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ACCOUNTS PAYABLE MANUAL

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Introduction

The purpose of the AASBO Accounts Payable Manual is to provide a resource for the unique functions of school accounts payable. The manual draws together in one publication all matters associated with accounts payable including the best practices from both large and small school districts. Information has been gathered accounts payable procedures from school districts in the State of Alabama, Internal Revenue Service publications, state agencies such as Department of Revenue, Department of Labor and Industries, and many other sources.

The AASBO Accounts Payable Manual should not be considered a step-by-step process, and it should not be considered a substitute for legal counsel. Each district must consider their unique circumstances and priorities before adopting the recommendations, tips, and best practices suggested in the manual. Accounts payable professionals are encouraged to review their district policies and procedures related to accounts payable.

Accounts payable functions closely relate to purchasing functions, this manual includes a brief overview of some purchasing functions but does not attempt to duplicate the information provided in the AASBO Purchasing and Procurement Certificate Program.

The AASBO Accounts Payable Manual was developed by the AASBO Professional Development Committee. It is the intent of the AASBO Professional Development Committee to update this manual periodically as needed.

This publication may be reproduced as needed within your school district. Any additional information or concerns you may have in regard to this manual can be addressed with Alabama ASBO.

Accounts payable functions include the payment of all vendor invoices, employee reimbursements (other than payroll), in a complete, accurate, and timely manner. In a medium to large district, the accounts payable process may be handled by an entire department of accounts payable staff. In a small district, this might be only one function of a single individual's many job duties.

In either case, the purpose of the accounts payable function is to ensure that all disbursements of school district funds are done in accordance with:

- the internal control procedures set by district management
- the accounting practices of the district
- the account code structure of the district and the state
- state law
- federal requirements
- good business practice

The accounts payable function plays a key role in the support of the school district. An Accounts Payable Department has independent, segregated responsibility for paying invoices initiated by district CSFO/Accounting Supervisor, invoiced by vendors, and approved by the school board. The department provides customer service to both district users and vendors. CSFO and Accounting Supervisor rely on the department to ensure accurate expenditure and encumbrance reporting and assistance with questions. Vendors rely on the Accounts Payable Department to pay their invoices, reconcile their statements, and answer related questions. District administrators and board members rely on accounts payable for accurate external financial reporting, preventing audit issues, and maintaining good relations with vendors and staff.

The accounts payable functions of a school district are closely tied to the purchasing functions. In small school districts, these two functions may be handled by the same individual. Larger districts typically have a Purchasing Department which is separate from an Accounts Payable Department. In either case, having an understanding of the purchasing requirements is helpful when providing accounts payable services.

Purchasing is responsible for assuring that the district gets the best products and services at the lowest cost. Other important purchasing functions include approving purchase orders, preparing and awarding bids, initiating personal services contracts, monitoring federal purchasing requirements, acting as primary contact with vendors, approving new vendors, maintaining the vendor file, and managing the district's purchasing card program and other payment options.

Vendor Payments

A vendor is a legally registered business preapproved by the district's finance or purchasing department. A contractor is also a vendor of the district. Vendors must be registered with the IRS and have a tax identification number (TIN) which can be either an employee identification number (EIN) or social security number (SSN). Employees of the district cannot be vendors of the district unless they have a registered business which is substantially different from the services they perform as an employee. There also may be vendors who qualify as employees. See the section on Employee vs. Contractor for further details.

Note: Employees may be set up in the vendor file to receive travel and other reimbursements.

New Vendors

The Finance or Purchasing Department should be in control of approving and entering new vendors into the accounting system. The Accounts Payable Department or the person responsible for issuing vendor payments, should not have access to set up new vendors. This is a key internal control over disbursements and there should be segregation of duties. If the district is not large enough to have new vendor set up and vendor payment segregated, other compensating controls must be put in place to assure internal control of vendor disbursement.

Each district should develop written procedures for new vendors and entering new vendors into NextGen. A requirement for new vendors and contractors to complete an IRS form W9 or substitute W9 form is a good internal control, especially for districts without segregation between new vendor set up and payment. This form is used to gather key information such as legal vendor name, and EIN/SSN number. It is also helpful in gathering the required 1099 reporting information.

Each vendor should be issued a vendor number in the district's NextGen database. Only one vendor number should exist for a vendor. The vendor number will ensure accuracy of vendor name and address,

accumulation of 1099 information, accumulation of vendor payments for bid limit testing, and prevention of invalid vendors.

Note: New vendors can be managed and controlled by using the NextGen vendor and purchasing software. When a purchase requisition is issued at a school or central office for a new vendor, NextGen requires “new vendor” information to be added with the vendor’s name, address and other pertinent information. It also allows the purchasing department to double check for an already existing vendor number prior to beginning the process of setting up a new vendor.

