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Questions and Answers – FEMA Accounting and Auditing Issues

Although this document is an excellent reference tool, it is not intended to be used as definitive guidance on these issues. Be sure to consult any references included in the Q&A for additional information. A directory of references is provided at the end of this document.

1. Should local governments accrue hurricane-related expenditures (e.g., debris removal) that are incurred after fiscal year end?

No. Expenditure recognition under the accrual and modified accrual basis of accounting should normally be limited to expenditures that have been incurred prior to fiscal year end, and are payable as of the end of the fiscal year. However, when dealing with the estimated costs of reconstructing or restoring a capital asset due to hurricane damages, when the reconstruction or restoration does not take place until after fiscal year end, see Question No. 2.

2. Should local governments accrue a liability for the estimated cost of reconstructing or restoring a capital asset due to hurricane damages when the reconstruction or restoration does not take place until after fiscal year end?

Under the accrual basis of accounting, it may be appropriate for a local government to accrue a liability for the estimated cost of reconstructing or restoring a damaged capital asset even when the reconstruction does not take place until after fiscal year end. Pursuant to FASB Concepts Statement No. 6, paragraph 36, the existence of a legally enforceable claim is not a prerequisite for an obligation to qualify as a liability if for other reasons a local government has a “duty or responsibility” to pay cash or transfer other assets to another entity. For example, if a governmental entity that provides electrical service has its power plant destroyed, it could accrue a liability at fiscal year end for the estimated amount that it expects to pay a contractor in the next fiscal year to reconstruct the power plant, even if the contractor does not begin work until the next fiscal year, if the governmental entity is required by law to provide electrical service. FASB Concepts Statement No. 6 is not specific as to what constitutes a “duty or responsibility,” so local governments will have to exercise judgment in determining whether such an obligation should be accrued; however, generally it would involve a situation where a local government has no discretion as to whether or not to restore a damaged capital asset to a condition that will allow the local government to provide required services. **Note:** Local governments with capital assets that have been significantly damaged by a hurricane may want to consider early implementing *GASB Statement No. 42 – Accounting and Financial Reporting for Impairment of Capital Assets*, which is required effective for fiscal years beginning after December 15, 2004.

3. Should local governments accrue a receivable and revenue for hurricane-related expenditures for which the local governments may be eligible for reimbursement from FEMA?

Assuming the GASB Statement No. 33 criteria (see paragraph 20) for recognizing receivables and revenues have been met, the local government, to the extent that it has, using due diligence, identified hurricane-related expenditures for which it expects to be reimbursed from FEMA (i.e., expenditures for which the FEMA eligibility requirements have been met), should report expected FEMA reimbursements as discussed below.

Entity-wide Financial Statements and Fund Financial Statements (Proprietary Funds)

Since the Entity-wide Financial Statements and Fund Financial Statements for proprietary funds are prepared using the accrual basis of accounting, the local government should report a receivable and revenue in the amount of expected FEMA reimbursements.

Fund Financial Statements (Governmental Funds)

The manner in which expected FEMA reimbursements should be reported for the fund financial statements for governmental funds depends on the local government's revenue recognition policy.

Some governments have recommended not booking a receivable or revenue under the theory that the modified accrual basis of accounting would not allow this. This does not appear to have any authoritative support. The modified accrual basis of accounting only deals with **revenue** recognition, not receivable recognition. Once a government determines it has met the eligibility requirements for reimbursement (i.e., incurred allowable costs or expenditures, and the government has determined that it has a legitimate claim to those reimbursable funds), the receivable should be recorded.

Under the modified accrual basis of accounting, required for governmental funds, financial resources should be considered available only to the extent that they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. If a local government, for example, uses an availability period of 60 days for all revenues, and FEMA reimbursement is not received or anticipated to be received within 60 days following the fiscal year end, the local government should report a receivable and ~~deferred revenue~~ in the amount of expected FEMA reimbursements.

