OREGON ACCOUNTING MANUAL

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES STATEWIDE POLICY	**NUMBER** 15.40.00	**SUPERSEDES** 15.40.00 PO 15.40.00 PR dated 07/01/2001 and 02/08/2002
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Division **Chief Financial Office** **Policy Owner** Statewide Accounting and Reporting Services	**REFERENCE/AUTHORITY** ORS 279C.570 ORS 293.462 ORS 291.015 ORS 293.590 GASB Codification Section 1100 GASB Codification Section 1500 GASB Interpretation No. 6 GASB Statement No. 33 GASB Statement No. 34	
SUBJECT Accounting and financial reporting – Expenses, Expenditures, and Payables	**APPROVED SIGNATURE** ***George Naughton, Chief Financial Officer*** ***Signature on file***	

PURPOSE
This policy provides guidance on accounting and financial reporting related to expenses, expenditures, and payables to vendors, applicable to exchange transactions and nonexchange transactions involving financial or capital assets.

APPLICABILITY
This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

FORMS/EXHIBITS/INSTRUCTIONS
None.

DEFINITIONS
Click here for **definitions**.

EXCLUSIONS AND SPECIAL SITUATIONS
This policy does not apply to interfund and interagency transactions. Refer to OAMs **15.45.10**, **15.45.20**, **15.45.30**, and **35.70.10** for that guidance.

POLICY

101. Expenses/Expenditures and payables should be accounted for in accordance with generally accepted accounting principles (GAAP). Expenses/Expenditures and payables resulting from different types of transactions should be accounted for using the appropriate guidance. Agencies are responsible to analyze the nature of their transactions and use applicable guidance provided in this policy and the accompanying procedure.

102. GAAP requires that liabilities and expenses be recognized using the economic resources measurement focus and the accrual basis of accounting in proprietary funds and fiduciary funds as well as in the government-wide financial statements. Expenses and liabilities resulting from exchange transactions should be recognized when the exchange takes place. Expenses and liabilities arising from nonexchange transactions should be recognized when all eligibility requirements have been met. See **OAM 15.35.00** for a more detailed discussion of nonexchange transactions.

103. Governmental funds recognize liabilities and expenditures using the modified accrual basis of accounting. Liabilities are recognized to the extent that they are normally expected to be liquidated with available financial resources. Most expenditures are recognized when the related liability is incurred. However there are several exceptions to this general rule.

104. In the absence of an explicit requirement to do otherwise, governmental fund liabilities and expenditures should be accrued. Liabilities that governments normally pay in a timely manner and in full from current financial resources, for example salaries and utilities, should be recognized when incurred, without regard to the extent to which resources are currently available.

105. Agencies are responsible to pay vendors and contractors in a timely manner. When paying past due invoices, payment of interest charges shall not exceed limits established by statute.

PROCEDURES

Liability Recognition

106. In governmental funds, liabilities are recognized only to the extent they are normally expected to be liquidated with available financial resources. Accordingly, the following liabilities are not reported in governmental funds, but are reported as general long-term liabilities in the government-wide reporting fund only:

   a. Unmatured principal of long-term debt, such as bonds, notes, or capital leases.
   b. Accrued interest on long-term debt.
   c. Liabilities related to compensated absences, claims and judgments, or special termination benefits when not payable from current financial resources.
   d. Liabilities associated with operating leases containing scheduled rent increases.

107. Liabilities that will be paid with available financial resources are current liabilities of the governmental fund. Liabilities that will not be paid with available financial resources are considered general long-term liabilities of the government and are reported only in the government-wide reporting fund. However, for government-wide financial statement reporting purposes, the current portion of certain liabilities, compensated absences for example, will be that portion that is expected to be paid within one year of the balance sheet date rather than the portion to be paid with current financial resources. For this reason, additional entries may be needed in the government-wide reporting fund to properly reflect these liabilities.

108. In proprietary funds and fiduciary funds, liabilities should be recognized when incurred.

109. When a state agency is the provider in either a government-mandated nonexchange or voluntary nonexchange transaction, the agency should recognize a liability as soon as the recipient meets all eligibility requirements.

110. When a state agency is the recipient in either a government-mandated nonexchange or voluntary nonexchange transaction, it is possible that, as a result of failing to continue to comply with eligibility requirements or purpose restrictions, the agency is no longer entitled to resources that

have already been recognized in the financial statements. In this case, the agency should recognize an expense and a liability for the amount of resources that the provider is expected to reclaim or cancel.

