USFR Expenditures & Payroll Webinar
October 26, 2017

Separation of Responsibilities

Key Point
Separation of job responsibilities makes it easier for errors to be found and more difficult for fraud to go undetected.

User Roles and Access Controls
- Purchasing Dept.
- Business Manager
- IT Director
- County School Office

Expenditure Process

Step 1: Requisitions & Authorization
- Is the request for an authorized district purpose?
- Are the requested items already on hand, or part of an existing district contract?
- Does the district have sufficient budget/cash available to approve and purchase the item?

Step 2: Procurement

Step 3: Order

Step 4: Receive

Step 5: Verify

Step 6: Payment
Expenditure Process

**Purchase Requisition**

Teacher
- Submits purchase requisition

Secretary
- Enters purchase requisition

**Expenditure Process**

**Step 1: Requisition & Authorization**
- Evaluate the estimated cost of the purchase to determine the level of procurement required.
- USFR purchasing guidelines:
  - oral quotes
  - written quotes
  - School District Procurement Rules for purchases estimated to cost $100,000 or more.

**Step 2: Procurement**
- Performs Procurement Procedures
- Selects Vendor
- Receives Purchase Requisition, Verifies Budget/Cash Availability, Sign & Dates Purchase Requisition

**Step 3: Order**
- Preps PO

**Step 4: Receive**
- Performs Procurement Procedures
- Selects Vendor

**Step 5: Verify**
- Receives Purchase Requisition
- Prepares PO

**Step 6: Payment**
- Receives Purchase Requisition, Verifies Budget/Cash Availability, Sign & Dates Purchase Requisition

**Purchase Requisition**

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Description</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

For District Office Use Only

<table>
<thead>
<tr>
<th>Vendor #1</th>
<th>Vendor #2</th>
<th>Vendor #3</th>
</tr>
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<tbody>
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</table>

Estimated Cost: __________

Department Approval: ___________________________ Date: __________

Assistant Office Approval: ___________________________ Date: __________
Expenditure Process

Step 1: Requisition & Authorization

Step 2: Procurement

Step 3: Order

Step 4: Receive

Step 5: Verify

Step 6: Payment

Ordering involves:

- Preparing a sequentially numbered purchase order
- Using a blanket purchase order
- Obtaining the approval
- Ordering from the awarded vendor

Step 1: Requisition & Authorization

Step 2: Procurement

Step 3: Order

Step 4: Receive

Step 5: Verify

Step 6: Payment

Goods should be inspected for damage.

Verify the correct items and quantity were received.

Services rendered should be inspected for accuracy and completeness.

Use a receiving report to document goods and services received.

Expenditure Process

Secretary
Prepares Purchase Requisition

Clerk
Receives Purchase Requisition, Verifies Budget/Cash Availability, Signs & Dates Purchase Requisition

Performs Procurement Procedures, Selects Vendor

Business Manager
Prepares PO

Approves PO

Order Goods

Expenditure Process

Purchase Order

Secretary
Prepares Purchase Requisition

Clerk
Receives Purchase Requisition, Verifies Budget/Cash Availability, Signs & Dates Purchase Requisition

Performs Procurement Procedures, Selects Vendor

Business Manager
Prepares PO

Approves PO

Order Goods
Expenditure Process

Step 1: Requisition & Authorization
- Review documents before payment is made.
- Supporting documentation includes requisition, PO, receiving report, and vendor invoice or receipt.
- Once reviewed, payment can be authorized.
- Governing Board approval

Step 2: Procurement

Step 3: Order

Step 4: Receive

Step 5: Verify

Step 6: Payment

Expenditure Process

Step 1: Requisition & Authorization
- Voucher approved
- Payments processed
- Warrants distributed

Step 2: Procurement
Step 3: Order
Step 4: Receive
Step 5: Verify
Step 6: Payment

Expenditure Process

Secretary
Receives goods, using Receiving Report
Completes Receiving Report

Clerk
Receives completed receiving report, compares to PO
Receives & Reviews Invoice/Prepares Expenditure Voucher
Records Expenditures & forwards vouchers to CSS
Compares warrant to voucher
Cancels invoice & mails warrant

