LOS ANGELES COUNTY WORKFORCE INVESTMENT ACT DIRECTIVE

Number: WIACD-09-05	**Subject: Accrual Financial Reporting Requirements**
Date: October 1, 2009	**Effective Date: Immediately**

SUBJECT: Accrual Financial Reporting Requirements

REFERENCES

- Workforce Investment Act, Section 159
- WIA Regulations, 20 CFR Part 652 et al
- 20 CFR 95.2
- 20 CFR 95.21
- 20 CFR 97.3
- 20 CFR 97.20

PURPOSE

The Workforce Investment Act (WIA) financial requirements for all subrecipients require that accounting records be maintained that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The State of California Employment Development Department (EDD) and the United States Department of Labor (DOL) require workforce investment areas to report timely and to include in those reports the expenditures of their subrecipients.

The purpose of this directive is to provide guidance for the reporting of quarterly WIA accruals on the revised Request for Cash provided to you under WIA/ARRA Directive ADM 09-04.

SCOPE

This directive applies to all of the County of Los Angeles Community and Senior Services' (CSS) subrecipients in receipt of WIA grant funds. Subrecipients are required to comply with federal, State, and CSS expenditure reporting requirements.

BACKGROUND

CSS is required by federal regulations to submit accurate financial reports to EDD on a quarterly basis. As such, this directive is issued to establish standard information for reporting of accrued expenditures along with other standard information.

DEFINITION OF TERMS

To ensure a common understanding of the terminology associated with WIA financial reporting requirements, the following set of definitions of critical terms is provided.

Accrual Basis of Accounting—The accounting basis wherein revenues and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. If the subrecipient records are not normally kept on the accrual basis of accounting, then the subrecipient must develop accrual information through analysis of documentation on hand.

Accrued Expenditures—The charges incurred and recorded, but not yet paid for, during a report period requiring the provision of funds by the grantee or subcontractor for

(1) Goods and other tangible property received,

(2) Services performed by employees, contractors, subcontractors and other payees, and

(3) Other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

All subrecipients of WIA funds must report expenditures on an accrual basis. Although DOL does not require entities who maintain records on a cash basis to change their accounting system, it does require that the entity develop accrual data for WIA reporting on the basis of an analysis of the documentation on hand.

Fiscal control and accounting procedures must be sufficient to:

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Cash Expenditures—An actual disbursement of funds for goods and services that have been received. Cash expenditures do not necessarily equal the amount of cash drawn.

Individual Training Account (ITA)—As described in WIA regulations 20 CFR 663.410, an ITA is an account established on behalf of a participant. The ITA allows an adult or dislocated worker to purchase training services from eligible providers. An ITA is considered to be an obligation at the point the participant actually enrolls in the training program. The obligation must be accrued/expensed as the training takes place and reported on the "Individual Training Accounts/Tuition Rates" line of the WIA Adult and Dislocated Worker Invoice (Attachment B). Prior to enrolling in the training program, the ITA is not considered an obligation or expenditure.

Obligations—An obligation is a formal contractual commitment for the amount of orders placed, contracts and subcontracts awarded, goods and services received, and similar transactions during a funding period that will require payment by the recipient or subrecipient during the current or future reporting period. Cash expenditures are an obligation for a goods or services that has been received and paid for within the report period. **An accrued expenditure is an obligation for goods or services that has been received within the report period, but has NOT been paid**. An unliquidated obligation is a formal contractual commitment for a goods or services that has NOT been received and has NOT been paid for within the report period. An example of an obligation is an ITA established for a WIA client, for which services have not yet been rendered.

Unliquidated Obligations—Unliquidated obligations are the dollar amount of formal orders placed through purchase orders, contract delegation orders or contracts and subcontracts awarded that are to be paid at a future date. Unliquidated obligations are the amount of obligations committed to by the subcontractor for which the goods or services have not been received within the report period and for which an outlay (cash) or an accrued expenditure has not been recorded.

POLICIES AND PROCEDURES

All expenditures must be reported on an accrual basis. Accrued expenditures are charges incurred during a given period for goods and tangible property received and services performed that cause decreases in net financial resources. **In other words, an accrued expenditure would include those expenses incurred that have not yet been paid (including quarter end payroll accruals).** Accrued expenditures must be documented based on what needs to be paid, historical data, or some other reasonable methodology. Adequate documentation must be maintained to support accrued expenses and the methodology used. Documentation can also include actual invoices not yet paid. **Documentation to support quarterly accruals reported must be attached to the CSS Request for Cash.**

EXAMPLES:

1. **Individual Training Accounts (ITAs)** are to be obligated at the time the participant is registered/enrolled, not when the ITA is written. The ITA cannot be obligated for more than the costs that will be incurred in the current program year. If the ITA contract covers multiple funding program years then the following year's costs cannot be obligated until next year's funds become available. The accrued expenditure is reported at the point that services are rendered by the training provider as included in your *individual training agreements between the training provider your agency.* If the training institution has a drop-out/refund policy in place then this has to be taken into consideration when determining when the costs are to be fully accrued.

2. **Salaries, wages, and fringe benefits** are to be obligated at the time they are earned which also means that the accrued expenditure is to be reported at the same time. The issue of how and when annual leave is to be reported is determined based on whether or not the leave is funded or not. If the leave is funded then it is obligated and accrued at the time it is earned. If it is not funded then it is obligated and accrued when it is taken.

3. **Maintenance Agreements**: If prepayment for these services is considered to be the industry standard and the payment terms are written into the maintenance contract, the costs can be considered an obligation when the contract is signed and an accrued expenditure when the payment is made.

4. **Leasehold improvements**: If a local area has a lease that requires prepayment of more than one month, the lease needs to be awarded so that the prepayment is considered as a security deposit rather than a prepayment of occupancy costs. This will allow the local area to prepay those costs and consider them an outlay at the time they are paid.

5. **Advance payments, including prepaid expenses (costs)** are assets and are, from the United States 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.

6. **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.

ACCOUNTING AND REPORTING

Please report all accruals on the Accruals line on the revised "**Request for Cash**" form (see WIA/ARRA Directive ADM09-04). Failure to report accruals, supply CSS with documentation attached to the Request for Cash to support the reported accruals along with the late reporting of invoices may result in an agency being out of compliance with its contract provisions.

ACTION

All WIA subrecipients shall follow this policy. This policy will remain in effect from the date of issue until such time that a revision is required.

INQUIRIES

Inquiries should be addressed to Jackie Lynn Sakane, Contracts Compliance Division, at (213) 739-7321 or jsakane@css.lacounty.gov .

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Administrative Services Branch