Recognition of Expenses or Expenditures

111. Expenses are recognized in proprietary and fiduciary funds as soon as the related liability is incurred, regardless of the timing of the related cash flow. The same is also generally true for expenditure recognition in governmental funds. However, under modified accrual accounting used in governmental funds, there are several exceptions to this general rule. At fiscal year-end, liabilities and the related expenditures may be accrued with the following entry:

    TC 437 To establish expenditure accrual (auto reverses)

DR 3505 Expenditure Control – Financial Statement Accrual	XXX	
CR 1215 Accounts Payable		XXX

112. Some expenditures are recognized in governmental funds only when due and payable (matured). These typically are related to general long-term indebtedness and include:

    a. Debt service principle and interest payments on formal debt issues.
    b. Compensated absences.
    c. Claims and judgments.

113. Financial resources that have been accumulated for eventual payment of the unmatured portion of the liabilities in paragraph .111 does not represent an outflow of current financial resources and therefore should not be recognized as an additional governmental fund expenditure or liability.

Prompt Payment

114. Invoices from vendors and contractors should be paid promptly. The date of the check or warrant is used to determine if the claim was paid timely. Overdue charges are recorded separately from other expenses or expenditures.

115. For private vendors providing goods and services, payment will be made within 45 days. Overdue charges are paid at a rate of two-thirds of one percent per month, not to exceed eight percent per annum. Overdue claims are those that have not been paid within 45 days from the latest of the following dates:

    a. The date of receipt of the invoice.
    b. The date of the initial billing statement, if no invoice is received.
    c. The date the claim is made certain by agreement of the parties or by law.

116. For contractors performing on public contracts, payment will be made within 30 days. If not paid within 30 days, interest is paid on the amount due the contractor, not including retainage. Overdue charges are paid at a rate of three times the discount rate on 90-day commercial paper in effect at the Federal Reserve Bank, not to exceed thirty percent. The date from which interest shall be calculated is the earlier of the following dates:

    a. Thirty days after receipt of the invoice from the contractor.
    b. Fifteen days after the payment is approved by the agency.

Merchant Fees

117. Merchant fees are discount fees paid by agencies to financial institutions. Financial institutions charge merchant fees, which generally are a small percentage of each credit card transaction, when accepting credit card payments. Merchant fees should be recorded as an expense in comptroller object 4730 and the related credit card revenue should be recorded at the gross amount.

Credit Card Surcharges

118. Merchants are allowed, but not required, to charges customers a credit card surcharge equal to the cost of accepting credit cards. If charged, the merchants are required to identify the credit card surcharge on the receipt. If agencies are charged a credit card surcharge when using their SPOTS cards to pay for goods and services, the surcharge shall be recorded separately, using comptroller object 4735.

Collection Fees

119. Collection fees are amounts paid to collection agents (Department of Revenue or private collection firm) for the cost of collecting accounts receivable. Collection agents generally charge a percentage of each accounts receivable balance, although a specific dollar amount may be agreed upon. In the event that collection fees are withheld from the amount remitted to a state agency and the state agency does not charge the debtor the collection fee, account for the transaction in accordance with paragraphs 120 and 121 below. Use comptroller object 4720 if the fee is charged by the Department of Revenue and comptroller object 4725 if the fee is charged by a private collection firm.

120. If an agency referred a $1,000 accounts receivable to Department of Revenue that charged a 10 percent collection fee ($100), and resulted in a net remittance of $900, the following entries would be recorded when collection fees are recorded as an expense (assume the receivable is in SFMA):

TC 176 To record collection of an accounts receivable

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Revenue Control-Accrued (CO 0407 Charges for Services)	1,000	
CR 0501 Accounts Receivable Other - Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Charges for Services)		1,000

TC 222 To record payment of collection fee to Department of Revenue

DR 3501 Expenditure Control-Accrued (CO 4720 Department of Revenue)	100	
CR 1211 Vouchers Payable		100

121. If Department of Revenue referred the above mentioned $1,000 accounts receivable to a private collections firm that charged a 10 percent collection fee ($100), the private collection firm would remit the $900 to the Department of Revenue and Department of Revenue would send the $900 to the state agency. The following entries would be recorded when collection fees are recorded as an expense (assume the receivable is in SFMA):

TC 176 To record collection of an accounts receivable

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Revenue Control-Accrued (CO 0407 Charges for Services)	1,000	
CR 0501 Accounts Receivable Other - Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Charges for Services)		1,000

TC 222 To record payment of collection fee to a private collection firm

DR 3501 Expenditure Control-Accrued (CO 4725 Private Collection Firm)	100	
CR 1211 Vouchers Payable		100

Food Stamps

122. Food stamp expenditures should be recognized when the benefits (cash or food stamps) are distributed. In an electronic benefit transfer (EBT) system, distribution takes place when the individual recipients use the benefits.

