

## AFTERNOON SESSION B, HANDOUT 1

### INTERNAL/EXTERNAL INDICATOR—STARS JOURNAL ENTRIES QUESTIONS AND ANSWERS

Question #1: What do the words *internal* and *external* (and corresponding codes *I* and *E*) mean with respect to STARS documents beginning July 1, 2001?

Answer: The word *internal* generally applies to transactions between two agencies, both of which are within South Carolina's "primary government" as defined by Generally Accepted Accounting Principles. *External* applies to transactions with parties outside the primary government.

Question #2: What are some examples of *internal* parties?

Answer: The Budget and Control Board, Department of Mental Health, University of South Carolina, Department of Transportation, and State Retirement Systems are all examples of internal parties. The Tobacco Revenue Management Authority and the Governor's School for the Arts Foundation, Inc., are also considered to be internal parties.

Question #3: What are some examples of *external* parties?

Answer: Examples of external parties include vendors and providers in private industry with which your agency does business, employees, taxpayers, and citizens who pay fees to obtain State services. The following also currently are considered to be external parties: First Steps to School Readiness Board of Trustees; Public Service Authority (Santee-Cooper); State Ports Authority; Connector 2000, Inc.; Savannah Lakes Regional Loan Fund; the South Carolina Education Assistance Authority; the Educational Television Endowment of South Carolina, Inc.; Carolina Capital Investment Corporation; the South Carolina Children's Trust Fund; the Gift of Life Trust Fund of South Carolina; the South Carolina Reinsurance Facility; the Associated Auto Insurers Plan; the Rural Crossroads Institute; Enterprise Development, Inc., of South Carolina; military facilities redevelopment authorities; and certain foundations and institutes that support the State's various higher education institutions.

Question #4: Will my agency need to enter an *I* or *E* on each STARS document?

Answer: No; agencies should enter this code only on Journal Vouchers (Batch 0 documents) that include revenue or expenditure object codes. STARS will automatically assign an *I* or *E* in all

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other cases as explained in more detail in the memorandum dated January 3, 2001, addressed to agency finance directors.

Question #5: My agency doesn't have the resources to reprogram its JV creation program to automatically print the internal/external indicator in position 164 of the document header. May I handwrite or stamp the *I* or *E* on each JV document?

Answer: Yes; write or stamp the *I* or *E*, preferably in red, in the document header area.

Question #6: I need to prepare a JV to correct a cash transfer or IDT (Batch type 3 or 4 document). Should the correcting JV be coded as *I* or *E*?

Answer: This is an *I* (i.e., internal) transaction. STARS automatically coded the original transfer or IDT document as internal, so the correction of that document should also be coded as internal.

Question #7: During March, I deposited various checks from non-State parties and various IDT receipts into my agency's Revenue Clearing subfund. When clearing the balances out of this subfund at the end of the month, should the *I* or *E* code be used?

Answer: You must prepare at least two journal vouchers (JVs) to clear the subfund: one for the checks and another for the IDT's. The Internal/External Indicator field should be coded as *E* on the JV to clear the checks and as *I* on the JV to clear the IDT's. Review STARS report CSA442CM, "Internal/External Activity," or the online Operating File Inquiry screens to obtain the amounts you need on each of the JVs. On those reports, all cash receipts (Batch 2 documents) will be shown as *E* (i.e., External) whereas all IDT's (Batch 4 documents) will be shown as *I* (i.e., Internal).

Question #8: Is there any way to shortcut the work described in Question #7 above?

Answer: Some agencies may find it easier to request that the Central State Accounting Division of the Comptroller General's Office establish a 3555 subfund, *IDT Receiving*, for use beginning in FY02. Then the agency could deposit checks into its old Revenue Clearing subfund and IDT's into its IDT Receiving subfund. The agency then could clear the *entire*

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balance out of the Revenue Clearing subfund on an *E* journal voucher and clear the *entire* balance out of its IDT Receiving subfund on an *I* journal voucher.

