorized representatives of the contracting officer acting within the limits of their authority as delegated by the contracting officer.	FAR 2.101
Control	Management and accounting of items of Inventory, Supplies and Materials received from the time the government takes title up to the time it is released to an end user or disposal activity. This would include physical control of the property and the tracking of its movement and valuation of the item(s) in accordance with SFFAS #3 including adding incidental and repair costs, as needed, to the value.	
Core Financial System	An integral part of an agency's single integrated financial management system. It controls and supports the key functions of an agency's financial management, including general ledger management, funds management, payment management, receipt management, cost management, and reporting. The core financial system receives data from all other financial and mixed systems and from direct user input, and it provides data and supports processing for those systems that need it.	JFMIP <i>Core Financial System Requirements</i>
Cost	The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service.	GAO/PCIE Financial Audit Manual

Term	Definition	Source, if Available
Cost-Benefit Analysis	The weighing of benefits against costs usually expressed as a ratio of dollar benefits to dollar costs for each of a variety of alternatives to provide a comparable basis of choice among them.	Kohler's Dictionary for Accountants
Costing Methodology	Methodology for accumulating the costs of resources that directly or indirectly contribute to the production of outputs and assigning those costs to outputs.	
Customer Order	An order (e.g., requisition) for inventory or related property received from a customer.	GAO/PCIE Financial Audit Manual
Cycle Counting	A technique for counting specific parts of an inventory throughout the year to validate the accuracy of Inventory, Supplies and Materials records and controls.	
Days Supply	Items or materials that will be consumed or used in a day or given number of days.	
Delivery Order	An order for supplies placed against an established contract or with government sources.	FAR 2.101
Designated Official	Refers to the organizational element responsible for the process step, such as the program office, receiving and acceptance officials, and sometimes contracting or finance representatives.	
Direct Cost	Costs that can be specifically identified with an output. All direct costs should be included in the full cost of outputs. Typical direct costs in the production of an output include: (a) Salaries and other benefits for employees who work directly on the output; (b) Materials and supplies used in the work; (c) Various costs associated with office space, equipment, facilities, and utilities that are used exclusively to produce the output; and (d) Costs of goods or services received from other segments or entities that are used to produce the output.	SFFAS 4
Direct Disposal	Disposal due to health, safety, or environmental issues.	
Disbursement	Payment made using cash, check, or electronic transfer. Disbursements include advances to others as well as payments for goods and services received and other types of payments made.	JFMIP Core Financial System Requirements

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Term	Definition	Source, if Available
Disbursing Authority	Authority to disburse public money to officers and employees of other Federal agencies in accordance with 31 U.S.C. § 3321(b).	Vol. I TFM 4-10000
Discrepancies	Difference. The degree or amount by which things differ in quantity or measure.	
Disposition	This is the distribution of items of Inventory, Supplies and Materials through issuance or loan and the disposal of items determined to be excess, obsolete, unserviceable, unissuable, or not saleable.	
Donation	Property that is under the control of an agency and authorized for donation by statute to an authorized donee.	
Economic Order Quantity	The quantity derived from a mathematical technique used to determine the optimum (lowest) total variable costs to order and hold inventory or operating materials and supplies.	
Effective Date	The date of contract award or the stipulated date, whichever is later.	
Electronic Commerce	Electronic techniques for accomplishing business transactions including electronic mail or messaging, World Wide Web technology, electronic bulletin boards, purchase cards, EFT, and electronic data interchange (EDI).	FAR 2.101
Electronic Data Interchange	A technique for electronically transferring and storing formatted information between computers utilizing established and published formats and codes, as authorized by the applicable Federal Information Processing Standards.	FAI <i>Glossary of Acquisition Terms</i>
Electronic Funds Transfer	A transfer transaction instruction given to the Federal Reserve System to execute an outlay or disbursement.	
End User	Any component of a reporting entity that obtains goods for direct use in its normal operations. The component may also be a contractor.	SFFAS-3
Enterprise Architecture	A strategic information asset base that defines the business, information necessary to operate the business, technologies necessary to support the business operations, and transitional	Federal Enterprise Architecture

Term	Definition	Source, if Available
	processes for implementing new technologies in response to the changing needs of the business.	Framework, V.1.1, Federal CIO Council, September 1999
Excess Inventory	Property under the control of a federal agency that the head of the agency determines is not required to meet the agency's need or responsibilities	SFFAS-3
Expenditure	See Outlay	
Expenditure Variance	The percentage or dollar variance of an expenditure amount that can exceed an obligation amount. Some organizations refer to this as "tolerance level."	Adapted from the definition of "Tolerance Levels" in the JFMIP <i>Core Financial System Requirements</i>
Expense	The outflow of assets or incurrence of liabilities during a period resulting from rendering services, delivering or producing goods, or carrying out other normal operating activities.	JFMIP <i>Core Financial System Requirements</i>
Federal Agency	Any executive agency or any independent establishment in the legislative or judicial branch of the government (except the Senate, the House of Representatives, the Architect of the Capitol, and any activities under the Architect's direction).	FAR 2.101
Final Acceptance Indicator	Designated agency official acknowledgement that final acceptance has occurred.	
Financial System	An information system, comprised of one or more applications, that is used for any of the following: collecting, processing, maintaining, transmitting, and reporting data about financial events; supporting financial planning or budgeting activities; accumulating and reporting cost information; or	OMB Circular A-127

