

# ACCOUNTS PAYABLE

ATI-0005-2015



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PUERTO RICO

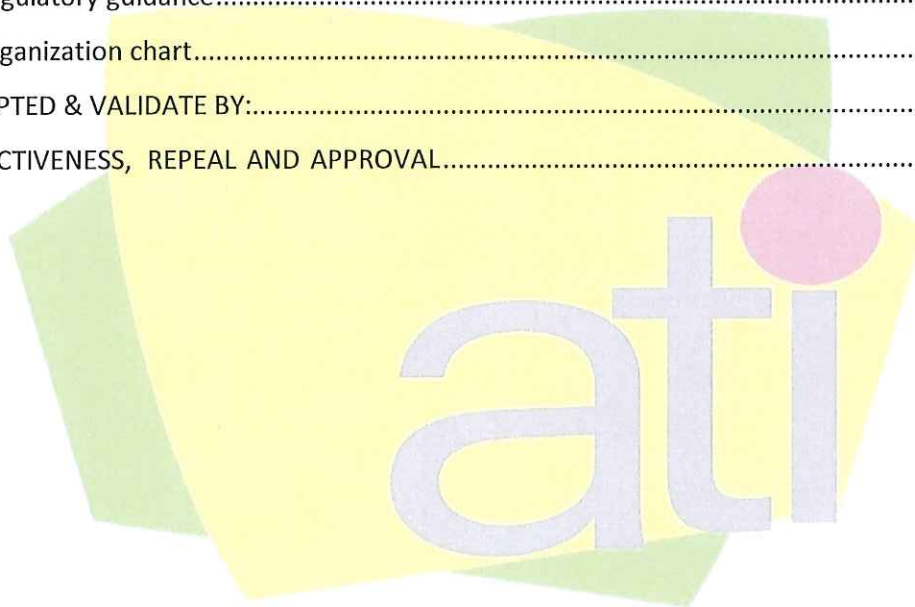
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**PUERTO RICO INTEGRATED TRANSIT AUTHORITY  
(PRITA)**

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Regulation Number or Procedure:

ATI-0005-2015

DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS

PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)

Title regulation or procedure:

**ACCOUNTS PAYABLE**

Approved by:

Alberto M. Figueroa Medina, PhD, PE,  
Executive Director

Validate By:

Juan A. Vázquez Acevedo,  
Chief Financial Officer

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Work Unit:

**Administration and  
Finance**

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Directors: 12-17-2015

Notes:

## 1 Purpose

The purpose of these desk procedures is to provide guidance on the processing of Accounts Payable for the Authority. These procedures support the regulatory provisions of the Governmental Accounting Standards Board (GASB) and the regulations and guidance (circulars and bulletins) issued by the U.S. Department of Transportation (DOT) – Federal Transit Administration (FTA), the Office of Management and Budget, other Federal agencies and local agencies. The ultimate intent of these procedures is to ensure that the internal controls environment over the accounts payable processes are effective, promotes efficiency, and is transparent to Authority's internal management and to its external customers.

## 2 Background

The Authority is responsible for the creation of capital and operating budgets. These budgets include projects that the Authority will undertake in the future. After Authority's budget is approved by the FTA and applicable State authorities, it should begin to work on the actual capital project based upon established milestones. Most of these milestones require the procurement of goods and/or services. The procurement of goods and services most often entails the use of purchase requisitions. The accounts payable process begins at the point when goods/services are formally requested. The internal controls included in the accounts payable process are supported by the Authority's grant management system and general ledger and should be sufficient enough to account for the sources and uses of all Federal and Non-Federal Funds.

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### 3 Objective

- To ensure that adequate internal controls are in place so that any costs applied to grants/projects are reasonable, allowable, and allocable.
- To ensure that the accounts payable process is adequately controlled.
- Specifically, these procedures are intended to ensure that:
  - Adequate procedures have been established that instruct and assist accounting personnel in the performance of their responsibilities.
  - Encumbrances are properly established against the correct grants.
  - All obligations incurred and invoiced are recorded by the Authority and costs applied to the grants/projects are reasonable, allowable and allocable. Authority properly validates and processes invoices for payment.
  - All disbursements are authorized and controlled.
  - Accruals, journal entries and reconciliations are properly prepared.
  - Manual disbursements are properly controlled and accounted for.
  - Local government requirements regarding the priority given to the acquisition of local goods and services.