Note: Many local governments, for the fiscal year ended September 30, 2004, did not receive FEMA reimbursement within 60 days following September 30, 2004; however, any that did, and which used an availability period of 60 days, should report a receivable and revenue in the amount of the FEMA reimbursements actually received.

Those local governments for which it is anticipated that it will take much more than 60 days following fiscal year end to receive FEMA reimbursements may still be able to report a receivable and revenue in the amount of expected FEMA reimbursements. According to the GFOA's 2001 (page 64) and 2005 (page 72) editions of *Governmental Accounting, Auditing, and Financial Reporting*, "GAAP expressly recognize the need for

judgment and consistency in applying the modified accrual basis of accounting to revenue recognition.” As GAAP does not prescribe an availability period for the modified accrual basis, other than for property tax revenue recognition (GASB Statement No. 1, and GASB Interpretation No. 5), local governments may use discretion in determining the availability period for other revenues. According to the GFOA’s 2001 (page 64) and 2005 (page 72) editions of *Governmental Accounting, Auditing, and Financial Reporting*, “Governments enjoy considerable discretion in determining the availability period.”

Based on the above, a local government could modify its policy with respect to all revenues other than property taxes (including expected FEMA reimbursements). If a local government, for example, uses an availability period of 6 months for all revenues other than property taxes, and FEMA reimbursement is received or anticipated to be received within 6 months following the fiscal year end, the local government could report a receivable and revenue in the amount of expected FEMA reimbursements. According to GFOA staff, a local government’s decision to modify its availability period with respect to expected FEMA reimbursements would not affect its ability to receive a GFOA Certificate of Achievement for Excellence in Financial Reporting. Local governments should exercise judgment in determining how to address this issue, and the decision should be based on its own facts and circumstances.

If a local government were to modify its modified accrual basis of accounting, an example of the policy wording could be:

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 6 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days.

4. Do local governments have to file a reimbursement request with FEMA to be able to accrue a receivable and revenue for hurricane-related expenditures for which a local government expects to be reimbursed from FEMA?

No. Per footnote 10 to GASB 33, paragraph 21, recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program.

5. What if, because of the difficulty in determining the amount of expected FEMA reimbursements, a local government that is trying to obtain from a GFOA Certificate of Achievement for Excellence in Financial Reporting is unable to complete its CAFR by the GFOA’s deadline?

According to GFOA staff, the GFOA has received and approved requests from local governments for an extension for filing their 2003-2004 fiscal year CAFRs in connection with the GFOA's Certificate of Achievement for Excellence in Financial Reporting Program. Each individual local government must make the extension request as GFOA cannot provide a general extension for all Florida local governments. Such extensions

will allow local governments wishing to participate in the Certificate of Achievement for Excellence in Financial Reporting Program additional time for finalizing their financial statements while they continue their efforts to identify hurricane-related expenditures that are eligible for FEMA or State reimbursement.

6. Are there any special accounting considerations the local government should be aware of regarding expected FEMA reimbursements?

Since hurricane-related expenditures must meet FEMA eligibility criteria, FEMA reimbursements for such expenditures are restricted resources. Accordingly, local governments should maintain separate accountability for hurricane-related expenditures and associated FEMA reimbursements through the use of special revenue or capital projects funds or through the use of unique asset, liability, fund equity, revenue, and expenditure accounts (or project numbers).

7. What special audit concerns exist for the auditors of local governments that report amounts on the financial statements for expected FEMA reimbursements?

The auditor will need to apply audit procedures designed to: (1) assess the adequacy of procedures used by the local government to identify eligible hurricane-related expenditures and (2) determine the reasonableness and accuracy of amounts estimated by the local government to be eligible for FEMA reimbursement.

In determining the extent to which audit procedures need be applied, the auditor should consider the materiality of amounts reported for expected FEMA reimbursements in relation to the financial statements and the possible effect of such amounts in determining whether the local government will be required to have an audit in accordance with the *Federal Single Audit Act Amendments of 1996* (see further discussion below).

