

CASH MANAGEMENT

ATI-0003-2015



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

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Regulation Number or Procedure:

ATI-0003-2015

DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS

PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)

Title regulation or procedure:

CASH MANAGEMENT

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 Authority realizes the need for maximizing its return on surplus operating funds. To accomplish this objective, the master depository account maintains only those funds necessary to cover immediate needs. Excess surplus funds are transferred to the applicable Trust, or other authorized entity for short-term investment. The Authority must provide appropriate control over all collections and disbursements. Bureaus/Offices must make use of every available tool to collect and disburse funds as efficiently and effectively as practical to ensure that the maximum amount of cash is made available to Treasury for purposes of investment and to avoid unnecessary borrowing.

In addition, grant specific requirements for cash management include procedures for minimizing the time delay between the transfer of funds from the U.S. Treasury and disbursement by grantees. When payments are made by electronic transfer of funds methods, the grantee must make drawdown's as close as possible to the time of making disbursements (Treasury identified this time-frame to be 3 business days).

Overview:

Under Puerto Rico's Government Finance laws 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. Deposits must be insured by 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.

These procedures provide the general and specific standards and provide guidance to the responsibilities of designated offices and positions, including the penalties for improperly handling and using public moneys, and the safeguarding of public funds.

Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of Government assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced

consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards. The attainment of these principles and standards in the cash management area can be achieved by pursuing the controls over the following general activities:

- The time-value-of-money shall be recognized as a part of each cash management decision.
- Cash related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
- Cash related transactions shall be fully documented so that an undisputable audit trail exists.
- Cash related transactions shall be recorded promptly during each step of the cash handling function.
- Serially numbered forms shall be used to document cash related transactions to enhance reconciliation and accountability.
- Documents used in cash related transactions shall be safeguarded against reuse, tampering, or unauthorized disposal.
- Provisions shall be made for the regular review and comparison of transaction documentation to detect errors and duplicate payments.
- The approval of adjustments to cash related transactions shall be administratively controlled.
- Supervision of cash management activities shall be strictly and continually administered.
- Cash related duties, such as maintenance of accounts receivable, cashiering, accounting, disbursing, and collecting funds shall be segregated.
- Cash related accounts shall be frequently reviewed and reconciled with subsidiary records.
- The accessibility to funds and fund records shall be restricted and administratively controlled.
- Only properly designated employees shall handle imprest funds, disbursement certifications, and collection duties.
- Employee's assigned cash related duties shall be trained and must accept their responsibilities.
- Unnecessary clerical routines and handling of cash or cash related documentation shall be eliminated to lessen the risk of loss and exposure to errors.
- Electronic funds transfer and direct deposit shall be used where feasible and advantageous.
- Computer edit programs shall be used to the maximum possible extent to disclose or reduce the incidence of error in cash related transactions.
- Cash derived from collections and cash used for disbursements shall not be commingled.
- Cash transactions shall not be used to substitute, or circumvent, prescribed procurement approvals and procedures.
- Checks received in collections shall be endorsed upon receipt and collections shall be safeguarded until deposit is accomplished.
- Deposits shall be processed within prescribed intervals and reconciled against records of funds received.
- Prompt responses shall be made to reviews performed by the Office of the Inspector General and the Government Accountability Office and the Office of the Comptroller of

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the Commonwealth of Puerto Rico on cash management activities to correct cited deficiencies.

- Cash disbursement transactions shall be processed promptly, and cash shall be reconciled daily.
- Cash held outside the Treasury shall be maintained at the minimum amount needed to cover current transactions.
- Credit shall be extended only when authorized by a designated official who is aware of the Department's debt management policies.
- Approved price lists shall be published to ensure a control over income for goods and services.
- Assure full compliance with Act No. 96 of 1964 regarding the submission of special reports by the Finance Officer to the Office of the Comptroller of Puerto Rico in cases of fraud, illegal cash management and cash losses involving misconduct by employees or third parties.

Additionally, adequate controls over the following grant specific activities:

- Funding needs are consistent with policies concerning the use of funds.
- Controls are sufficient to ensure state and local funding sources are adequate and timely.
- Controls are sufficient to ensure Federal Funds requisitions are disbursed timely and
- Appropriately to vendors/contractors.
- Federal advances, if any, are properly approved.
- Controls are adequate to ensure that farebox revenues are collected and processed in an
- Accountable manner that safeguards assets.
- Controls are adequate to ensure proper control over funds, and appropriate accountability and
- Reporting of funds.

