

State of Rhode Island
Department of Administration

OFFICE OF ACCOUNTS AND CONTROL

SECTION
ACCOUNTING

POLICY/PROCEDURE NUMBER
A-56

SUBSECTION

EFFECTIVE DATE / PAGE NUMBER
May 1, 2006 1 of 3

POLICY / PROCEDURE
RESTRICTED ACCOUNT INDIRECT
COST RECOVERY ASSESSMENT

AMENDMENT / REVISION
October 19, 2016

According to Section 35-4-27 of the Rhode Island General Laws, an indirect cost recovery assessment of ten percent is payable to the General Fund of the State for revenues posted to most of the State's restricted receipt accounts. By statute, however, the following six types of restricted accounts are exempt from the assessment:

1. Those restricted accounts that appear on a specific list of exempt accounts in G.L. 35-4-27.
2. Those which receive funding exclusively from contributions from non-profit charitable organizations (G.L. 35-4-27).
3. Those that receive funding exclusively from the assessment of indirect cost recovery rates on federal grant funds (G.L. 35-4-27).
4. Those Department of Administration restricted accounts that are funded solely by transfers from State agencies for the payment of debt service (G.L. 35-4-27).
5. Those that are exempt by reason of federal law or regulation, court order, or court settlement (G.L. 35-4-27). According to an opinion provided by the legal staff of the Department of Administration, the courts to which this provision refers may be either federal or state courts.
6. Those which are exempt according to the State general or public law by which they are established.

An additional category of exempt account (not explicitly mentioned in the statute) is that of mirror accounts, monitored by the State's Central Business Office, whose parent accounts are already being charged the indirect cost assessment.

Once the RI-FANS line item sequence (LIS) number for a new restricted account has been assigned by the State Budget Office, the Office of Accounts and Control will send a Budget Office generated form to the State agency responsible for administering the account. The Chief Financial Officer of the agency must fill out and sign the form and return it to a designated staff member of the Office of Accounts and Control. This form requires that the agency cite the legal basis for establishing the account as well as an assertion as to whether or not the account

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qualifies for exemption from the ten percent indirect cost assessment. If the agency deems the account to qualify for exemption, then it must check off the appropriate reason on the form and attach any supporting documentation in support of its assertion. The completed form should then be forwarded to an initial reviewer designated within the Office of Accounts and Control.

If the initial reviewer, upon reviewing the form and all supporting documentation, determines that the agency's assertion of exemption or non-exemption status is correct, he/she will initial the form and upload it and all supporting documentation in PDF format to an electronic file maintained in the Office of Accounts and Control's common drive. If the agency has asserted that the account should be exempt, the initial reviewer will notify the investigative auditor in the Office of Accounts and Control that a new exempt restricted account has been set up. The investigative auditor will review all of the information available in the PDF file and, if he/she also agrees that the account should be exempt, he/she will code the account as such in the RI-FANS system.

If the initial reviewer of the materials submitted by the agency agrees with the agency that the account should **not** be exempt, there is no need to notify the investigative auditor of the setup of such an account.

If an agency asserts that a new restricted account should be exempt but either the initial reviewer or the investigative auditor determines otherwise, the initial reviewer will notify the agency that its request for exempting the new restricted account has been denied and will inform it of the reason for the denial. The agency may then respond by submitting additional supporting documentation in favor of an exemption and/or by appealing the final decision to the State Controller.

In cases where a non-exempt restricted account receives revenue that it must subsequently transfer in part to a non-exempt restricted account in another agency, the grantor agency will effect the transfer by initiating a RI-FANS journal entry debiting the revenue in its account and crediting revenue in the grantee

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agency account. Because of the fact that both revenue accounts are subject to the ten percent indirect cost assessment, the "target" amount of the transfer must be inflated by dividing the target amount by a factor of 0.90 and entering this amount as both the debit and the credit on the journal entry.

At least once per fiscal year, a staff person within the Office of Accounts and Control will update an Excel master file of the State's restricted accounts. He/she will add any restricted accounts that were created in RI-FANS since the last spreadsheet update, and he/she will delete from the spreadsheet any restricted accounts that have not had any transactions in the current fiscal year and in the one immediately prior. He/she will also run a transaction register for each account added to the list in order to make sure that indirect cost recoveries are being charged, or not, as appropriate. If he/she discovers that an account that should have been charged cost recoveries has not been so charged, or, conversely, that an account that should not have been charged cost recoveries has been so charged, then he/she will create journal entries to adjust the account balances to their correct amounts. He/she will also inform the investigative auditor so that he/she can correct how the accounts are coded for exemptions in the RI-FANS system.