Appendix B: Glossary

Term	Definition	Source, if Available
	supporting the preparation of financial statements. A financial system supports the financial functions required to track financial events, or provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements. A financial system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. A financial system may include multiple applications that are integrated through a common database or are electronically interfaced, as necessary, to meet defined data and processing requirements.	
Finished Goods	Manufacturing organization's completed product held for sale.	
First-In, First-Out (FIFO)	A cost flow assumption; the first goods purchased or produced are assumed to be the first goods sold.	SFFAS-3
Fiscal Year	The government's accounting period. It begins on October 1 and ends on September 30, and is designated by the calendar year in which it ends.	OMB Circular A-34
Free on Board	A transportation term that indicates that the price for goods includes delivery at the seller's expense to a specified point and no further. FOB is used with an identified physical location to determine 1) the responsibility and basis for payment of freight charges, and 2) the point at which title for the shipments passes from seller to buyer. <i>FOB Origin.</i> The buyer assumes title and control of the goods the moment the carrier signs the bill of lading. The buyer assumes the risk of transportation and is entitled to route the shipment. <i>FOB Destination.</i> The seller retains title and control of goods until they are delivered and the contract of carriage has been completed. The seller selects the carrier and is responsible for the risk of transportation.	
Funds Certification	The process of affirming that funds or budget authority is available for potential purchases of goods or services. It is part of the funds control process that reserves funds in anticipation of an obligation.	

Term	Definition	Source, if Available
Generally Accepted Accounting Principles (GAAP)	The accounting principles that the entity should use. For federal executive agencies, these are federal accounting standards following the hierarchy listed in SAS 91. The standards issued by FASAB are the first level of the hierarchy.	GAO/PCIE Financial Audit Manual July 2001
Hardware System	Two or more individual items (equipment components) that are part of a self-contained group; are joined physically, electronically, or electromechanically; are programmed or designed specially to rely on each other; cannot function independently if separated; and cannot be easily disconnected and reconfigured to function with or within another unit or “system”.	JFMIP <i>Property Management Systems Requirements</i>
Head of the Agency (also called Agency Head)	The Secretary, Attorney General, Administrator, Governor, Chairperson, or other chief official of an executive agency, unless otherwise indicated, including any deputy or assistant chief official of an executive agency.	FAR 2.101
Historical Cost method	Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, are charged to operations of the period. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions may be applied in arriving at the historical cost of ending inventory and cost of goods sold	SFFAS-3
Holding Cost	Costs associated with carrying inventory and may include any or all of the following costs: storage space cost, handling cost, obsolescence losses, shrinkage, and clerical costs.	
Indirect Cost	Costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs. Typical examples of indirect costs include costs of general administrative services, general research and technical support, security, rent, employee health and recreation facilities, and operating and maintenance costs for buildings, equipment, and utilities.	SFFAS 4
Information Technology	Any equipment, or interconnected system(s) or subsystem(s) of equipment, that is used in the automatic acquisition, storage, manipulation, management, movement, control, display,	FAR 2.101

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Term	Definition	Source, if Available
	switching, interchange, transmission, or reception of data or information by the agency.	
Interagency Agreement Number	Identifier associated with an agreement between two Federal entities. The agreement, similar to a statement of work, specifies the business partners involved, the products/services to be provided, and other pertinent information.	
Interface Requirement	A need for information, such as data requirements, reporting needs, internal controls, or edit requirements, required by the acquisition and finance functions as a result of transactions within the single integrated financial management system.	
Internal Control	Plan of organization, methods, and procedures adopted by management to ensure that (1) resource use is consistent with laws, regulations, and policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.	
Intra-governmental Business Partner Code	Similar in concept to a vendor or supplier code. It is an identifier for a Federal entity engaged in acquiring or providing products/services from another Federal entity.	
Intra-governmental Payment and Collection System (IPAC)	The primary method used by most federal agencies to electronically bill and/or pay for services and supplies within the government. Used to communicate to the Treasury and the trading partner agency that the online billing and/or payment for services and supplies have occurred.	GAO/PCIE Financial Audit Manual
In-Transit	Items being moved from one location to another, including between storage locations and in transit from suppliers for which title has passed to the government.	
Inventory	Tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be used in the provision of services for a fee. The principal objective of the sale or transfer of inventory is to provide a product or service for a fee that generally recovers full cost or an identified portion of the cost.	SFFAS-3
Inventory/Financial	The points during the inventory and financial management processes where:	

