

GAVIN NEWSOM
GOVERNOR



NANCY WARD
DIRECTOR

August 20, 2025

To: All State Agencies

Subject: New Policy on Disaster Grant Activity Reporting and Compliance

Dear Colleagues,

Cal OES is implementing a new policy designed to provide uniform guidance on establishing, maintaining, and reporting disaster grant activity. This policy applies to all State Agencies, Commissions, Boards, and Departments (agencies). Adherence to this policy will streamline and improve the accuracy and consistency of disaster grant-based transaction processing and reporting. See GAAP Policy and Procedure Memo (Attachment A) and Cal OES Accruals Guidelines (Attachment B).

Objectives of the New Policy

- **Align state disaster grant-based transaction processing with federal requirements:** This includes compliance with the **Cash Management Improvement Act (CMIA)**, the **Single Audit Act**, and the **Office of Management and Budget (OMB) Uniform Guidance (UG) 2 CFR Part 200**, which governs the administrative, cost, and audit requirements for federal awards. The policy also integrates the UG's related Compliance Supplement.
- **Define consistent principles for financial reporting:** These principles will be applied by all agencies to ensure the accuracy and consistency of financial reporting related to federal programs.
- **Ensure compliance with accounting standards:** The policy mandates that the accounting and financial reporting of federal financial assistance be in compliance with **Governmental Accounting Standards Board (GASB) Codification (Cod.) N50**, which addresses nonexchange transactions.

What This Means

To ensure effective implementation of this policy, all agencies will be required to review and adjust their current disaster grant accounting practices where necessary. This includes reporting disaster grant accruals only when they are obligated by FEMA to ensure compliance with federal and state requirements. The uniform guidance provided by this policy will aid in minimizing reporting errors and aligning state grant processes with federal standards, demonstrating greater transparency and accountability.



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Next Steps

Please ensure that all Accounting Offices and relevant personnel within your agency are informed of this policy. Detailed instructions and further guidance are included in the enclosed policy.

Please review and adjust your current procedures accordingly. Cal OES is committed to supporting all agencies through this transition. For any questions or clarifications, please contact our office at dapp@caloes.ca.gov

Thank you for your attention and cooperation in adjusting to this new reporting change.

Sincerely,

Eric Swanson
Deputy Director, Finance and Administration

Enclosure



M E M O R A N D U M

Date: May 23, 2025

To: Eric Swanson, Deputy Director of Finance & Administration

From: Chana Say, Accounting Administrator III
Local and Disaster Assistance Branch

Subject: Generally Accepted Accounting Principles (GAAP)
Accounting for Federal Grant Expenditures and
Revenues Policy #ACCT - 501.

INTRODUCTION

1. **Purpose:** The California Governor's Office of Emergency Services (Cal OES) seeks to provide uniform guidance to State Agencies, Commissions, Boards and Departments on establishing, maintaining, and reporting grant activity.
2. **Applicability:** All State Agencies, Commissions, Boards, and Departments which meet all of the following criteria are required to comply with this Policy Statement:
 - a. Receive a portion of their funding from the federal government as a grantee or subgrantee.
 - b. Are required by the grantor to report assistance on the Schedule of Expenditures of Federal Awards (SEFA); and
 - c. Maintain their financial records on the State of California Accounting System, FI\$Cal.
3. **Effective Date:** This policy statement is effective when signed.
4. **Authority:** State Administrative Manual Sections 10602 and 10608.
5. **Objectives:** The objectives of this Policy are to:
 - Align state grant-based transactions processing with federal grant requirements including the Cash Management Improvement Act (CMIA) and Single Audit Act, including OMB

Uniform Guidance (UG)

- 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and UG's related Compliance Supplement.
- Define principles to be applied by all agencies to help ensure accuracy and consistency in reporting the financial activity of federal programs.
- Ensure accounting and financial reporting of federal financial assistance complies with the Governmental Accounting Standards Board (GASB) Codification (Cod.) N50, *Nonexchange Transactions*.