Question #9: Suppose that in Question #7 you also had deposited *checks from various State agencies* into the Revenue Clearing subfund. How should the balances corresponding to those transactions be cleared?

Answer: STARS identifies *all* cash deposits (Batch 2 documents) as *E* (i.e., *external*), so you should clear these transactions under discussion by using a JV coded as *E* (even though this may be somewhat contrary to your intuition).

Question #10: My agency purchased office supplies from General Services using the State credit card, and we subsequently needed to change the subfund against which part of these office supplies are charged. How should the JV be coded—*I* or *E*?

Answer: Payment of the credit card bill was made via a disbursement voucher (Batch 6) that resulted in a State check being issued to the credit card company (an external vendor), so STARS automatically identified that transaction as *E* (i.e., *external*). Accordingly, the correcting JV also should be coded as *E* (even though this may be somewhat contrary to your intuition).

Question #11: I need to correct the subfund and mini-code for a disbursement voucher (Batch 6 document) where the payment (i.e., check) was to another State agency. How should the correcting JV be coded—*I* or *E*?

Answer: As explained at the top of page 2 in the memo your agency finance director received around January 3, 2001, STARS would automatically code the original disbursement voucher (Batch 6 document) as an *I* (i.e., *internal*) transaction, even though it resulted in the issuance of a check rather than an IDT. Accordingly, you should code the correction as an *I*.

Question #12: I need to move the entire balance in a particular revenue or expenditure object code in my agency's 3035 subfund from mini-code 0057 to mini-code 0058. How can I determine whether or how to split the balance between *I* and *E*?

Answer: Review STARS report CSA442CM, "Internal/External Activity," or the appropriate online Operating File Inquiry

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screens to determine the split of the original transactions between *I* and *E*. Correct the *I* balances on a JV coded as *I*, and correct the *E* balances using a JV coded as *E*.

Question #13: My agency has offices in each county that receive money from local governments and expend that money out of county office checking accounts. Until a few years ago, these revenues and expenditures weren't recorded on STARS, but then the Comptroller General's Office asked us to record them on STARS. So now we prepare a JV that debits various STARS expenditure accounts and credits revenue. Are these JV's *I* (internal) or *E* (external)?

Answer: The basic purpose of this JV is to record on the State's books certain amounts received from external parties and certain amounts paid primarily to external parties. Accordingly, the JV should be coded as *E* (external).

Question #14: My agency recorded a cash receipt of deferred revenue (Batch 2 document) using STARS Transaction Code 207, *Receipt of Deferred Revenue*, but we made the deposit into the wrong subfund. Should the correcting JV be coded as *I* (internal) or *E* (external)?

Answer: This one is tricky! The JV as described doesn't require either an *I* or an *E* because it affects only Cash (an asset) and Deferred Revenue (a liability). No Revenue or Expenditure account is involved. If you did accidentally code it as an *I* or *E*, however, STARS would only issue a "warning," and the transaction would post; it would not go to the Error File. [The answer would be different, however, for the JV to reclassify Deferred Revenue to Revenue (STARS Transaction Code 055). That transaction should be coded as *E* (external).]

Question #15: Why do we have to do all of this work (i.e., distinguishing internal from external journal vouchers)?

Answer: GASB 34 requires that we distinguish internal vs. external transactions and balances in the accounting system because certain internal balances must be eliminated or reclassified in the financial statements. The STARS internal/external indicator will enable automation of some of work required to identify the specific amounts that must be eliminated or reclassified.

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Question #16: I still have a question about whether to use an *I* or an *E* on a particular JV. Who can help me?

Answer: Before July 1, 2001, call either Bryce Wilson (734-2616) in the Comptroller General's Office or the person in the Central State Accounting Division of the Comptroller General's Office that you normally call for questions on Journal Vouchers. Beginning July 1, please direct all questions of this nature to the Central State Accounting Division's staff.