PERIOD-END PROCEDURES

ATI-0002-2015

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PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(PRITA)

Table of Contents

	Regulation Number or Procedure:	ATI-0002-2015	
	DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS **PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)**		
Title regulation or procedure: **PERIOD-END PROCEDURES**		*Approved by:* **Alberto M. Figueroa Medina, PhD, PE,** Executive Director	*Validate By:* **Juan A. Vázquez Acevedo,** Chief Financial Officer
Date of Revision: 17th of December, 2015	*Work Unit:* **Administration and Finance**	*Date of approval by the Board of Directors:* **12-17-2015**	*Notes:*

1. Purpose

The purpose of these procedures is to provide guidance on the processing of *Period-End entries* for the Authority. These procedures have as a general goal measuring the performance and position of a company by recognizing economic events regardless of when cash transactions occur. The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received).

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Period-End procedures have two purposes:

1. To reconcile general ledger and subsidiary accounts based on supporting documentation and/or third party documents received such as a bank statement; and
2. To accrue accounts, such as accounts receivable, accounts payable, etc. based on known but unrecorded activity that should be included in the accounting period in order to prepare the accounting system to comply with financial reporting to management and third parties.

These procedures will assist the organization in the proper closing activities, including making correct reconciliations and recording accruals both monthly and annually. In addition, these procedures will encourage a regimen of timely transaction processing throughout the organization to ensure reconciliations and accruals can be processed in a timely and accurate manner.

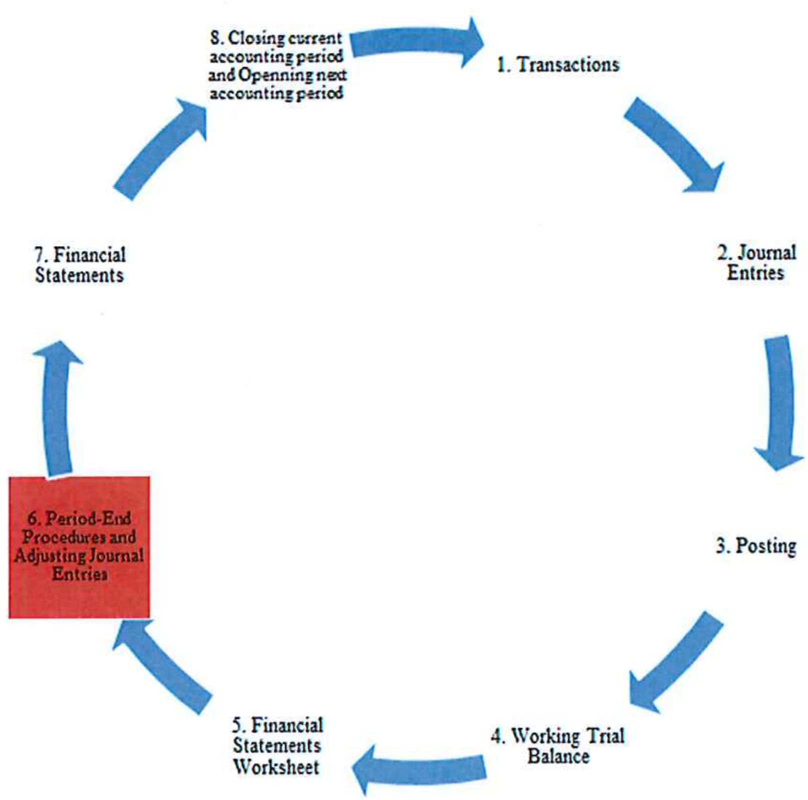
2 Scope and Applicability

The scope of these procedures will address the steps required to perform required reconciliations, by identifying pertinent information, performing calculations, and posting accrual adjustments. These procedures will also, at a minimum:

- provide the Authority with the tools to create accrual accounting based financial statements (and financial reports) consistent with GAAP and the reporting requirements associated with the Federal and local Financial Reporting, and
- provide resolution to the findings identified in the FMO reviews and A-133 audit reports. These findings relate to the timely, proper and complete closing procedures.

These procedures will also include guidance on adequacy of segregation of duties related to the closing processes. The *chart below* illustrates the full accounting cycle. *Step 6* of the accounting cycle involves the period end close. The focus of these procedures is Step 6 within the accounting cycle. This step is critical to the successful delivery of accurate and timely financial statements. These financial statements are presented to external statutory agencies and are the basis for internal management decisions.