POLICIES FOR GAAP ACCOUNTING FOR FEDERAL RECEIPTS AND EXPENDITURES

6. General Procedures for GAAP Grant Accruals

- Eligibility Assessment
 - Determine eligibility for grant recognition based on characteristics of nonexchange transactions as defined in GASB Cod. N50.
 - Verify if the grant agreement meets the requirements for **derived tax revenues, imposed nonexchange revenues, government mandated nonexchange transactions, or voluntary nonexchange transactions.**
- Time Requirements
 - Identify and document any time stipulations associated with the grant, which may dictate when resources can be used or must be returned.
 - For grants with **time requirements**, recognize revenue in the period when the resources are required to be used or when use may begin.
- Purpose Restrictions
 - Document the purpose for which the grant resources are to be used, ensuring compliance with the grantor's restrictions.
 - Report net assets, equity, or fund balance as restricted based on the purpose restrictions, without affecting the timing of revenue recognition.

Attachment A

- Recognition of Revenue
 - Apply the recognition standards for nonexchange transactions, recognizing revenue when all applicable eligibility requirements, including time requirements and purpose restrictions, are met.
 - Use the modified accrual basis of accounting to recognize revenue when it is measurable and available.
- Journal Entries (additional examples in Appendix A below)
 - Prepare journal entries to record the grant revenue and related receivables.

Example: Upon meeting eligibility requirements for a grant with time restrictions for the fiscal year 2024:

Debit. Grants Receivable - Federal Agencies

Credit. Deferred Inflows of Resources - Unavailable

Revenue (To record the receipt of a federal grant with time restrictions)

- Financial Statement Presentation
 - Present grants receivable and related revenues in the government-wide and fund financial statements in accordance with GASB Cod. N50.
 - Disclose information about grants, including the nature and amounts, in the notes to the financial statements.
- Compliance Monitoring
 - Establish internal controls to monitor compliance with grant requirements and GASB Cod. N50.
 - Perform regular pre-audits to ensure that grant revenues are recognized and reported correctly.
- Training and Communication
 - Provide training to relevant staff on the policies and procedures related to GASB Cod. N50.
 - Communicate any changes in grant agreements or GASB standards that may affect grant accruals.
- Policy Review and Updates

- Review the policy annually and update it to reflect changes in GASB standards or grant agreements.
- Ensure that the policy remains aligned with the entity's financial reporting objectives and compliance requirements.

7. Program-Specific Policy for FEMA Disaster Assistance - Public Assistance Project Administration

- Cal OES serves as a pass-through entity for Federal Emergency Management Agency (FEMA) public assistance subawards and administers public assistance subgrants provided to subrecipients within the State. Though there is a FEMA-State Agreement with California for pass-through administration, this neither constitutes an obligation of funds nor an award by FEMA. The following legislation and accounting guidance forms the basis for Cal OES's GAAP accounting entries for FEMA Public Assistance Project Administration:
 - Federal grant award packages are issued under the agreement based on approved Project Worksheets, after all eligibility requirements have been met [*Title 44 CFR § 206.202(e)(1)*]. (See Appendix B: FEMA Public Assistance Program Phases & Eligibility).
 - The **grant award** shall be based on the total eligible Federal share of all approved projects [*Title 44 CFR § 206.201(d)*].
 - A **project** is a logical grouping of work required as a result of the declared major disaster or emergency. The scope of work and cost estimate for a project are documented on a Project Worksheet [*Title 44 CFR § 206.201(k)*].
 - The **Project Worksheet** must identify the eligible scope of work and must include a quantitative estimate for the eligible work [*Title 44 CFR § 206.202(d)(1)(i)*].
 - **Project approval** means the process in which the Regional Administrator, or designee, reviews and signs an approval of work and costs on a Project Worksheet or on a batch of Project Worksheets. Such approval is also an **obligation of funds** to the recipient [*Title 44 CFR § 206.201(l)*].
 - The **Recipient** means the government to which a grant is awarded, and which is accountable for the use of the funds provided. Generally, except as provided in § 206.202(f), the State

Attachment A

for which the emergency or major disaster is declared is the recipient. Generally, the State for which the emergency or major disaster is declared is the recipient [*Title 44 CFR § 206.201(m)*].