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2 OBJECTIVES

The objective of these procedures is to ensure that adequate controls are in place so that any costs applied to Federal grants/projects are reasonable, allowable, and allocable. Additionally, the procedures are to ensure that the procurement process is adequately controlled.

Specifically, these procedures are:

- To ensure that the funding process is adequately controlled and ECHO requests are processed adequately and timely.
- Funding needs are consistent with policies concerning the use of funds.
- Controls are sufficient to ensure state and local funding sources are adequate and timely.
- Controls are sufficient to ensure Federal Funds requisitions are disbursed timely and appropriately to vendors/contractors.
- Federal advances, if any, are properly approved.
- Controls are adequate to ensure that farebox revenues are collected and processed in an accountable manner that safeguards assets.

- Controls are adequate to ensure proper control over funds, and appropriate accountability and reporting of funds.

3 SCOPE AND APPLICABILITY

This Cash Management Manual contains broad guidance and standards for the Authority and Bureaus/Offices to follow in managing and accounting for billings, deposits, collections, and disbursements. Detailed procedures and regulations for each of these activities are available from the Government's central administrative agencies.

What are the Specific Standards and Guidance?

This Section contains specific financial guidance and accounting standards relating to cash and disbursements management. The guidance and standards are deliberately broad; keeping duplication of policy and procedural material readily available from the Authority's central administrative entities. This section establishes guidance and standards that are specific to the Authority's needs, financial systems, and program requirements, with particular emphasis on the operational requirements of the accounting systems.

What are the Cash Management Accounting Standards?

Effective cash management requires that the Authority disburse funds at the appropriate time, neither before nor after they are due and recognize cash, including petty cash, as an asset.

Types of Cash – GASB Statements 28 and 34 define cash and cash equivalents. The Authority's own practices further define cash as its entity fund balances; what it includes; how it is increased; what it does not include; explains authority to borrow; how it is reduced; explains the two categories of funds within the entity's fund balance; the obligated balance not yet disbursed and the unobligated balance; and, discusses reconciliation and disclosure.

What is the Cash Management Guidance?

The applicability of the Authority's cash management guidance and procedures is to ensure the use of the most economical and effective cash flow techniques in financing its programs. This is achieved through a commitment to certain basic cash management principles, such as:

Cash Management Improvement Acts of 1990 and 1992 – The Cash Management Improvement Act of 1990 (CMIA) (P.L. 101-453) as amended by the Cash Management Improvement Act of 1992, (P.L. 102-589) <http://www.fms.treas.gov/cmia/index.html> was passed to improve the transfer of Federal funds between the Federal Government and the States, territories, and the District of Columbia. The main objective is to minimize the time of transfer of funds and the payout for program purpose. **49 CFR Part 18.21** rules and procedures for efficient federal-state fund transfers.

Accounting Standards for Investments – To ensure proper accounting and compliance with applicable regulations, entities must capture information about the investment terms (e.g., date of maturity, rate of return) and the financial institution (e.g., name, address, investor rating), which sells the security. Entities must create transactions to record:

- disbursement of principal to be invested;
- investment as an asset;
- accrual of interest revenue and interest receivable;
- collection of interest and principal; and,
- Reversal of the investment and interest receivable. The disbursement of funds to purchase an investment is processed as a disbursement request.

Depending on the entity, budgetary accounting may or may not be necessary. Entities are expected to periodically reconcile statements received from fiduciary institutions against entity records. These procedures will also include peripheral guidance on adequacy of segregation of duties related to the budget closing processes.

4 PROCEDURES

4.1 Cash and Cash equivalents

4.1.1 Establishment of Accounts

The Executive Director and Chief Financial Officer (CFO) may establish bank accounts as required for efficient operation of financial activities. The Executive Director and CFO are designated as signatures for all bank accounts and other administrative staff may be designated as authorized signatures 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.

4.1.2 Authorizations

- ❖ The CFO will ensure that all transfers between funds or other Government Departments are properly authorized, including a review process to ensure the veracity of the transaction.
- ❖ The CFO will ensure that all reimbursement requests from the Federal government are properly supported and authorized.

4.1.3 Bank Reconciliations

The CFO receives bank statements directly from the Authority's financial institutions, usually within three business days following the close of each month. The employee assigned to reconcile a bank account opens the statement and reviews its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. Unusual and

unexplained items shall be reported to the CFO immediately. The employee assigned to reconciling bank accounts should not have check signing authority, check preparation responsibilities, or cash recording responsibilities.

In order to strengthen control measures as part of cash management, such process will be handled by a separate unit within the accounting department.

