

**SCEIS USER GROUP MEETING – JANUARY 29, 2020**

**COMPTROLLER GENERAL'S OFFICE**

**KATHY JOHNSON & KELLY GHENT**



# SCEIS User Group Meeting – Comptroller General’s Office

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## Agenda

- I. GASB 87 - Lease Accounting
- II. Accounting for Insurance Recoveries
- III. Quarterly Policy & General Ledger Update
- IV. Questions



# **I. GASB 87 - LEASE ACCOUNTING**



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## GASB 87 - Lease Accounting

### What is GASB 87?

- Establishes a single reporting model for lease accounting based on the foundational principal that leases are financings of the right to use an asset.
- Defines a lease as a contract that conveys control of the right to use another entity’s non-financial asset as specified in the contract for a period of time in an exchange-like transaction.

### What is the Effective Date?

- For the State of South Carolina, the requirement is effective **July 1, 2020**.
- Early implementation is **NOT** allowed.

### Who will be impacted?

- **ALL** state and local governments. There are no exemptions.

**NOTE: Guidance is still being crafted by GASB**



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## GASB 87 - Lease Accounting

### The 3 Categories of Leases

- **Short-term leases** have a maximum possible term of 12 months or less.
  - Any clause that might extend the lease past the 12 month period will not be considered a short-term lease.
  - No change in the accounting of short-term leases.
  - There will be very few short-term leases after July 1, 2020
  
- **Contracts that Transfer Ownership** at the end of the lease period are considered financing agreements.
  - These are known as capital leases
  - No change in the accounting of Master Leases (debt)
  
- **All Other Leases** will account for 90% of leasing agreements
  - Lease liabilities and lease assets are recognized
  - Lease payments will post to principal and interest general ledger accounts.



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## GASB 87 - Lease Accounting

### Scope: What’s in

- A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) that conveys control of the right to use another entity’s non-financial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Contracts that are not specifically identified as a lease, but meet the definition of a lease.
- Embedded leases occurring within service, construction, advertising, transportation agreements...
- Real property leased between the primary government and discretely presented component units (i.e., colleges and universities)
- Real property leased from non-state entities
- Subleases



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## GASB 87 - Lease Accounting

### Scope: What’s out

- Real property leased within the primary government (i.e., Comptroller General’s Office renting office space from the Department of Administration)
- Leases of intangible assets (i.e., patents, copyrights, computer software..)
- Leases of biological asset (i.e., timber, living plants, animals...)
- Leases of inventory
- Supply contracts
- Service concession arrangements (i.e., airports, roads, hospitals...)



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## GASB 87 - Lease Accounting

### Overview of New Accounting Process:

- Agency enters into a lease of more than 12 months for land, buildings, machinery, equipment...
- An amortization schedule is created (if not provided by the lessor).
- The shopping cart is created.
  - Note: the asset is **not** assigned to the shopping cart.
- Procurement creates a PO with **ZCAP** document type.
- The asset shell(s) is created in SCEIS using transaction AS01.
  - The leasing tab must be completed for only the main asset.
- The asset is capitalized using the ABZON transaction.
- Run S\_ALR\_87010141 to ensure the liability is correct for future years.





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## GASB 87 - Lease Accounting

### Overview of New Accounting Process (continued):

- The agency **invoice** approver (not in SCEIS) should provide the PO and amortization schedule when routed to AP.
- Pay invoices as set in the agreement ensuring there are at least two lines, one for principal and one for interest.
- Monitoring of open PO’s will be necessary to ensure assets are created in a timely manner, the correct PO document type is being used and the proper amounts are coded to principal and interest
- Assets will need to be retired if not retained by the agency at the end of the lease.



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## GASB 87 - Lease Accounting

### Key Points:

- This is going to be a collaborative process what will include **many** areas within an agency.
- A leased asset should be recognized at the **commencement** of the lease term.
- Assets should be depreciated over the **shorter** of the lease term or the system default for the asset class.
  - Low value assets are an exception to the rule since they depreciate fully when depreciation is run at month-end.
- Leases with multiple assets can be created as 1 main asset with multiple sub assets as long as they have the same term and asset class.
- Payments will post as an expense for the principal and interest general ledger accounts.
  - This will **not** change the payment amount.
- Amortization schedules will be required for voucher approval.



