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Interdepartmental Chargebacks Policy

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Executive Summary

815 CMR 6.00 governs Interdepartmental fiscal business including Interdepartmental Service Agreements (ISAs) and Interdepartmental Chargebacks. Interdepartmental business (Chargebacks) refers to both mandated and optional charges for goods and services provided by a legislatively authorized chargeback department. Departments must have specific legislative authorization to conduct chargebacks.

Considerations

Chargeback departments may charge no more than the actual costs to provide authorized goods and services. Interdepartmental Statewide Enterprise Accounting and Financial Reporting System ("the system"; "Mosaic") transactions must be completed to encumber funds prior to the provision of goods and services in order to ensure prompt payment to Chargeback departments.

The Office of the Comptroller (CTR) will prescribe the appropriate transactions for interdepartmental chargeback business. CTR reserves the right to make any adjustments to Mosaic to correct errors made during the processing of an interdepartmental fiscal transaction.

Policy

There are three categories of chargeback departments:

1. **Ad Hoc Chargeback Department** - A state department (seller) which has specific legislative authority to charge state departments (buyer) for authorized goods and services. The buyer department must request the goods and services and encumber funds prior to the provision of goods and services. For example, this category includes building maintenance services for a state building provided by the Bureau of State Building, or moving services from the inmates at the Department of Correction.
2. **Public Fee Chargeback Department** - A state department (seller), which has specific legislative authority to charge other state departments (buyer) or the general public for authorized goods and services. This category includes license fees, certifications, registrations, filing fees and the purchase of publications.
3. **Statewide Chargeback Department** - A state department (seller) which has specific legislative authority to charge other state departments (buyer) for certain mandated goods and services based upon a percentage of usage or a pre-calculated assessment. The buyer department is automatically billed for statewide chargebacks and may have funds automatically deducted for these charges. This category includes chargebacks for telecommunications, centralized mail, computer services, Medicare taxes, unemployment insurance, universal health contributions, etc.

Interdepartmental Chargebacks – Internal Vendor Code

Interdepartmental Chargebacks are fee-based charges for statutorily authorized commodities and services which are available to State Departments (buyer) on an ad hoc request basis, a public fee basis, or statewide chargeback basis. Departments (seller) must have specific legislative authorization to conduct chargebacks.

All departments (seller) seeking to process chargebacks must apply for an **Internal Vendor Code**. The request must be made using the **Chargeback Department Authorization Form** and must include the following:

1. Descriptive name of the authorized chargeback.
2. Legal citations AND the actual statutory or legislative language authorizing the chargeback. The language must be explicit. Inferred charges will not be authorized. Budgetary authorization must appear in both the House and Senate versions of the budget, or in the final GAA to support the request.
3. A breakdown of the specific charges or the methodology for calculating the charges to a department (buyer). The charges or methodology must be detailed and capable of being verified against the actual costs incurred to chargeback departments. Chargeback departments may not charge more than what is authorized in statute or regulation, or, if no restriction is identified, no more than the actual costs for providing chargeback services.
4. Accounting information of appropriation, fund, org, sub-org, etc. for authorized account or fund.

Internal Vendor Code Requests must be submitted to the CTR Legal Team for the chargeback(s). Once an Internal Vendor Code is authorized, Chargeback Departments can be assigned Administrator Mosaic Security to process chargebacks.

All authorized Seller/CHBK departments will be assigned a 12 letter Internal Vendor Code (IVC) which will have the following make-up:

- The first 4 letters will begin with "**ISELL**" to indicate that this is an authorized chargeback seller.
- The next letter will be either "**B**" (budgetary); "**S**" (statutory) or "**A**" (administrative) which will indicate the legal basis for the chargeback.
- The next three digits will be a three-letter code that identifies the **service identifier** of the chargeback and will match the revenue source code for the authorized chargeback. For example, the authorized chargeback for Bureau of Computer Services charges will be "**BCS**".
- The final three letters will represent the three-digit code of the department. For example, "**ITD**".

For example, the Executive Office of Technology Services and Secruity (ITD) is authorized, as part of the Annual Appropriation Act (GAA) (the annual budget), to charge other agencies for computer access and services. The Internal Vendor Code for this chargeback would appear as "***ISELL*B*BCS*ITD"**. In this situation the chargeback is "B" budgetary, the authorized chargeback service identifier is identified as "BCS" for Bureau of Computer Services and the authorized chargeback department is "ITD".

Internal Vendor Codes may be used only for the approved chargebacks on file with CTR and may not be used to charge for performance not explicitly within the chargeback authorization and approved revenue source code. Only departments that are authorized Seller departments will be granted Internal Vendor Codes and Mosaic security to enter and submit Internal Encumbrances to final phase.