### 4 Scope and Applicability

These procedures will assist Authority in the proper authorization, recording, reconciling and storage of all relevant documents related to accounts payable. In addition, these desk procedures will document the roles and responsibilities of the staff in the Accounts Payable Department. When implemented and followed, these desk procedures will also serve as a source for the enhancement of the control environment within the Accounts Payable Department. These desk procedures will also address peripheral matters including the proper *segregation of duties* that should be an inherent feature of the accounts payable process.

The accounts payable process or function is immensely important since it involves nearly all of Authority's payments outside of payroll. These procedures will provide adequate guidance to address internal controls throughout the accounts payable cycle. They provide specific guidance in the procedures required for preparing, reviewing, approving, authorizing, disbursing and recording accounts payable transactions.

These controls will ensure that all obligations incurred and invoiced are recorded by the Authority and only reasonable, allowable and allocable costs are applied to grants and projects. These procedures will also cover the recording of accruals/journal entries, the preparation of reconciliations, and the related financial statement presentation. Discussions

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pertaining to manual disbursements and the proper storage of accounts payable documents are also included in this document.

The procedures are organized consistent with the necessary flow of activities and transactions within Authority's business cycles. This sequence is as follows: issuance of purchase requisitions, award of purchase orders/contracts, review and acceptance of invoices, disbursements, reconciliation of the general ledger accounts, and financial statement presentation. These procedures also address the required document maintenance pertaining to these transactions.

## 5 Procedures

### 5.1 Vendor File Maintenance

A master vendor file is a listing in the accounting system of all approved vendors that the Authority purchases goods or services from. Updates to this file should be limited to an assigned information technology professional only. This individual should not have the ability to authorize, record, or pay invoices or execute any other financial transactions. Vendor's existence in this system file allows purchase orders and contracts to be issued and checks to be cut to these vendors. The master file should also contain information on discounts offered by the vendors for early payments, whether or not you normally want to take advantage of such discounts. That will help in scheduling out check runs.

A vendor record or payee must be "attached" to every transaction processed in the accounting system. A unique vendor number is assigned by an information technology professional to identify each vendor record. The record includes the payee's name, address, tax identification number (TIN), entity type, and TIN name since sole proprietors often use their Social Security number as their TIN and the proprietor uses a company name to conduct business. It is important that vendor record information is accurate because the address is used to print the address that appears on the check payment, commonly referred to as the remittance address. It is also used to send annual IRS forms to the vendor. The IRS requires that a Form 1099-Misc be used to report payments that the Authority makes for services and the purchase of goods. Form 1042-S is used to report payments to Non-Resident Aliens. Determination of reporting is dependent on a vendor's entity type, hence the need for accuracy for proper reporting. The vendor name must correlate with the TIN number. Vendor information that is not substantiated by a vendor inquiry should not be entered into the vendor master file. Also, local retentions, especially those required by the Internal Revenue Code of Puerto Rico should be included in the vendor file.

#### *Searching & Selecting an Existing Vendor Record*

The first step in processing any transaction requires vendor record assignment. Familiarity with the vendor file will help find most of the vendors rather than having to establish new ones. This

will also reduce the number of duplicate vendor records that are being created. The vendor record address is the “payment address” often referred to as the remittance address. The payment address is used when the vendor’s check is printed. The encumbrance system allows the system administrator to temporarily “change” the payment address to correctly reflect the “order address” which is the address where the purchase order is to be mailed. The vendor file may include multiple listings for a single vendor name because some vendors may have multiple vendor remittance addresses. Different remittance addresses occur because the vendor may require payments to go to different locations depending of the type of account or the type of payment being made.

### *Creating New Vendors*

Accounts Payable staff should create a request for a new vendor only if the payee/vendor is not available in the vendor master file. If vendors have moved and the address should be corrected, fax the corrections.

## **5.2 Requisition of Good and Services**

### **5.2.1 Preparation of Purchase Requisitions (PR)**

The requisitioning of goods and services requires the use of a *Purchase Requisition (PR)*. This requisition should be prepared by using a standard form or document and should be initiated only by an authorized individual that has been designated as an approve requestor goods and/or services. The information below highlights the internal controls that are to be adhered to in processing purchase requisitions. The required segregation of duties for the accounts payable cycle is presented in **Section 6** of this document. Listed below are the internal controls and accounting procedures that will be implemented during each phase of the accounts payable cycle.

The employees designated to initiate and approve purchase requisitions must be designated by an official *Delegation of Authority*.