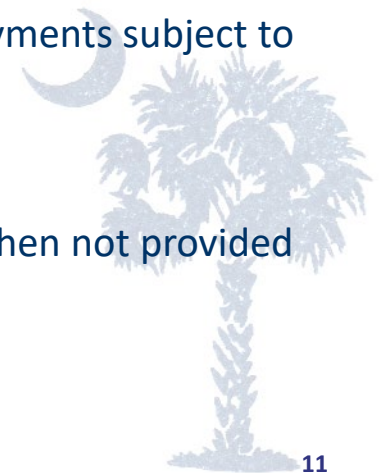
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## GASB 87 - Lease Accounting

### Key Points (continued) :

- Intent on retaining the asset at the end of the term will determine how the asset will be classified. “Equipment and Machinery” versus “Leased Equipment and Machinery”
- Liabilities will be reported at year-end via a reporting package to the CG’s office
- The GL will need to be scanned for similar payments for possible unidentified leases.
- Agency AP staff is going to be extremely helpful in identifying payments subject to the new requirements.
- The contingent portion of invoice will remain the same as today.
- Guidance will be provided as to what interest rate will be used when not provided in the lease agreement.



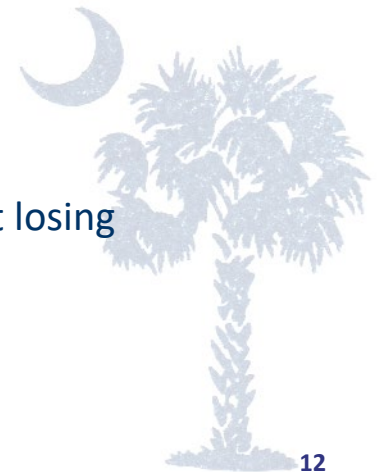
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## GASB 87 - Lease Accounting

### What will Implementation look like?

- **IMPORTANT** – This is not effective until **JULY 1, 2020**. Early implementation is not allowed.
- The CG’s office will work with agencies one-on-one to gather data elements required to create a “Lease Master Data” worksheet.
- Tools will be available for creating amortization schedules.
- Templates will be used to create AND capitalize assets
  - These will be loaded by the asset team at SCEIS
- New GL’s will be create to accommodate these changes while not losing transparency needed in reporting.



## **II. ACCOUNTING FOR INSURANCE RECOVERIES**



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## Accounting for Insurance Recoveries – Background

### WHY are we discussing insurance recoveries?? Has there been an update from GASB? Did something change?

- No – no changes to the current accounting guidelines.
- The subject of accounting for insurance recoveries kept coming up for the CG’s Office because of insurance related documents and transactions that we review and monitor. It finally came down to – what is acceptable and what isn’t and more importantly – WHY? i.e. what authority is that determination based on?



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## Accounting for Insurance Recoveries – Background

### **What does past South Carolina accounting guidance say?**

I have looked for any past guidance that may have been issued relating to insurance recoveries and haven’t come up with anything specific.

As with other GAAP and GASB guidelines, it’s not always simple to take what the guidelines say and apply it to the day-to-day detailed transactional level activity in your entity’s accounting and budgeting system.

As part of this review, we did check with other states and as you’ll see in a few slides, South Carolina legislators have added something that is unique and specific to this state as it relates to insurance recoveries which adds further complexity.



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## Accounting for Insurance Recoveries – Background

### What’s so hard about recording insurance recoveries?

For many agencies, there’s been nothing hard or confusing about it at all.

1. A loss is incurred (i.e. property damage, civil wrong doing, etc.)
2. A claim is filed with the Insurance Reserve Fund (IRF) or other insurer.
3. The insurer pays out an amount for the loss.
4. The agency pays to repair/replace in cases of property damage or issue payouts for civil wrong doings based on legal settlements (tort, breach of contract, etc.).

NOTE: steps 3 & 4 may happen in reverse order if there is a delay in receiving the insurance proceeds, the repairs had to be done immediately, court case has already settled, or other various timing issues occur.





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## Accounting for Insurance Recoveries – Current State

### How are agencies recording those insurance transactions in SCEIS?

Well, that’s part of the issue.....it’s not consistent – and in some cases, not the way it should be done in order to separately report on insurance recoveries and the related loss expenditures.

The *majority* of agencies are accounting for the loss and recovery as follows:

- 1. RECOVERY:** Insurance Proceeds – are recorded as revenue when received in G/L 4530040000 – INSURANCE CLAIMS via IDT from the IRF or as a deposit from a non-IRF insurer.
  - When the IRF has finalized a payout, the agency is notified to create a SCEIS IDT invoice which the IRF will then pay via IDT. The agency is responsible for coding that customer invoice to the proper G/L account – typically a revenue account.
  - There is no agency workflow approval or central approval for the way an agency codes their *customer* invoices (i.e. when they are the receiver, not the payer).
- 2. LOSS:** Expenses incurred – are recorded as paid out through the regular A/P disbursement process with no offset to revenue G/L’s.



