

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

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## **ADS 631 – Accrued Expenditures**

### **631.1 OVERVIEW**

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

### **631.2 PRIMARY RESPONSIBILITIES**

#### **a. The Chief Financial Officer (CFO)**

Provides policy and guidance on the Agency's methods for recording accrued expenditures.

\*Develops and maintains an integrated financial management system that meets Federal financial system requirements, and ensures that the accrual data is consistent with established policies and procedures.

\*Provides annual certification to the U.S. Treasury of the Agency's obligated balances for undelivered orders and accounts payable, including accruals. (See [ADS 621, Obligations](#), and [Treasury Financial Manual \(TFM\) Vol. 1, Pt. 2, Ch. 4200](#))

Provides operational policy on accrual activity, and reviews data for quality and reasonableness of the integrity of accrual estimates.

#### **b. The Bureau for Management, Office of Financial Management (M/FM)**

\*Develops and maintains the Accrual Reporting System (**ARS**) in Washington.

\*Establishes the time schedule and deadlines for accrual reporting for the ARS.

\*Distributes the ARS Report to Obligation Managers for validation.

\*Processes validated ARS transactions into the Core Accounting System (**Phoenix**) for USAID/W.

\*Monitors the ARS obligation records to identify materiality thresholds and obligation status for active, expired, immaterial, or closed obligations.

\*Provides technical content for training for the ARS, and operational guidance for system users.

\*Records accruals from the MACS auxiliary ledger into the Core Accounting System.

Makes centralized adjustments to assets and liabilities accounts for advance funded obligations.

\* An asterisk indicates that the adjacent material is new or substantively revised.

**c. The Mission Controller**

\*Provides information, guidance, and assistance to Obligation Managers on developing accruals and maintains an overall system that produces accruals and accrued expenditures.

\*Inputs the data received from Obligation Managers into the financial system.

Establishes a materiality threshold below the standard \$25,000 threshold for developing accruals if warranted by local conditions and resources.

Provides information to the Office of Financial Management (M/FM) to adjust accruals for advance funded obligations.

**\*d. The Obligation Manager**

\*In **USAID/W**, the Obligation Manager verifies or modifies the ARS-generated accruals by comparing analysis of the system accruals to first-hand knowledge of project activities, and records modified accruals in the ARS. (See section **631.6** for the definition of **Obligation Manager**)

\*In **field Missions**, develops accruals using worksheets and guidance of the Mission Controller and first-hand knowledge of project activities. The Obligation Manager maintains the official accrual documentation and deobligates excess or unneeded funds. (See section **631.6** for the definition of **Obligation Manager**, and ADS 621 **Internal Mandatory Reference, [Deobligation Guidebook, section V.A.2](#)**)

**631.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

**\*631.3.1 Financial Documentation Responsibilities**

\*Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within Controllers' or FM operations but includes any source material causing or resulting in a financial transaction. Contracting Technical Officers (**CTOs**), Loans/Grants Officers, Strategic Objective teams (**SOs**), etc., are responsible for retaining financial documentation and ensuring its availability for audit.

\*Basic financial documentation retention rules follow:

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

\* An asterisk indicates that the adjacent material is new or substantively revised.

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

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

### **631.3.2 Accounting Principles**

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

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

\*Unliquidated obligation balances for travel expenses are fully accrued if the travel date has passed and travel has occurred. The accruals will be automatically generated on a quarterly basis in USAID/W and must be manually generated on a quarterly basis in Missions.

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

### **631.3.3 Basis for Recognition of Accruals**

#### **631.3.3.1 Basis for Recognition of Accruals – General**

While there may be additional situations that result in the recognition of liabilities and revenue, accruals must generally be recognized in the accounting period in which the title to goods is accepted, services are rendered, rents are due, progress is made in contract performance, or revenue is generated. (See [ADS 202.3.5.2](#), **Providing Services Efficiently**)

\* An asterisk indicates that the adjacent material is new or substantively revised.

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

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

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

\*Obligation Managers must record accrued expenditures for awards or obligations with a total estimated cost (**TEC**) / price of \$25,000 or more and for travel obligations of \$500 or more. The materiality threshold may be lower if non-limiting factors warrant or allow lower threshold conditions to be efficiently met (see **631.3.4.1**).