Bad Debt Expense

123. Bad debt expense should be recorded only in conjunction with transactions in which there is no revenue associated with the receivable, for example loans receivable. For receivables that have an associated revenue, such as taxes receivable, uncollectible amounts should be reflected as a reduction of revenue rather than bad debt expense (see **OAM 15.35.00** for appropriate entries). In either case, the receivable should be recorded at gross amount, with an offsetting entry to Allowance for Doubtful Accounts reflecting the estimated uncollectible amounts. Bad debt expense may be recorded using the following entry:

TC 461R To record estimated uncollectible amounts when there is no revenue object associated with the receivable to reduce

DR 3600 GAAP Expenditure Offset (CO 7479 Bad Debt Expense)	XXX	
CR 0934 Allowance for Doubtful Accounts-Noncurrent		XXX

Administrative Hold Process

124. Agency management is responsible for determining whether a vendor payment shall be garnished. Further, agency management shall apply good judgment and independent thinking when determining not to garnish a vendor payment where otherwise allowed by law or regulation. When agency management determines that it will not garnish a vendor payment the agency must document the basis for its decision. Refer to **OAM 35.30.90** for additional information.

a. SFMS staff will inactivate the 51/52 profile screens for vendors on the Department of Revenue debtor list on a daily basis.

b. A/P staff receiving the error message of “Vendr Status Not “A”” when entering a transaction should look at the 52 screen.

i. If ‘*PLEASE CONTACT DOR*’ appears in the address section, determine if the payment is subject to garnishment. For example, **worker’s compensation payments, unemployment benefits, and federal grant payments (whether paid to a subrecipient or contractor) are not subject to garnishments**. Additional examples can be found in **ORS 18.845**. Federal fund payments that are not affiliated with a grant may be subject to garnishment.

   1. If the payment is not subject to garnishment, send a request to SFMS to temporarily activate the vendor.

   2. If the payment is subject to garnishment, notify Department of Revenue of the debtor/vendor match via Revenue Online.

ii. If Department of Revenue does not issue a garnishment, send a request to SFMS to temporarily activate the vendor.

iii. If Department of Revenue issues a garnishment, the paying agency will need to create mail code 444 for the vendor. (Mail code 444 is for payments collected by Department of Revenue for this specific process, do not use mail code 444 for any other garnishment process.) Notify SFMS when the mail code is ready to be activated.

   1. When completing the vendor payment transaction, the Garnish ID must be included in the invoice description field and must not use a future due date.

   2. State agencies must complete the garnishee response when processing a DOR garnishment. The garnishment will contain instructions on how to respond.

iv. Any vendor disputes shall be directed to Department of Revenue.

v. Agencies shall retain the garnishment paperwork as supporting documentation.

c. For directions to log on to Revenue Online and other information regarding the administrative hold process, access the Executive Order 17-09 Coordination of Vendor Payments training materials located within iLearn.

Other Items

125. GAAP requires that certain items be displayed separately in the financial statements. In order to ensure that these items are properly reported, separate comptroller objects have been assigned to them. The following items should be recorded using the comptroller objects indicated:

- Extraordinary Items 2450
- Special Items 2500

Financial Statement Presentation

126. In governmental funds, expenditures are presented in the statement of revenues, expenditures and changes in fund balances by function. Other decreases in financial resources such as transfers to other funds are presented in the “other financing sources (uses)” section of the financial statement special items and extraordinary items are presented separately after “other financing sources (uses)”.

127. In fiduciary funds, expenses are reported as deductions from net position in the statement of changes in fiduciary net position. In proprietary funds, expenses are reported in the statement of revenues, expenses and changes in fund net position. Proprietary fund expenses are segregated into operating expenses and nonoperating expenses and are classified by major category.

128. Operating expenses generally result from providing services and producing or delivering goods. Operating expenses include payments to acquire materials for providing goods or services, payment to employees for services, payment for distributions to other governments or organizations for specific activities that are considered to be operating activities of the grantor government, payment for internal service goods and services, as well as payment for interest on long-term debt.

129. Nonoperating expenses are presented below the line item for operating income and include items not directly associated with agency operations such as a loss on the disposition of assets. Reported separately after the net total of nonoperating revenues and expenses are capital contributions, additions to permanent and term endowments, special items, extraordinary items, and transfers to and from other funds.

130. In the government-wide statement of activities, expenses are reported by function except those that meet the definition of special or extraordinary items. Direct expenses of a function are those that are specifically associated with a specific service, program, or department and, thus, are clearly identifiable to a particular function. Special items, extraordinary items, and transfers to and from other funds are reported separately below general revenues.

Required Disclosures

131. The notes to the financial statements should specify the basis of accounting and measurement focus used in each fund type and in the government-wide financial statements.

132. The State's policy for defining operating and nonoperating revenues and expenses for proprietary funds must be disclosed in the summary of significant accounting policies. The summary must also disclose the State's policy for eliminating internal service fund activity in the government-wide statement of activities.

133. Note disclosure of information pertaining to long-term debt and other long-term liabilities is required by GAAP. Agencies will provide needed disclosure information to Statewide Accounting and Reporting Services (SARS) for financial statement note disclosure purposes. Agencies with audited financial statements should include disclosures required for long-term liabilities in the notes to their financial statements.