

# **ACCOUNTING AND FINANCE OPERATIONS**

**ATI-0001-2015**



**PUERTO RICO INTEGRATED TRANSIT AUTHORITY  
(PRITA)**

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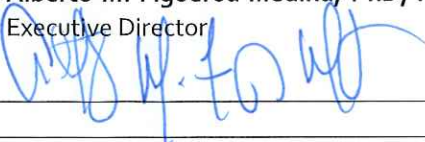
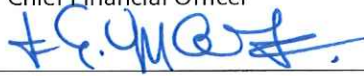


Regulation Number or Procedure:

ATI-0001-2015

DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS

PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)

Title regulation or procedure: <b>DESK PROCEDURES FOR ACCOUNTING AND FINANCE OPERATIONS</b>		Approved by: <b>Alberto M. Figueroa Medina, PhD, PE,</b> Executive Director 	Validate By: <b>Juan A. Vázquez Acevedo,</b> Chief Financial Officer 
Date of Revision:  17th of December, 2015	Work Unit: <b>Administration and Finance</b>	Date of approval by the Board of Directors: <b>12-17-2015</b>	Notes:

## 1 PURPOSE

The purpose of these desk procedures is to provide guidance on *General Accounting and Financial Operations* for the Authority. These procedures have a goal to make sure certain processes are done in specific ways to minimize errors and losses. Standardization is the key word for managing the accounting and finance functions, making sure that required tasks are done and not forgotten. These procedures will also be used to help in training new staff.

These procedures cover the activities and tasks that are inherently *accounting* in nature and the activities and tasks that support the financial operations. The primary focus of the accounting tasks and activities is the recording, summarizing, classifying, and presentation of economic events that affect Authority's financial position, results of operations and cash flows.

The *financial operations* as presented in this document are akin to the traditional treasury function. They include management of an enterprise's holdings, with the ultimate goal of maximizing the firm's liquidity, mitigating its operational, rentability and financial and reputational risk. Treasury Management includes the Authority's collection, disbursement, investment and funding activities.

The **Accounting Section** of these procedures is written for the following purposes:

- To ensure that journal entries and all accounting records are supported by adequate documentation, with appropriate reviews and approvals;
- To ensure that the general ledger records are substantiated and updated on a timely basis reports;

- To ensure that internal controls are in place that reinforce the proper segregation of duties; and
- To ensure that financial reports (internal and external) are accurate, comprehensive and timely.

The **Finance Section** of these procedures is written for the following purposes:

- To ensure that proper internal controls are in place to support payments made to employees, vendor/contractors, government entities, and consultants;
- To ensure that proper internal controls are in place to support the processes of receipts received from government entities, customers, transit riders, and others; and
- To ensure that proper internal controls are in place to maximize investment opportunities and reduce the risk of loss of public funds.

These procedures will assist the Authority in standardizing its tasks and activities pertaining to its accounting and finance operations. In addition, these desk procedures will encourage a regimen of internal control compliance throughout the organization to ensure financial reports are accurate, comprehensive and timely.

## 2 SCOPE AND APPLICABILITY

The scope of these procedures will address the specific Authority's tasks and related controls that are involved in its Accounting Operations and Financial Operations.

The Accounting Operations procedures will address the full Accounting Cycle from incurrence of transactions to the presentations of the financial statements, to closing the current accounting period and opening of the next accounting period. These procedures also include peripheral guidance on adequacy of segregation of duties related to the accounting processes. These steps are critical to the successful delivery of accurate and timely financial statements. The financial statements are presented to external statutory agencies and are the basis for internal managerial decisions.

The Financial Operations procedures will assist the Authority's financial management with the planning, controlling and organizing of financial activities for procurement of The Authority. The procedures will also serve as an effective management tool in responding to statutory agencies on other matters pertaining to financial compliance.



### 3 OBJECTIVES

- To ensure that internal controls and the accounting system are adequate and that they comply with Act No. 230-2014, as amended, and No. 123- 2014. To provide accurate and complete disclosure of financially assisted activities in accordance with the financial reporting the grant's requirements.
- To ensure that the general accounting management process is adequately controlled and the financial position of the Authority is properly reported to interested external parties and to ensure that:
  - Controls are adequate to ensure that financial reports (internal and external) are accurate, comprehensive and timely.
  - Adequate procedures have been established to instruct the Authority accounting and finance personnel in the performance of their responsibilities.
  - Controls are adequate to ensure that the general ledger records are substantiated and updated on a monthly basis in a timely and accurate manner, with appropriate reviews and approvals.
  - Adequate records are maintained to identify the source and application of funds provided for federally assisted activities including information pertaining to grant awards, unliquidated obligations, unobligated balances, assets, liabilities, expenditures outlays, and income.
- The Authority's financial accounting system interfaces properly with the financial management system.

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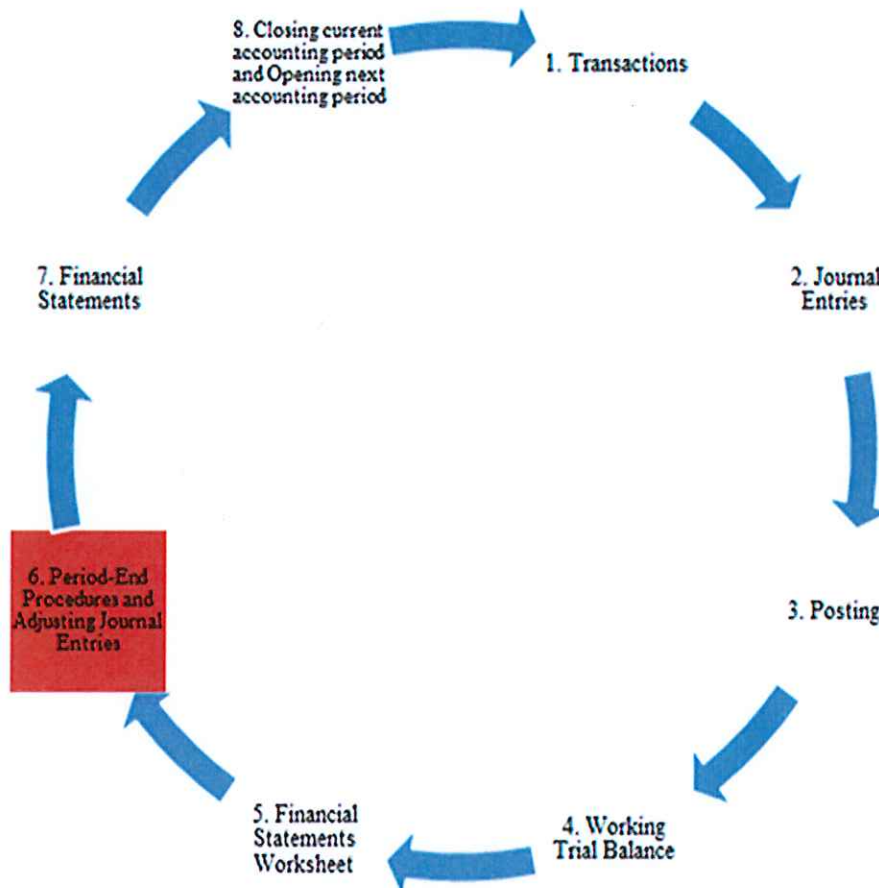
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## 4 ACCOUNTING OPERATIONS

### 4.1 ACCOUNTING OPERATIONS

It is important to create an efficient set of accounting procedures to better manage budgets, reduce the potential fraud's risk, waste and abuse. These procedures will enhance the Authority's ability to provide decision makers, statutory agencies, and other users of the Authority's financial statements with reliable and relevant information. These procedures also feature a well-planned set of internal controls that will make the accounting operations processes more manageable as well as ensure a desirable outcome. The *chart below* illustrates the full accounting cycle. Other desk procedures pertaining to fixed assets, accounts payable, period end adjustments, and payroll have been addressed in separate desk procedures. These separate desk procedures should be used to augment these procedures. The focus of these procedures is to address the steps within the accounting cycle as illustrated below.

Figure 1





The results of the accounting cycle are consolidated into the Authority's financial statements which reflect the results of operations at the end of the period and its financial position as of such date.

## 4.2 Transactions

An *accounting transaction* is a business event having a monetary impact on the financial statements of an entity. All accounting transactions should be supported by source documents such as contractual obligations documents, time and attendance reports, receiving reports, billing statements, invoices, and receipt documents. Accounting transactions should be recorded in accordance with *generally accepted accounting principles* (GAAP). The Authority will comply with the Generally Accepted Accounting Principles (GAAP) and with the *Government Accounting Standards Board* (GASB). Recording accounting transactions constitute a twofold process. For example, they must first be journalized. The preferred method of journalizing transactions is in chronologically order as they occur. The second step of recording transactions involves summarizing or posting the transactions to their appropriate general ledger accounts.

## 4.3 Recording Journal Entries

A journal entry involves the recording of a financial transaction recorded (entered) in a journal registry. Journal entries can be manual or automated. A general journal details all the financial transactions of the Authority. All general journal entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, which shall include an explicit explanation in support of each manual journal entry. Journal entry transactions ultimately affect the assets, liabilities and net position of Authority.

