



United States Department of the Interior

OFFICE OF THE SECRETARY
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FINANCIAL MANAGEMENT MEMORANDA 2010 - 008 (Vol. II.B.)

To: Bureau Assistant Directors for Administration
Bureau Chief Financial Officers

From: Don Geiger *Don Geiger*
Acting Director, Office of Financial Management

JUN 10 2010

Subject: Estimation Methodology and Validation for Certain Accruals

Accounts Payable

The attached Accrual Methodology Testing Matrix will allow the bureaus to summarize and document the methodologies used to estimate and validate the accuracy of methodologies used for:

- Goods
- Services
- Grants
- Other AP

There are other accruals in addition to Accounts Payable that are further explained in other PFM guidance. This policy is not intended to suggest that all bureaus should use the same methodology.

The following policy is designed to enhance policies and procedures that govern the estimates used for accounts payable accruals to ensure consistency throughout the Department regarding testing and validation of Accounts Payable Accrual Methodologies:

- Update and communicate Department-wide policies;
- Standardize supporting documentation;
- All assumptions must be documented and tested each fiscal year (a minimum of 3rd and 4th Qtr) even if they remain the same. The results of testing must be documented with an assessment of the reasonableness of the estimate; and,
- Require appropriate (supervisory and/or managerial) review of estimation methodologies and testing. Compare the estimated liabilities to the supporting documentation and ensure that the amounts are properly recorded in the general ledger. Document this approval package evidencing completion of the review and the comparisons.

Departmental processes and policies must meet Generally Accepted Accounting Principles (GAAP) and must be supportable. Bureaus/Offices must develop an accrual (estimation) methodology that provides valid, timely financial estimates. Estimation methodologies must be determined for all types of accruals. Documentation must be developed and tests should be conducted over the accrual methodologies, the results of which should be provided to PFM and bureau audit teams for review. PFM will prepare a summary of bureau compliance for the 3rd and 4th quarter.

In order for any accrual methodology to be successful, some general assumptions must be made.

- Support all assumptions with a detailed analysis that is reviewed and approved by management and supported by appropriate documentation;
- Test the assumptions used in accrual (estimation) methodology each fiscal year (3rd and 4th quarter at a minimum) to ensure the reasonableness of the methodology (this should include an evaluation when balances are used in the methodology);
- Provide clear evidence of an appropriate (supervisory and/or managerial) review of the analysis and supporting documentation; and,
- Maintain files to support management's assertions, A-123 testing, and auditor review.

If a Bureau/Office determines the accrual/estimate was not reasonable after testing, the test results should be documented, and the Bureau/Office should revise the methodology to improve reasonableness of the estimate. The Bureau/Office should test the revised methodology to demonstrate that the revised methodology is, in fact, reasonable. The revised methodology should show evidence of appropriate (supervisory and/or managerial) approval, and copies of the information discussing the change in methodology along with all supporting documentation demonstrating the accuracy of the revised methodology should be forwarded to PFM.

FECA and Unemployment Accruals

Attached are the FECA and Unemployment Quarterly Estimation Analyses used for the FECA and Unemployment accrual. The Department has recommended the use of quarterly average % increase/decrease as the accrual methodology. FECA and Unemployment actuals are not received from the Department of Labor (DOL) until after quarter-end and will be provided to bureaus upon receipt. PFM will assess variances to determine if the estimation methodology is reasonable and document the results. If the methodology leads to significant variances between the estimates and the actual, PFM will modify the methodology. PFM will provide the actuals at year end in advance of the final trial balance date. Bureaus shall record the actual amounts in the core financial system and adjust for any variances due to the use of estimates for the interim periods throughout the fiscal year so that the amounts recorded agree to the amounts received from DOL at year end.

Certification (including the attached Accrual Methodology Testing Matrix) related to the above accrual processes and methodologies must be provided to PFM by July 21 and October 20 (3rd and 4th quarter accrual testing). The attached spreadsheet should be used to provide the required certification. This testing applies to goods, services, grants, FECA, unemployment, and miscellaneous accruals. . Documentation reflecting computation and support for accruals and validation of the accrual methodologies shall be retained to support management's assertions, A-123 testing, and auditor review

Attachment:

- Financial Statement Guidance, Chapter 24, Accruals
- Accrual Methodology Testing Matrix
- FECA and Unemployment Quarterly Estimation Analyses

cc: Financial Statement Guidance Team
Finance Officers Partnership

Cancelled FMMs: 2009-080