

---

**Special Attention of:**

Offices of the U.S. Department of  
Housing and Urban Development

**Transmittal** for Handbook No.: CFO-14-002 REV 1

Issued: July 31, 2023

---

**1. This Transmits:**

The U.S. Department of Housing and Urban Development's Departmental Grant Accrual Policy (CFO-14-002 REV 1)

This revised handbook establishes a policy for estimating and validating accruals for grant programs in the Department of Housing and Urban Development (HUD).

**2. Implementation:**

This handbook is effective immediately as of July 31, 2023.

**3. Filing Instructions:**

Publish Handbook CFO-14-002 REV 1, dated July 31, 2023 to HUDCLIPS

# **Departmental Grant Accrual Policy**

**CFO-14-002 REV 1**



**Office of the Chief Financial Officer**

**July 31, 2023**

## Table of Contents

<b>Background &amp; Authority .....</b>	<b>1</b>
<b>Scope .....</b>	<b>1</b>
<b>Effective Date .....</b>	<b>1</b>
<b>Policy .....</b>	<b>1</b>
<b>Responsibilities .....</b>	<b>3</b>
<b>Grant Accrual Estimation Methodologies .....</b>	<b>4</b>
<b>Controls.....</b>	<b>7</b>
<b>Definitions.....</b>	<b>10</b>

- I. Background & Authority:** This document aims to establish a policy for estimating and validating accruals for grant programs in the Department of Housing and Urban Development (HUD). HUD has followed guidance from the Federal Accounting Standards Advisory Board’s (FASAB) Federal Financial Accounting Technical Release 12 (TR12), Accrual Estimates for Grant Programs in the development of the Department’s grant accrual policy. All accrual estimates for grant programs are to be calculated in accordance with TR12. The policy outlines recommended methods for accruing grant expenses.
- A.** HUD’s consolidated financial statements are presented on an accrual basis in accordance with generally accepted accounting principles (GAAP) established by FASAB. Under the accrual methodology, HUD recognizes revenues when earned, and expenses when a liability is incurred without regard to receipt or payment.
  - B.** Some HUD grantees issue subsequent grants to sub-recipients. If HUD is ultimately liable for expenses incurred by these sub-recipients, these sub-recipient expenses should be included in the grant accrual estimate.

The Federal GAAP requirements for grant accruals are included in the Statement of Federal Accounting Standards (SFFAS 5): Accounting for Liabilities of the Federal Government and TR12. This policy has been developed to bring HUD into compliance with Federal GAAP requirements. To ensure that the grant accrual methodology remains reasonable and appropriate, HUD will validate the results as well as ensure the methodology complies with TR12.

- II. Scope:** This policy is to be followed by all Program Office staff with responsibilities relating to formulating and reporting grant accrual estimates. This policy also applies to The Office of the Chief Financial Officer (OCFO), Assistant Chief Financial Officer for Accounting (Accounting) staff with responsibilities for recording or validating grant accrual estimates. For this policy, the term “grant” includes both grants and cooperative agreements. Please refer to the Scope Section of TR12 for additional information regarding exclusions to this policy.
- III. Effective Date:** July 31, 2023. This policy will be reviewed and updated as needed.

**IV. Policy:**

- A. Quarterly Accrual Preparation and Recording:** On a quarterly basis, Program Offices will develop a grant accrual estimate using the template provided by Accounting, for applicable programs. On an as needed basis, the Program Office will assess their accrual methodology, make necessary changes, and update their methodology documentation. The Program Office will then submit the following to Accounting by the deadlines listed in Table 1:
  1. Completed grant accrual estimate template
  2. Documentation of key assumptions and methodologies
  3. Documentation of changes to key assumptions or methodologies since last quarter
  4. Results of the last validation

Accounting will review, compile, and record grant accrual estimates calculated by Program Office staff.

