

# PAYROLL PROCESSING



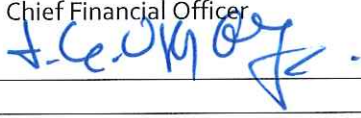
ATI-0006-2015



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

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		Regulation Number or Procedure: <b>ATI-0006-2015</b>	
		DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS  PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)	
Title regulation or procedure: <b>PAYROLL PROCESSING</b>		Approved by: <b>Alberto M. Figueroa Medina, PhD, PE,</b> Executive Director 	Validate By: <b>Juan A. Vázquez Acevedo,</b> Chief Financial Officer 
Date of Revision: 17th of December, 2015	Work Unit: <b>Administration and Finance</b>	Date of approval by the Board of Directors: <b>12-17-2015</b>	Notes:

## 1 Purpose

The purpose of these desk procedures is to provide guidance on the processing of Payroll for the Authority. These procedures support the regulatory provisions of the Governmental Accounting Standards Board (GASB) and the and 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 the Commonwealth Government of Puerto Rico. The ultimate intent of these procedures is to ensure that the internal controls environment over the payroll processes are effective, promotes efficiency, and is transparent to Authority's internal management and to its external customers.

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## 2 Scope and Applicability

The scope of these procedures will address, at a minimum, controls needed to ensure that employee labor costs are designed and implemented including:

- active employee listings are established and maintained,
- properly tracked and supported (via timekeeping),
- recorded in the proper general ledger expense accounts for both GAAP, GASB and grant accounting/reimbursement purposes,



- employees are paid (via cash disbursements),
- withholdings are accurate and consistent with Authority's policy and applicable elections, laws and regulations, both at Federal and local levels,
- methods for payroll related accruals are implemented to ensure accurate and timely entries,
- associated with Federal grant reimbursement are included in force account plans that are prepared and submitted,
- fringe benefit costs are properly accounted for following GAAP, GASB and Federal Grant Policies, and
- various activities related to the payroll function are properly segregated to avoid the risks associated with incompatible duties performed by a single employee.

### 3 Objective:

**To ensure that the payroll is processed only for current, active employees, and that the resulting transactions are accurate and timely, including recording in the general ledger.**

*Specifically, to ensure that:*

- Adequate procedures have been established to govern, instruct and set policy for the Authority.
- All payroll charges are for the labor of authorized, active employees at authorized rates for hours worked on behalf of the Authority and are supported by detailed records.
- Payroll is properly prepared, disbursed and recorded, both automated and manual disbursements.
- Any labor costs that are charged to capital grants are for labor incurred on that capital project, and are in accordance with a Force Account Plan approved by the FTA.
- Payroll and benefits expenses are properly charged to the operating periods in which they are incurred. Accruals, journal entries and reconciliations are properly prepared specifically including the calendar quarters used in FTA reporting.
- Manual disbursements for payroll are properly controlled and accounted for.
- Payroll costs financed from legislative appropriations from the Commonwealth Government of Puerto Rico or from donations received from any of its agencies must be properly charged against the appropriate expense account for those monies assigned for operating expenses or against the cost of the corresponding project.

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## 4 Procedures

### 4.1 New Employees

Classifications of employees - There will be three (3) categories of appointments: appointment of trusted employees, appointment of career employees and appointment of transitory employees.

#### a. Trusted employee

A trusted employee are those who intervene or collaborate substantially in the formulation of Authority's public policy, provide direct assessment or services to the Executive Director and those whose job requires that there always be an element of confidentiality and security related with persons programs or public functions such as:

1. Executive Secretary of the Executive Director
2. Chauffer of the Executive Director
3. Special Support Personnel of the Executive Director
4. Sub-executive Director
5. Secretary of the Sub-executive Director
6. Directors or supervisors of areas, divisions, departments, and employees classified as confidential or other similar cases.

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#### b. Career Employees

Career service is composed of those jobs as unskilled, semi-skilled, and skilled as those of professional functions technical and administrative to the highest level that they can be separated from functions performed by the employee of trust or that has not been appointed as transitory.

#### c. Transitory Employees

Transitory employees may be appointed by virtue of selection from the adequate register to cover needs not to exceed six (6) months.

- Entering Human Resource (HR) information into the Online Payroll system (position, date hired, rate of pay, withholding information, direct deposits).