8. To what extent is FEMA and the State reimbursing local governments for hurricane-related expenditures?

This information may have changed.

Information regarding available FEMA assistance can be found on FEMA's web site at www.fema.com or by calling 1-800-621-3362. It is believed that FEMA may be reimbursing local governments for up to 100 percent of eligible hurricane-related expenditures within a designated 72-hour period, although it is unknown as to how the 72-hour period is determined. It is also believed that FEMA, excluding the 72-hour period, is reimbursing local governments for up to 90 percent of hurricane-related expenditures plus an additional 3 percent for administrative costs.

Information regarding available State assistance for hurricane-related damages can be found at www.myflorida.com, including information about the Governor's Executive Order No. 04-240 creating the Hurricane Housing Work Group to make recommendations regarding the use of supplemental Federal funds available for recovery as well as nonrecurring State funds that may be available in response to the hurricane disasters of 2004. Additional information can be found at <http://floridadisaster.org>. In addition, according to the Department of Community Affairs' web site, the Bureau of

Recovery and Mitigation Public Assistance offers grants to provide funding to restore public and private nonprofit facilities to pre-disaster condition.

9. Are State reimbursements to local governments for hurricane-related expenditures considered State financial assistance as contemplated by the Florida Single Audit Act?

According to Department of Community Affairs' staff, State funding provided by the Department to local governments for hurricane-related expenditure reimbursements is considered State matching of Federal awards. For purposes of the Florida Single Audit Act, State financial assistance does not include State matching provided by State agencies for Federal programs. However, it is possible that some State funding received by local governments for hurricane-related damages may not be for matching Federal awards. Local governments are advised to obtain written clarification as to whether State funding received for hurricane-related damages is considered State financial assistance as contemplated under the Florida Single Audit Act.

10. How should hurricane-related expenditures, for which a local government is eligible for reimbursement from FEMA or the State be reported on the Schedules of Expenditures of Federal Awards and State Financial Assistance?

FEMA Federal Awards – The Schedule of Expenditures of Federal Awards should include any hurricane-related expenditures incurred during the fiscal year for which the local government expects to be reimbursed by FEMA. For example, if a local government determines that it incurred \$1,200,000 of hurricane-related expenditures and determines that it is entitled to be reimbursed by FEMA for \$1,000,000 of those expenditures incurred during the 2003-2004 fiscal year, then the local government should report \$1,000,000 on the Schedule of Expenditures of Federal Awards for the 2003-2004 fiscal year.

State Funding (State Matching of Federal awards) – State funding received for purposes of matching Federal awards is not State financial assistance as contemplated under the Florida Single Audit Act. As such, hurricane-related expenditures for which a local government expects to be reimbursed from such funding should not be reported on the Schedule of Expenditures of State Financial Assistance. Although not required, such expenditures may be shown on the Schedule of Expenditures of Federal Awards.

State Funding (State Financial Assistance) - Consistent with the response to question 71 of the Florida Single Audit Act Q & A on the Auditor General's web site, hurricane-related expenditures for which a local government expects to be reimbursed from State financial assistance should be reported on the Schedule of Expenditures of State Financial Assistance.

11. What basis of accounting should be used to report hurricane-related expenditures for which a local government is eligible for reimbursement from FEMA and the State on the Schedules of Expenditures of Federal Awards and State Financial Assistance?

FEMA Federal Awards – OMB Circular A-133 does not prescribe the basis of accounting for the Schedule of Expenditures of Federal Awards; however, it is recommended that the same basis of accounting used for the financial statements be used for the Schedule of Expenditures of Federal Awards. For example, if the local government accrued a \$1,000,000 receivable for reimbursements expected to be received from FEMA, then the same amount should be reported as expenditures of the FEMA program on the Schedule of Expenditures of Federal Awards.