Revenue Source Codes (Match IVC)

Revenue source codes will be established exclusively for interdepartmental chargebacks. All Chargeback revenue source codes are alpha codes (letters), which will begin with either "**B**" (budgetary); "**S**" (statutory) or "**A**" (administrative) which will indicate the legal basis for the chargeback, and will match the assigned Internal Vendor Code. For example, the revenue source code for the Bureau of Computer Services would be "B*BCS*". Seller departments will be required to record chargebacks using the assigned revenue source codes.

A separate Internal Vendor Code and matching Revenue Source Code will be assigned for each separate chargeback.

Annual re-authorization of Chargeback Status

For Annual re-authorization, if the 5th letter of the Internal Vendor Code (IVC) is:

- "S" (Statutory), it rolls annually (re-authorization not necessary until statute changes)
- "B" (Budgetary), the IVC request must be submitted annually (Chargeback Department Authorization Form)
- "A" (Administrative), it must be requested annually, or as deemed appropriate by CTR

All Buyer Departments will use the same Customer Code: **INTBUYERDEPT.** All Buyer Departments will have the security to validate IEs and submit Internal Transaction Agreements (ITA) for payment.

Internal Encumbrances for chargebacks (IEs) may be processed starting July 1 or as soon as House 1 has been loaded, or as otherwise directed by CTR. Chargeback departments are required to provide an estimate of the cost of proposed chargeback performance in order to allow a Buyer department to encumber (set aside) sufficient funds to cover the performance. Seller departments may not provide performance until the Buyer has completed the encumbrance (IENC), or the Seller is not assured of payment. Therefore, Sellers should initiate the IENC as soon as possible prior to beginning performance. Sellers should submit IEs to Buyer Departments PRIOR to providing chargeback goods or services based upon estimated costs.

Buyer Departments will then be notified by email or phone that they are required to retrieve IENC and complete the accounting line information. Completion of the IENC will depend upon when performance is anticipated. It is recommended that you copy the Transaction ID number from the top of the screen and paste it into your email. The IENC must be completed prior to the start of performance by the seller department.

Buyer departments are required to complete an IENC with the accounting information necessary to encumber sufficient funds prior to the start of Seller performance, or if performance is needed immediately, within sufficient time to enable timely payment of the first bill (ITI) for chargeback

performance. In no event may the Buyer delay encumbering the IENC for longer than 30 days from the Seller's submission of the IENC for completion.

The period within which the Buyer is required to complete the IENC encumbrance (not to exceed 30 days) begins to run once an IE has been initiated by the Seller department. Therefore, the Buyer Department must establish internal controls to ensure that the Transaction Catalog is reviewed daily to identify IENCs that have been issued to the department for completion. The Buyer department should not wait to receive an email from the Seller department to complete the IENC, in the event the email is not received.

In this case, the Seller Department has created an Internal Encumbrance (IENC). The Buyer Department identified the IENC from the Transaction Catalog and also received an email from The Seller Department notifying the Buyer Department of the IENC with the transaction number. The Buyer Department must now go into this shell and complete the financial information on the transaction. If performance will not be made immediately, then the Buyer has up to 30 days.

Even though the Buyer department is not authorized to "submit" the IENC to final phase (only Sellers can submit to final phase) the validation of an IE will be interpreted to be the same as the Buyer department submission of the IE to final phase for the Buyer, since the department is incurring an obligation on behalf of the Buyer by encumbering funds. Therefore, the validation function must be completed by an Individual with Administrator security with Department Head Signature Authorization, or if the individual who will be validating the IENC is not an authorized signatory, the IENC must receive prior written approval from an individual with Administrator security with Department Head Signature Authority in the interdepartmental functional area. Written Approval can be made using the Transaction Records Management / Signature Authorization Form referencing the IENC Transaction ID.

The Seller department can compare the transaction total to the total of the line amounts. If any amount differs, the Seller department would need to contact the Buyer department to resolve any difference. **Seller departments may not change line amounts without modifying the IE and having the Buyer validate. Sellers are not authorized to correct IEs based upon verbal approval by the buyer except through the IE process.**

Internal Transaction Initiator (ITI) the Interdepartmental Business Bill.

The Internal Transaction Initiator (ITI) is not only a bill, but it also allows the Seller Department to establish the revenue source to which the Buyer department will transfer funds when it is time to pay for the goods and/or services that were provided. Prior to initiating an Internal Transaction Initiator (ITI), the Seller Department and the Buyer Department have created an IENC, (Internal Encumbrance). The IENC is the encumbrance transaction that has set aside the money to be used in paying bills for performance delivered and accepted. It identifies the accounting information the Buyer Department will use to pay the Seller Department. It assures the Seller Department that the money has been set aside for the services.

The same process will repeat for the Internal Payment process. Payments must be completed within 30 days of notification to the Buyer department. The Buyer should verify that the line amount matches what was negotiated with the Seller department for the proposed performance. If the amount is incorrect, the Buyer should immediately notify the Seller department and negotiate the correct amount. The Seller will then have to modify the ITI and resubmit.

