Interfund and Intrafund Training

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County Auditor-Controller

Agenda

- Introduction
- Importance of Interfund/Intrafund accounts
- Interfund/Intrafund Classifications & Definitions
- Financial Presentation of Interfund Transfers
- Departmental Scenarios
- Quick Reference Guides/Lookups
- Open Discussion

Objective

✓ You will understand different classifications of Interfund Transactions
✓ You will know the proper usage of interfund activities from different departmental scenarios
✓ You will have an understanding of different Interfund accounts
✓ You will know how the Interfund transactions get reported in the County’s Financial Statements
Importance of Interfund/Intrafund Accounts

In Fiscal Year 2004, ACO staff spent enormous amount of time evaluating more than 8,000 transactions which caused an out of balance over $86 million in the County’s Financial Statements.

In Fiscal Year 2008, our records show that out of 17,000 journal lines that were processed, we had only 500 lines that needed correction.

Interfund Classifications and Definitions

Classifications

Generally accepted accounting principles (GAAP) established two broad classes for Interfund activity.

1) Reciprocal Interfund
2) Nonreciprocal Interfund

Reciprocal Interfund Classifications & Definitions

- Interfund Loans – Loans between funds are properly reported as increases and decreases in assets and liabilities with no effect on activities in fund financial statements.
  - The lender fund replaces Cash with Advance To Other Funds while the borrower fund reports an increase in Cash and Advance From Other Funds.
Reciprocal Interfund Classifications & Definitions

It is common for governments to make Interfund “loans” with little or no expectation of repayment. GAAP specifically require that any portion of an interfund “loan” that is not expected to be repaid “within a reasonable time” be reclassified as a transfer.

Reciprocal Interfund Classifications & Definitions

• Interfund Services Provided and Used
  It is common for a fund to provide services to one or more other funds, which then are charged for services received.
  ➢ Sometimes the amount charged is equal to the value of the services received. In other cases, the amount charged does not quite equal the value of the services received.

Reciprocal Interfund Accounting

➢ Interfund accounts are used when the Service Provider and the Service Receiver are both a Governmental Fund Type but are in different funds.
Reciprocal Interfund Accounting

To reimburse the **Service Provider** for the goods or services it has provided:

- The **Service Provider** records an increase (credit) to an Interfund revenue account and an increase (debit) to cash.

Reciprocal Interfund Accounting

- The **Service Receiver** records an increase (debit) in Interfund expenditure account and a decrease (credit) to cash.
- The Interfund revenue must Equal the Interfund expenditure.

Reciprocal Intrafund Accounting

- **Intrafund** – When Services received and provided are within the same fund but different department IDs, they are called Intrafund.
- Note: The funds must be governmental fund type.
Reciprocal Interfund/Intrafund Accounting

- To record an Intrafund transaction:
  - The Service Provider records a decrease (credit) in an Intrafund account (Appropriation-7, expenditure accounts 571000 - 575400).
  - The Service Receiver records an increase (debit) in the appropriate expenditure account.

Nonreciprocal Interfund Classifications & Definition

Nonreciprocal Interfund

- Interfund Transfer – GAAP define Interfund transfers as “flow of assets” (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.
  - The Contributing Fund records an increase (debit) to Transfers Out (Appropriation 5, expenditure accounts 551000-551200) and a decrease (credit) to cash.
  - The Receiving Fund records an increase (credit) in Transfers In (accounts 790500 or 790600) and an increase (debit) to cash.
Nonreciprocal Interfund Classifications & Definition

- *Interfund Reimbursements* – are treated as an adjustment to expenses or expenditures.
- An increase (debit) in expenditures in the *Reimbursing Fund* and a corresponding decrease (credit) in expenditures in the *Reimbursement Fund*.

Financial Presentation of Interfund Transfers

- Inflows of current financial resources from other funds are to be distinguished from a government’s regular revenues.
- Interfund transfers received from other funds are reported as Transfers In under Other Financing Sources rather than revenue, and interfund transfer sent to other funds are recorded as Transfers Out under Other Financing Uses.

Departmental Scenario Exercises

- Determine if there is anything wrong with the JE
- Identify the incorrect line
- Offer a solution
- See Flow Chart Illustration 2.0
Departmental Scenarios

Scenario #1 – TLMA fund 20000-31305
rendered road services (Rider St. project # B4 0493) for EDA fund 21350-19002. Entries recorded:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>20000-31305-101100 Cash</td>
<td>$100,000</td>
</tr>
<tr>
<td>20000-31305-778010 Interfund-Rev</td>
<td>$100,000</td>
</tr>
<tr>
<td>21350-19002-536800 Interfund-Exp</td>
<td>$100,000</td>
</tr>
<tr>
<td>21350-19002-101100 Cash</td>
<td>$100,00</td>
</tr>
</tbody>
</table>

Is this JE correct?

