



Subject: ACCRUAL PROCEDURES

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3-60-00 GENERAL

This Chapter will serve as a procedural reference for accrual accounting for all agencies, for affiliated organizations, and for the Office of the Secretary. It contains in detail the techniques of accrual Accounting and explains the relationship of these procedures to the design of agency accounting subsystems.

Explanatory material and basic principles are contained in Chapter 1-10. The substance of this Chapter, 3-60, of the accounting Manual covers the accrual procedures which are to be used for monthly recording of grants, contracts, loans, insurance and interest payments; it describes accrual procedures for in-house costs and expenses; it describes accrual procedures for revenue and income; it covers procedures to be used when surveys of grantee groups are considered necessary; it identifies the internal and external reports and generally treats recordation procedures; and finally it deals with several miscellaneous accrual subjects. The definitions appearing in Section 1-10-30 are repeated in Section 3-60-100.

3-60-10 TIMING OF THE RECOGNITION OF ACCRUALS

A. General Concept

As stated in Chapter 1-10, in most instances, accrued expenditures are recognized upon the receipt of goods or services. For example, when a manufacturer sells to the Government, goods which he may also sell to others, accrual occurs on physical delivery by the seller and receipt by the Government and title passes, i.e., when goods are either delivered to the Government or to a carrier acting on behalf of the Government. In this case, the goods will be taken into the accounts on the basis of a receiving report. At that time, an asset or cost account is debited and accounts payable is

credited. The receiving report or some other evidence of receipt of the goods and not necessarily an invoice is the basis of the entry. Note that the obligation is liquidated upon receipt of the goods or service. i.e., the obligation is liquidated on the accrual basis.

B. Timing Based on Performance

- . While most accrued expenditures will be recognized as described above, there is an important refinement discussed below.
- . In the case of fabrication in accordance with Government specifications, performance by the payee (grantee or contractor) rather than physical delivery is the test to be applied in determining whether there is an accrued expenditure.
- . The crucial point is the time when the money is owed by the Government, not when it is due and payable or when the amount becomes a legal liability. Thus, accrued expenditures include amounts for unbilled performance in addition to billed amounts.
- . The concept applies to amounts earned by grantees or contractors on the basis of performance by subgrantees and subcontractors as well as on the basis of their own performance.
- . In the case of accrued revenues, the concepts of performance and earnings are vital to the definition. Revenues are earned by the Government and are owed to the Government as performance occurs, regardless of the timing of collection or even of whether billing has occurred. Receipts collected in advance of performance are unearned revenue (deferred income) until performance occurs, and develop into accrued revenues as the money is earned by the agency concerned.
- . The concept is applicable to revenues of all types of funds included in the budget, including appropriation reimbursements. Where revenues will be credited upon collection to an appropriation account for a year that has not yet started, the accrual will be accounted for and reported under the symbol of the future account in the period in which the earnings actually take place.
- . Some revenues will prove to be uncollectible. Estimates of such uncollectibles will be excluded from the net accrued revenues. The normal method of doing this is to charge expense on an estimated basis for the estimated uncollectibles, as the money is earned, and concurrently establish an allowance (reserve) for possible losses on collections. Uncollectibles are charged against these allowances. Write-offs which are not charged to such an allowance will be treated as adjustments to expense in the period in which they are recognized in the accounts.

3-60-20 METHODS OF ACCRUAL

A. General

There are two methods of recording transactions on an accrual basis, the inventory method (not to be confused with month-end inventories of accruals which are used in both methods) and the continuing method. Both are explained in the following paragraphs. However, the latter is the preferred method. In the interest of simplification, the budgetary entries have been omitted. A more detailed treatment of individual account adjustments to comply with accrual requirements is in paragraph 3-60-80 H, below.

B. Inventory Method

1. Expenditure and revenue transactions during the month are recorded on a cash basis as expenses or income. Accruals are determined, listed and recorded as assets or liabilities or asset adjustments (advances) only at the end of the month, for liabilities incurred and not paid and for income not collected or use of advances not accounted for. Thus, all unpaid bills, receiving reports, unvouchered travel authorizations, estimates of grant costs less grant payments, amounts determined by application of statistical procedures to independent grant financial data, and grantee or contractor periodic reports are listed or computed each month by common accounting number, as required. In coding blanket accrual entries of this kind, the following special procedures will be used:

- (a) Object code 41.92 will be assigned.
- (b) Dummy obligation document numbers will be used, e.g., 0000999999.
- (c) Fields for primary and secondary vendor codes will be left blank.

There will be a reversal of such accruals in the next month, therefore actual payment, when made, is charged to the appropriate cost account. Revenue is handled on a comparable basis.

2. In the reversal entries for unbilled items and similar accruals, agency subsystems will adopt and consistently apply either one of the two following methods:

- (a) Reverse the entry in full at the first of the following month, or
- (b) During the following month, each time payment is made for an item individually accrued in the previous month, concurrently reverse the amount previously set up. Where the accrual was on a blanket basis

comprising a large number of individual items (generally grants), the amount to be concurrently reversed with the payment, is the amount of the current payment. In such cases, the amounts of the unreversed portion of the blanket estimates will be adjusted at month-end to reflect the current estimates of further accrual amounts. Under this second method, the records consistently, on a day-to-day basis, reflect accrual data more accurately than the first method, but more entries are required.

EXAMPLE OF JOURNAL ENTRIES UNDER THE INVENTORY METHOD

<u>Cost Account</u>		<u>Accounts Receivable, Unbilled</u>	
¹ \$525,000	³ \$525,000	² \$125,000	³ \$125,000
<u>Revenue, Misc. Receipts</u>		<u>Accounts Payable</u>	
³ \$125,000	² \$125,000	³ \$525,000	¹ \$525,000

¹To record accrued liabilities at April 30

²To record accrued revenues at April 30

³To reverse April 30 accruals in May

3. The principal advantages of this method are (a) it is not necessary to adjust the accounts receivable and payable each time there is a difference between the accrual recorded and the amount received or paid, or when materials are returned, (b) it is not necessary to reconcile disbursements with the accounts payable when there are partial payments, and (c) receivables and payables are less subject to duplication than under the continuing method.

4. The principal disadvantages of this method are (a) that it is necessary to repeat the entry for an invoice at the end of each month until the associated cash payment is made, (b) it forces most of the work involved in accrual preparation to be performed during the month-end closing period, (c) interim reports during the month taken from books of record are not accurate under reversal method 2(a) above, and (d) receivables and payables are likely to be overlooked and thus the accounts may be understated.

C. Continuing Method

1. Expenditure transactions are recorded as accounts payable as goods and services are received or estimated to have been received and revenue transactions are recorded as accounts receivable are generated. Advances are recorded as cash is advanced to grantees or contractors or as cash is drawn down as advances under letters of credit. As bills are paid, cash payments are recorded against accounts payable as appropriate. Thus, accounts payable or accounts receivable or advances consistently reflect the amounts owed or due from outsiders. Cash payments or receipts are applied to these balances and it is not necessary to consider these cash transactions when recording cost items. Quarterly grantee/contractor statements or estimates of grantee costs (the month-end inventory of accruals) must be received or made for recording and establishing accounts payable or reduction of grantee/contractor advance balances. However, even when the continuing method is used for in-house operations and small grant programs, it will generally be necessary to use the inventory method for large grant programs. In such cases blanket estimates of unreported grantee accrued expenditures will be made at the end of each month on an inventory basis and then reversed in the following month, as outlined in paragraph 3-60-20B. Grantee reports of actual expenditures are then charged to program expense when received and not to the blanket accrual credit account. Below is an example of the recording of accrued expenditures under the continuing method:

EXAMPLE OF JOURNAL ENTRIES UNDER THE CONTINUING METHOD

<u>Cash</u>		<u>Cost Account "A"</u>	
	² \$ 5,000	¹ \$10,000	
	⁴ 10,000	³ 25,000	
<u>Cost Account "B"</u>		<u>Accounts Payable</u>	
¹ \$10,000		² \$ 5,000	
³ 5,000		⁴ 10,000	
		¹ \$20,000	
		³ 30,000	

¹To record materials received April 5, per receiving reports

²To record April 9 cash disbursements

³To record April 12 invoices for services received

⁴To record April 15 cash disbursements

2. The principal advantages of this method are (a) the workload is spread more evenly throughout the month, as a complete month-end inventory is not necessary, (b) the receivables and payables are recorded currently, making them less likely to be overlooked, and (c) all financial reports prepared from this data base are more accurate on a day-to-day basis than under the first method.
3. The principal disadvantages of this continuing method are (a) receivables and payables must be adjusted each time there is a difference between the amount recorded and the amount received or paid, or when materials are returned, (b) it is sometimes difficult to reconcile payments with payables when there are partial payments, and (c) payables are subject to being duplicated when payment is made unless adequate controls are established. For these reasons, periodic analysis and adjustment of the receivables and payables are necessary.

D. Adjusting Entries Required by Accrual Accounting

1. When the accrual basis of accounting is employed, the accounts are adjusted periodically to make the data which has been recorded as it occurred, consistent with the basic assumptions of the system, i.e., the matching of expenses with revenue for the comparable period. The accounts must be reviewed to ascertain whether the expenses incurred in current and prior periods have been allocated properly, whether any revenue has been recognized that has not met the earnings test, and whether any expenses have been incurred but not recorded, or recorded but not incurred. In reality, what must be done is to adjust the cash flow for "leads" and "lags" which have occurred during the period. Although there are numerous adjusting entries, nearly all of them can be classified into four major types:
 - (a) Expense incurred by the gradual consumption of an asset.
 - (b) Expense and liability increase continuously as incurred.
 - (c) Revenue earned by gradual performance of service.
 - (d) Revenue and asset increase continuously as earned.
2. Type I Adjustments - Expense incurred by the gradual use of an asset

Expenditures are frequently made which will benefit more than one accounting period. When this occurs, the outlays must be allocated to the periods in a manner which approximates the usefulness of goods and services in the provision of services as a necessary step in determining total costs for each period. As a general rule, such expenditures are initially charged to asset accounts and are gradually converted to expenses through adjusting entries over a period of time. These assets are sometimes viewed as deferred costs. When the service potential of the assets has expired, the cost of that service potential is recognized as an expense in the periods which benefitted from the expiration. The three principal types of such assets are:

- a. Inventories - these become expenses when they are consumed. For example, significant quantities of materials and supplies. They are accrued expenditures when received.
- b. Deferred Charges - these include leasehold improvements and other services received, the cost of which is to be spread over subsequent benefitting periods. They are also accrued expenditures when received, but expenses when amortized. See also paragraph 1-10-30G.
- c. Long-Lived Assets - these are fixed assets such as buildings and equipment. The mechanism to convert their cost to expense is called depreciation. They are accrued expenditures when received, physically or constructively.

It should be noted that the foregoing classification does not include prepaid expenses, which occur when payments are made in advance of receipt of service. As explained in subsection 1-10-30E these items are classified as advances and represent neither accrued expenditures nor accrued expenses.

- 3. Type II Adjustments - Expense and liability increase continuously as incurred
Expenses that have been incurred but are not yet due and payable and that accumulate with the passage of time must be recognized as accrued expenditures and expenses in each applicable accounting period. Generally a liability exists for each such accrued expense. This liability is created by a credit to the appropriate accrued liability account and by a debit to the proper program cost or expense account and by a debit to the proper program cost or expense account. An example of this type of adjustment is to record the interest expense applicable to the current accounting period which will be paid during a future period. In some instances the liability accrued may not be legally recognizable as an unfunded liability account and the contra expense debit is excluded from accrued expenditures. In a limited number of other cases, the accrual of the expense may not concurrently create a legal liability, as in the case of certain public assistance provided to beneficiaries for which the Government is not legally liable for its share until the services have actually been paid by the States. These accruals would also be classified as unfunded expenses, but not accrued

expenditures and the credit would be to an unfunded provision for future payments to States.

4. Type III Adjustments - Revenue earned by gradual performance of service

There are times when payment will be received for goods and services before the goods are delivered or the services are performed. In essence, the "buyer" has made an advance payment which the "seller" must recognize as a liability or unearned income until the necessary performance required of him takes place. A common example of this type of adjustment is where revolving funds receive payment in advance.

5. Type IV Adjustments - Revenue and asset increase continuously as earned

Uncollected revenues (such as interest on notes receivable) that have been earned but are not yet due and collectible and that accumulate with the passage of time must be recognized in each applicable accounting period. An asset exists for each accrued revenue. This asset is created by a debit to the appropriate accrued receivable account and a credit to the proper revenue account.

6. Reversing Entries

In recording the actual cash receipts or payments of items that have been accrued, it is easy to forget to make a division between what portion belongs in the current period and what has been accrued in the past. In addition, subsequent collections and payments of accrual items frequently cannot be properly recorded without reference to the accrued adjustments that were made at the close of the previous accounting period. Consequently, it is sometimes simpler to make reversing entries the following month in regard to certain accrual adjustments. In a reversing entry, the accounts and amounts are the same as in the entry that is being reversed, but the debits are replaced by credits and visa versa. In short, it has the effect of canceling a preceding entry. See also subsection 3-60-20B. Reversing entries should be made to offset only those types of accrual adjustments which resulted in the creation or increase in an asset or liability or similar account. This would exclude the Type I and III adjustments, since it is presumed that the original transactions were originally charged to assets or credited to liabilities and the accrual entry reflects their gradual consumption or earning.

3-60-30 ADP ADAPTATION

A. General

Since the continuing method of accrual generally will be utilized by DHEW agencies, it is important to understand the concept of accrual accounting under the ADP procedures in the DHEW Accounting Manual. Through the utilization of uniform transaction codes and accounting entries and through the utilization of ADP equipment, it is possible to place much of the burden of the accrual process on the computer.

B. Concurrent Obligations and Expenditures

1. Under the accrued expenditure concept as defined in BoB Circular A-34 dated July 1960, as revised, certain object classes of expenditures will immediately be accrued as expenditures as they are obligated and in the same amounts as the obligation. The "Umbrella" system is designed around this principle and the transaction codes and related accounting entries, coupled with ADP programming techniques, afford a full scale accrual accounting system.
2. Transactions properly coded will enable the computer to currently adjust the general ledger accounts. The processing of a transaction with the related documentation automatically adjusts account balances and allows the preparation of accounting reports on a continuing basis. The following chart shows the basic accrual transactions as they occur under the "Umbrella" system (excluding budgetary entries).

BASIC ACCRUAL TRANSACTIONS

<u>Asset</u>		<u>Accounts Receivable</u>	<u>Cash (Disbursing Funds)</u>
		⁵ \$10,000	⁶ \$110,000
² \$10,000			
³ \$10,000			
<u>Accounts Payable</u>		<u>Accrued Liabilities</u>	
⁶ \$55,000	² \$60,000	⁶ \$55,000	¹ \$60,000
⁶ \$ 5,000		⁶ \$ 5,000	
<u>Expense</u>		<u>Advances to:.....</u>	<u>Income</u>
¹ \$60,000	⁶ \$10,000	³ \$60,000	⁴ \$10,000
² \$50,000			⁵ \$10,000
³ \$50,000			
		<u>Advances from:.....</u>	
		⁴ \$10,000	

¹To accrue, (and obligate) object classes 11, 12, 13, 21, 11, 23, 42, 43, 44, 98 and 99.