Term	Definition	Source, if Available
Interface	<p>the Financial community (budget, accounting/finance, and disbursing) interfaces with the program/contracting function in order to obtain information needed to accomplish its functional requirements (including core financial system general ledger management, funds management, payment management, receipt management, cost management, and reporting). See JFMIP Core Financial Systems Requirements document.</p> <p>the Acquisition community (receiving, program, and contracting) interfaces with the budget/finance function in order to fulfill an information need, accomplish a necessary functional process, or conduct internal control activities.</p>	
Inventory and Related Property Systems	All agency resources committed to the inventory and related property process, including, but not limited to human resources, information hardware and software systems, acquisition process documentation, as well as applicable regulations, policies, procedures and agency-implementing guidance and instruction.	
Inventory Held for Sale	See Inventory.	
Invoice	A contractor's bill or written request for payment under the contract for supplies delivered or services performed.	FAR 32.902
Item	Single piece of Inventory – See Inventory for further clarification.	
Item Expiration	The date or period on which an item loses value or becomes obsolete.	
Last-In, Last-Out (LIFO)	A cost flow assumption; the last goods purchased are assumed to be the first goods sold.	SFFAS-3
Latest Acquisition Cost Method	The latest acquisition cost method provides that the last invoice price (i.e., the specific item's actual cost used in setting the current year stabilized standard [sales] price) be applied to all like units held including those units acquired through donation or non-monetary exchange.	SFFAS-3
Lead Time	The total number of days from the time of need identification for an item until the item is placed into inventory.	
Liability	Assets owed for items received, services received, assets acquired, construction performed (regardless of whether invoices	

Appendix B: Glossary

Term	Definition	Source, if Available
	have been received), an amount received but not yet earned, or other expenses incurred. Liabilities include (1) amounts owed for goods in the hands of contractors under the constructive delivery concept (when an agency, the seller, meets long-term contract obligations) and (2) amounts owed under grants, pensions, awards, and other indebtedness not involving the furnishing of goods and services.	
Lower of Cost or Market	A valuation rule that recognizes impairment of asset values but avoids anticipated gains. The rule is typically applied to individual items or groups of like items, such as inventory or operating materials and supplies. In this rule, “cost” refers to historical cost and “market” refers to current replacement cost by purchase or production.	Kohler’s Dictionary for Accountants (modified)
Market Value	The estimated amount that can be realized by disposing of an item through arm’s length transactions in the marketplace; the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time.	SFFAS-3
Micropurchase	An acquisition of supplies or services (except construction), the aggregate amount of which does not exceed \$2,500, except that in the case of construction, the limit is \$2,000.	FAR 2.101
Micropurchase with P-card	Purchases valued at \$2,500 or less that use a government-issued purchase card to purchase and pay for the supplies or services purchased.	
Mixed System	An information system that supports both financial and non-financial functions of the Federal government or components thereof.	FFMIA of 1996
Moving Average	An inventory costing method used in conjunction with a perpetual inventory system. A weighted average cost per unit is recomputed after every purchase.	SFFAS-3
Net Realizable Value	The estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated costs of completion, holding and disposal.	Kohler’s Dictionary for Accountants

Term	Definition	Source, if Available
Object Classification	A method of classifying obligations and expenditures according to the nature of services or articles procured, e.g., personal services, supplies and materials, and equipment. Obligations are classified by the initial purpose for which they are incurred, rather than for the end-product or service provided. OMB Circular A-11 provides current object classifications for reporting budget estimates to OMB. Many agencies have defined lower levels of object classification for internal use.	OMB Circular A-11
Obligating Document Number(s)	<p>An identifier that refers to a specific document representing an obligation of Federal funds, which can be a task or delivery order number and its associated contract number; a BPA call number and its associated BPA number; a contract number; or a PO number.</p> <p>Part of the obligating document number(s) is any modification number associated with any of the above numbers. Acquisition obligating documents often have more than one number that must be recorded to properly record the obligation.</p>	
Obligation	A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions for bona fide needs existing during a given period that will require payments during the same or a future period and that comply with applicable laws and regulations. Such amounts will include outlays for which obligations had not been previously recorded and will reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.	JFMIP <i>Grant Financial System Requirements and Core Financial System Requirements</i>
Obligation Amendment	Amendment to an obligation amount resulting from a contract modification. (See also Contract Action).	
Obsolete Inventory	Inventory that is no longer needed due to changes in technology, laws, customs, or operations.	SFFAS-3
Operating Materials and Supplies	The amount of tangible personal property to be consumed in normal operations. Excluded are (1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (2) stockpile materials, (3) goods held under price stabilization programs, (4) foreclosed property, (5) seized and forfeited property, and (6) inventory.	SFFAS-3