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## Accounting for Insurance Recoveries – Current State

### What other approaches are agencies taking to account for the loss and associated insurance recovery?

**Scenario #1:** Initially recording the insurance proceeds as a direct reduction of expense rather than as revenue.

- Agency creates their IDT invoice and codes it to an expense G/L account so that when they get the insurance proceeds it reduces expense rather than increasing revenue.
- Coding an insurance proceeds deposit from a non-IRF insurer to an expense G/L account.

**Scenario #2:** Recording the insurance proceeds as revenue and later reclassing that revenue against expense (i.e. debit revenue, credit expense)

**Both scenarios have the same net result: no insurance proceeds revenue recorded and expenses are understated.**



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## Accounting for Insurance Recoveries – Current State

### **What types of expenses are being reduced i.e. understated?**

Legal settlements, attorney fees, other maintenance expenses (real estate), motor vehicle services, equipment & supplies – print & copy end user (IT), insurance expense.

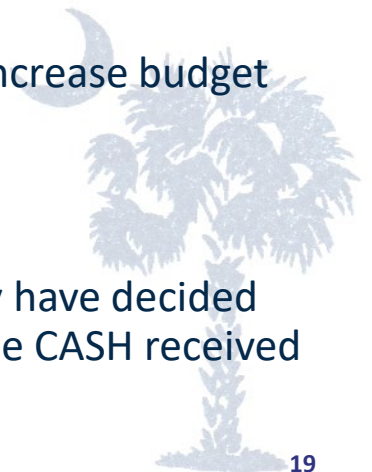
- Certain types of expenses are compiled and reported on for: various legal requirements, statewide spending analysis, FOIA requests, etc.
  - The IT & Real Estate groups want to capture all of their expenses for statewide analysis.
  - There will likely be some new IRS reporting requirements under 6050X relating to legal settlement expenses.

### **Why would agencies record the insurance recoveries this way?**

Couple of reasons (and possibly others): 1) decrease expense in order to increase budget  
2) reduce grant expenditures.

### **Why would some agencies *not* try to do this and get their budget back?**

Many of the insurance recoveries are not material amounts. Agencies may have decided they already had enough budget in the current year to be able to utilize the CASH received for the insurance proceeds. Or....they didn’t know if they could.



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## Accounting for Insurance Recoveries – GASB

### What does GASB have to say about the accounting for insurance recoveries?

#### GASB Statement No. 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

##### Insurance Recoveries

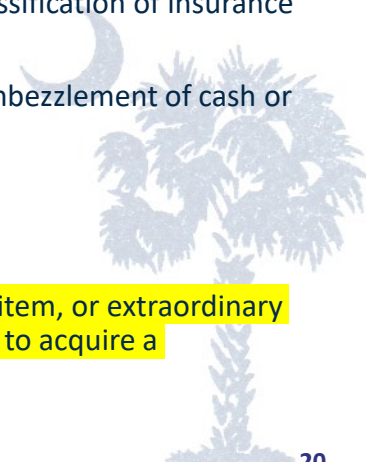
21. In governmental fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery, which is reported as an other financing source or extraordinary item, as appropriate. In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. The impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years should be reported as a program revenue, nonoperating revenue, or extraordinary item, as appropriate. Insurance recoveries should be recognized only when realized or realizable. For example, if an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable. If the insurer has denied coverage, the insurance recovery generally would not be realizable. If not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed.

22. Insurance recoveries other than those related to impairment of capital assets, such as for theft or embezzlement of cash or other monetary assets, should be accounted for as described in paragraph 21.

##### Appendix B

##### BASIS FOR CONCLUSIONS

62. ....The requirement that the insurance recovery be reported as an other financing source, special item, or extraordinary item is consistent with the guidance in paragraphs 88 and 89 of Statement 34. Subsequent expenditures to acquire a replacement capital asset should be reported separately.



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Accounting for Insurance Recoveries – South Carolina State Law – Appropriation Act

**Based on SC state law, are agencies allowed to retain insurance reimbursements, and if so, under what authority?**

YES.....