An Employee Status Form is used for new employees or to reflect changes in a current employee's status such as pay rate, tax exemptions, etc. The form and changes are approved by the employee supervisor and the Executive Director. The information is then sent to the Payroll Department for entry into the electronic payroll system. The general accountant reviews the information in electronic system for accuracy and then the information is stored in the system.

- **Form used for new employee information**

Human Resources Office prepares an Employee Status Form that includes new employee information (name, title, salary, etc.). The Human Resources Office then provides the new employee form to the Executive Director for his approval. Upon the Executive Director's approval, the form is routed to accounting for input into the electronic system.

- **Who approves new employee form?**

The new employee OP Form must be signed by the ED and the manager of the Human Resources Office.

- **Who reviews new employee information?**

After the ED and Human Resources Office have properly approved the Employee Status Form, and the related information has been input into the payroll system, the information is provided to the employees' supervisor as well as the payroll supervisor. The general accountant is in charge of reconciling the data from ADP to the Authority's general ledger. If there is a change in status, they are communicated to payroll via email or letter.

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## **4.2 Authorization of Users access to online payroll**

Authorization to online payroll information for data entry, change management or any other purpose is only granted by the Director of Information Technology.

## **4.3 Timekeeping and supporting documentation**

How employees document and submit time;

- a. Any non-exempt employee must register their daily attendance - at the time of entry and exit in the morning and afternoon - as per the regularly scheduled hours established from 8:00 a.m. to 12:00 m and 1:00 p.m. to 4:30 p.m. or any other time that is allocated by the service needs, following previous authorization by the Office of Human Resources. The exempt employees will record two (2) entries - arrival in the morning and afternoon departure. The management component (trust employees) will only record one (1) entry.
- b. No employee can record hours of another employee.
- c. The times of entry and departure must be registered at the established time. Supervisors will not allow employees to work without registering before or after the regular scheduled workday. The Assistant Secretaries, Directors of Bureaus and Authority's Office Directors are exempt from this provision.

▪ **How employees submit the time worked for the payroll period and how often payroll checks are cut**

The supervisor will furnish employees their register of attendance record every fifteen (15) days for his/her signature and will retain a copy to be kept on file in case of an audit.

▪ **Who is authorized to approve time worked?**

Each supervisor is responsible for the attendance in their work unit. In case of absences, tardiness or authorizations he/she must make the corresponding transaction.

The **supervisor will review** the attendance record of the employees at least every two weeks (1-15/16-30), and has up to two (2) business days after completion of each fifteenth day to approve it.

▪ **Workflow of time sheets and where manual timesheets are utilized**

Original copies of the approved timesheets shall be forwarded to payroll accounting for final approval, entry and filing. A copy of the timesheets shall be kept by the supervisor where any additional accounting allocations, additional external reporting or other actions may be required.

▪ **Electronic time keeping**

Where electronic timekeeping (employee data entry on the Authority's owned system) is utilized, access levels for data entry, changes, authorizations and



maintenance must be controlled by the Director of Information Technology. Prior to authorizing any timekeeping electronically, the supervisor must perform checks for completeness of entries for each employee, reasonableness and accuracy of the entries (leave or other exceptions properly noted), and that the authorizations are performed in a timely manner.

#### 4.4 The calculation of employee's time worked during pay period

- a. For internally used payroll software programs, all setup (new or departed employees) actions must be performed by Human Resources Office. All of these actions must be initiated (requested and approved) by proper forms and related authorizations established by the Executive Director.
- b. Any changes to active employee status on the software must be initiated (requested) by authorized management within the Authority, and the changes must be performed within the software by Human Resources.
- c. For externally used systems such as contracted services, any transmissions of payroll data must first be designed, coordinated, and reviewed by the IT Department. All such transmissions, such as a monthly payroll run, must include a methodology of verification and reconciliation with the vendor prior to the actual disbursements to employees can be effected.

- **Who enters changes to payroll status (Human Resource) information** changes such as position, pay rate, leave, terminations, withholding information and direct deposits?

Only with proper authorization consistent with Authority's guidelines may include changes, addition or deletion to be made in the employee payroll status files. The changes must have management authorization and acknowledgement from the employee as well. All changes must be recorded in the employees' permanent file, and logged in by the Payroll Supervisor to assist personnel performing periodic reconciliations by Authority.