An asset is an item of economic value that is owned by the Authority. A liability is a legal debt or obligation that arises during the course of business operations. Liabilities are settled over time through the transfer of economic benefits including money. Net position includes the results of revenues and expenses transactions.

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal voucher. It is the policy of the Authority that all journal entries shall be reviewed and authorized in writing by the designated Accounting Manager or his/her designee by initialing or signing the entries.

## 4.4 Segregation of Duties:

Segregation of duties is a key concept of internal controls. Increased protection from fraud and errors must be balanced with the increased cost/effort required. Segregation of duties is a



security principle, which its primary objective is the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. Listed below are general and specific examples of duties that should be segregated:

*General categories of functions to be segregated are the following:*

- authorization function;
- recording function, e.g. preparing source documents or code or performance reports;
- custody of asset whether directly or indirectly, e.g. receiving checks in mail or implementing source code or database changes;
- reconciliation or audit; and
- splitting one security key in two (more) parts between responsible persons

*The following specific categories of functions should be segregated:*

- The employee responsible for preparing and/or initiating a journal entry in the accounting system should not have responsibility for recording or approving journal entries;
- The employee who is responsible for the receipt of cash should not have access to record or authorize transactions in the accounts receivable ledger;
- The person receiving the cash or preparing the deposit should not be responsible for recording cash transactions or preparing the bank reconciliation;
- The employee preparing the deposit should not be responsible for recording cash transactions in the accounts receivable ledger;
- The bank reconciliation process should be segregated within the accounting department and should be prepared by an employee who is not involved in cash receipt or cash disbursement activities; and
- Employees responsible for authorizing vendor invoices and payments should not have the responsibility for recording invoices in the cash disbursement system.

## 4.5 Posting

Posting is the process summarizing detailed entries in the general journal into the general ledger by accounts. Posting is required in order to have a complete record of all accounting transactions in the general ledger. The general ledger account balances are used to prepare financial statements. Posting may be done in real time or in a batch processing mode. Batched transactions will be processed at the end of the day or some other time designated by Management.

#### 4.5.1 General Ledger and Chart of Accounts

The general ledger contains a chart of accounts that supports the Authority's business activities and is the basis for providing account balances that support the line items presented in the Authority's financial statements. The general ledger is used to accumulate all financial transactions of the Authority and is supported by subsidiary ledgers that provide details for certain *control accounts* in the general ledger. The general ledger is the foundation for the accumulation of data that support internal and external reports.

##### *Chart of Accounts*

The Authority's policy is to establish a chart of accounts which accumulates all financial transactions. The chart of accounts consists of account titles and account numbers assigned to each account. The chart of accounts along with the fund/account/project codes is the *line of accounting* and is a separate record in the accounting system. The chart of accounts is the framework for the general ledger system, and therefore the basis for recording accounting transactions. General ledger accounts balances are the result of periodic posting of general journal entries. These postings impact the Authority's assets, liabilities and net assets including revenues, expenses, gains and losses. A copy of Authority's chart of account is attached as Exhibit 6.1

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##### *Access to the General Ledger Chart of Accounts*

All employees involved with general journal entry coding responsibilities or budgetary responsibilities should have access to a current chart of accounts. The Chart of Accounts will be included as an exhibit to these procedures once it is approved by the corresponding authorities. When the chart of accounts is revised, public notice should be given to the pertinent employees.

##### *Control of Chart of Accounts*

The chart of accounts is monitored and controlled by the designated Accounting Manager. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the designated Accounting Manager, who ensures that the chart of accounts is consistent with the organizational structure and meets the needs of each division and department.

Accounting Department personnel should not have access to modify general ledger accounts or the mapping of these accounts to the financial statements. Adding, deleting, and changing the general ledger chart of accounts should be controlled by approval on a *designed general ledger modification form*. This form should be designed to capture the general ledger account being added, deleted, or changed. This form should also contain a description of the requested action(s). This form should be presented to all stakeholders for review and approval. Once they are approved by all of the stakeholders, this form should be sent to the



Information Technology (IT) Department to implement the requested action(s). The access to modify the chart of accounts should be restricted to the IT department.

## 4.6 Month-end Closing and the Working Trial Balance

A working trial balance is a trial balance that is in the process of being adjusted. The working trial balance also proves whether THE AUTHORITY's debits and credit are equal. In concept, it is an unadjusted trial balance, to which you pencil in any adjusting entries needed to close a reporting period such as for the monthly, quarterly, or annual financial statements.

A Working Trial Balance should be generated from the accounting system as of the last work day of the month. The Working Trial Balance should be absent of period end adjusting journal entries. The Working Trial Balance should be reviewed by the Accounting Manager. OK

Reconciliation of the general ledger account balances and other data integrity procedures should be performed at the end of the month to record omissions and to correct recording errors. Performing month-end reconciliation of the general ledger accounts and the recording of accruals is the process of updating the general ledger accounts for completeness. Adjusting entries are made to correct errors and omissions. a.f.w.

The working trial balance is useful for testing a complete set of adjusting entries to determine their impact on the financial statements, before recording the entries in the general ledger. General ledger account reconciliations should be performed to identify errors and omissions. The accountant should prepare month-end reconciliations no later than the 7<sup>th</sup> work day following month-end of the following balance sheet accounts:

- Cash
- Accounts Receivable
- Fixed Assets such as Property, Plant, Equipment & Others
- Accounts Payable
- Payroll Liabilities

### 4.6.1 Cash Reconciliation

Reconciliation should be prepared for every individual cash account. A cash reconciliation is the comparison of the transactions recorded for a bank account by Authority and by its bank, resulting in adjustments to the Authority's cash records to more closely align such accounts with the bank's records. The *cash reconciliation process* is usually accomplished with the bank reconciliation module in an accounting software package. In these instances the following tasks should be performed:





- **Access bank records.** Access the on-line bank statement provided by the bank for the Authority's cash accounts presumably its checking account.
- **Access software.** Access the bank reconciliation module in the accounting software.
- **Update uncollected checks.** Go to the checks section of the bank reconciliation module. The system will display a list of uncollected checks. Match this list of checks against the list of checks that have cleared the bank, as listed on the bank statement. In the bank reconciliation module, flag all checks that have cleared the bank. The following issues may arise:
  - If any checks recorded by the bank as having been cleared are listed on the bank statement with different amounts when compared with the what the Authority recorded, access the check image posted on the bank's website to verify the amount on the check. If the Authority recorded it incorrectly, make an adjusting entry to match the amount of the check to the amount recorded by the bank.
  - If any checks recorded by the bank as having been cleared are listed incorrectly by the bank, contact the bank and send them documentation of the error. This difference between the recorded amounts of the bank and those recorded by the Authority will remain until such time as the bank adjusts its records. In the meantime, the difference will be a reconciling item.
- **Update deposits in transit.** Go to the deposits section of the bank reconciliation module. The system will display a list of deposits in transit. Match these deposits against the list of deposits that the bank has cleared as listed on the bank statement. In the bank reconciliation module, flag all deposits that the Bank has cleared. The following issues may arise:
  - The bank may have recorded some deposits that the Authority has not recorded. If so, access the check image posted on the bank's website to verify who issued the check and its amount. Record this deposit in the Authority's records.
  - The Authority may have recorded some deposits that were not recorded by the bank. This may be due to a not sufficient funds situation, or because the bank does not accept foreign checks. These deposits will be reconciling items until such time as the Authority can convince the bank to deposit them or finds an alternative way to convert the deposited checks to cash. It may also require the reversal of these deposited items into the Authority's.
- The Authority may have recorded some deposits that were not recorded by the bank such as a deposit that included a check written on a foreign bank account. This may be due to a non-sufficient funds (NSF) situation, or because the bank does not accept foreign checks. These deposits will be reconciling items on the bank side until such time

as the Authority can find an alternative way to convert the returned deposited checks to cash. Upon receipt of the disposition of the returned deposit, it may require correction of the Authority's accounting records.

- *Enter new bank payments.* Enter as disbursements in THE AUTHORITY's records any payment items that the bank records as a debit memo. Examples of such expenses are:
  - Non-sufficient funds (NSF) fees. This is a fee charged to the Authority for any checks deposited for which the issuer did not have sufficient funds.
  - Check printing fees. This is a fee charged when the company orders new check stock through the bank.
  - Service fees. The bank will charge fees for such items as check processing, deposit processing, direct deposit payments, and wire transfers issued and received known as lifting fees.