### **5.2.2 Approval/authorization of Purchase requisitions**

The authorized official reviews the requisition and verifies the following:

- **The requisition is:**
  - Complete
  - Accurate
  - Is covered by a grant budget by Activity Line Item(ALI) in Authority’s budget



- Cite the proper data elements including grant funding information e.g. project number, grant number, and other pertinent accounting line information
- Identify the sources of funds for the financing the purchase of goods and/or services.

If the requisition is incomplete, it is returned to include the additional information needed. If the item is not in the grant budget or the Authority does not have the resources to pay for the item, the Purchasing Manager cancels the requisition and records a full explanation in the purchasing system. All of the parties involved are notified via the purchasing system.

The designated individual shall sign the purchase requisition once all of the required information is prepared and the requisition is complete. This information includes a proper justification, adequate information for the purchasing department to effect a purchase, and budget funding by line item.

### 5.2.3 Recording purchase requisitions

Purchase requisitions are recorded as commitments and represent an administrative budget reduction. However purchase requisitions do not affect Authority's unobligated balance and is not a legal obligation. See the attached **Appendix 7.1 y 7.2** for the accounting entries pertaining to the recordation of purchase requisitions.

### 5.2.4 Reconciling purchase requisitions

The general ledger account for commitments is reconciled to the open commitment subsidiary ledger at least quarterly by the accounts payable accountant.

## 5.3 Execution of Purchase Orders and Contracts

### 5.3.1 Contracts Awards purchase orders

Approved purchase requisitions are sent to the Acquisition/Procurement Department, who awards contracts and issues purchase orders. The awarding of contracts and purchase orders involves a competitive bidding process that is outside of the scope of these procedures.

### 5.3.2 Recording purchase orders and contracts

Purchase orders and contracts are recorded in the general ledger as encumbrances. See **Appendix 7.1 y 7.2** for the accounting entries pertaining to the recordation of contracts/purchase orders. Purchase orders and contracts are recorded in the accounting records as encumbrances or obligations. These encumbrances reduce



Authority's *unobligated balance* and increase their *unliquidated obligation balance*. These are two very high profile data elements that are reported on Authority's *Quarterly Federal Financial Reports (FFRs) - SF 425*. The previously mentioned **Appendixes** present the accounting entries affected by the recordation of encumbrances. The **Appendixes** also highlights the effects of encumbrances transactions have on the unobligated and unliquidated obligation balances. This form can be used to assist in the preparation of the quarterly FFR reports.

### 5.3.3 Reconciling purchase orders

The general ledger account for encumbrances is reconciled to the open obligation subsidiary ledger at least quarterly by the accounts payable accountant.

### 5.3.4 Emergency Purchases

Normal purchase procedures can be disregarded due to the occurrence of extraordinary events beyond the Authority's administration control in which case emergency purchases are allowed. These events include but are not limited to hurricanes, storms, earthquakes or any other natural disasters.

## 5.4 Receipt and screening of contractor/vendor invoices for propriety

All vendors that do business with the Authority must have instructions to mail their invoices to a designated PO Box. The accounts payable mail is retrieved from the mailbox by an accounting clerk. After the invoices are picked up, they will be date stamped, both the envelope and the document inside, and logged into tracking data base. This data base ages these invoices based upon the date of receipt. The invoices are then forwarded to the Accounts Payable Department for screening. This screening involves verification of the required data elements, payment terms, and available funding for accuracy. If the verification of the payment terms, available funding, and data elements are accurate, the invoice is considered a *proper invoice*. Proper invoices are forwarded to the department receiving the good and/or services for authorization. *Improper invoices* are returned to the vendor/contractor with an annotation that will indicate what needs to be corrected.

Special attention should be given to partial delivery, if and when authorized in the PO.

A documental evidence of price quotations required from potential vendors has to be kept as part of the purchase procedures.

#### 5.4.1 Approval/Authorization of Invoices

**Service invoices** will require the requesting department that received the services to note the satisfactory receipt of services performed by the vendor before approving the invoice for payment. The approval of Service invoices will require the responsible staff's signature and date of approval. Authorization of service related invoices requires a two way match, including the invoice and purchase order. The two way match involves the comparison of the following information:

1. The description, quantity, cost and terms on the company's purchase order.
2. The description, quantity, cost, terms and math on the vendor invoice.