Answer: Yes

☑ The interfund transactions are between two Special Revenue Funds.

☑ Interfund Revenue = Interfund Expenditure

Scenario # 2 – Legal services rendered by the County Counsel fund 10000-15001 to Western Riverside Regional Conservation fund 51630 – 935200.
Departmental Scenarios

Scenario # 2
Entries recorded:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000-15001-101100 Cash</td>
<td>$5,000</td>
</tr>
<tr>
<td>10000-15001-778160 Interfund-Rev</td>
<td>$5,000</td>
</tr>
<tr>
<td>51630-935200-524700 Prof. Svcs.</td>
<td>$5,000</td>
</tr>
<tr>
<td>51630-935200-101100 Cash</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Is this JE correct?

Answer: No

☑ The interfund transactions are between the General Fund and a Fiduciary Fund.
☑ Regular Revenue and Expenditure accounts are to be used for this entry.

Departmental Scenarios

Scenario # 3 – Legal services were rendered by County Counsel fund 10000-15001 to Planning department fund 10000-31201.
Entries recorded:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000-15001-101100 Cash</td>
<td>$15,000</td>
</tr>
<tr>
<td>10000-15001-778160 Interfund Rev.</td>
<td>$15,000</td>
</tr>
<tr>
<td>10000-31201-525020 Legal Svcs.</td>
<td>$15,000</td>
</tr>
<tr>
<td>10000-31201-101100 Cash</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

Is this JE correct?
Departmental Scenarios

Answer: No

The transactions are within same fund numbers.

☑ County Counsel should have recorded a decrease (Credit) in appropriation 7 (accounts 571000-575400) instead of Interfund revenue account 778160.

Departmental Scenarios

Scenario # 4 – Recording services rendered by Clerk Recorder fund 10000-12002 for EDA fund 32700-934001. Entries recorded:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000-12002-101100 Cash</td>
<td>$1,500</td>
</tr>
<tr>
<td>10000-12002-778200 Interfund Rev</td>
<td>$1,500</td>
</tr>
<tr>
<td>32700-934001-535220 Taxes/Assessment $1,500</td>
<td>$1,500</td>
</tr>
<tr>
<td>32700-934001-101100 Cash</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

Is this entry Correct?

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Departmental Scenarios

Answer: No

The transactions are between a capital project fund and the General fund.

☑ Fund 32700 should have recorded an Interfund expenditure instead of regular account 535220-Taxes/Assessment.
Departmental Scenarios

Scenario # 5 – Information Technology fund 45500-74001 bills for system support services they provided ACO fund 10000-13001. The entries should be recorded as:
- Interfund accounts
- Regular accounts

Departmental Scenarios

Answer: Regular accounts

Departmental Scenarios

Scenario # 6 – ACO records Realignment County Match From fund 10000-11014, To Health fund 10000-42001. Entries recorded:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000-11014-551200 Ops Out</td>
<td>$150,000</td>
</tr>
<tr>
<td>10000-11014-101100 Cash</td>
<td>$150,000</td>
</tr>
<tr>
<td>10000-41002-101100 Cash</td>
<td>$150,000</td>
</tr>
<tr>
<td>10000-41002-573100 Intra-Realign.</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

Is this JE correct?
**Departmental Scenarios**

**Answer: No**

☑ Fund 10000-11014 should have recorded to a regular expenditure account instead of account 551200- Ops Out.

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**Departmental Scenarios**

**Scenario #7 – BOS directs E/O to contribute $60,151 from Third District Public Facilities Developer Agreement fund 30558-110350 to Riverside Waste Mgmt. fund 40200-45001. Entries recorded:**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>30558-11035-536780 Interfund Exp.</td>
<td>$60,151</td>
</tr>
<tr>
<td>30558-11035-101100 Cash</td>
<td>$60,151</td>
</tr>
<tr>
<td>40200-45001-101100 Cash</td>
<td>$60,151</td>
</tr>
<tr>
<td>40200-45001-781540 Contribution From</td>
<td>$60,151</td>
</tr>
</tbody>
</table>

Is this JE Correct?

**Answer: No**

☑ Fund 30558-11035 should have used “Contribution To Other Funds” account instead of Interfund expenditure account 536780.
Questions

The End