- **Subgrant** means an award of financial assistance under a grant by a recipient to an eligible subrecipient [*Title 44 CFR § 206.201(n)*].
- **Subrecipient** means the government or other legal entity to which a subgrant is awarded and which is accountable to the recipient for the use of the funds provided [*Title 44 CFR § 206.201(o)*].
- **Grant approval** occurs when the Regional Administrator obligates funds to the recipient based on the approved Project Worksheets. The recipient will then approve subgrants based on the Project Worksheets approved for each subrecipient [*Title 44 CFR § 206.202(e)(1)*].
 - Cal OES does not enter into formal agreements with public assistance subrecipients. Once obligated, the Project constitutes the official record of the approved SOW [*Public Assistance Program and Policy Guide, Version 4, Chapter 10 - Obligation and Recovery Transition*]. Cal OES considers the approval of the Project Worksheet or batch of Project Worksheets as the **grant agreement**. The approved Project Worksheet, obligation of funds, constitutes resources being available and authorization of pass-through payment [*44 C.F.R. § 206.200(b)(2)(ii)*].
- GASB Cod. N50.117 defines eligibility requirements to include:
 - a) **Required characteristics of recipients** – The recipient (State) and secondary recipients (state departments, local governments, school districts, etc.) have the characteristics specified by FEMA (provider).
 - b) **Time requirements** – FEMA Public Assistance Program's time requirements have been met, which is when use of resources is first permitted (grant award agreement issued/funds obligated by FEMA).
 - c) **Reimbursements** – FEMA Public Assistance Program offers resources on a reimbursement basis, based on incurred allowable costs under the applicable program; however, while incurred allowable costs are a requirement, this is not the only requirement.

- Note: incurred allowable costs must be determined eligible by FEMA. Eligibility is determined when FEMA approves the Project Worksheet and subsequently, obligates funds [*Title 44 CFR § 206.201(k)(1) and (l)*].
- *GASB Cod. N50.118* states that providers should recognize liabilities and expenses from voluntary nonexchange transactions, and recipients should recognize receivables and revenues, when *all applicable eligibility requirements are met*.
- FEMA Public Assistance is authorized only when the magnitude of an incident or threatened incident exceeds the State's capabilities to respond or recover [*Title 44 CFR § 206.2(a)(17)*].
- Resources subject to award under the program are not obligated by FEMA (recognized as a liability) until applicant, facility, work, and cost are determined eligible [*Title 44 CFR § 206.202(e)*].
- *GASB Cod. N50.127(d)* states that for voluntary nonexchange transactions, recipients should recognize revenues in the period when all applicable eligibility requirements have been met, and the resources are *available*.
 - a Project Worksheet or on a batch of Project Worksheets, which constitutes the grant agreement and obligation of funds, recognition of revenue and the related liabilities to subrecipients should not occur before then. [*Title 44 CFR § 206.202(e)*].
- Based on the foregoing guidance for revenue and expenditure recognition and Cal OES's detailed process for validating subrecipient eligibility and other applicable requirements, revenue and expenditures for the FEMA Public Assistance Program will be accrued in alignment with the respective date and amount of each Notification of Obligation provided by FEMA.
- See *Administrative Services Section Standard Operating Procedure for Year-End Accruals* for details on posting GAAP accrual journal entries.

- Cal OES acknowledges that due to program regulations, the methodology for the FEMA Public Assistance Program may differ from other federal grants reported by the State in which the grant award amount and period are specified, and the grant agreement is typically executed prior to eligible costs being incurred by subrecipients.

