Metropolitan Government of Nashville and Davidson County - Finance Dept. Policy: Interdepartmental Billings and Expenses

Effective Date: July 1, 2013
Revision Date: September 16, 2025
Policy Number: 1.2
Sponsor: Division of Accounts

Purpose

To provide guidance to Metro departments on the proper accounting of interdepartmental billings and expenses in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements.

Description

Some departments within the Metro Nashville Government provide goods and/or services to other departments. For example, the primary function of some departments is to provide support services to other departments. Additionally, there are departments that may provide routine or occasional services to other departments as part of their normal operations. In some cases, departments may incur expenditures/expenses in one fund that are funded by revenues in other funds.

Definitions

The following definitions reflect guidance from the Government Finance Officers Association (GFOA) and GASB in alignment with GAAP:

Internal Departmental Billings and Expenses refer to financial transactions that occur within the same organization specifically, between departments or units—for the use of goods, services, or shared resources.

Internal service funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. These funds should only be used if the primary government is the predominant participant in the activity. Internal service funds must operate on a break-even basis over time.

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods and services.

Interfund services provided and used refer to transactions where one fund sells goods or services to another fund in exchange for equal or almost equal value. These transactions should be accounted for as if they were with an external party.

Interfund reimbursements are repayments from funds responsible for specific expenditures or expenses to the funds that initially paid for them. These are reported as expenditure/expenses in the reimbursing fund and as reductions of expenditures/expenses in the reimbursed fund.

General Policies

Departments established primarily to provide goods or services to other departments shall be accounted for in an internal service fund. Operational costs shall be billed to user departments on a cost-reimbursement basis through journal entries. Internal service funds shall report revenue equal to the billed amounts, while user departments shall report expenditures/expenses. Examples of internal service funds include the Information Technology Services Department and the Department of General Services' Office of Fleet Management.

Departments providing goods or services to external users shall be accounted for in enterprise funds. When such departments provide services to other departments across funds (i.e. interfund), the billing department shall bill the cost to user departments through journal entries. The enterprise fund shall report revenue, and the user departments shall report expenditures/expenses. Examples include the Department of Water and Sewerage Services and Municipal Auditorium.

Departments providing services within the same fund (i.e. intrafund) shall reclassify the appropriate expenditures/expenses through journal entries. The service-providing department shall decrease expenditures/expenses, while the receiving department shall increase expenditures/expenses. The service-providing department shall not record revenue. Example: Physical exams provided by the Health Department to other departments within the General Fund.

Departments incurring expenses funded by revenues sources in multiple funds must reclassify expenditures/expenses through journal entries to the appropriate funds. These should not be recorded as interfund transfers to avoid artificially inflating revenues and expenditures. For example, salaries partially funded by a Special Revenue Fund and general operations from the General Fund should be recorded proportionately in each fund.

Applicable Local, State or Federal Regulations

Metro. Charter art. 8 ,§ 8.103: The director of finance shall be responsible to the mayor for the administration of the financial affairs of the metropolitan government.

Metro. Charter art. 8, § 8.104: The budget officer, with the advice and assistance of the chief accountant, shall write, revise and maintain a proper standard procedure instruction manual to be followed by all officers, departments, boards and other agencies of the government to ensure uniform accounting and budgetary procedures.

Metro. Charter art. 8, § 8.105: The chief accountant shall maintain a general accounting system and such cost accounting records as shall be required by the director of finance.

Associated Policies

None.

Effective Date

This Policy Statement shall become effective upon issuance and shall be applied to all Metro departments and agencies.

Approvals

Approval of the Director of Finance

I hereby approve this Policy Statement of the Department of Finance and as such agree with and authorize the actions necessary to implement its requirements.

Jenneen Reed

Director of Finance

Date: September 16, 2025