



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
One Capitol Hill
Providence, R.I. 02908-5886

To: Department Directors and Agency Heads

From: Rosemary Booth Gallogly
Executive Director/State Budget Officer *RBG*

Date: May 17, 2007

Re: Cash and Budgetary Control Issues

I understand that there are vendor payments that are being held for periods of time due to cash and budgetary control issues. This is to remind agency directors that it is the responsibility of the agency to determine why an account is "locked out" and take action to correct the situation if possible. If there are no actions the agency can take to rectify the situation, i.e. adjusting for federal/state relationships, liquidating "over" encumbered amounts, or in the case of federal and restricted accounts, drawing cash down, then the director should request an authorized red balance from the State Budget Officer. To the extent that an offsetting black balance is possible, that is desired.

It is shocking to me that agency personnel would refer vendors to either the Budget Office or the State Controller's Office when they are not being paid due to budgetary cash control issues. If the state agency has overspent/overcommitted, it is their responsibility to notify the Budget Office of the corrective action plan and we will cooperate to avoid penalizing vendors by holding payments. The RIFANS system has proven to be extremely effective in controlling to budget/cash availability. It has, however, revealed many weaknesses inherent in agency financial management practices. For the State Budget Officer to authorize a red balance on a state general revenue account, she must be confident that the appropriations and the funding resources will be secured to support the spending; it is not clear at this point that resources will be sufficient and, therefore, every effort must be made to constrain new spending.

With respect to the FY 2007 closing, all obligations attributable to FY 2007 will be accrued back to FY 2007, so it is critical that any problems be resolved as soon as possible to make payments so that the payable process does not become unmanageable. Also, as communicated earlier, all restricted accounts must end with a positive balance on June 30th. Any red balances will be resolved by transferring expenditures to the Director's account.

Beginning in FY 2008 Master Price Agreement purchases should be encumbered in the total amount expected to be spent for the year, for items such as food and clothing at institutional settings. Agencies should not take delivery for an item if there is not a MPA contract release or purchase order previously authorized. The Budget Office will be reviewing available unencumbered balances on these types of expenditures, so encumbrances should reflect your annual requirements.

The Budget Office's goal is to work with the State Controller's Office to implement a system which controls agency spending to the amounts available, both budgetary and cash resources. There will be rare instances when those limits may be exceeded, but agencies should not expect this to occur without a thorough discussion of the causes and corrective action plans. In other words, no agency is "entitled" to an automatic authorized red balance (ARB). Please share this communication with all agency personnel with authorization to commit state resources.

Thank you in advance for your cooperation.

RBG:sm07-27

cc: Beverly Najarian
Larry Franklin
Lorraine Hynes
Chief Financial Officers