

Department of Finance and Administration
Policy 2 – Accounting for Recoveries and Refunds
(Revised August, 2012)

Introduction and Background

1. This Policy Statement revises the previous statement on recoveries and refunds approved in March of 1994. The purpose of this Policy Statement is to ensure proper accounting for recoveries and refunds and to address refunds involving grant monies.

Basis of Authority and Applicability

2. This Policy Statement is issued by the Department of Finance and Administration in accordance with the authority granted under T.C.A. 4-3-1007. T.C.A. 9-4-607 also authorizes the Department of Finance and Administration, with the approval of the Comptroller of the Treasury, to develop procedures on refunds “for any revenues or receipt collected by any department or agency with the exception of those collected by the department of revenue (and) other provision of the law to the contrary notwithstanding...” Therefore through this policy the Department of Finance and Administration is establishing the appropriate accounting treatment for recovery and refund transactions.

3. Additional and specific programmatic requirements surrounding refunds may also be stipulated in applicable state law. For example, T.C.A. 56-4-105 governs erroneous payment refunds issued by the Department of Commerce and Insurance, to be issued in accordance with procedures developed by the Commissioner of Finance and Administration and approved by the Comptroller of the Treasury. This TCA establishes a time limitation within which refunds must be made. Also, applicable federal regulations should be followed for refunds involving grant payments.

4. This Policy Statement is applicable to all State agencies, departments, boards and commissions (hereinafter referred to as departments) with the exception of colleges and universities, and the Department of Revenue.

5. This Policy Statement covers three categories:

- I. Recoveries
- II. Refunds
- III. Questioned Costs and Disallowances

Following a section on definitions, the remainder of this Policy Statement consists of a discussion of these three categories, including accounting procedures.

Definitions

The following definitions apply to this policy statement:

Recovery: A recovery occurs when a State department receives previously expended monies.

Refund: A refund occurs when a State department returns previously received monies to the federal government, a third party, or another State department.

Questioned Costs: (a) An alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, other agreement or document governing the expenditure of funds, (b) a finding that, at the time of the audit, such cost is not supported by adequate documentation, or (c) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable or unallowable.

Disallowances: A program expenditure which the grantor has determined is not permissible. A disallowance may result in a refund of monies to a grantor agency.

Third Party: An entity which is not a State or federal agency.

On Budget: Revenues or expenditures that are contained in the State budget document.

Off-Budget: Revenues or expenditures that are not contained in the State budget document.

I. Recoveries

6. The recovery of monies can be classified into two categories (a) recoveries from current year transactions and (b) recoveries from prior year transactions. This process is depicted in the flowcharts Exhibit 1 and 2.

- A. **Recovery of Monies From Current Year Transactions** – The recovery should reverse the initial transaction. For example, a transaction that was recorded as an expenditure, when recovered, should be treated as a reduction of expenditures.*

- B. **Recovery of Monies From Prior Year Transactions** – Initially determine whether the initial expenditure was charged to a grant, and the funding source, i.e. state, federal, other.
 1. **No Grant Involved** –If funded through state appropriations that were subject to reversion, record the transaction as non-departmental revenue in General Ledger Account 65007000. Otherwise, record the recovery as a reverse of the initial transaction. Refer to Section II on Refunds if necessary.

 2. **Grant Involved** - First, determine the funding source(s).
 - (a) State funds– For the State funded portion, follow the no-grant involved steps above.
 - (b) Federal funds – For on-budget funds - record as a Refund of Federal Expense in the General Ledger Account 68012000. For off-budget funds – record as a reversal of the initial transaction.*
 - (c) Third party funds - for on-budget funds, record as a Refund of Prior year Local Expense in General Ledger Account 68040000. For off-budget funds record as a reversal of the original transaction.*

Refer to Section II on refunds as necessary.

*Accountant's Tip: If the above transactions are coded properly and the grants component of the Edison system is used and has been appropriately configured, a liability to the grantor and a reduction of revenue will automatically be recorded.

II. Refunds

A. Refunds to Federal Agencies and Other Third Party Funding Sources Through Reduction of Subsequent Draw:

1. Current Year: If the refund is from the current year, follow the procedure in Recoveries, Part A. No further fiscal office entries are required. *
2. Prior Year: If the refund is from a prior year, then follow the procedure in Recoveries, Part B, and no further fiscal office entries are required. *

B. Refunds Paid to Federal Agencies or Other Third Parties.

1. Gather sufficient documentation surrounding the original receipt of funds and prepare a claim for refund form. The refund should be reviewed by the departmental fiscal officer for approval.
2. For refunds of \$10,000 or more, send the claim for refund form and documentation to the Director of Statewide Accounting for approval. Documentation should include information showing when and how the funds being refunded were recorded in the State's accounting records at time of receipt, as well as the proposed accounting treatment of the refund. Following receipt of the approved claim for refund, use the accounts payable voucher process to generate payment.
3. For refunds of less than \$10,000 use the accounts payable voucher process to generate payment, attaching sufficient documentation.

C. Refunds Paid to Another State Department.

Refunds should be processed using an inter-unit journal.

*Accountant's Tip: If the above transactions are coded properly, and the grants component of the Edison system is used and has been appropriately configured, a liability to the grantor and a reduction of revenue will automatically be recorded.

III. Questioned Costs and Disallowances

7. Questioned costs may arise from material or immaterial instances of noncompliance with federal grant related requirements. They are typically a result of a federal review or audit of a federally funded program. The grantor generally notifies the department how any related costs should be resolved. The disallowance may result in a refund to the grantor and/or require corrective action. It is the responsibility of the grantee's department to determine and oversee appropriate corrective action.