²To record receiving reports and estimate monthly accruals for object classes, 24, 25, 26, 31, 32, 33, 41, 96 and 97.

³To record receiving reports and estimated monthly accruals for equipment, supplies and services paid on an advance basis.

⁴To record invoices rendered for sale of goods or services financed from advances.

⁵To record invoices rendered for sale of goods or services.

⁶To record disbursements and partial or complete liquidation and expense adjustments.

3. For example, many obligations recorded at the beginning of the month for fund control purposes represent services received by the end of the month. Therefore, in these cases, obligations are concurrent with accrued expenditures. Accordingly, the transaction codes in Chapter 4-40 have been developed to establish the accrued expenditure and obligation simultaneously in the case of the following object classification codes:

- 11 - Personal Compensation
- 12 - Personal Benefits
- 13 - Benefits for Former Personnel
- 21 - Travel and Transportation of Persons
- 22 - Transportation of Things
- 23 - Rent, Communications and Utilities
- 42 - Insurance Claims and Indemnities
- 43 - Interest and Dividends
- 44 - Refunds
- 98 - Unvouchered

4. In each of these cases, there is normally no documentation to represent the incurring of monthly expenditures other than the obligation document itself. However, at month-end, best estimates or computations based on methods described hereafter will also constitute a valid basis for adjusting the obligation and accrual of expenditures.

C. Noncurrent Obligations and Expenditures

1. On the other hand, obligations for many other object classes do not always concurrently represent accrued expenditures. Transactions in these object classes are not expenditures until the point in time when the goods or services are received, or where there is constructive receipt (performance), as defined in paragraph 1-10-30F. The largest of these object classes in terms of dollars and units are those connected with grants and contracts. The object classes where obligations generally are not concurrent with accrued expenditures are:

- 24 - Printing and Reproduction
- 25 - Other Services (Contractual)
- 26 - Supplies and Materials
- 31 - Equipment
- 32 - Land and Structures
- 33 - Investment and Loans
- 41 - Grants, Subsidies and Contributions
- 96 - Undistributed U.S. Obligations

2. Some obligations for direct operating expenses recorded at the beginning of the month for fund control purposes do not represent goods and services which will be received in

the current month. These object classes are also treated as undelivered/unpaid orders and not accrued expenditures, until such time as the goods or services are received including, of course, constructive performance or receipt as defined earlier. Transaction codes have been established for all recurring types of activity which would be affected by the accrual process, including receiving reports (partial and final), reports of expenditures, interest cost, etc.

**3-60-40 MONTHLY ACCRUALS FOR GRANTS, CONTRACTS, INSURANCE CLAIMS,
LOAN COSTS AND INTEREST PAYMENTS**

A. General

1. This section describes procedures required to accrue monthly program costs, expenditures, and losses chargeable to DHEW resources, but which were originally incurred by organizations and individuals "outside" of the DHEW organization structure, under the terms of grants, contracts, and loan and other agreements. Accounts and accounting entries concerned are identified in many cases to clarify the description. The accounting for DHEW revenue generated by these "outside" activities is discussed in Section 3-60-60.
2. One of the principal problems in accounting for "outside" activities arises from the fact that DHEW is almost entirely dependent upon individuals outside of its administrative control for the necessary reports on the financial transactions affecting DHEW resources. Often these individuals themselves are wholly dependent for their information on reports from secondary grantees, intermediaries, or subcontractors to whom some of the funds may have been transferred for ultimate expenditure. Until such time as more frequent financial reporting to DHEW by many outsiders is deemed feasible, it will be necessary to estimate transaction amounts for the monthly intervals between the periodic reports submitted by the various outside recipients.

- . Another major reporting problem arises from the fact that practically all grantees and others required to account for DHEW funds, keep their books on a cash basis and report their transactions in the same manner. Some also use the obligation or encumbrance basis of accounting. DHEW, however, is required to report expenditures by these sources as well as its own expenditures on an accrual basis. This adds the complication of converting estimated and actual cash disbursements to accrued expenditures.
- . In the following parts of the section, methods are presented for arriving at monthly estimates of accrued expenditures for DHEW activities administered by outside organizations. Where the circumstances are such that equally valid or better results can be obtained by other methods, the latter may be used upon the written submission of a request to, and the approval by, the Deputy Assistant Secretary, Finance.
- . It is important to note that where matching funds or other cost sharing by grantees is involved, only the Federal portion of the expenditures and/or unpaid liabilities is to be accrued in DHEW accounts.

B. Accountable Grants - Project Type

- . Accounting Procedures and Grantee Reports
The following steps will be taken in accounting for grants where the grantee is required to account for the grant funds, and the grant is not the program-type discussed in paragraph C below.
 - . All advance payments by DHEW to grantees, including withdrawals under letters of credit and similar advances to sub-grantees, will be treated as accountable advances to non-Federal agencies. The unexpended balances less applicable estimated unreported accrued expenditures of grantees will be included with the other fund-type asset and liability balances reportable monthly to Treasury on Form BA-6727.
 - . Grantees will be required to report not less frequently than quarterly their (1) actual cash disbursements relating to grant funds and (2) the unexpended cash balances in their hands and in the hands of secondary grantees (which latter amount may be statistically determined).

If a grantee keeps his accounts on a true accrual basis (as distinct from the obligation or encumbrance basis), his expenditure reports should also be on the accrual basis reconciled to the cash balances. The advance accounts will be individually credited with

the reported disbursements, and the balances in the advance accounts will always represent amounts for which the grantee is still accountable. Appropriate program expense accounts will be charged with the reported expenditures.

- . At each month-end, estimates will be made, down to the common accounting number (CAN) level of expenditures incurred but not yet reported by grantee (and sub-grantees). These estimates will embrace both the net unpaid liabilities as of the date of the last report of grantees reporting on a cash basis, and the accrued expenditures of all grantees from the date of their last report through the current accounting period. Definition of net unpaid liabilities and estimating methods are given in subparagraph 2 and 3 below.
- . The amounts estimated will be recorded by blanket entries charging the appropriate program expense accounts and crediting in total for each appropriation the account, Advances to Non-Federal Agencies, or Accounts Payable Non-Federal Agencies, without distribution to individual grant or grantee accounts. See paragraph 3-60-20 B for methods of entry and reversal.
- . Where grants are initially financed wholly by grantee funds and the grantee bills DHEW monthly for reimbursements due or where the monthly Federal reimbursement payments to grantees are scheduled to correspond approximately with performance, the payments will be charged directly to program expense and credited to cash. In the event the current payments are not made in the current month the credit entry will be to Accounts Payable Non-Federal Agencies and reported to Treasury under that heading on Form BA-6727. The accrual will be reversed the beginning of the next month, when the payments are usually made.
- . The accounting for cash advances and grantee-reported payments relating to grants financed through the Grant Management Fund will be in accordance with the provisions of Chapter 10-50 of the DHEW Accounting Manual. The monthly estimates for unreported grantee accrued expenditures required by c above and outlined in paragraph 2 below will be developed by the Grant Management Fund (GMF) organization in collaboration with the parent agency and the amounts should be recorded in the accounts of both the GMF and the

parent appropriation. On the Grant Management Fund books, the debit for the estimates will be to the liability (Advances from other Federal Agencies) and a credit to Advances to Other than Federal Agencies, without distribution to individual grant or grantee accounts. The corresponding entry on the parent agency books will be a credit in exactly the same amount to the reciprocal account - Advances to Other Federal Agencies and a debit to program expense (CAN).

3. Estimating Grantee Expenditures

- a. As stated in subparagraph 3-60-40B1c above, there are two elements of unreported grantee accrued expenditures chargeable to project grants which will be estimated and recorded each month and reversed in the following month. These are: (1) the "net unpaid liabilities" of grantees reporting on a cash basis as of the ending date of the period covered by their most recent disbursement reports and (2) grantees' expenditures accrued since the period covered by the most recent disbursement reports through the current month. (It is assumed that disbursement reports will be recorded during the month as received.)
- b. As used in this section, the term "unpaid liabilities" covers amounts due and unpaid for services; materials and equipment received by grantees and subgrantees whether billed or unbilled; salaries and wages earned but unpaid including accrued annual leave where not otherwise provided for; and properly applicable indirect expenses earned but not yet charged to the grant by the grantee. It does not include unpaid, undelivered orders or similar types of obligations or encumbrances.
- c. As used in this section, the term "net" as applied to unpaid liabilities means the amount developed (1) the sum of: grantee unpaid liabilities (other than to subgrantee), subgrantees' unpaid liabilities (other than to grantee and disbursements made by subgrantees from their own funds for which reimbursement has not yet been made from grant funds and less (2) unexpended advances of grant funds in the hands of subgrantees.
- d. There are various ways in which unreported grantee accrued expenditures may be estimated monthly. Under some financing arrangements, grantees are required to submit quarterly their estimates of monthly fund

requirements for the next quarter. These projections may be used where experience indicates that they are generally valid and reliable as measures of projected accrued expenditures.

- e. Experience may indicate that expenditures follow a standard cost curve such as one of those described in paragraph K below, from which the estimates may be developed accordingly.
- f. The method outlined in this subparagraph will be used when computing accrued expenditures employing individual grant computations. The formulas are based on limited use of straight line projections, but adjustments are subsequently made for actual experience each time grantee disbursement reports are received. Errors, therefore, do not accumulate and in a sufficiently large universe, they should tend to offset.
 - (1) The formulas require the use of factors to be developed for estimating net unpaid liabilities of grantees for the principal types of grants. These factors, when applied to individual average monthly disbursements of grantees, will produce the amounts required to convert cumulative grantee disbursements to cumulative accrued expenditures. The statistical sampling procedures required to develop and update these factors are discussed in Section 3-60-70. While the results of the formula are generally reliable only in the aggregate, the calculations are made from data for each individual grant for which estimates are needed. In most instances, use of computer facilities will be required. It should be noted that two formulas are presented. The first is used where no grantee disbursement reports have yet been received under a grant (situation 1) and the second for grants where one or more reports have been received (situation 2).

- (2) Situation 1: No disbursement reports have as yet been received from grantee.
 - (a) Divide number of months elapsed through current month since the starting date of grant or of the current funding period by total number of months of grant or current funding period.
 - (b) Multiply amount of grant or current funding amount by the decimal fraction produced in (a), above.
 - (c) Accumulate results by program account numbers (CAN) and combine with similar accumulations under Situation 2 below.
- (3) Situation 2: One or more disbursement reports of grantee have been received and recorded.
 - (a) Divide cumulative reported disbursements by the number of months covered by reports, to obtain average monthly disbursements.
 - (b) Multiply average monthly disbursements for each type of grant by the predetermined ratio of net unpaid liabilities to average monthly disbursements, discussed in Section 3-60-70.
 - (c) Result of (b) represents assumed amount of grantee unpaid liabilities applicable to the grant as of the end of last disbursement report period.
 - (d) Divide number of months since last disbursement report period through current month, by number of months since last disbursement report period through the end of the grant current funding period.
 - (e) Determine potential accrued expenditures from last disbursement report period to the end of the grant or funding period by subtracting from the grant or current funding amount the accrued expenditures through date of last disbursement report period, i.e., reported disbursements plus assumed unpaid liabilities at end of disbursement report period, item (c) immediately above. If this total for any grant exceeds the amount of the grant, the amount for this step for such grant should be considered to be zero.
 - (f) Multiply the results of (e) by the decimal fraction produced in (d) to obtain an

- estimate of unreported accrued expenditures from end of last disbursement report period to current date.
 - (g) Accumulate results under (e) and (f) immediately above by program account numbers (CAN) and combine with similar accumulations under Situation 1 above to establish an estimate of all unreported accrued expenditures to be reflected as the net unpaid liabilities as of the end of the month for the grants involved.
- g. Another method, described in this sub paragraph, or a valid modification thereof may be employed when estimating accrued expenditures for programs where there are large numbers of grants and it is not possible or feasible to establish accrued expenditures on an individual grant basis either manually or by computer. The method employs a series of ratios. Only a concept of the methodology is described here, as each program has unique characteristics which would require individualized application of the steps described below. The method should be designed to use data which is normally available from grantees or which can be derived from DHEW grant records. The methodology follows:
 - (a) The average monthly amount of the outstanding grants for a given program will be determined. This can be done on a sampling basis or it can be obtained by segregating such grants into classes based on length of grant period, multiplying the number of grants in each class by the number of months for each class, totaling the products, and then dividing the total into the aggregate face amount of all the grants involved. The result (quotient) is the average monthly grant amount for the given program. An example would be:

<u>Number of Grants</u>	<u>Life</u>	<u>Product of Col.1 x Col.2</u>	<u>Aggregate Grant Amount</u>
(1)	(2)	(3)	(4)
1,500	12 months	12,000	\$60,000,000
500	6 months	<u>3,000</u>	<u>15,000,000</u>
Totals		<u>15,000</u>	<u>\$75,000,000</u>

$\$75,000,000 / 15,000 = \$5,000$, Average monthly grant amount

- (2) A ratio is determined, normally as a result of statistical studies, which relates the average monthly grant amount to the average monthly grantee disbursements. This ratio can be determined from grantee reports either monthly, or quarterly as presently provided (where interpolation is permissible). In the example being followed it is assumed that sampling has indicated that grantees are disbursing at the rate of 90% of the average monthly grant amounts. Thus, the average disbursements of the grantees for this program is \$4,500 per month.
- (3) A third ratio is computed periodically which relates actual grantee disbursements month-by-month to the average monthly disbursements over the life of the grant. This ratio is most effectively determined through computer operations although it can be performed manually. The accumulation of a sampling of disbursement data from the quarterly or monthly reports presently required is plotted on a graph over which a straight line is laid representing the cumulative grant disbursements based on the average determined in (2) above. For example, the actual amounts during the first six months of a twelve month grant generally would be less than the average; correspondingly the actual amounts during the last six months generally would be in excess of the average. Thus the cumulative amounts, month-by-month, would describe an "S" line curve. The formula for the curve would be determined on a "least squares" basis using the straight line as a measure of central tendency. Where classes of different grant lives are concerned, this figure must be

weighted average of the point in life of the classes. (Three months would be $\frac{1}{4}$ point of the 12 month class and the $\frac{1}{2}$ point of the 6 month class). Let us assume for the example that the ratio of actual to average in the third month is 90%, which, applied to the average monthly expenditure would result in an estimated average actual expenditure of \$4,050.