#### 4.6.2 Accounts Receivable Reconciliation

The *reconciliation of accounts receivable* is the process of matching the detailed amounts of unpaid customer billings to the accounts receivable balance in the general ledger. This matching process is important, because it proves that the general ledger figure for receivables is justified. The two information sources for this reconciliation are as follows:

- *General ledger.* There is usually an account in the general ledger that is specifically designated for the sole compilation of all receivables related to customers known as trade receivables. After all transactions have been recorded for a reporting period and all subsidiary ledger balances have been posted to the general ledger, the resulting ending balance in the receivables account is the summary total to be verified through a reconciliation.
- *Receivables detail.* The detailed listing of unpaid customer billings that should match the ending balance in the general ledger cash account totals. To extract this information for reconciliation purposes, print the aged accounts receivable report as of the final day of the reporting period. The totals on this report are then compared with the receivable total in the general ledger. Once the reconciliation is performed, there may be differences between the two amounts for the following reasons:
  - A journal entry was made to the general ledger account that bypassed the subsidiary sales ledger. This is the most common reason for a difference.
  - A billing was accidentally posted to an account other than the trade receivables account. This is the least common reason for a difference, since the billing module is set to automatically record all billings to the correct account.
  - The aged receivables report was run as of a different date than the date used to obtain the general ledger balance.



This reconciliation process should be performed as part of the month-end closing activities prior to issuance of the financial statements. If the general ledger account reconciliation is not performed and the accounts contain errors the general ledger, there could be a material misstatement in the financial statements. At a minimum, there should be a reconciliation of accounts receivable at the end of each quarter, so that any inaccuracies related to receivables will have been removed from the financial statements prior to their examination by the Authority's external auditors.

#### 4.6.3 Calculation of Allowance for doubtful accounts

The Authority must determine the valuation of the balance of accounts receivable through the estimate of the allowance for doubtful accounts, which is the portion of Authority's receivables not expected to be collected. To be in compliance with GAAP, allowance method is required to estimate bad debt. Generally two allowance methods are used – percentage of sales method and the aging of accounts receivable method. Based on the nature of the Authority's operations, the aging of accounts receivable method will be followed. Specific tasks required to calculate the allowance for doubtful accounts is listed below:

**Step 1** - Update the aging schedule of accounts receivable based on Authority's past experience with collecting accounts receivable, Management can decide the aging category and the percentage of not collectible.

**TABLE 1 – ACCOUNTS RECEIVABLE AGING SCHEDULE**

Aging category	Total	Percentage not collectible	Amount not collectible
< 30 Days	XXX	5%	Total * Percentage
31-60 Days	XXX	10%	Total * Percentage
61-90 Days	XXX	15%	Total * Percentage
90-120 Days	XXX	20%	Total * Percentage
121-180 Days	XXX	40%	Total * Percentage
181-365 Days	XXX	60%	Total * Percentage
Over 2 years		100%	Total * Percentage
			Total amount not collectible

**Note:** the total amount not collectible is the balance for the account of allowance for doubtful accounts.



**Step 2** - Compare current balance for the account of allowance for doubtful accounts with the prior period balance for the account of allowance for doubtful accounts. The difference is the adjustment to be booked for both allowance for doubtful accounts and bad debt expense.

If **current balance** for the account of allowance for doubtful accounts is higher than the prior period one, then the correct journal entry is:

<b>Debit: Bad Debt Expense</b>	<b>XX</b>
<b>Credit: Allowance for doubtful accounts</b>	<b>XX</b>

If current balance for the account of allowance for doubtful accounts is lower than the prior period one, then the correct journal entry is:

<b>Debit: Allowance for doubtful accounts</b>	<b>XX</b>
<b>Credit: Bad Debt Expense</b>	<b>XX</b>

### Fixed Assets (Reconciliation of Property, Plant, Equipment and Others)

The purpose of the property, plant and equipment reconciliation is to tie the property, plant, and equipment sub-ledgers to the related general ledger control accounts and to verify the accuracy of the book value of each asset. Fixed asset reports should be run that contain asset cost, current depreciation expense, accumulated depreciation, useful life, salvage value and the book value of each asset. The depreciation method should also be disclosed.

Annually a fixed asset inventory should be performed. The fixed asset inventory should be reconciled to the Fixed Assets system. A physical inventory will include verification of the existence, location, current use, and continued need for grant funded property. Physical data for grant funded assets will be reconciled with the fixed assets system records.

#### Property, Plant, Equipment and others Reconciliation:

- Opening book value
- Add: Additions for the month (year)
- Less: Disposals for the month (year)
- Total Fixed Assets at costs
- Less: Accumulated Depreciation
  - Opening Balance
  - Add: Depreciation for period
  - Less: Disposal
  - Total Accumulated Depreciation

**Note:** The Authority has also issued Desk Procedures for Fixed Assets. The Fixed Assets desk procedures should be used in conjunction with these accounting procedures.

#### 4.6.4 Accounts Payable Reconciliation

Before closing the books at the end of each reporting period, the accounting staff must verify that all outstanding accounts payable invoices are recorded in the accounts payable subsidiary ledgers as well as to the general ledger control accounts. The first step is to reconcile the accounts payables subsidiary ledgers to the related general ledger account payable control account balances. Any discrepancies found should be researched and analyzed. Adjusting entries should be made to the general control accounts or to the accounts payable subsidiary accounts depending on the nature of the discrepancy. The source document e.g. invoices or other claim document should be used as the basis for all adjusting entries.

*The accounts payable reconciliation process encompasses the following specific steps:*

- Compare the ending accounts payable control account balance with the related accounts payable vendor subsidiary ledgers. If these numbers do not match, the accounts payable accountant must run queries and other data retrieval procedures to discern the nature of the discrepancy.
- Review the accounts payable general ledger account to see if any adjusting entries were made to the account during the current reporting period. If so, document these items in a reconciliation spreadsheet.
- Print the ending aged accounts payable report for the current reporting period. Enter the total amount outstanding from this report on the reconciliation spreadsheet. At this point, the reconciliation should be complete. If there is still a variance, and it is not a variance that occurred in a prior period, consider the following additional reconciliation steps:
  - Verify that the accounts payable journal was properly posted to the general ledger.
  - Verify that the aged accounts payable report was printed after all posting was completed.
  - Verify that the general ledger is set to the correct reporting period.

**Note:** *The Authority has also issued Desk Procedures for Accounts Payable. The Accounts Payable desk procedures should be used in conjunction with these accounting procedures.*

#### 4.6.5 Payroll Accrual

At the end of each accounting period payroll related expenses that have been incurred by not paid should be accrued. Accrued payroll expenses include wages, salaries, commissions, bonuses, and the related payroll taxes and benefits that have been earned by Authority's employees, but have not yet been paid or recorded by the Authority. For example, the accrued payroll as of June 30 would include all of the salaries that the employees have earned as of June 30, but will not be paid until the following pay date, perhaps July 5<sup>th</sup> of the following month.



The employer's portion of the Federal Insurance Contribution Act (FICA) taxes, Medicare taxes, unemployment taxes, worker compensation insurance, and other benefits pertaining to those wages should also be included as accrued payroll expenses in order to achieve a complete accounting. The following are the common examples of employee payroll-related accruals.

**Dr. - Salaries Expenses (Gross Pay)**

- Cr. - Income Taxes Payable Withheld for employees
- Cr. - FICA Tax Payable (employee share)
- Cr. - Medicare Taxes Payable (employee share)
- Cr. - Health Insurance Payable (employee share)
- Cr. - Retirement Contributions Payable (employee share)
- Cr. - Commonwealth of Puerto Rico Employees Association Withholdings
- Cr. - Salary Payable

**Dr. - Payroll Expenses**

- Cr. - FICA Tax Withheld Payable (employer share)
- Cr. - Medicare Taxes Payable
- Cr. - Health Insurance Payable (employer share)
- Cr. - Retirement Contributions Payable (employer share)
- Cr. - State Unemployment Tax Payable (SUTA)
- Cr. - Federal Unemployment Tax Payable (FUTA)
- Cr. - Compensated Absences Liability Payable

The reconciliations should be reviewed and approved by the designated Accounting Manager.

## 4.7 Financial Statement Worksheet

After the general ledger account reconciliations are completed and approved by the designated Accounting Manager, the Authority will commence with the preparation of the interim financial statements. The preparation of the financial statements is facilitated by the use of a *financial statement worksheet*. A financial statement worksheet is a multi-column spreadsheet that contains the ending balances of all of the general ledger accounts of a business. The spreadsheet may contain pre-set subtotal and total formulas, which are useful for aggregating the account information into financial statements. The worksheet will be used when the Authority's management wants to adjust its accounts at the end of an accounting period and produce financial statements.

*The key columns in a trial balance worksheet are:*

- **Column 1** - contains the account number of every account that has a balance. The accounts are almost always listed in ascending numerical order, which usually means that the order of priority in the spreadsheet is assets, then liabilities, then equity accounts, then revenue, and then expense accounts.
- **Column 2** - contains the account description associated with each account number.
- **Column 3** - contains the ending debit balance in each account. If the balance is instead a credit balance (which is likely for liability, equity, and revenue accounts) then it appears in Column 4.
- **Column 4** - contains the ending credit balance in each account. If the balance is instead a debit balance (which is likely for asset and expense accounts) then it appears in Column 3.
- **Columns 5 and 6** - include any adjustments to the debit and credit balances in Columns 3 and 4. These adjustments are typically for such matters as accrued expenses, or deferring expenses by shifting them into asset accounts.
- **Columns 7 and 8** - contain the final adjusted debit (Column 7) and credit (Column 8) account balances. These two columns are known as the adjusted trial balance.
- **Additional columns** may be added in which to carry forward revenue and expense balances to create an income statement. In addition, there may be additional columns in which asset, liability, and equity accounts are carried forward to create a balance sheet.