8. When written notification of a disallowance is received from a federal grantor, a department should review all associated documentation and a determination should be made as to whether or not the disallowance will be appealed. Notification of a decision to appeal, as well as final determination on all appeals should be sent to the Division of Accounts, for financial reporting purposes. If written notification of the allowance has not been received, the department should wait until notification is made before acting on the disallowance.

9. Refunds of disallowances are generally recorded as current year expenditures. In the event a federal agency adjusts a draw for a disallowance, notification should be made to the Division of Accounts for financial reporting purposes.

IV. Other

10. For circumstances outside those covered by this Policy Statement, contact the Division of Accounts, Department of Finance & Administration.

V. Exceptions

11. Exceptions to this Policy Statement should be submitted to the Director of Statewide Accounting for review and approval.

Approval of the Commissioner of Finance and Administration

I, Mark A. Emkes, hereby approve Policy Statement 2 of the Department of Finance and Administration, and authorize actions necessary to implement its requirements.

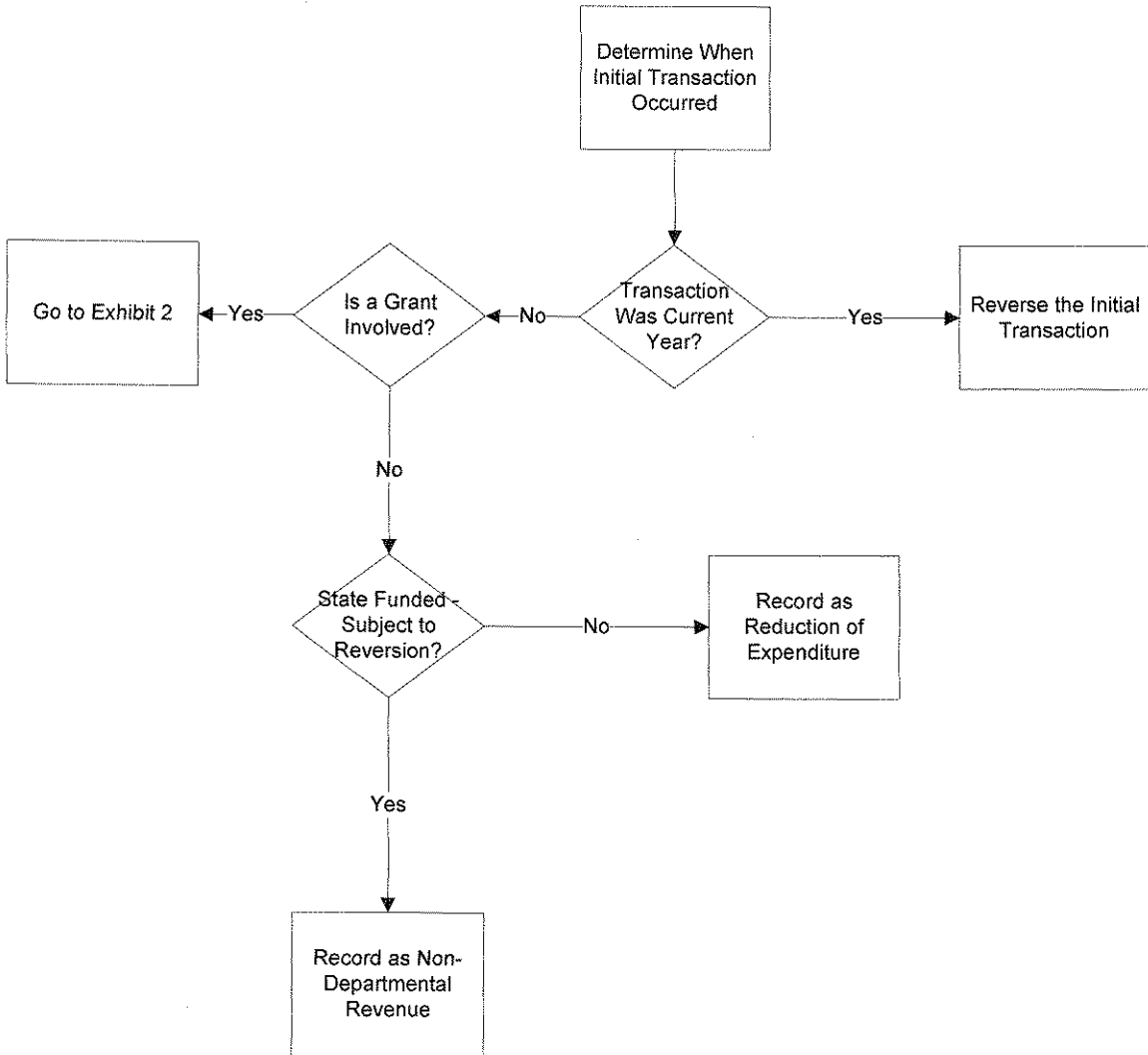
Signed Mark A. Emkes Date 8-15-2012
Mark A Emkes, Commissioner *gmm*
Department of Finance & Administration

Approval of the Comptroller of the Treasury

I, Justin P. Wilson, hereby approve Policy Statement 2 of the Department of Finance and Administration, and authorize actions necessary to implement its requirements.

Signed Justin P. Wilson Date 8.21.2012
Justin P. Wilson, Comptroller
Office of the Comptroller of the Treasury

F & A Policy 2 – Exhibit 1
Recovery of Monies



F & A Policy 2 – Exhibit 2
Recovery of Monies – Prior Year Transaction/Grant Involved

