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November 9, 2026

DEPARTMENT OF ADMINISTRATION ORGANIZATIONAL CIRCULAR NO.: 2027-005

To: All Line Agency Directors

From: Director of Administration

Subject: **Accounting Principles and Practices**

Buenas yan Håfa Adai!

The audit reports for FY2025 are in the final stages of their completion. The audit of FY26 financial statements will commence as soon as the FY25 reports have been issued. Additionally, required, regular financial reports are being issued and circulated to agencies and departments, including the monthly budget/actual expenditure reports for both local and federal funds which provide agencies with monthly status of how actual expenditures (including encumbrances) compare with annual budgets.

The basis of government finances is encumbrance accounting. Budgetary control cannot operate without encumbrance accounting. Procurement laws and regulations must be followed to establish encumbrances. This process starts, for all procurement, with the submission of a requisition. Failed procurement results in the need for direct payments, inevitably a slower path to timely cash disbursements and an inability to follow budgeting processes.

Timely and accurately reporting will also be frustrated if agencies do not transmit invoices for payment (preferably within the GFMIS system) promptly and frequently, not just at the end of the fiscal year but regularly, so that expenditure reports are accurate and useful. Agencies are advised that a liability arises as soon as an agency authorizes an activity which results in an obligation, invoice or charge. Under General Accepted Accounting Principles, DOA must recognize such obligation arises. Such obligations generally result in an unavoidable mandate for payment. It is not authorized for invoices to be held and processed in a future period because of a perceived fund deficit. Unless accurately reported in the current time frame, such fund

deficits will not be apparent, will not be addressed and will recur. It is the responsibility of the agency to ensure that operational decisions are accurately and timely recorded in the financial system to avoid audit findings of failure to follow sound fiscal principles.

Certain agencies have been included in a pilot performance based budgetary program for FY2027. The same budget law mandates Government-wide performance based budgeting for FY2028. The foundation of PBB is the measurement of performance. For that to be accurate, costs must be reported timely and accurately.

DOA/Accounting is always ready to respond to questions and does offer training both in-person and virtually on the government's financial system (GFMIS). Agencies are encouraged to register both new and established employees in these modules

Si Yu'os Ma'ase.

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Director