Vendor Invoices

Vendor invoices are the *source document* for accounts payable transactions. In no case should a district create its own accounts payable invoice. Invoices are received from vendors in various formats. Acceptable today are electronic invoices, faxed invoices, and original invoices. In the absence of clearly identified original invoices, the district must have a system to control duplication of invoice payment, such as software system controls over duplicate invoice numbers by vendor name or ID. To prevent duplication, it is important that accounts payable staff enter vendor invoice numbers exactly as they appear on the invoice including leading zeros and dashes. Only one vendor number or name for any vendor should exist in the vendor database.

Invoices should be mailed directly to the Accounts Payable Department to avoid the possibility of being overlooked. It is recommended that all purchase orders give vendors clear instruction on where to send their invoices. Vendor mailing instructions may also be given on the district’s website. Invoices should be *matched* to the district’s vendor database, verification of receipt of goods and services, and purchase orders. This three-way match process is critical to the payment process.

There are circumstances when the district will pay an invoice without a purchase order. Examples of this are utility costs which are invoiced regardless of an order being placed. These are referred to as *direct payments* in this document. Other exceptions to purchase orders and the three-way match will be discussed in detail later in this section.

Purchase Orders

School districts often use purchase orders to initiate a purchase from a vendor. Purchase orders are used to:

- Complete an approval process prior to the buy.
- Communicate the order to the vendor.
- Establish a contract with a vendor.
- Encumber the amount of the purchase against a budget.
- Track receipt of goods and services.
- Provide information for accounts payable when auditing invoices.
- Accumulate expenditure/payment information.

Ideally, vendor invoices will reference the district purchase order number. If no purchase order is indicated, the accounts payable staff may have to search the purchase order database using vendor, items purchased, and ship-to locations to find the purchase order.

Verifying Invoice to Purchase Order

Accounts payable staff should verify that the items invoiced *match* the items ordered on the purchase order. Consider the following when matching the items:

- Does the vendor information on the invoice match the vendor information on the purchase order?

- Was the invoice issued prior to the purchase order being approved? All purchase orders should be issued prior to invoices being received.
- Are the items invoiced the same as the items ordered?
- If paying on an open purchase order, do the items match the general category of items authorized?
- Do the amounts invoiced (by total or by item) match the purchase order? District practice may allow a certain percentage variance between the purchase order amount and the invoice amount.
- Does the invoice have enough detail to verify that the services were performed as contracted? An invoice for services, especially a progress invoice, should include details such as dates of service, description of services, and hours of service.
- Have all the required documents been received (i.e., signed contracts, public works requirements, etc.)?

Verifying Invoice to Receiving Document

District procedures may require the use of electronic verification of receipts through the district's accounting system or paper documentation such as signed packing slips or other receiving forms. In the case of items ordered on a purchase order, the purchase order is the approval to pay. The receiving of items can be verified by any responsible employee such as a warehouse person or office manager. The receiving of contracted services will require verification by a person with knowledge of the services being performed. Consider the following when verifying invoices to receiving documents:

- Does the invoice match the items received?
- When were the items received? This will make a difference at year end when determining the fiscal year.
- Is the order complete and can the purchase order be finalized?

Note: Some districts may utilize Paperless receiving. On-line receiving may be available in some software and provides increased visibility to receiving and approval verification. It eliminates paper routing and storage of packing lists.

Accounts payable vendor invoice audits should include:

- Verify that the three-way match has been completed: purchase order, receiving, and invoice (see exceptions below).
- Verify that the invoice is not a duplicate. Use exact vendor invoice number, amount, and date to verify.
- Verify that the total invoice amount is correct.
- Shipping and handling have been applied correctly per the purchase order.
- Verify that the sales tax rate **if applicable** is correct for the delivery location (see sales tax section for complete details).
- Is this a public works/construction invoice requiring retainage to be held (see Public Works/Construction section for complete details)?
- All charges are current, and the invoice does not include a brought-forward amount.
- Purchase order encumbrance is sufficient to cover the current invoice or is within the district's variance tolerance.
- Verify that the invoice pricing matches any quote or bid pertaining to the purchase order.
- Verify that the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for source of funds, function, object, cost center, and program.
- Determine the fiscal year for processing (see year-end accounts payable procedures section).

There are several exceptions or alternatives to the standard three-way match (purchase order, receiving, invoice) for paying vendor invoices, these include:

- Direct payments where no purchase order was issued.
- Prepayments for services not yet received.
- Purchasing card and credit card transactions.
- Petty cash transactions.

