

Transfer Accounts – Their Purpose and Proper Use

In the course of normal business, agencies will have a need to transfer funds between budget funds/codes within the same agency or between agencies. When this transfer is a “something for nothing” movement of funds, transfer accounts are appropriate.

What is a “Transfer”?

Agencies are constantly asked to “transfer” funds to someone else. This request may come through an invoice, legislation, memo, or other means; however, this does not always mean a transfer account will be used.

- An agency paying its telephone bill or its Motor Fleet bill can “transfer” the funds to DIT or DOA, however, these funds are payment for services and would use revenue/reimbursement and expenditure accounts related to purchased services instead of transfer accounts.
- Legislation may require an agency “transfer” funds to a university or community college to assist with a grant or other activity. This movement of funds would most likely be recorded as State Aid in/out or possibly a payment for services if value was received by the agency; but it would not be recorded with a transfer account.
- An agency can “transfer” funds to another agency to pay them for services rendered on a joint project. This payment would be recorded using appropriate revenue/reimbursement and expenditure accounts and not transfer accounts.

A “transfer” that would be recorded using a transfer account would be where funds are moved from one agency to another, or within the same agency where nothing of value was received in exchange for the funds. No product or service was produced or provided by the entity/fund receiving the money in exchange for that money. In this case, both sides of the transaction could appropriately be recorded as a transfer.

If there is any doubt regarding the proper accounting treatment of a financial transaction, staff should contact the Statewide Accounting Division within the NC Office of the State Controller for guidance.

Transfer accounts

There are several types of transfer accounts. Their definitions, along with appropriate uses, are detailed in this document. **If one side of a transaction is recorded using a transfer account, the other side of the transaction must also be recorded using a transfer account.**

When using a transfer account, agencies must make sure appropriate communication is maintained with the parties receiving or sending the funds to ensure that both sides of the transaction are recorded consistently.

Communication is critical because at fiscal year-end, both agencies and OSC must reconcile all transfers to ensure both sides of the transaction were recorded properly and that transfers-in



balance to transfers-out at a statewide level. Additional information regarding year-end processes related to transfers are detailed below.

Additional detail on transfer accounts can be obtained on OSC's website.

Transfer expenditure accounts

<http://osc.nc.gov/538xxx-intragovernmental-transactions>

Transfer revenue accounts

<http://osc.nc.gov/438xxx-intragovernmental-transactions>

Statewide Operating Transfers (4380XX & 5380XX)

Statewide operating transfer accounts are established by OSC to facilitate transfer of funds for specific purposes, most of which are legislatively mandated. This account series also includes transfer accounts established to accomplish the year-end carryforward of appropriations approved by OSBM.

These accounts are to be used only for their stated purposes and both the transfer out, as well as the transfer in, must utilize the appropriate 4380XX or 5380XX account.

If there is a question regarding the appropriateness of using a statewide operating transfer account, agencies should communicate with the other agency involved to ensure both are recording consistently. Adequate communication is critical.

Agency Operating Transfers (4381AA & 5381AA)

Agency Operating Transfers are legally authorized transfers of financial resources from a fund designated to receive revenues to a fund that is authorized to spend the money and incur the expenditures. These transfers may occur within the same GASB fund, budget fund or different funds; and within the same department or between different departments. Reimbursements for services by other state agencies through internal service funds are **not** transfers.

Agency operating transfer accounts are in an Agency Assigned (AA) range to allow agencies to create as many accounts as necessary to adequately track where money comes from and where it goes. It is critical the account name contain sufficient/accurate information on the nature of the transfer.

If one side of the transaction is recorded with a 4381 or 5381 account, the other side of the transaction **MUST** be recorded with the opposite account (i.e. if a transfer out is recorded with a 5381AA account, the receipt of the funds must be recorded with a 4381AA account). You cannot transfer between funds by debiting and crediting the same account in different funds.

If there is a question regarding the appropriateness of using an agency operating transfer account, the initiating agency should communicate with the other agency involved to ensure both are recording consistently. Adequate communication is critical.



Note: The 5381AA/4381AA accounts should **NOT** be used for transactions between primary government agencies and component units including universities. Resource flows between a primary government and its discretely presented component units (and between component units) should be reported as external transactions; that is, as revenues and expenses.

Agency Nonroutine Transfers (4384XX and 5384XX)

Nonroutine transfers of equity between funds, for example, transferring of programs, closing out capital projects funds, or transfer of remaining fund equity of a discontinued fund. This account is for use only by primary government agencies; it is not valid for universities and other component units.

The use of these accounts will be rare, hence the name nonroutine. The use will usually involve direction from OSC or OSBM.

As with other transfer accounts, both sides of the transfer must be recorded using the 4384XX and 5384XX accounts. (The bulk of this range of accounts is comprised of AA accounts.)

If there is a question regarding the appropriateness of using an agency nonroutine transfer account, the initiating agency should communicate with the other agency involved to ensure both are recording consistently. Adequate communication is critical.