State Financial Assistance - Department of Financial Services Rule 3A-5.003, which prescribes the format of the Schedule of Expenditures of State Financial Assistance, does not prescribe the basis of accounting for the Schedule. However, based on question 72 of the Florida Single Audit Act Q & A on the Auditor General's web site, local governments are encouraged by State awarding agencies to prepare the Schedule of Expenditures of State Financial Assistance on the same basis used to prepare the financial statements, and may be required to do so by State awarding agencies.

12. What would be the consequences if a local government under- or overstated its estimates of hurricane-related expenditures for which it is eligible for reimbursement from FEMA or State financial assistance?

If the amount estimated by the local government is overstated, and results in the local government exceeding the Federal or Florida Single Audit Act audit threshold, it may subsequently be determined, based on the amount of FEMA Federal awards or State financial assistance that the local government actually received, that the local government unnecessarily provided for an audit in accordance with the Federal or Florida Single Audit Act. On the other hand, if the amount estimated by the local government is understated and is not sufficient to require a Federal or Florida Single Audit, it may be subsequently determined that the local government met the Federal or Florida Single Audit Act audit threshold, in which case the local government would have to retroactively comply with the audit requirement.

REFERENCES

Although this document is an excellent reference tool, it is not intended to be used as definitive guidance on these issues. Be sure to consult any references included in the Q&A (and listed below) for additional information.

Office of the Florida Auditor General

Website: <http://www.state.fl.us/audgen/>

Telephone: (850) 488-5534

Florida Government Finance Officers Association (GFOA)

Website: <http://www.fgfoa.org/>

Telephone: (850) 222-9684

Florida Department of Community Affairs

Website: <http://www.dca.state.fl.us/>

Telephone: (850) 487-3644

Florida Department of Financial Services

Website: <http://www.fldfs.com/>

Telephone: 1-800-342-2762

Federal Emergency Management Agency (FEMA)

Website: <http://www.fema.org/>

List of Telephone and e-mail Contacts: <http://www.fema.org/feedback/>

State of Florida

Website: <http://www.myflorida.com>

Florida Board of Accountancy (BOA)

Website: <http://www.myflorida.com/dbpr/cpa/index.shtml>

Telephone: (850) 487-1395

Governmental Accounting Standards Board (GASB)

Web site: <http://www.gasb.org>

Financial Accounting Standards Board (FASB)

Web site: <http://www.fasb.org>

GASB Implementation Guide

Z.33.16. Q—A city receives a grant from the state. The city meets all of the eligibility requirements (for example, the period when the resources are required to be used has begun, reimbursable costs have been incurred), but the state has not yet appropriated resources for the grant. Can the city recognize grant revenue? Would the timing of the recognition change if state law requires the state treasurer to pay the grant whether or not the legislature appropriates resources?

A—In the absence of legislation requiring the state treasurer to pay the grant whether or not the legislature appropriates the resources, the state should appropriate resources before the city can recognize the grant revenue. Paragraph 74 in the Basis for Conclusions of Statement 33 states that, “when the provider is a *government*, the required period of disbursement often is specified through the appropriation of resources under the enabling legislation, rather than as part of that legislation or related regulations. . . . In those cases, a government appropriation is *not* equivalent to an authorization to pay an *existing* liability, such as the approval of a vendor’s invoice for payment related to an exchange transaction that has occurred. Rather, an appropriation is *essential* to make the enabling legislation effective for a particular period of time. In these circumstances, . . . a government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists and the period to which the appropriation applies has begun. Once those requirements (and all other applicable eligibility requirements) have been met, a provider government should recognize a liability and a qualified recipient should recognize a receivable.”

Conversely, if state law requires the state treasurer to pay the grant whether or not the legislature appropriates resources, the city should recognize grant revenue in the current period without regard to when the legislature appropriates resources. In this case, the required period of disbursement is not specified through the appropriation of resources. Rather, it is specified by the enabling legislation or its related regulations. An appropriation is not essential to make the enabling legislation effective for a particular period of time and, if made, is equivalent to an authorization to pay an existing liability as discussed in paragraph 74 of the Basis for Conclusions of Statement 33.