

Federal Financial Accounting

U. S. Department of Labor
Employment & Training Administration

Low Spending Levels

- Identified in 1st year of WIA
 - Problem continued in PY02 and PY03
- Resulted in large carry-over amounts
- Administration proposed budget reduction
 - Sufficient balances would not affect client levels

ETA investigation results

- Reports understate true spending
 - Continued reporting on a cash basis
- Obligations for long-term training contracts or ITAs
- Changes in formula allocations
 - Large allotment increases
 - Hoarding funds

Impact

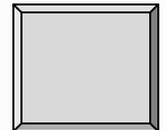
- ETA has changed its focus
- Reauthorization provisions
 - Recapture and reallocation
 - Based on expenditures, not obligations
- Failure to report accurately
 - Increase likelihood of fund loss

Congressional interest

- Recent budgets caught Congressional attention
 - States complained reductions not warranted
 - They have 3 years to expend,
 - Reduces state flexibility to plan operations
- Congress enacted reductions
 - Requested GAO review
 - Required ETA to submit quarterly cost summaries

GAO's report

- ETA data does not accurately reflect obligations
- ETA uses expenditure data to gauge budgetary needs
- Recommendation for ETA to clarify reporting guidance
 - TEGL 16-99, Change 1



OIG report

- Obligations were generally overstated
 - 5 out of 10 States did not require obligations reporting
 - Inconsistent reporting of obligations
- Expenditures were under reported
 - Local boards reported on “cash basis”
 - 6 of 10 States reviewed

Where are we today?

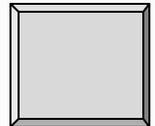
- TEGL No. 16-99, Change 1
 - Clarifies and better defines obligations and accrued expenditures
- Grantees/sub grantees continue to under-report
 - Not in full compliance with requirements

Where do we go from here?

- Reauthorization changes reallocation and reallocation basis
 - Excess over 30% UNEXPENDED
 - Total funds available
 - Including carry-in
- Impact of change on operations
 - Timely and accurate reporting essential
 - Accrual basis reporting critical

KEY TERMINOLOGY

- Obligations
- Outlays (Accrued Expenditures)
- Unliquidated Obligations
- Total Federal Funds Authorized
- Unobligated Balance



Source of “core requirements”

- Federal fiduciary responsibility
- Ensure tax dollars are properly used
 - Efficient,
 - Economical,
 - Effective manner

Financial Management System

- Expend and account for funds in accordance with procedures
 - Or specific standards
- Permit preparation of required reports
- Permit tracing of funds
 - Not used in violation of applicable restrictions

Financial reporting

- Financial Status Reports
 - Must be on the “accrual basis”
- Accounting system
 - May be maintained on either “cash basis” or “accrual basis”

What is accrual accounting?

- A method of accounting
 - An entity's financial position and operating results are measured by the flow of economic resources.
- Transactions are recorded in the accounting period in which they occur
 - Regardless of when the related cash receipts and disbursements take place
 - (In accordance with GAAP)

Why accrual reporting?

- Corporate world experience
- Use of accrual basis resulted in more reliable financial information
- Reliable financial information key
 - Effective management
 - Accountability

Why accrual reporting?

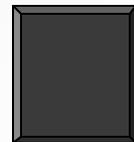
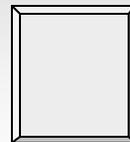
- Federal fiduciary responsibility
 - To taxpayers
 - Properly account for funds
- Full facts necessary
 - Complete and reliable financial information
 - Investment of scarce resources
 - Properly manage programs

Why accrual reporting?

- Reliable financial information required
 - Lack impairs ability to hold programs accountable
 - Required for reporting accurate results
 - No requirement to convert accounting basis
- Failure to report on the accrual basis may result in the **loss of funds**
 - Reallotment and reallocation requirements

Required elements

- Total Federal Funds authorized
 - By funding period and funding source
- Total Federal Obligations
- Federal Unliquidated Obligations
 - Undelivered orders
- Federal Outlays/Accrued Expenditures
- Unobligated Balance of Federal funds



Obligations or Accrued Expenditures?