Direct payments are payments made without a formal purchase order being issued. One common use of direct payments is utility services which are invoiced regardless of a purchase order being authorized. For direct payments, the accounts payable staff will match a vendor invoice to an authorization to pay. The district should have a policy on when direct payments may be made and the payment authorization requirements.

Prepayments are payments made in advance of receiving the goods or services. Payment in advance for goods or services should be limited. Some exceptions can be made under state law and district policy. Typical examples of a prepayment are reservations and deposits. A deposit may be required when a district rents an event facility. A registration fee may be required in advance of a student sports competition event and professional development activity. Prepaying for items should be an exception used only in specific circumstances authorized in law and in district policy. For prepayments, the Accounts Payable Department will need a *source document* for payment. This source document might be the vendor's facility rental agreement or the sporting event or professional development registration form. Accounts payable should *match* the source document to the authorization to pay. The authorization to pay may be in the form of an approved purchase order. Purchasing cards, credit cards, and petty cash transactions are discussed in detail in later sections of this manual.

Prompt Payment

Good business practice requires that all vendors be paid within 30 days of receipt of the invoice. This is contingent, of course, on the district receiving the goods and services. If the district is not able to pay within 30 days, they risk losing credibility with vendors who may also be taxpayers in the district. It is also important for the CSFO/Accounting Supervisor to have current expenditure information on their financial reports. There are a few vendors who still provide discounts for paying quickly and the district may want to take advantage of those discounts. There are several factors that may prevent timely payment including lack of receipt verification from the requisitioner or missing the board approval cycle.

Vendors may provide *early settlement discounts* if their invoices are paid prior to the due date. Here is an example of discount terms:

2/10, net 30 Vendor will allow a 2% discount for invoices paid within 10 days of the date of the invoice (not the receipt of the invoice). Day means calendar day including weekends and holidays. Calculate the discount on the total invoice, after tax, and deduct from the invoice payment amount.

Taking an early settlement discount is *not* always economically sound. It is sometimes more economical for a district to hold onto their money and pay within 30 days. The U.S. Treasury has an easy calculator that will determine, based on the current value of funds rate (what your money is worth), whether the discount is advantageous to take.

Late Payments

There are many factors that may prevent a district from paying within 30 days. These include lack of receipt verification, missing the school board approval cycle, invoices not mailed directly to accounts payable, and workload issues. In no case should the vendor be paid late because the items are for the next fiscal year.

If the district pays after the invoice due date, the district may be charged *late fees* by the vendor. *School districts should avoid paying late fees.*

Freight and Shipping and Handling Charges

A vendor may include freight or shipping and handling charges on their invoice. Freight and shipping and handling charges are usually entered as a separate item prior to sales tax. Accounts Payable should check these charges against the purchase order. Purchases made from bids or quotes often include freight as part of the price. In this case the vendor should not add additional freight to their invoice. Some terms to know:

Shipping and Handling is the vendor's cost of preparing and packing an order and then sending it to the district.

Freight is the transporting of heavy items by commercial delivery companies.

FOB stands for Free on Board or Freight on Board.

FOB Destination means the vendor agrees to pay all shipping costs and the district owns the goods at the point of destination.

FOB Shipping Point means the district owns the products when the product starts on its journey and must pay any delivery charges.

Correcting Vendor Invoices

An invoice may be considered incorrect for many reasons. It is not recommended that the district correct vendor invoices, but rather return them to the vendor for correction. This allows the vendor's records to be corrected and saves confusion when the district's payment is received. Invoices requiring vendor correction should be returned promptly (7 days is suggested). Any discounts or late fees should be based on the corrected invoice.

Note: District procedures may allow the district to correct invoices without returning to vendor to eliminate delayed payment and late fees.

Vendor Credits

There are times when vendors are overpaid or items are returned and a credit is due to the district. Vendors may issue a credit invoice. Accounts payable should enter these credits into the computer system as soon as possible using the expenditure account code from the original invoice. When the district has invoices due to the vendor for more than the credit, the credit can be taken. For example, the district has received a credit for returned items from Any School Office Supply in the amount of \$350.00. Accounts payable has entered two other Any School Office Supply invoices in the amount of \$125.00 and \$50.00. Accounts payable should enter these invoices applying them to the appropriate account codes. Any School Office Supply still owes the district \$175.00, and no payment will be processed.

The district should request the vendor pay the credit by check if it is unlikely there will be sufficient invoices to apply the credit against. If the district receives a cash refund for a vendor credit, the cash receipt should be applied to an expenditure account used on the original invoice.