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In short, the financial statement worksheet is useful for converting ending account balances into financial statements. The Financial Statement Worksheet should contain the Working Trial Balance and the month-end close adjusting entries.

TABLE 2 – FINANCIAL STATEMENT WORKSHEET

General Account Number	General Account Description	General Ledger Balance		Adjustments		Adjusted Balance	
		Debit	Credit	Debit	Credit		

Adjusting journal entries should be prepared for any accounting errors and anomalies. Supporting documentation should be attached to the journal entry. The journal entries should be reviewed and approved by the Accounting Manager or his designee prior to posting.

#### 4.7.1 Variance Analyses

Upon completion of the financial statement worksheet the financial reporting staff should prepare draft financial statements. Variance analyses should be performed on the draft financial statements including, the Statement of Financial Position and the Statement of Activities. This analysis should be performed by comparing the current month line item balances to the line item balances for same month for the previous fiscal year. This trend



analysis should also be performed for quarter to quarter and year to year comparisons. All differences in the general ledger accounts equal or greater than 10% should be investigated and documented on a spreadsheet. Variances requiring actions should be assigned to the responsible accountant, who will perform the required follow-up action(s).

Journal entries should be prepared for any accounting errors and anomalies. Supporting documentation should be attached to the journal entry. The journal entries should be reviewed and approved by the Accounting Manager or his designee prior to posting.

#### 4.8 Period-End Procedures and Adjusting Journal Entries

*The Period-End procedures have two purposes:*

- To reconcile general ledger and subsidiary accounts based on supporting documentation and/or third party documents received such as a bank statement; and
- To accrue accounts, such as accounts receivable, accounts payable, etc. based on known but unrecorded activity that should be included in the accounting period.

Monthly account reconciliations should be prepared for the following accounts:

- Cash (Bank Reconciliations)
- Accounts Receivable
- Property, Plant & Equipment
- Other Assets such as Investments and Legislative Appropriations
- Accounts Payable
- Payroll Liabilities

**Note:** Refer to separate “Desk Procedures for Period-End Procedures” for details regarding period end closing tasks.

*Adjusting entries* are journal entries that are used at the end of an accounting period to adjust the balances in various general ledger accounts. These adjustments are made to more closely align the reported results and financial position of a business to meet the requirements of an accounting framework, including Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board. The use of adjusting journal entries is a key part of the period closing processing, as noted in the accounting cycle. It is usually not possible to create financial statements that are fully in compliance with accounting standards without the use of adjusting entries. An adjusting entry can use for any type of accounting transaction. Some of the more common of such entries are as follows:

- To record depreciation and amortization for the period;
- To record an allowance for doubtful accounts;
- To record a reserve for obsolete inventory;
- To record a reserve for sales returns;
- To record the impairment of an asset;
- To record a warranty reserve;
- To record any accrued revenue;
- To record previously billed but unearned revenue as a liability;
- To record any accrued expenses;
- To record any previously paid but unused expenditures as prepaid expenses; and
- To adjust cash balances for any reconciling items noted in the bank reconciliation.

As shown in the preceding list, the adjusting entries that are most common are of three types:

- *Accruals.* To record a revenue or expense that has not yet been recorded through a standard accounting transaction.
- *Deferrals.* To defer a revenue or expense that has been recorded, but which has not yet been earned or used.
- *Estimates.* To estimate the amount of a reserve, such as the allowance for doubtful accounts or the inventory obsolescence reserve.

When an accruals, deferrals, or estimate are recorded, they usually impacts an asset or liability account. For example, if an accrued expense is recorded, this also increases a related liability account. There are also instances in which the recordation of an adjustment can impact an asset and liability account, such as the receipt of cash prior to performing a service. These transactions are referred to as deferrals. These transactions require an increase to assets (cash) and also increase liabilities (deferred revenue).

Since adjusting entries frequently involve accruals and deferrals, it is customary to set up these entries as reversing entries. This means that the computer system automatically creates an exactly opposite journal entry at the beginning of the next accounting period. By doing so, the effect of an adjusting entry is eliminated when viewed over two accounting periods.

The Authority usually has a standard set of potential adjusting entries, for which it should evaluate the need at the end of every accounting period. A designated accounting manager should maintain a list of these entries in the standard closing checklist. Consideration should also be given to constructing an adjusting entry template for each adjusting entry in the accounting software, so there is no need to reconstruct them every month.



#### 4.8.1 Adjusting Entry Examples:

Depreciation: Arnold Corporation records the \$12,000 of depreciation associated with its fixed assets during the month.

<b>Debit:</b> Depreciation Expense	12,000	
<b>Credit:</b> Accumulated Depreciation		12,000

Allowance for bad debts: Arnold Corporation adds \$5,000 to its allowance for doubtful accounts.

<b>Debit:</b> Bad Debts Expense	5,000	
<b>Credit:</b> Allowance for Doubtful Accounts		5,000

Accrued revenue: Arnold Corporation accrues \$50,000 of earned but unearned revenue.

<b>Debit:</b> Accounts Receivable	50,000	
<b>Credit:</b> Sales		50,000

Receipt of unearned revenue: Arnold Corporation bills a customer for \$10,000, but has not yet earned the revenue, so it creates an adjusting entry to record the billed amount as a liability.

<b>Debit:</b> Sales Revenue/Cash	10,000	
<b>Credit:</b> Unearned Sales		10,000

Cost of Goods Sold: A supplier is late in sending Arnold Corporation a materials-related invoice for \$22,000, so the Authority accrues the expense.

<b>Debit:</b> Cost of Goods Sold	22,000	
<b>Credit:</b> Accrued Expenses		22,000

Prepaid assets: Arnold Corporation pays \$30,000 toward the next month's rent. The Authority records this as a prepaid expense.

<b>Debit:</b> Prepaid Expenses	30,000	
<b>Credit:</b> Rent Expense		30,000

## 4.9 Financial statements

The basic financial statements provide information about the Authority's financial activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and by the Accounting Generally Accepted Principles (GAAP) issued by the Institute of American Certified Public Accountants.

*The financial statements consist of the:*

- Statement of Net Position;
- Statement of Revenues, Expenses, and Changes in Net Position; and
- Statement of Cash Flows.

To comply with its enabling Act, the Authority must submit copy of the annual audited financial statements to the Governor of the Commonwealth of Puerto Rico and Legislative Assembly.

The financial statements are prepared on the accrual basis of accounting; meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.

The statement of net position reports all the Authority's financial and capital resources. The statement is presented in the format where assets equal liabilities plus net assets. The focus of the statement of net position is to show a picture of the liquidity and health of Authority's financial position as of the end of the year.

The **statement of revenues, expenses, and changes in net position** includes operating revenue, which consist of passenger and cargo revenues and equipment and property rentals and operating expenses, such as salaries and employees benefits, depreciation on capital assets, repairs and maintenance and other general administrative expenses; and non-operating revenues and expenses such as the operating grants from the Commonwealth of Puerto Rico, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

The basic financial statements of Authority that are maintained on an organization-wide basis are:



#### 4.9.1 Statement of Financial Position

– reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term.

- **Assets** are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. The Authority resources are classified as current assets, fixed assets, contra-assets, and other assets.
- **Current assets** are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.
- **Fixed assets** (property and equipment) are tangible assets with a useful life of more than one year that are acquired for use in the operation of the organization and are not held for resale.
- **Other assets** include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property, and long-term investments.
- **Liabilities** are probable future sacrifices of economic benefits arising from present obligations of the organization to transfer assets or provide services to other entities in the future as a result of past transactions or events. The Authority's liabilities are classified as current or long-term.
- **Current liabilities** are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples are accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.
- **Long-term liabilities** are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.
- **Net assets** are the difference between total assets and total liabilities.

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#### 4.9.2 Statement of Cash Flows

– reports the cash inflows and outflows of the organization in three categories: operating activities, investing activities, and financing activities.

Top-side journal entries are manual adjustments recorded at the Executive level.

#### 4.9.3 Review and Distribution of Financial Statements

Monthly, quarterly and annual financial statements and supporting schedules shall be reviewed by the designated Accounting Manager. Upon completion of their review the interim financial statements will be forwarded to the Chief Financial Officer for approval. These approved financial statements are then sent to the Executive Director, the Board of



Trustees Finance Committee, and the full Board of Trustees. The designated Accounting Manager together with management is responsible for preparing the Authority's annual financial statements which are audited by an independent Certified Public Accountant firm.

