

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	1

PURPOSE AND OBJECTIVES

Some State agencies receive, expend, or administer financial assistance, usually in the form of grants or entitlements, from the Federal Government, corporations, foundations, or other grantors. For purposes of this closing package, we use the term "grants" as a generic term to encompass any such financial assistance.

Grantors routinely review and/or audit programs they fund to be sure that recipients have followed all program rules. The review or audit may question certain costs. After some discussion, the State and the grantor will agree on settlement terms. Questioned costs become disallowances only when the State agrees to do one or both of the following:

- o Make current or future payments to the grantor.
 - The payments may be direct or indirect. For example, the State may reduce future grant expenditure reports to offset earlier disallowed costs.
 - The payments may equal the amount of disallowed costs or include additional penalty amounts.
- o Accept current or future reductions in grant funds already awarded to the State.

The State plans to prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The State, therefore, must record a liability for disallowances likely to result from failure to follow program rules before year-end.

In practice, considerable time elapses between failure to follow rules and resolution of a resulting disallowance. The State, therefore, will estimate its liability at June 30 based on historical experience. The purpose of this closing package, therefore, is to gather historical data from agencies about their grant disallowances.

Only the "end recipient" of grant funds within State government should report related disallowances. That is:

- o Your agency should not report disallowances related to grants it "passed through" to other State agencies.

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	2

- o Your agency should report disallowances related to grant funds that your agency:

- Directly expended for salaries, supplies, equipment, etc.
- "Passed through" to a non-State organization.

This will help prevent duplicate reporting of disallowances.

If your agency is involved in a fee-for-service or procurement contract with a Federal agency and a cost is rejected, do not report this situation on a Grant Disallowance Report Form (GAAP Form 3.14.1); instead, report it on a Miscellaneous Loss Liability or Miscellaneous Loss Contingency Report Form (GAAP Form 3.16.1 or 3.16.2) as described in Section 3.16.

AGENCY ACTION REQUIRED

- o If your agency and a grantor reached an agreement during this fiscal year regarding a disallowance:
 - Complete a Grant Disallowance Report Form (GAAP Form 3.14.1).
 - Return the Form to the Comptroller General's Office no later than August 1. If you can return the Form earlier, please do so.
- o If your agency and a grantor reach an agreement during the six months after June 30 (July 1 through December 31) regarding a major disallowance:
 - Complete a Grant Disallowance Report Form (GAAP Form 3.14.1).
 - Return the Form to the Comptroller General's Office as soon as possible.

KEY TERMS

Disallowance. Grantors routinely review and/or audit the programs they fund to be sure that recipients have followed all program rules. The review or audit may question certain costs. After some discussion, the State and the grantor will agree on settlement terms. Questioned costs become disallowances only when the State agrees to do one or both of the following:

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	3

- o Make current or future payments to the grantor.
 - The payments may be direct or indirect. For example, the State may pay indirectly by reducing future grant expenditure reports to offset earlier disallowed costs.
 - The payments may equal the amount of disallowed costs or include penalty amounts.
- o Accept current or future reductions in grant funds already awarded to the State.

Grantor. A grantor is an organization that provides grant funds to others. Examples of grantors who provide funds to State agencies include the Federal Government, the Corporation for Public Broadcasting, and The Duke Endowment.

Grants. Grants is the generic term we use in this closing package to include any financial assistance that the State receives from the Federal Government, corporations, foundations, or other grantors.

Liability. A liability is an obligation resulting from past transactions that probably will result in future payments and/or revenue reductions.

Loss Contingency. Loss contingencies are situations involving uncertainty as to possible loss that will be resolved when certain events occur or fail to occur.

Loss Liability. Known losses at June 30 for which the State has an obligation to make future payments are loss liabilities.

"Passed Through" Funds. To say that grant funds were "passed through" means that one State agency distributed them to other State or non-State organizations.

Probable. A future event is probable if the event is likely to occur.

Subsequent Event. Subsequent events are events or transactions that:

- o Occur after June 30 but before the State issues its financial statements.
- o Have a material effect on the statements and/or the auditor's report.

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

GRANT DISALLOWANCES CLOSING PACKAGE

REFERENCE	3.14
ISSUE DATE	6-30-2002
PAGE	4

Subsequent Period. The subsequent period is the time after June 30 but before the State issues its financial statements. The State plans to issue its financial statements by December 31. For practical purposes, therefore, the subsequent period is the six months from July 1 through December 31. Governments must disclose on their financial statements any material events that occur during the subsequent period.

ACCOUNTING PRINCIPLES AND POLICIES

Accounting Standards

The State must record a year-end liability for obligations resulting from violations of program rules that occur before year-end. This liability has two components:

- o A loss liability component. (The State has a loss liability if it agreed before year-end to make payments or accept reduced revenues after year-end.)
- o A loss contingency component. (The State may have failed to follow program rules on or before June 30. Later audits or reviews may discover these violations. If so, the State and the grantor may negotiate a settlement that will represent a loss to the State.)

