

State of Rhode Island
Department of Administration

OFFICE OF ACCOUNTS AND CONTROL

SECTION
ACCOUNTING

POLICY NUMBER
A-56

POLICY
**RESTRICTED ACCOUNT INDIRECT
COST RECOVERY ASSESSMENT**

EFFECTIVE DATE /PAGE NUMBER
May 1, 2006 1 of 2

CATEGORY
POLICY STATEMENT

AMENDMENT / REVISION

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.

Whenever a new revenue or expenditure account number of **any** type is to be created in the State's RI-SAIL accounting system, it is the responsibility of the State Budget Office to assign it a line item / sequence / source (LISS) number. In the case of a **restricted** account, the LISS number will end in the number 3, which indicates source 3.

Once the LISS number for a new restricted account has been determined by the State Budget Office, the State agency responsible for the account must fill out and sign a form (see copy at the end of these instructions) indicating, first of all, the legal basis for the new account. This legal basis will usually be a section of the General Laws of the State. The **State Budget Office** will make this legal reference an integral part of the LISS title at the time they set up the LISS number in RI-SAIL.

The State agency responsible for the account should next indicate on the form whether or not, in its opinion, the account should be exempt from the ten percent indirect cost assessment. If the agency thinks that the account qualifies for exempt status, it must check off the appropriate box indicating the basis for the exemption.

The agency should then forward the completed form to the Accounting Section of the Office of Accounts and Control. Staff will review it, and, in any case where the agency is requesting an exemption, the accounting section staff member will make an initial determination as to whether the request is justified. If the staff member agrees with the request, he/she will initial the form and pass it on to the Controller for final approval. If the staff member does not agree with the request, he/she will contact the agency and explain the reason

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why the request is denied. If the agency does not accept the reason for denial, it may then either send additional documentation to the staff member or appeal directly to the Controller.

Upon receiving the form back with the Controller's approval, the accounting section staff member will notify the Division of Information Technology (DoIT) within the Department of Administration to add the new account to his/her file of exempt restricted accounts.

After the new restricted account has been set up and it has been linked to the appropriate revenue natural account in RI-SAIL, the account set-up form described above will be filed in a centrally located folder in the Office of Accounts and Control.

It has been the policy of this office to exempt from indirect cost recovery those restricted accounts that receive their revenue from a non-exempt restricted account. This policy is no longer in effect. From now on, the account that first receives the money, i.e., the grantor account, will be assessed the indirect cost at the time revenue is credited to it. Now, however, when the grantor account subsequently transfers all or a portion of these receipts to a second restricted account, i.e., a grantee account, the grantor account will automatically receive a **credit** against indirect cost at the time that it debits revenue. The grantee account in turn will automatically incur a matching **debit** to revenue based on the amount of revenue it receives from the grantor. Accordingly, if the grantor agency wishes to transfer a particular target amount to the grantee agency, the fund transfer document the grantor prepares should actually debit and credit an amount equal to this target amount divided by 0.90. Then, when the indirect cost assessments or credits of ten percent are applied, the target amount will be automatically realized for both agencies.

Whereas in the past a restricted grantor account would debit a contra-revenue account when transferring money to a restricted grantee account, the grantor account must now instead debit the same revenue natural account that it credits when it receives revenue.

The new restricted account set-up form is available from "forms" page of the Office of Accounts and Control web site: <http://controller.doa.state.ri.us>.