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Term	Definition	Source, if Available
Organization Code	A code representing the offices, divisions, branches, etc., established within an entity based on responsibility assignments, whether functional or program related; can also reflect the distribution of operating plans or other funding.	
Outlay	A payment to liquidate an obligation. Outlays are the measure of government spending. Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions.	<i>JFMIP Core Financial System Requirements</i>
Partial Payments	Payments for accepted supplies and services that are only a part of the contract requirements. OMB A-125 requires agencies to pay for partial delivery of supplies or partial performance of services unless specifically prohibited by the contract.	FAR 32.102(d)
Payment	A government disbursement of monies to a contractor in accordance with contract terms. The payment management function consists of the following processes: payee information maintenance, payment warehousing, payment execution, and payment confirmation and follow-up.	FAR 32.902 and JFMIP <i>Core Financial System Requirements</i>
Payment Date	The date on which a check for payment is dated or, for an EFT, the specified payment date.	FAR 32.902
Payment Office	The office or employee responsible for scheduling invoices for payment.	PL 97-177, Prompt Pay Act of 1982
Performance Measure Code	A code used to identify the performance goal that would be associated with the PO, so that it would be easy to link performance execution (obligations) to the approved performance plans/measures. The code is intended to serve as an agency option to comply with GPRA requirements, to deploy resources in accordance with strategic plans and objectives, and measure results against them.	
Periodic Obligations	Obligations for an item that are developed periodically.	

Term	Definition	Source, if Available
Receipt Date	The date goods or services are received or accepted, whichever is later	
Physical Completion	The point in time at which all contract items and services have been delivered and accepted or the term of the contract has expired. The contract administration office may issue a contract completion certificate.	
Production Order	An order to start production of an item.	
Program Code	A code to which expenses incurred or assets acquired relate to a program.	JFMIP Core Financial System Requirements
Project Code	A code to which expenses incurred or assets acquired relate. A project is a planned undertaking of something to be accomplished, produced, or having a finite beginning and finite end. Examples are a construction project or a research and development project. Project code is also referred to as job code in some organizations.	JFMIP Core Financial System Requirements
Proper Invoice	A bill or written request for payment that meets the minimum standards specified in the applicable prompt payment clause and other terms and conditions contained in the contract for invoice submission. A “proper invoice” must meet the requirements of 5 CFR, Chapter 3, Sec. 1315.9(b) and can include receiving reports and delivery tickets when contractually designated as invoices.	FAR 32.902
Proper Matching	An example, for purposes of payment, is a comparison of the: (1) acceptance/receipt document or receiving report, (2) obligation, and (3) request for payment (invoice).	
Purchase Card	“Government-wide commercial purchase card” means a purchase card, similar in nature to a commercial credit card, issued to authorized agency personnel to use to acquire and to pay for supplies and services.	FAR 13.001
Purchase Card Reconciliation	The task of matching and resolving purchase card transactions made by the cardholder with the purchases listed on the periodic	

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Term	Definition	Source, if Available
	account statement provided to the agency by the card-processing financial institution.	
Purchases Method	A method of accounting for goods, such as materials and supplies, in which the acquisition cost is recognized as an expense upon purchase of the goods rather than upon their use.	SFFAS-3
Purchase Order	An offer by the government to buy supplies or services, including construction and research and development, upon specified terms and conditions, using simplified acquisition procedures.	FAR 13.001
Raw Materials	Items to be used in the production of goods for sale or provisions of services for a fee.	
Receiving Report	Written evidence meeting the requirements of FAR 32.905(f) that indicates government acceptance of supplies delivered or services performed by the contractor.	FAR 32.902
Repair Status	Status of item in repair.	
Repairable	An item of inventory subject to economical repair and for which the repair is considered in satisfying computed requirements at any inventory level.	
Reparable	See repairable.	
Replacement Cost	The cost to reproduce an item by purchase or manufacture. In lower of cost or market computations, the term “market” means replacement cost, subject to ceiling and floor limitations.	SFFAS-3
Requirements – Mandatory	Mandatory requirements describe what the system must do and consist of the minimum acceptable functionality necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.	JFMIP Core Financial System Requirements
Requirements – Value-Added	Value-added requirements describe optional features or characteristics and may consist of any combination of the following: (1) using state-of-the-art technology, (2) employing	JFMIP Core Financial System