- (4) The last ratio is that for estimating the amount of grantee unpaid liabilities. This ratio will be established by the periodic surveys described in Section 3-60-70 which relate grantees' unpaid liabilities to average monthly disbursements. These surveys will be made as often as is necessary to assure reasonably accurate information. In this example, the ratio can be assumed to be 30%. That is, the average grantee has unpaid bills and has received services and materials not yet due which amount to \$1,215 (30% of \$4,050).
- (5) The amounts in items (3) and (4) above are combined to arrive at the average grantee disbursements for the month plus unpaid liabilities. In this case it is \$5,265 (\$4,050 + \$1,215).
- (6) This amount is multiplied by the number of grants in the program. This provides the total accrual for the month. In this example the amount is \$7,897,500.
- (7) The amount in item (6) above is added to the accumulation from previous months of the figures from the computations in item (3) multiplied by the total number of grants (total estimated actual disbursements) to produce total cumulative grantee accrued expenditures. Where a program starts anew each year, there is no problem relative to a starting point, however where programs run continually, sampling of presently received grantee reports may be made and the

results extrapolated to provide an estimate of the beginning total program disbursements at the beginning of the fiscal year.

- (8) Cumulative cash payments to grantees and letter of credit draw downs will be deducted from the amount in (7) above, the total estimated accrued expenditures. The resulting difference representing the unreported accrued expenditures is charged to programs costs (CAN) and credited in blanket to Advances to Non-Federal Agencies Estimated Accruals. See paragraph 3-60-20B for recording and reversing blanket entries.

3. Data Required for Estimating Formulas

- a. The individual grant data required for application of the accrual formulas in paragraphs 2f and 2g will be maintained as part of the existing grant records or by the establishment of a separate tape/card record for the purpose. The following information is required:
 - (1) Grant number and type
 - (2) CAN or other account designation chargeable with grant expenditures
 - (3) Factor ratio of net unpaid liabilities to average monthly disbursements of this type of grant (see Section 3-60-70)
 - (4) Year and month of start of grant or current funding period
 - (5) Year and month of end of grant or current funding period
 - (6) Amount of grant or current funding
 - (7) Year and month of end of period covered by latest recorded disbursements reported by grantee.
 - (8) Most recent cumulative disbursements reported by grantee.

- b. With the foregoing data in machine readable form the monthly computation of unreported accrued expenditures under the formula can be fully automated. It is essential that the data file be current in every respect as of the close or each month before the accrual calculations are made. This means that the record will include (1) all disbursement reports of grantees received and entered in the accounts, (2) all changes in starting and ending dates, and (3) all changes in amounts of grants or their current funding in effect as of the close of the accounting period.
- c. When grants cover more than one CAN, the amounts of the grants' current funding and reported disbursements must be established and recorded separately for each account.

C. Accountable Grants - Program Type

1. General

- a. There are a number of programs, some very substantial in amount, where DHEW contributes supporting funds, generally to state and local governments. In some cases the amounts are computed on the basis of statutory formulas applied to factors over which DHEW has no control and the grants are really "open-ended". In most of these programs the grantees are required to report periodically on their disbursements chargeable to such grants. The monthly estimating and accruing of these disbursements and conversion to accrued expenditures are discussed in this paragraph C.
- b. Disbursement reports will be obtained from all grantees at least quarterly. On the basis of these reports and formulas developed from periodic studies of outstanding claims and liabilities, reasonably accurate monthly estimates of grantees' accrued expenditures will be made as described in the following subparagraphs.
- c. These monthly estimates and periodic adjustments will be recorded as program costs whether or not there are sufficient appropriated funds to finance them. To the extent the appropriation is insufficient to cover these accruals and there is Congressional authority to incur these liabilities or claims without charge to an appropriation or fund, these accruals will be credited to unfunded accrued liabilities or claims which are not reportable to Treasury as liabilities on Form BA-6727. In these cases the related costs

will be excluded from accrued expenditures until funded by appropriations, at which time the transactions become accrued expenditures as defined by BOB Circular 68-10 (and obligations incurred) but are not again reported as costs. The aim of accrual of costs here, as elsewhere, is to measure as accurately as practicable each month the actual costs incurred by the Government, regardless of the funding aspects.

- d. The unfunded costs and related liabilities or claims should not be confused with costs and expenditures accrued under authority to obligate and expend in the current year against appropriations to be made for the following year. The latter transactions are considered funded costs and accrued expenditure, even though the appropriation has not yet been received. Furthermore, the concept of unfunded costs does not apply to overexpenditure or overobligation of an appropriation when there is no legislative authority to incur costs without advance appropriation. In such case the expenditure overrun represents a violation of the Anti-Deficiency Act and must be recorded as an accrued expenditure and the violation reported as required by law.
- e. Programs-type grants are so different in nature and spending patterns that separate studies for estimating grantees' unpaid liabilities will be required for each major program. Surveys will be made in a number of States to determine applicable techniques. The surveys outlined in Section 3-60-70, below, are for establishing ratios of these unpaid liabilities to average monthly payments of grantees or for the development of characteristic cost curves. Pilot surveys indicate that, because of the magnitude of these programs and the multiplicity of payment points, (including, in some instances, substantial numbers of secondary grantees or intermediaries) considerable use may have to be made by DHEW agencies of statistical sampling methods, both in the selection of States for the studies and by State agencies in their development of the information required. Stratified sampling (by size) and other statistical techniques as described in

Section 3-60-70 will be used with a view towards obtaining the maximum reliability possible under the circumstances.

- f. Some maintenance payments under Public Assistance programs, have substantial amounts of due but unpaid claims at each month-end. The Federal share of such amounts will be statistically estimated using procedures outlined in Section 3-60-70 below. Any estimated claims will be included in the adjustment for grantee unpaid liabilities chargeable to such programs.
- g. In the program of Aid to Educationally Deprived Children, the bulk of the funds are transmitted by the States to local educational agencies (secondary grantees) for the conduct of the program. Information, on a sample basis, will be obtained from which to project the amount of unpaid liabilities of these secondary grantees which, along with expenditures of the prime grantee, are chargeable to the grant funds.
- h. When the amounts of unpaid liabilities at each month-end are to be obtained for a program by a statistical sampling of States, the amount for the entire program will be determined by extrapolation, using the ratio which the total program expenditures for all States bears to the similar total for the reporting States (the sample used) unless some other available base would produce a more statistically reliable accrual.
- i. Smaller programs with State and local governments will require further studies to develop statistically reliable methods for determining applicable unpaid liabilities as of each month-end. Where possible, the grants of individual programs will be combined into groups with relatively homogeneous liability and length of life characteristics so that statistical sampling may be applied.
- j. Entries recording unpaid liabilities of States and local government applicable to DHEW programs should be set up in blocks identified by common accounting numbers with charges to the applicable program expense and undistributed credits to accrued liabilities or advances to States and local governments. When unpaid liability data on more than one program are required by a single DHEW agency from a single State agency, the several requirements will be coordinated and combined into a single request.

See paragraph 3-60-20B for methods for recording blanket entries.

4. SRS Open-End Grants

- a. SRS has several major programs financed by "open-end" grants. Chief among these are grants to States for the Federal share of maintenance payments and medical assistance to needy persons. The States report on these disbursements at least quarterly. From these reports current monthly estimates for accruals will be made as outlined in paragraph 1 above. If the disbursements have been financed by advances to the States, the credit side of the estimated accruals will be to separate credit balance sub-accounts contra to the advance accounts for the individual States in order to retain intact the amount of the advances yet to be accounted for by each State. Upon receipt of the grantee's quarterly disbursement report, the contra sub-accounts would be debited and the advance account proper would be credited with the reported disbursements. Any difference between the estimates and the actual would also be adjusted at that time.
- b. Most State agencies account for grant funds on a cash basis. For any large-scale program, there is therefore likely to be a substantial amount of unpaid liabilities and claims outstanding at the end of any accounting period. Statistical studies will be made to establish and revalidate from time to time, ratios of such outstanding amounts to average monthly or quarterly disbursements for each major program (see Section 3-60-70). Applying these ratios to reports of actual cash disbursements or to current estimates of State agencies' cash disbursements produces current estimates for the accrual of their outstanding liabilities and claims in the accounts. As in the case of the cash disbursement estimates, the credits for these accruals must be associated with, but kept separate from, the primary advances accounts in order that amounts of advances yet to be accounted for by the grantees may be clearly shown.

(Deletions on data on pages 27 - 29)

3. SSA Open-End Contracts

(DATA ON SSA DELETED - NO LONGER PART OF HHS)

4. OE Open-End Loan Subsidy Grants

(DATA ON OE DELETED - NO LONGER PART OF HHS)

4. OE Open-End Loan Subsidy Grants (continued)

(DATA ON OE DELETED - NO LONGER PART OF HHS)

5. NIH - Open-End Loan Subsidy Grants

- a. The Federal capital contribution program, Sections 741(i) and 823(c) of the Public Health Service Act, require the Federal Government to reimburse schools for their portion of unpaid principal and interest on student loan write-offs from cancellations. These write-offs or cancellations arise from doctors and nurses commencing practice in the professions or from death or disability of the borrowers. The comprehensive annual financial reports from schools

(PHS 4663-23) to the Bureau of Health Manpower show the amounts of principal and interest on such loan cancellations. Reports will be obtained quarterly from which NIH will develop estimates for the accrual of this appropriations liability. In the absence of reports, the experience of similar institutions, adjusted for differences in timing and volume, should be used. The entry would be a debit to program expense (CAN) and a credit to Accrued Liabilities-Non-Federal Agencies. Appropriate adjustments of the estimates will be made upon receipt of the quarterly reports of actual cancellations.

- b. Under Sections 744(b) and 823(b) of the Public Health Service Act, the Government is required to reimburse out of appropriated funds, most of the losses sustained by the schools on student loans which have been financed by borrowings from the Health Education Revolving Loan Funds. Reimbursable losses consist of (1) cancellations of student loan interest and principal for service in the health and nursing professions, (2) death or disability of the borrowers, (3) 90% of the losses due to defaults of borrowers, (4) collection expenses on student loans, and (5) the excess of the amount of interest payable on the schools' borrowings from the Health Education Revolving Loan funds over the interest which they actually collect from students on loans made from such funds.
- c. Schools report the foregoing losses periodically. Such reports will be placed on a semiannual basis as rapidly as possible. Monthly estimates of the losses will be made in the light of current trends and other program data available. The amount will be charged to program expense (CAN) in the absence of reports, estimates will be made based on experience with comparable schools, adjusted for volume and timing. The credit side of such entries will be to Accrued Liabilities-Federal Agencies, since the money is not actually paid to the schools but to the Revolving Loan Funds where it is applied against the indebtedness of the schools for interest and principal on their borrowings. Appropriate adjustments will be made to the accruals upon receipt of the schools' reports of actual transactions for the same period. See paragraph 3-60-20B for methods for recording and reversing blanket entries.
- d. The interest differential portion of the Sections 744(b) and 823(b) accrual will be based on the

difference in face amounts between the interest due the Revolving Funds by the schools, computed on an accrual basis, and the interest (if any) actually collected by the schools from the student borrowers whether or not remitted to the Revolving Funds by the schools at the reporting date. The portions of the other loss items are based on the actual amounts reported by the schools or estimated in the absence of reports.

- e. An additional, but unfunded, liability will also be established for the potential net loss to be sustained under Sections 744(b) and 823(b) on student loans outstanding as of the report date and which is not reflected in the schools' financial reports. These are losses that would normally be provided by the establishment of allowances for cancellations due to death and disability (but not for the "professional service" cancellations) and 90 percent of defaults less accrued but uncollected interest on student loans in repay status. Estimates will be made for such net accrued losses based on such experience and information as is readily available. The entry is a debit to program expense (CAN) and a blanket credit to Unfunded Accrued Liabilities - Other Federal Agencies. When these losses are actually sustained and funded, the related unfunded provision will be reversed.

D. Construction Grants
1. General

Chapter 10-40 of the DHEW Accounting Manual authorizes payments of specified percentages of construction grants according to specified percentages of completion of the work. Expenditures under these grants accrue as the construction work progresses whether or not reports and billings for the progress have been received from the grantees.

2. Estimates of Construction Progress

- a. Subparagraphs b and c following, provide alternative methods for developing estimates for accruing unreported construction progress. Estimates of progress will consider the value of work in place plus the value of materials on hand not installed, and the value of substantial components in progress of fabrication by vendors. Entries for the accruals will be on a blanket basis with debits to program expense and credits to Accrued Liabilities - Non-Federal Agencies. See paragraph 3-60-20B for methods for recording and reversing blanket entries.
- b. Where periodic site-engineer progress reports are available or can be practicably obtained, accrued expenditure curves or estimates may be developed by analysis of the reports and may be used in estimating the accruals since the last reports. Where site-engineer progress reports are not obtainable, the accrued expenditure curves or estimates may be developed from studies of certified grantee progress reports used to support requests for payments. Recurring studies will be made from time to time to establish the validity of accrued expenditure curves.
- c. Estimates of construction progress from the end of the period covered by the latest grantee progress report through the current month will be made each month or as frequently as practicable for all construction grants. The estimates of such progress for large grants may be made each month on a grant-by-grant examination and evaluation by knowledgeable program staff. For smaller grants, projections of monthly progress for the next three to six months or longer, where appropriate, may be prepared by program staff at the time of the award and when each progress report is subsequently received from the grantee.

3. Excess Payments

Under some circumstances cumulative grant payments may exceed the value of the cumulative progress of the project. In such cases the excess of cumulative payments over the value of work progress must not be charged to program expense but to Advances-Non-Federal Agencies.

E. No-Performance Grants

Grants based on statutory entitlement and which require neither performance by the grantee nor his reporting on the use of the funds, become accrued costs upon the establishment of entitlement. If funds are currently available, these grants are accounted for as accrued expenditures concurrently with entitlement. If funds are not available, the accrued expenditures and costs will not be recorded until funded. Amounts withheld from grants pending subsequent validation of entitlement should be carried as a liability since the full amount of the grant is considered to be a cost incurred upon entitlement. These grants will be recorded in the accounts as soon as the entitlement is assured.

F. Direct Fellowships

Fellowships paid directly to students by operating agencies or through the Division of Central Payroll will be charged to program expense (CAN) as paid. If any significant amounts of these stipends are paid in advance of the month in which "earned" or are not paid until some month following that in which "earned", appropriate adjustment must be made to record the prepaid expense or accrued liability, respectively. However, tuition grants will be charged off as accrued expenditures at the time of payment without proration over the academic periods covered.

G. Contracts

1. Coverage and Bases for Accruals

There are three types of contracts to which the procedures prescribed by this paragraph apply: cost-type, fixed-price, and fixed-rate contracts. In each case, performance by the contractor (or his sub-contractor by which payment is earned is the test to be applied in determining DHEW accrued expenditures. For cost-type contracts, contractor performance is represented by his costs actually incurred (and related fee earned if any); for fixed-price contracts, performance amounts are based on the stage of completion or other satisfactory evidence of contractor performance; and for fixed-rate contracts, performance "amounts" represent the product of the units of work performed times the established rate or rates.

