



# DEPARTMENT OF ADMINISTRATION

## Enterprise Policy

OAC-A-64-2019

### OFFICE OF ACCOUNTS AND CONTROL

#### Liability/Escrow Accounts and Related Controls Policy

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#### 1. Purpose

- a. The purpose of a liability/escrow account in the State's RI-FANS accounting system is to hold funds that are earmarked to be paid to a specific party or parties once a specific condition or set of conditions is met.
- b. Each liability/escrow account in the RI-FANS accounting system should be assigned a name that adequately but concisely describes 1) the sources of the funds, and 2) the parties to whom the funds will eventually be distributed. In addition, the agency responsible for administering the account must maintain complete subsidiary records relating to all pertinent facts concerning the account.

#### 2. Liability/Escrow Accounts

- a. A RI-FANS liability/escrow account serves as a control account whose balance at any time must be reconcilable to the sum of the balances of the individual client/beneficiary accounts, a/k/a subaccounts, maintained in a subsidiary ledger by the State agency to which responsibility is assigned.
- b. For example, the State courts may maintain a sub-ledger of defendants who have paid a certain amount into escrow pending the outcome of their cases. Upon disposition of a case, the court will clear out the subaccount for the particular defendant involved, either by a refund of money back to the defendant, a payment to a third party, or some combination of the two. It is the court's responsibility to ensure that any deposit into or disbursement from a defendant's subaccount is mirrored by a RI-FANS accounting entry. Such a RI-FANS entry may be prepared simultaneously with each separate deposit or disbursement transaction, or it may be accounted for in RI-FANS by means of a monthly or quarterly RI-FANS journal entry that summarizes all such transactions that would have affected the balance in the control liability/escrow account during the month or quarter.
- c. **Liability/escrow accounts are not to be considered as interchangeable with restricted accounts.** One of the major reasons why the Supervisor of Fiscal Services may reject an agency's request to set up a new account as an escrow/liability account is that the agency's description of the purpose of the proposed account more closely fits the definition of a restricted account. Restricted accounts are for monies that are paid or donated to the State and which, pursuant to law, are to be expended for a specific purpose not directly on behalf of the specific payers. Budgets for restricted accounts are under the purview of the State Budget Office and the General Assembly. Requests to set up a new

restricted account should therefore be made directly to the Budget Office and not to the Office of Accounts and Control (A & C).

### **3. Requests for New Liability/Escrow Account**

- a. Any agency that wishes to have a new liability/escrow account set up in RI-FANS must submit a copy of the Controller's Form LA-I (available on the Controller's website) to the Supervisor of Fiscal Services in A & C. This form must indicate 1) the purpose of the account, 2) the expected source( s) of its funding, 3) the party or parties for whom the money is to be held, 4) the expected frequency of disbursements from the account, and 5), if applicable, the expected date at which final payouts will be made. This form must be dated and signed by the Chief Financial Officer (CFO) of the agency submitting it.
- b. If the Supervisor of Fiscal Services is satisfied that the information submitted on the request warrants the setting up of a new liability/escrow account, then he/she will sign and date the form, add it to an electronic file within A & C, and set up the account in RI-FANS. He/she will then inform the agency CFO of the new RI-FANS account number and that it is now available for use.
- c. If the Supervisor of Fiscal Services determines that the materials submitted by the agency do not warrant the creation of a new liability/escrow account, then he/she will inform the agency CFO of his/her decision and the reasons for it. The CFO may appeal this decision to the State Controller, who will make the final decision.

### **4. Procedures for Compliance**

- a. It is the responsibility of the CFO of each State agency to ensure that, at least once per quarter, a reconciliation is done between the balances in each of his/her agency's liability/escrow control accounts and the subsidiary records for such accounts.
- b. Note that a proper reconciliation does not consist of a report of beginning balance per RI-FANS, plus deposits for the period, less disbursements for the period, resulting in the ending balance per RI-FANS. A proper reconciliation consists of a proof that the ending balance per RI-FANS equals the sum of the ending balances of all the individual client/beneficiary subaccounts the agency maintains under the umbrella of the RI-FANS control account.
- c. The subsidiary account information provided on reconciliation worksheets should not contain any personal information, such as names or Social Security numbers, of any of the clients or beneficiaries for whom a subaccount is maintained. The agency should instead identify each subaccount beneficiary in accordance with an agency-generated ID numbering scheme. Each State agency shall submit its quarterly liability/escrow account reconciliations on Form LA-2 (available on the Controller's website) to the Chief Implementation Aide in A & C.
- d. A & C is particularly concerned with obtaining explanations from the agencies for any liability/escrow account with a debit balance, with a credit balance that seems to be inordinately large, or for any liability/escrow account that has not had RI-FANS transactions posted to it for six months or more.

### **5. Repercussions for Noncompliance**

- a. If an agency cannot provide a satisfactory explanation for certain anomalies, then A & C may prepare and post reasonable adjusting entries to the liability/escrow account in conjunction with other appropriate action, such as charging an agency's director's account to make up for a debit balance. If a State agency cannot explain why the summary of its subsidiary accounts differs from the balance of the related control account in RI-FANS, or if it appears that the agency has not been maintaining subsidiary accounts at all, then A & C will report this fact to the Office of Internal Audit within the Department of Administration for further action.

**6. Timing of Reconciliation**

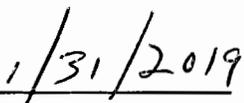
- a. Quarterly reconciliations of liability/escrow account balances to subsidiary ledgers are due at A & C on October 31, January 31, April 30, and August 15 for the quarters ended September 30, December 31, March 31, and June 30, respectively. Each agency should send its reconciliation to the Chief Implementation Aide (CIA) within A & C.
- b. Agency liability/escrow account reconciliations need only be submitted to A & C in the case of 1) accounts whose RI-FANS balances at the end of the quarter are credit balances of \$25,000 or more, 2) accounts whose RI-FANS balances at the end of the quarter are debit balances of any amount, or 3) any other accounts for which the A & C makes a special request to receive a reconciliation. The CIA within A & C will send each agency a listing of all of its accounts which meet one of these criteria and for which A & C therefore will expect to receive a reconciliation by the due date.
- c. Note, however, that agencies must perform and maintain reconciliations of all their liability/escrow accounts at least quarterly, regardless of whether they are required to be submitted to A & C.

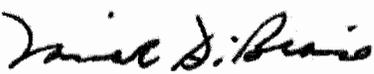
**7. Repercussions for Not Submitting Required Reconciliations**

- a. If an agency does not submit a reconciliation to A & C by the due date for any account in the three categories listed in the above paragraph, the account will be inactivated until the reconciliation is received.

**8. Signatures**

  
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**State Controller**

  
\_\_\_\_\_  
**Date**

  
\_\_\_\_\_  
**Director of Administration**

1/31/2019  
\_\_\_\_\_  
**Date**