

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

EXHIBIT D

DATE: April 4, 2016 GAAP DIRECTIVE NO. 144

TO: All City Office/Department Heads
(Except Airports, Harbor, DWP, CERS and Pensions)FROM: Annie Gregorio, Interim Director of Financial Analysis and Reporting
Office of the Controller *Annie Gregorio*SUBJECT: NEW GAAP COMPLIANCE REQUIREMENTS (RELATED COSTS,
REIMBURSEMENT REVENUE ACCOUNTS, DEPARTMENTAL
WAREHOUSE INVENTORY) AND CHANGES TO SOFTWARE COST
CAPITALIZATION THRESHOLD

Effective immediately, departments are required to perform the following procedures in order to comply with audit recommendations relative to findings resulting from the financial as well as internal audits of the City's financial statements last fiscal year 2015. These are instructions for Related Costs, Reimbursement Revenue Accounts and Departmental Warehouse Inventory.

Instructions for the new software capitalization threshold are found on page 3.

RELATED COSTS

1. Determine the actual related costs incurred at fiscal year-end.
2. If actual related costs incurred could not be determined, calculate the true-up related costs at fiscal year-end.
3. Compare the true-up related costs against amount already paid or transferred to the General Fund and/or Other Funds.
4. If the amount paid or transferred to the General Fund and/or Other Funds exceeds the actual or true-up related costs incurred at fiscal year-end, please prepare a manual GAAP accrual entry taking up a "Due from the General Fund/Other Funds".
5. If amount paid or transferred to the General Fund and/or Other Funds is less than the actual or true-up related costs incurred at fiscal year-end, please prepare a manual GAAP accrual entry taking up a "Due To the General Fund/Other Funds".
6. Review charges made to Related Costs accounts to ensure that only indirect/overhead costs transactions are charged to Related Costs accounts.

7. The Controller's GAAP Compliance Section will email to departments a Google Excel document for the Related Costs template.
8. Manual GAAP accrual entries for the Due To/From accounts based on the data shown on the Google document for Related Costs should be submitted together with the annual GAAP accrual entries for revenues and expenditures.
9. Be sure to retain copies of supporting documents for audit purposes.
10. Instructions on how to fill up the Google Excel document template for Related Costs and submission deadlines will be emailed to departments separately.

REIMBURSEMENT REVENUE ACCOUNTS

1. Review transactions credited to the Department's Reimbursement Revenue accounts.
2. Determine the breakdown of the Reimbursement Revenue Accounts into (1) reimbursements of related costs or (2) reimbursements of non-related costs.
3. A Reimbursement Revenue Accounts Report, for all funds, as of March 31, 2016 will be available on April 7, 2016 at the Controller's FMS website: <http://insidefms.ci.la.ca.us>.
4. Separate Summary of Reimbursement Revenue Accounts credited from April 1, 2016 to June 30, 2016 may be e-mailed to you after the fiscal year end closing of the FMS ledgers if still necessary.
5. Be sure to retain copies of supporting documents for audit purposes.
6. Please submit the completed worksheet/report no later than April 29, 2016 to:

Controller's Office
GAAP Compliance Section
City Hall East, Room 370
Mail Stop: 183

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INVENTORY ITEMS MAINTAINED AT DEPARTMENTAL STORAGE/WAREHOUSE LOCATIONS

1. All inventory items on hand at the various departmental storage locations or warehouses at fiscal year-end should be reported to the Controller's GAAP Compliance Section.
2. Inventory items could consist of supplies, construction materials and/or equipment.
3. Google Excel document template for details of the inventory kept in departmental storage/warehouse locations will be emailed to all departments for completion accordingly. This document template will require you to provide information on the quantity of items on hand at fiscal year-end, average unit cost, total cost and status of inventory items.
4. Equipment maintained in departmental storage/warehouse locations must be entered in CAMS, SOS, VMS and/or other departmental fixed asset systems.
5. You will be notified of submission deadline separately.

NEW SOFTWARE COST CAPITALIZATION THRESHOLD

EFFECTIVE FISCAL YEAR 2016, SOFTWARE HAVING A COST OR ASSIGNED VALUE OF AT LEAST \$5,000 PER ITEM MUST BE CAPITALIZED. This supersedes the previous threshold of \$250,000 set in July 2003.

This new software capitalization threshold requirement is in compliance with the new eCFR Code of Federal Regulations, Section 2CFR 200, Subpart A, §200.33, §200.12, §200.20 and §200.58 for reporting of software costs for the Cost Allocation Plan (CAP), (the new OMB Uniform Guidance for CAP and Indirect Cost Rates).

These new Federal Regulations require that capital assets reported in CAP should be the same as those reported for GAAP purposes and hence, those reported in the Comprehensive Annual Financial Report (CAFR) as well.

If you have any questions, please contact Anne Papa at (213) 978-7322 or email at anne.papa@lacity.org.

cc: Chief Accounting Employee
GAAP Compliance Coordinator