In practice, considerable time elapses between violation of program rules and resolution of a disallowance. This makes the loss contingency component difficult to compute. Governments, therefore, often estimate their disallowance liability based on historical data.

Generally Accepted Accounting Principles for loss contingencies are defined in:

- o Governmental Accounting Standards Board (GASB) Codification Sections 1500.114 and C50.101 through 118.
- o Financial Accounting Standards Board (FASB) Statement 5, "Accounting For Contingencies" as revised and interpreted.

Major liabilities that arise after June 30 but before the State issues its financial statements are subsequent events. GAAP for subsequent events is defined in:

- o Governmental Accounting Standards Board Codification Section 2300.106 and C50.148.

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	5

- o Various Statements on Auditing Standards (SAS's) and related interpretations (issued by the American Institute of Certified Public Accountants).

State Policies

In practice:

- o Considerable time elapses between failure to follow program rules and resolution of a disallowance.
- o Amounts of actual disallowances typically are much smaller than "questioned costs."

The State, therefore, plans to estimate its disallowance liability at June 30 based on historical data relating to actual disallowances.

The State will record a liability for disallowances if:

- o A loss to the State is probable.
- o It is practical to estimate the loss amount.
- o The amount is material.

Otherwise, the State will prepare appropriate note disclosure.

The State will disclose major loss contingencies that arise during the subsequent period.

Only the "end recipient" of grant funds within State government should report disallowances. That is:

- o Your agency should not report disallowances related to grants it "passed through" to other State agencies.
- o Your agency should report disallowances related to grant funds that your agency:
 - Directly expended for salaries, supplies, equipment, etc.
 - "Passed through" to a non-State organization.

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	6

WORKING PAPERS

All working papers may be subject to audit. The agency should keep copies of the completed Grant Disallowance Report Forms (GAAP Form 3.14.1). In addition the agency should keep any documents that support the information on the Forms. For example, the agency should keep copies of agreements with or letters from grantors showing payment terms related to disallowances. Appropriate documentation and the level of detail will vary according to circumstances.

GENERAL INSTRUCTIONS--GRANT DISALLOWANCE REPORT FORM (GAAP FORM 3.14.1)

- o Report only disallowances (see Key Terms)--not questioned costs.
- o Report only disallowances where the State and the grantor have reached an agreement regarding settlement terms.
- o Report disallowances only if your agency is the "end recipient" of the funds within State government. That is:
 - Do not report disallowances related to grants your agency "passed through" to other State agencies.
 - Report disallowances related to grant funds that your agency:
 - * Directly expended for salaries, supplies, equipment, etc.
 - * "Passed through" to a non-State organization.
- o If your agency and a grantor reached an agreement during the fiscal year regarding a disallowance:
 - Complete a Grant Disallowance Report Form (GAAP Form 3.14.1).
 - Return the Form to the Comptroller General's Office no later than August 1. If you can return the Form earlier, please do so.
- o If your agency and a grantor reach an agreement during the six months after June 30 (July 1 through December 31) regarding a major disallowance:
 - Complete a Grant Disallowance Report Form (GAAP Form 3.14.1).
 - Return the Form to the Comptroller General's Office as soon as possible.

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

GRANT DISALLOWANCES CLOSING PACKAGE

REFERENCE	3.14
ISSUE DATE	6-30-2002
PAGE	7

- o Complete a separate Grant Disallowance Report Form (GAAP Form 3.14.1) for each disallowance situation. Make copies of the Form as needed.
- o Round all dollar amounts on the Form to the nearest whole dollar.
- o The person who completes and signs the Grant Disallowance Report Form (GAAP Form 3.14.1) should keep a copy. The Comptroller General's Office will telephone this person if there are any questions.
- o Exhibit 3.14 (A) shows a sample completed Grant Disallowance Report Form (GAAP Form 3.14.1). Detailed instructions for completing the Form follow the two-page Exhibit.

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL
--

GAAP CLOSING PROCEDURES MANUAL

GRANT DISALLOWANCES CLOSING PACKAGE

REFERENCE	3.14
ISSUE DATE	6-30-2002
PAGE	8

(THIS PAGE LEFT INTENTIONALLY BANK.)