2. Reporting by Contractors

- a. To obtain reimbursement or credit against advances, contractors periodically bill DHEW for work performed. While these billings are generally monthly, it is not usually possible for contractors to submit their bills each month in time for DHEW agencies to enter them in their accounts for the period covered by the bills. The periodic Contract Financial Report (form HEW 515-4/69 Exhibit 3-60-1) prescribed by the Handbook entitled "Procedure for Reporting Financial Information by Contractors" will provide the principal basis for estimating and recording each month the accrued expenditures for unbilled contractor performance. The report will also provide data of value to project and contracting officers in monitoring contractors' progress and to budget officers in projecting contract expenditures.
- b. The Contract Financial Report will be required on a monthly basis for all contracts with private enterprise (Industrial and Commercial Activities) for which average annual expenditures will exceed \$250,000 including contract amendments. The form may also be required on a monthly basis for smaller contracts with private enterprise at the option of the contracting or project officer.
- c. The Contract Financial Report will be required quarterly for all contracts with private enterprise (Industrial and Commercial Activities) for which average annual expenditures will range from \$100,000 to \$250,000, including contract amendments, unless monthly reporting has been prescribed. This report will also be required for all contracts and agreements with Federal agencies, States and other non-profit organizations involving annual expenditures over \$100,000 including contract amendments. It will also be required for all contracts involving average annual expenditures less than \$100,000 but not below \$25,000 for which contractor billings are not made at least monthly. Certain modifications of the foregoing requirements are authorized in subparagraph d. below.

- d. Neither quarterly nor monthly Contract Financial Reports will be obtained for accrual purposes from contractors if the program in which they are participating is being treated by statistical methods for determining cost or expenditure accruals or if the DHEW agency determines that comparable information can be obtained by some other approved procedure. Written authority from the Deputy Assistant Secretary, Finance will be obtained for exemption from use of the Contract Financial Report forms.

3. Accounting for Contract Accruals

At the close of each month, estimates will be made and recorded for otherwise unrecorded contractors' costs incurred through the close of the current period using, to the extent available, data included in Contract Financial Reports or other comparable information received from contractors.* The amounts of accrued costs will be recorded by debit to *adjusted, where necessary, to the calendar-month basis the appropriate program cost accounts (CAN) and a blanket credit to Accrued Liabilities - Non-Federal Agencies (or Federal Agencies) or Advances to Non-Federal Agencies (or Federal Agencies) without distribution to individual contractor accounts. See paragraph 3-60-20B for blanket accrual and reversal entries. Where withholdings have been made on progress payments, care will be taken to see that full amounts of all unapplied withholdings are charged to program costs (CAN) and included in Accrued Liabilities - Non-Federal Agencies at the close of each period.

H. Insurance Claims and Indemnities

1. Old Age, Survivors and Disability Payments

- a. As the benefits are paid early in the month following the month due, an amount equivalent to the entire payment represents an accrued liability. In addition, it will be necessary to establish an accrual for claims in process. Claims which will be payable when presented will be accrued based on studies of retroactive payments and other pertinent factors. Studies to establish the relationship of these delayed items to the amounts paid will be used for accrual computations. Recurring studies will be made from time to time to assure the continued validity of accrual factors in use.

* adjusted, where necessary, to the calendar month basis.

2. Supplementary Medical Insurance Payments

In developing the monthly accrual for supplementary

medical insurance payments, it will be necessary to estimate unreported benefits to individuals based on sample data indicating level and cost of services performed. These unreported benefits include the benefits billed and unpaid plus the benefits incurred but unbilled. The accrual will be charged to the appropriate expenses accounts (CAN) and established as an accrued liability. The factors used for the accrual will be periodically revalidated to assure continued reliability.

3. Hospital - Insurance Payments

Accruals will be established based on current withdrawals of funds by intermediaries, revised as may be necessary to recognize adjustments based on final cost reports and audits. Current withdrawals of funds are based on providers' (hospitals, etc.) current case load and rates, regardless of time of providers' billings. Thus, intermediaries' needs approximately reflect estimated providers' performance and billings through the end of the current accounting period. An additional accrual will be made to cover the period between the intermediaries' last submissions and the end of the accounting period.

3. Losses on Insured Student Loans

- a. Losses sustained under insured student loan programs will be charged to program expense (CAN) upon approval of the claims for indemnity. The entire equity of the insured Student Loan Fund is considered reserved for such losses chargeable to the Fund. To be consistent with general Government practice, no accruals will be made for such costs whether chargeable to the Insurance Fund or to appropriations provided for the purpose.
- b. If there is any probability that a defaulted loan for which indemnity has been made, may ultimately be recovered in whole or part, the claim acquired against the borrower by subrogation will be recorded in the Fund as an asset with an offsetting valuation allowance based on a weighted average probability of collection with the amount reserved charged to program cost. Differences between amounts estimated to be collectible and amounts actually collected will be debited or credited to program costs (CAN).

I. Loan Costs and Losses

1. General

Under the various DHEW loan programs there are two principal types of costs and losses which may be experienced that will not involve further fund outlays but which will reduce funds which DHEW would otherwise subsequently receive. These losses arise from (1) inability to collect direct loans and advances made to institutions from appropriations and from DHEW revolving funds, and (2) costs and losses charged against the Government's equity in capital contributions to revolving student loan funds administered by colleges and universities. Provisions for these non-fund costs and losses will be made by accrual of valuation allowances against the related assets or in certain cases by direct write-off of the assets at the time the cost is incurred, in the manner hereinafter described.

2. Valuation Allowances on Direct Loans

Based on estimates provided by knowledgeable program officers, additions to valuation allowances will be accrued monthly for losses expected to be sustained due to death, disability and defaults of direct borrowers. In the case of direct loans to institutions where credit has been carefully granted or is secured, little if any provision for losses may be required. Accruals will be established by the application of loss-experience ratios to loans made during the month and the resultant amounts should be charged to program expense (CAN) (non-fund) and credited to the valuation allowances. Losses will be charged to the allowance accounts when uncollectibility of the loans is established. Balances in the allowance accounts will be checked periodically for adequacy in relation to the amounts of loans outstanding, and the accrual rates will be adjusted prospectively as required.

3. Valuation Allowances for Student Loan Fund Losses

The allowance for losses on Government equity in capital contributed to student loan funds, including such funds created by conversion of Education Opportunity Grants to Student Loan Funds, will provide only for expected losses due to death, disability, or default of the student borrowers. They should not cover the portion of such losses chargeable to the institutions' capital contributions or amounts reimbursable by the Government to the loan funds. The cost and expenditure for the latter type of losses are accounted for as fund transactions which are described in paragraph C. 4. of this Section. The amounts to be accrued for the death, disability, and default losses chargeable to Government capital equity

will be set up each month by the application of established loss ratios to Federal capital contributions for the month. These loss ratios will be developed by knowledgeable program officers in the light of the experience with each type of loan. The rates will be adjusted prospectively as found necessary.

4. Treatment of Loan Cancellations

- a. No advance allowance will be made for anticipated loan cancellations because of teaching and professorial practice or for collection and administrative expenses chargeable to the Government's contributed capital equity. These charges are considered to be program costs and expenses when they occur. The Government receives a service when any of these charges arise. Fiscal period costs of performance would be distorted by setting up reserves for them in advance. The difficulty in accounting for this type of cost and expense is in estimating the amounts that have occurred each month in advance of receiving periodic reports thereon from the institutions concerned. Estimates of such charges will be made each month based on available program data and experience. The accrual would be a debit to program expense (CAN) (non-fund) and a credit to a temporary suspense credit sub-account of the investment asset control account.
- b. When the periodic reports on the changes in the Government's capital equity are received, entries will be made charging the valuation allowance and suspense credit accounts with the actual costs and losses reported, and crediting the investment account representing the capital equity. At that time any difference between the amounts estimated for teacher and practice cancellations and similar service-type charges discussed in the preceding paragraph, and the amounts actually reported will be adjusted so as to leave in the suspense credit account only the estimates of such losses for the periods for which reports have not been received from the institutions.

J. Interest Payments

The only DHEW expenditures chargeable to object class 43, interest, occur in revolving funds financed by sales of participation certificates and/or appropriations on which interest must be paid to the Treasury when the funds are used. This amount is modified by the monthly amortization of premium and discount (if any) on sales of Participation Certificates. (See Paragraph 3-60-60D). Interest payable will be accrued monthly based on FNMA reports or computed from the interest base and applicable rate or rates, by debits to interest expense and credits to Accrued Interest Payable to Federal Agencies. Interest payments, when made, are charged to the Accrued Interest Payable Account.

K. Use of Cost Curves

1. General

- a. The following subparagraphs outline the techniques to be utilized by agencies in the determination of accruals for grants and contracts where it is appropriate to use cost curves and time does not permit the use of survey methods to obtain the curve configuration.
- b. The standard bell curve, declining cost curve and straight line projection methods as outlined in the subparagraphs below will be utilized for grants and contracts when current expenditure trends, recent cost levels, or expenditure-reporting on the part of the grantee are not available either through historical data or current reporting. These methods are easily adaptable to ADP or manual processing and will also provide cost data for management purposes. When cost curves are used, comparison of actual costs to estimated costs and analysis of differences should be accomplished as soon as the actual costs are available so that refinement of the estimating process may be accomplished. Ultimately, another technique may have to be utilized when expenditure trends and cost trends become available and do not conform to the percentages utilized in these methods.

2. Description of the curves

The cost curves are as follows:

a. The Standard Bell Curve

The standard curve (Exhibits 3-60-2 and 3-60-3) may be used for those grants and contracts where the costs build up slowly during the initial phases of the term, then increase rapidly and finally level off toward the end of the term. For example, a grant or a contract for \$1,000,000 which is to be performed between December 1 and September 30 might be estimated as follows:

<u>Date</u>	<u>% of Time</u>	<u>% of Cost</u>	<u>Amount Accrued</u>
Dec. 31	10%	4.00%	40,000
Feb. 28	30%	18.25%	182,500
Apr. 30	50%	47.25%	472,500
Jun. 30	70%	78.50%	785,000
Aug. 31	90%	97.50%	975,000
Sep. 30	100%	100.00%	1,000,000

b. The Declining Cost Curve

The declining cost curve (Exhibit 3-60-4 and 3-60-5) is for those grants and contracts where costs build up rapidly at the beginning of the term because of startup costs and large material purchases, and level off during the later stages of the term. For example, a fabrication grant or contract valued at \$600,000 would be accrued as follows:

<u>Time or Units Completed</u>	<u>% of Time or Units</u>	<u>% of Cost</u>	<u>Amount Accrued</u>
15	10%	18.00%	\$108,000
45	40%	49.00%	294,000
75	50%	72.00%	432,000
120	80%	94.00%	564,000
150	100%	100.00%	600,000

c. The Straight Line curve

The straight line projection (total cost divided by time) is used for level of effort type of grants or

contracts where costs remain relatively constant and stable during the term. For example, the estimate for a grant or contract for research services in the amount of \$100,000 to be performed between December 1 and September 30 is compared with the amount that would be recorded if it were appropriate to use the standard bell curve in the following tabulation:

<u>Date</u>	<u>% of Time</u>	<u>% of Cost</u>	<u>Amount Accrued</u>	<u>Bell Curve Amount</u>
Dec. 31	10%	10%	\$ 10,000	\$ 4,000
Feb. 28	30%	30%	30,000	18,250
Apr. 30	50%	50%	50,000	47,250
Jun. 30	70%	70%	70,000	78,500
Aug. 31	90%	90%	90,000	97,500
Sep. 30	100%	100%	100,000	100,000

d. Modifications

Minor modifications and change orders may be included in the total amount and applied to the curve percentages. Substantial modifications will be computed independently of the basic grant/contract based on the appropriate factors.

L. Loans and Other Program-Type Investments

1. Accounting for Loan Principal

a. Loans and similar program-type investments are recorded as accrued expenditures when cash is paid out. Repayments of loans and similar investments are recorded as accrued receipts when the cash is received for purposes of Treasury reports BA-6727 and 6728. These types of transactions therefore ordinarily require no accrual adjustments. However, if prior to the adoption of the "Umbrella" system expenditures properly classifiable as loans or similar investments were charged off as program expense, appropriate restoration of the assets will be made in the accounts for amounts outstanding. Adjustments will also be made where loan expenditures have been charged to asset accounts but not subsequently reduced for repayments, cancellations, defaults, etc. It is assumed in this procedure that all outstanding loans and investments have been routinely recorded as assets and therefore require no accrual adjustments (accruals of interest and allowances for losses are discussed elsewhere). The investments made purely for income producing purposes, as in the case of purchase of U.S. Government bonds by Social Security Trust Funds are not accrued expenditure transactions nor are sales of such investments reportable to Treasury as accrued receipt transactions. The term "investment" as used in this paragraph L does not relate to investments of this nature.

b. The appropriations from which currently outstanding loans and investments have been made which may require restoration or adjustment in the accounts are as follows:

(1) Elementary and Secondary Educational Activities and Defense Educational Activities:

(a) Loans for equipment and minor remodeling.

(2) Higher Educational Activities, Expansion and Improvement of Vocational Education, and Defense Educational Activities:

(a) Capital contributions to NDEA Student Loan Funds.

(b) Loans to institutions for their contributions to NDEA Student Loan Funds.

- () Advances to State and non-profit loan insurance funds.
 - () Advances and loans for construction of facilities not yet transferred to Higher Education Facilities Loan Fund.
- () Health Manpower Education and Utilization:
 - (a) Capital contributions to Student Loan Funds
 - () Loans to institutions for their contributions to Student Loan Funds (such loans are no longer being made).
- () Assistance to Refugees in the United States:
 - (a) Loans to Cuban refugee students.
- . The amounts of direct loans and advances to institutions and individuals made from appropriations and yet outstanding will be periodically reconciled to the records maintained by the various program offices, if any.
- . Accounting for Insured Loans
In the insured loan programs, the amounts of loans outstanding insured by the Federal Government have not heretofore been recorded in the accounts of DHEW. Reports of these loans are received and compiled currently by the Office of Education. From these data, periodic reports on outstanding loan guarantees and other program operations are prepared for Bureau of the Budget and Treasury Department, among others. The amount of such loan guarantees will be recorded in the statistical accounts section of the General Ledger by a debit to an account entitled, Guaranteed Loans, and credit to a contra account entitled, Loan Guarantees. Accounting for losses under these guarantees is discussed under subparagraph 3-60-40H4, Losses on Insured Loans.

3-60-50 ACCRUALS FOR IN-HOUSE COSTS

This Section contains more specific definition of policy and procedures as related to the methods of accrual of in-house costs. (See also Section 3-00-60).

