



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
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**Memorandum**

**To:** The Honorable Marvin L. Abney  
Chairman, House Finance Committee

The Honorable William J. Conley, Jr.  
Chairman, Senate Finance Committee

**From:** Thomas A. Mullaney *Thomas A. Mullaney*  
Executive Director/State Budget Officer

**Date:** May 4, 2017

**Subject:** New Article Relating to Rotary Funds  
FY 2018 Appropriations Act (17-H-5175)

The Governor requests that a new article entitled "Relating to Rotary Funds" be added to the FY 2018 Appropriations Act. This article would authorize rotary or internal service funds for information technology, capital asset management and maintenance and human resources to charge other state agencies for services provided. The intent of this article, and changes to Section 5 of Article 1, which will be submitted with other proposed amendments to Article 1 at a later date, is to address a finding in the Auditor General's Single Audit Report for the Fiscal Year ending June 30, 2016. Finding 2016-008 states that for Statewide Centralized Cost Allocations, "controls are weakened due to the use of "mirror" accounts rather than internal service funds to account for and distribute centralized costs to functions and activities."

The current process of allocating costs associated with the centralized information technology, capital asset management and maintenance and human resources functions requires the creation of accounts within the Department of Administration that "mirror" the non-general revenue accounts of agencies receiving services and that provide funding to support these services. The Auditor General notes that this method of reimbursement is inherently complex and not fully understood by many of the State's departmental financial managers. This method requires agency fiscal staff to keep track of accounts outside of their own agency when complying with federal financial reporting requirements. In addition, the current process reduces transparency in State spending because the agency expenditures identified in most reports and documents do not fully account for all expenditures incurred by those agencies because they do not pick up the costs reflected in the Department of Administration for these centralized services.

Based on information provided by the State's Cost Allocation Plan consultant, it is believed that Rhode Island is the only state to operate a system of mirror accounts. Almost all other state governments with similar centralized services use internal service funds, whereby costs incurred for these services are billed out to agencies and reflected as an expenditure within the billed agency and a revenue in the internal service fund. This method is expected to improve the allocation of costs to appropriate funding sources, since it will require the benefitting agency to determine the best allocation of costs, as opposed to the Department of Administration financial staff needing to work separately with each agency to determine such allocations.

If you have any questions regarding this new article, please feel free to call me at 222-6300.

TAM: 18-Amend-18  
Attachment

cc: Sharon Reynolds Ferland, House Fiscal Advisor  
Stephen Whitney, Senate Fiscal Advisor  
Michael DiBiase, Director of Administration  
Jonathan Womer, Director, Office of Management and Budget  
Gregory Stack, Supervising Budget Analyst  
Dennis Hoyle, Auditor General  
Peter Keenan, State Controller

**NEW ARTICLE**

**RELATING TO ROTARY FUNDS**

SECTION 1. Chapter 35-5 entitled "Rotary Funds" is hereby amended by adding thereto the following section:

**35-5-10 – Reimbursement of rotary funds for services provided to state agencies.**

Notwithstanding the provisions of § 35-5-5, any rotary or rotating fund established for centralized services under the control of the department of administration, including information technology, capital asset management and maintenance and human resources, shall consist of, in addition to such sums as may be provided by appropriation for that purpose, the receipts and reimbursements accruing to the fund. Any state department or agency receiving or drawing services, goods, wares, or merchandise from these programs, or receiving benefits therefrom, shall reimburse the rotary fund for the cost. The reimbursement of the rotary fund shall be made by each department or agency at the close of each calendar month through a process established by the state controller to the order of the respective rotary fund. The state controller shall charge payments to the proper appropriation for the operation and maintenance of the benefitting department or agency.

SECTION 2. This article shall take effect upon passage.