If a Buyer department fails to complete any IENC or Internal Payment within 45 days from the initial request, and the Chargeback Department has attempted to resolve through the dispute process below, the Chargeback Department may seek assistance from the Office of the Comptroller to validate the IENC or submit Internal Payment on the Buyer's behalf.

Chargeback expenditures are treated the same as any other contract expenditure. Therefore, whenever a Buyer Department has reason to believe that it will be receiving, or has received an IENC for anticipated charges that it does not have sufficient appropriations to encumber, the Buyer Department must immediately notify the Fiscal Affairs Division and the House and Senate Ways and Means Committees of the estimated amount of anticipated deficiency in any appropriation. See M.G.L. c. 29 § 9E.

Promptly after the period in which services are performed or goods are delivered, or both, the Chargeback Department shall bill the Buyer Department using an Internal Transaction Initiator (ITI). Sellers are responsible for tracking ITI activity to ensure timely payment.

Internal Transaction Agreement (ITA)

Buyers are required to make payment on undisputed bills within 30 days from receipt of an ITI by completing an ITA (Internal Transaction Agreement). Sellers who have difficulty receiving payment from a Buyer department must make every effort to resolve disputes quickly. Sellers who have made reasonable efforts to obtain timely payment should contact CTR for assistance. The name of the delinquent Buyer Department shall be submitted upon request to the House and Senate Ways and Means Committees for failure to make timely payments.

The Buyer retrieves the ITI, and then copies forward the ITI to create the ITA payment, which includes the IENC reference. Validation of the ITA may be completed by an individual with Administrator security with or without Department Head Signature Authorization. However, the ITA may not be submitted to final phase unless approved (on-line or in writing) by an authorized signatory. The ITA may only be submitted to final phase electronically, or with the prior written approval, by an Individual with Administrator security with Department Head Signature Authorization (DHSA). Staff with Administrator security roles without department head signature authorization MAY NOT process any transaction to final phase until they have received prior written authorization of the transaction by an individual with an Administrator role with DHSA. Written approval can be made using the Transaction Records Management/Signature Authorization Form referencing the Transaction ID.

Revenue Receipt – Expenditure Ceiling

Revenue received from Interdepartmental Chargebacks may be retained and expended by the Seller Department in accordance with the authorizing legislation for the chargeback. Once a Department has reached the limit imposed by the Department's chargeback authorization for retaining and expending funds received as chargeback revenues, if any, the Department may not use an ISA in order to retain and expend additional revenues received for chargeback commodities or services, without prior approval of the Office of the Comptroller.

Disputes

Departments must make a good faith effort to resolve any dispute arising under 815 CMR 6.00 within 30 calendar days using all appropriate internal procedures including seeking assistance from their respective secretariats, but in no event shall this resolution period extend beyond May 30 in any fiscal year. In the event the Departments are unable to resolve a dispute within the stated period, either Department may request assistance from CTR to resolve the dispute or to provide a determination as to the request or interpretation of 815 CMR 6.00.

Internal Encumbrance/Expenditure Transaction (IET)

IETs are limited to certain statewide chargebacks with mandated payments such as unemployment insurance, unemployment health insurance and Medicare Tax. IETs are limited to use by CTR or other departments approved by CTR. IETs do not require completion by Buyer Departments but will retrieve mandated payments directly from Buyer authorized accounts. CTR will review account designation prior to IET set up. Once agreed, CTR will process payments against the designated account(s) automatically with no additional Buyer Department data entry or approvals required.

Internal Controls

Under Construction.

Information Sources

Related Policies

- CTR Key State Finance Law Compliance Roles and Responsibilities Document
- CTR Department Head Signature Authorization Policy
- CTR delegation of Mosaic / Contract and Transaction Processing Authority and Quality Assurance Policy
- CTR Fiscal Records Management Policy
- CTR Amendments, Suspensions and Terminations Policy

Legal Authority

- Expenditure Classification Handbook
- M.G.L. c. 7A: Office of the Comptroller
- M.G.L. c. 29: State Finance Law
- M.G.L. c. 110F: Uniform Electronic Transactions Act)
- M.G.L. c. 30 § 65: Legal Services
- Administrative Bulletins (Level III – Executive Only)
- 815 CMR 2.00 - 10.00: Comptroller Regulations
- M.G.L. c. 29 § 66: State Finance Law Violations

Attachments

- Chargeback Department Authorization Form
- Quick Reference – Interdepartmental Chargebacks
- Quick Reference – Goods and Services, Grants, Subsidies, ISAs and Chargebacks
- Transaction Records Management / Signature Authorization Form

Contacts

- MAComptroller.org
- CTR Solution Desk