All bank reconciliations are reviewed and approved by the CFO on a monthly basis. Any adjusting journal entries resulting from preparing bank reconciliations are approved by the CFO. Reconciling items that require research are followed up by the individual performing the reconciliation with the appropriate department.

4.1.4 Cash Flow

These procedures are for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed. The CFO 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 CFO. When requesting and accepting Federal funds related to grant awards, the CFO will ensure that the funds are disbursed within 3 business days for payments that are not reimbursements to the Authority. This complies with the CMIA of 1982 as amended. The CFO will ensure that funds are properly managed so that restricted funds are spent only for the purposes defined by the funding or revenue source. Where period restrictions exist, the CFO will ensure that the funds are only expended in the specified period. The following pertains to the processing of cash receipts and cash disbursements:

❖ CASH RECEIPTS:

- Prepare and send billings to entities outside the Government promptly after the goods or services have been rendered. If advances are authorized by statute, follow billing procedures included therein. To ensure that funds are received promptly, these billings shall clearly indicate the requirement for timely payment.
- Levy charges for late payments in the form of interest, penalties, and administrative costs on delinquent receivables to offset the cost of funds to the Government and administrative costs incurred in collecting delinquent debts.
- Design collection systems with explicit consideration to the volume and character of the collections and the most expeditious availability of cash to Treasury.
- Include procedures in collection systems, which provide for prompt and continuing action to collect outstanding receivables, with particular attention to delinquent receivables.

- Keep the aggregate total of uncollected receivables to the minimum amount possible.
- Include a payment schedule, provide notice of late charges for delinquency, and when legally authorized, provide for the receipt of payment in advance or acceptance of individual credit cards (approved by Treasury) for the sale of Government goods or services in contracts or agreements to an entity outside the Government.
- Complete deposit processing, both for the Government States dollars and foreign currencies, promptly and include a segregation of the flow of collections from the flow of related documents at the earliest possible processing point, i.e., segregation of duties.
- Collect all funds by EFT when cost effective, practicable and consistent with current statutory authority. Consider collection mechanisms in the following order of preference: Automated Clearing House (ACH), Fed wire, Debit/Credit card and Lockbox.

❖ **CASH PAYMENTS:**

- Design payment systems so that payments are made neither early nor late, and in accordance with the applicable provisions.
- Do not make payment on an invoice before receiving the related goods or services, except as specifically authorized by law.
- Incorporate procedures in payment systems that will allow the benefit of taking of economical cash discounts without need for special handling.
- Disburse all funds by EFT when it is cost effective, practicable, and consistent with current statutory authority. Bankcards or electronic funds transfers, including Automated Clearing House (ACH), Fed wire Deposit System, and the Authority checks shall be used to make payments, according to the Authority regulations.
- Monitor cash advances for grants, procurement, or authorized employee entitlements to avoid amounts in excess of that required for immediate disbursement needs. Promptly withdraw or seek refund when excessive.
- Hold Imprest funds, and other cash held outside the Authority, to the minimum. Frequently review to ensure that fund balances do not exceed the amounts authorized, are not idle, and are commensurate with actual disbursement needs.
- Administer funds kept in interest bearing accounts so that they yield the highest possible interest rate commensurate with efficient administration of the account, as authorized by law or by the Authority.

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- Purchase foreign currencies acquired through commercial channels with Government dollars at the most favorable legal exchange rate obtainable from a legally authorized source.
- Use Government owned excess of foreign currencies first, rather than acquiring such currencies through the exchange of additional Government dollars.
- Issue internal instructions to monitor the reasons of any interest and penalties incurred, take necessary corrective or disciplinary action; report accurately each year and deal with inquiries.
- Assure that effective internal control systems are established and maintained to provide reasonable assurance that cash management activities are effectively and efficiently carried out and that internal management controls over receipt of collections and acceptance of goods and services are in place and being observed.
- Establish a quality control (QC) program to assess performance of payment systems and provide a reliable way to estimate payment performance.

Bureau/Office Quality Control Program Requirements:

- Provide manager information about problems and assist in targeting corrective actions through a systematic performance measurement system in place throughout the entity. Assure QC data is accurate to established tolerances and used to fulfill applicable annual reporting requirements;
- Gather data as frequently as needed by managers to identify and correct errors. Rapidly changing situations may require frequent data collection;
- Collect information through a process at least as thorough as the original payment decision process. QC reviewers must use original documents and repeat the original calculations;
- To the greatest extent practicable, gather data on the basis of a statistically valid sample sufficient to assure the reliability of QC reviews conducted, without unduly burdening entity resources;
- Individuals, who are independent from the original payment decision, must collect data. Thus, supervisory reviews, while an excellent way to improve processing, are not QC reviews;
- Analyze QC data periodically and implement remedial action plans to correct any inefficiencies or errors found;
- Publish lists of designated contacts and or officers to provide contractors assistance in determining the status of their invoices.