Table 1: Due Dates of Accrual Estimates

<b>Reporting Quarter</b>	<b>Info Due to Accounting</b>
October 1 – December 31	3 <sup>rd</sup> business day after end of quarter
January 1 – March 31	
April 1 – June 30	
July 1 – September 30	

- B. Annual Accrual Methodology Review:** The Program Offices will develop the grant accrual estimation methodology as noted in the Responsibilities, Grant Accrual Estimation Methodologies section of this document. Program Offices will submit documentation of their estimation methodology each quarter to Accounting with their accrual calculations. Each year Accounting will perform a detailed review of this documentation. This review will focus on whether the documentation appears to meet the standards in TR12, general reasonableness and whether the Program Office appears to be following their methodology when calculating their accrual estimates. Clarifying questions may be asked and updates to the methodology may be requested before Accounting provides formal concurrence that the standards and intent of TR12 appear to have been met. Concurrence will normally be provided by September 30.
- C. Validation of Accrual Accuracy:** HUD must validate grant accrual estimates by comparing estimates with subsequent grantee reporting in accordance with the guidance in TR12 paragraphs 26 through 30. A validation should be performed annually unless an exception has been approved by Accounting. See Table 2 below for timeline.
- 1.** Accounting will perform a validation of the fourth quarter accrual estimate for HUD’s most material programs.
    - a** Accounting staff will present a plan to the Assistant Chief Financial Officer for Accounting by November 30 each year. This plan will list the programs, time periods and major methodology changes that will be included in the validation. The Assistant Chief Financial Officer for Accounting has the authority to revise this plan at their discretion.
    - b** Accounting will inform Program Offices if their program is included in Accounting’s validation by December 31 of each year.
    - c** Results of Accounting’s validation will be provided to Program Offices by September 30 of each year.
  - 2.** Program Offices whose programs are included in Accounting’s validation may choose whether to perform additional internal verification of their estimation methodology’s accuracy.

3. Program Offices whose programs are NOT included in Accounting’s validation, MUST perform their own validation work to verify the accuracy of their estimation methodology. This validation must be completed by September 30 of each year unless a less frequent schedule has been approved by Accounting as allowed by TR12 paragraph 9.
4. After validation results are obtained from either Accounting or Program Office validation efforts, TR12 states that HUD should consider whether differences between estimated and actual expenses are reasonable and whether different estimation methods could result in more accurate estimates. This means that Program Staff should consider updating the accrual methodologies to improve accuracy even if the methodology passes the validation. If the validation results show the accrual methodology failed to produce accurate results, changes MUST be made to the methodology to improve accuracy.
5. If an accrual methodology fails validation from either Accounting or Program Office validation efforts, Accounting should be consulted to determine if there are additional accounting adjustments or reporting changes required by TR12. See Figure 2 of Appendix B in TR12.

*Table 2: Validation Timeline*

Date	Validation Action
December 31	Accounting informs the Program Office of programs included in Accounting’s validation.
June 30	Program Office validation completed.
September 30	Results of Accounting’s validation reported to Program Office

## V. **Responsibilities:**

### A. Program Office:

1. Evaluate validation results and make improvements to the accrual estimate methodology as needed.
2. Calculate accrual estimate amounts on a quarterly basis.
3. Document the grant accrual methodology on a quarterly basis.
4. Validate accrual methodology accuracy for programs not validated by Accounting.

**B. Accounting:**

1. Review, approve, and post Journal Entry to record accrual estimates as estimated by the Program Offices on a quarterly basis.
2. Annually review Program Office accrual methodology.
3. Validate the accrual methodology accuracy for HUD’s most material programs.

**VI. Grant Accrual Estimation Methodologies:** Program Office staff may calculate the grant accrual based on a combination of methodologies that may include but are not limited to the methodologies listed in sections A-E below. The methodologies developed by the Program Offices should reflect the characteristics of its grantees and sub-recipients and their use of federal resources. For example, the classification of grantees such as profit versus non-profit organizations receiving federal funds on a competitive basis may have different characteristics than those grantees whose funds are formula driven. The nature of federal funding may also impact other critical factors in determining the amount of the accruals such as draw down rates and the availability of funding from the Department during the fiscal year. Any uniqueness associated with HUD’s diverse grantees must be documented in the Program Offices’ methodologies in deriving the amount of accruals associated with their individual programs. Adjustments to the methodologies may be made by Program Office staff to improve the quality of the grant accrual estimate, based on grant or grant program characteristics (for example, whether a grant is formula or competitive, is related to a specific type of program such as construction, etc.).