- **How are the changes communicated to the payroll function?** - All changes must be in writing utilizing the designated employee status change form.
- **Who may terminate an employee?** The Authority's ED is the authorized officer to terminate an employee.

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- a. If an employee is terminated, voluntarily or involuntarily, the action must follow Human Resource Manual Protocol and be accompanied by the required authorizations and documentation.
- b. After all authorizations and documentation have been prepared and processed, the information is forwarded to Human Resources so the employee can be properly removed from active employee status.
- **Who enters the modification of employees withholding and benefit elections information?**
  - a. Only with proper authorization consistent with the Authority's guidelines may any change, addition or deletion be made to employee payroll status files. The changes must have management authorization and acknowledgement from the employee as well. All changes must be logged and provided to personnel performing periodic reconciliations by the Authority.
  - **What are the controls that govern the set-up and modification process to ensure that only authorized employees are paid and they are paid at the correct wages rate?**
    - a. Prior to authorizing any periodic payroll, it is the responsibility each supervisor to verify the completeness and accuracy of the payroll by each employee and in total. This verification must include verifying that all employees are active, any known exceptions (leave etc.) are recorded, and any additions or deletions have been properly included in the universe of department employees.
    - b. The supervisor should compare payroll costs to the departmental budget (if available) to verify costs are reasonable and consistent.

#### **Schedule a payroll process (weekly and 15<sup>th</sup> and 30<sup>th</sup> of month)**

For each payroll period, each supervisor is required to review all subordinated employees payroll entries for accuracy, completeness and any exceptions. Where changes are required, they should first notify the affected employee, then have payroll personnel make the necessary changes.

#### **Activating or Deactivating Deductions for a payroll**

All changes to deductions must be initiated by the Human Resources Office and/or the employee's supervisor and performed by the Payroll Supervisor in the Payroll System. Examples of new or expired garnishments, changes in tax withholding status, marital

status, leave without pay, etc. These changes must all be initiated by the proper Employee Status Change Form, with accompanying authorizations as required by the Human Resources Manual.

**Who reviews the pre check payroll run report to review the validity of the gross pay (time worked) to be paid for reasonableness of payroll and when is it performed?**

Each supervisor is responsible for approving the payroll entries of his/her department. The secondary reasonableness check will be performed by the payroll accountant prior to posting a periodic payroll entry to the general ledger and initiating a payroll run (rather it be via an internal or external method). Simple checks such as gross and net totals are compared to prior periods; including consideration of any additions, deletions and/or significant changes in pay rates should all be performed by the payroll accountant.

**Who reviews the tax liability reports for reasonableness of liabilities?**

The payroll accountant should also be responsible for validating the reasonableness of the tax liability general ledger entries by comparing to prior periods, and consideration of any employee changes that could impact the amounts.




#### 4.5 Overtime (worked in excess of the regular hours)

- a. **The Authority's work program** will be formulated in a way that minimizes the need for work in excess of a regular day. However, because of the special nature of the services to be performed or any emergency situation, the Authority may require their employees serving in excess of their working hours, daily or weekly, or on any day in the suspension of services without charge to the leave of the Governor. In these cases prior permission from the supervisor is required, that must be approved by the appointing authority or by an official to whom he delegates. Supervisors should take measures to ensure that when an employee is working overtime it is by virtue of an expressed authorization.
- b. Employees are entitled to receive at the reason of double time in salary for services rendered in excess of the regular scheduled work day , daily or weekly, meal period time and for services rendered on holidays, days of rest or on days in which services are suspended without charge to a license by the Governor.
- c. Excluded from the provisions of the above paragraph (2) are any employees who perform duties of an administrative, executive or professional nature, as these terms



are defined in the Law of Federal Fair Labor Standards and/or any local applicable legislation.

- d. Those employees that do not have the right to overtime will have the right to enjoy equal time free from work if they have worked in excess of the established regular work schedule.
- e. The supervisors should coordinate their work schedule in a way that overtime is reduced to the minimum necessary.

#### 4.6 Processing of payroll for the current period

##### Who approves the processing of the current payroll pay period?

- a. The individual departmental supervisors will approve their respective payrolls to the extent of completeness and accuracy.
- b. Secondly, prior to the actual processing (recording in general ledger and initiating disbursement of funds), the payroll accountant/supervisor must review the total payroll for reasonableness, ensure availability of cash, and receive final approval from the Payroll Supervisor and the CFO.