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4.1.5 Matching Funds

- The CFO will ensure that all transactions, Federal grant and otherwise, with local matching requirements, are subject to review and proper authorization.
- The CFO will ensure that the Authority only requests reimbursement for the Federal share of all payments with local matching requirements, and will ensure that the matching funds are available at the time of the reimbursement request, to ensure timely disbursement of funds to the vendor or other payee.

4.1.6 Program Income

- **DEFINITION** - Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. “During the grant period” is the time between the effective date of the award and the ending date of the award reflected in the final financial report.
- *Cost of generating program income.* If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income.
- *Governmental revenues.* Taxes, special assessments, levies, fines, and other such revenues raised by a grantee or subgrantee are not program income unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income.
- *Royalties.* Income from royalties and license fees for copyrighted material, patents, and inventions developed by a grantee or subgrantee is program income only if the revenues are specifically identified in the grant agreement or Federal agency regulations as program income. (See § 18.34.).
- *Property.* Proceeds from the sale of real property or equipment will be handled in accordance with the requirements of §§ 18.31 and 18.32.
- *Use of program income.* Program income shall be deducted from outlays which may be both Federal and non- Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. When Federal agencies authorize the alternatives in paragraphs (g) (2) and (3) of this section, program income in excess of any limits stipulated shall also be deducted from outlays.
- *Deduction.* Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless

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the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.

- *Addition.* When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement.
- *Cost sharing or matching.* When authorized, program income may be used to meet the cost sharing or matching requirement of the grant agreement. The amount of the Federal grant award remains the same.
- Section 3(a) (1)(D) of the UMT Act of 1964, as amended, provides that the Secretary shall establish requirements for the use of income derived from appreciated land values for certain UMTA grants. Specific requirements shall be contained in grant agreements.
- FTA grantees may retain program income for allowable capital or operating expenses.
- For grants awarded under section 9 of the UMT Act of 1964, as amended, any revenues received from the sale of advertising and concessions in excess of fiscal year 1985 levels shall be excluded from program income.
- 23 U.S.C. 156 requires that States shall charge fair market value for the sale, lease, or use of right-of-way airspace for non-transportation purposes and that such income shall be used for projects eligible under 23 U.S.C.
- *Income after the award period.* There are no Federal requirements governing the disposition of program income earned after the end of the award period (i.e., until the ending date of the final financial report, see paragraph (a) of this section), unless the terms of the agreement or the Federal agency regulations provide otherwise.

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The CFO will ensure that a process is established to identify and record all program income.

The CFO will ensure that program income is properly included in all reimbursement requests for Federal funds.

4.1.7 Fare Revenues and Other Cash Receipts

- ❖ The CFO will ensure that a process is established to safeguard all fare revenues and other cash receipts.
- ❖ The CFO will ensure that a procedure is established to count all fare revenues and other cash receipts. In addition, the procedure will include a process to periodically validate the amounts collected to ensure reasonableness.

- ❖ The CFO will ensure that the safety and security of all fare revenue and other cash receipts. This will include, but not be limited to:
 - Ensuring that cash counters have adequate backgrounds and integrity,
 - Ensuring that secure locations are provided for counting of cash,
 - Ensure that secure locations are provided to store cash,
 - Ensure that the time cash is stored in-house is minimized, that a procedure to expeditiously transfer cash to a bank for deposit,
 - Ensure that all cash counts are properly reported to the accounting department, and
 - Ensure that deposit tickets are provided to the accounting department for verification and reconciliation.

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4.2 Investments

4.2.1 Policy

The Authority's overall investment policy is to preserve and protect its 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.

4.2.2 Statutory Authority and Accounting

The CFO has the responsibility and authority to manage the Authority's investments. All investments must be made in accordance with the Authority Financial policy. All investments must be Short-term investments that generally have a maturity of three months to one year from the purchase date. The Authority may also have 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; 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.

4.2.3 Funds under Trust Agreements

The Authority's funds under the custody of a Trustee will be managed as indicated in the Trust Agreement signed with the Trustee.

5 ADOPTED & VALIDATE BY:



17th of December, 2015

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

DATE

6 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
Executive Director
Puerto Rico Integrated Transit Authority

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



17th of December, 2015

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

DATE

