

Reclamation Manual

Directives and Standards

SUPPLEMENT TO THE DEPARTMENT OF THE INTERIOR DEPARTMENTAL ACCOUNTING MANUAL

FILE: 05 FINANCIAL REPORTING

20 Adjusting and Closing Entries

30 Other Accrued Expenses

Subject(A): Accrued Liabilities

Purpose: Identifies the responsibilities and requirements for estimating and reporting quarterly and year-end accrued liabilities.

Authority: Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities* (March 30, 1993); Financial Accounting Standards Board, (FASB), Volume III, Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statement, Accrual Accounting and Related Concepts* (pp. 139) (as of June 1, 2000); and Department of the Interior (DOI), Departmental Accounting Manual: Principals and Standards, Sections 2-10-30 *Basis for Accounting*, Financial Reporting, 5-20-30 *Other Accrued Expenses*, and 9 *Liabilities and Equity* (January 20, 1995).

Contact: Finance and Accounting Division (FAD), General Accounting and Technical Analysis Group (GATAG), by calling (303) 445-3430 or mail code D-7710

1. **Scope.** Generally accepted accounting principles and DOI policy require that Reclamation report on an accrual basis. Refer to paragraph J for a glossary of accrual terminology. This supplement has been revised and several documents, referenced in paragraph 2F, have been developed to provide policy and procedural guidance which will be meaningful for employees who work in both the financial and the program arenas.
2. **Accrued Liabilities.**
 - A. **Responsibilities.**
 - (1) **FAD Responsibilities.**
 - (a) Notify Regional Financial Managers of quarterly and year-end due dates for accrual submissions.

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- (b) Develop policy and procedures with the regions through a collaborative process.
 - (c) Record all accruals in the Federal Financial System (FFS) accounting system.
 - (d) Liquidate accruals when invoices are received for the goods or services applicable to the accrual.
 - (e) Conduct oversight of the accrual process.
 - (f) Provide data extracts for accrual submittal, validation, and oversight.
- (2) **Regional Responsibilities:**
- (a) Coordinate the regional accrual process.
 - (b) Disseminate due dates, policy, or procedural changes within the region.
 - (c) Submit complete and accurate accrual information quarterly for all procurements, under their jurisdiction, that meets the accrual threshold.
 - (d) Perform periodic oversight of regional accrual reporting process to ensure completeness, accuracy, and timeliness.
 - (e) Validate accruals previously submitted that are over 180 days old.
 - (f) Retain accrual support documentation.
- B. **Threshold.** Regions are required to submit an accrual if the total accrued amount for a document is \$25,000 or greater. The threshold is on a per document basis, which means that the accrued amount per line may be less than \$25,000. A region may establish a lower threshold to meet program needs.
- C. **Timing.** Accruals are required on a quarterly basis and are due the last month of each quarter (December, March, June, and September) as determined by FAD. Regions may submit and FAD will input accruals more frequently as determined necessary to meet program needs.
- D. **Accrual Development.** An accrual should be developed based on evidence of receipt of goods or services, such as receiving reports, unapproved invoices, or other supporting documents that indicate goods, services, or benefit to the United States have been received but not paid. Both the General Accounting Office (GAO) and Office of

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Management and Budget allow an agency to use reasonable estimates in their reports and financial statements when the amount is not known and cannot be feasibly ascertained at the time it is to be recorded. Therefore, the best estimate for an accrual may be used in Reclamation's financial statements. However, arbitrary pro-rations of estimates or similar formula approaches should be avoided. The methods used to arrive at the best estimate should be used consistently and based on supportable documentation that can stand the test of an audit.

E. Acceptable Methods for Estimating an Accrual.

- (1) **Percentage-of Completion Method.** Verified estimates of work completed per contractor progress reports, inspection reports, contract schedules, or through documented discussions with the contractor regarding performance and work accomplishment (documentation for a phone call should include the following: date of call, contractor name, name and position of individual who provided the information, specifics as to what work has been accomplished, etc.).
- (2) **Historical Trend Analysis.** Past experience, when month-to-month costs do not vary significantly and estimates are reliable.
- (3) **Other Methods** which are consistently applied, are reasonable, and supportable if audited by either the GAO, Office of the Inspector General, or another audit organization. Questions concerning the acceptability of a particular method should be directed to FAD, GATAG in Denver, Colorado.

