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TRANSFER PAYMENT OPERATING FUNDS – BASIS OF ACCOUNTING

VERSION: FEBRUARY 2022

PREAMBLE

MCCSS is required to comply with financial management directives and policies as enacted by the government and enforced by Treasury Board.

These directives and policies include (but may not be limited to) the Transfer Payment Accountability Directive, and the Transfer Payment Operational Policy.

Where applicable, these directives and policies inform and constrain MCCSS-specific financial policies. A description of relevant directives and policies can be found in Appendix A at the end of this document.

All ministry-specific and Treasury Board financial management policies are subject to Public Sector Accounting Standards.

1. PURPOSE

Transfer Payment Recipients (TPRs) are required to maintain financial records to account for revenues and expenditures associated with ministry-funded services that they are contracted to provide.

The purpose of this policy is to:

- Define record keeping requirements for TPRs, as applicable[1]
- Outline ministry reporting requirements; and
- Differentiate between ministry reporting requirements and Audited Financial Statements requirements

2. APPLICATION AND SCOPE

This policy applies to all TPRs who provide services funded by the ministry through expenditure-based funding, including Consolidated Municipal Service Managers (CMSMs), District Social Service Administration Boards (DSSABs) and First Nations. This funding is normally provided through a Service Contract, *Child, Youth and Family Services Act* (CYFSA) Approval or Grant Letter. Where applicable, the program specific policies, processes and/or procedures must be used.

[1] Please see service contract legal text for full record keeping requirements.

3. MANDATORY REQUIREMENTS

The TPRs are required to report their revenues and expenditures using the modified accrual basis of accounting in ministry provided templates in the following formats:

- Budget Submission
- Service Contract
- Year-to-Date Reporting
- Year-end/Annual Reconciliation

The above-mentioned reporting is independent from Audited Financial Statement reporting requirements.

3.1 MODIFIED ACCRUAL ACCOUNTING

The modified accrual basis of accounting records the effects of transactions as events that give rise to them occur, irrespective of when cash is received or paid. This is the ministry-recognized method of accounting.

This method of accounting requires the inclusion of short-term accruals of revenue and normal operating expenditures to determine operating results for a given time. Short-term accruals are defined as payable or receivable usually within 30 days of the budget year-end.

The modified accrual basis of accounting, as defined by the ministry, does not recognize non-cash transactions such as amortization, charges/appropriations to reserves or allowances, as these expenses do not represent an actual cash expenditure related to the current period.

Expenditures made once a year (e.g. property taxes, insurance) must be recorded using one of the following two methods:

- Expenditures will be charged to the period in which they are paid; or
- The part of the expenditure that applies to the current year will be expensed in that year

Either method of accounting for expenditures made once a year is acceptable. However, the selected method must be consistent from year to year.

Under modified accrual accounting, expenditures that would be amortized under full accrual accounting must be recognized as expenditures in the budget year the goods or services are received.

3.2 Compliance in Reporting

TPRs need to ensure that their reporting to the ministry meets the following requirements:

- Accurate reporting of their actual results
- Adheres to related policies, government directives and program guidelines, and
- Financial forecasting/reporting is based on ministry's modified accrual accounting and reflects total eligible net expenditures to year-end

TPRs must use the modified accrual basis of accounting when submitting their reports to the ministry. TPRs are required to identify and explain all significant variances.

4. OTHER ACCOUNTING METHODS

There are significant differences between modified accrual accounting and the cash basis of accounting and full accrual accounting.

- Cash Basis of Accounting:

For the purposes of ministry funding, this is not a recognized method of accounting. With this method, a TPR records when cash is either paid or received, regardless of when expenditures are incurred, or when revenues are earned.

- Full Accrual Accounting:

For the purposes of ministry funding, this is not a recognized method of accounting. The full accrual basis of accounting records the effects of transactions as events that give rise to them occur, irrespective of when cash is received or paid. Full accrual accounting allows for non-cash transactions such as amortization, charges, appropriations to reserves, or allowances to be recorded as operating expenses according to Generally Accepted Accounting Principles (GAAP).

5. ANNUAL RECONCILIATION PROCESS

Variances occur because of differences in reporting and accounting methods (i.e. audited financial statements based on GAAP and ministry reporting which is based on modified accrual accounting). All variances need to be reconciled through a systematic annual reconciliation. Please refer to the Year-End Reconciliation Policy.

APPENDIX A

Transfer Payment Accountability Directive (TPAD)

The *Transfer Payment Accountability Directive* (TPAD) establishes the principles, requirements and responsibilities for ministries and provincial agencies when overseeing transfer payment activities. It is essential the TPAD is consulted to understand governance and oversight requirements.

Transfer Payment Operational Policy (TPOP)

This policy is established under the authority of TPAD. The purpose of the TPOP is to set out operational requirements and best practices that support a consistent approach for effective and proportional oversight of transfer payment activities and productive relationships with transfer payment recipients.