Invoices for goods require a receiving report that will be compared to the purchase order information for the quantity and description of the goods. A receiving report is a company's documentation of the goods it has received. The receiving report may be a paper form or it may be a computer entry. Authorization for the payment of goods requires a three way match as follows:

1. The description, quantity, cost and terms on the company's purchase order.
2. The description and quantity of goods shown on the receiving report.
3. The description, quantity, cost, terms and math on the vendor invoice.

After the receiving report and purchase order information are reconciled, they need to be compared to the vendor invoice. The invoices will be reviewed by the authorized receiver of the goods and/or services. Authority's receives invoices pertaining to the receipts of goods and services.

After determining that the information reconciles, the vendor invoice can be entered into the liability account Accounts Payable. The information entered will include invoice reference information such as vendor's name or code, invoice number and date, the amount to be credited to Accounts Payable, the amount(s), account(s) to be debited and the date that the payment is made. The payment date is based on the terms shown on the invoice and Authority's policy for making payments. The documents should be stamped to indicate that they have been entered into the accounting system in order to prevent a duplicate payment.

#### 5.4.2 Recording invoices

Invoices are recorded in the general ledger as a current liability and the related expense in the period the good or service was received and/or used. Approved invoices should also be recorded as expenditures in the accounting records. See **Appendix 7.1 y 7.2** for the accounting entries pertaining to the recordation of approved invoices.



#### 5.4.2.1 AP Accruals

Account payable accruals are unrecorded liabilities that are calculated and recognized for financial statement presentation or certain management functions. These accruals generally represent estimates for *incurred but unbilled costs* that have occurred. This estimate should be based upon proven methodologies, including historical costs and subsequent disbursement testing. Adjusting entries are primarily used to document all the expenses that have occurred for which no invoice has been received.

#### 5.4.3 Reconciling the accounts receivable account

The general ledger accounts payable accounts are reconciled to the accounts payable subsidiary ledger at least quarterly. Accounts payable reconciliations are especially critical because of potential fraud from both external and internal sources. When performed on a regular basis, accounts payable reconciliations are not difficult. These reconciliations ensure an efficient process of closing Author's books at the end of the fiscal year and preparation of annual financial statements. Besides, it will help in the confection of any interim reports that management may require.

- If existing software allows an individual to enter invoices into a subsidiary system without posting them to the general ledger, make sure that all invoices have been posted; if they cannot be posted, make a list or print a report detailing these transactions.
- Next, print an accounts payable aging report for the month you are reconciling. If you have invoices that were not posted to the general ledger, subtract them from the total on your aging report. Do not include invoices that you have not yet entered into the computer. Print a trial balance from your general ledger module.
- Compare the total for accounts payable on the general ledger to your adjusted total from your aging report. Ideally, the two numbers should agree and no further action is needed.
- If the two numbers do not agree, print the general ledger detail for your accounts payable account. Look for journal entries that were manually posted that affected your accounts payable and verify that they are correct.
- If the problem remains, it is possible that an invoice could have been incorrectly entered to affect an account other than payables. You can examine the posting logs that were printed after invoices were posted to the general ledger for errors or print an accounts payable detail report to examine for errors.
- Once the reconciliation is complete, it should be submitted to the Manager of Accounting for review, approval, date and signature.

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#### 5.4.4 Financial Statement presentation

Approved unpaid invoices are presented on the balance sheet as a current liability under the caption "account payable" and as expenses in the income statement or as assets on the balance sheet. This financial statement line item should be supported by a complete accounts payable reconciliation.

### 5.5 Making Payments to vendors and contractors

#### 5.5.1 Payment of Invoices

- The payment terms should be recorded in the accounting system. Strict adherence to the payment terms should be observed and all payment discounts should be utilized.
- On a weekly basis the accountant should print the Aged Account Payables report from the accounting system and provide the complete report (all a/p in the accounting system) and an edited version of the report that identifies the vendor payments that are due for the current period. The report should be submitted to the manager of the Accounting Department.
- The manager should review the report to verify that all of the appropriate vendors are being paid. The Manager should sign and date the edited report and return it to the Accountant.
  - The accountant should process checks for all of the vendors on the edited list and return the checks, the check run report from the accounting system and the edited vendor payment list back to the Manager for final review.
- The manager should review to ensure that the edited list and the check run list are complete and accurate. If the checks are complete and accurate the manager should sign the checks. The accounts payable follows the signature requirements established by the Authority for check signing.
- All invoices pertaining to all check payments should be signed by the appropriate approving official and should contain copies of the purchase requisition, the purchase order, receiving report (for goods). All paid invoices should be *dated, stamped as paid* and include a check number on the face of the invoice.
- The manager should provide the edited list report and the signed checks to an assigned technician. The technician will copy the checks, put the checks in envelopes, include any remittance documents and mail the checks to the vendors. After the checks have been mailed the secretary should sign and date the vendor payment edit report and return it to the accountant.