Term	Definition	Source, if Available
	the preferred or best business practices, or (3) meeting the special management needs of an individual agency. <i>Value-added, optional</i> , and other similar terminology may be used to describe this category of requirements. Agencies should consider value-added features when judging systems options. The need for value-added features in agency systems is left to the discretion of each agency head.	<i>Requirements</i>
Revenue Source Code	Identifies and classifies the types of revenue and receipts as defined by the user. For example, categories could be rental income, sales by product type, income by type of service performed and others.	JFMIP <i>Core Financial System Requirements</i>
Safety Level	Level of quantities stocked as a buffer against backed orders caused by fluctuations in demand over lead times, repair cycle times, attrition rates, and other variables.	
Shelf Life	The span of time an item may be kept until it is considered unusable by the supplier or inventory manager.	
Signature or Signed	The discrete, verifiable symbol of an individual which, when affixed to a writing with the knowledge and consent of the individual, indicates a present intention to authenticate the writing. This includes electronic symbols.	FAR 2.101
Simplified Acquisition Procedure	The methods prescribed in FAR Part 13 for making purchases of supplies or services.	FAR 2.101
Software	The application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system.	JFMIP <i>Property Management Systems Requirements</i>
Special Controlled Items	Items that require special inventory controls such as precious metals, small arms, munitions list items, and Flight Safety Critical Aircraft Parts	
Specified Payment Date	The date that the government has placed in the EFT payment transaction instruction given to the Federal Reserve System as the date on which the funds are to be transferred to the contractor's account by the financial agent. If no date has been	FAR 32.902

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Term	Definition	Source, if Available
	specified in the instruction, the specified payment date is three business days after the payment office releases the EFT payment transaction instruction.	
Standard General Ledger	A uniform list of accounts and support transactions that standardizes Federal agency accounting and supports the preparation of standard external reports. The U.S. Government Standard General Ledger Chart of Accounts (1) provides control over all financial transactions and resource balances, (2) satisfies basic reporting requirements of OMB and Treasury, and (3) integrates proprietary and budgetary accounting.	U.S. Treasury Financial Manual
Stockpile Materials	Strategic and critical materials held due to statutory requirements for use in national defense, conservation, or national emergencies. They are not held with the intent of selling in the ordinary course of business.	SFFAS-3
Subject to Funds Availability	Funds have not yet been certified as available. Solicitations to industry may include a clause that provides a caveat to this effect, so as not to project the program as funded and thereby raising unwarranted hopes by companies for potential sales.	
Task Order	An order for services placed against an established contract or with government sources.	FAR 2.101
Taxpayer Identification Number	The number required by the IRS to be used by the offeror in reporting income tax and other returns. The TIN may be either a Social Security Number or an Employer Identification Number (EIN). Also, the number is defined by the Treasury Financial Management Service Tax Identification Policy as follows: "A nine digit Employer Identification Number or Social Security Number as defined in Section 6109 of the Internal Revenue Code of 1986."	
Title	The right to property; the means by which such right is established.	Kohler's Dictionary for Accountants
Trading Partners	As defined by the U.S. Department of the Treasury, trading partners are agencies, bureaus, programs or other entities (within or between agencies/departments) participating in transactions with each other.	

Term	Definition	Source, if Available
Trading Partner Code	Codes assigned by the Department of Treasury, Financial Management Service (FMS) to certain Federal agencies to facilitate disbursement, reconciliation, and other activity/reporting by FMS.	
Transaction Code	Used to identify movement of goods (e.g., sale, transfer, issuance, loan, disposal).	
Transaction Date	The date a transaction takes place.	
Transaction Type	Type of accounting transaction processed. For example, partially liquidating obligation or fully liquidating obligation.	
Undelivered Orders	The value of goods and services ordered and obligated that have not been received. This amount includes any orders for which advance payment has been made but for which delivery of performance has not yet occurred.	
Unfilled Orders	Difference between total order and item availability.	
Unit Cost	Assigned cost per unit of measure.	
Unique Item Identifier (UID)	<p>A unique, unambiguous string of alpha numeric characters that enables the identification of a specific asset from any other like or unlike it.</p> <p>Example of UIDs vs. Asset IDs:</p> <p>A UID applies when we need to identify a specific item or equipment. The best example is the Vehicle Identification Number. Using this single number you can tell your light blue 2002 Buick Regal from every other light blue 2002 Buick Regal. The structure of the UID as proposed provides a way for any manufacturer to ensure that the UID they assign to a product will not be duplicated either by themselves or any other company world wide.</p> <p>An Asset ID would apply to automobile brake shoes of a specific size. They could be manufactured by any one of a dozen manufacturers. They are virtually the same and interchangeable. There is no reason or need to track any one particular brake shoe. Examples of Asset IDs that we see daily are the Store Keeping Unit (SKU) you find at WALMART and</p>	