Paperless Invoice Process

Paperless processing and storage of accounts payable invoices can reduce the cost of payments and improve access to disbursement records. In a paperless system, accounts payable staff work with images rather than hard copies to process payment. Images can be sent to requisitioners for approval and receiving verification; can be viewed as attachments to financial reports; and can substitute for paper documentation for records retention.

To scan and toss original invoices, the district must adhere to the Code of Alabama 1975, Sections 41-13-21, and Alabama Department of Archives & History. The Alabama Department of Archives & History has set standards and developed records retention schedules and disposition procedures for boards of education. Please refer to <http://www.archives.alabama.gov> for information on records management.

In a paperless accounts payable process, vendors are encouraged to submit electronic invoices to the district's Accounts Payable Department. Vendors may either email electronic invoices to districts or provide access to their websites so districts can download electronic invoices. Providing vendors with a generic accounts payable email address will help the district manage email invoice receiving.

Invoices that are mailed by vendors are scanned immediately and the originals destroyed. The district should develop a process to temporarily store original invoices until a good image is verified within the software application.

Here is an example of how this process might be set up:

1. The invoice is received in the mail.
2. Accounts payable staff scans the invoice using a desktop scanner.
3. Image is named and filed on the hard drive or server.
4. Image is routed to the user for payment verification.
5. Receiving is verified electronically.
6. Accounts payable staff views the image on one computer monitor and enters the invoice data (amount due, invoice number, invoice date, etc.) into the fiscal software using a second computer monitor. Some software may allow for optical character recognition (OCR) that reads images and partially completes accounts payable data entry.
7. The scanned invoice image is then attached to the accounts payable transaction within the district's software.
8. The invoice image is viewed by drilling down of the transaction amount on financial reports.

The specific steps that are eliminated are:

- Managing unmatched invoices by pile (or tickler file).
- Stapling invoices to voucher cover.
- Filing paper vouchers.
- Accessing paper files to retrieve payment data.

Note: Due to some districts' volume of invoices, scanning and electronic storage may not be available. It is recommended to verify this process with the accounting software vendor.

The equipment needed for paperless invoice processing includes a high speed scanner, imaging software (often provided with the scanner), and a second monitor for easy viewing.

The scanned images of invoices serve as the *source document* and must be kept for the state required retention period.

School districts should check with the Examiners of Public Accounts to verify they will accept scanned invoices during disbursement audits.

For more information contact the Alabama Department of Archives & History at

<http://www.archives.alabama.gov>.

Petty Cash Funds

Petty cash funds are cash amounts kept in secured areas used to make minor disbursements whereby a fixed amount of money is set aside for a specific purpose. The amounts expended from the account are restored so that it remains intact. Petty cash funds should not be confused with change funds. *Change funds* are cash amounts used to make change by converting paper bills or coins into smaller denominations. Disbursements cannot be made from change funds.

Districts must assign a specific staff (*custodian*) for maintaining security of the cash, determining use, securing receipts, and submitting for replenishment. *Accounts payable* is responsible for *replenishing* the petty cash account. A replenishment request will be submitted by the custodian to the Accounts Payable Department for the total of all expenditures since the last replenishment. For example, a school secretary has been issued a \$100 petty cash account. During the month, the secretary has receipts totaling \$55.00 and cash in the amount of \$45.00. The Accounts Payable Department will issue a check for \$55.00, restoring the balance of the petty cash account to \$100 (\$55.00 + \$45.00).

Receipts must be attached for each expenditure. The district should use a standard replenishment form.

Replenishment request forms should include the following:

- Reconciliation of the total of the fund against the current replenishment and the cash balance.
- Certification from the custodian that the expenditures are just.
- List the expenditure accounts to charge for each amount spent.
- Description of each item purchased.
- Student signatures if applicable
- All original itemized receipts attached.

Accounts payable is responsible for auditing the replenishment request and issuing a check for the total of the current expenditures. This check is issued to the petty cash custodian who will redeem the check for cash at a local bank.

The audit process should include the following:

- Verify all appropriate signatures are included.
- Verify that the reconciliation of the total fund, the current replenishment, and the current cash balance is correct.

- Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- Verify that original, itemized receipts are attached for each expenditure.
- Verify that the items purchased have a clear district purpose.
- Verify that sales tax has been paid, if applicable, and add use tax if it has not.
- Determine the fiscal year for processing.

Since petty cash funds have a high risk of loss and fraud, the district should establish an unannounced cash count program to verify that the unspent cash, less receipts on hand, are intact and secured. *Ultimately, the district should consider closing petty cash funds and replacing them with other purchasing means such as procurement cards.*

Purchasing and Procurement Cards

Using purchasing and procurement cards is an efficient, cost effective method of purchasing and payment for transactions, it eliminates a variety of manual transactions, and it reduces accounts payable invoices. The AASBO Purchasing and Procurement Certificate program courses provide additional information on school purchasing card policy and procedure.