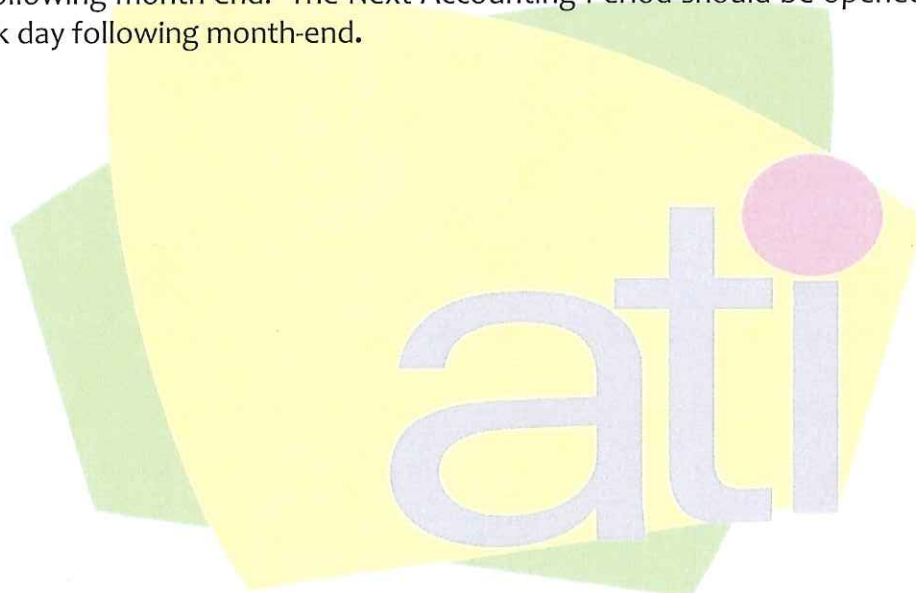
Act No. 123 of 2014 requires that annual audited financial statements of the entity be submitted to the Governor of Puerto Rico and the Legislative Assembly as well as other Authority's activity reports.

#### 4.10 Closing current accounting period and Opening next accounting period

The current accounting period should be closed in the accounting system no later than the 12<sup>th</sup> work day following month-end. The Next Accounting Period should be opened no later than the 8<sup>th</sup> work day following month-end.

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## 5 FINANCIAL OPERATIONS

### 5.1 Financial Operations Overview

The Financial Operations as presented in this document is akin to the traditional Treasury function. Financial Operations include the processing payments to vendors, contractors, employees, and consultants. Financial Operations also process receipts, prepare and submit statutory reports, and make investment decisions to meet the strategic goals of the Authority.

*The Financial Operations oversees the following activities:*

- Cash Management and Investments
- Accounts Payable
- Payroll
- Taxation and Special Funds Reporting
- Funds required by Act No. 230 of 1974, as amended and Legislative Commonwealth Governments Appropriations for operating expenses or special projects.

### 5.2 Cash and Cash Management

The Authority seeks to maximize its return on surplus operating funds. To meet this objective, the master depository account maintains only those funds sufficient to cover immediate needs. Excess surplus funds are transferred to the designated fund or authorized for short-term investments.

The Chief Financial Officer has the responsibility to establish, maintain, direct, and monitor all functions related to cash and cash management. Bank accounts may be established in any financial institution authorized by the Authority 'as by laws and all deposits must be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in the manner authorized by the Puerto Rico Treasurer. Daily excess funds in the master depository account may be transferred into an overnight repo account, provided adequate collateralization is maintained.

#### 5.2.1 Establishment of Accounts

The designated Accounting Manager may establish bank accounts as required for efficient operation of financial activities. The designated Accounting Manager is designated as signatories for all bank accounts and other Authority's staff may be designated as signatories by the Executive Director. It is the Authority's policy to promptly notify its financial institution of changes in authorized signatures upon the departure/resignation of any authorized signer.

### 5.2.2 Cash Flow

The designated Accounting Manager and accounts payable staff monitors cash flow needs on a daily basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis. Wire Transfers may be made between accounts by the designated Accounting Manager.

## 5.3 Petty Cash Fund

THE AUTHORITY may use petty cash for small purchases, by establishing imp rest funds for minor office expenditures, not for travel or employee advances. Accounts payable staff monitors the petty cash fund and replenishes these funds up to its authorized balance.

### 5.3.1 Opening a Petty Cash Fund Account

If a petty cash fund to support operations is needed, an employee must be designated as custodian of the monies. All disbursements from the petty cash fund must be accompanied by a completed and approved petty cash voucher. Receipts are required for all disbursements from petty cash. It is the responsibility of the petty cash custodian to ensure that the petty cash fund is locked and secured at all times.

### 5.3.2 Replenishing a Petty Cash Fund

Petty cash custodian(s) should replenish petty cash funds when approximately fifty per cent of the funds have been expended. However, at fiscal year-end, custodians should replenish funds within two weeks of the close of each fiscal year, to ensure expenditures are recorded in the proper fiscal year. Custodians and accounts payable staff periodically review the frequency of replenishments to determine whether a fund needs to be increased, decreased, or closed.

### 5.3.3 Closing a Petty Cash Fund

Reconciliation of petty cash funds must be made whenever the current custodian is no longer responsible for the funds for whatever reason. If the need for the fund still exists, a new custodian must be designated.

## 5.4 Investments

The Authority's overall investment policy rests on the preservation and protection the Authority's assets, as well as the maintenance of liquid reserves to meet obligations arising



from unanticipated activities, by earning an appropriated return on investments. With this policy understood, it is the Authority's goal to maximize investment earnings opportunities with appropriate considerations for *safety, legality, and yield*.

#### 5.4.1 Statutory Authority and Accounting

The designated Accounting Manager has the responsibility and authority to manage the Authority's investments based on the principle that all investments must be made in accordance with the institution's policy. All investments must be short-term investments generally have a maturity of three months to one year from the purchase date. The Authority has investments classified as short-term with maturities beyond one-year due to their highly liquid nature. All short-term investments are recorded at market value using the specific identification method and unrealized gains and losses are reflected in net unrealized gain or loss on securities. Long-term investments have a maturity beyond one-year from the purchase date. The Authority generally does not have long-term investments.

### 5.5 Accounts Payable and Accrued Liabilities

The policy related to processing and payment of invoices requires that:

- The vendor master file be maintained and updated on a regular basis;
- Only original invoices will be accepted for payment in order to prevent duplicate payments;
- Disbursements must be properly authorized and reviewed by the designated Accounting Manager;
- Invoices will be processed in a timely manner and in accordance with the payment terms; and
- Vendor credit terms and operating cash must be managed for maximum benefits.

#### 5.5.1 Vendor Master File

When an invoice for payment is submitted for a new vendor, the department will forward the appropriate documentation listed below to the accounts payable staff for processing. Accounts payable personnel will check to see that the following information is provided:

- PR TAX exempts form
- Completed IRS Form-W-8-Ben for foreign payments
- Vendor's legal name and any DBA name(s)
- Street Address
- Telephone Number

- Fax number, if applicable
- Contact name

When the preceding information is not complete, all paperwork will be returned to the originator for completion. On an annual basis, vendors that have not been utilized over the preceding 24-month period will be eliminated. In addition, accounts payable staff will review payment histories for signs of repeat invoice numbers or other signs of duplicate payments.

#### 5.5.2 Receipt and Recording of Payment Requests

Invoices with a value of \$200 or more must be reviewed for available budget balances prior to processing by accounts payable staff. All invoices received by accounts payable staff, including those under \$200, will be dated and stamped with the date of receipt. The accounts payable clerk forwards all documentation to the designated Accounting Manager for review and approval. All invoices should be backed up by a purchase order or a disbursements area official document approving the payment. All accounts payable transactions must be supported by adequate documentation that explains the nature and purpose of the expense. Accounts payable transactions are processed for payment on the next check run, unless a future date is specified. Information is entered into the appropriate accounts and shown on accounts payable listing for approval prior to check printing. The accounts payable clerk forwards all documentation to designated Accounting Manager for review and approval. When the original invoice is not available, a duplicate copy may be submitted to process the payment, but verification must be made that the invoice has not been paid previously and it must be approved by the designated Accounting Manager. Vendor statements shall not be used to support payments.

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#### 5.5.3 Vendor Discounts

To the extent practical, the Authority shall take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

#### 5.5.4 Refund Processing

Supporting documentation for a refund request should include if applicable payments made documentation. This will prevent refunds being processed which exceed the payments made.

#### 5.5.5 Processing Checks

Checks are processed on periodically or as needed using positive pay. Checks shall be utilized in numerical order; unused checks are stored in a locked safe in the accounts payable area). A continuous check log is maintained by the accounts payable clerk showing all checks used in





the current sequence. Checks will never be made payable to “bearer” or “cash”. Checks will never be signed prior to being prepared.

Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors. Generally, all vendors should be paid by the corresponding due date shown on the invoice after delivery of the requested goods or services. Payments must be made by due date to avoid late payment penalties. Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks. Printed checks are forwarded to the designated Accounting Manager for review and approval. All checks greater than \$500 require two signatures. Check signers should examine all original supporting documentation to ensure that each item has been properly reviewed prior to signing a check. Checks should not be signed, if supporting documentation is missing or there are any questions about the disbursement.