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Term	Definition	Source, if Available
	the National Stock Number (NSN) used by the defense Department	
Unliquidated Obligations	See Undelivered Orders.	
Unserviceable Inventory	Damaged inventory that is more economical to dispose of than to repair. Also known as condemned inventory.	SFFAS-3
Variance	The difference for a year or less between the elements (direct material, direct labor, factory overhead) of standard cost and actual cost. The term applies to (a) a money difference or (b) changes in character or purpose of amounts expended.	Kohler's Dictionary for Accountants
Vendor	Any person, organization, or business concern engaged in a profession, trade, or business, and any not-for-profit entity operating as a supplier (including State and local governments and foreign entities and foreign governments, but excluding Federal entities).	5 CFR, Chapter III, Sec. 1315
Voucher	The Standard Form 1034, Public Voucher for Purchases and Services Other Than Personal, or similar form; a type of request for payment.	FAR 49.103(c)
Weighted-Average	A periodic inventory costing method where ending inventory and cost of goods sold are priced at the weighted-average cost of all items available for sale.	SFFAS-3
Write-Off	An action to remove an amount from an entity's assets or financial resources.	Treasury Financial Manual Supplement

Appendix C: Inventory, Supplies and Materials Valuation

The following table shows the allowable methods of valuation allowed for each classification of Inventory, Supplies and Materials.

VALUATION METHODS	CLASSIFICATIONS		
	INVENTORY	OPERATING MATERIALS & SUPPLIES	STOCKPILE MATERIALS
Historical	X	X	X
Latest Acquisition	X		
Expected Net Realizable Value	X	X	X
Allowance or Direct Method (Held for Repair Only)	X	X	

Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. Donated inventory shall be valued at its fair value at the time of donation. Inventory acquired through exchange of non-monetary assets (e.g., barter) shall be valued at the fair value of the asset received at the time of the exchange. Any difference between the recorded amount of the asset surrendered and the fair value of the asset received shall be recognized as a gain or a loss.

The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions may be applied in arriving at the historical cost of ending inventory. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods (e.g., a standard cost system).

The latest acquisition cost method is allowable for inventory only. It provides that the last invoice price, (i.e., the specific item's actual cost used in setting the current year stabilized standard [sales] price) be applied to all like units held including those units acquired through donation or non-monetary exchange. The inventory shall be revalued periodically but at least at the end of each fiscal year. Revaluation results in recognition of unrealized holding gains/losses in the ending inventory value. Upon adjustment for unrealized holding gains/losses, the latest acquisition cost method then results in an approximation of historical costs. "Holding gains (or losses)" result from holding assets in periods of changing prices. Under historical cost methods, holding gains (or losses) are not separately recognized even though they exist. Under the latest acquisition cost method, holding gains (or losses) will be recognized in the valuation of inventory since that value is adjusted periodically to present the more current latest acquisition costs. These gains or losses are unrealized holding gains or losses. "Unrealized" refers to any gain or loss associated with inventory still held by the entity. "Realization of the holding gain or loss occurs when an item of inventory is sold.

The expected net realizable value method is an exception. Use of this method is acceptable if there is (1) an inability to determine approximate costs, (2) immediate

Appendix C: Inventory, Supplies and Materials Valuation

marketability at quoted prices, and (3) unit interchangeability (e.g., petroleum reserves). Application of this exception may result in inventories being valued at greater than historical cost. Excess, obsolete, and unserviceable inventory and operating materials and supplies will be valued using the expected net realizable value.

Use of the allowance or direct methods is allowable only for inventory and operating materials and supplies held for repair.

- Under the allowance method, inventory and operating materials and supplies held for repair are to be valued at the same value as a serviceable item. However, an allowance for repairs contra-asset account (i.e., repair allowance) will be established. As the repairs are made the cost of repairs shall be charged to the allowance for repairs account.
- Under the direct method, inventory and operating materials and supplies held for repair shall be valued at the same value as a serviceable item less the estimated repair costs. When the repair is actually made, the cost of the repair shall be capitalized in the inventory account up to the value of a serviceable item.

Appendix D: Factors Influencing the Environment

At any particular point in time, there are multiple on-going or planned projects or activities with interlocking goals, objectives, and plans, which frequently involve some form of system automation, Electronic Data Interchange (EDI), or Electronic Commerce (EC). This appendix provides highlights of three activities that were identified during the development of this document that are particularly relevant to the Inventory, Supplies and Materials management and financial management communities, i.e., Information Technology in the Inventory, Supplies and Materials Process, Intra-governmental Transactions, and JFMIP testing of Core Financial System Requirement.

This appendix is not comprehensive or exhaustive in terms of the aspects of each project or activity or their relevance to each other. Also, these and other projects change over time, i.e., some are completed, some are terminated, and others are established. The projects and activities discussed in this appendix, and others, should be considered in agency's efforts to develop, implement, operate, and maintain agency financial management systems.

