State of Rhode Island
Department of Administration

OFFICE OF ACCOUNTS AND CONTROL

SECTION **Accounting**	**POLICY/PROCEDURE NUMBER** **A-62**
SUBSECTION	**EFFECTIVE DATE / PAGE NUMBER** **January 23, 2014/** 1 of 5
POLICY / PROCEDURE **Expenditure Recognition & Accounts Payable Cut-Off**	**AMENDMENT / REVISION**

Definition of Expenditures

Expenditures are the costs incurred during the fiscal year related to the acquisition of goods and services, *whether or not payment has been made*. Expenditures should be recorded in the fiscal year when operating, capital outlay, or debt service liabilities to be paid from current resources of governmental funds are incurred.

Timing of Expenditure Recognition

The timing of expenditure recognition depends on several criteria. First, expenditures should be recognized upon the delivery of goods or services, including personal services, contractual services, capital outlay, interest on fund liabilities, materials and supplies, insurance, and rent.

Expenditures should be recognized for goods when the State acquires legal title to the item. For example, if an item is ordered during June, but the item is not shipped until after June 30th, legal title has not passed to the State, therefore it is not a payable at year-end. It is instead an expenditure of the new fiscal year. In contrast, if a service is rendered prior to the fiscal year-end, it is a payable at year-end.

In certain cases, expenditures should be recognized when due, such as principal and interest on general long-term liabilities, claims and judgments, compensated absences, pensions, or other post-employment benefits (OPEB).

Expenditures are actually recorded in RIFANS when invoices are entered into the accounts payable module. To ensure a smooth fiscal closing and prompt payments to our suppliers, agencies should make every effort to enter invoices into the RIFANS accounts payable module on a timely basis. For a number of days in July of each year, as specified in the fiscal closing timetable, agencies are able to enter invoices in RIFANS and choose to record them in either the June or July period. When this option is available all invoices processed that relate to goods received or services rendered in the old fiscal year must be recorded in the June period. Agencies should take full advantage of this feature and enter all old year invoices received through the date the module is closed for that fiscal year.

Process for Recording Other Accounts Payable at Year End

The following process should be used to record other accounts payable at fiscal year-end. Generally these payables relate to significant invoices received after the accounts payable system is closed for the June period or other accounts payable that must be established based on estimates.

During the first week of June of every year, an ADI spreadsheet template for electronically recording other accounts payable at fiscal year-end is posted to the Accounts and Control website for State agency use. Agencies must transmit their completed ADI spreadsheets to the Office of Accounts and Control by a date in July as set by the office and indicated in the annual fiscal closing timetable. In general, an agency may only report those individual accounts payable that amount to $250,000 or more. Purchase order numbers must be provided in the case of those payables that have them. For other payables, other supporting documentation such as vendor invoices or other pertinent documents must accompany the payable. If an agency has **no** individual payables exceeding the $250,000 threshold, it is required to send in a memo indicating this.

All ADI spreadsheets and/or memos relating to end of year accounts payable must be accompanied by a signed certification as to the completeness and accuracy of the data submitted. The certification form is available as Attachment C on the annual fiscal closing time table that is sent to all State agency chief financial officers.

CFOs responsible for making payments from the State's various Internal Service Funds may list amounts less than $250,000 on their accounts payable spreadsheets for those funds.

Similarly, agencies for which an accounts payable amount of less than $250,000 represents a material part of that agency's operating budget may list that amount on its accounts payable spreadsheet. The Office of Accounts and Control will consider booking each of these smaller accounts payable on a case by case basis.

Requests to record accounts payable amounts after the July deadline set by the Office of Accounts and Control should be very limited and will be considered only if submitted with appropriate supporting documentation by **the director of the agency** in question.

Payables Relating To Construction Projects

Agencies must be especially careful to report payables for construction costs incurred before July 1 regardless of the funding source for the project (i.e. costs incurred for projects including RI Capital, Bond and COPS financed projects all must be accrued). The amounts reported as accounts payable for construction projects must include all retainage payable (both for prior years and the current year). Retainage payable is a portion of the agreed upon contract price deliberately withheld until the work is substantially complete to assure that the contractor or subcontractor will satisfy its obligations and complete the project. Retainage should be accrued as a payable at year-end, for those invoices applicable to current or prior fiscal years.

Payables Relating To Claims and Judgments

Claims and judgments must be considered at year-end to determine if a payable should be recorded. There can be claims or judgments related to grants, such as fines, penalties or grant recoveries imposed due to non-compliance with grant award stipulations. There also may be claims or litigation related to contracts, for delays or inadequate specifications. Other types of claims or judgments may arise from State employment-related cases regarding workers' compensation, unemployment, or employee lawsuits against the State. The actions of State personnel, such as damage from State-owned equipment operated by State employees, or improper conduct may also be the subject of claims. Finally, there may be personal injury or property damage claims against the State.

It may be difficult to estimate the ultimate liability relating to such claims and judgments, due to unreasonably high claim amounts, lengthy delays between the occurrence and filing or the filing and settlement of litigation, or an ongoing appeal process. *However, if the settlement of a claim is probable, meaning it is likely to occur, and the amount of the payment is estimable, then a liability for the contingency loss must be recorded.* If the probable loss falls within a range of estimated amounts, then the *minimum* amount will be recorded as a liability, and the potential for additional losses over that amount will be considered for disclosure, if material, in the notes to the State's financial statements. If there are existing claims that are likely to result in a material liability but the amount cannot be reasonably estimated, they will be considered for disclosure in the notes to the State's financial statements.

Loss contingencies related to claims and judgments, when recorded, are a fund liability if the amount is payable from expendable current (within the next fiscal year) financial resources. The amount will include legal and other related costs and the settled or adjudicated amount, net of any insurance recoveries. Any remaining liability will be recorded as a general long-term liability in the government-wide statements.

Financial Statement Disclosure Questionnaire

In July of each year the Office of Accounts and Controller distributes a financial statement disclosure questionnaire to the Chief Financial Officer of each department and agency. The questionnaire is designed to identify issues at the agency level that may need to be either recorded or disclosed in the State's financial statements. Included among the areas addressed in the questionnaire are: a) accounts payable and other liabilities b) disallowances related to regulatory reviews and 3) liabilities related to other claims and judgments.

Other

Each agency that has accounts payable balances on its books as of June 30 must either a) take action that ensures they are liquidated by September 30 or b) justify to the Office of Accounts and Control why they must be retained on the books beyond September 30, for instance because of legal issues or an unsatisfactory product or service. The Controller may request additional documentation for these exceptions and will notify the agency if any payables are not re-recorded. In the absence of a justification letter, the Office of Accounts and Control will liquidate any accounts payable balances still outstanding by a date set in mid-October.

At the end of the following May, the Office of Accounts and Control will liquidate any accounts payable balances still on the books, even those that were originally exempted by agency notifications received by the prior September 30. Agencies may, however, re-establish these as payables when they submit their new ADI spreadsheets by the following July.