

Additional Help: 631  
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## ACCRUAL DOCUMENTATION

### Requirement, Purpose, and Results

According to the Budget and Accounting Act of 1950, the purpose of recording accruals is to document the government's legal liability for all goods or services when the following conditions apply:

- The government has received the goods or services, or
- The title has transferred to the government.

This includes the portion of goods and services that have been delivered, constructed, or completed when the following conditions apply:

- The vendor has not yet invoiced,
- The vendor has invoiced, but the government has not yet received the invoice,
- If the invoice has been received, it has not been validated as a correct/complete invoice for processing purposes, or
- If the invoice has been validated, it has not been processed into the accounting system for payment.

One of the basic principles of accounting dictates that expenses are recognized and recorded in the period in which they occur, regardless of when the payment is made. This is to ensure accurate reporting for management purposes. The same principles allow for the use of an estimate when the information is not readily available. The estimate is removed/reversed at the beginning of the next accounting period and the validated invoices are processed for the remainder of the period. At the end of the accounting period, the procedure is repeated all over again.

**Note: Accrual amounts are for the accounting period only, they should not extend beyond the end of the period.**

USAID's financial statements are audited on an annual basis. All financial entries that support those financial statements must be documented and justified, including accrual entries. In the past, this requirement has caused problems because the supporting documentation and/or justification has been missing or not available.

## Benefits

If accruals are properly done and documented, there are significant benefits, for example:

- **For the Agency.** Accruals impact the validity of the Agency's financial statements. Accurate accruals, fully justified and supported, enhance the probability that the numbers in any financial report or statement reasonably reflect the financial condition of the Agency and help ensure a "**Clean Opinion.**" Such a "**Clean Opinion**" by the Office of Inspector General (OIG/Auditors) adds greatly to the Agency's credibility and stature within the Federal financial and oversight community. It also increases the probability that we will achieve the objectives of the President's Management Agenda and move from a red to a green light in Financial Management.
- **For Obligation and Pipeline Management.** The quarterly requirement to "**do accruals**" is an ideal opportunity to monitor the current status of each existing obligation, since the status of an obligation must be reviewed to properly determine the accrual amounts. The review of the obligation should result in the Obligation Manager making or requesting adjustments to existing obligations. When the adjustments are made, this automatically revalues the pipeline. (See [ADS 621](#), Obligations)
- **Obligation/Program Managers.** The accrual process adds discipline, ensuring that the Obligation/Program Manager is current and knowledgeable about the specific status of the obligations he or she controls, and improves the quality of financial data, enabling decision-makers to make the most effective and efficient use of scarce resources.
- Performing on-going obligation reviews and determining and cleaning up obligation residual balances, especially for obligations that have expired, improves the accuracy of accrual estimates. Normally, the obligation review process is one of the first steps in developing accrual estimates. (See [ADS 621](#), Obligations)

## What Constitutes doing Accruals Properly?

Since accruals impact the Agency's financial records, you must document and justify them. If done properly, you will not have to deal with audit findings that have to be resolved at a later date.

**Note: If the capability existed for the accounting system to meet and electronically capture all the requirements for justification and documentation, manual documentation would not be needed. However, since the current systems do not have this capability, we have to make sure justification and documentation are done properly to provide good financial information and avoid audit issues.**

- Proper documentation means accruals must be in writing and readily available for audit. Since they are Expenditure Accounting Posting and Control Files, under National Archives and Records Administration (NARA) - General Records Schedule 7, you must keep them for three years from the end of the Fiscal Year in which they were created. After three years they can be destroyed.
- Retain the documentation where the Obligation Manager keeps the official obligation records. In the current overseas Mission Accounting and Control Systems (MACS) environment, there may be a requirement to keep a duplicate set in the Mission Controller's files, since the input is made in the Mission FM to support their data entry into the MACS system. The Obligation Manager is responsible for managing the obligation, which includes justifying and documenting entries impacting it.
- You may use standard forms or reports such as the **MAC PO9, Project Accrual Worksheet**, to document accrual entries if you properly annotate them to provide the required elements and/or if you attach supporting documentation (spreadsheet for computation or basis to show how the accrual was developed).
- When an automated system, e.g., the Accrual Reporting System (ARS), captures information, the requirement still exists to document that the obligation has been reviewed and, if the estimated accrual is changed or modified, what justified the action. Remember that while an electronic annotation may document the change, it may not fully substantiate how the amount of the change was determined, which must also be documented.
- The justification provides the reason or methodology for determining the accrual amount. Providing justification is mandatory because it is the only way an auditor can determine how the accrual amount was developed. This becomes especially important if the creator of the number has moved on or the review takes place some time in the future when our memories are less accurate in recalling the details on how and what was done to come up with the accrual amount. If the document cannot stand on its own (which means the auditor can make a judgement that the amount is justified and there is a rational, supported reason for the result), then you can expect an audit finding that will have to be resolved.

