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ADS Chapter 631

Accrued Expenditures

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Functional Series 600 – Budget and Finance
 ADS 631 – Accrued Expenditures
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ADS 631 – Accrued Expenditures

631.1 OVERVIEW

Effective Date: 06/04/2007

The objective of this chapter is to provide the policy directives and required procedures for establishing and recording accruals and financial liabilities.

631.2 PRIMARY RESPONSIBILITIES

Effective Date: 06/04/2007

a. The Chief Financial Officer (CFO)

1. Provides policy and guidance on the Agency's methods for recording accrued expenditures;
2. Develops and maintains an integrated financial management system that meets Federal financial system requirements, and ensures that the accrual data is consistent with established policies and procedures;
3. Provides annual certification to the U.S. Treasury of the Agency's obligated balances for undelivered orders and accounts payable, including accruals. (See [ADS 621, Obligations](#), and [Treasury Financial Manual \(TFM\) Vol. 1, Pt. 2, Ch. 4200](#)); and
4. Provides operational policy on accrual activity, and reviews data for quality and reasonableness of the integrity of accrual estimates.

b. The Bureau for Management, Office of the Chief Financial Officer, Washington Financial Services (M/CFO/WFS)

1. Develops and maintains the Accrual Query Reporting System (AQR) and the Business Objects Accrual Report (R0660).
2. Establishes the time schedule and deadlines for accrual reporting for the AQR.
3. Notifies Obligation Managers when the current period AQR is available for review.
4. Processes validated AQR transactions into the Core Accounting System (Phoenix).
5. Monitors the AQR obligation records to identify materiality thresholds and obligation status for active, expired, immaterial, or closed obligations.
6. Provides technical content for training for the AQR, and operational guidance for system users.

Text highlighted in yellow indicates that the adjacent material is new or substantively revised.

7. Makes centralized adjustments to assets and liabilities accounts for advance funded obligations for Mission and Washington Obligations.

c. The Mission Controller

1. Provides information, guidance, and assistance to Obligation Managers on developing accruals and maintains an overall system that produces accruals and accrued expenditures.
2. Inputs the data received from Obligation Managers into Phoenix through the AQR.
3. Reviews the accrual estimates, supporting documentation and the accruals computations (see section **631.3.4**).

d. The Obligation Manager

1. The Obligation Manager verifies or modifies the accrual amount located in the Accruals Query (R0660) report (see section **631.3.3.1** for more information and section **631.6** for the definition of Obligation Manager.)
2. The Obligation Manager, usually the Contracting Officer's Technical Representative (COTR), maintains the official accrual documentation and notifies the Obligor to deobligate excess or unneeded funds pursuant to the deobligation activities in ADS 621 section [621.3.9](#). Contract, grants, and Cooperative Agreements are deobligated based on official modifications to the instrument. (See section **631.6** for the definition of Obligation Manager, and [Deobligation Guidebook, section V.A.2](#).)

631.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

631.3.1 Financial Documentation Responsibilities

Effective Date: 06/04/2007

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within Controllers' or CFO operations but includes any source material causing or resulting in a financial transaction. Contracting Officer's Technical Representative (COTRs), Loans/Grants Officers, Development Objective Teams (DOTs), etc., are responsible for retaining financial documentation and ensuring its availability for audit.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented;
- Source documentation must be readily available for audit (by either the Office of Inspector General or a responsible audit entity); and

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- Accrual documentation is Expenditure Accounting Posting and Control File documentation. NARA, General Records Schedule 7 requires that accrual documents be kept for three years from the end of the fiscal year in which they were created. After that they can be destroyed. (See [NARA General Records Schedule 7](#))

Note: The general rule of thumb for retention of financial documents is seven years; however, retention times may vary, so please refer to retention by document type in [ADS 502](#), The USAID Records Management Program. The specific financial Records Disposition Schedules are located in the Mandatory Reference section of ADS 502, under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records; and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the [National Archives and Records Administration \(NARA\) General Records Schedules, GRS 6, Accountable Officers' Account Records](#); and [GRS 7, Expenditure Accounting Records](#).

631.3.2 Accounting Principles

Effective Date: 06/04/2007

USAID must keep its accounting records on an accrual basis. Expenditures incurred and their associated liabilities must be recognized in the accounting period in which they occur, regardless of whether or not the payment of expense is made.