## **FY 2020 Proviso 117.46**

117.46. (GP: Insurance Claims) **Any** insurance reimbursement to an agency may be used to offset expenses related to the claim. These funds may be *retained, expended, and carried forward.*

**Is this a new proviso?**

No, it’s been around since FY 2005.



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## Accounting for Insurance Recoveries – Insurance Claims Proviso

(GP: Insurance Claims) Any insurance reimbursement to an agency may be used to offset expenses related to the claim. These funds may be *retained, expended, and carried forward*.

<u>Fiscal Year</u>	<u>Insurance Claims Proviso #</u>
FY2005	72.84
FY2006	72.8
FY2007	72.76
FY2008	72.71
FY2009	89.68
FY2010	89.66
FY2011	89.61
FY2012	89.57
FY2013	89.55
FY2014	117.53
FY2015	117.51
FY2016	117.47
FY2017	117.47
FY2018	117.47
FY2019	117.47
FY2020	117.46
FY2021	117.45



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## Accounting for Insurance Recoveries – GASB, South Carolina State Law & You

- GASB (more or less) says to report insurance proceeds as other source revenue and that subsequent expenditures should be *reported* separately.
- SC state law says insurance reimbursements can be used to offset expenses i.e. get the cash and budget back.

### How can agencies do both??

We believe the answer may lie in creating new contra G/L accounts.

- What’s a contra account?
  - A contra account is an account with a balance that is the opposite of the normal balance.
  - Expenses normally have a DEBIT balance so a contra expense account would have a CREDIT balance.
  - Contra account example: **G/L 502XXXXXXX – INSURANCE PROCEEDS CONTRA ACCOUNT**
  - We can create several so that certain ‘buckets’ of expenses can be captured – particularly for grant reporting i.e. **G/L 502XXXXXXX1 – INSURANCE PROCEEDS CONTRA – LEGAL SETTLEMENTS**



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## Accounting for Insurance Recoveries – GASB, South Carolina State Law, GAAP & You

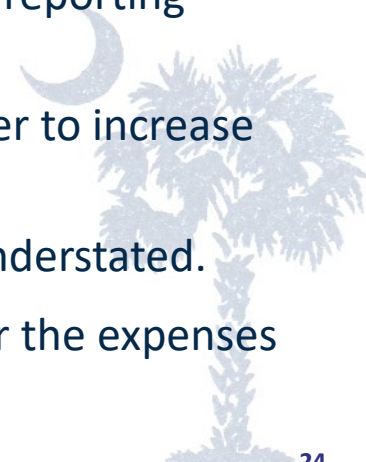
### How would contra accounts help?

For budgetary reporting:

- This will allow an agency to immediately reduce expenditures and in turn *increase* their budget when they receive their insurance proceeds.

For GAAP reporting:

- Although these contra accounts will be 5XXXXXXXXX G/L accounts they will be easily identifiable and can be classified as a revenue source for reporting purposes.
- There will be no need to net revenues and expenditures in order to increase budget.
- Actual expenditures will not have to be reduced and thus be understated.
- There will be transparency for insurance proceeds as well as for the expenses incurred related to the loss.





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## Accounting for Insurance Recoveries – Contra Accounts

### How would the contra accounts be used?

Example: Agency is notified by the IRF that they will be receiving funds for an insurance claim.

- The agency would create their IDT invoice (FB70/ZARIDT – Doc Type ZJ) using one of the newly created 5XXXXXXXXX contra accounts.

DR A/R (this is automatic; agency only fills in the CREDIT lines)

CR 5XXXXXXXXX – INSURANCE PROCEEDS CONTRA

- This immediately increases budget for the agency.
- Subsequent expenditures will be recorded as usual – or if they have already been incurred they will remain on the books as initially recorded.
- An insurance proceeds check deposit from a non-IRF insurer would be recorded in the same manner:

DR Cash

CR 5XXXXXXXXX – INSURANCE PROCEEDS CONTRA



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## Accounting for Insurance Recoveries – Contra Accounts

### What if I don’t know the exact account assignment that will need to be reduced at the time of invoice creation or check deposit?

An agency is notified by the IRF that they will be receiving funds for an insurance claim.

- The agency would create their IDT invoice using one of the newly created 5XXXXXXXXX accounts.