The Accounting Cycle



3 Objectives:

- To ensure internal controls and accounting system are adequate to provide accurate, current, and complete disclosure of financially assisted activities in accordance with the financial reporting requirements of the grant.
- To ensure that the general accounting management process is adequately controlled and the financial position of the Authority is properly reported to interested outside parties.
- Specifically, 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 govern, instruct and set the Authority policy for its accounting 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 sources and application of funds provided for federally assisted activities including information pertaining to grant awards, obligations, unobligated balances, assets, liabilities, expenditures or outlays, and income.
    - The Authority's financial accounting system interfaces properly with the financial management and reporting system.

4 Procedures

It is important to create an efficient set of period-end closing procedures to better manage budgets, reduce the potential for fraud, waste and abuse, and afford the ability to report on an accrual basis. Though these systems can be complex, a well-planned set of internal controls can make the period-end close process more manageable as well as ensure a desirable outcome. Period end procedures not only include those procedures necessary to close the monthly accounting period, but also involve procedures to be in compliance with regulations applicable to the Authority, such as those in quarterly and yearly closing procedures. Below are the Authority's monthly closing procedures.

4.1 Monthly Closing Procedures

Check box to indicate completion	Description	Deadline	Responsibility
	Post interest related entries		
☐ .	— Interest Expense	**NLT the 4th work day following month-end.**	Accounts Receivable Group
☐ .	— Amortization of bond issuance cost		
☐ .	— Amortization of Premiums		
☐ .	— Interest Income		Accounts Payable Group
☐ .	— Amortization of Discounts		

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Check box to indicate completion	Description	Deadline	Responsibility
☐ ☐ ☐ ☐ ☐	**Perform Reconciliation of Balance Sheet Accounts (list):** — Cash — Accounts Receivable — Property, Plant & Equipment — Accounts Payable — Payroll Liabilities	**NLT the 7h work day following month-end.**	Various (List)
☐ ☐	Post adjusting entries to the general ledger (to correct errors and omissions)	**NLT the 8th work day following month-end.**	Various
☐ ☐ ☐ ☐ ☐	**Post accruals and deferrals** — Accounts Receivable and Revenue — Accounts Payable and Expense — Payroll — Construction in Progress — Asset Valuation	**NLT the 8th work day following month-end.**	Various
☐	**Prepare financial statements and other management reports.**	**NLT the 11th work day following month-end.**	Financial Reporting Group
Check box to indicate completion	**Description**	**Deadline**	**Responsibility**

☐	**Distribute Financial Statements**	**NLT the 12th work day following month-end.**	Financial Reporting Group
☐	**Open The Next Accounting Period**	**NLT the 8h work day following month-end.**	IT Group

4.1.1 Post recurring entries

The first step in monthly closing procedure is to post all necessary journal entries in the normal operations, including posting the recurring entries, such as interest expense and amortization of debt issuance costs.

INTEREST EXPENSE

Interest expense should be calculated based on the debt terms and accrued on a monthly basis. Generally interest payments are made twice a year. Therefore, the Authority should accumulate on a monthly basis the proportional amount of the interest expense and record the corresponding liabilities. Below is an example for the Authority. Per the Authority audited financial statements, the authority issued revenue bonds with 6.5% interest payable on June 15 if each year. The monthly interest expense for the bonds is 3,011,194 ÷ 12.

Related journal entries are listed below:

✓ **RECORD THE INTEREST EXPENSE (MONTHLY)**
Debit: Interest expense 250,932
Credit: Interest payable on bonds 250,932
✓ Record the interest payment
Debit: Interest payable on bonds XXX
Credit: Cash XXX

AMORTIZATION OF DEBT ISSUANCE COSTS

The cost associated with issuing bonds should be recorded as a deferred charge (an asset) on balance sheet. Just like Plant, Property and Equipment, it is required to be amortized through the effective interest method.

Step 1: Calculate the amortization expense

The amortization expense of debt issuance costs is a percentage of the total debt issuance cost. The percentage is calculated as dividing the debt balance at the beginning of the year by the total of all debt balances.