- A.** Grantee data reported on SF-425, Federal Financial Report, data or other data sources compiled by the Program Offices.
- B.** Amortization of remaining grant balance over the estimated remaining life, which may be adjusted on a quarterly basis to reflect cyclical spending patterns and grant extension practices. An example of this methodology is that the first quarter of a one-year grant of \$20,000,000 has closed in the current reporting period. Assumption: Grantees will incur expenses as forecast in the budget. Documentation supporting this assumption is required. The budget for the award project expenditures to be incurred is as follows:

*Figure 1: Amortization of Remaining Grant Example Expense Forecast*

1 <sup>st</sup> Quarter	35%
2 <sup>nd</sup> Quarter	25%
3 <sup>rd</sup> Quarter	20%
4 <sup>th</sup> Quarter	20%

The first quarter accrual estimate will be calculated the following.

*Figure 2: Amortization of Remaining Grant Example Accrual Calculation*

1 <sup>st</sup> Quarter Expenditures	
Budgeted at 35%	\$7,000,000
Reported by Grantee to HUD for 1 <sup>st</sup> Quarter	\$5,000,000
1 <sup>st</sup> Quarter Grant Accrual Estimate	\$2,000,000

- C. Specific accrual that is based on outreach/confirmation of estimates from grantees or sub-recipients. For example: Grantee reports expenditures to HUD using an alternate reporting format or document. While different than the SF-425, the alternative reporting format provides data for the reporting period that sets forth:
  1. Amount of cash received from HUD.
  2. Amount of expenses incurred as HUD’s share of the grant expenses.
  3. An estimated grant accrual for the award is equal to 1) minus 2).
  4. Identification of key assumptions.
  
- D. Application of historical spending patterns for similar grant programs. For example: A grantee has several grants awarded by HUD. The grantee has strong internal controls and a history of reliable and consistent reporting to HUD over a ten-year period. Due to temporary shortages in staffing, the grantee was not able to establish a budget and report expenditures for the current quarter on a new one-year grant of \$10,000,000. Since the grantee historically has expended funds in a fashion consistent with the budget set up for individual grants, the Program Office estimates an accrual using the incurrence of expenditures budgeted for a similar grant as follows:

*Figure 3: Historical Spending Pattern Expenditure Forecast*

1 <sup>st</sup> Quarter	35%
2 <sup>nd</sup> Quarter	25%
3 <sup>rd</sup> Quarter	20%
4 <sup>th</sup> Quarter	20%



The 1st quarter of the grant closed in the current period, and LOCCS reported \$2,000,000 drawn on the grant at the close of the quarter. The grant accrual estimate is calculated as follows:

*Figure 4: Historical Spending Pattern Accrual Calculation*

Expenditures – 1 <sup>st</sup> Quarter of Grant	
1 <sup>st</sup> quarter budget of similar grant	\$2,500,000
Drawn by Grantee in HUD grant system	\$2,000,000
1 <sup>st</sup> Quarter Grant Accrual Estimate	\$ 500,000

**E.** Use of data from HUD’s grant systems. Utilize actual disbursements made to the grantees for the 12-months ending on the financial reporting date. The total disbursements are then used to calculate the monthly average disbursements over the 12-months period. The average monthly disbursement becomes the grant accrual:

1.  $\text{Accrual for Grant Programs} = [\text{Total Disbursements for 12-months}] / 12$

2. Identification of Key Assumptions:

- a Equal monthly disbursements. Since utilizing the monthly average disbursements from eLOCCS, it is assumed that the grantees draw down grants in equal installments throughout the year.
- b 30-days processing time. Assuming that on an average, there is a 30 days (or less) processing time for a grantee to incur an eligible expense, request draw down, and actually draw down funds. Therefore, a grantee’s disbursement for a month will generally reflect the expenses incurred in the previous month.
- c Document and maintain support for the assumptions.

**F.** Data Collection: Describe the method used to consolidate/aggregate the grants data.

1. If by Statistical Sample:

- a Describe the method of selection (random, systematic, etc.) .
- b State the sample size.
- c Describe stratification if used.

2. If by 100% survey of all grants provide a listing of all grants including accrual calculations.

**G.** Program Offices should document and maintain support for the data and assumptions used to develop grant accruals in accordance with paragraph 12 of TR12.