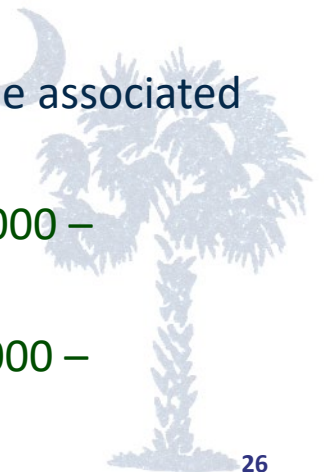
DR A/R

CR 5XXXXXXXXX – INSURANCE PROCEEDS CONTRA Fund 37540000 –  
INSURANCE REIMBURSEMENT (or other agency fund)

- When you know the account assignment that ended up paying for the associated loss expenses, you can record a reclass journal entry.

DR 5XXXXXXXXX – INSURANCE PROCEEDS CONTRA Fund 37540000 –  
INSURANCE REIMBURSEMENT

CR 5XXXXXXXXX – INSURANCE PROCEEDS CONTRA Fund 50550000 –  
INSURANCE REIMBURSEMENT Grant E120XXXXXXXX



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## Accounting for Insurance Recoveries – Contra Accounts

### **Possible buckets for the insurance contra accounts:**

- G/L 5XXXXXXXXX0 – INSURANCE PROCEEDS CONTRA ACCOUNT
- G/L 502XXXXXXXX1 – INSURANCE PROCEEDS CONTRA – LEGAL SETTLEMENTS
- G/L 502XXXXXXXX2 – INSURANCE PROCEEDS CONTRA – ATTORNEY FEES
- G/L 503XXXXXXXX3 – INSURANCE PROCEEDS CONTRA – SUPPLIES & MATERIALS
- G/L 502XXX9XX4 – INSURANCE PROCEEDS CONTRA – REAL ESTATE R&M
- G/L 503XXX7XX5 – INSURANCE PROCEEDS CONTRA – IT EQUIPMENT SUPPLIES



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## Accounting for Insurance Recoveries – Contra Accounts

**Would agencies be required to use these contra accounts? What if an agency would prefer to continue recording their insurance proceeds to revenue G/L 4530040000 – INSURANCE CLAIMS?**

That’s OK.....as long as the insurance proceeds remain separate from the loss expenditures, it is fine to continue recording the receipt to revenue. If your agency feels they have enough current year budget to be able to expend the insurance proceeds cash then there’s no reason to change your current process if you’d prefer not to.



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## Accounting for Insurance Recoveries – Agency Feedback

Give me your feedback! Let me know of any obstacles or things that may be specific to your agency that we may not know about as it relates to insurance recoveries.

I will be reaching out to those agencies who are currently reducing expenses for their insurance recoveries to discuss this new process.

Once everything is finalized I will send out a communication with the new G/L accounts.



# **III. QUARTERLY POLICY & GENERAL LEDGER UPDATE**



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## Quarterly Policy & General Ledger Update – 2nd Quarter

A new item called **Emergency Expenditures** was added to the Miscellaneous section of the *Disbursement Regulations* policy.

### 12. Emergency Expenditures

State Agencies must follow all state guidelines **at all times**. During times of emergency situations, as either declared by the Governor or as determined by your Agency, expenditures may be incurred which will not necessarily be in accordance with state guidelines, but required given the circumstances.

Expenditures incurred during these times enable state agencies to provide vital services, exercise civil authority, maintain the safety and well-being of the general populace, and sustain the industrial/economic base (“emergency services”). **Only agencies impacted by an emergency and providing these emergency services should be incurring expenditures which may not be in accordance with state guidelines.** If your agency (or specific agency location) is not impacted or providing these emergency services, you **must not** be incurring emergency related expenditures. Applicable agencies incurring expenditures during these times must provide these necessary functions of government while being as diligent *as the circumstances will allow* in incurring expenditures on behalf of the State.

Therefore, when submitting documents for processing, Agencies must also ensure that the internal order number has also been added to the order field within SCEIS, if applicable.



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## Quarterly Policy & General Ledger Update – 2<sup>nd</sup> Quarter

Each quarter we post all General Ledger changes under the **Change Logs** section of the CG’s website:

- <https://www.cg.sc.gov/guidance-and-forms-state-agencies/cgs-accounting-policies-and-procedures>

## General Ledger Guidance

[Expenditure General Ledger Account Definitions](#)

[Major General Ledger Categories](#)

[Revenue General Ledger Account Definitions](#)

Quick Links for New Real Estate & IT General Ledger Accounts

- [IT General Ledger Accounts](#)
- [Real Estate General Ledger Accounts](#)

### Change Logs

- [December 31, 2019 G/L Changes](#)
- [September 30, 2019 G/L Changes](#)
- [June 30, 2019 G/L Changes](#)





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## QUESTIONS



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