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##### Who reviews the final payroll registers and tax liability reports for reasonableness of payroll?

- a. The secondary reasonableness check will be performed by the payroll accountant prior to posting a periodic payroll entry to the general ledger and initiating a payroll run (rather it be via an internal or external method). Simple checks such as gross and net totals compared to prior periods, including consideration of any additions, deletions and/or significant changes in pay rates should all be performed by the payroll accountant.
- b. The payroll accountant should also be responsible for validating the reasonableness of the tax liability general ledger entries by comparing to prior periods, and consideration of any employee changes that could impact the amounts.

##### How are payroll checks distributed.

Payroll will be distributed via direct deposit for those set up to receive funds through that process; others will receive a debit card for withdrawal of the corresponding payment.

### **How payroll checks not distributed are handled?**

No manual checks will be issued by the Authority.

## **4.7 Reconciliation of payroll to the general ledger at the end of the month**

### ▪ **Payroll accrual at the end of the month**

The payroll accountant will provide payroll accrual information to the general accounting staff that process accruals for each month end. The information provided will include accruals for actual payroll expense, by expense ledger category, tax accruals, other benefit accruals, and if applicable, any budgetary concerns related to the accrued expenses.

### ▪ **Reviews and approves the reconciliation to the general ledger at the end of the month?**

The responsibility for reconciling general ledger accounts and the overall accuracy of the general ledger is of the responsibility of the general accountants. The payroll accountant will verify expense and accrual information prior to submitting it to the general accounting staff, but it is the general accounting staff who must ensure that supporting information exists to validate those account balances.

### ▪ **Who reconciles the payroll charges to statutory reports?**

Reports such as the Annual Financial Statements, Budget Reports, FTA Quarterly Federal Financial Reports, State Management Reports and any other statutory reports will be generated from the Authority's General Ledger Accounts. These General Ledger accounts are reconciled to supporting documentation by the general accounting staff at monthly and annual closings, or as required or needed.

### ▪ **How are month-end accruals identified and recorded?**

As required by accounting policy, month end payroll accruals will be calculated based on the portion of a pay period expired as of a month end date. The accruals will be broken out by general ledger account (basic payroll, taxes, other benefits, garnishments, etc.). The accruals will follow Authority's policy for making journal entries, and in many cases, related reversals.

## **4.8 Payment of Invoices for payroll liabilities and related verification.**



- a. The Authority must maintain a verification process to ensure the receipt and recording of payments made to liquidate payroll liabilities such as Federal and State Payroll Taxes. Beyond the issuance of a check or EFT, accounts payable personnel should follow up to ensure that the applicable payees have credited the accounts related to the disbursements.
- b. This should also include the activities of vendors such as ADP. The Authority should require ADP to provide evidence that not only were payments made for the various payroll related liabilities, but that Authority and its employees were credited in their respective accounts, for those payments.

#### 4.9 The filing of payroll reports and Human Resources supporting documentation.

##### How are documents filed both electronically and hardcopy?

- a. Electronic files are included in the overall Authority IT Backup and Disaster Recovery/Business Continuity Plan.
- b. Manual filing follows the overall Authority's Record Retention Policy, with secure site locations for storage and specific access authorizations for retrieving any of the stored documents.
- c. The Authority will maintain the following records for each of its employees:
  1. One that reflects the complete history of the employee from the original date of admission to public service, until the date of definite separation of service.
  2. One containing confidential and separate instructions, determinations and medical certifications, pursuant to the provisions of the Federal Americans with Disabilities Act (ADA) and the Federal "Health Insurance Portability and Accountability Act" or best known as HIPPA One containing copies of all reports of any changes and /or personnel transactions and other documents and information required for retirement purposes by local legislation.
  3. An investigative record for employees which in their employment process in Authority are seen involved an investigative as an employee.
  4. Such records shall be confidential; however, they can be examined, for official purposes by authorized employees or officials. Every employee has the right to examine their personnel file, upon written request and in the presence of an officer or authorized employee of the Human Resources Office. Such request shall be submitted to that office with reasonable notice of the date of interest to examine the record. The employee may authorize, in writing, another person to examine the record.
  5. Every employee is entitled to receive a copy of all or any document in his/her

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record by payment of the cost of its reproduction.