Agency Federal Funds Transfer/Receipts (5388AA accounts)

Agencies that rely on federal funding to cover or supplement a portion of its operations draw down funds from the federal government. This is normally accomplished by drawing the funds into a 3 type federal budget code, then transferring the funds from the 3 type budget code to an operational budget code (1 type, 2 type, or 4 type budget code.) The receipt of the federal funds into a 3 type budget code will be coded to a 4321AA Federal Grants revenue account.

To record this transfer of funds, an agency will establish a 5388AA account in the federal budget code, usually with a fiscal year identifier in the 10th and 11th position of the account to record the transfer out. This transaction will show up as an expenditure on related reports. (BD701F)

To record the receipt of these funds into an operational code, the agency should use the same base 6-digit account to match the 11-digit account in the federal budget code. In the operational code receiving the federal funds from the federal budget code, the 5388AA account shows up as a revenue on related reports. (BD701)

The same base account is used for both an expenditure and a revenue so that the account will net out to zero at the company/GASB fund level. In the event they do not net to zero, most likely accounting entries were made/not made in error.



An agency can identify any out of balance issues by running the following IE report from the **GLPUBLIC** library within NCAS:

C-U-GL-GRANT-RECON-RPT
 C-U-GL-GRANT-RECON-RPT-RUN

Below is an example of the report. The report shows each account and its subaccounts together. If they are in balance, the total for the account will be zero (0).

RMDSID17 REPORT01	STATE OF NORTH CAROLINA GENERAL LEDGER SYSTEM GRANT RECONCILIATION REPORT FOR PERIOD 4			PAGE: 3 C-U-GL-GRANT-RECIB-RPT RUN DATE: 10/31/20
COMPANY	ACCOUNT	CENTER	YTD AMOUNT	
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XX02	53880W	1131	0.00	
XX02	53880W	1141	799.00-	
XX02	53880W	1151	1,998.00-	
XX02	53880W	1161	0.00	
XX02	53880W	2161	0.00	
XX02	53880W	2241	0.00	
XX02	53880W00010	3D02	0.00	
XX02	53880W00011	3D02	0.00	
XX02	53880W00012	3D02	0.00	
XX02	53880W00013	3D02	0.00	
XX02	53880W00014	3D02	0.00	
XX02	53880W00015	3D02	0.00	
XX02	53880W00016	3D02	2,797.00	
TOTAL FOR ACCOUNT 53880W			----- 0.00	

Transfers to Component Units

As noted above in the Agency Operating Transfers section, transactions between the primary government and a component unit **cannot/should not** be recorded as a transfer. They must be recorded as revenues and expenditures.

Component units of the State of North Carolina include the following:

- University of North Carolina System
- Community Colleges
- State Health Plan
- State Education Assistance Authority
- NC Housing Finance Authority
- The Golden Leaf, Inc.
- NC State Ports Authority
- NC Global TransPark Authority
- NC Railroad Company
- NC Biotechnology Center
- NC Partnership for Children, Inc.



Accrual of Transfers

As a general rule, transfers should be recorded on the cash basis only (when the funds actually transfer between entities) and not accrued. There may be exceptions to the rule. In the case of an exception, both sides (both transfer out and transfer in) must be accrued by their respective agency/entity.

Year End CAFR-Related Transfer Account Activity

Year-end activity regarding transfer accounts is twofold.

1. **Agencies** - Agencies must reconcile their transfer accounts and eliminate any transfers that were within the same company and same GASB fund. This involves matching up the 438xxx and 538xxx balances that were internal to both a GASB and a company. Where the amounts offset each other (debit balance equals credit balance), both sides can be eliminated in the 13th period. The elimination entry will be done with a 6/30 date and will reduce revenues and expenditures by the same amount. This allows for the transfer balances to remain on the cash basis budgetary reports while being removed for the accrual basis CAFR reports.

After elimination entries are complete, the only transfer balances that should remain are those that are either between GASBs or companies within the agency, or transfers external to the agency.

2. **OSC** - OSC must reconcile all transfers on both a GASB and Statewide basis. To do this, all remaining transfers that were not eliminated by agencies must be reviewed, and both the revenue side and the expenditure side must balance. In the event these do not balance, research is performed by OSC staff to determine where the error occurred, and correcting entries are made, either to the NCAS system or in OSC's CAFR work papers.

Once transfers are balanced on a statewide level, eliminations are performed to reduce revenues and expenditures by equal amounts to remove transfers that were internal to governmental activity or internal to business type activity.

The final annual CAFR will contain only net transfers between Governmental Activity and Business Type Activity.



Summary

The proper recording of transfers, both within agencies and between agencies, is critical to ensure year-end and CAFR processes can be performed in an efficient and effective manner. Agencies should take the necessary steps throughout the year to communicate with the appropriate individuals to make sure transfers are recorded correctly throughout the year. Questions regarding the proper use of transfer accounts can always be referred to your OSC analyst.