There are several types of charge cards school districts commonly use:

- Travel Cards
- Fuel Cards
- Procurement Cards

There are several ways purchasing and procurement cards can be issued: to an individual cardholder, to the school or department with no individual cardholder named, or a virtual/ghost account without an actual printed card. Purchasing and Procurement cards issued to employees, with their names imprinted on the card, are the most secure type of card. Merchants are able to verify the individual presenting the card is the actual cardholder and the bank will offer a higher level of fraud protection.

Procurement cards, sometimes referred to as *purchasing cards* or *Pcards*, are substantially different than charge cards. Unlike a personal credit card where the cardholder can pay only a portion of the amount due, school districts must pay the entire balance in full each month. Pcards also offer monthly spending limits, restrictions on merchant types, on-line approval processes and volume rebates. A Pcard is used like a credit card at the supplier location. The supplier receives payment from the Pcard provider within three days. Cardholders maintain receipts and reconcile these receipts with the monthly statement. School board policy should govern the amount and type of such purchases.

Pcards are considered high-risk and require good internal controls. Each district should develop procedures to ensure good internal control of Pcard disbursements. The following are recommended internal controls:

- Cardholder agreements initiated prior to issuing a card.
- Cardholder training.
- Written procedures.
- Monthly spending limits.
- Approval of all expenditures by the cardholder's supervisor.
- Restrictions over the type of merchants.

- Cards issued in the cardholder's name.
- Cards clearly marked with the school district's logo.
- Review of *all* purchases and itemized receipts.
- Segregation of duties between purchases, approval, and reconciliation.
- Loss of purchase card privileges for misuse by a cardholder.
- Timely repayment by check or payroll deduction for unauthorized use.
- Management review of spending activity.

Pcards and credit cards issued to the district, without an individual named, must be kept secured in the same manner as cash. A checkout system must be maintained for any staff member needing to use the card. A strict policy should be in place to ensure the credit cards and the receipts are returned promptly.

Cardholders are responsible for reviewing their charges either on an on-line system or on paper statements at least monthly. More frequent review is highly recommended to detect fraud. Cardholders must provide itemized receipts for each transaction. These receipts should be reconciled to the monthly statements received during the payment process.

CSFO/Accounting Supervisor/finance staff must approve all purchases. District procedure may require the approval be done prior to purchase or in total, based on the monthly statement with individual receipts attached. Evidence of review and approval must be either in writing on monthly statements or by an on-line approval system.

Accounts payable responsibilities may vary by district. A Pcard administrator should be named who is responsible for issuing cards, training cardholders, and managing the Pcard system. This is typically someone in the Purchasing Department or Finance/Business Office but could be assigned to an accounts payable person. The audit of purchasing card transactions is an important function that also varies greatly between districts. The audit process in some districts is done by an internal review of transaction backup kept at cardholder locations. In other districts, the Accounts Payable Department is responsible for auditing documentation submitted monthly to the department. Regardless of how this duty is assigned, the audit process should include the following:

- Verify that all cardholders with current transactions have submitted the required reconciliation.
- Verify all appropriate signatures or on-line approvals are included.
- Verify the account codes are correct per the district's chart-of-accounts, department responsibility, and state account code requirements for source of fund, function, program, and object.
- Verify that original, itemized receipts are attached for every transaction.
- Verify that the items purchased have a clear district purpose.
- Verify that any merchandise shipments went to district locations.
- Verify that sales tax has not been charged.
- Verify that federal excise tax has not been charged on gas credit cards.
- Determine the fiscal year for processing.

Ghost purchasing cards are used by accounts payable as an alternative to paying by check or EFT. If the vendor accepts the cards, it may be advantageous to the district to use this payment method to maximize rebate earnings.

Accounts payable is responsible for paying the card or purchasing card monthly statements. This may be done electronically or by check. Frequency of payment is often tied to the amount of rebates earned. Districts should calculate the loss of interest earnings versus rebates earned before deciding on the frequency of payment.

A well-designed purchasing card program can significantly reduce the workload of accounts payable.

Uploading from the bank's software to the district's financial system eliminates a substantial amount of data entry of invoice information and district account codes. The following are some best practices to streamline accounts payable functions:

- Upload the district's chart of accounts into the bank software if applicable.
- Assign default account codes for each cardholder.
- Utilize the on-line approval process available in most bank software.
- Upload the monthly spending activity into the district's fiscal software for payment.
- Upload spending activity in detail.
- Scan and attach itemized merchant receipts.

