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Expenditure Refunds (ER) Policy

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Executive Summary

The Comptroller has broad authority to prescribe accounting rules and instructions for all state departments in the appropriate use of the state accounting system. Pursuant to M.G.L. c. 7A § 7, M.G.L. c. 7A § 8, M.G.L. c. 7A § 9, and M.G.L. c. 29 § 31, the Comptroller is required to implement a state accounting system and a centralized payroll system, and issue instructions for the accounting practices to be used by all departments, unless specifically exempted by general or special law. The Comptroller has full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts and is authorized to direct state departments to implement changes in their systems to meet these statewide standards.

An Expenditure Refund (ER) is a transaction in the statewide enterprise accounting and financial reporting system ("the system" or "Mosaic") that represents a return of funds originally paid to a vendor. The refund may be due to a return of goods, an overpayment, an incorrect payment, or funds received from a vendor due to the department's dissatisfaction with goods or services received or because of a contract adjustment.

Policy

ERs entered into the system must represent cash received and deposited to the department's sweep account and posted to the system. ERs must be returned to the original appropriation account from which the amounts were expended. Specific year-end policies may require alternative processing of funds returned after the close of a fiscal year. ERs represent an error in the original payment process. Department administrators responsible for reviewing payment activity should also review ER activity to determine if there is a potential weakness in the process for handling vendor payments that is responsible for the vendor refund.

ER transactions should be processed only when the following circumstances have occurred:

- The department and the vendor have determined that the vendor was overpaid.
- The department and the vendor have determined that a duplicate payment was issued or paid.
- The department received a refund for goods returned. The department has requested a refund (full or partial) as an adjustment for dissatisfaction with goods or services, or other types of contract adjustments.

An ER is an accounting adjustment for the reversal of a payment, not a revenue mechanism**.** ERs may not be used:

- as a mechanism to accept other types of revenue for damages, settlements, or judgments; or
- for other payments from the vendor, or a third party, that do not represent one of the appropriate circumstances listed above.

To learn about an ER's effect on encumbrances, see the CTR Encumbrance Corrections (EX) Policy.

Procedure

All ER transactions in excess of $5,000 which pass normal system edits will attain a "Pending" status and enter Workflow for review and processing by CTR General Accounting staff. ERs below $5,000 will be processed to "Final" status by the department. All ERs are subject to periodic post-audit by the CTR Quality Assurance staff. Departments are required to maintain the appropriate documentation for all ERs, as outlined below.

- **Internal Documentation**. For tax reporting, internal department review, and internal control purposes, and for audit and quality assurance purposes, the department's Chief Fiscal Officer (CFO) should oversee, and the department is responsible for maintenance, of documentation supporting a full explanation of the necessity for the ER. This should include the Vendor Code of the vendor remitting payment, the payment reference ID of the payment that is being refunded, and an explanation of what internal control steps are being taken to ensure that the same mistake or need for an ER will not recur in the future.
- **Enter and submit ER transaction in MMARS**

1. **Vendor Customer Code.** The ER should reflect the vendor customer code of the vendor listed on the original payment/transaction remitting the refund. In order to issue a correct 1099, the ER must contain the correct vendor customer code and name. It is also imperative that adjustments like ERs are coded properly, tracked, and use the accurate vendor customer code, because it is utilized in the reporting of special payments, adjustments that require additional reporting, , and for other mandatory state or federal reporting requirements. Examples of payments that may require additional reporting include COVID, MEMA or disaster expenditures, or vendor or subrecipient payments and adjustments.
2. **Event Types.** The ER has two accounting lines. The first accounting line must have event type **AR 99**, which reflects the re-posting of cash received and accounted for as current year revenue in a so-called sweep account. The second accounting line must have event type **AR 32**, which reflects cash expenditure credit.
3. **Comments Field**. To expedite the review and processing of ERs that enter the Workflow process to CTR, departments are required to enter the key information related to the ER into the "Comments" field of the ER transaction. The "Comments" field must contain a brief explanation for the necessity of the ER. This field has approximately 1,500 characters, which should be sufficient to provide a reasonable explanation. Thoroughness in the use of the "Comments" field will, in most cases, obviate the need for submission of additional documentation. No processing on an ER will occur unless sufficient information is contained in the "Comments" field to enable review. Payment Reference ID. The department must also "memo reference" the original payment transaction for which the refund was received on the ER

ERs for Current Fiscal Year Expenditures

All refunds received from the vendor by June 30 and deposited in a Commonwealth bank account on or before noon of the first business day in July, are processed as current fiscal year ERs. During a current fiscal year, there is no distinction in original source of funds when an ER is processed.

ERs for Prior Fiscal Year Expenditures

Budgetary Appropriations. As documented in the CTR annual Close/Open Instructions, refunds in budgetary appropriations (1CS, 1CN, 1RS, 1RN, 1IN) for prior fiscal year expenditures received after the cash cut-off date must be processed as miscellaneous revenue (CR) in the current fiscal year. A separate CR must be completed for each prior year refund. To issue the correct tax reporting, departments are required to input the correct vendor customer code and name in the "Comments" field on all CR transactions that reflect prior year refunds from a vendor. The "Comments" field is located on the secondary navigation panel of the CR transaction.

Capital, Trust or Federal Accounts. All refunds for prior fiscal year expenditures in capital (2CN), trust (3TN) and federal (4FN) accounts received from vendors after June 30th are recorded as current fiscal year cash and are processed as current fiscal year expenditure refunds.

Department Head Certification When Submitting and ER to Final Status

By submitting the ER to "Final" status, the department represents that the ER has been approved by an authorized department head signatory with the appropriate signatory security within the system, that the ER complies with this policy and other requirements of state finance law, and that the department will take appropriate steps to ensure that ERs related to mistakes or errors do not occur in the future.

For more information about DHSA, please see the CTR Department Head Signature Authorization Policy.

Internal Controls

Department heads are required to annually certify that the department has a system of written internal controls, training, and monitoring actively in place as part of daily operations to achieve the department's mission, ensure compliance with CTR's published guidance (PowerDMS, MAComptroller.org, fiscal year memos, CTR statewide trainings), and prevent fraud, waste, and abuse of Commonwealth resources. This policy is included in the annual certification.

It is the responsibility of the department head or the appropriate department head authorized designee to validate the appropriateness of an ER, and to ensure that the request for the correction is consistent with this policy and state finance law. ERs resulting from a refund due to the actual return of goods or services or due to the department's dissatisfaction with the goods or services received or a contract adjustment are routine business justifications. However, ERs resulting from overpayments, duplicate payments or payments to the incorrect vendor raise concerns. Departments should carefully review ER transactions and the reasons behind the need for the ERs to be processed. A high volume of ER transactions may indicate an underlying weakness in the department's internal controls for payment processing. For more information, please see the Job Aid: Processing Expenditure Refunds for Vendor Overpayment.

Contacts

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