ROLES AND RESPONSIBILITIES

- **Accounting Department:** Responsible for the accurate recording of grants and compliance with GASB Cod. N50.
- **Grants Management and Recovery Directorates:** Oversee the administration of grants and ensures adherence to time and purpose restrictions.
- **Office of Audits and Investigations:** May perform an audit or review, on a risk assessment basis, every two years to verify compliance with policy # ACCT 501.

By following these detailed procedures and referencing GASB Cod. N50, the department can ensure accurate and compliant accounting for grant accruals. Department should consult the full text of GASB Cod. N50.

AUTHORIZATION

I, Eric Swanson, hereby approve Policy # ACCT - 501 of the California Office of Emergency Services and authorize actions necessary to implement its requirements.

Signed _____ Date: May 23, 2025

Title: Deputy Director of Finance & Administration

Sources of Authority

GASB and GAAP Statements

- Generally Accepted Accounting Principles (GAAP): Authoritative standards, established by the Financial Accounting Standards Board (FASB), establishing commonly accepted ways of recording and reporting accounting information.

Attachment A

- Governmental Accounting Standards Board (GASB) N50 – Nonexchange transactions: Establishes accounting and financial reporting standards for the nonexchange transactions of state and local government.

Code of Federal Regulations

- Title 44 - Emergency Management and Assistance: Principal set of rules and regulations issued by federal agencies of the United States regarding emergency management and assistance.

State Administrative Manual

- Section 10602: to accrue accounts receivable abatements and reimbursements.
- Section 10608: to accrue the amounts for (1) obligations (goods/services received/performed as of June 30 but not yet scheduled for payment) and (2) encumbrances (goods/services not received/performed as of June 30). This entry is reversed in the new fiscal year.

Appendix A: Example Grant Journal Entries

Grants (Source: 2024 Government Finance Officers Association (GFOA) Governmental Accounting, Auditing, and Financial Reporting (GAAFR) Blue Book, Appendix A)

During the current fiscal year, the general fund collected \$9,539,352 from expenditure-driven grants. Of this amount, \$347,000 had been recognized as accounts receivable and revenue in the prior fiscal year. The balance of \$9,192,352 was recognized as revenue in the current fiscal year because all eligibility requirements had been satisfied:

	<u>Debit</u>	<u>Credit</u>
30. Cash	\$ 347,000	
Intergovernmental receivable – federal		\$ 42,000
Intergovernmental receivable – local		\$ 305,000
(To record receipt of grants recognized as revenue in the prior fiscal year)		

	<u>Debit</u>	<u>Credit</u>
31. Cash	\$ 9,192,352	
Revenues – intergovernmental		\$ 9,192,352
(To record revenues for grants where all eligibility requirements were met during the current fiscal year and cash was received during the current fiscal year)		

The government also met all eligibility requirements for an additional \$513,579 of expenditure-driven grants during the current fiscal year. It was reimbursed subsequent to the end of the current fiscal year, but within the government's availability period:

	<u>Debit</u>	<u>Credit</u>
32. Intergovernmental receivable – federal	\$ 33,128	
Intergovernmental receivable – state	\$188,770	
Intergovernmental receivable – local	\$291,681	
Revenues – intergovernmental		\$513,579

(To record revenues for grants for which all eligibility requirements were met during the current fiscal year and for which cash was received within the availability period for grants)

Appendix B: FEMA Public Assistance Program Phases & Eligibility

The Federal Emergency Management Agency (FEMA) Public Assistance (PA) program provides funding to state, tribal, territorial, and local governments, and certain types of private non-profits so communities can quickly respond to and recover from major disasters or emergencies. FEMA PA funding is awarded on a reimbursement basis of actual expenditures incurred in responding to, and recovering from, disasters.

FEMA is the federal awarding agency authorized to manage the PA program. FEMA's primary responsibilities are to determine the amount of eligible funding and to educate and assist Applicants through the program delivery process.

The California Governor's Office of Emergency Services (Cal OES), the Recipient, receives and manages the federal award and disburses funding to eligible subrecipients.