Example:

THE AUTHORITY issued bond with face value of $100,000 for $100,000. The interest rate is 6%. The Issuance date was 4/01/2013 and the maturity date was 4/01/2018.
Principal repayment schedule: 20 equal quarterly principal payments beginning on 7/1/2013
Interest payments: 20 quarterly payments beginning on 7/1/2013 computed in arrears on the outstanding balance
Debt issuance costs incurred: $5,000

	Payment Schedule			
Date	**Principal**	**Interest**	**Total**	**Balance**
04/01/13				$ 100,000.00
07/01/13	$ 5,000.00	$ 1,500.00	$ 6,500.00	$ 95,000.00
10/01/13	$ 5,000.00	$ 1,425.00	$ 6,425.00	$ 90,000.00
01/01/14	$ 5,000.00	$ 1,350.00	$ 6,350.00	$ 85,000.00
04/01/14	$ 5,000.00	$ 1,275.00	$ 6,275.00	$ 80,000.00
07/01/14	$ 5,000.00	$ 1,200.00	$ 6,200.00	$ 75,000.00
10/01/14	$ 5,000.00	$ 1,125.00	$ 6,125.00	$ 70,000.00
01/01/15	$ 5,000.00	$ 1,050.00	$ 6,050.00	$ 65,000.00
04/01/15	$ 5,000.00	$ 975.00	$ 5,975.00	$ 60,000.00
07/01/15	$ 5,000.00	$ 900.00	$ 5,900.00	$ 55,000.00
10/01/15	$ 5,000.00	$ 825.00	$ 5,825.00	$ 50,000.00
01/01/16	$ 5,000.00	$ 750.00	$ 5,750.00	$ 45,000.00
04/01/16	$ 5,000.00	$ 675.00	$ 5,675.00	$ 40,000.00
07/01/16	$ 5,000.00	$ 600.00	$ 5,600.00	$ 35,000.00
10/01/16	$ 5,000.00	$ 525.00	$ 5,525.00	$ 30,000.00
01/01/17	$ 5,000.00	$ 450.00	$ 5,450.00	$ 25,000.00
04/01/17	$ 5,000.00	$ 375.00	$ 5,375.00	$ 20,000.00
07/01/17	$ 5,000.00	$ 300.00	$ 5,300.00	$ 15,000.00
10/01/17	$ 5,000.00	$ 225.00	$ 5,225.00	$ 10,000.00
	Payment Schedule			
Date	**Principal**	**Interest**	**Date**	**Principal**
01/01/18	$ 5,000.00	$ 150.00	$ 5,150.00	$ 5,000.00
04/01/18	$ 5,000.00	$ 75.00	$ 5,075.00	$ -
				$ 1,050,000.00

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For the first amortization of bond issuance cost, the percentage is 100,000/1,050,000 = 9.52% (the beginning debt balance divided by the total debt balance). Then multiply the percentage by the total bond issuance cost 9.52%*5,000 = 476.19. The $476.19 is the amortization of bond issuance cost for this period.

Step 2: Record the amortization

The journal entry to record amortization is:

Debit: Debt issuance cost $476.19
Credit: Deferred debt issuance cost $476.19

4.1.2 Post accruals

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.

Per the Statements of Revenues, Expenses, and Changes in Net Assets for the Authority, operating revenue is derived from two sources: services provided (way bills, dockage, tourist ship, landing fees and passenger fees) and contract revenue (Equipment and property rental, space rentals, advertising, and concession agreement). For services provided by the Authority, the fees are collected when the services are provided, either directly by the Authority or by some third parties, such as credit card companies. This only involves reconciliation. For contract revenue, the amounts are pre-determined in the contract. Accruals should be made at the end of every month to record the revenue even the invoice is not issued to clients.

The correct journal entry is:
Debit: Accounts Receivable
Credit: Revenue

EXPENSE AND ACCOUNTS PAYABLE ACCRUAL

Accounts Payable, or trade accounts payable, are amounts owed to suppliers for products or services purchased on credit. According to the accrual basis of accounting under GAAP, expenses that have been incurred but not paid by the end of the Authority's accounting period need to be recorded as Accounts Payable, whether the invoices have been received or not. Generally 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.

✓ **ACCOUNTS PAYABLE WITH SUPPORTING INVOICES**

The journal entry to record the accounts payable after the invoices are approved is:

Debit: Expenses
Credit: Accounts Payable

✓ **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 is expected to use one of the following methods to accrue for the expense in the current period. Then the Authority reverses the accrual and records the actual amount when the invoices are actually received.

1. If the item is associated with a purchase order (PO), then the Authority can accrue for the amount documented in the PO as estimate;
2. 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;
3. 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.
4. 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) that need to be accrued. This amount is used to set up an AP reserve for "accrued invoices."