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

GRANT DISALLOWANCES CLOSING PACKAGE

REFERENCE	3.14
ISSUE DATE	6-30-2002
PAGE	9

STATE OF SOUTH CAROLINA
GRANT DISALLOWANCE REPORT FORM

EXHIBIT
3.14 (A)
Page 1 of 2

Agency:	(1)	<u>A99</u>		<u>Sample Agency</u>							
		Code		Name							
Prepared:	(2)	<u>7/15/02</u>	By:	<u>J. P. Junior</u>	Title: <u>Accountant I</u> Phone: <u>734-1234</u>						
		Date		Employee Name							
Approved:	(2)	<u>7/18/02</u>	By:	<u>I. M. Senior</u>	Title: <u>Dir. of Accounting</u> Phone: <u>734-2345</u>						
		Date		Employee Name							
GENERAL INFORMATION											
(3) Information as of: <input checked="" type="checkbox"/> 6/30/02 <input type="checkbox"/> __/__/__ (between 7/1 and 12/31)											
DISALLOWANCE INFORMATION											
(4) Name of Grantor: <u>U.S. Department of Agriculture</u>											
(5) Name of grant program: <u>Innovative Marketing Techniques for Produce</u>											
(6) Date the State and the grantor agreed to disallowance settlement terms: <u>10/16/01</u>											
(7) Does the disallowance require payments in future years? <u>Yes</u> (Yes or No)											
If "Yes": GAAP funds(s) responsible for payment are:											
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">GAAP Fund Code</th> <th style="text-align: left;">GAAP Fund Name</th> <th style="text-align: left;">Percent</th> </tr> </thead> <tbody> <tr> <td><u>4005</u></td> <td><u>Departmental General Operating-Federal</u></td> <td><u>100%</u></td> </tr> </tbody> </table>						GAAP Fund Code	GAAP Fund Name	Percent	<u>4005</u>	<u>Departmental General Operating-Federal</u>	<u>100%</u>
GAAP Fund Code	GAAP Fund Name	Percent									
<u>4005</u>	<u>Departmental General Operating-Federal</u>	<u>100%</u>									
State fiscal years and amounts of payments due are:											
Fiscal Year	Payment Amount	Fiscal Year	Payment Amount								
<u>2003</u>	<u>\$ 454,507</u>	<u>2006</u>	<u>\$ 386,479</u>								
<u>2004</u>	<u>454,507</u>										
<u>2005</u>	<u>454,507</u>										
(8) Other provisions of the disallowance agreement (if any) are:											
<u>Sample Agency will not apply for any new Dept. of Agriculture grants until 2007.</u>											
<u>Grants already awarded aren't affected.</u>											

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	10

EXHIBIT
3.14 (A)
Page 2 of 2

Agency:	<u>A99</u>	<u>Sample Agency</u>
	Code	Name
<p>PASS-THROUGH FUNDS INFORMATION</p> <p>(9) If disallowance relates to funds your agency received from another State agency: Name of State agency funds were received from: <u>N/A</u></p> <p>(10) If disallowance relates to funds your agency “passed through” to a non-State organization: Name of non-State organization: <u>N/A</u> Type of non-State organization that received the funds: _____ Does the disallowance represent a liability to the State? _____ <div style="text-align: right;">(Yes or No)</div></p> <p>Explanation: _____ _____ _____ _____ _____</p>		

STATE OF SOUTH CAROLINA OFFICE OF THE COMPTROLLER GENERAL		
GAAP CLOSING PROCEDURES MANUAL		
GRANT DISALLOWANCES CLOSING PACKAGE	REFERENCE	3.14
	ISSUE DATE	6-30-2002
	PAGE	11

COMPLETING THE GRANT DISALLOWANCE REPORT FORM (GAAP FORM 3.14.1)

REF	EXPLANATION
(1)	Enter the agency name and three-character STARS agency code.
(2)	Complete all information regarding preparation of the Form. The Finance Director or Executive Director should approve the Form before sending it to the Comptroller General's Office. The agency should retain a copy of the Form.

GENERAL INFORMATION

- (3) Check one block to indicate whether the Form shows year-end data or subsequent period data. For year-end data, fill in the year. If the Form describes major changes that occurred between July 1 and December 31, enter the date that the change occurred.

DISALLOWANCE INFORMATION. These questions relate to a specific disallowance situation. If possible, attach a copy of the related agreement between the grantor and your agency.

- (4) Enter the name of the grantor organization.
- (5) Enter the name of the specific grant program.
- (6) Enter the date that the State and the grantor agreed to settlement terms. This may be the date you signed an agreement or the date you received a demand letter from the grantor.
- (7) Indicate whether the State must make payments in future years. If "Yes," list payment data. See Appendix A for GAAP fund codes and names. Attach additional information if necessary. Answer "No" if the State will accept reduced funding but will not make payments; complete (8) below.
- (8) Describe other provisions of the agreement. For example, if the State has agreed to receive reduced funding, indicate the affected years and GAAP funds. (See Appendix A for GAAP fund information.)

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

GRANT DISALLOWANCES CLOSING PACKAGE

REFERENCE	3.14
ISSUE DATE	6-30-2002
PAGE	12

REF

EXPLANATION

PASS-THROUGH FUNDS INFORMATION. Complete this section only if the disallowance you described above involves:

- o Funds your agency received from another State agency.
 - o Funds your agency "passed through" to non-State organizations.
- (9) If the disallowance relates to funds your agency received from another State agency, name that agency.
- (10) If the disallowance relates to funds your agency "passed through" to a non-State organization:
- a. Name the non-State organization.
 - b. Indicate what kind of organization it is. (For example, is it a local government, a non-profit organization, etc.?)
 - c. Indicate whether you believe the disallowance represents a liability to the State. Please explain your answer.