

**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**  
**DOCKET NO. 4025**  
**City Of Newport - Utilities Division - Water Department**  
**Response to**  
**The Rhode Island Public Utilities Commission's**  
**Data Requests**  
**Set 2**

**Comm 2-1:** Please explain in detail the process Newport Water and the City of Newport follow for processing outside vendor invoices for services rendered to Newport Water. Please include a timeline.

**Response:** The process for payment of outside vendor invoices is as follows:

- The Water Division prepares a requisition which is first reviewed by the Deputy Director then approved by the Director of Utilities.
- The requisition is then forwarded to purchasing and then to the Controller for approval to ensure that purchasing laws and requirements are being followed and that it is an allowable expense. Approvals are now generally “on-line.”
- The requisition is then sent back to purchasing for creation of a purchase order.
- The purchase order is then sent to the Water Division and a copy is given to Accounts Payable (A/P). This process takes 1-4 days.
- The Water Division places the order and receives the goods or services. This can take anywhere from 1 – 30+ days depending on what is being ordered.
- The invoices (for the most part) are sent by the vendors directly to the A/P Clerk. This is often done on the same day the goods or services are received by the Water Division.
- The A/P Clerk makes copies of the invoices and sends them to the Water Division. This is done on the day the invoice is received in the mail by the A/P Clerk.
- The A/P Clerk also enters the invoices into the A/P system and puts a hold on them so they are not paid until authorized by the Water Division.
- Upon receipt of the invoice, the Water Finance Analyst enters the invoice into a shared EXCEL file so that open invoices and cash flow can be monitored. This is usually done within 2 days of receipt of the invoice copy from A/P.
- The Deputy Director of Finance for Water determines which invoices can be paid and when payment can be made. This is approved by the Division Director and the “approved for payment” invoices are so marked in the shared file.

**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**  
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**Response to**  
**The Rhode Island Public Utilities Commission's**  
**Data Requests**  
**Set 2**

- When Water Division invoices are paid, the A/P Clerk goes into the shared file and pulls the invoices marked for payment. She then matches all of the paperwork and gives it to the Controller for approval.
- Once approved, the A/P Clerk removes the hold in the A/P system and processes the payments. The check run is approved by the Controller and the checks are issued and mailed by the A/P Clerk.
- Approved invoices are paid from the Water Division Operating Account and payments are usually processed one to two times a month.
- The Accounting Supervisor then posts the A/P run to the cash ledger and to the general ledger.
- The Accounting Supervisor also posts the disbursement total onto a second shared file. This shared file is for water fund cash and “due to/from.” This is done on the same day that checks are mailed to the vendors.

Some invoice payments are reimbursed by restricted accounts. The restricted funds are monitored on EXCEL by the Controller and the payments are logged onto that spreadsheet. The restricted funds must be separately tracked because there is not always sufficient cash in the restricted account to pay for the restricted expenditures. The Water Division operating fund may be reimbursed later. The Controller evaluates the restricted funding and payments on a monthly basis. She will then authorize wire transfers from the restricted accounts to reimburse the Water Division operating fund for appropriate expenditures. The wires are approved by the Finance Director via call back from the bank. The Controller and Accounting Supervisor also monitor cash in order to ensure that sufficient funds are available to fund the restricted accounts at the end of each month.

Capital spending goes through the same process. The difference is that the invoices are generally received on a monthly basis for work in progress and is often 2-3 months after the work for that month is completed.

Two types of vendor payments are wired directly without going through the above process. One is the sales tax payment which is due and paid on the 20<sup>th</sup> of each month. The second is the health insurance premiums which are due on the first of each month.

The Water Fund is on a full accrual basis. This means that any invoices received after June 30 (year-end) for work performed prior to June 30 must be charged back to June 30. The City usually processes this type of accrual through the end of August of each year. Capital invoices may be delayed even longer. A second accrual is done on capital

**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**

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**Data Requests**

**Set 2**

projects where retainage may be held. The retainage must be charged as an expense in the year earned regardless of when paid. That accrual entry is reversed in July of the next year.

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**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**  
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**Data Requests**  
**Set 2**

**Comm. 2-2:** Please explain in detail the process Newport Water and the City of Newport follow for processing charges between various City departments and Newport Water. Please include a timeline.

**Response:** The following are the types of interfund charges that the City of Newport issues to the Water Division and the approximate timeline for when they are billed<sup>1</sup>:

1. Equipment Service Charges (Vehicle Maintenance) – Direct charges such as gasoline and repairs are charged to the Water Division on a monthly basis often 1-2 months after the charges are incurred. Indirect charges such as overhead are determined in August for the prior fiscal year ending June 30. They are accrued back to June of the prior fiscal year.
2. City Services Charges – are billed to the Water Division on a quarterly basis at the beginning of the quarter.
3. Data Processing Charges – are billed to the Water Division on a quarterly basis at the beginning of the quarter.
4. Permits – are charged when the bill is received from the City Engineering department and only when incurred. Road opening

In addition, the Water Pollution Control Fund bills the Water Division on a quarterly basis for Sludge treatment. The bills are generally received by the Water Division one to three months after the quarter end.

The process by which these charges are paid is as follows:

- The Accounting Supervisor posts these interfund charges into the general ledger as “due to” the fund issuing the charge and “due from” the Water Division when a bill is issued. They are also posted by the Accounting Supervisor onto the Cash Shared File (EXCEL).
- The bills issued to the Water Division are then reviewed by the Water Division personnel for approval.
- The bills are subsequently paid by the Water Division when cash is available to pay a previously authorized bill. It is important to remember that cash receipts are

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<sup>1</sup> This response only addresses charges from the City of Newport and the Water Pollution Control Division to the Water Department. It does not include charges from the Water Division to the Water Pollution Control Division. In addition, this list does not include Payroll, which is addressed in Newport's response to Comm. 2-3.