6. All matters relating to the conservation and disposition of records of employees separated from service, shall be governed by the provisions of Law No. 5 of December 8, 1955, as amended, known as the Law of Administration of Public Records of Puerto Rico and its regulation administered by the Administration of General Services or any statutory provision that it substitutes.

#### **What are the records retention requirements for payroll and payroll tax reports?**

The retention requirements are twofold. First, the payroll and related tax reports must be retained consistent with tax laws (being 3 and 7 year requirements). Secondly, where the documents are related to reimbursement from various funding sources, the documents must be retained the longer of either 7 years or 3 years after the end of a funded project.

#### **4.10 Force Account Plans**

Force Account Plans are required to be reimbursed for certain types of payroll costs. When the criteria are applicable, the Authority CFO and applicable program personnel must coordinate to create the plan and submit it for approval prior to incurring and requesting reimbursement for these costs. Specifically:

- a. **One of four conditions** may warrant the use of a grantee's own labor forces. These are: (1) cost savings, (2) exclusive expertise, (3) safety and efficiency of operations, and (4) union agreement. Force account is the use of a grantee's own labor force to carry out a capital grant project. Force account work may consist of design, construction, refurbishment, inspection, and construction management activities, if eligible for reimbursement under the grant. Incremental labor costs from flagging protection, service diversions, or other activities directly related to the capital grant may also be defined as force account work. Force account work does not include grant or project administration activities which are otherwise direct project costs. Force account can include major capital project work on rolling stock. An example of this is preventive maintenance activities. FTA prior review of a force account plan and justification are required where the total estimated cost of force account work to be performed under the grant is greater than \$10,000,000. When work to be performed is less than \$10,000,000 but over \$100,000, a force account plan is required to be in the grantee's file, but does not require prior FTA approval. When work to be performed using force account is less than \$100,000, a detailed plan is not required.

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**b. Basis for Reimbursement.** To be eligible for reimbursement for force account work, the grantee must provide the following before incurring costs:

- (1) Justification for using grantee forces;
- (2) Preparation of a force account plan;
- (3) A description of the Scope of Work;
- (4) A copy of the construction plans and specifications which includes:
  - (a) A detailed estimate of costs;
  - (b) A detailed schedule and budget; and
  - (c) A copy of the proposed Cooperative Agreement when another public agency is involved.
- (5) Submit documentation equivalent to a sole source justification stating the basis for a determination that no private sector contractor has the expertise to perform the work. In addition, the required documentation must provide the basis for the grantee decision to use force account labor including the following information;
- (6) Provide the present worth of the estimated cash drawdown for both the force account and private sector contract options. In the analysis, use the current interest rate paid on one-year Treasury Bills as the discount rate;
- (7) Include the cost of preparing documents; cost of administration and inspection; cost of labor, materials and specialized equipment; cost of overhead; and profit for private contract;
- (8) Include the unit prices for labor; materials and equipment; overhead; and profit, if applicable for private contract;
- (9) Provide certification that costs presented are fair and reasonable;
- (10) Provide an analysis of force account labor availability, considering normal operations and maintenance activities as well as other programmed and existing capital projects. This must be consistent with costs of labor, material, and specialized equipment; and
- (11) Provide relevant citations from labor union agreements and an analysis of how it pertains to the work in question.

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Base the present value calculation on the midpoint of construction; and if the time for completion of the work differs for force account and a private sector contract, include an estimate of the cost of not using the completed improvement in the present worth calculation. For example, if the work is to replace leased facilities, the cost of continuing the lease until the work is complete should be taken into account in the cost estimate for each option considered.

c. Safety considerations may be addressed by a statement of the transit operator's safety officer that performing the work with private sector contractors would have

an adverse effect on public safety. Efficiency concerns may be addressed by a present worth calculation, including an estimate of the value of lost transit operation efficiency.

Special care must be taken to ensure that requirements of OMB Circular A-87 are followed, especially for charging expendable property to force account projects and making sure that allowable costs are assigned to the correct activity codes.