## Justifying Accruals

Justification for accrual transactions is not limited to a specific document, but can take many forms. It may be hand written, typed, or computer generated. Its purpose is to document (recognize) the current status of the obligation's expenditures – the government's liability, both paid and pending. Just a few examples of justifications are

- A copy of a received but unprocessed invoice,

- A status report from a vendor showing an amount of completion,
- A copy of your site report listing, providing numbers on students in a learning environment, or
- A spreadsheet showing projected expenditure rates over the life of a contract service to track actual vs. projected expenditure rates.

### **Elements Required to Document an Accrual**

If the following elements are used in documenting and providing justification for making an accrual, then the probability of audit findings is drastically reduced. The elements are

- Name of the individual making the accrual.
- The period the accrual is for, e.g., April-June 2003.
- The total amount of the obligation.
- The status of the obligation – Active, Expired, In Closeout, or Immaterial (below the materiality threshold).
- The total expenditure amount both invoiced (paid, unpaid and received, validated, recorded into the system but not yet paid) and un-invoiced for goods or services received by the end of the accrual period.
- The projected burn-rate (if appropriate). If cumulative expenditures are projected over the life of an obligation, then there is a projected cumulative amount for the end of each specific accrual period. The rate at which the obligation is consumed (expended) is the burn rate. When burn rate computations have already been made on a spreadsheet, you may only need to confirm that the rate remains valid for the current accrual.
- Amount to accrue
  - The difference between the projected costs for the period and the actual costs for the period, or
  - If there is no projection, then the difference between the invoiced and actually received goods or services.
- A basis for determining the accrual amount. Some examples follow:
  - Percent completion on construction or contract;

- Burn rate projection for the accounting period, based on historical trend of expenses, or budgeted amounts (considering the expense/budget behavior of straight line, front-loaded, back-loaded, etc.);
- CTO information/background based on personal site visit or direct contact with the vendor within the normal course of doing business (include contact information – who and when); or
- Review of vouchers to determine if they have all been processed. Contact the vendor to see if others are coming to determine actual charges vs. projected amount (include information on vouchers and contact information on vendor source).

### **Obtaining the Necessary Information**

The Obligation Managers should be aware of the status of their obligations through day-to-day interaction with contract/grantee personnel; the review and approval of financial reports, including requests for advance payments and reimbursement of expenditures; etc. The Obligation Manager is responsible for gathering the documentation and information from outside the Mission that is necessary to calculate accruals.

**NOTE: For assistance awards (grants and cooperative agreements), the Agency must not request additional reporting requirements beyond those imposed under 22 CFR 226, Administration of Assistance Awards to U.S. Non-Governmental Organizations, which implements OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations. Financial reports are limited to the SF-269 and SF-270, which are generally quarterly reports. Any variation in reporting requirements necessitates obtaining a waiver from OMB.**

In addition, any time 10 or more members of the general public are asked to provide a report to the U.S. Government, the Paperwork Reduction Act mandates that the public be given notice of the requirement in the Federal Register and they have the opportunity to comment. This process is necessary "whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit." (5 CFR 1320.3) USAID does not have OMB's approval to require contractors or recipients to report accrual information.

In summary, if a specific reporting requirement is not spelled out in a contract, it cannot be required of a contractor. For assistance awards, unless a specific waiver is obtained from OMB, financial reports are limited to the quarterly SF-269/269a, Financial Status Report, and SF-270, Request for Advance or Reimbursement. The standard grant format requires the recipient to provide copies of its financial report to the CTO. If the Obligation Manager is not the CTO, then the Obligation Manager must obtain the reports from the CTO.

### **Accrual Computations**

Accruals generally take one of the following two forms:

- a. The total amount of expenditures against an obligation, both paid and unrecorded.

b. The difference between the projected/targeted expenditures and the recorded expenditures.

**Note: Unless there are special documented conditions, when an obligation is expired or is in closeout status no accrual computation is required.**

***A specific example of accrual documentation follows:***

**Memo for Record**

The obligation was reviewed for the period of April 1-June 30, 2003, and the following justifies and documents the accrual amount for the period.

**Basis for Accruals:**

Contacted Mr. Hahn @ the vendor's office on June 12, 2003.

During a site visit on June 12, 2003, accompanied by Mr. Hahn from the Site Management Consulting Office, we both agreed that the building is 85% complete.

Estimated vendor cost to date = \$ 85,000.

The obligation for the building = \$100,000.

The obligation status is Active.

The vendor has cumulatively invoiced \$ 56,000.

AID has received and processed invoices = \$54,000.

***Total obligation less estimated expenditure to date = remaining obligation***  
100,000                   -           85,000   =           15,000

***Est. expenditures to date less invoiced amount received = amount of accrual***  
85,000   -           54,000   =           31,000

Signed: John Q. Data-enterer

Dated: June 15, 2003

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