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Accounts payable checks are printed and mailed directly from the finance office. Requests for a different handling must be indicated in the Special Handling section of purchase order or other original document. The requestor identified on the purchase order will be notified via e-mail when the check is ready for pickup.

*Special handling of the disbursement will be considered for the following situations:*

- Check must be mailed with documents attached (e.g. applications, tax returns, registration, or other required paperwork). A copy of the attachment is submitted with the Accounts Payable Check Request.
- Check is for services that according with the contract must be paid at the time the service is provided.
- COD payment.

#### 5.5.2 Processing Blanket Purchase Orders for Payment (Standing Order)

- Not all vendor invoices will have purchase orders or receiving reports. Hence, the three-way match is not always possible. For example, the Authority does not issue a purchase order to its electric utility for a pre-established amount of electricity for the following month. The same is true for the telephone, natural gas, sewer and water, freight-in, and so on. There are also payments that are required every month in order to fulfill lease agreements or other contracts. Examples include the monthly rent for a storage facility, office rent, automobile payments, equipment leases, maintenance agreements, etc. Even though these obligations will not have purchase orders, the responsibility is unchanged: A blanket order is a Purchase Order that is valid for a specified period of time and authorizes multiple orders during that time period, as long as the total dollars on the purchase order are not exceeded.
- A blanket purchase order is issued to a specific supplier to address recurring low dollar purchases of consumable supplies or services, for a specific period of time. The blanket purchase order authorizes the Authority to buy goods or services with predetermined terms or conditions. This procedure saves time for both the requisitioner and buyers, since they do not have to seek bids before every purchase.
- Blanket purchase orders limit the types of goods or services that can be ordered, and may also limit the order amounts. Most blanket orders are issued by one department for their own use, but some Blanket orders cover all the Authority, like FedEx, Office Supplies, etc. Because blanket purchase orders generate multiple invoices for various dollar amounts over their life, it is more effective to receive IN DOLLARS with blanket orders. Specific quantities of goods are not specified on the order, so it is impossible to receive a "quantity" of goods or services. You should

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enter a receipt for the total dollar amount of the invoice you are approving, unless you wish to pay a lesser amount.

- After a blanket order has been established, the Authority issues a new release to the vendor each time goods are required and funds are encumbered with each release. For a blanket order, each release corresponds to specific lines on the blanket purchase order and the lines for each release are identified by a unique release number. A release can be thought of as a subset of a blanket purchase order.
  - **For example**, a specific dollar amount-limited blanket purchase order could be established for \$5,000 worth of bottled water. For each release you send, the vendor ships the desired amount of the product. Instead of encumbering the \$5,000 immediately, funds are encumbered for the amount of each release at the time it is issued. New releases can be issued for additional shipments of water until you reach the \$5,000 limit. **The payment** basis for blanket orders is determined by whether the purchase order is for goods or for services. In general, the payment basis will be receipt payment basis if the purchase order is for goods and signature payment basis if the PO is for services.

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### 5.5.3 Processing Manual Checks for Payment

The primary purpose of the manual check process is to generate omitted payments to staff who did not receive a paycheck in the regular processing schedule. Manual checks are also processed when corrections are made, or when a termination (or final) pay is processed. If the paperwork is completed by the posted payroll deadlines the employees will receive their checks in their normal payroll cycle. PRITA can also offer the manual check process to an employee whose pay has inadvertently been shorted for a particular month if there is a financial crisis and they must receive payment before the regularly scheduled concurring pay date. Manual check requests along with all related backup (the pay authorization and/or timesheets) must be submitted in time for the next week's manual check run. Manual checks are written on a weekly basis each Tuesday between the 1st and the 20th of each month. The other purpose for a manual check is to request an immediate payment to a vendor. In this situation the vendor cannot wait until the next payment cycle. All manual check requests must be approved by the requesting employee's manager.