- All accrued expenditures are obligations
- ***BUT***
- Not all obligations are expenditures.....

Obligation or Accrual

- Order placed
 - Delivery and payment in future
 - Obligation, not accrual
 - Delivery taken, payment in future
 - Obligation
 - Accrued expenditure
- Payment & delivery simultaneous
 - Obligation
 - Accrued expenditure
 - Cash outlay

Recording obligations

- Federal requirement
 - Supported by documentation
- Recording
 - Evidences the transaction
 - Does not create it.
- Failure to record
 - No effect on validity or fiscal year chargeable.

Contract Obligations

- Legally binding
 - Offer, acceptance, consideration, made by authorized official
- In writing
- A purpose authorized by law
- Properly executed
 - Before expiration of obligational availability
- Specific goods, real property, work, or services.

Accrued Expenditures

- Charges incurred in a given period
- Goods and property received
- Services performed
 - Employees, contractors, subgrantees, etc.
- Other amounts becoming owed
 - Indirect costs
 - Annuities
 - Insurance claims
- **Whether or not a cash payment is made**

Accrued Expenditures

- All accrued costs must be reported
- All reports must trace to source documentation
- Cash basis accounting
 - Linking records must be maintained
 - Maintained in accordance with GAAP

Salaries of Employees

- **Obligation**
 - When salaries are earned
 - Including related items
 - Retirement fund contributions, etc.
- **Accrued expenditure**
 - At the time the salaries are earned,
 - When the services are rendered
- **Simultaneous recording**

Annual Leave (unfunded)

- Obligation
 - Recorded when leave taken
 - When payable as “terminal” leave
- Accrued expenditure
 - Recorded when leave taken
 - When payable as “terminal” leave
- Simultaneous recording

Annual Leave (funded)

- Obligation
 - Recorded at the time leave is earned
- Accrued expenditure
 - Recorded at the time leave is earned
 - Escrow accounts
- Simultaneous recording

Travel Expenses

- Obligation
 - Travel actually performed
 - Ticket purchased
 - Not issuance of travel authorization
- Accrued expenditure
 - Travel actually performed
 - Ticket purchased
- Simultaneous recording

Public Utilities

- Obligation
 - When utility bill received
 - No contract required if
 - Rates fixed by regulatory bodies
- Accrued expenditure
 - When utility bill received, or
 - Billing period ends/services received
- Recorded appropriately

Advance payments

- Generally, prohibited by law
- Exceptions
 - Tuition
 - Subscriptions
 - Insurance
- Obligation and accrued expenditure recorded simultaneously

Individual Training Account (ITA)

- Obligation
 - At time of participant enrollment in training
 - At time payment is due and payable
- Accrued Expenditure
 - At time payment is due and payable
 - Depending on institution's payment policy
- Issuance of an ITA
 - Authorization for training only

Training institution payment policy

- Payment in advance (registration/enrollment)
 - Obligation & accrued
- Payment in advance (class begins)
 - Obligation & accrued
- Payment upon invoicing
 - Obligation at time of enrollment
 - Accrued as class is attended (service received)
- Drop-out and refund policy

Training Contracts

- Single Semester
 - Contract to obligate funds and pay on an “as training received” basis
- School Year
 - Contract to obligate funds for school/program year and pay each semester/quarter cost as training received

Training Contracts

- Multiple Year Program of Instruction
 - Contract to obligate this year's funds for multiple years
 - Contract to obligate this year's funds with an option for renewal when next year's funds become available

Five Month Class

[September-January]

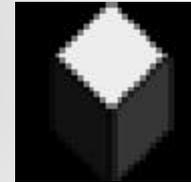
- Register/enroll in August
- Payment timing
 - Prepayment at registration
 - During first month [September]
 - During third month [November]
 - During fifth month [January]
 - Three or more months after completion
- Add/drop refund provisions

Leases

- Obligations
 - Lease agreement signed
 - Amount = maximum payment for termination
 - Not entire lease amount
- Accrued Expenditure
 - As service is provided
 - Space is occupied
 - Maybe paid in advance

Chart

- Indicates obligation or accrual status
- Cover wide number of examples
 - PO issued
 - Training contracts
 - Services received, not billed
- Use as reference tool



Microsoft Excel
Worksheet

Cash To Accrual Reporting

- WHY?
 - In accordance with GAAP
 - Better information to decision makers
- WHEN?
 - At least quarterly, but should be continuous
- HOW?
 - Let's talk!