The full amount of the accrual must be recorded against the obligation and then be reversed at the start of the next accounting period. Any adjustments to the accrual amounts and/or the associated liabilities (for example, adjustments for advances or as a result of an audit) are made centrally at USAID/W by M/CFO with information obtained from the source of the accrual.

At a minimum, accrued expenditures for Prompt Pay Interest and Penalties are recorded year-end.

631.3.3 Basis for Recognition of Accruals

631.3.3.1 Basis for Recognition of Accruals – General

Effective Date: 06/04/2007

While there may be additional situations that result in the recognition of liabilities and revenue, accruals must generally be recognized in the accounting period in which the title to goods is accepted, services are rendered, wages are earned, rents are due, progress is made in contract performance, or revenue is generated.

The Obligation Manager verifies or modifies the accrual amount located in the Accruals Query (R0660) report by comparing an analysis of the system accruals to first-hand

knowledge of project activities, and records modified accruals in the AQR. (See section **631.6** for the definition of Obligation Manager.)

Accruals should be based on the best available information on expenditures for an activity. Base the accruals for expenditures on an analysis of the projected expenditure rate or actual expenditures, when feasible. Use estimates where documentation is not available. Where estimating techniques are used, make every effort to ensure that reasonable estimates are recorded.

While there may be additional situations that result in the recognition of liabilities associated with the purchase of goods, liabilities (and the associated accruals) are generally recognized as accruals

- When USAID accepts title to goods, whether the goods are delivered or USAID has received documented notification that the goods are in transit. USAID must recognize a liability for the unpaid amount of the goods. If invoices are not available at the end of the period, the amounts owed must be estimated using available documents.
- When a contractor physically delivers the goods (if the goods are suitable for sale to others) and USAID receives them and takes formal title. This also includes delivery of goods to an authorized government agent, as in the case of commodities.

Obligation Managers or Mission Controllers must record accrued expenditures for awards or obligations including trust fund obligations with a total estimated cost (TEC) / price of \$10,000 and an un-liquidated balance of \$2,000 or more.

Do not post accrued expenditures for the following:

- Expired project activity where no further cost is anticipated and the project activity is in close-out status; and
- Dollar amounts with a TEC of under \$10,000 or an unliquidated balance of less than \$2,000.

631.3.3.2 Basis for Recognition of Accruals – Built or Constructed Products

Effective Date: 06/04/2007

When a contractor builds or manufactures facilities or equipment to USAID's specifications, formal acceptance of the products by USAID is not the determining factor for accounting recognition. Constructive or de facto receipt occurs in each accounting period as work stages progress toward the end product deliverable.

For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable must be based on an estimate of work completed under the contract or the agreement.

Text highlighted in yellow indicates that the adjacent material is new or substantively revised.

Base the estimates of such amounts primarily on USAID's engineering and management evaluation of actual performance progress and incurred costs.

631.3.3.3 Basis for Recognition of Accruals – Common Goods or Service Types

Effective Date: 10/08/2009

The following list identifies the major areas where accruals are required and the most common documents used in their development. This does not preclude the use of more accurate information obtained from more direct sources. It is only intended to provide a suggested source of the information.

- a. **Shipment of Goods/Commodities-In-Transit.** Base accruals on shipping reports and/or bills of lading and supplier's invoices provided by suppliers or host countries. If supplier's invoices are not available, the cost of the goods may be obtained from underlying contracts or supplier's catalogs and quotations. In some cases, the status of procurement actions in process can be obtained by consulting with the responsible Contracting Office or contacting the supplier.
- b. **Receipt of Goods.** Base accruals on unpaid invoices, receiving reports prepared by USAID, or arrival reports prepared by the host country for USAID. If supplier's invoices are not available, the cost of the goods may be obtained from underlying contracts or supplier's catalogs and quotations.
- c. **Travel.** Base travel accruals, including transportation of persons/things and shipment and storage of household effects, on estimates included in the travel authorization and the inclusive dates of travel.
- d. **Receipt of Services.**
 - (1) **Personnel Services.**
 - (a) **Direct Hire.** Accruals for salaries, allowances, and benefits should be based on time and attendance reports and family status.
 - (b) **Under Either Personal Services or Institutional Contract.** Base accruals on analysis of service rendered to establish the amount that has been earned but remains payable through the end of the reporting period.
 - (2) **Training Services.** Except for transportation costs, base accruals on standard cost beginning with notice of departure and ending with

completion of scheduled training. Accruals for transportation cost should be based on the transportation request.