### 5.5.4 Micro-purchases

The basic micro-purchase threshold is \$2,500 per transaction, and the following exceptions apply:



- Micro purchases should be approved by designated certifying officer, who should perform a review and verification of the propriety of the payment request;
- The transactions should be documented and appropriate files maintained;
- The Purchase Card is the preferred purchase mechanism and payment method for simplified acquisitions. Cardholders must use the Card, to the maximum extent practical, for all eligible goods and services.

### 5.5.5 Reconciling vendor statements

Reconciling your vendor statements allows you to ensure that there are no mistakes or inaccuracies between what the vendor is charging you and the inventory, services or supplies you received. Statements typically arrive around the same time each month. Reconciliation requires matching the statement's line items with your invoices. Reconciliation steps include:

- **Organizing invoices** by date. If a computer program is used for accounting, click on the option to organize by date. If this is performed manually, pull the invoices and stack them with the oldest date on top.
- **Match** the line items on your vendor statement to your invoices. Typically, businesses reconcile the invoices as shipments arrive, so your invoices should reflect the correct count and dollar amount of each shipment.
- **Place check marks** on your statement when the invoice matches the line item. For example, if there are invoices for 12 cases of widgets received on the 10th, there should be a line item on the statement corresponding to that shipment. Compare the statement's invoice number for that item and, if they match, place a check beside the statement item.
- **Circle** any items that you do not have invoices to match. Make a note of the invoice number on the statement. Call the vendor and request a copy of any invoices that are missing by fax or email. If the vendor mistakenly put the wrong invoice number on your statement, mark through the line item and add a note for the vendor's accounts receivable department about the inaccuracy. Subtract any erroneous charges from the statement total.
- **Add** all of the relevant invoices and compare the amount with your statement total. If the amounts do not match, check your math. Often you will find the problem in a transposed number or inaccurate calculation.

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Once completed the reconciled vendor statement should be signed and dated by the accountant. The reconciliation should be kept in the vendor file.

## 5.6 Blank Checks

A *blank check* is a completely blank check that was received from a check printing company. These blank checks do not yet have an authorized signature and are sometimes referred to as check stock. These checks should be stored in a secure place until they are inserted into PRITA's printer in order to pay its suppliers, etc.

## 5.7 Storage

Access to accounts payable documents including blank checks, purchase requisitions automated and manual files are restricted to authorized personnel only. These individuals should be provided password access to the automate files and door keys for physical access. Automated files should be routinely backed up and hard copy files should be maintained in locked cabinets.

## 5.8 Record Retention

During the course of the project and for three years thereafter from the date of transmission of the final expenditure report, the Recipient agrees to maintain intact and readily accessible all data, documents, reports, records, sub agreements, leases, third party contracts, and supporting materials related to the Project as the Federal Government may require.

## 6 Segregation of duties

**Segregation of duties** is the concept of having more than one person required to complete a business process. The concept of the segregation by sharing of more than one individual in one single task or business process is an 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:

### 6.1 Procurement

- Purchase requisitions should be reviewed and approved by someone other than the employee initiating the purchase requisitions.
- Purchase orders should only be generated by employees in the purchasing department. These employees should not have access to generate or authorize purchase requisitions.
- Employees responsible for authorizing purchase orders should not have access to initiate purchase orders.



- Employees involved in the purchasing function should not have record-keeping responsibilities in the cash disbursement system. Specifically, these employees should not be able to modify the Vendor Master File, record vendor invoices, receive goods, reconcile or write-off inventory or obtain custody of inventory either directly or by influencing the shipment of inventory.
- Employees involved in the purchasing process should not be responsible for approving invoices. Instead, this approval should be restricted to the employee who initiated and authorized the purchase requisition or a person independent of the purchasing function.
- Employees who are responsible for the receipt of goods from vendors should not be involved in the purchasing or cash disbursement process.

## 6.2 Vendor Set-up

- The employee with the responsibility for modifying the Vendor Master File should not be responsible for entering vendor invoices in the cash disbursement system or have the ability to generate and authorize cash disbursements.
- The Vendor Master File change report should be reviewed by a supervisory-level employee who does not have access or responsibility to perform these functions.

## 6.3 Cash Disbursements

- Employees responsible for authorizing vendor invoices and payments should not have the responsibility for recording invoices in the cash disbursement system.
- Employees responsible for printing vendor checks should not have the responsibility for preparing or approving bank reconciliations.
- Employees responsible for signing vendor checks should not prepare or approve the bank reconciliations.
- Initiation and approval (release) of wire transfers should be segregated between two employees
- The employee responsible for approving and releasing the wire transfer payments to the vendor should not have responsibility for modifying the Vendor Master File, recording vendor invoices and journal entries, or be involved in the bank reconciliation process.