- d. Most general purpose equipment and tools can be used in force account work and thereby benefit more than one project. Therefore, the cost of these items normally should not be treated as a direct charge to the project. However, an appropriate use or depreciation charge is an allowable indirect cost if otherwise provided for in the project budget. Unusual circumstances may call for purchase of specialized equipment that is unique to the force account work that is being performed. If such equipment is required, prior FTA approval must be obtained. The usual FTA equipment disposition requirements apply.

The progress and status of force account activities should be separately discussed in milestone/project reports, with emphasis on schedule and budget.

#### 4.11 Fringe Benefit Costs (rates)

Fringe benefits costs are costs associated and aligned with employees following PRITA's Human Resource Manual. The guidance for allocating all costs to Federal grants for State and Local Governments is 2 CFR Part 225. Two specific parts of the CFR are the foundation for establishing the policy regarding Fringe Benefit Costs:

##### 2 CFR Part 225, Appendix A. F.1.

General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities.

##### 2 CFR Part 225, Appendix A. C.3.d.

Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

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2CFR Part 225, Appendix E. f. 1.

Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (i.e., the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the corresponding agency.

1. If the Authority is planning to allocate and request reimbursement from Federal funding sources based on a calculated indirect rate for Fringe Benefits (Fringe Benefit Rate), The Authority must follow the guidance of 2 CFR Part 225, Appendix E in preparing and submitting that rate to its cognizant agency.
2. It must establish the allocable pools of fringe benefit costs and then utilize an allocation base (total direct salaries) to calculate that base. It then must follow the guidance of the CFR, and FTA Circular 5010.1D in the maintenance and potential recalculation of the rate of annual periods.

#### 4.12 Payroll Tax Returns

The Authority is responsible for filing all required State and Federal Tax Returns. These returns are statutorily mandated and must be filed in a timely manner. These returns include (but are not limited to):

- Personnel W-2's and 1099;s
- Federal 940 and 941's
- Unemployment tax filings
- Any other tax returns required by the Commonwealth Government of Puerto Rico

The returns must be prepared based on payroll records and/or general ledger expense records for employees and non-employees. The returns must be filed based on the return consistent with the instructions for each return.

### 5 Segregation of Duties

**Segregation of duties** is the concept of having more than one person required to complete a business process. This is intended to separate incompatible functions which would create risk

of fraud waste and abuse. Examples include the recording function versus the authorization function, so no one person is authorizing their own work.

**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 receiving a delivery and then recording it to the ledger
- implementing of a source code or database changes and then having access to add/delete files
- performing reconciliations and assisting or performing in audit
- splitting one security key in two (more) parts between responsible persons

**THE LIST BELOW INCLUDES SPECIFIC FUNCTIONS THAT SHOULD BE SEGREGATED:**

- The employee responsible for initiating modifications (e.g., add/delete employees, changes to employee information) to the Employee Master File also does not have the ability to approve or record these changes.
- The employees responsible for maintaining the Employee Master File (e.g., adding/deleting employees, changes to compensation) do not also perform any of the following functions:
  - Make decisions regarding hiring or termination of personnel:
  - Have access to the payroll system (or payroll module)
  - Involved in the payroll process
  - Generate payroll checks
  - Receive payroll checks for distribution
- Employees are able to review and approve their own hours worked or time entered in the timekeeping system.
- The same employees responsible for preparing payroll for processing do not also perform any of the following duties:
  - Modify the Employee Master File
  - Approve the payroll
  - Generate payroll checks
  - Distribute payroll checks
  - Receive final payroll reports (e.g., payroll registers) for review and approval

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**NOTE:** If an outside payroll service is used for payroll processing, the same employee responsible for communicating changes to payroll master file data to the outside payroll service provider should not be involved in recording the payroll entries in the general ledger, preparing payroll reconciliations or distributing payroll checks. This employee should also not receive the copies of the final payroll reports (e.g., payroll registers) from the outside payroll service.

- The same employee responsible for reviewing and authorizing the file prepared for processing payroll should not also perform any of the following functions:
  - Generate payroll checks
  - Distribute payroll checks
  - Receive final payroll reports for review and Approval
- Undistributed payroll checks and rejected payroll direct deposits should be investigated and reconciled by a supervisory employee outside of the payroll function in a timely manner.
- The employee responsible for recording the payroll expense entry in the general ledger perform any of the following functions:
  - Modify the Employee Master File;
  - Prepare or authorize payroll;
  - Generate payroll checks; and
  - Distribute payroll checks

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An employee outside of the payroll and human resources functions should post the payroll journal entry to the general ledger.