F. Documentation for an Accrual. Accrual amounts reported to FAD should be documented and the region should retain documentation 2 years for audit purposes. That is, the methodology, source of information, computations, records of discussion, and assumptions should be documented and maintained by the region for future reference, oversight, or audit.

G. Minimum Information Requirements for Accrual. FAD Operations will extract obligation data from FFS quarterly or as requested by a region and submit the information to the regions on the Accrual Worksheet. Completion and minimum information requirement instructions will be included with the Accrual Worksheet. Refer to the Accrual Handbook for an example of the Accrual Worksheet. The regions are to analyze all procurement documents listed on the Accrual Worksheet, complete required Accrual Worksheet columns for all procurement documents, and submit accruals on the Accrual Worksheet to FAD Operations by the due date. FAD Operations will input the accruals into FFS through an interface with the Accrual Worksheet.

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H. **Regional Review.** Regions will conduct semi-annual reviews of all accruals in FFS, which are 180 days and older. During January and June, FAD will provide accrual data extracts to each region. The regions will review these reports, take necessary actions to ensure only valid accruals remain in FFS, and submit certification in accordance with FAD instructions and due dates.

I. **Accrual Liquidation.**

- (1) FAD will apply payments against accrual balances only if the cost authority indicated on the invoice matches that used on an accrual. If the cost structure on the invoice does not match that used on an accrual, no accrual will be referenced.
- (2) The oldest accrual will be reduced first, unless FAD is specifically instructed to do otherwise by regional personnel.
- (3) If payment is requested for less than the accrual amount and the invoice is marked "Final," FAD Operations will manually reverse the balance of the accrual and increase the unliquidated obligation amount.
- (4) If payment is requested for less than the accrual amount and the invoice is marked "Partial," the balance of the accrual will remain until the region initiates a reversal or provides specific direction that the procurement document should be modified as closed.

J. **Definitions and Terminology.**

- (1) **Account(s) Payable.** An amount owed for goods, services, or benefits received from a vendor for which payment has not been made.
- (2) **Accrual, Liability.** An accrual is an accounting entry that establishes an account payable (liability or money owed) for the estimated dollar value of work completed, items or benefits received for which payment has not yet been made. An accrual moves funds from unliquidated obligation status to an account(s) payable status. (The *recognition* of events and conditions as they occur.)
- (3) **Accrual Basis (of Accounting).**
 - (a) The method of accounting whereby revenues and expenses are identified with a specific period of time, such as a quarter or year, and are recorded as *incurred*, along with acquired assets, without regard to the date of receipt or payment of cash; distinguished from *cash basis*.

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- (b) A basic assumption that revenues are recognized when earned and expenses are recognized when incurred, without regard to when cash is received or paid.
- (4) **Obligation.** The amount of funds reserved for payment of goods, services of benefits ordered but not yet received.
- (5) **Payment.** The disbursement of cash.
- (6) **Received.** Materials can be either physically or constructively received by Reclamation.
- (a) **Physical Delivery.** For "off-the-shelf" items like equipment, supplies, etc., the accrual occurs when the item is physically delivered by the contractor, and is received and accepted by Reclamation.
- (b) **Constructive Delivery.** When a contractor manufactures goods, structures, or equipment ordered by Reclamation, the accrual of costs occurs in each accounting period as the contractor earns a portion of the contract price. Therefore, costs are incurred as the work or services are performed.

K. Related References.

- Accrual Procedures Handbook – FAD Intranet homepage
- Accrual Tutorial – FAD Intranet homepage
- Telephone Documentation Form for Accrual Estimates – FAD Intranet homepage
- Desk Guide for Processing Receiving Reports and Invoices – FAD Intranet homepage