STATE OF RHODE ISLAND
DEPARTMENT OF ADMINISTRATION

OFFICE OF ACCOUNTS AND CONTROL

SECTION Accounting	**POLICY/PROCEDURE NUMBER** A-20
SUBSECTION	**EFFECTIVE DATE / PAGE NUMBER** July 1, 1998 / Page 1 of 4
POLICY/PROCEDURE Internal Service Funds	**AMENDMENT / REVISION** / 1

Internal Service Funds (Other Names: Working Capital, Revolving, Rotary Funds) are established under provisions of Section 35-5-1 of the General Laws to finance and account for services and commodities furnished by a designated agency to other departments or agencies, under a vendor-customer relationship.{PRIVATE }

The working capital for Internal Service Funds is provided by advances from the General Fund. The financial objective of an Internal Service Fund is to recover the complete cost of operations, including overhead, without profit or loss. Thus, departments are usually billed once a month on a cost basis. Some billings show cost plus a service charge to cover the overhead. If the service charge method is used, a new rate should be determined whenever there is a considerable change in overhead. This should be done at least at the end of each fiscal year.

Each internal service manager shall submit the following information to the Budget Office with the expenditure budget request of the internal service fund each year. (Due dates will be provided by the Budget Office in their annual budget instructions.)

1. A revenue budget outlining the total estimated revenue to be received from each user.

2. A capital expenditure plan outlining any planned expenditures during the budget year in question. This annual plan is required whether capital acquisitions will exceed the ten percent (10%) threshold or not. If the capital acquisitions will exceed the ten percent (10%) threshold, or a multi-year lease or lease-purchase of capital equipment is involved, the internal service fund manager is required to attach a separate analysis and request for approval by the Director of Administration. (A copy of any prior year approval(s) of a multi-year lease or lease/purchase should accompany the annual plan.)

3. A detailed explanation of how the proposed billing rate(s) was calculated. This should include an analysis of the projected beginning surplus, estimated revenues and projected costs by user. A separate memorandum requesting the approval of a new billing rate should accompany this explanation, if a new

rate is planned for the budget year in question.

The Budget Office will review these items on behalf of the Director of Administration and will forward any applicable memoranda to the Director for approval.

ALL NEW RATES NEED THE APPROVAL OF THE DIRECTOR OF ADMINISTRATION BEFORE USE. The Internal Service Fund manager shall submit to the State Controller, the detailed explanation of how the proposed billing rate was calculated, along with a copy of the approved memorandum of the proposed rate by the Director of Administration.

An Internal Service Fund is accounted for on the same basis as a self-supporting enterprise. Cash is expended for services, materials, parts, or supplies which are used in the same form or manufactured into other products and issued to the user (customer) departments.

Internal Service Fund billings are prepared periodically during the month on an Internal Transfer Voucher (A12-T) form. These vouchers can be forwarded by the billing agency directly to the Office of Accounts and Control for payment. The signature of the authorized agent of the expending agency is not required to appear on the voucher (Section B) in order to effect payment.

However, if an expending agency prefers to review and approve* the voucher before payment, it must forward a written notice to the billing agency indicating same.

Upon completion of the preaudit process by the Controller's Office, copies of the A12 -T will be sent to each agency. **It is the responsibility of the Internal Service Fund to send an adequate accounting or explanation to each user (customer) department or agency.** If an error occurs on a paid A-12T for the internal service fund charges, it can be corrected on a subsequent billing.

Unless otherwise provided by statute, the year-end surplus or deficit in service funds shall remain in the service fund. The service fund billing rate shall be adjusted subsequently to reduce the surplus or eliminate the deficit.

If the service fund advance is inadequate to meet the working capital requirements of the activity, a request for an increase in the advance, including a detailed explanation of need, may be submitted to the State Controller.

PLEASE NOTE: Billings for services that are electronically distributed (automotive maintenance, information processing, etc.) or billings supported by request for delivery (A-31) forms are not included in the expending agency's review and approval.

ACCOUNT OFFICERS' STATEMENTS:

The following financial information should be prepared by Chief Financial Officers at the close of the fiscal year:

1. Report of Accounts Receivable.
2. Report of Accounts Payable.

These statements are used by the State Controller's Office as a basis for financial statements in the Comprehensive Annual Financial Report of the state. Therefore, it is important that all figures are accurate and available promptly after the close of the fiscal year. Inventory records should be maintained in accordance with procedures approved by the Bureau of Audits.

PROCEDURE FOR FIXED ASSETS:

From time to time, the question arises as to whether or not Internal Service Funds may acquire fixed assets and operate generally as business enterprises. Equipment replacements and/or capital outlays are proper charges to Internal Service Rotary Funds. A department or agency operating an activity which is financed by an internal service fund should include fixed asset requirements as part of its internal service fund's annual budget.
Equipment replacement or capital outlays can be made from Internal Service Funds according to the budget plan each year without prior approval from the Director of

Administration as long as they total no more than ten percent (10%) of the Internal Service Fund's annual revenues of the most recent completed fiscal year. If any equipment purchase or capital outlay exceeds this annual limit, the Director of Administration must approve the capital acquisition.

A multi-year lease or lease-purchase contract shall require the Director of Administration's approval regardless of whether the total contract amount or any annual amount exceeds the ten percent (10%) threshold.

ACCOUNTING RECORDS:

1. Cash Receipts and Disbursements Register.
2. Sales and Accounts Receivable Register.
3. Expenses and Accounts Payable Register.
4. Perpetual Inventory Records.
5. General Ledger.
6. Fixed assets.

END OF YEAR OPERATIONS SHOULD INCLUDE ENTRIES FOR:

1. Closing out old inventory and setting up new inventory.

2. Prepare a list of inventory on hand in accordance with instructions of the Bureau of Audits. Such lists are to be verified by the Bureau immediately after June 30th.

3. Lists of accounts receivable and accounts payable should be prepared at the end of each year and submitted to the State Controller's Office by the fiscal closing deadline.