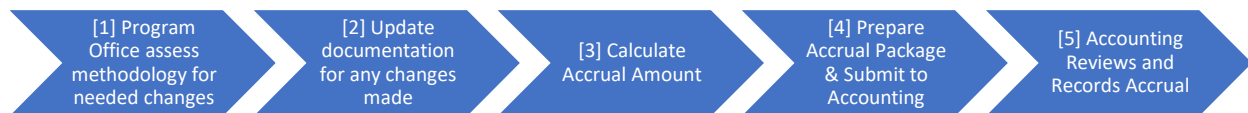
**H.** Program Offices must prepare accrual estimates for existing (mature) grant programs in accordance with guidance in paragraphs 14 and 15 of TR12.

- I. Program Offices must prepare accrual estimates for new grant programs or changes to existing grant programs in accordance with guidance in paragraphs 16 through 21 of TR 12.
- J. Program Offices must ensure that adequate internal controls are in place with respect to the development of accurate grant accrual estimates in accordance with guidance in paragraphs 22 through 24 of TR 12.
- K. Program Offices must monitor internal controls in accordance with the guidance in paragraph 25 of TR 12.
- L. To obtain reliable data and accurate reporting by grant recipients, Program Offices must establish and carry out necessary training and monitoring of grantees in accordance with guidance in paragraphs 31 through 34 of TR 12.

**VII. Controls:** There are four basic processes required by this Handbook policy: quarterly accrual preparation, annual accrual methodology review, accrual validation performed by Accounting, and accrual validation performed by program staff. Sixteen steps have been identified as key controls where the responsible parties should have more detailed standard operating procedures or documentation that the key step was performed.

- A. Quarterly Accrual Preparation: This process is documented in Section IV.A of this Handbook and illustrated in Figure 5 below:
  1. Step 1, Program Office Assesses Methodology for Needed Changes: This step can be initiated by the Program Office at any time and for a variety of reasons. The figures below show that this step can be initiated by steps 7, 12, 13, and 15.
  2. Step 2, Update Documentation for any Changes Made: A key control is that any changes to the accrual methodology made by the Program Office be accurately reflected in the documentation.
  3. Step 3, Calculate the Accrual Amount: The Program Office x.
  4. Step 4, Prepare Accrual Package & Submit to Accounting: The Program Office provides all relevant documentation listed in Sections IV.A.1 through IV.A.4 of this Handbook.
  5. Step 5, Accounting Reviews and Records Accrual: Accounting should have procedures and controls documenting how the accrual package submitted by the Program Office is reviewed and the accrual is recorded in the accounting system.

Figure 5: Quarterly Accrual Preparation



- B. Annual Methodology Review: Accounting performs an annual review of the Program Office accrual methodologies as documented in Section IV.B of this Handbook and the process is illustrated in Figure 6 below:

1. Step 6, Accounting Reviews Quarterly Documentation: Accounting takes the documentation provided by the Program Office in Step 4 for this review.
2. Step 7, Clarifying Questions & Change Requests: As part of Accounting’s review of the Program Office accrual methodology clarifying questions may be asked, updates to the methodology documentation may be requested, and changes to the methodology may be requested. This may trigger Step 1 listed above.
3. Step 8, Accounting Provides Formal Concurrence: After all necessary questions are addressed, requested methodology changes made, and needed documentation updates performed: Accounting will provide formal concurrence. While it is the expectation that this approved methodology will be used in future accrual calculations, this formal concurrence does not preclude the Program Office from initiating Step 1 and making changes to the methodology as needed.

Figure 6: Annual Accrual Methodology Review

[6] Accounting Reviews Quarterly Documentation. Step [4]	[7] Clarifying Questions & Change Requests	[8] Accounting Provides Formal Concurrence
<ul style="list-style-type: none"> <li>• Meets TR12 Standards.               <ul style="list-style-type: none"> <li>• Reasonable.</li> </ul> </li> <li>• Following Methodology.</li> </ul>	<ul style="list-style-type: none"> <li>• Program Office answers questions.</li> <li>• Accounting may request methodology changes.</li> <li>• Program Office updates methodology or documentation. Step [1]</li> </ul>	<ul style="list-style-type: none"> <li>• Formal concurrence provided by Accounting to Program Office.</li> <li>• Completed by September 30<sup>th</sup>.</li> </ul>

**C. Accrual Validation Performed by Accounting:** Section IV.C.1 of this handbook outlines the requirements for Accounting’s validation work, and it is illustrated in Figure 7 below:

1. Step 9, Develop Plan and Present to ACFO-Accounting: Accounting should have documentation of this step.
2. Step 10, Inform Affected Program Offices: Accounting should have documentation of this step.
3. Step 11, Perform Validation: Accounting should have procedures and controls documenting how this step is performed and checked for accuracy.
4. Step 12, Report Results to Program Office: Accounting should have documentation of this step. This may trigger Step 1 listed above.
5. Step 13, Required Adjustments: If a Program Office accrual estimate fails validation and the difference is material, Accounting will review Figure 2 of Appendix B in TR12 to determine the appropriate course of action. If this step occurs, Accounting should have documentation

of the decisions and calculations related to any adjustments. This step may trigger Step 1 listed above.

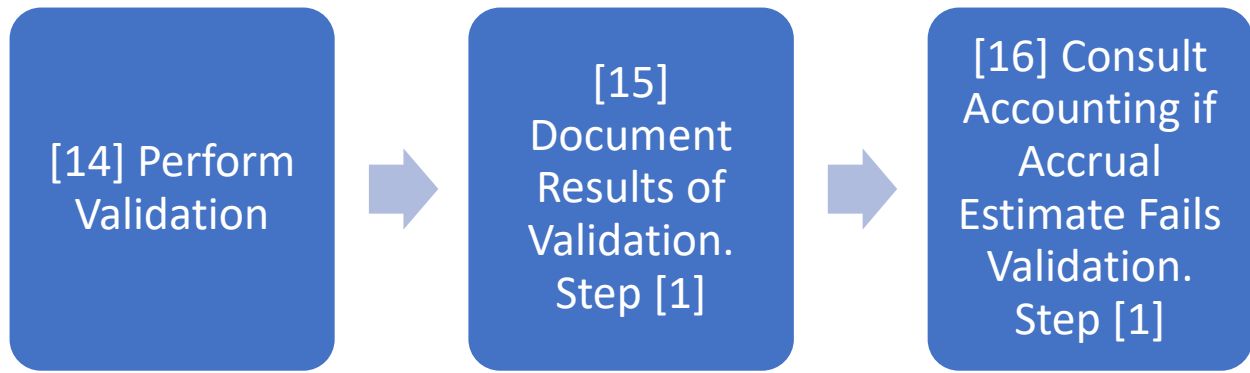
Figure 7: Accrual Validation Performed by Accounting



**D. Accrual Validation Performed by Program Office:** Section IV.C.3 of this handbook outlines the requirements for Program Office validation work and the process is illustrated in Figure 8 below:

1. Step 14, Perform Validation: The Program Office should have procedures and controls documenting how this step is performed and checked for accuracy.
2. Step 15, Document Results of Validation: The Program Office should have documentation of this step. This may trigger Step 1 listed above.
3. Step 16, Consult Accounting if Accrual Estimate Fails Validation: If a Program Office accrual estimate fails validation, Accounting should be notified so that they can review Figure 2 of Appendix B in TR12 to determine the appropriate course of action. If this step occurs, Accounting should have documentation of the decisions and calculations related to any adjustments. This step may trigger Step 1 listed above.

Figure 8: Accrual Validation Performed by Program Office



## VIII. Definitions:

- A. Accounting: Assistant Chief Financial Officer for Accounting
- B. FASAB: Federal Accounting Standards Advisory Board. The FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.
- C. GAAP: Generally Accepted Accounting Principles

- D.** Grant Accrual: The liability for grant expenses that are legally owed at the end of the current accounting period, but not yet recognized as an expense. This could include expenses reported by grantees but not yet paid, expenses incurred by grantee but not reported to HUD, or expenses incurred by sub-recipients not reported to either the grantee of HUD.
- E.** HUD: Department of Housing and Urban Development
- F.** OCFO: Office of the Chief Financial Officer
- G.** Program Office: Offices within HUD Programs with responsibilities relating to formulating and reporting grant accrual estimates.
- H.** SFFAS: Statement of Federal Accounting Standards. Accounting standard issued by the Federal Accounting Standards Advisory Board. Accounting standards have more authority the technical releases.
- I.** TR12: Technical Release 12. Detailed guidance issued by the Federal Accounting Standards Advisory Board on how to calculate and validate grant liability accruals. Technical Releases are less authoritative than accounting standards but provide more detailed guidance on complex topics.