PAYROLL ACCRUAL

Because of the nature of payroll, almost every company has 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

CONSTRUCTION IN PROGRESS ACCRUAL

Construction in Progress (CIP) is a temporary asset account used to recognize the value of an asset that is not yet put in revenue service. This could be a building, or could be a significant piece of equipment that is arriving in parts. The theory of accruing the value of these "partial" assets is to match their value to the cash disbursed of liability incurred in the same accounting period, and to reflect the value of the assets on the balance sheet. The process for identifying and accruing these assets is straightforward. First, identify any outstanding liabilities related to the describe scenarios that would be CIP, and make an adjusting entry similar to this:

CIP	XXXX	
Asset/ liability		XXXX

The accountant should also review the expense ledgers to ensure that there are no expenses that were made during the accounting period that should have qualified as CIP, and been accrued. In addition, the accountant should review the transactions in the CIP account and ensure that there are no assets that have been placed in revenue service, and yet their balances are still being maintained in the CIP account. This entry would look like this:

Revenue /Asset	XXXX
CIP	XXXX

If an asset is mistakenly classified in the CIP account, consideration to depreciation should also be given when the asset is removed from the CIP account.

4.1.3 Perform balance sheet reconciliations

CASH – BANK RECONCILIATION

Bank reconciliations are required at least on a monthly basis to verify the cash balance per THE AUTHORITY's books match the cash balance per bank statement. The causes for the difference between balance per books and balance per bank statement are listed as follows.

- ✓ **Deposits in transit**. These are deposits that are in the cash per books but not in the cash per bank statement. The reason is that time delays may occur between the recordings on books and when the bank receives the deposit. Deposits in transit are determined by matching the **deposits listed on the books** with the **deposits listed on the bank statement**.
- ✓ **Outstanding checks**. These are checks that have been recorded in the books but presented for collection in the bank. The reason is that there may be timing differences between the recording of the check and the payment by the bank. Outstanding checks are determined by comparing the **check disbursements on the books** with the **checks listed on the bank statement**.

- ✓ **Note and interest collections by the Bank.** These are money collected by the bank on behalf of the Authority. The Authority may be aware of the collections only when they compare the bank statement.
- ✓ **Interest income and Bank charges.** Interest income is earned by the Authority from the bank balance. Bank charges are fees paid to bank for some services provided by the bank. The Authority can determine the amounts by reading the bank statement.
- ✓ **Non-sufficient fund checks.** A customer payment by check that has been recorded as a deposit on the books but was not collectible because of insufficient funds in the account of the customer.
- ✓ **Bank errors and** the Authority **errors**. These are amounts due to errors made by either bank or the Authority when recording the amounts.

Step 1: Prepare the bank reconciliation schedule.
The Table below is the schedule for Bank Reconciliation.

Balance Per Bank Statement	XXX	**Balance Per Books**	XXX
Plus:		Plus:	
Deposit in Transit	XXX	Note and interest collections by the Bank	XXX
Bank errors	XXX	Interest income	XXX
		THE AUTHORITY errors	XXX
Subtotal	XXX	Subtotal	XXX
Less:		Less:	
Outstanding checks	XXX	Non-sufficient fund checks	XXX
Bank errors	XXX	Bank charges	XXX
		Authority errors	XXX
Adjusted Cash Balance	**XXX**	**Adjusted Cash Balance**	**XXX**

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Note: The adjusted cash balance on both sides must match.

Step 2: Prepare adjusting journal entries on the books for any items shown to reconcile the cash per books to the adjusted cash balance (the right side of bank reconciliation schedule).

Example:
The Authority's cash account has a month end balance of $30,530. Outstanding checks as of month end totaled $2,050. Deposits in transit totaled $5,340 at year end. An NSF check of $500 is included in the year end cash balance on the books. The bank has deducted this amount on the

bank statement. The bank incorrectly recorded a deposit as $270 that was correctly recorded by the Authority as $720. The Authority incorrectly recorded a check disbursement on their books for $350 that correctly cleared the bank for $325. The amount was originally posted to Adverting Expense. The bank statement also shows a service charge of $35 on the account. The bank collected on note on behalf of the Authority that included $3,000 in principal and $200 in interest. This is included on the bank statement but is not yet on the books of the Authority. The bank statement also shows that the Authority earned an interest income of $5. The balance per the bank statement is $29,485.