- (3) **Contractual Services.** Accruals should be based on progress reports and/or certificates of performance to ensure that services have been rendered in accordance with the contract provisions. Certificates of performance are generally accompanied by a billing from the contractor. Burn-rates and/or the contract clauses themselves may also be used when needed to generate the accruals.
- (4) **Rentals, Utilities, and Telecommunications, etc.** Base accruals for rentals on rates in existence and anticipated contracts. Base accruals for utilities and/or or telecommunications on the current rates and estimated consumption.

e. Grants and Cooperative Agreements. For entities including U.S.-based, foreign, or public international organizations (PIOs) in receipt of Federal grant funds (recipients): Unless otherwise specified in the grant agreement, only the reporting authorized by OMB A-110 is required. No additional reporting requirements may be levied for the purpose of obtaining accrual information (see [OMB Circular A-110](#)).

Obligation Managers must develop accruals by taking into consideration the terms of the agreement. An activity may have accruals based on receipt of goods for a portion of the activity and a percentage of completion for another portion. This permits the selection of a basis tailored to the specific activity. Base accruals for grants and cooperative agreements financed under the Letter of Credit option on a comparison between the formal reporting requirements consisting of

- [SF 425, Federal Financial Report Guidance](#)

- [SF 425, Federal Financial Report Form](#)

and the Obligation Manager's personal knowledge of the actual project activity. (See [22 CFR 226.52, Financial Reporting](#) and **Procurement Executive's Bulletin (PEB) 2009-06** (available only on the USAID intranet), which provides instructions to Agreement Officers on the use of the SF-425 and SF-425a in new assistance awards and amending current assistance awards to transition from the old forms (SF-272, SF-272a, SF-269 and SF-269a) to SF-425 and 425a.

f. Other Current Liabilities. Base the accrual on the amount incurred in the current fiscal year that is expected to be paid in the fiscal year following the reporting date. This includes employee wages, bonuses and salaries, and entitlement benefits.

Text highlighted in yellow indicates that the adjacent material is new or substantively revised.

631.3.4 Accrued Expenditures

Effective date: 10/03/2007

The Mission Controller Updates the modified accruals estimate for payments posted in Phoenix after the modified accrual estimates are entered. The Accruals Query, Business Objects Enterprise reporting computes accrued expenditures from obligation data in Phoenix. The system must distribute the accrual amounts to the appropriate funding sources at the contract or award level. (See **631.3.3.1** and [Reading the Accruals Report](#))

The Obligation Manager must

- Complete the Phoenix Accruals Online Training. Individuals must achieve a passing score in order to successfully complete this training. Employees who fail to successfully complete the training will not be authorized to carry out the responsibilities of Obligation Manager/COTR. The course is located at <https://university.usaid.gov/> in the Agency's Learning Management System (LMS). For more information see [302, USAID Direct Contracting](#) and [303, Grants and Cooperative Agreements to Non-Governmental Organizations](#).
- Review system-generated accrual amounts and/or allocations to determine if the amount can be validated or if it needs to be modified.
- Compare the amount developed based on known actual conditions and based on first-hand knowledge of the project activity to system-generated accrual amounts.
- Complete the accrual process in accordance with the established time schedule and deadlines. If the amounts are approximately the same value, validate the accrual amount as indicated in the Accruals Query. If there is a significant difference, modify the accrual amount in the Accruals Query as appropriate. (See [ADS 621](#), Obligations, and the [Deobligation Guidebook, section V.A.2](#))
- Deobligate excess or unneeded funds. (See [Deobligation Guidebook, section V.A.2](#))

631.3.4.1 Conditions Where No Accruals Are Recognized

Effective Date: 06/04/2007

The following generally will not result in accrued expenditures:

- Obligations for which the final billing, or voucher in the case of travel, has been recorded (any remaining balance must be deobligated);

- Bilateral obligations, including Development Objective Agreements (accruals are generated at the sub-obligation level);
- Washington obligations and Mission unilateral or bilateral sub-obligations with an unliquidated balance below the materiality threshold (see **631.3.3.1**);
- Obligations with an unliquidated balance less than \$2,000; or total obligation amount of less than \$10,000.
- Obligations with unliquidated balances that are no longer needed (in this situation, action must be taken to deobligate the unneeded funds).