Further information on purchasing card best practices can be found in the Government Finance Officers Association's Best Practices white paper at: <http://www.gfoa.org/purchasing-card-programs>.

Employee Travel and Expense Claims

Accounts payable is responsible for reimbursing employees and other claimants for travel and expense claims according to their local Board policy.

The school board must pass a policy for the use of private and commercial transportation, actual or per diem charges for meals, lodging, and other related items pursuant to their school board policy.

The following are some best practices for travel and expense claims:

- A standard form should be used for travel and expense claims.
- All required receipts should be itemized originals and should be attached.
- The supervisor who has direct knowledge of the claimant's activities should verify and sign the expense claim.
- The CSFO/Accounting Supervisor, if different than the supervisor, should authorize the expenditure against their budget and provide an account code to be charged.
- The claimant certification should include the following or similar language: "I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof."

Once an employee's travel and expense claim has been submitted and approved by the supervisor and/or CSFO/Accounting Supervisor, it should never be returned to the claimant. This prevents changes to the claim after approval.

Paperless employee travel and expense claim software may be available in some districts. This process can provide cost savings and reduce processing time. In a paperless system, employees enter their claims on a screen rather than on a form. Invoices are scanned and attached to the claim. The claim is routed through approval process based on account codes and supervisors. The approved claims are accessed by accounts payable and approved for payment without having to reenter data or file hard copy claims.

Expense Claims for Reimbursable Items

Some school districts may allow employees to occasionally purchase materials for their classrooms or other business purposes using their personal funds. An expense claim procedure, including standardized forms, should be provided for claimants to request reimbursement. Claim forms may also be used by parents or community members, if applicable. The district may consider restricting use against certain items (i.e.,

personal services contracts), requiring pre- approval, requiring monthly claim submittal, and encouraging the use of purchasing cards.

Expense claim must include the following:

- Name, address, phone, title, and employee number (if applicable) of the claimant.
- Description of the purchase.
- Business purpose of the items purchased.
- The vendor from which the items were purchased.
- Date of the purchase.
- Amount of the purchase.
- Claimant signature and certification.
- Lines for approval signatures.
- Account numbers to be charged.

The certification should include the following or similar language: “I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof.”

Accounts payable is responsible for auditing the claims, working with claimant and/or supervisor for missing items, and processing the claims for payment. During this process, the signed and authorized claim form should never be returned directly to the claimant.

The audit process should include the following:

- Verify all appropriate signatures are included.
- Verify an account code is included.
- Verify the account code is correct per the district’s chart-of-accounts, department responsibility, and state account code requirements for source of fund, function, program, and object.
- Verify that original, itemized receipts are attached for each item being claimed.
- Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, or amount limitations.
- Verify that sales tax has not been paid, **unless applicable**.
- Determine the fiscal year for processing.

Note: The Expense Claim for Reimbursable Items is not recommended, and the district may wish to consider limitations on reimbursable expense claims in order to control spending and adhere to purchasing regulations. For example, districts may wish to limit the amount employees can spend using this process, restrict personal services contracts, require monthly submittal of claims, and encourage the use of purchasing cards.

Daily Travel and Mileage

Employees are entitled to claim mileage for business travel using their personal vehicle. *Accounts payable* is responsible for ensuring that district procedures are being followed and claims are paid.

Districts must comply with IRS regulations on nontaxable benefits. Any amounts paid in excess of IRS regulations must be added to the employee’s W2 and payroll taxes applied. IRS considers employees for purposes of travel rules (working condition fringe benefits) to include current

employees, board members, and independent contractors. Any amounts paid in excess of IRS regulations to independent contractors must be added to the contractors 1099-NEC.

IRS Mileage Rate

IRS sets a mileage rate annually based on the total cost to operate a vehicle (gas, maintenance, and insurance). This rate is typically issued in January for the entire calendar year. Districts may set a rate less than the IRS mileage rate. Districts may also set policies to coincide with the IRS rate. If the district chooses to pay more than the IRS mileage rate, then the excess amount is considered a taxable wage and must be processed through payroll.

Commuting

IRS has very specific criteria in determining what is considered commuting. Any mileage reimbursement for commuting is considered a taxable wage and must be added to the employee's W2 and payroll taxes applied.

Commuting is considered the travel between home and work. Return trips to work are also considered commuting. For example, if a principal returns to school for an evening event, the mileage is considered commuting. If mileage is paid for second trips to an employee's primary work location, it must be considered a wage and must be added to the employee's W2, and payroll taxes applied.

