

OFFICE OF ACCOUNTS AND CONTROL

OAC-ACCOUNTING FOR RETAINAGE & RETAINAGE PAYABLE

OFFICE OF ACCOUNTS & CONTROL

**RETAINAGE AND RETAINAGE PAYABLE –
POLICY A-77**

Division Contact :
Louise Sawtelle
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Effective 4/12/2023

1. Purpose

To provide guidance related to accounting for retained percentages (retainage) for government contracts in fund level financial records. It is offered as additional guidance related to OAC Policy A-62 (Expenditure Recognition & Accounts Payable Cut Off).

2. Applicability

This policy shall apply to all departments and agencies in the State of Rhode Island who utilize the State's financial accounting system (RIFANS) and whose activities require the withholding of retainage.

3. Definitions

- a. Retainage: withholding of a percentage of the agreed upon final price withheld for a defined period to assure a contractor or subcontractor has completed a project completely and correctly according to the terms of the agreement. The retainage amount is typically defined in the contract.
- b. Retainage Payable: Retainage payable is a portion of the agreed upon contract price deliberately withheld until the work is substantially complete to assure that the contractor or subcontractor will satisfy its obligations and complete the project.
- c. Office: The Office of Accounts and Control (A&C) within the Department of Administration
- d. Contractor: any party the State agency has executed an agreement.
- e. Internal Controls: department guidelines set up for proper recording and settlement of contract retainage payments.
- f. Forfeiture of Retainage (breach of contract): where final retainage payments are withheld because less than full performance has been delivered by a contractor based on the terms of the agreement.
- g. Short-term retainage: retainage which is due and payable in less than 12 months
- h. Long-term retainage: retainage which is due and payable in more than 12 months

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4. Procedure for Compliance

- a. Departments must treat retainage with the same importance as any other contractual term. Retainage amounts should be withheld from periodic payments in accordance with the terms of the contract. Retainage amounts cannot be increased or decreased unilaterally by a department without a formal contract amendment. Retainage should be released upon successful completion and acceptance of performance.
- b. Retainage may only be revoked (not released) when the department can document proof of substandard or incomplete performance, which the contractor has not cured after written notice of breach and a reasonable period to cure. If litigation or disputes over the performance or the retainage are threatened, the department may not unencumber or use the retainage funds for any other purpose until the dispute is resolved.
- c. Proper recording of retainage payable shall be set up in RIFANS as a liability account separate from accounts payable.
- d. Tracking of retainage payments, related retainage balance and all supporting contract documentation shall be maintained by each department or agency and reported to the Office.
- e. Reporting retainage at year-end:
 - i. It is the responsibility of the CFO of each State agency to ensure that all retainage payable is reported to the Office on or before August 15th for the prior fiscal year ending June 30th.
 - ii. The following information must be sent to Yearend.Retainage@doa.ri.gov for each retainage item to be recorded:
 - (a) Project Number and Name
 - (b) Vendor/Contractor Name
 - (c) Retainage Percentage
 - (d) Retainage Balance at 6/30
 - (e) Supporting documentation such as last vendor invoice showing retainage balance

State of Rhode Island
Department of Administration

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5. Signatures:

Dorothy Pascale

State Controller

April 18, 2023

Date



Director of Administration

4/19/23

Date