Business Manager
Reviews Invoice & Approves Expenditure Voucher

Governing Board
Reviews & Signs Exp. Voucher

Receiving

Receives
Receives goods, using Receiving Report
Completes Receiving Report

Receives
Receives completed receiving report, compares to PO
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Cancels invoice & mails warrant

Governing Board
Reviews & Signs Exp. Voucher

Expenditure Process
### Credit Cards and P-Cards

#### Credit cards
- Bank credit cards
- Vendor-specific cards

#### P-Cards
- Limit where and what can be purchased
- Offer more control
- Ability to limit dollar amounts at transaction level

### Evaluate Processes & Cost/Benefit

**Analysis:**

- Who is making purchases and what are they buying?
- When and where are purchases being made?
- How much time/salary does it take to process a traditional purchase vs. a card transaction?
- How much time might it take to monitor the card program?
- What is the increased risk of unapproved or fraudulent transactions?
Selecting a Vendor

Vendor selection includes:
- Comprehensive system of controls
- Multiple levels of online security & authority
- Training materials and customer support
- Fees
- Rebates

Policies & Procedures

<table>
<thead>
<tr>
<th>Policies</th>
<th>Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose for which cards can be used</td>
<td>Separation of responsibilities</td>
</tr>
<tr>
<td>Purchase restrictions and spending limits</td>
<td>System to account for/control the cards</td>
</tr>
<tr>
<td>Canceling a card</td>
<td></td>
</tr>
</tbody>
</table>

Card Issuance

- Set Appropriate Limits
- Track Possession of Cards & Security
- Training Based on Use & Level of Authority
- Maintain Card User Agreements

Transaction Controls & Supporting Documentation

Examples:

<table>
<thead>
<tr>
<th></th>
<th>Example</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase requisitions &amp; purchase orders</td>
</tr>
<tr>
<td>2</td>
<td>Invoices, packing slips &amp; receiving reports</td>
</tr>
<tr>
<td>3</td>
<td>Receipts for point of sale transactions</td>
</tr>
<tr>
<td>4</td>
<td>Travel claims for travel expenditures</td>
</tr>
<tr>
<td>5</td>
<td>Vehicle license number or odometer readings</td>
</tr>
<tr>
<td>6</td>
<td>Transaction logs</td>
</tr>
</tbody>
</table>
Supporting Documentation

Prepaid transactions
- Limited to items normally prepaid, such as
  - Subscriptions
  - Service/maintenance contracts
  - Membership dues
  - Other items on USFR p. VI-G-8
- Verify and document receipt

Payment Process

Ensure a strong process is used including:
- Card user reconciliation—support attached and submitted timely
- Review & approval of reconciliation including—verify transaction support, initial & date
- Monthly reconciliation & review of all transactions
- Online transaction review during the billing cycle
- Timely payment of billing statements—balance paid in full monthly
- Research & resolve all invalid or unauthorized charges

Periodic Reviews

- Compare budget vs. actual expenditures
- Monitor purchase types
- Verify compliance with USFR purchasing guidelines & procurement rules
- Verify compliance with district policies & procedures
- Take corrective action

Transaction Red Flags

Be on the lookout for:
- Transactions of personal nature
- Gift card purchases
- Purchases during non-work hours
- Multiple same-day purchases
- Charges for meals already reimbursed
- Purchases inconsistent with job duties
- Excessive fuel purchases
- Purchases higher than spending limit
- Wrong fuel type for vehicle
- Missing documentation
**Payroll**

**Fraud Triangle**

- Perception that the plan can be carried out without being caught
- Opportunity
- Risk
- Rationalization
- Pressure
- Motivation or incentive to commit fraud

Data Source: The Association of Certified Fraud Examiners, 2016 Report to the Nations on Occupational Fraud and Abuse

Donald R. Cressey, *Other People’s Money* (Montclair: Patterson Smith, 1973) p. 30