Cash to Accrual Reporting

- “Suspense file folder” approach
- “Linking spreadsheet” approach
- “Simplified” approach

Suspense File Folder Approach

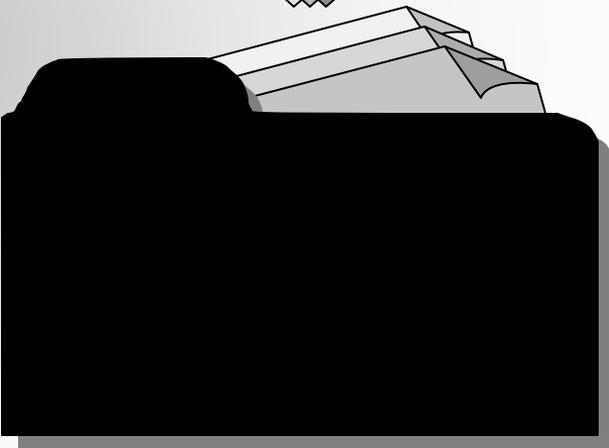
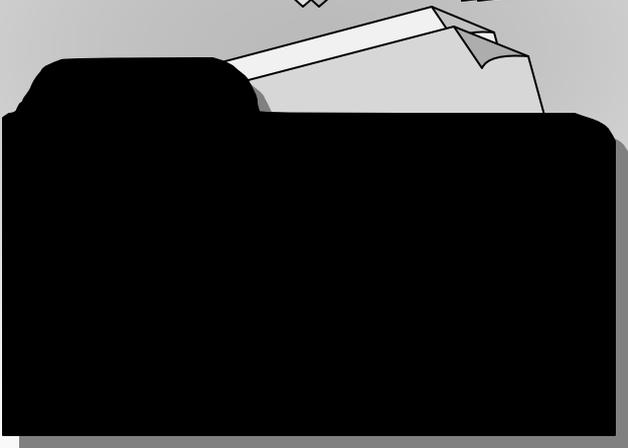
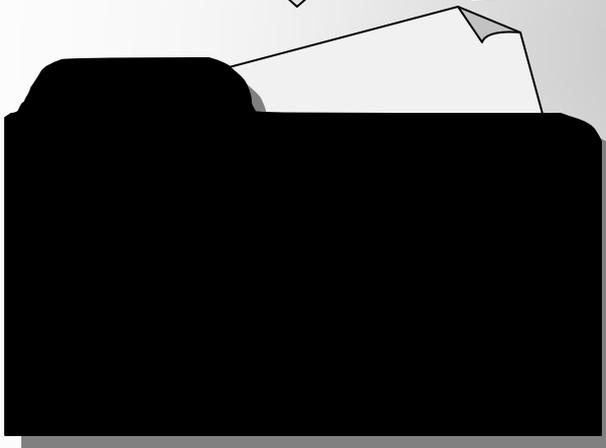
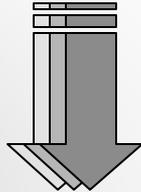
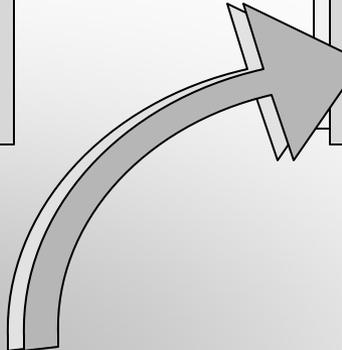
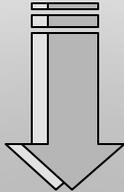
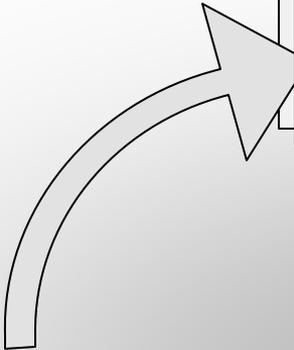
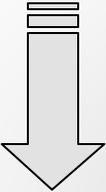
- For each separate award
- The grantee or subgrantee sets up three suspense file folders
- Illustrated on the next slide