Step 1: Prepare bank reconciliation schedule

Balance Per Bank Statement	29,485	**Balance Per Books**	30,530
Plus:		Plus:	
Deposit in Transit	5,340	Note and interest collections by the Bank	3,200
Bank errors	450	Interest income	5
		Errors on posting check	25
Subtotal	35,275	Subtotal	33,760
Less:		Less:	
Outstanding checks	2,050	Non-sufficient fund checks	500
		Bank charges	35
Adjusted Cash Balance	33,225	Adjusted Cash Balance	33,225

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Step 2: Prepare adjusted journal entries

- ✓ To record the collection of note and interest by bank

	Debit	Credit
Cash	3200	
Notes Receivable		3000
Interest Income		200

- ✓ To record the interest income

	Debit	Credit
Cash	5	
Interest Income		5

- ✓ To correct error in posting check. The correct check disbursement amount for advertising expense is $325, while the Authority mistakenly recorded it for $350, thus an error of $25 should be debited back to cash balance per books, and credited from advertising expense.

	Debit	Credit
Cash	25	
Advertising		25

- ✓ To reconcile the non-sufficient fund checks by putting it back into accounts receivables

	Debit	Credit
Accounts Receivable	500	
Cash		500

- ✓ To record Bank charges

	Debit	Credit
Bank charges	35	
Cash		35

- ✓ For the left side of the Bank Reconciliation schedule, the difference due to Deposit in Transit and Outstanding checks will reconcile itself once the deposits get recorded by bank and the outstanding checks are cashed. However, the Authority should notify the bank the error of recording a deposit of $270 rather than the correct amount of $720.

Accounts Receivable Reconciliation

✓ Reconciliation of General Ledger to Subsidiary ledger

Reconciling accounts receivable is to ensure that the total of the individual amounts due from clients equals the balance of the accounts receivable account in the general ledger. Normally, reconciling the accounts receivable general ledger to a subsidiary ledger involves a four-step process: compute the total balance of all individual accounts receivable accounts in the subsidiary ledger; compare this total with the balance in the general ledger; investigate any discrepancies in the totals if there is any; and make necessary adjusting entries.

Common reasons for discrepancies are journal or adjusting entries made directly in the general ledger and not reflected in the subsidiary sales ledger or vice versa. Other possible errors are incorrectly offsetting customer and supplier contra accounts and posting to the wrong general ledger account. The following reconciliation form can be used for documenting the discrepancies.

Balance per general ledger:	
Add / (Subtract) Items in general ledger not in sub-ledger:	
Item a – short description	
Item b – short description	
Add / (Subtract) Items in sub-ledger not in general ledger:	
Item c – short description	
Item d – short description	
Adjusted balance per general ledger	
Balance per sub-ledger	
Difference between general ledger and sub-ledger	
Reconciling items (if any)	
Reconciling item I – short description	
Reconciling item II – short description	
Total reconciling items (= Difference)	

Note: The part highlighted in orange is to document the adjustments necessary for general ledger; while the reconciling items in green is to document the adjustments necessary for subsidiary ledger. When all errors have been identified, adjusting entries are needed for the accounts to reconcile with the correct balances. A clear description of the reason for each transaction for auditing purposes should be noted. Where possible, reverse the incorrect entry and repost it correctly, rather than posting the difference only, to make the transaction easier to follow. A final reconciliation should be performed after all entries have been made.

✓ RECONCILIATION OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

Another important part for determine the balance of accounts receivable is to estimate the allowance for doubtful accounts, which is the portion of THE 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 percentage of accounts receivable method. Based on the nature of the Authority's operation, we recommend the percentage of accounts receivable method to be used.

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

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 Days	XXX	20%	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:

Debit: Bad Debt Expense
  Credit: Allowance for doubtful accounts

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

Debit: Allowance for doubtful accounts
  Credit: Bad Debt Expense

ACCOUNTS PAYABLE RECONCILIATION

✓ **RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY LEDGER**

Reconciliation for accounts payable is the same as reconciliation for accounts receivable. It also involves computation of total for all subsidiary ledger, comparing the totals of subsidiary ledger and general ledger, investigation of discrepancies, and posting necessary adjusting entries.

PLANT, PROPERTY AND EQUIPMENT RECONCILIATION

Reconciliation of PPE involves two parts: run monthly depreciation and update fixed asset schedule.

Plant, Property and Equipment is recommended to be depreciated monthly. Depreciation is the process of allocating the costs of assets over their expected useful life. At the end of every quarter, the Authority is required to reconcile all Plant, Property and Equipment. A fixed asset schedule should be developed and updated.