\***Do not** post accrued expenditures for

- Expired project activity where no further cost is anticipated and the project activity is in close-out status; and
- Dollar amounts with a TEC of under \$25,000 for Missions and \$10,000 for USAID/W, unless special circumstances (**e.g., travel obligations of \$500 or more**) warrant this action.

### **631.3.3.2 Basis for Recognition of Accruals – Built or Constructed Products**

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

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

\* An asterisk indicates that the adjacent material is new or substantively revised.

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

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

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

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

\* An asterisk indicates that the adjacent material is new or substantively revised.

**(3) Contractual Services.** Base accruals on progress reports and/or certificates of performance to ensure that the services have been rendered in accordance with contract provisions. Certificates of performance are generally accompanied by a billing from the contractor. Burn-rates and/or the contract clauses themselves may also be used when needed to generate the accruals.

**(4) Rentals, Utilities, and Telecommunications, etc.** Base accruals for rentals on rates in existence and anticipated contracts. Base accruals for utilities and/or or telecommunications on the current rates and estimated consumption.

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

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

- SF-269, Financial Status Report,
- SF-269a, Financial Status Report - for non-construction cost,
- SF-270, Request for Advance or Reimbursement, or
- SF-272, Report of Federal Cash Transactions

and the Obligation Manager's personal knowledge of the actual project activity.

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

#### \*631.3.4 Accrued Expenditures – USAID/W and Missions

##### \*631.3.4.1 Accrued Expenditures – USAID/Washington

accrual amounts to the appropriate funding sources at the contract or award level. For USAID/W the materiality threshold has been reduced to \$10,000 because of technical efficiencies that permit accurate accrual information. (See **631.3.3.1**, and **Additional Help, [Reading the Accruals Report](#)**)

\*The Obligation Manager must

- Review system-generated accrual amounts and/or allocations to determine if the amount can be validated or if it needs to be modified.
- Compare the system-generated accrual amounts to known actual conditions based on first-hand knowledge of the project activity.
- Complete the accrual process in accordance with the established time schedule and deadlines. If the amount is approximately the same value, validate the accrual amount. If there is a significant difference, modify the accrual amount as appropriate. (See **ADS 621.2, Obligations**, and **ADS 621 Internal Mandatory Reference, [Deobligation Guidebook](#)**)
- Deobligate excess or unneeded funds. (See **ADS 621 Internal Mandatory Reference, [Deobligation Guidebook, section V.A.2](#)**)

##### \*631.3.4.2 Accrued Expenditures – Missions

\*The Mission Accounting and Control System (**MACS**) is the financial system for reporting accruals at the Mission. MACS consolidates and reports accruals computed by Obligation Managers.

\*The Controller's Office prepares the MACS Reports and/or accrual worksheets each quarter and distributes the worksheets to Obligation Managers with instructions, including the required deadline for completion of accruals.

\*The Obligation Manager must gather cost data for the accruals exercise, such as supporting project documentation, activity reports, delivery reports, or fixed reoccurring type expenses; compare the data to payment histories, including advances; and estimate quarterly accruals.

\*The Controller's Office must assist the Obligation Manager in developing the accrual amounts using the MACS worksheets each quarter.

\*The Controller's Office must review estimated accrual amounts against payment histories and adjust accrual amounts for any payments made in the interim between the

first run for the MACS Reports and/or accrual worksheets, and the second run after all disbursements have been made through the end of the quarter.

\*The Controller's Office must ensure that the estimated accruals are reversed at the beginning of the next accounting period.

\*The Controller's Office must report outstanding advances to M/FM quarterly (see **631.3.4.5**).

### **631.3.4.3 Conditions Where No Accruals Are Recognized**

The following generally will not result in accrued expenditures:

- Obligations for which the final billing, or voucher in the case of travel, has been recorded (**any remaining balance must be deobligated**);
- Bilateral obligations, including Strategic Objective Agreements (**accruals are generated at the sub-obligation level**);
- \*Washington obligations and Mission commitments with an unliquidated balance below the materiality threshold (see **631.3.3.1**);
- Obligations with an unliquidated balance less than \$500; and
- Obligations with unliquidated balances that are no longer needed (**in this situation, action must be taken to deobligate the unneeded funds**).