## 6.4 Accounts Payable Reconciliation

- An employee who is independent of the cash disbursement process should reconcile transactions to the general ledger
- Account reconciliation should be reviewed and approved by someone other than the preparer of the reconciliation.

## 7 Appendix

### 7.1 Pro Forma Accounting Entries

Accounts Payable Pro Forma Entries				
		G/L Acct#	Debit	Credit
<i>Receipt of Grant Award (Budget Funding Source)</i>				
	Estimated Revenue (Grant Funds)	33XXX	10,000	
	Unreserved Fund Balance	30XXX		10,000
<i>Requisition Request</i>				
	Unreserved Fund Balance	30XXX	6,000	
	Purchase Requisitions - Commitments	35XXX		6,000
<i>Purchase Orders (Encumbrances)</i>				
	Encumbrances	34XXX	6,000	
	Fund Balance Reserve for Encumbrances	31XXX		6,000
	Purchase Requisitions - Commitments	35XXX	6,000	
	Unreserved Fund Balance	30XXX		6,000
<i>Cancel Purchase Order (Encumbrances)</i>				
	Fund Balance Reserve for Encumbrances	31XXX	1,000	
	Encumbrances	34XXX		1,000
<i>Receipt of Invoices A/P</i>				
	Fund Balance Reserve for Encumbrances	31XXX	2,000	
	Encumbrances	34XXX		2,000
	Expenditures	54XXX	2,000	
	Accounts Payable	21XXX		2,000
<i>Payment of Invoices (A/P)</i>				
	Accounts Payable	21XXX	2,000	
	Cash	11XXX		2,000
<b>Total</b>			<b>35,000</b>	<b>35,000</b>

*9.7.14*



- **Unreserved Fund Balance** is an equity account. The credit (debit if a deficit budget), when posted, adjust the account to its anticipated year-end balance and maintains the integrity of the double-entry system.
- As actual resources inflows and outflows occur during the year, they are recorded in **“Revenues”** and **“Expenditures”** accounts, and the detail is posted to the revenues and expenditure subsidiary ledgers in order to facilitate budget vs. actual comparisons. In order to prevent the overspending of an item in the budget, an additional budgetary account is maintained during the year. This budgetary account is called **“Encumbrances”**. When goods or services are ordered, the encumbrances account is charged in order to appropriate the corresponding funds.
- **“Fund Balance Reserved for Encumbrances”** is a fund equity account. When the debit in the entry is posted, the amount that can still be spent for an individual item is reduced. Thereafter, when the goods or services ordered are received, the encumbrance entry is reversed and the actual resource outflow (Expenditure) is recorded.
- The Encumbrances account does not represent expenditure; it is a budgetary account that represents the estimated cost of goods or services which have yet to be received. In effect, the recording of encumbrances prevents overspending of a budget or appropriation. Likewise, the account Fund Balance Reserved for Encumbrances: is not a liability account; it is a reservation (restriction) of fund balance. If encumbrances are outstanding (aka unliquidated obligation) at the end of the period, the fund balance reserved for encumbrances is reported in the fund balance section of the balance sheet (similar to retained earnings)

cf.  
G.F.M.

The **CHART** below the journal entries illustrates the impact of specific activities. Some of these categories are identified on the Standard Form 425 (Federal Financial Report (FFR)). This document will be helpful in preparing the FFR.

## 7.2 Grant management tracking worksheet

GRANT NUMBER XXXXXXXXXXXXXXXX

Grant Management Control Schedule							
Transactions		Beginning Grant Funding	Encumbrances	Expenditures	Payment	Unliquidated Obligations Balance	Unobligated Balance Balance
Establish Original Funding	Grant Award	10,000				10,000	
Post Encumbrance	Purchase Orders Issue					6,000	4,000