A. Personal Services

1. General

Payroll accruals will reflect a percentage of the total payroll cost for the last full pay period in the fiscal month including government contributions. The DHEW central payroll system provides a labor cost summary which reflects payroll cost at the common accounting number level and also provides a magnetic tape of the cost summary data in tape record format prescribed by the "Umbrella" system for automatic entry into automated subsystems. The utilization of a percentage factor based upon the number of workdays to be accrued in relation to a normal pay period of 10 workdays, (which may not always be the same days for all agencies) allows for an automatic computation of payroll costs. While minor distortions may result from the utilization of this method, the advantage of automatic computation far outweighs this minor disadvantage.

2 Optional Methods of Computation

There are several methods which can be used by the central payroll operation to compute the payroll residual estimate for the days between the end of the payroll period and the month's end so as to accommodate work patterns peculiar to the agencies or parts of agencies. Specific patterns for CAN numbers will be based on data provided by the agencies. Two methods are:

- a. Month-end estimates of residuals are based on the nearest representative prior biweekly payroll period at a computed standard percentage rate for each day, at the end of the month which is to be estimated. The gross percentage used in computing the estimate is applied to the nearest prior week's cost distribution to allocate the estimate to the cost accounts. Care must be taken to assure that the last biweekly payroll itself is recorded.
- b. Where standard unit labor costs are known and output is easily estimated, a standard cost can be determined, the aggregate of which can be worked into a complete payroll estimate for the period between the last day of the last full pay period and the end of the month.

- c. Both of the methods described above operate on the assumption that time charged to programs during the period for which accrual is being made is the same as that in the prior full pay period and that the same proportion of leave was taken. The method in paragraph (b) above contains factors for consideration of overtime and personnel levels and assumes the achievement of standard unit output. The techniques provide reasonably accurate methods for recording the accrued expenditures but may result in minor distortions. Special efforts are required at year-end to record actual costs in the appropriation cost and liability accounts. In most instances, only a special labor distribution for the period between the last full pay period and September 30, will suffice.

3. Accrued Annual Leave

Changes in the value of accrued annual leave will be recorded at a minimum at the end of each fiscal year in the expense accounts (unfunded) at the common accounting number level. Where funded accounts are involved, monthly adjustments will be established for the changes in value. Leave costs are computed by the Payroll Umbrella Accounting System and automatically provided to each agency. Except when specifically authorized by law, accrued annual leave earned is considered to be unfunded and the leave (although included in applied costs) is not recorded as an accrued expenditure until the leave is taken.

B. Fringe Benefits

Methods described in paragraph A above will be used for establishing percentage type fringe benefits. Factors must be determined as in "A" above for health benefit and life insurance accruals where the costs based on a full day period and proration cannot be used because of employees who work for only a part of the period. At September 30, the amount will be determined accurately. Lump sum leave payments due employees separated at month-end will be determined and credited to accrued payroll (funded). These would be excluded from the unfunded accrued leave account.

. Allowance and Awards

Special allowances such as tools and clothing will be recorded in the month they become payable to the employee. Actual costs will be recorded at September 30. Awards will be recorded as expenses when they are administratively approved for payment through the payroll process regardless of the date of actual award presentation.

D. Materials, Supplies, and Minor Equipment

1. General

Costs of materials, supplies and minor equipment received for which payment has not been made will be recorded in the month of receipt using receiving reports based on invoice prices or on purchase order prices. Major equipment, buildings, land, etc., which are normally acquired by contract are treated in paragraph 3-60-40G. Direct charge materials or equipment will be costed to expense accounts. General use items will be charged to inventory accounts and the cost transferred to appropriate expense accounts when issued from stock.

. Method of Operation

Only receiving reports in excess of \$1,000 need be handled as accrual items except at September 30 when all items will be recorded. Materials in transit where title has passed to the Government should also be included. It is recognizable that materials and supplies that are delivered during the last few days of months other than September cannot be received, inspected, documented and recorded prior to the monthly cutoff date. Arrangements will be made for prompt preparation and transmittal of receiving reports to the accounting office. If feasible, arrangements should be made with the receiving department to provide informal notification of the receipt of large value items when it is improbable that the receiving report will be processed prior to the month-end. Large value shipments that have not been accepted because of minor defects will be recorded unless the item is to be returned to the vendor. Where there is a reasonable basis to assume that defective material will be paid for at less than the established price, the entry may be made at an appropriately reduced cost.

E. Travel

Travel costs will be recorded as expenditures through the use of either the following methods:

1. Record only the amount of the submitted travel vouchers at the month-end. In addition, cost of all travel accomplished before July 1 but not vouchered is accounted for at the year's end.
2. Travel requests are recorded as an expenditure when obligated based on the estimated cost of the trip, provided travel starts in the month of obligation. Expenditures are adjusted to actual when the voucher is paid. At the year's end, the recorded obligations and costs are reduced by (1) the amount of the per diem applying to the next fiscal year, and (2) the transportation purchased in the next fiscal year. This method is preferred. Blanket travel orders will be recorded monthly on the basis of estimates of travel to begin or be performed in the current month.
3. Exceptions to method 2 above are the large items of cost connected with change of station travel such as real estate commissions, per diem at the destination, and associated costs if these costs cannot be closely estimated on the travel order. These items will then be recorded as costs, or the estimate adjusted to actual costs, upon receipt of evidence of liability of the Government.

F. Transportation of Things

Costs as evidenced by copies of Government Bills of Lading issued to carriers will be recorded in the month in which the GBL is issued, in the same amount and concurrent with the obligation. Unless the amounts are significant, it is not necessary to make monthly estimates for transportation costs not covered by GBL's. At September 30, all costs including those covered by GBL's will be recorded based on billings received, evidence of household goods in transit (from travel authorizations), and other reliable notices that transportation has been started or has been accomplished.

G. Utility Services

Estimates for utility services, if substantial, (i.e., gas, electricity, water, telephone) should be based on previous billings. If usage fluctuates significantly, meter readings or estimates of usage should be obtained and priced in accordance with applicable schedules of charges. In addition, the estimated cost for the days between the billing date and the end of the month will be recorded. In those cases where the amount of liability for the portion of the month between the end of the normal billing period and the end of the month is immaterial, the monthly billing periods will be equated with the accrued expenditures for the calendar month in which the billing period ends and no accrual need be made.

H. Leases and Rents

The monthly liability for and cost of leases and rents will be recorded in the month in which the property was used. For fixed price agreements the amount accrued will be the actual monthly cost. Rentals based on usage (i.e., reproduction equipment, GSA vehicles) are generally based on previous billings unless there are substantial known fluctuations. When significant fluctuations do occur, meter readings or estimates of usage should be obtained and priced according to the schedule of charges. Rentals of EDP equipment resulting from usage in excess of base periods should be computed based on a system of computer usage reports.

I. Depreciation

Depreciation costs will be accrued at least monthly by common account number. Undue precision and detail shall be avoided in the determination and recording of depreciation costs. The detailed methods of recording depreciation of equipment and real property are outlined in Chapter 1-30 of the DHEW Accounting Manual.

J. Minor Items

Minor items of a petty cash nature may be recorded as expenditures when payment or final settlement is made regardless of the specific period of actual use. Record estimate of intransit items in October and let it stand until September 30 of the same fiscal year. Then adjust it to actual.

3-60-60 ACCRUALS FOR REVENUE

A. Accruals for Revenues from Rents and Sales

1. General

Revenue will be recorded in the month in which it is earned. For practicality, unrecorded accounts receivable estimated to aggregate less than \$1,000 for a revenue source need not be recorded at month's end other than at September 30. Individual small amounts need not be estimated separately, but when the source of revenue is significant, the total should be estimated monthly. Accrued revenues will be recorded for both Miscellaneous Treasury Receipts and reimbursements to appropriations or revolving or other funds including working capital and management funds.

2. Rentals

When income producing property (real and personal) is managed by another Federal agency, it is necessary for the parent organization to duplicate some records and controls maintained by the managing agency. Estimates of the proceeds should be recorded monthly based upon previous amounts transferred. Upon receipt of the transfer, the revenue account should be adjusted to actual and the receivable adjusted. Any significant difference should be investigated in order that estimates for succeeding months may be as accurate as is reasonable.

3. Sale of Commodities and Services

Revenues for commodities and services furnished to another Federal organization or to firms or individuals outside the Government, which by law may be credited directly to appropriations or funds, should be recorded monthly. The entry should be based on the costs accumulated for the applicable customer work order or billing schedules and should comply with the full cost requirements of user charge procedures and BoB Circular A-25 where applicable.

4. Method of Operation

Estimates, based on statistical studies or historical data, should be made of revenue accruing to agencies for the sale of materials or services to outsiders, when actual sales instruments are not available. Selling prices to be used will be established based on full cost recovery. Entries of a summary nature will be made to cover the period between the last recorded sales and the end of the fiscal period or to cover unbilled portions of services, materials and related costs which will result in sales. Contra debits should be summarized to accounts receivable or to an appropriate accrued asset account for unbilled work in process. The cost of sales are assumed to be accrued in the process of normal expenditure accruals. Where inventory items are sold and costs of sales are to be separately identified, entries charging cost of sales and crediting asset or expense accounts must be made. Sales must be entered gross rather than net of cost, as cost of sales, as mentioned above, are recorded as accrued expenditures.

B. Interest Income

1. Revolving Loan Funds

Interest income earned by revolving loan funds will be accrued monthly. A review will also be made before final closing of the accounts for the fiscal year to see that all interest earned but uncollected at the year-end on loans, investments and advances is set up in the revolving funds as Accrued Interest Receivable and credited to Interest Income. The accrual should be recorded by blanket entry without identification to individual borrowers' accounts. Where the volume of interest-earning assets is too small to necessitate or justify the use of sampling methods in computing those accruals, individual calculations should be made, in which case, specific accruals for each loan may be made.

2. Social Security Trust Funds

- a. In the Social Security Trust funds, the interest earned but uncollected on investments will be computed and recorded monthly by the Treasury Department as a credit to Interest Income. The valuation of investments purchased above or below par will be adjusted monthly or as of the year-end to reflect the amortization of such premiums or discounts, by appropriate charge or credit to Trust fund income. (See paragraphs 3-60-100G and 3-60-60D).

- b. Where amounts have been advanced by one SSA trust fund for the benefit of another, accruals for the related interest receivable by the former and payable by the latter fund will be computed by SSA and recorded in the respective funds accounts by Treasury Department. In the case of the owing fund, the debit for the accruals will be to Interest Income rather than to Interest Expense since the interest due the lending fund is really a transfer of the interest earned by the borrower on the amounts, during the period of the advance.

3. Appropriated Funds - Direct Loans

Interest earned on direct loans made from appropriated funds (other than loans transferred to revolving funds) are payable to Miscellaneous Treasury Receipts when collected. The accounting for the principal of these loans is discussed in paragraph 3-60-40L. Interest on these direct loans earned but not due and due but not collected will be accrued in the accounts. Blanket entries or individual entries for each loan will be made by debits to accrued Interest Receivable - Non-Federal Agencies (Miscellaneous Treasury Receipts) - and credits to income accounts. The amounts of the accruals can be computed from the detailed records maintained by program offices. Where the number of loans outstanding and currently earning interest is sufficiently great, statistical sampling techniques will be used for computing the accruals.

1. Appropriated Funds - Capital Contributions to Loan Programs

- a. Interest income is also earned by DHEW agencies on their capital contributions to student loan funds administered by educational institutions. These earnings arise from the Government's having an equity in late charges and in the interest payable to the loan funds by student borrowers when their loans reach repayment status. Such interest collections, however, are retained by the institutions in the loan funds and the Government's share serves to increase

the Government's investment in the funds. The Government's equity in interest and other charges collected from students will be recorded from the reports of the institutions. Amounts will be debited to Investments and credited to Interest or Other Income (non-fund).

- b. Blanket accrual entries will also be made periodically for the Government's equity in any interest earned on student loans, but uncollected. In order to retain the identity of the amount of the Government's equity in the balance of the loan funds as reported by the institutions, the debit for the accrued interest equity should be to separate sub-account of the investment asset account; the credit would be to Interest Income (non-fund). Where data reported by the institutions are not in sufficient detail to permit precise calculation of interest accrued on student loans, the determination of the amount to accrue for the Government's equity must be based on the application of informed judgment to such data as are available, including experience of prior years. In some instances it may be found feasible to employ statistical sampling and develop totals by extrapolation.

C. Insurance Premiums

Single-payment insurance premiums are collected from student borrowers by lending banks under the federal student loan insurance program. These premiums are due the Student Loan Insurance fund and are either remitted by the banks to the Fund or applied as off-sets against payments to lenders for the Government's liability for the interest subsidy on the loans. In the latter case, the fund will be reimbursed for the off-set by the appropriations financing the interest subsidy. The insurance premiums are earned by the Student Loan Insurance Fund at the time the loans are made and the Fund assumes the insurance risk. Any such premiums earned but not collected by the Fund either from banks or from the appropriations, will be set up from the program office records of guaranteed loans made, on a blanket or individual basis by a debit to Accounts Receivable Non-Federal Agencies and a credit to Insurance Premium Income.

D. Unearned Income and Other Deferred Credits

1. It is assumed that the credit entries in these accounts are up-to-date as of month-end because of the character of these types of transaction e.g.;
 - a. discounts on investments purchased (at the time of purchase);
 - b. premium in participation certificates sold (at time of sale);
 - c. unredeemed commissary coupons (at time of sale); and
 - d. all other.
2. Accounts "a", "b", and "d" may be analyzed at month-end to determine the balance unamortized at the end of the month. The monthly amortization amounts for these items, however, can also be determined without month-end analysis by spreading at the time of the transaction, either manually on worksheets or by EDP, the amounts to be amortized each month over the "life" of the credit.
3. The account for unredeemed commissary coupons will be charged with an amount equal to the experience factor of commissary coupons sold that month that will never be redeemed due to loss of coupons, etc. It is assumed that redeemed coupons will have been charged to the account in lieu of cash debits each day up to the end of the month. The factor which reflects the coupons that will not be redeemed, should be determined periodically, on the basis of a statistical study of a sampling of coupons turned in.

E. Other Social Security Trust Funds Income

Sources of Social Security Administration Trust Funds Income, other than interest, are:

FICA taxes (net of refunds)
Deposits by States
Insurance contributions from participants
Appropriations from General Funds of the Treasury
Railroad Retirement System

Each of these categories should be reviewed and estimates made for amounts earned but uncollected as well as amounts collected but unearned as of the month-end. For earned amounts, entries will be made in the various Trust Funds accounts debiting Accounts Receivable and crediting Trust Fund income accounts for the month-end accruals. Collected but unearned amounts will be treated as unearned income. Accruals of tax revenues and state deposits will not be made until the decision has been made by the Bureau of the Budget to record such revenues for the Government generally on an accrual basis. Where there are accruals of income due the Trust funds from Federal appropriations, contra (reciprocal) Accrued Liabilities will be set up in the appropriation accounts financing this income, as prescribed by paragraph 3-60-40C.