### **631.3.4.4 Alternative Methods for Developing the Anticipated Accrued Expenditure Schedule**

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

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

\* An asterisk indicates that the adjacent material is new or substantively revised.

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

\*Obligation Managers must provide a justification for the selection of the alternative method used and maintain the documentation explaining the reason a particular selection was made (see **Additional Help**, [Accruals Documentation](#)).

#### **631.3.4.5 Adjustment for Outstanding Advances**

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

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

#### **\*631.3.4.6 Miscellaneous Transactions Impacting Accrual Development**

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

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

### **631.4 MANDATORY REFERENCES**

#### **631.4.1 External Mandatory References**

- a. [P. L 84-863, 70 Stat 782, amending the Budget and Accounting Procedures Act of 1950](#)
- b. [22 CFR 226.52](#)
- c. [31 U.S.C. 3512 \(5\)b](#)

\* An asterisk indicates that the adjacent material is new or substantively revised.

- d. [OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations](#)
- e. [Treasury Financial Manual \(TFM\), Vol. 1, Part 2, Ch. 4200, 4255.5](#)
- f. [Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards, Number 1](#)
- g. [National Archives and Record \(NARA\), General Records Schedule 7](#)

#### 631.4.2 Internal Mandatory References

- \*a. [ADS 202, Achieving](#)
- \*b. [ADS 621, Obligations](#)
- \*c. [ADS 636, Program Funded Advances](#)
- \*d. [Deobligation Guidebook](#)

#### 631.5 ADDITIONAL HELP

- \*a. [Accrual Documentation](#)
- \*b. [Reading the Accruals Report](#)

#### 631.6 DEFINITIONS

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

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

#### **accrual**

The value of the liability recognized during the period for goods and/or services received but not disbursed or invoiced but not recorded. It may also refer to the value of associated expenditures (**expenses**). (Chapter 631)

#### **accrual accounting**

\* An asterisk indicates that the adjacent material is new or substantively revised.

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

**\*accrual basis**

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

**\*accrued expenditure**

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

**accrued liabilities**

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

**\*advance**

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

**Anticipated Accrued Expenditure Schedule**

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

**\*ARS**

Accrual Reporting System. USAID/W-based financial system used to gather Phoenix obligations for Acquisition and Assistance (**A&A**) obligations and contract information to estimate USAID/W accruals. (Chapter 631)

**CFO**

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

\* An asterisk indicates that the adjacent material is new or substantively revised.

**Cognizant Technical Officer (CTO)**

The individual who performs functions that are designated by the Contracting or Agreement Officer, or is specifically designated by policy or regulation as part of contract or assistance administration. In other parts of the U.S. Government, the synonymous term is usually Contracting Officer's Technical Representative (**COTR**). (See "**Activity Manager**" and [ADS Series 300](#)) (Chapters 200-203, 306, 621, 631)

**disbursements**

Payments made using cash, check, or electronic transfers. Disbursements include advances to others as well as payments for goods and services received and other types of payments made. (JFMIP) Note: The Agency often uses the term "**disbursements**" to mean only "**payments that liquidate obligations,**" which actually is the definition for "**outlays.**" (Chapter 631)

**expenditures**

The sum total of disbursements and accruals in a given time period. These are typically calculated for specific agreements, activities, and programs. Expenditures are estimates of the total cost incurred by the Agency for a given agreement, activity, or program. Also referred to as accrued expenditure. (See ADS Series 600 for a more technical discussion of this term.) (Chapters 200-203, 631)

**FASAB**

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

**MACS**

Mission Accounting and Control System. (Chapter 631)

**M/FM**

Bureau for Management, Office of Financial Management. (Chapter 631)

**Obligation Manager**

The individual responsible for managing a specific obligation. The Obligation Manager may be the Cognizant Technical Officer, Activity Manager, Strategic Objective Team Leader, Executive Officer, or other official. (Chapters 202, 303, 603, 621, 631)

**outlays**

Outlays are the payments that liquidate obligations (**other than repayment of debt**) (**FASAB**), and are the measure of government spending for budget purposes. (JFMIP) (Chapter 631)

**TEC**

Total Estimated Cost. (Chapter 631)

**unliquidated obligation balance**

The amount that has been obligated but has not been disbursed/expensed and remains as either uninvoiced and/or unpaid. (Chapters 621, 631)

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