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EXPENDITURE REFUNDS (ER)

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Executive Summary

An Expenditure Refund (ER) 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.

ERs entered into MMARS must represent cash received and deposited to the Department's sweep account and posted to MMARS. Expenditure Refunds (ER) 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.

Considerations

ERs may be representative of 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.

Policy

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 (including a centralized payroll system) and issue instructions for the accounting practices to be used by all Departments for supplies, materials, assets, liabilities, equity, debt, encumbrances, expenditures, revenues, expenses and obligations of all Commonwealth funds and accounts, including payroll, 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.

ER documents should be processed 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 of goods or services, or other types of contract adjustments.

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. ER less than \$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 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, 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 occur in the future.

•**Enter and submit ER document in MMARS**

1. **Vendor Customer Code.** The ER should reflect the vendor customer code of the vendor listed on the original payment document/remitting the refund. In order to issue a correct 1099, the ER must contain the correct vendor customer code and name. In addition, vendor customer code is utilized in the reporting of American Recovery and Reinvestment Act (ARRA) funds for vendors and sub-recipients, including adjustments like an ER, and it is imperative that all ARRA or other federal payments and adjustments are accurate.

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.** In an effort 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 document. The “Comments” field must contain a brief explanation for the necessity of the ER. This field has approximately 1500 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.

4. **Payment Reference ID.** The department must also “memo reference” the original payment document for which the refund was received on the ER in the “extended description” field located within the ER header.

ERs for Current Fiscal Year Expenditures

All refunds received from the vendor by June 30th and deposited in a Commonwealth bank account on or before noon of the first business day in July, are processed as current fiscal year ER. 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 Closing/Opening 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. In order 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 document. (See “Using Document Comments” job aid.)

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.

An ER is an accounting adjustment for the reversal of a payment, not a revenue mechanism.

Expenditure Refunds are solely for contract overpayments and may not be used as a mechanism to accept other types of revenue for damages, settlements or judgments, or other payments from the vendor, or a third party, that do not represent reimbursement for an overpayment of a specific invoice(s), an incorrect payment, reimbursement of amounts for returned goods or reimbursements received from the vendor due to the department’s dissatisfaction with goods or services received or because of a contract adjustment. For an ER’s effect on encumbrances see [Encumbrance Correction Policy](#).

For ARRA purposes, it is critical that all adjustments related to ARRA payments and ERs are managed appropriately to ensure that ARRA payments are accurately reported.

Department Head Certification When Submitting and ER to Final Status

By submitting the ER to “Final” status, it is presumed that the ER has been approved by an authorized department head signatory with the appropriate signatory MMARS security, that the ER complies with this ER policy, that the ER is being submitted for a legitimate mistake, accounting error, refund or contract adjustment and not for an improper purpose, that the department maintains a complete file with all documentation related to the ER that will be available for inspection, that the ER complies with 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.

By submitting the ER, the authorized signatory is certifying that any officer or employee who knowingly violates, authorizes or directs another officer or employee to violate any provision of state finance law relating to the incurring of liability or expenditure of public funds, including this ER policy, may be considered to be in violation of [M.G.L. c.29, § 66](#), and, therefore, the department agrees to ensure that the ER complies with, and that all fiscal, contract and programmatic staff involved are provided with sufficient training and oversight to ensure compliance with state finance law and this ER policy. See [Department Head Signature Authorization and Electronic Signature for MMARS Documents.](#))

Internal Controls

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 the policy of the Comptroller and state finance law. Expenditure Refunds (ER) 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, Expenditure Refunds (ER) 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 documents may indicate an underlying weakness in the department's internal controls for payment processing.

Information Sources

Related Procedure – [Job Aid: Processing Expenditure Refunds for Vendor Overpayment](#)

- 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. 29, § 29D](#) (Debt Collection); [M.G.L. c. 29, § 29E](#) (Revenue Maximization);
 - [M.G.L. c. 30, § 27](#) (Revenue Receipt); [M.G.L. c. 10, § 17B](#) (Revenue Receipt); Massachusetts Constitution [Article LXIII](#) Section 1 (Revenue Receipt);
 - [Comptroller regulations](#) (815 CMR 2.00 10.00);
 - [M.G.L. c. 29, § 66](#) (State Finance Law Violations)
- Related Policy
 - [Key State Finance Law Compliance Appointments and Responsibilities](#)
 - [Department Head Signature Authorization and Electronic Signature for MMARS Documents](#)
 - [Payroll Accounting: Payroll Expenditure Adjustment Transactions](#)
 - [Contracts Policies](#)
 - [Accounts Payable Policies](#)
 - [Fiscal Records Management](#)
 - [Grants Management Policies](#)
- Contacts – [CTR Solution Desk](#)
- [MAComptroller.org](#)