3-60-70 SURVEYS OF GRANTEE EXPENDITURES

A. General

1. It will be necessary from time to time for DHEW agencies to request selected grantees or contractors to provide information relative to ratios of unpaid liabilities to average monthly cash payments, monthly expenditure patterns (for characteristic cost curves) or other expenditure data. These statistics will be required in order to maintain the validity of methods of estimating accruals which are used as substitutes for the direct reporting by all grantees which was contemplated by BoB Bulletin 68-10.
2. Pilot surveys have been made of colleges and universities and State organizations. These surveys were employed to determine the feasibility of establishing formulas or other statistical devices for converting grantee cash expenditures to accrued expenditures. For some programs, the surveys have been productive of information which appears to be valid. In others the results are as yet inconclusive. In any event, data developed will require periodic revalidation.
3. The survey methodology develops data not only from the prime grantees, but also from subgrantees where such are involved. In both cases sampling is used to obtain the data, although the method used for prime grantees is less sophisticated than that for the sub-grantees (because of the magnitude of subgrantee operations).

4. Survey data are to be used at the agency level to develop formulas which, when applied each month to known or estimated measures of activity such as grantee cash payments, will produce estimates of grantee accrued expenditures. In some cases, where characteristic curves based on accrual concepts are employed, the monthly increment, from tables of monthly curve percentages, will be applied to develop the portion of the grant award which is estimated to be expended monthly in the grant period.
5. Although the first surveys were conducted by the Office of the Assistant Secretary, Comptroller, as a part of the development program for accrual accounting for DHEW, it is anticipated that subsequent surveys will be conducted by the individual agencies having the preponderant interest in the type of grant to be surveyed. It is necessary however to establish a uniformity of method, standardization of the reporting forms and coordination of surveys so as to keep the impact on the grantees and sub-grantees to a minimum. Because of this, the methods referred to in this section and the related forms and instructions in the exhibits to this chapter will be employed. Modifications will be referred for approval to the Deputy Assistant Secretary, Finance, so as to retain the desired uniformity. The survey forms and instructions will be approved by the Bureau of the Budget under the Federal Reports Act and will be the only forms and instructions authorized for collecting this information. They will be incorporated in this instruction when approved. Plans for surveys must be cleared in advance with the Deputy Assistant Secretary, Finance, as to scope, timing and sample selection.

B. College and University Surveys

1. Grantee unpaid liabilities

- a. The monthly accruals of expenditures by grantees called for by paragraph 3-60-40B require, in most instances, the use of formulas in which grantee unpaid liabilities are expressed as a percentage of either the average monthly grant amount or the average monthly grantee disbursements for a given type of grant.

- b. As stated in paragraph 3-60-70A above, these percentages are developed and will be periodically validated by surveys of the experience of selected grantees. For purposes of these formulas and related surveys, grants to colleges and universities will be grouped by the following principal types:
 - (1) Research and/or development
 - (2) Training
 - (3) Fellowships
 - (4) Other grants, exclusive of construction grants (identify)
- c. Exhibit 3-60-6 provides the forms and instructions to be used in surveying college and university expenditures for the establishment or revalidation of ratios of unpaid grantee liabilities to average monthly grant amounts and to average monthly grantee disbursements. The survey instructions require that grantees report the desired data for only a sample of their DHEW grants using the statistical sampling methods prescribed in the instructions for their selection. The key data to be reported for each grant selected are the number of months of the grant term, the amount of the grant, the current unpaid liabilities (as defined in the instructions) and the cumulative cash disbursements. In compiling the responses, agencies will compute from summations of responses by type of grant, the average amount of awards surveyed per grant per month of life, the average amount of unpaid liabilities per grant and the average monthly cash disbursements per grant. From these data, the percentages of unpaid liabilities to average monthly grant amounts and average cash disbursements will be computed.

2. Characteristic cost curves

- a. The operational characteristics of some grants administered by colleges and universities may be such that it is simpler or more satisfactory to use some estimating accrual methods other than those requiring the formula for the determination of grantee unpaid

liabilities. Such grant programs will therefore not be included in unpaid liabilities surveys. These excluded grants will be covered by the characteristic cost curve surveys referred to in paragraph 2, or construction programs referred to in paragraph 3 below.

- b. Exhibit 3-60-7 provides the forms and instructions to be used in obtaining data from colleges and universities in the development of characteristic cost curves for these programs. Grantees are requested in this survey, as in the case of the unpaid liabilities survey, to report only on randomly selected grants. The principal data to be reported are distributions of accrued expenditures under each grant by months over a period of a year and the amounts of the awards. Summation of the reported data by types of grants, and computation of ratios of the expenditures for each month to the total awards, provide the basis for a characteristic cost curve for the type of grant surveyed.

3. Construction grants

As provided in paragraph 3-60-40d, accrued expenditures for construction grants to colleges and universities will be based on engineers' progress reports. At a later date it may be found feasible to develop characteristic cost curves for principal types of construction. In such case, surveys will be prescribed for establishing such cost curves.

C. State Agency Surveys

1. Grantee unpaid liabilities

- a. Surveys of grant expenditures by State agencies are required periodically to establish or revalidate formulas used in estimating unpaid liabilities of the agencies in the monthly recording of their accrued expenditures. As in the case of colleges and universities, these formulas are generally expressed in terms of percentages of either the average monthly grant amount or the average monthly grantee cash disbursements for each of the principal types of grants. For purposes of these formulas and the related surveys, grants to State agencies will be grouped by the following principal types:

- (1) Public assistance
 - (2) Medical assistance
 - (3) Vocational Rehabilitation services
 - (4) Maternal and child health and welfare services
 - (5) Comprehensive health planning and services
 - (6) Elementary and secondary education
 - (7) Vocational education
 - (8) Manpower development and training activities
 - (9) Research and/or development
 - (10) Training (other than Manpower and Training Act of 1962)
 - (11) Fellowships
 - (12) Other services (identify)
 - (13) Other, excluding construction (identify)
- b. The operational characteristics of some grants to State agencies are not susceptible of or do not require the use of an unpaid liability factor in computing estimated accrued expenditures and hence are not to be included in surveys of unpaid liabilities. These excluded grants will be covered by the characteristic cost curve surveys referred to in paragraph 2 or construction programs referred to in paragraph 3 below.
- c. Exhibit 3-60-8 provides the forms and instructions to be used in surveying State agencies for the establishment of revalidation of unpaid liability formula ratios. Formula grants covering large continuing programs such as Medicaid Aid to Educationally Deprived Children will usually require grantees to obtain substantial amounts of data from a statistical sampling of sub-grantees. Supplementary forms and instructions are provided in the attached exhibits for this purpose. These instructions include techniques for selecting sub-grantees and extrapolating the sample data to the state-wide universe. Data to be reported to DHEW by the grantees are the same as those called for in the unpaid liability surveys of colleges and universities. However, because of the sub-grantee factor in State surveys, States are required to (1) include in their reported liabilities, the liabilities of their sub-grantees, and amounts spent by sub-grantees from their own funds, (2) deduct

from the State agency liabilities the amounts of unexpended grant funds in the hands of the sub-grantees, and (3) add to their liabilities the unreimbursed disbursements of sub-grantees.

1. Characteristic cost curves

- a. In some programs where funds are expended through local educational agencies or other sub-grantees, States sometimes adopt the practice of requiring the sub-grantees to finance program expenditure from their own funds during the entire fiscal year and then to seek reimbursement from grant funds held by the State early in the following fiscal year. This practice has been followed for example, by some States in the administration of grants under the Smith-Hughes and George-Barden (Vocational Education) Acts. In these cases it is impossible to develop monthly grantee accrued expenditures by application of factors to current grantee disbursements since these occur only once a year and after the year in which the expenditures were incurred is closed. It is necessary under these circumstances to develop and apply characteristic cost curves for accruing estimated grantee expenditures.
- b. Survey forms and related instructions for obtaining from State agencies the data necessary for developing or revalidating cost curves for such grants appear under Exhibit 3-60-9. In this type of survey, grantees are requested to obtain from a statistical sample of sub-grantees the latter's month-by-month accrued expenditures chargeable to the grants over the life of the grant whether or not reimbursed as yet by the grantee. The summation of all these reports and computation of composite ratios of the expenditures for each month to the total of these grants provide the basis for a characteristic cost curve for the type of grant surveyed.

3. Construction

As provided in paragraph 3-60-40D, accrued expenditures for construction grants to States will be based on engineers' progress reports. At a later date it may be found feasible to develop characteristic cost curves to principal types of construction. In such case surveys will be prescribed for establishing such cost curves.

3-60-80 REPORTING OF ACCRUALS

A. General

Chapter 1-10 explains the reasons for employing accrued expenditures in DHEW accounting. The foregoing portions of Chapter 3-60 describe methods which can be used in determining accrual values and amounts. In some specific areas, mention has been made of account titles and accounting entries which should be used in recording the accruals thus computed. These references have been placed in the text material primarily for explanatory purposes and to illustrate more completely the circumstances surrounding the specific subject matter. This part of the guide will not completely describe the recordation process but it will, in addition to some explanatory material, indicate references in the Accounting Manual and other documents which illustrate the processing and reporting of the product of the accrual computation. The discussion will be general and not specifically aimed at any one type of accrual or area of operation.

B. Transaction Codes

Accounting Manual Chapter 4-40, Transaction Codes, in its Exhibit 4-40-3, describes various transaction codes. The descriptive information accompanying the transaction codes amply illustrates the model transactions including identification of the general ledger accounts (asset, liability, equity, expense and income accounts) which are affected. Also identified are the related portions of the Internal Machine Number (IMN) and the Object Class (OC) codes. The only item not identified are specific cost centers. These will be determined from the agency Common Accounting Number (CAN) code book.

C. The Recording Process

Accounting Manual Chapter 3-00, System Requirements and Operation, in Section 3-00-60 describes the recordation of accounts payable and other accruals. Also Sections 3-60-40, 50, and 60 above describe accounting entries as specifically applied to certain types of accruals. The accrual process conforms, as to the determination of amount, to the methods described in Chapter 3-60. Chapter 3-00 also describes the mechanical methods of the accounting process such as cost distribution and internal controls.

D. Internal Reports

The objectives and standards of internal reporting are provided in Chapter 5-10 of the DHEW accounting manual. The emphasis in internal reporting is on accrued costs. Costs on monthly operating statements should be related to budgets of standard or variable types or the data should be related to performance figures both qualitative and quantitative and supported by narrative comment containing analyses of variances. The important factors are that (1) the manager can do something constructive as a result of the cost information, (2) the value of the corrective action exceeds the costs of collecting the data, (3) the information is clearly presented and valid, and (4) there is related information against which the costs or expenditures can be measured.

E. External Reports

There are two external reports which, in compliance with BoB Circular A-34, are provided for the Bureau of the Budget and which contain information relative to accrued expenditures and accrued costs. There are:

- | | |
|--------|--|
| SF-133 | Report on Budget Status-Obligation Basis |
| | Together with its reconciliation of applied costs to accrued expenditures. |
| SF-143 | Report on Budget Status-Accrual Basis |

In addition, there are two reports which, in compliance with Treasury Transmittal Letter No. 18, dated June 20, 1968, are provided for the Treasury. These reports, which are reconciliations of net accrued expenditures to the net disbursements and accrued receipts to Miscellaneous Treasury Receipts are:

- BA-6727 Report of Selected Balances for Stating Budget Results on the Accrual Basis, Appropriation and Fund Accounts
- BA-6728 Report of Selected Balances for Stating Budget Results on the Accrual Basis, General, Special and Trust fund Receipt Accounts.

A brief description of each of these reports and their relationship to accruals follows:

F. Bureau of the Budget Reports

1. SF-133- Report on Budget Status - Obligation Basis

- a. This report is a monthly report for each appropriation account. It is divided into three sections, (1) the amounts available, (2) the status of the amounts available, and (3) the relations of obligations to net disbursements. It also contains information relative to current and unexpired accounts as well as the consolidated amounts for the appropriation title. The information is shown on a cumulative basis.
- b. The important aspect of this report as related to accruals is contained in the second section, the status of amounts available. Line 7, Accrued Expenditures, includes liabilities incurred for goods and services received and other assets acquired and performance accepted and other liabilities incurred not involving the furnishing of goods and services. These liabilities include provisions for constructive receipt as defined in paragraph 1-10-30F. In those cases where the precise amount of accrued liabilities is not known, best estimates are used. The amount reported also includes adjustments of accrued expenditures previously reported.
- c. Line 8, Undelivered Orders Outstanding, reconciles the accrued expenditures to Obligations Incurred, Line 9. The components of this item are:
 - (1) Changes in advances outstanding (+ or -).
 - (2) Changes in unpaid undelivered orders (+ or -).
 - (3) Adjustments and transfers (+ or -).
 - (a) recoveries of prior obligations.
 - (b) unpaid obligations for which goods and services were not received; transferred to or from the account.

- d. The SF-133 is supported by a schedule entitled Report on Applied Costs and Accrued Expenditures. This report, which is required on a quarterly basis, may be tailor-made to fit the agency's requirements. It contains two parts:
 - (1) Activity classifications (budget line items in the required detail to conform to the latest budget documents in terms of applied or accrued costs (or in more detail as required)).
 - (2) Changes in selected asset and liability accounts such as inventories, deferred charges, accrued annual leave, transfers of property in or out without charge, and adjustments to prior years' costs or expenditures.
- e. Thus, the two reports combine to trace financial transactions from accrued costs to disbursements through accrued expenditures and obligations.

2. SF-141 - Report on Budget Status-Accrual Basis

- a. This report is to be submitted to the Bureau of the Budget on a quarterly basis for certain revolving funds subject to annual limitations by Congress and for funds not apportioned. The report is submitted for each revolving fund which the agency maintains. The report includes two sections, (1) amounts available and (2) the disposition of amounts available. The figures are on a cumulative basis and are compared with the data in its Column 1 taken from the latest SF-142, Apportionment and Reapportionment, Accrual Basis. The data on lines 7 and 8 in the report's Column 2 reflect accrued expenditures to date, broken down by quarters, so as to be comparable with the budget apportionment. They also show the total amounts still available which have not yet been applied.

A. Treasury Reports

1. BA-6727 - Report of Selected Balances for Stating Budget Results on the Accrual Basis, Appropriation and Fund Accounts

- a. This report provides a monthly link or bridge between "Net Cash Disbursements" and "Net Accrued Expenditures". The bridge accounts include applicable accounts receivable, advances and prepayments on grants, contracts and similar items, accounts payable including other funded accrued liabilities, and applicable unearned revenues. The totals of these accounts are combined with certain budgetary accounts representing the agency's equity as a net result of the combination of accrued expenditures and accrued revenues and other reimbursements creditable to appropriations and funds. This amount is proved by relating it to an analysis of the account for undelivered orders as reduced by an analysis of the account for anticipated reimbursements.
- b. The report is to be submitted at the appropriation or fund title level (without fiscal year designation for annual or no-year accounts). In addition to providing data for integrating accrued revenues and expenditures into the Treasury's central accounting and financial reporting system, the report also provides data on the integration of these accounts into the agency's accounting system. The Treasury instructions state that the reports must be completed for all lines even though the accrual implementation is not yet complete. Lines are to contain:
 - (1) A figure balance, if the accrual system has been fully implemented.
 - (2) A "zero" balance, so written, if appropriate.
 - (3) A "p" if the system is partially implemented and some figures are available.
 - (4) The letters "NR" connoting "no readiness" if implementation has not progressed to the point of proving any figures, and
 - (5) The letters "NA" meaning "Not applicable" if the account is not germane to the agency.