**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**  
**DOCKET NO. 4025**  
**City Of Newport - Utilities Division - Water Department**  
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**Data Requests**  
**Set 2**

initially made to the general fund operating account as it is impossible to break water and sewer payments apart as they are often on one check.

- The Accounting Supervisor reviews the cash collection reports every other day and writes up a cash transfer request. The cash transfers are offset by any previously authorized payments for expenses such as outside vendors, payroll, City Services, etc. This is done at least weekly.
- The appropriate net cash transfer is then made to the Water Fund account by the Controller with approval of the City Finance Director. These transfers are done on at least a weekly basis. Thus, the amount of outstanding charges that can be paid each week depends on the Water Fund's cash receipts for that week.
- The journal entries are posted by the Accounting Supervisor into the cash ledgers and general ledger.
- Additional journal entries are required in the system to offset "due to/due from" accounts in the Water Fund. The Accounting Supervisor also makes those entries.
- The Cash Shared File is updated by the Accounting Supervisor, and then reconciled to the Water Fund cash in the general ledger and to the "due to/due from" accounts in the general ledger.

It should also be noted that charges must be accrued back to June 30 if the service was provided prior to June 30. Thus all bills received after June 30 for service prior to June 30 will be accrued as a payable. The payables must be reversed on July 1 of the next year.

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**DOCKET NO. 4025**  
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**Data Requests**  
**Set 2**

**Comm. 2-3:** Please explain in detail the process by which Newport Water employees are paid, including how those payroll amounts are recovered by the City of Newport from Newport Water. Please include a timeline.

**Response:** All city employees are paid on a biweekly basis. The payroll period runs from Sunday through Saturday. The pay date is Thursday. The payroll process is as follows:

- The Supervisors of the separate sections in the Water Division (i.e. distribution, customer accounts, etc.) each track the time records of their individual employees.
- These records are then compiled into one timesheet (EXCEL) by the Financial Analyst who also compares the timesheets to approved absences and checks with the Supervisors to resolve any discrepancies.
- This spreadsheet is then reviewed by the Deputy Director – Finance and is approved by the Water Division's Director.
- The timesheet must be sent to the Payroll ("P/R") Clerk by noon of the Friday before payday. Any changes to the timesheet that occur between Friday noon and Saturday night are emailed to the P/R Clerk on Monday morning.
- The P/R Clerk keys all data into the P/R system and balances the data entry and leave records to the timesheets.
- The P/R Clerk then adjusts payroll records for any changes that have come from human resources, employees or other sources. These might include retroactive pay, changes to withholding or deferred compensation etc.
- The Controller reviews the payroll to this point and calls the Water Division for any needed clarifications.
- Payroll is then processed through a series of commands to bring in the employee retirement information, FLSA, overtime, leave etc.
- The payroll is balanced and reviewed by the P/R Clerk and the Controller.
- Once approved, files are generated and transmitted to the banks, and checks are run. This is all done on Tuesday of payroll week.

**STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**DOCKET NO. 4025**

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**Response to**

**The Rhode Island Public Utilities Commission's**

**Data Requests**

**Set 2**

- On Wednesday of payroll week, the P/R Clerk creates and transmits files to the Rhode Island Employee Retirement System, the IRS, the State Division of Taxation, various deferred compensation providers and insurance companies.
- The checks and remittance advices (direct deposit) are then sorted into department order and sent to human resources for any attachments.
- They are returned to Payroll for authorized pick-up on Thursday morning.
- The P/R Clerk then creates a file of all vendor payments or deductions related to payroll that have not already been remitted per above (union dues, garnishments, etc).
- That file is reviewed by the Controller or the Accounting Supervisor. Once the file is approved it is released to the A/P system and the A/P Clerk processes the payments.
- The Accounting Supervisor then runs several posting commands to close out the payroll file and properly record in the general ledger.
- These reports are reviewed by the Accounting Supervisor and then posted.

Payroll and benefits are also subject to year-end accrual. The Accounting Supervisor determines how many days of the first payroll in July were for workdays in June. Different pay types require different formulas. A manual journal entry is written by the Accounting Supervisor for the accrued payroll and a separate journal entry is written for the associated benefits. The entries are reviewed and approved by the City Finance Director and then keyed into the general ledger as accrued payroll in the separate funds. The entries are then manually reversed as of July 1 of the following year.

Retroactive pay related to contract settlements is usually prepared, programmed, processed and reviewed by the P/R Clerk and the Controller 4-6 weeks after official approval of the new contract by the City Council. These amounts are also accrued back to the last open year if applicable.

Payroll costs get posted onto the Water Fund's Cash Shared File as a "due to" other funds by the Accounting Supervisor on the pay date. Payroll is then reviewed by the Water Department Personnel and after it is approved, it is reimbursed as cash flow allows. The reimbursement follows the same process as other internal charges as explained in the response to Comm. 2-2.

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**DOCKET NO. 4025**

**City Of Newport - Utilities Division - Water Department**

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**Data Requests**

**Set 2**

**CERTIFICATION**

I hereby certify that I sent by electronic mail a copy of the within to all parties set forth on the attached Service List on May 21, 2009, and one original to Luly Massaro, Clerk, Rhode Island Public Utilities Commission.

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