STATE OF WISCONSIN
DEPARTMENT OF HEALTH SERVICES
DIVISION OF ENTERPRISE SERVICES
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY AND PROCEDURES (APP) MANUAL

TOPIC: Section 3 – Revenues and Refunds 1.1	EFFECTIVE DATE: 03/17/1983
TITLE: Refunding Revenues and Expenditure Refunds	REVISION DATE: 01/17/2018
AUTHORIZED BY: Deputy Director, Bureau of Fiscal Services	

BACKGROUND

Various units within the Department of Health Services (DHS) are service units (providers) that provide for goods or services to other departmental units (users) or outside agencies. The charges are based on rates established to recover the costs incurred in producing the goods or services for users. If the established rates produce charges (revenues) in excess of the costs, policies and procedures must be established to dispose of those excess revenues in a legal and equitable manner.

When the provider returns the excess revenues to users, the provider “refunds revenues,” and the user receives an “expenditure refund.” When the refunds are made for charges in the same fiscal year, there are no significant accounting problems. However, the accounting for expenditure refunds is complicated when the refunds relate to charges made in the preceding fiscal year. In the case of general purpose revenue (GPR) refunds, those funds returned in the next fiscal year become GPR-Earned amounts subject to Wis. Stat. § 16.52 (2) and should, under usual procedures, be returned to the State General Fund as a non-appropriated receipt. See APP Section 3 – Revenues and Refunds 1.0 (Accounting for Revenues and Refunds of Expenditure) for examples relating to PRO/PRS/PRF appropriations.

There are alternative methods for disposition of excess revenues. (1) Cash payments for prorated refunds, based on billings, may be made to the various users. (2) The provider may reduce subsequent billings by the refund amount due each user. (3) The provider may apply total excess revenues in rate computations in order to reduce rates for the next fiscal year.

Cash refunding is not desirable due to excessive processing required and the need to consider delinquent accounts. If significant amounts are involved, adjusting rates for the next year with current excess revenues may not be equitable because different users could be involved, and the volume of charges to individual users could vary between years.

Excess revenue is defined as the accumulated amount by which revenue exceeds expenses for the service (this calculation, per A-87, includes adjustments for depreciation and a few other adjustments). The service provider is allowed to retain an excess balance up to 60 days of cash expenses for normal operating purposes. The choice of whether to retain or refund excess amounts less than 60 days of expenses is at the discretion of the section chief, Cost Allocation and Financial Reporting. This excess should be considered in the setting of rates for the subsequent year, since the intent is to have a cash balance of zero (neither positive nor negative). Excess amounts exceeding 60 days of expenses must be refunded using one of the options previously discussed.

POLICY

When a decision is made to refund excess revenues of the provider unit within DHS, the refund will be uniformly allocated between users based on billings and should be refunded in the same fiscal year that they were generated. Application of refund amounts to subsequent billings within the same, or in the immediate succeeding, fiscal year is the preferred method for refunding excess revenues. Any refund option should be approved by the section chief, Cost Allocation and Financial Reporting.

PROCEDURES

1. Every provider unit within DHS will review operations quarterly or at least annually to determine if excess revenues are accumulating.
2. Refunds for each user will be computed in an equitable manner when a significant amount of excess revenues has accumulated. The ratio of user billing to total billings may be used to compute refunds. Whenever possible, the refund for each user will be applied to reduce the next billing for that user in the current fiscal year.
3. See APP Section 3 – Revenues and Refunds 1.0 (Accounting for Revenues and Refunds of Expenditure) Attachment – Coding for Revenues and Refunds of Expenditures for proper coding for GPR and for PRO/PRF/PRS refunds.
4. When a refund is not required (excess is less than 60 days of expenses), typically there should be an adjustment to the next year's rates across the board for all users. The decision not to refund and the amount by which to reduce future rates should be reviewed and approved by the section chief, Cost Allocation and Financial Reporting.

REFERENCES

Wis. Stat. § 16.52 (2)
DOA Wisconsin Accounting Manual, Section 7 – Revenues, Subsection 5 - Refund of Expenditures
DHS APP Section 3 – Revenues and Refunds 1.0 (Accounting for Refunds of Expenditure)

CONTACTS

Lead Accountants

Section Chief, Cost Allocation and Financial Reporting