Mileage claims must include the following:

- Name, address, phone, title, and employee number, if applicable, of claimant.
- Date of the travel.
- To and from travel points.
- Business purpose of the travel (agenda attached)
- Claimant signature and certification.
- Lines for approval signatures.
- Account numbers to be charged.

Accounts payable should verify that:

- Mileage is reasonable or matches district mileage procedures. Questionable distances may be verified online.
- Descriptions of the travel provide enough detail to verify the business purpose of the travel.
- Verify all appropriate signatures are included.
- Verify an account code is included.
- Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for function, object, source of fund and program.
- Verify that all district policies and procedures are being followed in terms of restrictions, timeliness, and limitations.
- Apply correct mileage rate applicable for the time of travel.
- Determine the fiscal year for processing.

Expense Claims for Meals (while not in overnight travel status)

IRS regulations limit meal reimbursements when the employee is not in an overnight travel status. Meals for daily travel can only be reimbursed as a non-taxable event if the meal is provided at and during a business meeting. For example, if the employee travels to attend a meeting and a meal is purchased and consumed during the meeting, then the meal qualifies for reimbursement under IRS regulations. Meal per diem is not

allowed under IRS regulations for meals not associated with overnight travel. If the meal purchased and consumed during the meeting is reimbursed at meal per diem, it must be considered a taxable event.

Expense claims for meals must include the following:

- Name, address, phone, title, and employee number (if applicable) of the claimant.
- The name of the meeting attended (with agenda attached).
- Who was paid to provide the meal?
- The cost of the meal (including tax and standard tipping) with receipt attached.
- Claimant signature and certification.
- Approval signatures.
- Account numbers to be charged.
- If the claimant is filing a claim on behalf of others, he or she must prepare a detailed account that includes:
 - o Names of the others who partook of meals.
 - o Whether they were district employees and, if not, who they were and what connections they had with district business. This should not be construed to permit promotional hosting.

Accounts payable is responsible for verifying that the meal claim meets all district policies and procedures. Accounts payable should verify that:

- Description provides enough detail to verify the business purpose of the meal.
- The agenda provides evidence that the meal was provided at the business location and during the meeting.
- Original, itemized receipt is attached.
- Verify that no alcohol is being reimbursed.
- Verify that no excess tipping is occurring (greater than 20%).
- If additional meals are being purchased, verify that the additional names of those who partook of the meals are included and they are district employees.
- Verify all appropriate signatures are included.
- Verify an account code is included.
- Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for function, object, source of fund and program.
- Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, and limitations.
- The correct fiscal year is charged.

Overnight Travel

Overnight travel has a negative connotation with the public and demands a high level of control to assure reasonableness of expenditures and strict adherence to district policy and procedure. District travel procedures must be adopted, IRS regulations on non-taxable benefits, and guidance available in the district's financial procedures manual. The district should also consider setting a policy on how far claimants must travel from their place of employment or home before an overnight stay is allowed. District policy should state whether the night before and the night after a conference is reimbursable. In no case can the district reimburse for family member travel. Districts may reimburse for overnight travel based on meal and lodging per diem, actual expenses, or a combination of both.

Transportation During Overnight Travel

Transportation may include commercial transportation such as air, train, taxi, shuttle, or bus. Airfare should be the lowest fare or coach class. Baggage fees may be reimbursed. Travel to, from, and at the business location may be reimbursed. For example, travel to the airport, travel from the airport to the hotel, and travel from the hotel to the conference center may be reimbursed. Car rentals should be at the economy or compact car rate unless circumstances require a larger vehicle. The district may reimburse employees for any optional insurance coverage on rental cars that is not covered under the district's insurance coverage. Receipts should be required for commercial transportation. The district may consider not requiring receipts for minor costs such as day parking and tolls.

Note: If the district has coverage through Alabama Trust for Boards of Education (ATBE), there is no liability afforded to rental cars therefore the traveler must either take out rental insurance or place the rental vehicle on their personal auto insurance. In this case, rental insurance may be reimbursed in accordance with local school board policies and procedures.

Meals During Overnight Travel

Districts may have a policy to reimburse for meals based on actual expenses, meal per diem, or a combination of both.

Meals Based on Actual Expenses Meals may be reimbursed based on actual expenses. If the district's policy is to pay based on actual expenses, receipts are required. If the claimant is filing a claim on behalf of others, he or she must prepare a detailed account that includes:

- Names of the others who partook of meals.
- Whether they were district employees and, if not, who they were and what connections they had with district business. This should not be construed to permit promotional hosting.