**Payroll Support**

- Policies and Procedures
- Salary and Wage Schedules
- Approve position & pay rate changes

**Payroll Documentation**

Employee files should include:

- Employment contract
- Payroll Action Form
- Contract amendments
- W-4 and A-4
- Certification records
- Form I-9
- Voluntary deductions form
- Fingerprint certification form
- Direct deposit authorization
- Loyalty Oath
- Background investigation form
Payroll Process

Summary of the process:

- **Step 1**: Review any payroll changes
- **Step 2**: Timesheet approved by employee and supervisor
- **Step 3**: Adjust leave balances and run payroll register
- **Step 4**: Review register and run voucher
- **Step 5**: Submit voucher and support to CSS
- **Step 6**: Verify payment documents with approved register and voucher
- **Step 7**: Distribute warrants

Separation of Responsibilities

Payroll Duties:

- **Clerk**: Maintenance of employee files, entry of hours worked or leave taken, adjustment of leave balances, preparation of payroll register & vouchers, distribution of payments.
- **Business Manager**: Review of leave balances, review and approval of payroll register & vouchers, securing unclaimed warrants.
- **Administrator**: Enter new & remove terminated employees, enter pay rates/leave accruals/pay raises/position changes, review leave balances, adjust leave balances, prepare payroll register & vouchers, submit support & vouchers to CSS, distribute payments.
Delayed Payroll

- Good Business practice
- Accurate payments
- USFR page VI-H-1

Prorating Wages

A.R.S. §23-351

- Pay may be prorated over any number of payment
- Lump sum or summer pays
- Document choice annually before work begins

AG Opinion I04-007:
A.R.S. §23-351 applies to all employees, including hourly employees

Prorating Wages:

- Contract
  - Salaried employees
  - Legally enforceable contract
  - May be prepaid at times
  - Must fulfill contract or repay the monies (legal recourse for breach of contract)
  - Option: Any # of equal pays or first pay actual if electing prorated pay

- Non-Contract
  - Can be hourly or salaried employees
  - No legally enforceable contract
  - Should not be prepaid for work
  - Option: Any # of pays
  - Must utilize first pay actual if prorating would lead to prepayment

Adjusting Prorated Pay

- Review Timesheets
  - Compare hours worked to expected hours
  - Compare total amount paid to earned
  - Determine adjustments to leave or pay

- Make Adjustments
  - Use the official hourly/daily rate
  - Follow policies on how/when
Calculating Prorated Payments

Example: Non-Contract Salaried Employees

Employee Info: 175 days, $35,000
Prorated Election: 21 pays

<table>
<thead>
<tr>
<th>Salary</th>
<th>Number of Days Scheduled</th>
<th>Amount Earned per Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>$35,000</td>
<td>175</td>
<td>$200</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary</th>
<th>Number of Pay Periods</th>
<th>Amount Earned per Pay Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>$35,000</td>
<td>21</td>
<td>$1,667</td>
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Fringe Benefits

Amounts paid to, or on behalf of, employees and are part of the cost of personnel services
Must be approved by the governing board
Must be included in gross income

IRS Employer’s Tax Guide to Fringe Benefits
(Publication 15-B)

Taxable Fringe Benefits
- Educational Assistance (over $5,250/year)
- Long-term care health benefits
- Lodging on business premises (not a condition of employment)

Non-taxable Fringe Benefits
- Educational Assistance (under $5,250/year)
- Accident and Health Benefits
- Lodging on business premises (when a condition of employment)

Fringe Benefits

Salaries/Wages → Travel Reimbursements → Payroll → Taxes

ASRS & Fringe Benefits→ Payroll
Questions?

ASD CONTACT INFORMATION
Thank you for attending! If you have questions:

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<tr>
<th>Email:</th>
<th>Website:</th>
<th>Phone:</th>
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<tr>
<td><a href="mailto:asd@azauditor.gov">asd@azauditor.gov</a></td>
<td><a href="http://www.azauditor.gov">www.azauditor.gov</a></td>
<td>602-553-0333</td>
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