FEMA PA Eligibility Components

Eligibility and approval for FEMA PA program funding is determined for various eligibility criteria at different stages of the program delivery process.

Cal OES references the Public Assistance Program and Policy Guide (PAPPG) as the comprehensive program and policy document for the PA program. The PAPPG outlines the PA eligibility components as follows:



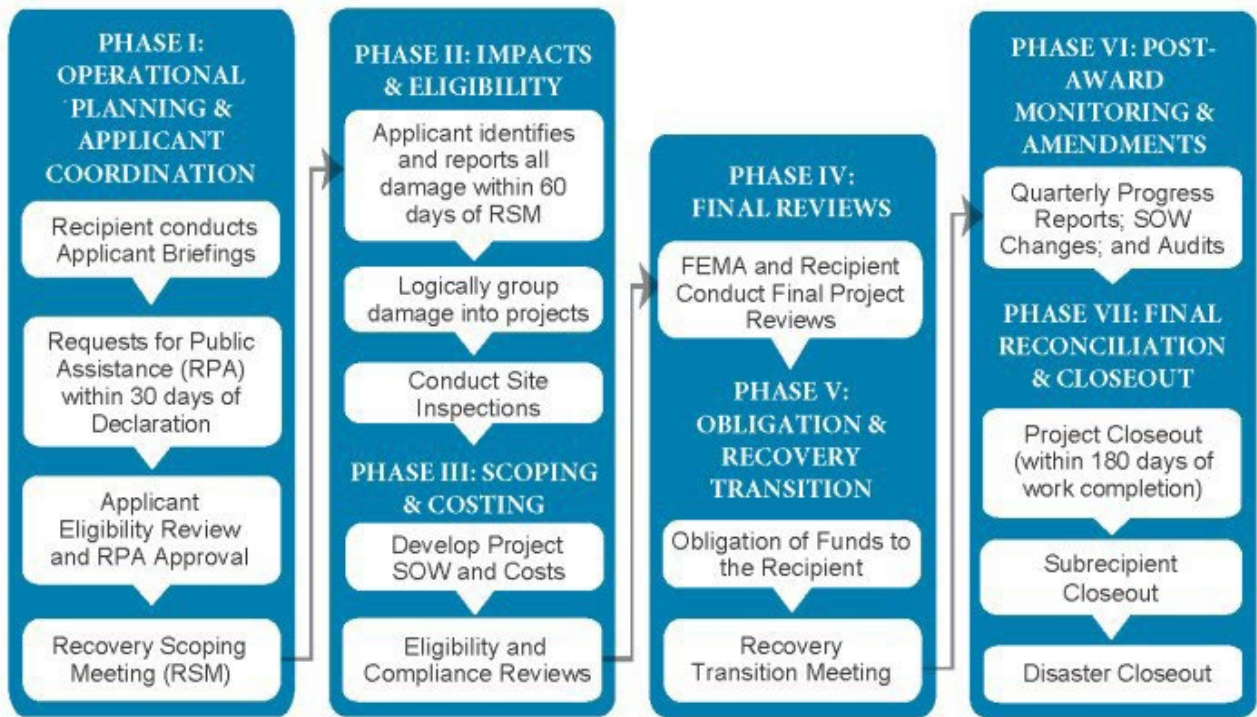
Figure 1. PA Eligibility Pyramid

- Applicant: An **applicant** must be a state, territory, tribe, local government, or private nonprofit organization.
- Facility: A **facility** must be a building, public works system, equipment, or natural feature (natural things which exist around the declared disaster area).
- Work: **Work** is categorized as either "emergency" or "permanent." It must be required as a result of the declared incident, located within the designated disaster area, and is the legal responsibility of the applicant.
- Cost: **Cost** is the funding tied to and directly for the eligible work of the designated declared area, and must be adequately documented and authorized by FEMA, per 44 CFR § 206.202.