Step 1: Calculate depreciation expenses

Following are four factors used to calculate the depreciation expense

✓ the asset's cost;

- ✓ the asset's estimated life;
- ✓ the asset's residual value
- ✓ the method of depreciation – straight line

Step 2: Record the depreciation

The journal entry to record depreciation is:

Debit: Depreciation Expense
    Credit: Accumulated Depreciation

Often only one depreciation expense account is set up; while separate accumulated depreciation accounts are set up for each asset or each group of assets.

The table below can be used to document depreciation for every period.

Asset No.	Description	Date Acquired	Method	Estimated Useful Life	Salvage Value	Original Cost	Prior Period Accumulated Depreciation	Current Depreciation	Current Period Accumulated Depreciation	Net Book Value
1										
2										
3										

FOR FIXED ASSET SCHEDULE, the Administration CAN USE THE FOLLOWING TABLE FOR REFERENCE.

Asset Group	Beginning Balance	Additions	Sales/Disposition	Ending Balance	Accumulated Depreciation	Net Book Value
A						
B						
C						
D						
...						

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CASH RECEIPTS PROCEDURES

1. The Office Assistant will receive and open the mail in the presence of program person in order to maintain dual control over receipts.
2. The Office Assistant will restrictively endorse all checks when received.
3. The bank deposit will be made daily by the Office Assistant.

4. If the Office Assistant is unavailable to perform these duties, the Office manager will assign an employee other than the Accountant to carry them out.
5. Pre-numbered receipts will be used for any monies received directly from an individual. All checks are restrictively endorsed, photocopied and entered onto a daily cash receipts log when the mail is opened.
6. Payments made in person will be added to the cash receipts log. A photocopy of these checks and a copy of the pre-numbered receipt will be attached to the daily cash receipts log. The cash receipts log is totaled by the Office Assistant. A copy of the log is given with the check copies to the Accountant. A copy of the log is also given to program person B, for updating the journal entries.

4.2 Quarterly Closing Procedures.

In addition to the monthly closing procedures mentioned above, the Authority has quarterly closing procedures related to the Federal Financial Reporting. The closing process is required due to the fact that the FFR is required to be presented on an accrual basis. One of the most important procedures is to submit the Federal Financial Report Standard Form 425 (SF-425) to all Federal Funding Agencies. OMB requires the quarterly submission of the SF 425 report in order to obtain financial information from recipients of Federal funding assistance. Even if the Authority has not drawn any Federal funds during a quarter, the Federal Financial Report must be submitted according to the following schedule:

Quarter	Covered Period	Due Date
1st Quarter	January 01 to March 31	30-Apr
2nd Quarter	April 01 to June 30	30-Jul
3rd Quarter	July 01 to September 30	30-Oct
4th Quarter	October 01 to December 31	30-Jan

4.3 Annual Closing Procedures

In addition to the monthly and quarterly closing activities, please follow the yearly checklist to properly close the books – both pre-close internally and final close with auditors. This annual close is the most important closing process, as it is done in conjunction with the preparation and audit of the Authority's Financial Statements, and is the basis for many budgetary and funding sources by internal management and external constituencies. Steps are as follows:

1. Review all asset accounts (include CIP). Various asset accounts must be reviewed at year-end. A reconciliation of all cash accounts must be prepared and any adjusting entries must be recorded. Prepaid expenditures must be reviewed and analyzed to ensure that no adjustments are needed.
2. Accrue accounts receivable. Various sources of revenues are due to the Authority at year-end. These amounts must be recorded as accounts receivable. This will record the revenue in the proper fiscal year.
3. Accrue accounts payable. Any amounts due to others at year-end for receipt of goods or services must be recorded as accounts payable. This will record the expenditure in the proper fiscal year. There are common types of payables such as payroll, employee benefits, utilities, contracts and so forth.
4. Adjust grants and entitlements: Specific recognition policies must be followed in accounting for grants and entitlements. Each project must be reviewed separately and appropriate entries must be made.
5. Ensure accurate accounting for leases. A variety of accounting entries relating to these must be recorded before or during the year-end closing process.
6. Ensure that all inter-program and inter-fund transactions are reconciled. Any transfers of expenditures between programs or funds must be reconciled.
7. Review unique closing procedures for other funds and account groups. Unique items must be considered at year-end regarding funds other than the general fund.
8. Properly identify the components of the ending fund balance. Year-end entries are necessary to classify the components of the ending fund balance correctly. Amounts may be reserved, legally restricted, designated or undesignated.
9. Prepare both financial statements and books for the annual audit
10. Complete the year-end closing checklist (**See Appendix 6.1**).