- c. The report is based on the constructive receipt concept but data should be accurate and supported by the agency's accounting system. Estimating to the degree authorized in Chapter 1-10 and 3-60 will be permitted. The data must be coordinated (through one of the lines in the budgetary accounts, "Fund Balance with the Treasury") with the cost basis data reported on SF-1220 and SF-224 and similar reports which will continue to be received.
2. BA-6728 - Report of Selected Balances for Stating Budget Results on the Accrual Basis, General, Special and Trust Fund Receipt Accounts

This monthly report relates to receipts, other than reimbursements to appropriations and revolving funds, and is generally to be: (1) at the aggregate level for each major class of general fund receipt accounts, (2) a single report for all special fund receipt accounts combined, and (3) a single report for all trust fund receipt accounts combined. Report BA-6728 is similar in most respects to BA-6727 as to method of preparation and submission. The bridge on this report however is limited to applicable accounts receivable and accounts payable (for refunds payable). The link to the Treasury reports is the line "Revenue Collected" which includes loan repayments and other non-revenue receipts. Accruals are established through the accounts "Uncollected Revenue" and "Revenue Accrued". Balance sheet accounts including equity accounts are thereby tied into the central books of the Treasury.

3-60-90 MISCELLANEOUS

A. Documentation of Accruals

1. Written Evidence

Written evidence or records of computations and explanations supporting estimates will be retained for use in making the necessary analysis and evaluations of variances. Adequate documentation also is needed for audit purposes. Unless written documentation or records are retained, it is often difficult and time consuming if not impossible to reconstruct the estimates.

2. Retention of Documents

Retention of the worksheets or ADP produced data prepared to compute the estimates will usually constitute adequate documentation.

B. Common Unacceptable Accrual Practices

Accrual practices that have been criticized by auditors in the past include the following:

1. Failing to include unpaid invoices.
2. Duplicating liabilities and costs by including in the estimates amounts withheld from grantees/contractors.
3. Recording liabilities and costs based on receiving reports without making a deduction for progress payments that were previously recorded as costs.
4. Failing to include all applicable grants and contracts in the estimate. (A check list or the listing used for determining variances between the estimated and the actual costs may be used to correct this practice).
5. Failing to use the most current information available. (Periodic reviews should be made of purchase order and grant and contract data).
6. Basing estimates on previous invoices without considering the type of costs billed, the period covered, the cost trend, and the status of project work.
7. Including contingent liabilities in the estimates of cost.
8. Failing to transmit promptly receiving reports and inventory issue tickets to the proper Financial Management organization.

C. Inter-agency and Inter-department accruals

Grants and contracts financed by allotments and allocation from other DHEW agencies and other departments and agencies of the Federal Government are to be accounted for and reported to the parent organizations on the same basis as those financed by direct appropriations.

The DHEW agencies allotting or allocating funds to other DHEW agencies and other departments and agencies should request such receiving organizations to report their expenditures on a similar accrual basis so that they may be recorded in the parent accounts in conformance with the requirements of accrual accounting.

3-60-100 DEFINITIONS

- A. As a convenience, the definitions relating to accrual concepts appearing in Section 1-10-30 are repeated here.
- B. Accrued Expenditures
 - 1. Accrued expenditures are the aggregate dollar amount of financial transactions occurring during an accounting period which either (a) require the concurrent or subsequent disbursement of funds or (b) result in the application of funds previously advanced to others. Such transactions consist of (a) goods and services whether received actually or constructively (1-10-30F), (b) services performed by employees, contractors, grantees, lessors and other payees, (c) amounts becoming owed under programs for which no current service or performance is required (such as annuities, insurance claims, other benefit payments and a few types of grants), (d) program-type loans (as distinct from current advances), and (e) liquidation of previously unfunded liabilities. Expenditures accrue without regard to when the payment takes place and thus include, for any period, all disbursements made during the period in payment of goods and services received as well as any amounts unpaid for such services at the end of the period.
 - 2. Expressed in accounting terms, accrued expenditures are those transactions which result in reductions in the Government's equity in net fund assets (other than refunds of receipts). The credit side of such entries will always be to fund-type assets such as cash or advances or to funded liabilities such as accounts payable or accrued liabilities, the latter being liabilities not yet due and payable. While accrued expenditures are frequently simultaneously accrued costs or accrued expenses, they are not always such and, contrariwise, accrued costs and expenses are not always accrued expenditures. See paragraph D below for the definition of accrued costs and expenses.

3. In those cases where Congress has permitted liabilities to accrue without being charged to the balance of an appropriation, a fund, or a contract authorization, the liability is considered "unfunded" and no accrued expenditure is recorded or reported until the time that the liability becomes funded, although an accrued non-fund cost would be recorded. The most common example of such an accrual is the earning of employee annual leave, which, except in the case of working capital or other revolving funds, is not funded, i.e., chargeable to an appropriation or other fund until taken or until payable upon termination of employment.

B. Accrued Revenues

Accrued revenues earned during a given period are a source of funds and result from (1) services performed by the Government, (2) goods and other tangible property delivered to purchasers or their agents, including sales of fixed assets, and (3) amounts becoming owed to the Government for which no current performance by the Government is required. Examples of revenues are charges for hospital services, fines and forfeitures levied, interest accruing on loans, and premiums earned on Government-operated insurance programs. Revenue from gifts to the United States will be recorded on a cash basis. The term "revenue" is also used by Treasury Department to include collections of program-type loans. In the umbrella system such collections are classified as receipts.

C. Accrued (applied) Costs or Expenses

1. The meaning of the word "costs" lies in the context of its use. When used to describe the use or consumption of goods or services, the term Applied Costs is synonymous with the terms Accrued Costs and Accrued Expenses but not with Accrued Expenditures. In Bureau of the Budget Circular A-11, the following definition is given:

"For operating programs, costs will represent the value of resources consumed or used."

2. In this manual, the above definition will be intended whenever the terms Applied or Accrued Costs are used. When the word costs is used without a modifying adjective its meaning will have to be determined from context.

3. For most operating purposes, costs are synonymous with current expenses and are the value of goods and services actually used or consumed during the current period.
4. Examples of accrued costs or expenses are salaries, taxes, depreciation, materials issued, and interest charges. These costs accrue and are recognized in a specific period even though payment for them was made in a prior period (Depreciation) or will be made in a future period (salaries earned but not paid at the end of the month or other period).

E. Advances and Prepaid Expenses

1. Advance payments, including prepaid expenses (costs), are assets and are, from Treasury's viewpoint, treated as cash; they are neither accrued expenditures nor costs. They develop into such accruals only as the value represented by the advance is earned by the payee, at which time the advance outstanding or the prepaid expense is reduced and the accrued expenditures and costs are recognized. If an advance is neither earned by the payee nor returned, it becomes an accrued expenditure and cost when its uncollectibility is determined, at which time it should be recognized in the accounts.
2. Prepaid expenses are rare in Government, since generally the Government does not prepay rent and does not carry insurance, the two areas where prepayments most frequently occur in private industry.

The criterion of materiality will generally likewise preclude the treatment of subscriptions to publications and reporting services as prepaid expenses. See paragraph G below for the accounting treatment for deferred charges where benefits or services have been received by the Government (and hence are not prepaid expenses) but it is desired to spread the cost over subsequent periods benefitting from the expenditure.

F. Constructive Receipt

1. Constructive receipt of goods or other tangible property, rather than physical receipt or the passing of legal title, is the measure of the accrual in certain cases. When a contractor provides goods to the Government which he holds himself available to sell to others, the accrual occurs when physical delivery by the contractor and receipt by the Government takes place or title passes (that is, when goods are either delivered to the Government or to a carrier acting on behalf of the Government). However, when a contractor manufactures or fabricates goods or equipment to the Government's specifications, constructive receipt occurs in each accounting period when the contractor earns a portion of the contract price, and the accrual takes place as the work is performed. Formal acceptance of the work by the Government is not a test in such case.
- B. The accrual basis, among other things measures what is owed between the parties, whether or not it is "due and payable", as soon as it becomes owed. In general, the Government does not owe on its obligations until performance takes place on the part of the other party; it does not owe on goods and equipment of a type sold generally until physical delivery has been made. However, once performance occurs, the government owes for special fabrication even though it has not yet been billed.

G. Deferred Charges

1. Deferred charges are expenditures which benefit future fiscal periods and must, therefore, be accounted for as non-cash assets until applied to costs. They differ from prepaid expenses, paragraph E above, in that services have been rendered by the payees in the case of deferred charges while in the case of prepaid expenses they have not.
2. Deferred charges are accrued expenditures when incurred, similar to the acquisition of inventory or fixed assets, but do not become accrued costs until amortized. Examples of deferred charges are leasehold improvements, the cost of which is to be amortized over the life of the lease and premiums on bonds purchased which are amortized by charges against interest income.

H. Disbursements

Disbursements are checks issued or cash paid, net of refunds. Note that disbursements are not the same thing as expenditures. Also, note that disbursements include funds used to make advance payments.

I. Liabilities not Previously Recorded

Liabilities which are normally funded will be recorded as accrued expenditures and reported promptly, even if they cause the recorded obligations to exceed available funds. The concept of accrued expenditures must not be modified, nor disclosure prevented by the failure to record obligations larger in total than the amounts of available funds. Necessary corrective and reporting actions will be taken whenever such a violation of law has occurred (see chapter 2-10-90). See paragraph K below for unfunded liabilities.

J. Subgrantees and Subcontractors

Where a grantee, a contractor, or even another Government agency (to which there is an obligation or an advance payment) performs through a subgrantee, subcontractor, or other party, it is necessary to determine the timing of such performance - generally following the same rules as if the principal had performed directly. For instance, in a grant requiring specific performance according to Government specifications, the grantee's earnings, and therefore the Government's accrued expenditures, will be measurable, at least in part, by the amounts of the subgrantees' costs, including a pro-rata share of overhead, in a given period.

K. Unfunded Liabilities

In those cases where Congress has permitted liabilities to accrue without being charged as an obligation to the balance of an appropriation, a fund, or a contract authorization, the liability is considered "unfunded" and no obligation or accrued expenditure is recorded or reported until the time that the liability becomes funded. Non-fund costs are, however, incurred and recorded at the time the unfunded liability is accrued. Accrued annual leave of employees is a principal example. For revolving funds, however, leave currently accruing is a funded liability when earned and as such is reportable as an accrued expenditure.

HEW Form 515 (4/69)

CONTRACT FINANCIAL REPORT

FORM NOT AVAILABLE IN ELECTRONIC FORMAT

INSTRUCTIONS FOR PREPARATION OF HEW FORM 515 (4/69)
CONTRACT FINANCIAL REPORT

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

General Instructions

Recently the Federal Government adopted improvements in its accounting concepts (Bureau of the Budget Bulletin No.68-10, subject: "Reporting accrued revenues and expenditures to Treasury and the Bureau of the Budget," April 26, 1968). This requires Government agencies to obtain from contractors information on costs incurred or earnings on a monthly basis beginning with a report for the month of July 1968.

This Contract Financial Report has been primarily designed to obtain such information for Government contracts, both fixed-price and cost type, with private enterprise, on a constructive delivery basis for work performed.

This form will not be used for Government contracts for the acquisition of mass-produced items which the contractor holds himself available to sell to others (off-the-shelf type items). The reporting need applies in those cases where a contractor provides services or manufactures and fabricates material in accordance with Government instructions or specifications.

For cost-type, price redetermination, and fixed-price incentive (cost consideration) contracts, data are to be reported in terms of performance, including profit or fees. In case of fixed-price contracts, it is not necessary for the contractor to report his actual costs, but only to report the amounts earned including profit or fee, based on the stage of completion or other satisfactory evidence of performance under the contract.

Amounts to be reported will be based on the contractor's accounting records and will include estimates for current period accruals to the extent required.

Costs incurred or accrued earnings by subcontractors should be included in the amounts reported by the prime contractor. The prime contractor is responsible for including the activities of its subcontractors.

This report will be prepared as of the end of each prescribed period. In those cases where the contractor's period does not coincide with the calendar period, the contractor will report on the basis of his accounting period nearest to the end of the calendar month.

Private enterprise as used in the following paragraphs applies to Industrial and Commercial Activities. Contracts with educational

institutions, other than those for fabrication or construction, are excludable from the reporting requirements of these instructions, if the DHEW agency determines that comparable information can be obtained by other procedures. Such institutions must, as a minimum, report cash expenditures at least quarterly.

Contracts for which a Contract Financial Report are required are as follows:

A. Monthly for all DHEW contracts

- (1) With private enterprise for which average annual expenditure will exceed \$25,000 (including contract amendments).
- (2) With private enterprise for less than \$250,000 average annual expenditure at the option of the contracting officer.

B. Quarterly for all DHEW contracts

- (1) With private enterprise for which average annual expenditure will range between \$100,000 and \$250,000 (including contract amendments) unless monthly reporting has been provided by A(2) above.
- (2) With States and other non-profit organizations involving annual expenditure over \$100,000 (including contract amendments).
- (3) Involving average annual expenditure less than \$100,000 but not below \$25,000 for which contractor billings are not made at least monthly.

The Contract Financial Report is due in the office of the addressee in 2 copies not later than the 15th of the following period.

Preparation Instructions

1. For Month Ended. Enter the ending date of the accounting period, e.g., July 31, July 25, etc. Delete month and insert "quarter" if contractor is reporting quarterly.
2. No. of Work Days. Enter the number of work days included in the period being reported, e.g., 20 days, 21 days, 61 days, etc.
3. Contract No. Enter the complete letter symbol or contract symbol, number, and number of the latest modification or amendment.

4. To. Enter the full name and address of the appropriate Federal Agency and organizational component or other designated recipient to whom the report is to be submitted.
5. From. Enter the full name and address of the contractor and, if applicable, the contractor's division performing the contract.
6. Contract Value. Enter the total definitized cost plus fee of all work to be performed under the contract as of the preparation date of the report. Include the most recent executed modification or amendment and indicate its number. For all incentive contracts, enter the total of the negotiated target cost and the target fee. For firm fixed-price contracts enter the total amount of the contract.
7. Contract Type. Enter the type of contract, e.g., Cost-Plus-Fixed-Fee, Cost-Plus-Incentive-Fee, Firm-Fixed-Price, etc.
8. Funded Contract Amount. Enter, as of the preparation date of the report, the amount of contract funds made available for the work to be performed under the contract, including the most recent executed modification or amendment.
9. Amounts Billed. Enter the total amount of invoices billed by the contractor against this contract as of the preparation date of the report and the latest invoice number.
10. Program/Scope of Work. Enter a brief description of the program, contract scope of work, item or items purchased, or type of services being performed.
11. Signature and Title of Authorized Representative. The report should be signed by the authorized representative.
12. Preparation Date. Enter the preparation date of the report.
13. Payments Received. Enter the total amount of payments received by the contractor for this contract as of the preparation date of the report, excluding loans and advances outstanding.
14. Appropriation (or Fund Citation) and/or Reporting Category. Enter all appropriations or fund citations

and/or the captions of the reporting categories where required under the terms of the contract. Where two or more appropriation sources are used for funding a single contract or line item and the contract specifies instructions for such reporting or segregation, data should be segregated by appropriation accounting reference. Line items or categories of additional information may be defined according to the needs of the Department or Agency, e.g., deliverable end-items, hardware systems, functional categories, elements of costs, performing organizations.