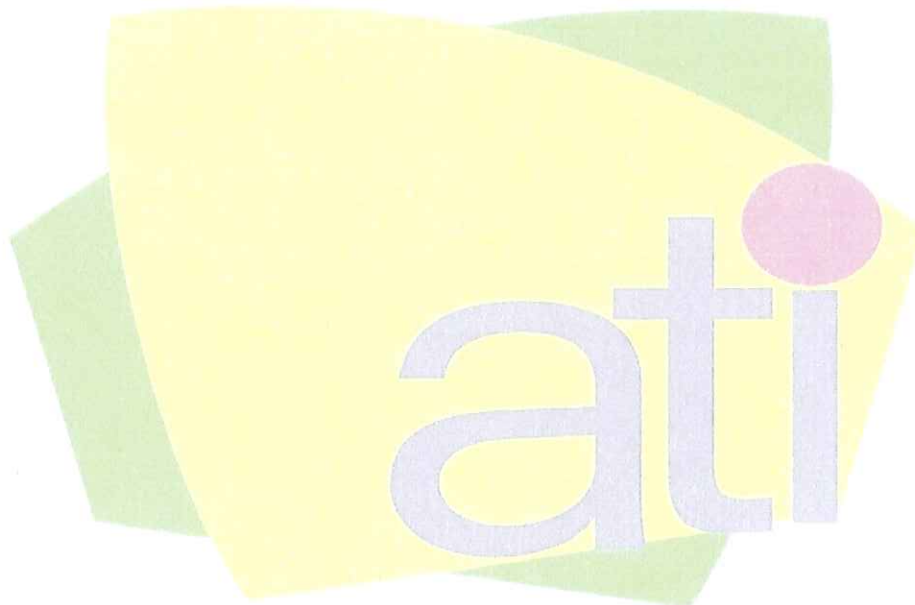
- The employee responsible for reconciling the general ledger to the payroll system should not have the ability to record entries in or make adjustments to the payroll system.

Reconciliations should be performed by an employee who does not have modification rights to the payroll system.

When using an outside payroll service to calculate and remit payroll withholding tax, the employee responsible for receiving the payroll tax refund checks should not perform any of the following functions:

- Prepare and process payroll, including but not limited to communicating changes in the payroll master file data to the outside payroll provider.
- Authorize payroll.
- Prepare payroll reconciliations

The payroll withholding tax refund checks should not be received by an employee who is involved in the payroll process.



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## 6 Appendix

### 6.1 Accounting Entries

P/R date Jan 15, 2014	G/L Acct#	Debit	Credit
<b>Gross Salary &amp; Wages Expense</b>			
Salary & Wages Expense	51XX	XX,XXX.XX	
Over Time Wages Expense	51XX	XXX.XX	
Sick Leave Expense	51XX	XXX.XX	
Holiday Pay Expense	51XX	XXX.XX	
Vacation Pay Expense	51XX	XXX.XX	
Other Absences Expense	51XX	XXX.XX	
<b>Employee's Taxes Withheld</b>			
Federal Income Taxes W/H	22XX		X,XXX.XX
Medicare Employee W/H	22XX		XXX.XX
SS Employee W/H	22XX		XXX.XX
PR State Tax W/H	22XX		XXX.XX
<b>Employee's Other Deductions</b>			
Salary Advances W/H	22XX		XXX.XX
Child Support W/H	22XX		XXX.XX
Garnishment W/H	22XX		XXX.XX
Insurance W/H	22XX		XXX.XX
401K W/H	22XX		XXX.XX
Credit Union W/H	22XX		XXX.XX
Uniform W/H	22XX		XXX.XX
Misc. W/H	22XX		XXX.XX
<b>Salary &amp; Wages Payable</b>	22XX		X,XXX.XX
<b>Employer Payroll Expenses</b>			
Employer Medicare Expense	51XX	XXX.XX	
Medicare Taxes Payable Employer	22XX		XXX.XX
Employer FICA Expenses	51XX	XXX.XX	
FICA Taxes Payable Employer	22XX		XXX.XX
Employer FUTA Expense	51XX	XXX.XX	
FUTA Taxes Payable Employer	22XX		XXX.XX
Employer SUTA Expense	51XX	XXX.XX	