5 SEGREGATION of Duties

Segregation of duties is the concept of having more than one person required to complete a business process. Segregation can be defined as the process by which business processes and tasks are separated into different individuals in order to strengthen internal control intended to prevent fraud and error.

GENERAL CATEGORIES OF FUNCTIONS TO BE SEPARATED:

- 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
- Splitting one security key in two (more) parts between responsible persons:

THE LIST BELOW INCLUDES SPECIFIC FUNCTIONS THAT SHOULD BE SEGREGATED:

INTEREST PAYABLE ACCRUAL

- The employee who performs the interest payable accrual should not be responsible for making interest payments.
- The journal entries should be reviewed and approved by someone other than the preparer.

AMORTIZATION OF BOND ISSUANCE COSTS

- The journal entries should be performed by staff in a reasonable position.

CASH – BANK RECONCILIATION

The preparer of bank reconciliations should not have any of the following responsibilities for recording cash receipt or disbursement transactions.

- ✓ Receive cash receipts
- ✓ Prepare cash deposits
- ✓ Generate or print checks
- ✓ Execute or authorize wire transfers
- ✓ Sign checks
- ✓ Have access to blank check stock

In addition, bank reconciliations should be reviewed and approved by an employee at a supervisor-level position.

ACCOUNTS RECEIVABLE ACCRUAL/RECONCILIATION

- An employee who is independent of the accounts receivable process should accrue/reconcile accounts receivable transactions to the general ledger.
- The employee who performs the accounts receivable accrual should not have access to cash receipts from customer payments.
- Account accrues/reconciliations should be reviewed and approved by someone other than the preparer.

ACCOUNTS PAYABLE ACCRUAL/RECONCILIATION

- An employee who is independent of the accounts payable process should accrue /reconcile transactions to the general ledger.
- The employee who performs the accounts payable accrual should not have access to cash disbursement.
- Account accrues/reconciliations should be reviewed and approved by someone other than the preparer.

Plant, Property and Equipment Reconciliation

- The reconciliation of the general ledger fixed asset balance to the fixed asset system should be completed by someone who does not maintain the fixed asset system.
- Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.
- Periodic inventory of equipment parts and reconciliation with subsidiary.

Cash Receipts Procedures

- Two employees should receive and open cash receipts, create a listing of receipts and prepare the deposit.
- The person receiving the cash or preparing the deposit should not have access to record or authorize cash transactions. They should not be responsible for preparing the bank reconciliation either.
- Daily reconciliations of cash receipts to bank deposits, including lockbox receipts, should be performed.

9.7.14.

6 Appendix

6.1 Appendices Year-end closing checklist

The items in the checklist include tasks other than those performed on a monthly and quarterly basis.

Task	Area of Responsibility	Responsible Individual	Due Dates	Completion Date
CUTOFFS				
Vendor Payments	General Accounting	TBD	TBD	TBD
Payroll	General Accounting	TBD	TBD	TBD
TAKE INVENTORY				
Spare Parts Inventory	General Accounting			
BALANCE SHEET ACCOUNT RECONCILIATION				
Cash	General Accounting	TBD	TBD	TBD
Accounts Receivable	General Accounting	TBD	TBD	TBD
Accounts Payable	General Accounting	TBD	TBD	TBD
Property, Plant, and Equipment	General Accounting	TBD		
Equipment Parts Inventory	General Accounting	TBD		
PREPARE ACCRUALS				
Interest Receivables	General Accounting	TBD	TBD	TBD