Information Technology (IT) in the Inventory, Supplies and Materials Process

As previously discussed, IT is a critical factor influencing Inventory, Supplies and Materials processes and interfaces. Its application allows paperless processes, better buying decisions, and ultimately, improved customer service. IT enables the reengineering of inventory and financial processes.

The information technology approach chosen to implement the functional shared information requirements identified in this document do not require any specific IT solution in either hardware or software. However, agencies should recognize the availability of government-wide IT solutions designed to achieve congressional goals to reduce paper processes, to secure electronic information and to improve access to information. Any agency implementing these Inventory, Supplies and Materials/financial functional requirements must take into account these influences when developing its IT strategy.

Besides enabling improved processes, IT allows better functional integration by automating the exchange of information from one function to another. Information is acquired at its source and shared across functional boundaries so that a particular contract award record in a financial system is identical to the record in the acquisition system.

Electronic Commerce (EC)

Electronic Commerce, is the exchange of business information through electronic means. Three EC technologies are currently significant to Inventory, Supplies and Materials: The Internet and World Wide Web, of which a key example is FedBizOpps for posting synopses and solicitations; EDI transaction standards for electronic ordering and invoicing; and EFT payment transaction standards for paying contractors electronically.

Appendix D: Factors Influencing the Environment

The FedBizOps web portal is one approach toward meeting the single point of entry objective, while the use of EDI and Electronic Funds Transfer (EFT) standards provide government-wide interface standards for Inventory, Supplies and Materials and finance. The acquisition and financial EDI and EFT standards are being updated to a new interchange standard called Extensible Markup Language (XML), which allows greater integration with web applications. As these electronic interface technologies evolve, system developers should be cognizant of their support of the functional interface requirements contained in this document and stand ready to integrate them into existing systems.

Electronic Government (E-government)

The OMB's *E-Government Strategy* describes twenty four initiatives to improve the quality of services to citizens, businesses, governments and government employees, as well as the effectiveness and efficiency of the Federal government. The initiatives influencing the Inventory, Supplies and Materials/financial interface requirements environment are:

Integrated Acquisition Environment will allow agencies to begin sharing common data elements to enable other agencies to make more informed procurement, logistical, payment and performance assessment decisions.

E-Authentication will build and enable the mutual trust needed to support wide spread use of electronic interactions between the public and government and across governments. This will establish a method for satisfactorily establishing "identity," without which the promise of E-Government will never reach its full potential.

Information Security

Another IT influence on Inventory, Supplies and Materials is the requirement for adequate security controls on systems, the security of business communications and the ability to rely on electronic signed documents. These requirements impact Inventory, Supplies and Materials and finance due to their considerable paper interface with the public and other Federal agencies and the need to store sensitive business information in their computer systems. The solutions are computer system access controls, public key cryptography and digital signature technology. Electronic signatures and internet security, essential for paperless purchasing and payment, will be provided to the acquisition community through the Access Certificates for Electronic Services (ACES) program administered by the GSA. ACES facilitates secure online access to government information and services by the public through the use of public key infrastructure/digital signature technology.

Information security has gained greater emphasis since the Government Information Security Reform Act of 2000 amended the Paperwork Reduction Action of 1995 by adding a new subchapter on information security. The Security Act codifies existing OMB security policies, Circular A-130, Appendix III, and reiterates security responsibilities outlined in the Computer Security Act of 1987, the Paperwork Reduction

Act, and the Clinger-Cohen Act of 1996. In addition, the Security Act requires annual agency program reviews and annual independent evaluations for both unclassified and national security programs.

Enabling Process Change

The effect of IT is a reengineering of inventory and finance processes. Examples are:

Purchase card technologies enable traditional customers of the procurement process to individually acquire their own micropurchases, which in turn permits thousands of individual invoices to be consolidated into one monthly statement for payment to the card-provider bank.

Electronic catalog technologies that enable online ordering via *GSA Advantage* or other agency internet ordering systems to speed sourcing, placement, and receipt of supplies and services.

Internet and email technologies that allow agencies, through the FedBizOps portal, to not only post solicitations directly on the Internet but send interested suppliers an email notice with a link to the solicitation. The results are one-stop access to all Federal business opportunities, a paperless solicitation process, greater competition, and ultimately, better customer service.

Electronic Signature Requirement

There is a general requirement to accept electronic signatures. This requirement, which must be adhered to, stems from the following:

Appendix D: Factors Influencing the Environment

The FAR defines signature⁴ or signed to mean the discrete, verifiable symbol of an individual which, when affixed to a writing with the knowledge and consent of the individual, indicates a present intention to authenticate the writing. This includes electronic symbols. Simply stated, systems which produce electronic signatures must be capable of ensuring that these signatures are: (1) unique to the signer, (2) under the signer's sole control, (3) capable of being verified, and (4) linked to the data in such a manner that, if the data are changed, the signature is invalidated upon verification.