631.3.4.2 Alternative Methods for Developing the Anticipated Accrued Expenditure Schedule

Effective Date: 06/04/2007

Some alternative methods for establishing the Anticipated Accrued Expenditure Schedule at the time of award are as follows (see [Accrual Documentation](#)):

- a. Distribute the entire total estimated cost evenly over the entire period of the performance on a quarterly basis;
- b. Distribute a fixed percentage of the total estimated cost on a quarterly basis over the period of performance;
- c. Distribute a fixed dollar amount quarterly over the period of performance; or
- d. Distribute a fixed dollar amount for a user-defined date or dates that fall within the period of performance.

Note: Alternative "d" provides for anomalies caused by known conditions and results in a more accurate expensing of the obligation. The anomalies include heavy start-up, closeout, or termination costs, uneven workflows, etc.

Obligation Managers must provide a justification for the selection of the alternative method used and maintain the documentation explaining the reason a particular selection was made. (See [Accrual Documentation](#))

631.3.4.3 Adjustment for Outstanding Advances

Effective Date: 06/04/2007

Quarterly, accruals for advance financed obligations must be recorded in full and then M/CFO/CAR must centrally adjust the standard general ledger (SGL) account downward to reflect the impact of any outstanding advances on the SGL account.

- M/CFO/CAR must obtain the amounts of outstanding advances from the financial records and any advances servicing agent.
- After obtaining the information, M/CFO/CAR must record an adjustment to the Agency's SGL accounts for both USAID/W and Mission advances. The adjustment reduces the payables by the amount of any outstanding advances.

631.3.4.4 Miscellaneous Transactions Impacting Accrual Development

Effective Date: 06/04/2007

Payments made by others or unprocessed items impacting the development of accruals must be taken into consideration when estimating accrued expenditures. This includes the following:

- Treasury Interagency Payment and Collection (IPAC) for payments made by USAID/W affecting accrual development in Missions but processed after the close of the accounting period; and
- Payments within and between USAID/W and Missions or between Missions or other Federal entities processed after the close of the accounting period.

631.4 MANDATORY REFERENCES

631.4.1 External Mandatory References

Effective Date: 10/08/2009

- a. [22 CFR 226.52, Financial Reporting](#)
- b. [31 U.S.C. 3512 \(5\)b](#)
- c. [Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards, Number 1](#)
- d. [OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations](#)
- e. [National Archives and Record \(NARA\), General Records Schedule 7](#)
- f. [P. L 84-863, 70 Stat 782, amending the Budget and Accounting Procedures Act of 1950](#)
- g. [Treasury Financial Manual \(TFM\), Vol. 1, Part 2, Ch. 4200, 4255.5](#)

631.4.2 Internal Mandatory References

Effective Date: 06/09/2011

- a. [ADS 302, USAID Direct Contracting](#)
- b. [ADS 303, Grants and Cooperative Agreements to Non-Governmental Organizations](#)
- c. [ADS 621, Obligations](#)
- d. [ADS 621maa, Deobligation Guidebook](#)
- e. [ADS 636, Program Funded Advances](#)

631.4.3 Mandatory Forms

Effective Date: 06/09/2011

- a. [PEB 09-06, Federal Financial Report, SF 425](#)

631.5 ADDITIONAL HELP

Effective Date: 06/04/2007

- a. [ADS 631saa, Reading the Accruals Report](#)
- b. [ADS 631sab, Accrual Documentation](#)
- c. [ADS 631sac, Phoenix Integrated Accruals System](#)

631.6 DEFINITIONS

Effective Date: 06/09/2011

The terms and definitions listed below have been incorporated into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

Note: Where possible, definitions for financial management terms use standard Federal definitions established by one of the recognized Federal organizations in financial management or their agents. The principal organizations are the Office of Management and Budget (OMB), the Department of Treasury (Treasury), and the General Accounting Office (GAO). Their agents include the Federal Accounting Standards Advisory Board (FASAB) and the Joint Financial Management Improvement Project (JFMIP).