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SUTA Taxes Payable Employer	22XX		XXX.XX
<b>Total</b>		XX,XXX.XX	XX,XXX.XX

## 6.2 Regulatory Guidance

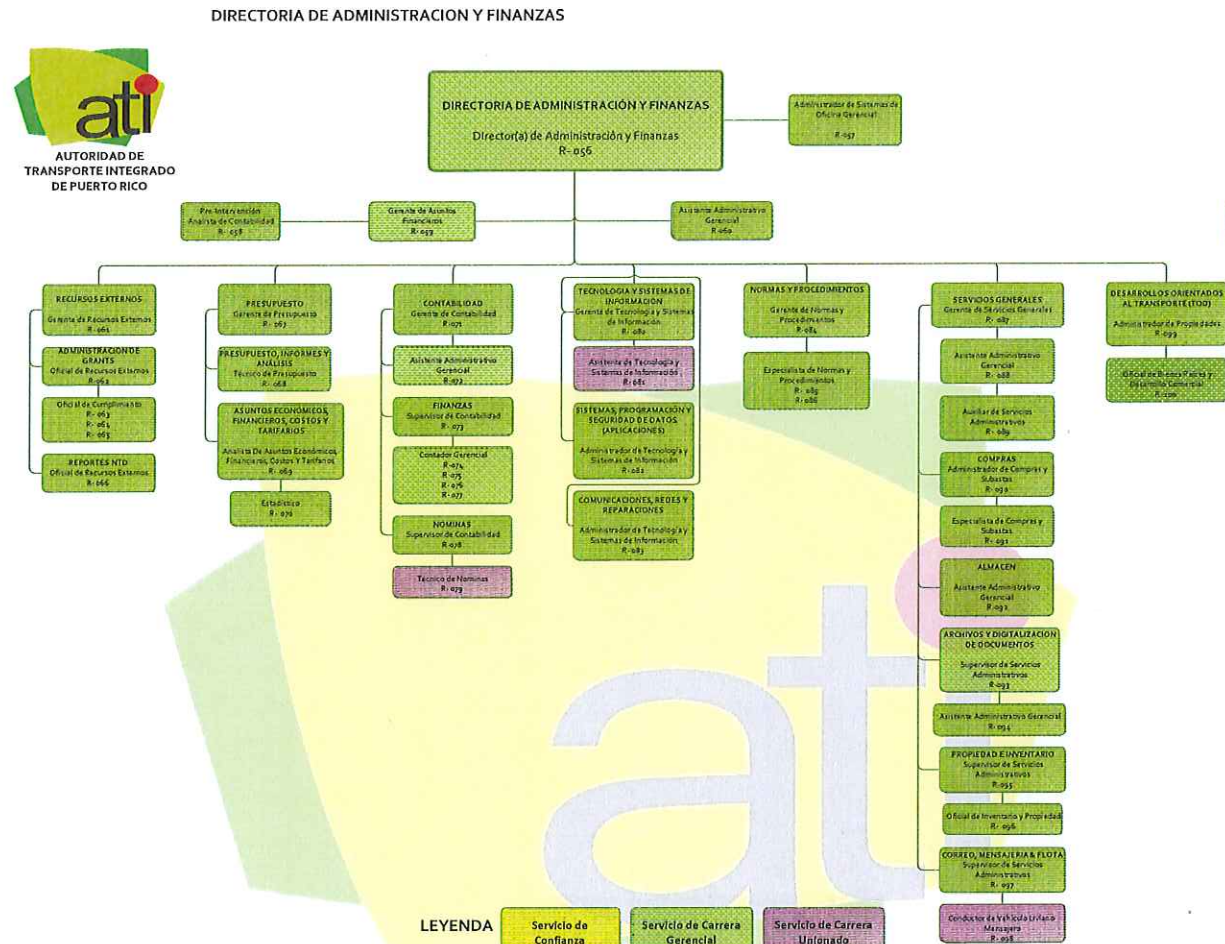
- **49 CFR 18.20(b)(5) - Allowable Cost** "Office of Management and Budget (OMB) cost principles **2 CFR Part 225** , incorporated within **49 CFR 18.22**, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and 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.
- The accounting standards issued by the Government Accounting Standards Board.




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*9.7.14*



## 7 Organization Chart



## 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