FEMA refers to these components as the building blocks of an eligibility pyramid. FEMA evaluates each building block to determine eligibility, starting at the foundation (Applicant) and working up to cost at the top of the pyramid (see Figure 1. PA Eligibility Pyramid).

Note: A determination of eligibility at any step of the process does not guarantee eligibility for the components that follow. Months to years can pass from the determination of applicant eligibility to the determination of cost eligibility.

FEMA PA Program Delivery Process and Phases



PA program eligibility is determined in different phases of the PA program delivery process; the program delivery process consists of seven phases and is demonstrated in the figure 2, below:

Figure 2. PA Program Delivery Process

Key eligibility milestones are outlined in a summary of the phases, as follows:

Phase 1. Operational Planning & Applicant Coordination

Applicants submit Requests for Public Assistance (RPA), which are then reviewed by the Recipient and FEMA for eligibility. An approved RPA allows an Applicant to apply for PA funding and move to the next steps of identifying disaster impacts and recovery needs.

Note: An approved RPA does not guarantee an approval of any PA funding.

Phase 2. Impacts and Eligibility

FEMA works with the Applicant to finalize the list of impacts; logically group the impacts and associated damage and work into project applications; conduct site inspections to develop a detailed description of the incident-related damage and dimensions; and collect additional project information and documentation.

Phase 3. Scoping and Costing

FEMA develops the damage description and dimensions, scopes of work and costs for each project. FEMA reviews and validates all documentation to ensure document integrity, quality assurance, and compliance with all laws and regulations including for duplication-of-benefits from insurance or other Federal Agencies.

Note: Phase 3 is dependent upon FEMA's review and approval. FEMA approval may approximately take 6 months to 12 months; however, due to the magnitude and unique circumstances of the COVID-19 disaster event (DR-4482), FEMA'S approval process time has been impacted. FEMA's review and approval of DR-4482 PA projects is ongoing.

Phase 4. Final Reviews

FEMA and Recipient review the project application to ensure completeness, eligibility, and compliance with all applicable laws, regulations, and policies on items such as contracting and environmental and historic preservation (EHP).

Note: Phase 4 is the final step prior to obligation.

Phase 5. Obligation and Recovery Transition

FEMA obligates funds to the Recipient based on the eligible total of an approved project. If the project is 100% complete, or if it is a Small Project, The Recipient then disburses funding to the Subrecipient. Any Large Project that is not 100% complete at time of obligation will be funded at time of Closeout, or with a Large Project Reimbursement Request.

Prior to obligation, FEMA and Cal OES review and approve the Project Worksheet as detailed in Phase 1-4 and is then signed by the Applicant. The Project Worksheet is part of the project application where the Applicant reviews, signs, and agrees to the subaward conditions and funding terms, including post obligation reporting. ***As such, Cal OES considers the approval of the Project Worksheet as the grant agreement.*** If the applicant does not agree with the obligated Project Worksheet, they have appeal rights.

If costs are determined eligible, FEMA approves and obligates funds in Phase 5 of the program delivery process. Once obligated, the project constitutes the **official record** of

the approved cost and scope of work for the project. **Eligibility is not finalized, and funds are not available, prior to this phase.** Once obligated by FEMA, and validated by Cal OES, Cal OES disburses funds to the Subrecipient, and an accounting entry is made by Cal OES.

Phase 6. Post-Award Monitoring and Amendments

The Subrecipient coordinates with the Recipient to provide FEMA with quarterly updates on the status of its projects. The Applicant may submit an amendment request to change the scope of work or costs of a project or request additional time to complete the project. FEMA reviews all amendments and time extension requests for eligibility and compliance with EHP regulations.

Phase 7. Final Reconciliation and Closeout

The Subrecipient coordinates with the Recipient to formally close projects upon completion of work. Once all Subrecipient projects are closed, the Recipient requests closeout for the Applicant. Once all Applicants are closed, FEMA and the Recipient work together to close the PA award for the entire disaster.

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Eric Swanson
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