The Electronic Signatures in Global and National Commerce (E-SIGN) Act (Public Law 106-229) provides that a signature or contract may not be denied legal effect solely because it is in electronic form. The E-SIGN Act does not require Federal agencies to use or accept electronic signatures or records for contracts. However, a Federal agency and its contractor may choose by mutual agreement to use electronic signature methodologies. (OMB Guidance on Implementing the Electronic Signatures in Global National Commerce Act, dated September 25, 2002 (Memorandum M-00-15)).

GPEA⁵ requires Federal agencies to allow, by October 21, 2003, individuals or entities that deal with the agencies, the option to submit information, transact with the agency, and maintain records electronically when practicable. Like the Electronic Signatures in Global and National Commerce Act, the act specifically states that electronic records and their related electronic signatures are not to be denied legal effect, validity, or enforceability merely because they are in electronic form.⁶ The act also encourages the Federal government's use of a range of electronic signature alternatives.

Appendix II of OMB Circular A-130, "Management of Federal Information Resources,"⁷ implements the GPEA and calls for the Federal government to develop a public key infrastructure to enable the widespread use of cryptographically-based digital signatures. For example, some agencies have successfully developed secure electronic transaction systems using personal identification numbers for security.

OMB does not endorse any one technological approach to electronic signatures. It is neutral as to the best approach for electronic signatures.

Central Contractor Registration

A general requirement exists for the identification of suppliers through a common system. Although the FAR does not mandate one system, the OMB's June 7, 2001, for the FY 2003 Budget⁸ states,

"An outcome for expanding electronic government will include the establishment of a government-wide single point of vendor registration."

⁴ FAR 2.101, Definitions.

⁵ 44 USC 3504.

⁶ OMB Memorandum, M-00-10, dated April 25, 2000, entitled "OMB Procedures and Guidance on Implementing the Government Paperwork Elimination Act."

⁷ Revised Feb. 8, 1996.

⁸ OMB's June 7, 2001, Budget Guidance for FY 2003.

Appendix D: Factors Influencing the Environment

In FY 2003, agencies will use the Central Contractor Registration (CCR), an existing on-line database, as the single validated source of data on vendors doing business with the government. Beginning October 1, 2003, agencies will cease to collect the Standard Form 129 known as the Solicitation Mailing List Application.”

The CCR provides a standard means of providing taxpayer identification data and EFT routing information to financial systems. Internet technology allows firms doing business with the government to register in one database for use by all Federal contracting and finance offices needing to determine supplier identity. The result is a standard process that eliminates contractors having to submit Standard Form 129, Solicitation Mailing List Application, to each contracting office, as well as eliminating maintenance of separate supplier databases throughout the government.⁹

While not currently a requirement, all agencies will soon be required to have their vendors registered within this system. Therefore, to support the overall financial/acquisition interface, the agency’s single integrated financial management system should enable interface with the CCR.

Accessibility for the Disabled

Section 508 of the Rehabilitation Act of 1973 (as amended), requires that all Federal agencies’ electronic and information technology (EIT) be accessible to people with disabilities. Subsection 508(a)(1) requires that when Federal departments or agencies develop, procure, maintain, or use EIT, they must ensure that the EIT allows Federal employees with disabilities to have access to and use of information and data that is comparable to the access to and use of information and data by other Federal employees. Section 508 also requires that individuals with disabilities, who are members of the public seeking information or services from a Federal department or agency, have access to and use of information and data that is comparable to those provided to the public without disabilities. Comparable access is not required if it would impose an undue burden on the agency.

Intra-governmental Transactions

During program operations, the need frequently arises for one government agency or component to acquire goods or services from another government agency or component. When this occurs, that is, one government agency “contracts” with another agency for goods or services, financial information associated with these transactions is reflected in the financial systems and financial reports of two different Federal agencies or components. These “intragovernmental” transactions must be eliminated from the various agencies’ financial statements in order to avoid double counting and prepare a consolidated, government-wide financial statement. Disparate business practices and widely divergent data structures across agencies result in significant transaction

⁹ OMB’s June 7, 2001, Budget Guidance for FY 2003 states: “In FY 2003, agencies will use the Central Contractor Registration (CCR), an existing on-line database, as the single validated source of data on vendors doing business with the government.”

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differences. The inability to identify and reconcile intragovernmental transactions has been cited as a material weakness government-wide and is a factor in the GAO's disclaimer of opinion on the U.S. financial statements.

The Office of Management and Budget is working with the logistics and financial communities to develop and implement policies, procedures, and electronic exchange mechanisms for intra-governmental business transactions. The approach is modeled after the purchase order/invoice concept used for simplified, commercial purchases.

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