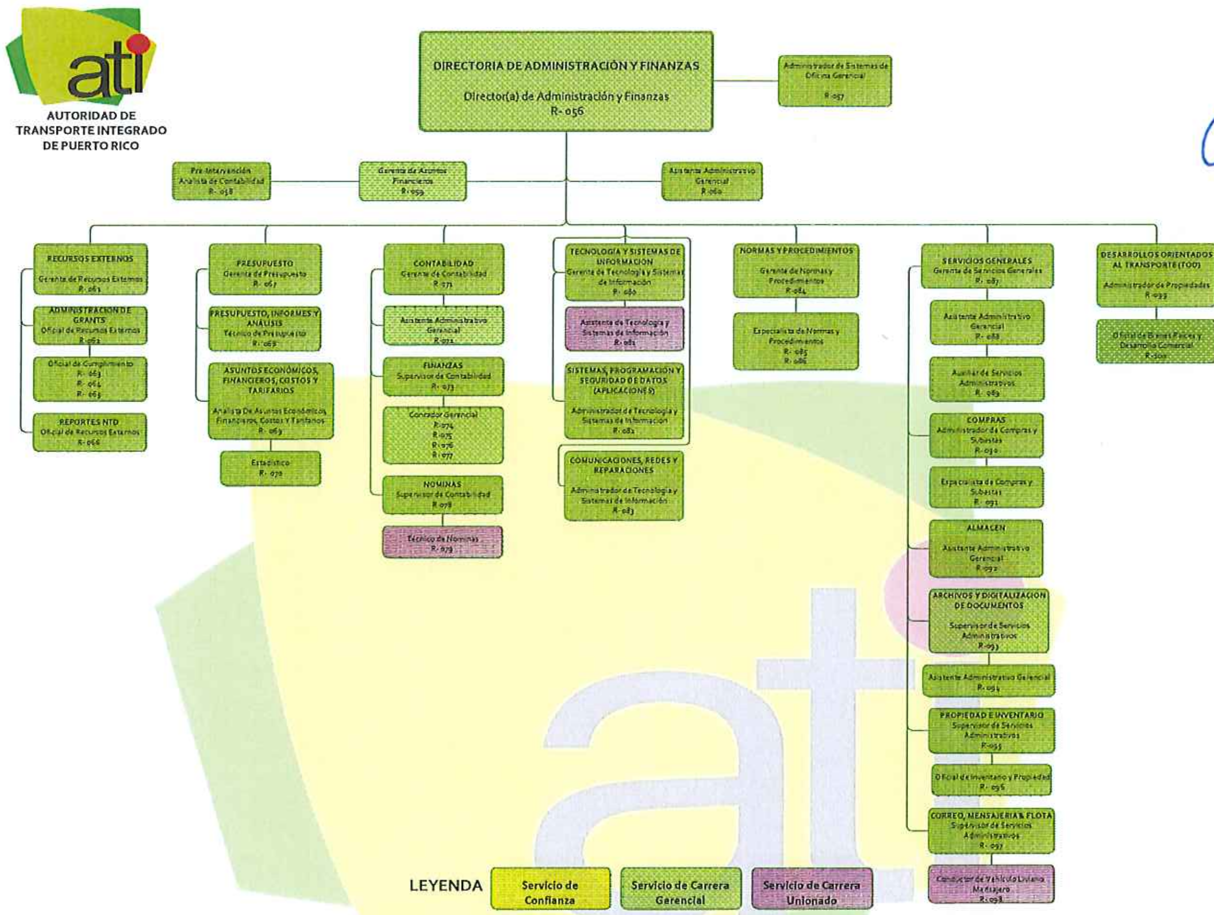
9.7.M.

Interest Payables	General Accounting	TBD	TBD	TBD
Depreciation	General Accounting	TBD	TBD	TBD
Post Retirement	General Accounting	TBD	TBD	TBD
Payroll	General Accounting	TBD	TBD	TBD
SUBMIT PREPARED BY CLIENT INFORMATION TO AUDITORS				
Submit PBC Information to Auditors	Various	TBD	TBD	TBD
Task	**Area of Responsibility**	**Responsible Individual**	**Due Dates**	**Completion Date**
PREPARE AND RECORD ADJUSTING ENTRIES				
Based upon general ledger account reconciliation	General Accounting	TBD	TBD	TBD
Based upon adjustments presented by the external auditors	General Accounting	TBD	TBD	TBD
RESOLVE AUDIT QUESTIONS AND ISSUES				
Work with auditors to resolve audit issues	Various	TBD	TBD	TBD
PREPARE AND SUBMIT FINANCIAL STATEMENTS				
Draft 1	Financial Reporting	TBD	TBD	TBD
Draft 2	Financial Reporting	TBD	TBD	TBD

Draft 3	Financial Reporting	TBD	TBD	TBD
Final	Financial Reporting	TBD	TBD	TBD
Print and Publish Audited Financial Statements	Public Affairs	TBD	TBD	TBD

6.2 Organization Chart

DIRECTORIA DE ADMINISTRACION Y FINANZAS



7. ADOPTED & VALIDATE BY:

17th of December, 2015

Juan A. Vázquez Acevedo — DATE

Chief Financial Officer,

Puerto Rico Integrated Transit Authority (The Authority)

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.

17th of December, 2015

Alberto M. Figueroa Medina, PhD, PE — DATE

Executive Director

Puerto Rico Integrated Transit Authority

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

17th of December, 2015

Miguel A. Torres Diaz — DATE

Chairman of the Board

Puerto Rico Integrated Transit Authority

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2014
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