15. Costs Incurred/Contract Earnings. Enter in appropriate columns as defined below, the amounts of costs incurred or contract earnings on a line item basis as identified under the reporting category in column 14. The prime contractor is responsible for including the costs incurred or earnings of its subcontractors. The contractor should include all appropriate fees earned. Contractors reporting quarterly will delete the monthly reference in columns 15a and b heading and insert "quarter".

- a. Cumulative Actual End of Prior Period. Enter the cumulative actual costs incurred or contractor earnings through the end of the prior accounting period (including fees earned on an equitable basis for all work performed under the contract) for all goods and services either delivered or undelivered, in-place or not in-place.

Reports which are prepared on a cash basis will be so identified by inserting the word "cash" in the columnar heading. The amounts reported in the column would be, for each reporting category, the cumulative disbursements incurred through the prior period.

- b. Actual/Estimated Current Period. Enter the actual or estimated costs incurred (including fees) or contractor earnings for the current period. All available pertinent actual cost data for the period will be used in developing the estimated figure.

Contractors preparing reports on a cash basis will provide the sum of the disbursements and the unpaid liabilities for each reporting category for the current period. If unpaid liabilities cannot be identified by reporting category, provide the aggregate amount as a single line item.

- c. Cumulative Actual/Estimated to Date. Enter the actual or estimated total costs incurred (including fees) or contractor earnings through the end of the current accounting period (total of Columns 15a and 15b).
- 16. Planning Data (for Agency use only). These columns are provided for optional use by the Federal Agency to provide planning or other data considered desirable for management purposes. (The contractors should leave this blank.)
- 17. Total. Enter the totals of the respective columns.

Note: Any comments necessary to clarify the information contained in this report should be entered on the reverse of the form.

STANDARD BELL CURVE FOR RESEARCH GRANTS
BY PERCENT OF COST AND PERCENT OF TIME

NOT AVAILABLE IN ELECTRONIC FORMAT

TABLE OF STANDARD BELL CURVE PERCENTAGES

<u>% Time</u>	<u>% Cost</u>	<u>% Time</u>	<u>% Cost</u>	<u>% Time</u>	<u>% Cost</u>
1	0.25	35	23.50	69	77.00
2	0.50	36	24.75	70	78.50
3	0.75	37	26.00	71	80.00
4	1.00	38	27.25	72	81.50
5	1.50	39	28.75	73	83.00
6	2.00	40	30.25	74	84.50
7	2.50	41	31.75	75	86.00
8	3.00	42	33.25	76	87.25
9	3.50	43	35.00	77	88.50
10	4.00	44	36.75	78	89.75
11	4.50	45	38.50	79	90.75
12	5.00	46	40.25	80	91.75
13	5.50	47	42.00	81	92.75
14	6.00	48	43.75	82	93.50
15	6.50	49	45.50	83	94.25
16	7.25	50	47.25	84	95.00
17	8.00	51	49.00	85	95.50
18	8.75	52	50.75	86	96.00
19	9.50	53	52.50	87	96.50
20	10.25	54	54.25	88	97.00
21	11.00	55	56.00	89	97.25
22	11.75	56	57.50	90	97.50
23	12.50	57	59.00	91	97.75
24	13.25	58	60.50	92	98.00
25	14.00	59	62.00	93	98.25
26	14.75	60	63.50	94	98.50
27	15.50	61	65.00	95	98.75
28	16.25	62	66.50	96	99.00
29	17.25	63	68.00	97	99.25
30	18.25	64	69.50	98	99.50
31	19.25	65	71.00	99	99.75
32	20.25	66	72.50	100	100.00
33	21.25	67	74.00		
34	22.25	68	75.50		

DECLINING COST CURVE FOR FABRICATION-TYPE GRANTS
BY PERCENT OF COST AND PERCENT OF TIME

NOT AVAILABLE IN ELECTRONIC FORMAT

TABLE OF DECLINING COST CURVE PERCENTAGES

<u>% Time</u>	<u>% Cost</u>	<u>% Time</u>	<u>% Cost</u>	<u>% Time</u>	<u>% Cost</u>
1	1.80	35	56.00	69	87.40
2	3.60	36	57.25	70	88.00
3	5.40	37	58.40	71	88.60
4	7.20	38	59.60	72	89.20
5	9.00	39	60.80	73	89.80
6	10.80	40	62.00	74	90.40
7	12.60	41	63.00	75	91.00
8	14.40	42	64.00	76	91.80
9	16.20	43	65.00	77	92.20
10	18.00	44	66.00	78	92.80
11	19.80	45	67.00	79	93.40
12	21.60	46	68.00	80	94.00
13	23.40	47	69.00	81	94.40
14	25.20	48	70.00	82	94.80
15	27.00	49	71.00	83	95.20
16	28.60	50	72.00	84	95.60
17	30.20	51	73.00	85	96.00
18	31.80	52	74.00	86	96.40
19	33.40	53	75.00	87	96.80
20	36.40	54	76.00	88	97.20
21	36.40	55	77.00	89	97.60
22	37.80	56	77.80	90	98.00
23	39.20	57	78.60	91	98.20
24	40.60	58	79.40	92	98.40
25	42.00	59	80.20	93	98.60
26	43.40	60	81.00	94	98.80
27	44.80	61	81.80	95	99.00
28	46.20	62	82.60	96	99.20
29	47.60	63	83.40	97	99.40
30	49.00	64	84.20	98	99.60
31	50.40	65	85.00	99	99.80
32	51.80	66	85.60	100	100.00
33	53.20	67	86.20		
34	54.60	68	85.80		

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE
SURVEY OF ACCRUAL ACCOUNTING DATA FOR GRANTS
GRANT LIABILITY AND EXPENDITURE REPORT

NOT AVAILABLE IN ELECTRONIC FORMAT

U.S. DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

Survey of Grants to Colleges and Universities
to Determine Relationships of
Accrued Expenditures to Grant amount, Cash
Disbursements and Grant Financing

I. PURPOSE

The U.S. Bureau of the Budget, in implementing the recommendations of the President's Commission on Budget concepts, requires that Federal agency accounting and reporting be on an accrual basis. In the Department of Health, Education, and Welfare formulas and characteristic cost curves have been or will be developed for estimating at the DHEW agency level the monthly accrued expenditures of grantees without requiring additional continuing periodic reports containing this information from the institutions concerned. In order to obtain the information necessary to develop and/or revalidate these formulas and cost curves, sampling of accrued expenditure and certain other data from selected institutions will be required from time to time. These instructions and the attached report form provide the medium for obtaining such samplings.

II. DEFINITIONS

- A. Grantee - The college or university administering a DHEW grant with financial activity in the current fiscal year.
- B. DHEW - The U.S. Department of Health, Education, and Welfare or any of its constituent operating agencies.
- C. Grant - The specific award of financial assistance to a college or university by DHEW to carry out specified programs, projects, services or activities. The term includes all awards whether funded by letters of credit, advances, or reimbursements.
- D. Accrued expenditures - as used in this survey, consist of grantee cumulative cash disbursements charged to the grant plus amounts chargeable but unpaid at the end of the reporting period for services rendered (including payrolls), materials, supplies and equipment received whether billed or unbilled, unpaid claims, and unpaid applicable indirect expenses. In each instance reference is to a specific grant. For this project, the terms "accrued expenditures" and "accrued costs" may generally be considered to be synonymous since costs and accrued expenditures are likely to be concurrent because materials, supplies, and any capital-type items financed under a DHEW grant are ordinarily charged directly as a

cost to the grant when purchased.

E. DHEW financing - as used in this survey, consists of:

1. Cash withdrawals by grantee under letters-of-credit.
2. Periodic direct advance DHEW payments.
3. Periodic payments for billings to and reimbursements by DHEW.

III. EXTENT OF COVERAGE

- A. The information on grants to be reported on the forms provided is to be obtained from a statistical sampling of all grants awarded by DHEW and currently being administered by the reporting institution. Either of the two sampling methods described in paragraphs C and D below may be used in making the sample selection. Construction grants and awards relating to loan programs are excluded from the survey.
- B. Grants are to be classified by principal type using separate reports, coded for each type, as follows:

Code

1. Research and/or development
2. Training
3. Fellowships
4. Other grants, exclusive of construction grants (identify)

Judgment may be used in classifying grants under the above types, giving special weight to the predominant characteristics of the work involved. Group under type "4, Other" such activities as demonstration, testing, planning, evaluation, teaching, technical assistance, support, equipment, books and other materials, et cetera.

- C. Use the following table to determine the required number of grants to be selected for each of the types shown in paragraph B:

FOR EACH TYPE OF GRANT

NUMBER OF ACTIVE
GRANTS

NUMBER TO BE SELECTED
FOR SURVEY

1	1
2-25	2
26-100	3
101-300	4
301 and above	5

Using random number tables or other valid statistical sampling techniques select the specific grants of each type and furnish for each such selected grant the data called for on the form provided.

- D. In the event information on the number of grants of each type is not available, an alternate method of selection may be used. Under this method, the total number of active DEW grants of all types should be regarded as the population universe and no attempt need be made to estimate the number of each type of grant.

Under this circumstance, the reports should cover the two largest (dollar value) grants and a sample of the remainder selected as follows, using random number tables or other valid statistical sampling techniques.

<u>NUMBER OF ACTIVE GRANTS</u>	<u>NUMBER TO BE SELECTED FOR SURVEY</u>
1-12	ALL
13-25	12
26-100	15
101-300	20
301 and above	25

- E. The operational characteristics may not require disbursements each month. Because of this, the concept of applying a factor to each month's expenditures to estimate accrued expenditures would be inappropriate. In such cases, it is necessary to employ an alternative method for obtaining bases for estimating accruals. The procedures to be followed in accumulating and reporting survey data are described in attached TAB 1 of these instructions.

IV. PERIOD OF COVERAGE

The starting point for reporting information called for in this survey is the effective date of the grant, if awarded in the current FY or the starting date of the current funding period if

the instrument was awarded prior to the current FY.

The date as of which financial data are to be reported, called the reporting date, is the last day of a recently completed representative accounting month. If cash records are held open at the close of the fiscal year to include subsequent disbursements applicable to the prior fiscal year, do not use fiscal year-end as the reporting date, unless you are able to identify accruals as against payments actually made.

V. STEPS FOR DEVELOPING AND REPORTING DATA

- A. All grants covered by the survey will be reported on the attached form "Grant Liability and Expenditure Report". A separate column on the report will be used for each grant using additional report forms as needed. A separate report or reports will be made for each principal type of grant listed in paragraph IIIB. Only the DHEW grant share of unpaid liabilities, disbursements and accrued expenditures will be reported.
- B. Where the college or university maintains its accounts on a true accrual basis so that the reported accrued expenditures on line 14 would completely conform to the accrued expenditure concepts as defined in paragraph IID, it will not be necessary to report the details of the unpaid liabilities called for on lines 12a through 12d on the Grant Liability and Expenditure Report. The amount on line 12e can be developed in such cases by deducting line 13 from line 14.
- C. For those colleges and universities which do not have their accounting on an "accrual basis" (not obligation or encumbrance basis) it will be necessary in determining "unpaid liabilities" (line 12a., b., c., d and e, of report) related to the selected grants to make reviews and analyses of documents for services, materials, and equipment which were on hand but unpaid as of the reporting date, plus similar liabilities for any services, materials and equipment received on or before the reporting date but for which a bill had not been received. In addition, salaries and wages earned but unpaid at the reporting date should be determined and reported together with any unpaid indirect expenses properly allocable to the selected grant. The development of unpaid liabilities does not require absolute precision such as inclusion of insignificant amounts, the splitting of monthly utility bills or other impracticable procedures. It also is not necessary to include unpaid liabilities of subcontractors unless the amounts involved are likely to be significant in amount. Amounts should be

stated in nearest tenth of thousand of dollars throughout the report.

- D. Detailed instructions for completing the form are given below:

Line No.

1. Name of college or university reporting.
2. City and State in which accounting office is located.
3. Name of DHEW agency awarding the grants.
4. Insert type of grant and code number shown in Section III B of these instructions.
5. Insert the ending date of a recently completed representative accounting month as of which the amounts are being reported. This is referred to hereafter as "reporting date" (see Section IV).
6. Insert the DHEW operating agency grant number including applicable prefixes, if any.
7. Show month and year of award if awarded during the current fiscal year, otherwise show starting date of most recent funding.
8. Show total number of months involved in the current funding period of the selected grant. Round to nearest whole month.
9. Insert the month and year in which grantee cash expenditures began to occur in the current funding period.
10. Identify the method of providing DHEW funds to the grantee, using the appropriate code as listed in paragraph II E of these instructions.
11. Insert the amount of the current funding. This and all subsequent amounts should be in thousands of dollars to the nearest tenth (e.g. \$50,307 should be reported as \$50.3).
12. For institutions not reporting on a true accrual basis show on lines 12 a, b, c, and d, the amounts of the various types of unpaid liabilities as of the reporting date. Use the definitions shown in Section II D and V B. If books are kept on the "accrued cost

basis" (not obligation or encumbrance basis) lines a, b, c, and d, need not be completed. Earned overhead accruals should be included in line 12 c, whether currently recorded in the accounts or not using provisional rates if necessary. Unearned overhead charges should be excluded.

13. Insert grantee cumulative cash disbursements from date of current funding of grant through reporting date.
14. This line is the sum of lines 12 e and 13 for those institutions not reporting on the accrual basis. It also is to be used for reporting total accrued expenditures taken from the books for institutions reporting on the accrual basis of accounting as provided in paragraph VB.
15. Show cumulative cash withdrawals under letters-of-credit or other forms of DHEW payment from date of current funding through reporting date. This line may be omitted if funding of the selected grant is financed through the DHEW NIH Grant Management Fund or similar fund operated on an "institutional" basis, unless the information is readily available in the institution's records.

VI. SUBMISSION OF REPORTS - FURTHER INFORMATION

When the survey is completed at each institution, the survey report and attachments if any (original copy) should be forwarded promptly to Mr._____. Any questions concerning the project should be taken up directly with Mr._____ who can be reached on _____. Calls may be made collect.