#### 5.5.6 Mailing Checks

Checks are returned to the accounts payable individual who prepared them for signature. This person then immediately mails the signed checks. Checks are not mailed by or returned to individuals who authorize expenditures.

#### 5.5.7 Voided Checks and Stop Payments

Checks may be voided due to processing errors by making proper notations in the check register and defacing the check by clearly marking it as “VOID”. All voided checks shall be retained to aid in preparation of bank reconciliation.

Stop payment orders are made for checks lost in the mail or other valid reasons. Stop payments are communicated electronically to the bank by the Grants Accountant, who records the stop payment in general ledger to void the transaction.

#### 5.5.8 Unclaimed Property

The Authority complies with the Puerto Rico’s legislation regarding unclaimed property. Accordingly, if un-cashed checks are subject to state reporting and transfer requirement, the Authority will file timely all appropriate forms and remit unclaimed property to the Internal Revenue Service (IRS).

#### 5.5.9 Accounts Payable Accrual

Accounts Payable, or trade accounts payable, are amounts owed to suppliers for products or services purchased on credit. Accrual basis of accounting under GAAP requires expenses that have been incurred but not paid by the end of the accounting period be recorded as expenses and liabilities, whether the invoices have been received or not. Generally speaking, the

Authority deals with two types of accounts payable: one is accounts payable for which invoices are received, and the other type is accounts payable for which invoices are not received.

#### 5.5.10 Accounts payable without supporting invoices

The Authority should request an invoice from the vendor upon completion of the service. However, if the invoice is not received, the Authority still needs to record expenses incurred for goods/ services received. To reasonably accrue Accounts Payable, the Authority will use one of the following methods to accrue for the expense in the current period. The Authority may reverse the accrual and records the actual amount when the invoices are actually received. Besides it may proceed as follows:

- If the item is associated with a purchase order (PO), then the Authority can accrue for the amount documented in the PO as an estimate;
- If no PO or invoice can be obtained, then the Authority estimates the value of the product or service received by calling the vendor or retrieving the value from its product catalog;
- If the product or service is purchased on a regular basis, then historical cost (past amounts paid) can be a reasonable guide for the accrual estimate;
- Setting up an "AP accrual reserve" account. This is done by determining the average value of vendor invoices received after the end of the month but product or service relates to the prior month, such event needs to be accrued. This amount is used to set up an AP reserve for "accrued invoices."

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## 5.6 Travel

### 5.6.1 Overview

The Authority recognizes that, for many employees, travel expenses are incurred in order to further its mission. By setting forth the requirements necessary for obtaining approvals and reimbursement of these expenses, the Authority endeavors to assist its travelers. This policy establishes the procedure for authorizing and reimbursing travel expenses. Travel is necessary and useful for the accomplishment of many regional transportation functions. This policy and procedures statement is designed to promote efficient operations and to allow flexibility when traveling on authorized the Authority's business.

The previous policy will apply to travel expenses eligible to be reimbursed by the FTA. The Authority has adopted its own norms for travelling locally and out of town, including travel time schedule and per diem reimbursement. Any difference with FTA norms will be assumed by the Authority.



### 5.6.2 Budget Appropriation

The amount needed for annual travel must be included in the preparation of the annual budget and requests should include the estimated travel costs of anticipated business, meetings, conferences, and professional training travel. The Authority currently has the following departments within the General Fund: the Authority's Express, Planning, Administration and a separate fund, Travel Demand Management.

### 5.6.3 Authorization

The responsibility for monitoring and adhering to appropriated budget rests with each department and the official or employee authorizing the travel. Travel authorization of all trips involving the use of budgeted funds will be obtained as follows:

- Executive Director must approve travel by department heads.
- Department heads and office heads must approve travel by employees within their department or office. The Executive Director and the designated Accounting Manager or their designee must approve all out-of-state travel requests.
- Trips that involve expenses more than the total amount budgeted for travel in any department will require additional approval and transfer of appropriated amounts from other accounts by the Budget Director.

A Request for Travel Authorization form must be completed before each trip that will last longer than one-day and if an employee expects to have reimbursed. A properly approved Travel Authorization Form must be submitted with all documents presented for reimbursement. This procedure ensures that the appropriate approval for all travel was obtained before the trip is taken.

### 5.6.4 Combining Business and Vacation

*If the employee wishes to combine a business trip with vacation leave:*

- The employee's department head must approve the travel and request for vacation leave.
- The Authority will provide only reimbursement for the most economical mean of transportation to the business destination and other costs related to expenses while on leave will be the responsibility of the employee.
- The Authority will provide reimbursement only for covering the actual expenses of the business portion of the trip.
- The employee must specify on the Travel Authorization Form the dates of the conference or meeting and the total days of the trip.



*Travel with Spouse and/or Family.* A spouse and/or other family member(s) may accompany an employee on official trips. However, the Authority provides reimbursement for only those expenses, which the employee would normally incur if traveling alone.

#### 5.6.5 International Travel

International is not expected and must be approved by the Executive Director. A memorandum explaining the benefit of the requested travel along with all supporting details of the requested travel, purpose of the travel, any pertinent brochures and other documents should also be submitted to the Executive Director. The Authority will reimburse international travel costs (lodging, meals, etc.) based on the exchange rate shown on the employee's credit card statement, whenever charged. When using cash, it is the employee's responsibility to show evidence of the conversion from foreign currency to U.S. currency to support reimbursement calculations.

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#### 5.6.6 Transportation

Ordinarily, the most economical and expeditious form of transportation should be used. If there is some doubt as to the best method of travel, the matter should be taken up with the department head, and if necessary, the designated Accounting Manager.

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- *Travel by Air Only Tourist Class* air travel will be reimbursed by the Authority. If an employee chooses to fly other than economy class, the employee will pay the total cost differential. Insurance purchased for air transportation or baggage damage/loss will not be reimbursed by Authority the Authority employee credit card provides insurance coverage for travel on commercial transportation provided the ticket was purchased using the credit card. An employee should purchase airline tickets at least 21 days prior to departure date, to the extent possible, in order to get a discounted price.
- *Travel by an Authority's Vehicle.* Only the Authority's employees authorized by the department head will be permitted to travel in Authority's vehicles. Reimbursement will be made for repairs, gasoline, oil, storage, parking, tolls, and other necessary expenses for the use of the Authority vehicle. A paid receipt must support all reimbursement requests of this nature, except for tolls. The Executive Director or his designee must approve travel by the Authority's vehicle outside of Area. The Authority's employee must be included on the institution insurance policy and is the only person authorized to drive a Authority's vehicle as specified in the corresponding vehicle insurance policy.
- *Travel by Private Car.* The use of a private car will normally be confined to destinations within the Authority's Facilities or where it is more advisable to travel by car because of expediency and destination accessibility. Reimbursement for travel by private car is at the mileage rate allowable by the Puerto Rico General Service and is paid directly to the employee. Reimbursement will be made on this mileage basis unless it is more



expensive than what it would cost to reach the same destination by air, in which case the employee will be reimbursed in the amount equivalent to the cost of airfare. The cost of air travel tourist class is used for this comparison. No reimbursement will be made for expenses incurred in making repairs or for the towing of a private car. Coverage of these expenses is provided in the mileage rate. The employee will be reimbursed for parking fees and tolls.

- **Use of a Rental Car.** The Authority will cover only rental car costs up to the amount needed to travel back and forth to the airport unless the employee can demonstrate a business need for the car for the duration of the business trip. The employee credit card should be used to pay for the rental car since it provides coverage on a 24-hour basis for damage due to collision or theft. To activate this coverage, the employee should initiate and complete the entire rental transaction with their credit card and decline the car rental company's collision damage waiver (CDW/LDW) option at the time the vehicle is rented. The Authority will reimburse the employee for insurance purchased for the use of a rental car.

#### 5.6.7 Meals and Lodging during Business Travel:

Per Diem rates for lodging and meals during business travel shall be based upon rates provided by the Authority's rate. The rates are based upon travel destinations for meals and lodging. For example, in the Atlanta FTA Office the lodging rate in the area plus taxes and the daily per diem for meals is \$30.00. These rates are set to cover average costs by location within the United States. The per diem for meals is set for each meal as provided in the table below:

**Table 3 – Per diem reimbursement**

Per diem	Amount Allowable
Breakfast	Limited to up to 8 of the daily amount
Lunch**	Limited to up to 12 of the daily amount*
Dinner	Limited to up to 12 of the daily amount*

\* The reasonable actual costs of lunch and dinner meals may be paid in certain circumstances, such as meetings or convenience to lodging provide an itemized bill is submitted. Costs of alcoholic beverages shall not be reimbursed.

\*\* The costs of meals included in registration fees, conference costs, hotel registration, etc. cannot be duplicated in reimbursement requests.

**Reimbursement for meals during Overnight Travel:** The travel must involve a travel destination located at least 35 miles from the employee's regular assigned duty station or home.

\*\*\*Allowance cannot be paid to employees for lunch if travel does not involve an overnight stay.