Purchase Orders
Contracts

Shipping Doc.
Receiving Report
Invoice

Payment Voucher
Copy of Check



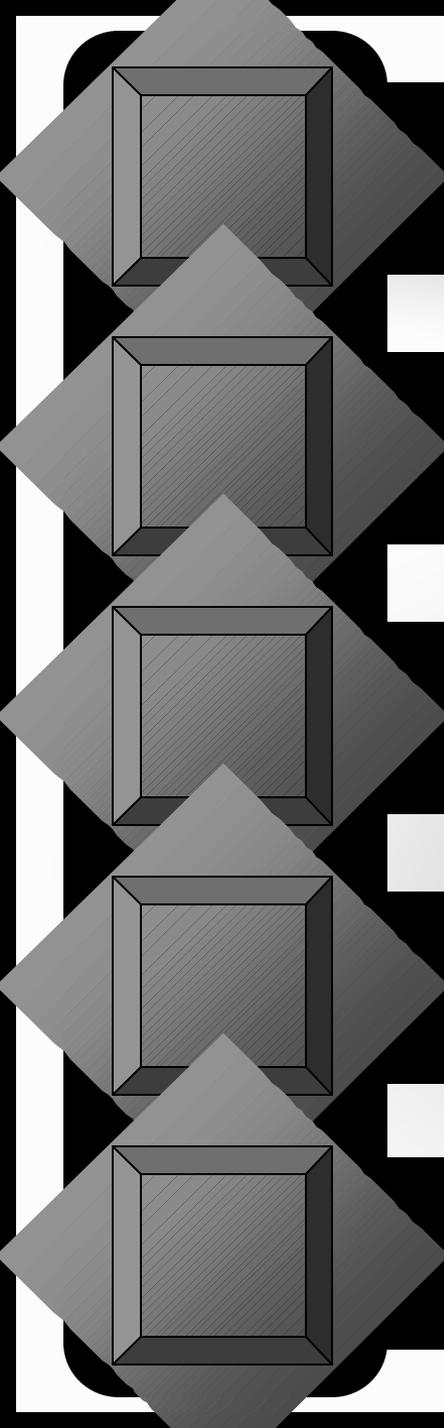
Spreadsheet Approach

- Exactly as the “suspense file folder” approach except:
 - Grantee maintains a computer spreadsheet
 - Records each transaction as it moves through the transaction cycle.

Spreadsheet Approach

Advantages

- Provides a detailed cumulative history (an audit trail)
 - Flow of all transactions through the entire process
- Eliminates the need for manual calculation
 - End of a reporting period
 - Computer spreadsheet computes the totals



EQUIPMENT PURCHASE

PAYROLL

TRAINING CONTRACT

SHARED COSTS

PERFORMANCE BASED

A “simplified” approach

- Rather than record transactions in a “linking spreadsheet” as they occur, all required data is compiled at end of reporting period by PY and funding stream
 - Cumulative disbursements from G/L
 - Compile list of outstanding accounts payable transactions and other costs becoming owed
 - Compile list of accruals for goods/services rec’d but not yet documented
 - Compile list of all undelivered orders



Have an accrual basis accounting system?

- If record all accounts payable and accrual transactions in a traditional double-entry accounting system:
 - OUTLAYS may be captured through use of the chart of accounts
 - 4-level coding system shown in WIA TAG (Attach. II-5-1), or a similar comprehensive coding system
 - TAG coding system must be expanded to include PY
 - Will still need supplemental system to capture UNLIQUIDATED OBLIGATIONS/UNDELIVERED ORDERS (e.g., “suspense file folder)

Key Reporting Requirement

- Regardless of what methodology is used
- Costs reported in the FSRs **must** be traceable
- Both the **accounting system** and the **original source documentation!**

QUESTIONS????