Accrual

The estimated cost of goods and/or services or other performance received but not yet paid for by the Agency. Accruals are calculated for specific instruments and agreements and help provide current information on the financial status of an activity, project, or DO. (Chapter 201, 621, 631)

Accrual Accounting

The basis of accounting that records revenues when earned and expenditures (expenses) when the goods are received or services performed, even though the receipt of the revenue or the payment of the expenditure may take place, in whole or part, in another accounting period. (JFMIP) (Chapter 631)

Accrual Basis

The basis whereby transactions and events are recognized when they occur, regardless of when cash is received or paid. (GAO) (Chapter 631)

Accrued Expenditure

Charges incurred during a given period that reflect cost/liabilities incurred and the need to pay for (1) services performed by employees, contractors, vendors, carriers, grantees, lessors, and other payees; (2) goods and tangible property received and accepted; and (3) amounts becoming owed in the future under programs for which no current service or performance is required, such as annuities, insurance claims, and other benefit payments and some cash grants. (JFMIP)(GAO) Accrued expenditure includes both expenditure and accrual components. (Chapter 631)

Accrued Liabilities

The amount owed for expenses or charges incurred but for which payments are not due until a later period. (JFMIP) Accrued liabilities will be adjusted for advances to preclude overstated General Ledger balances. (Chapter 631)

Advance

An amount paid prior to the later receipt of goods, services, or other assets. Advances are ordinarily made only to payees to whom an agency has an obligation, and they do not exceed the amount of the obligation. A common example is a travel advance, which is an amount made available to an employee prior to the beginning of a trip for cost incurred in accordance with the Travel Expense Act of 1949 (5 U.S.C 5705) and in accordance with standardized Government travel regulations. (GAO) (Chapter 631)

Anticipated Accrued Expenditure Schedule

An NMS/AWACS on-line screen schedule containing the total estimated amounts of the award that will arise over the life of the award. The schedule contains the accrual date and dollar amount for each month between the effective and completion date of the award (period of performance). (Chapter 631)

Chief Financial Officer (CFO)

The Chief Financial Officer of USAID or a USAID employee or official designated to act on the CFO's behalf. (Chapters [625](#), 631)

Disbursement

The actual payments made by the Agency for goods and services or other performance under an agreement/instrument using cash, check, or electronic transfer. ([Chapter 201](#), [621](#), [630](#), 631)

Expenditures (also called accrued expenditures)

Estimates of the total costs incurred by the Agency for goods and services and other performance received under an activity, whether paid for or not. Accruals + disbursements = expenditures. Expenditures offer a valuable indicator of progress in monetary terms of an activity or project. ([Chapter 201](#), [621](#), 631)

FASAB

FASAB (Federal Accounting Standards Advisory Board) establishes accounting standards for the Federal Government. Statements of Federal Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS) are approved by the Secretary of Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Once approved, FASAB standards apply across the Federal Government unless excluded by legislation. (Chapters [620](#), 631)

Obligating Official

USAID officials with the delegated authority to sign obligating documents. This includes, but is not limited to, the authority to negotiate, execute, amend, deobligate, manage close-out activities, maintain obligation files, record GLAAS obligations, and administer agreements or awards obligating USAID funds. The Obligating Official may be a Contracting/Agreement Officer, Executive Officer, Assistant Administrator, Deputy Assistant Administrator, Mission Director or other Agency official. (**Chapters** [603](#), [621](#), 631)

Obligation Manager

An individual responsible for managing a specific obligation. The obligation manager may be the contracting officer's representative, agreement officer's representative, activity manager, assistance objective team leader, executive officer, or other Agency official. ([Chapter 603](#), [621](#), 631)

Outlays

Outlays (expenditures) generally are equal to cash disbursements, less advances, but also are recorded for cash-equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of the public debt. ([Chapter 621](#), 631)

Unliquidated Obligation Balance

An amount that has been obligated but not disbursed and remains as un-invoiced unpaid; the difference between the total amount that has been obligated in an agreement and the total amount that has been disbursed. (**Chapter** [621](#), 631)

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