**TABLE 4 – TRAVEL TIME SCHEDULE**

Meal	Regulations
Breakfast	Depart duty station prior to 6:00 a.m. And extend the workday by 2 hours.
Lunch***	Depart duty station prior to 12:00 noon (day of departure and be away overnight) or return to duty station after 2: p.m. (day of return from an overnight stay).
Dinner	Depart duty station prior to 5:00 p.m. (day of departure) or return to duty station after 8:00 p.m. (day of return) and extend the work day by 3 hours.

However, the employees may be eligible for breakfast and dinner if they meet the

criteria above and the destination is 35 miles from the employee's regular assigned duty station or home.

#### 5.6.8 Business Meals

The Authority will reimburse employees for reasonable meal expenses incurred for themselves and other individuals while conducting appropriate in-town or out-of-town Authority 'as business. Reimbursement procedures require the employee to provide an itemized meal receipt, the nature of the business, the number of guests and department head approval. The cost of alcoholic beverages will be deducted without exception from reimbursements.

#### 5.6.9 Lodging

The Authority will reimburse employees for reasonable lodging rates. If the amounts listed for these items appear unreasonable, the expense report will be returned for an explanation. When traveling with family, if there is a difference between the single and double rate, which is usually shown on Internet advertisements, the Authority will reimburse only the single rate.

#### 5.6.10 Other costs

The Authority's employees will not be reimbursed for telephone expenses. Reimbursement is permitted for reasonable tips (bellhop, taxi, etc.). A meal tip of approximately 15% is considered reasonable. A tip for hotel maid service is not a reimbursable expense.



## 5.7 Travel Procedures

### 5.7.1 Before the Trip

- A Request for Travel Authorization form shall be completed by the employee for all travel requests and submitted to the appropriate approval. If the request is for out-of-state travel, the request for Travel Authorization form requires the designated Accounting Manager or their designee's signature. A copy of the properly approved Travel Authorization form must be submitted with Travel Expense Report-Reimbursement form together with all documents presented for reimbursement.

*If there are not sufficient travel funds in the department's budget for the travel:*

- The request, plus a justification statement, is forwarded to the designated Accounting Manager for additional approval and transfer of appropriated amounts from other accounts.
- If approved by the designated Accounting Manager, the request is returned to the supervisor.
- The Authority's payment for airfares and registrations should be made with the employee credit card (if acceptable). Appropriate expenditure codes should be used on any travel expenses paid by credit card. If the employee has a credit card, it may be used for any other expenses of travel (lodging, meals, car rental, etc.). This will minimize or eliminate the need for a travel advance.

**Travel Advances.** Travel advances may be made to employees who have a credit card because of infrequent travel. In order to obtain a travel advance, the employee shall submit the Request for Travel Authorization Form at least five days before the trip date. The issuance of an advance check for travel will only be considered when been made to the employee and cannot be issued prior to the departure date.

**Charge Codes** – The Authority is in the process of establishing account codes that will include Responsibility Codes (Fund, Department, etc.) and Account Codes (Revenue, Expenditure, etc. When travel forms are prepared, the object codes should be used along with the department's responsibility and/or program codes:

- **Expenditure Code xxxx (TBD)** – Registration and Fees. Required cost for registration or fees for attending various national, state, and regional conventions and conferences, as well as, enrollment fees for various special training seminars. Use this account for registration and fees associated with required professional certifications; such as CDL, licenses, and notary certifications.
- **Expenditure Code xxxx01 (TBD)** – Business and Meeting Travel. The cost of attending conferences or other meetings of professional associations (national, state, or local

meetings) including transportation, meals, lodging, and other similar items. This code is for travel that is not training related. This would include the travel categories of Professional Development, PART Business, and Other.

- Expenditure Code XXXX02 (TBD) – Seminar/Training Travel. Costs associated with attendance at seminars, training sessions or conventions where the primary emphasis is upon employee development including transportation, meals, lodging, and other similar items. This code is only for training related travel. This would include the travel categories of Training for Required Certification and Other Training.

### 5.7.2 After a Trip

- Within ten business days after any travel, the employee must complete the standard Travel Expense - Reimbursement form, and submit it to his supervisor for approval and signature. The Travel Expense -Reimbursement form must have a copy of the appropriately approved Travel Authorization form. The supervisor forwards the documentation to the designated Accounting Manager for audit. Bills and receipts supporting the following expenditures must be attached:

- Lodging
- Transportation
- Registration fees
- Car rental
- The Authority's vehicle expenditures (repairs, gas, oil, storage, parking, etc.)
- Meals, including conference banquets, if the reimbursement requested is in excess of the per diem amount.
- Taxi fares

Registration fees or hotel guarantees made by the Employee credit card should be noted on the Travel Expense Reimbursement form and copies of these receipts should be attached. These amounts will be reimbursed to the employee. Treatment for cases of Amount Due to the Authority or Due to the Employee should be treated as follows. If a travel advance was made to an employee and the amount exceeds actual travel expenses, the employee must submit a check for the amount due Authority within ten days after the trip. Cash should not be used to reimburse Authority, but whenever an exception has to be used, the amount in cash must be hand delivered and a receipt obtained. Cash must not be sent through interoffice mail.

The employee will be reimbursed for any allowable expenses paid by the employee. The designated Accounting Manager will review the Travel Expense - Reimbursement claim. If the report is in order and appears reasonable, the employee will be reimbursed. If there are questions about any item on the Travel Expense claim, the designated Accounting Manager



or his/her designee will consult with and/or return the Travel Expense form to the department head.

### 5.7.3 Forms

*Request for Travel Authorization Form* - This is the travel form originated by the employee wishing to travel. This form must be completed prior to the trip for all business trips whether the employee is requesting a cash advance or not.

*Travel Expense Reimbursement Form* - This is the final report to be completed by a traveling employee as a record of all reimbursable expenses and must have the same trip number that was listed on the Request for Travel Authorization form. It must be completed for reimbursement of any travel expenses. The form must be completed, showing a recap of all trip expenses, even if no reimbursement is needed.

## 5.8 Payroll and Related Liabilities

### 5.8.1 General

The Authority Employee Handbook states: "As an Authority's, you are a member of a family of workers dedicated to providing quality service to our customers, the citizens. We have a strong commitment to excellent service, and each of us has a tradition to live up to." The handbook is employees' guide to understanding all aspects of the job, benefits and the policies and procedures of the Authority. The Authority strives to offer employees a career that is challenging, rewarding and fulfilling

### 5.8.2 Payroll Administration

An official personnel file is established and maintained all Authority's employees in Human Resources that include payroll data, such as Form W-4, *Employee Federal Withholding Certificate*, approved salaries, and payroll account distribution. The employee personnel file shall also indicate whether the employee is exempt or non-exempt under the provisions of the Fair Labor Standards Act. The Authority operates on a bi-weekly and monthly payroll.

The Authority's Employees use a physical card to log in their time and attendance. Payroll is manually prepared by using Excel sheets with information coming from the physical cards. A resource from the Finance department inputs the data from the Excel sheet into the ADP system. A second person validates the data entry performed by the first person. The comptroller does not verify the data entry due to Segregation of Duties. This data entry is then submitted by the Comptroller to ADP to process the payroll "schedule". This occurs due to the fact that there are two (2) syndicates each with a different agreement. The following forms, documents and information shall be obtained and included in the payroll files of all new employees:

- Direct Deposit Forms
- Changes to W-4 form
- Employee benefit enrollment forms
- Supporting documentation for payroll deductions
- Changes in income tax withholding status
- Court-ordered payroll deductions
- Applications and resumes
- Changes in position
- Personnel evaluation forms
- Performance information
- Disciplinary information
- Leave and absentee forms on all employees
- Changes in income tax withholding status
- Terminations

### 5.8.3 Payroll Taxes

The Payroll Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid, including state and federal taxes. State taxes are remitted to respective states bi-weekly, monthly, or quarterly. The accounts payable accountant provides support to record special deductions such as payroll deductions for insurance, memberships, contributions and deductions for loans for savings accounts, payment plans and deductions related to Law #7.

### 5.8.4 Preparation of Timesheets

The Authority work week is Saturday through Friday. The work week consist of 35 hours, syndicated employees works up to seven hours per day. Employees must submit a signed and approved timesheet to payroll no later than 12:00 noon on Monday after the close of each pay period. Timesheets should be prepared in accordance with the following guidelines:

- Each timesheet should reflect all hours worked during the pay period (time actually spent on the job performing assigned duties), whether performed by exempt or non-exempt personnel under FLSA;
- Timesheets should be prepared in ink;
- Errors should be corrected by crossing through the incorrect entry, filling in the correct entry, and placing the employee's initials next to the change (i.e. employees should not use "white out" or correction tape);
- Employees should identify and record hours worked based and if work is related to a specific project, the hours worked must be recorded for that project;





- Compensated absences (vacation, holiday, sick leave, etc.) should be clearly identified; and
- Timesheets should be signed by the employee and approved by department heads or their designees prior to submission.

Overtime reports are received during the week-ends, therefore the balance amount for payment is said to be “loaned” until Thursday of the same week.