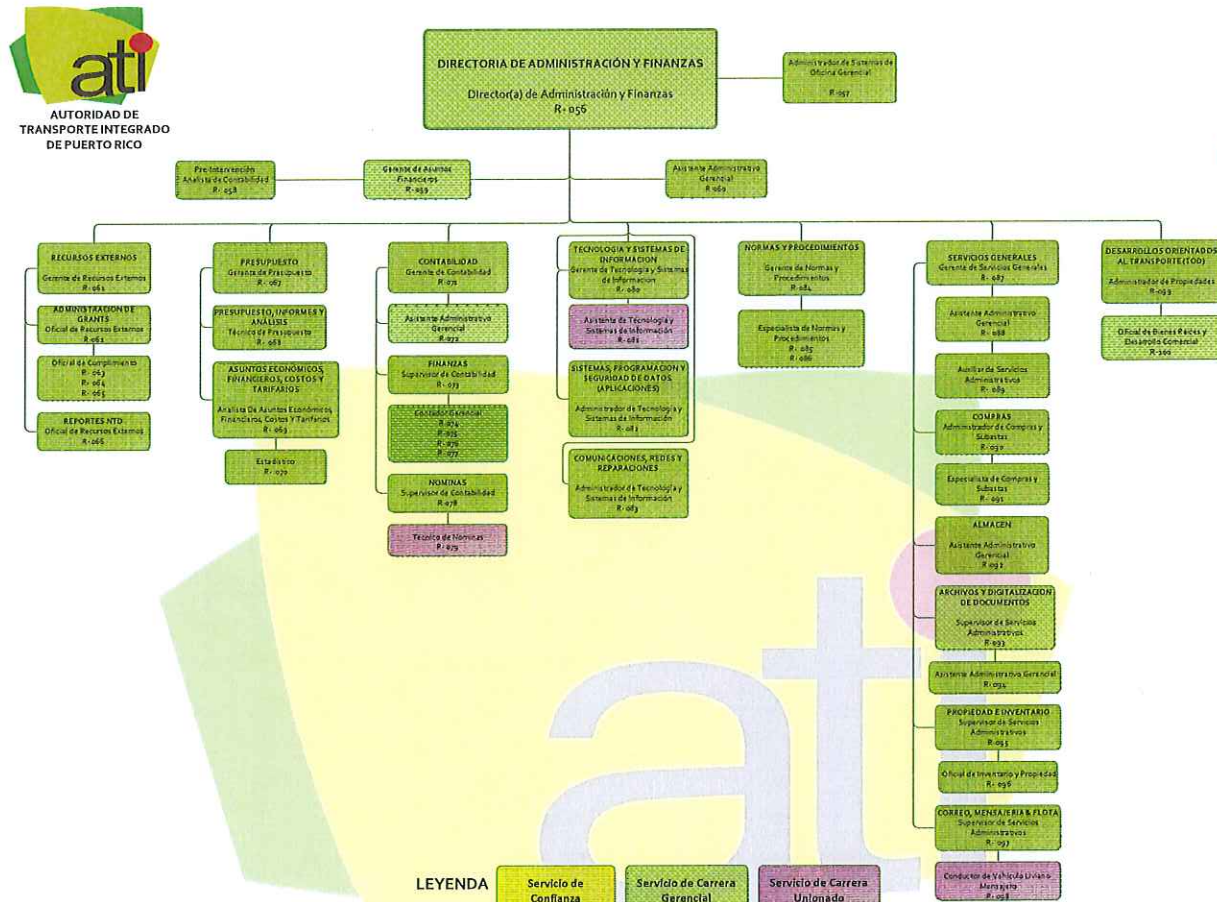
			6,000				
Post Expenditure (not encumbered)	Micro Purchase (No PO)			1,000			3,000
Decrease Encumbrance	Cancellation of PO		(1,000)			5,000	4,000
Post Expenditure (encumbered)	Recording of A/P			2,000		3,000	4,000
A/P Disbursement	Payment of A/P				2,000		
<b>Balance</b>		<b>10,000</b>	<b>5,000</b>	<b>3,000</b>	<b>2,000</b>	<b>3,000</b>	<b>4,000</b>

### 7.3 Regulatory guidance

- **49 CFR 18.20(b)(5)** , Allowable Cost "Office of Management and Budget (OMB) cost principles **2 CFR Part 225** , incorporated within **49 CFR 18.22** , agency program regulations, and the terms of grant and subgrant agreements will be followed in determining reasonableness, allowability, and allocability of costs." If indirect costs are being charged to the grant, there must be a cost allocation plan that is properly prepared and approved by FTA. Note: Four separate, discrete program areas address **49 CFR 18.20 (b)(5)** "Allowable Cost".
- The accounting standards issued by the Government Accounting Standards Board (GASB)



## DIRECTORIA DE ADMINISTRACION Y FINANZAS



## 8 ADOPTED & VALIDATE BY:



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

17th of December, 2015

DATE

## 9 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