An employee who is on leave, away on travel, or is ill on the day that timesheets are due may telephone or e-mail timesheet information to his or her supervisor (or designated alternate). Time so submitted must reflect the actual time worked and the appropriate classifications. Timesheets submitted in this manner shall bear the notation, “time reported by telephone or e-mail by (employee) to (supervisor or designated alternate).” The timesheet should be signed by the supervisor or the designated alternate.

#### 5.8.5 Processing of Timesheets

All time sheets are reviewed by the designated Accounting Manager or her/his designee. Processing of timesheets in the payroll department is performed by finance personnel. They check all timesheets for mathematical accuracy, and then input all timesheets data into the payroll system. Finance personnel may not change or correct timesheets. When errors are noted, the time sheet must be returned to the supervisor or her/his designee to have the correction made. If a corrected and approved timesheet is not re-submitted in time to be processed with the normal payroll, the employee may have to wait for a manual check to be prepared. Improper actions with regard to the timesheet policy or procedure may result in disciplinary action, up to and including discharge.

*Handwritten notes:*  
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 1. 7. 11.

#### 5.8.6 Vacation/Sickness/Maternity Absence Recording Process:

Weekly: Absences are divided by area and type: vacations, sickness and other. Hours incurred by employee are recorded in Attendance Control. Input each employee’s T&A card in their corresponding employee record. The registry is then filed in the employee’s record/file. Employees who do not have available hours for Vacation, Sickness, or other are identified. To validate available hours:

- Sum up hours worked during the month; then
- Subtract vacation and sickness hours incurred during the month.

#### 5.8.7 Review of Payroll

Upon production of all payroll reports and each employee’s direct deposit report, which shows total hours worked, gross pay, withholding amounts, retirement and benefit deductions, pay deferrals, and net pay the designated Accounting Manager reviews payroll prior to direct deposit information being transmitted to the bank and direct deposit reports

distributed to employees. The designated Accounting Manager should sign the payroll register, indicating approval of the payroll.

#### 5.8.8 Coordination of Employee Retirement Related activities

- Employee requests orientation about their retirement benefits.
- Inform employee about the required information and documents.
- Several documents are completed and the following are also required:
  - “Estado de Cuentas servicios no cotizados”.
  - Excel and Word forms are downloaded from the “Web” from the “Administration of Los Sistemas de Retiro” website (<http://www.asr.gobierno.pr/>).
- Once the Application for Retirement is completed; an application for Disbursement is filed with the Finance department
- A Retirement Disbursement application is filled. (fondo de bienestar, beneficios misceláneos).
- Application is sent to Finance.

#### 5.8.9 Payroll Accrual

Because of the nature of the payroll cycle, which does not always coincide with month-end close, THE AUTHORITY will accrued payroll and related payroll taxes. At the end of every accounting cycle, the related expenses and liabilities need to be recorded. Following are the common examples of employee payroll-related accruals.

- Salaries payable (net)
- Income Taxes Withheld for employees
- FICA Tax Withheld (employee share)
- Health Insurance (employee share)
- Retirement Contributions (employee share)
- FICA Tax Withheld (employer share)
- Health Insurance (employer share)
- Retirement Contributions (employer share)
- State Unemployment Tax (SUTA)
- Federal Unemployment Tax (FUTA)
- Compensated Absences liability

Personnel policies of the Authority allow employees to carry forward up to 30-days of unused leave per calendar year. Any unused leave is payable to an employee upon termination of employment. Accordingly, the Authority must record a liability for accrued leave to which employees are entitled. The total liability at the end of the fiscal year shall equal the total



earned but unused accumulated hours of leave multiplied by each employee's current hourly pay rate.

Sick Leave shall not be accrued as a liability of THE AUTHORITY because it may only be used for prescribed purposes and is not payable to an employee upon termination.

## 5.9 Accounts Receivable and Revenue Accrual

Accounts Receivables are amounts due from customers for credit sales. Before making any accounts receivable accruals, the Authority should reconcile the accounts receivable accounts to the general ledger. In addition, the Authority needs to accrue any unrecorded revenue and accounts receivable. The Authority records a liability for deferred revenue (revenue received but not yet earned) in accordance with revenue recognition policies.

## 5.10 Fund Balances

It is the policy of Authority to classify net assets or fund balances based upon the existence or absence of restrictions following the new GASB pronouncement number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", effective June 30, 2011 which supersedes GASB 34 statement:

### 5.10.1 Non-expendable

Fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).

### 5.10.2 Restricted

Fund balances includes amounts that can be spent only for specific purposes stipulated by external resource providers (for example, grant providers), constitutionally or through enabling legislation, that is, legislation that creates a new revenue source and restricts its use. Effectively, restrictions may be changed or lifted only with the consent of resource providers. The Authority should classify all federal assignments and all local government or entity matching to federal funds in this category.

### 5.10.3 Committed

Fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. Authority's funds received from the general fund or provided by the

legislature or OGP are classified under this category. Capital projects with no federal matching should be classified under this category.

#### 5.10.4 Assigned

Fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balances represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Authority's funds generated from entity activities where use of funds is decided at the Authority's management level are classified under this category.

#### 5.10.5 Unassigned

Fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another government fund has a fund balance deficit. Then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

#### 5.10.6 Special Fund

In compliance with Article 17 (k), Act No. 123 - 2014, the Authority's management will establish a "Special Fund for the Restructuring of the Collective Transportation for Puerto Rico" ("Fondo para la Reestructuración del Transporte Colectivo de Puerto Rico"). Monies in such Fund will be used to promote integrated collective transportation including during the transition period.

### 5.11 Prepaid Expenses

It is the Authority's policy to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses, such as insurance, and to amortize these items over the corresponding time period. For purposes of this policy, payments of less than \$500 will be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements will be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date will be classified as non-current assets.



## 5.12 Tax Reporting

It is the policy of Authority to comply with all obligations for tax and information returns filed with federal, state and local jurisdictions. The Chief Financial Officer shall be responsible for identifying all filing requirements and assuring that the Authority is in compliance with all such requirements.

### 5.12.1 W-2's and 1099's

- Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to federal government by February 28.

### 5.12.2 Form 940

- Annual federal unemployment tax return filed with IRS. The return is due January 31.

### 5.12.3 Form 941

- Quarterly payroll tax return filed with IRS to report wages paid to employees and federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter. Federal and all applicable state payroll tax returns are prepared and the Authority complies with all state payroll tax requirements by withholding and remitting payroll taxes to the state of residency of each Authority's employee.

## 5.13 Insurance Policy

Authority's policy is to maintain an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of Authority. It will maintain adequate insurance against general liability, as well as coverage for buildings, contents, vehicles, equipment, machinery and other items of value. In addition, the Authority will require contractors to maintain adequate general and vehicular liability insurance for its vehicles operated under contractual agreement, as well as property damage insurance.

### 5.13.1 Table 5 – Insurance Coverage Guidelines

Coverage	Coverage Amount
General Liability	\$1,000,000
Excess Liability	2,000,000
Automobile (THE AUTHORITY Owned, leased, borrowed)	1,000,000
Vessel (THE AUTHORITY Owned, leased, borrowed)	5,000,000
Crime (Employee dishonesty)	50,000
Property	1,000,000
Worker's Compensation Statutory Limits	
Public Officials Liability	1,000,000
Bonds (Executive Director)	1,000,000
Bonds (Chief Officer)	1,000,000
Board of Directors	1,000,000

Insurance and Liabilities limits presented above apply to FTA criteria related to various risks exposure. The Authority has adopted higher limits for certain of the above listed coverage amounts including certain officers such as the Board of Directors

The Authority should maintain a detailed listing of insurance policies in effect. This listing should include the following information, at a minimum:

- Description (type of coverage)
- Agent and insurance company, including all contact information
- Coverage and deductibles
- Premium amounts
- Policy effect dates

### 5.14 Record Retention

The Authority maintains a separate policy that requires the institution to retain records as required by law with disposition when appropriate. The destruction of records must be approved by the appropriate department head.



## 6 APPENDIX

### 6.1 General Ledger Chart of Accounts



gfb.  
a.f.m.

## 6.2 Pro forma Financial Statements (to be added by The Authority)




gfb.  
G.F.M.





## 7 ADOPTED & VALIDATE BY:

  
\_\_\_\_\_  
Juan A. Vázquez Acevedo  
Chief Financial Officer,  
Puerto Rico Integrated Transit Authority (The Authority)

17th of December, 2015

DATE

## 8 EFFECTIVENESS, REPEAL AND APPROVAL

This procedure, shall be valid from the date of approval by the Board of Directors of the Puerto Rico Integrated Transit Authority.

  
\_\_\_\_\_  
Alberto M. Figueroa Medina, PhD, PE  
**Executive Director**  
Puerto Rico Integrated Transit Authority

17th of December, 2015

DATE

Duly approved by the Board of Directors of the Puerto Rico Integrated Transit Authority, in regular meeting held on the 17th of December, 2015

  
\_\_\_\_\_  
Miguel A. Torres Díaz  
**Chairman of the Board**  
Puerto Rico Integrated Transit Authority

17th of December, 2015

DATE