Meal per Diem

Meals may be reimbursed on a meal per diem. Meal per diem can only be used when the claimant is in travel status. Meal per diem rates can be set at or below the federal rates. Lodging and meal rates vary by city. See publication 1542 or <http://www.gsa.gov/portal/content/104877> for current meal per diem rates. Meal per diem includes taxes and tips. If the district pays more than IRS rates, it is a taxable wage and must be added to the employee's W2 and payroll taxes applied.

IRS regulations require a reasonable method for prorating meal per diem on days of departure and return. For example, the $\frac{3}{4}$ rule pays $\frac{3}{4}$ of the meal per diem allowance on the departure and return dates. Another method, in use by the Office of Financial Management, prorates based on the time of departure and the time of return. Under this method, an employee must leave three hours before their regular start time to qualify for all three meals. The same three-hour rule applies to the employee's return.

District policy may include a restriction against reimbursing for meals that are provided as part of the conference registration cost.

Receipts are not required when using meal per diem.

Lodging During Overnight Travel

The district may have a policy to reimburse for lodging based on actual expenses, lodging per diem, or a combination of both.

Lodging Based on Actual Expenses

Lodging may be reimbursed based on actual expenses. If the district's policy is to pay based on actual expenses, receipts are required. Conference or government rates should be requested. In no case should extra costs for family members or in-room entertainment be reimbursed. The cost of tipping for hotel staff may be reimbursed without receipt at a reasonable rate.

Lodging Based on Lodging Per Diem

Lodging may be reimbursed based on lodging per diem. Lodging per diem is based on the city where the employee is spending the night. See publication 1542 or <http://www.gsa.gov/> for current lodging per diem rates. Lodging tax and energy charges are not part of lodging per diem and may be reimbursed in addition to lodging per diem. Actual receipts are required if reimbursing for additional charges.

If the district pays more than IRS rates, it is a taxable wage and must be added to the employee's W2 and payroll taxes applied.

Other Travel Expenses

All other travel expenses should be based on actual expenses.

Overnight travel claims must include the following:

- Name, address, phone, title, and employee number (if applicable) of the claimant.
- The name of the conference or event.
- Registration or agenda of event attended.
- Dates and times of departure and return.
- Place of travel.
- Descriptions of all amounts being claimed.
- Claimant signature and certification.
- Lines for approval signatures.

Accounts payable is responsible for verifying that the travel claim meets all school board policies and procedures.

Accounts payable should verify that:

- Description provides enough detail to verify the business purpose of the travel.
- The agenda provides verification that the start and end dates of the conference coincide with the travel days being claimed.
- The agenda provides verification that no meals are being claimed for reimbursement which were already provided as part of the registration fee.
- Lodging does not include the cost of family members, the cost of in-room entertainment, or room service already being claimed as meal per diem.
- Original, itemized receipt is attached for all actual claims requiring receipts.
- If additional meals are being purchased, verify that the additional names of those who partook of the meals are included and they are district employees.
- Verify all appropriate signatures are included.
- Verify an account code is included.
- Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for function, object, source of fund and program.

- Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, and limitations.
- Determine the fiscal year for processing.

Note: Tip: Using meal per diem can control excess spending on meals and eliminates processing and handling of multiple receipts.

Travel Advances and Travel Charge Cards-Local Board of Education Procedures

Travel Advances

If the claimant has received a travel advance prior to the travel, the final travel claim must include a settlement of the advances. This settlement will be submitted by the traveler and applied to the travel advance expense account.

If travel expenses exceed the amount of the advance, the travel claim will be submitted to accounts payable for the balance due to the traveler. The original advance request will be used to support the additional replenishment request.

Travel Charge Cards

A school district may provide travel charge cards to employees for the purpose of covering authorized travel. The district should require the cardholder to submit a fully itemized travel expense form within 30 days of billing. Any charges against the charge card not properly identified on the travel expense claim form or not allowed under district policy, must be repaid to the district by the cardholder.

Refunds of Revenue

School districts are sometimes required to refund amounts previously collected as revenues. Examples might include:

- Food services prepaid lunch account balances for withdrawing students.
- Lost book fines when a book is later found and returned.
- Student fees when the student withdraws from a class.

These refund requests are typically initiated at the school level. Districts may process refunds through their school and/or business office. Regardless of who makes the payment, the refund request should be made using a standard form.

The refund request form should include the following:

- Name of the parent or guardian to be refunded.
- Name of student and student ID.
- Home address of parent or guardian.
- Reason for refund.

- Amount of refund.
- Revenue account used on original cash receipt.
- Signature of the individual approving the refund.
- A copy of the original receipt proving the fees were actually collected.

The refund check should not be processed by the same individual approving the refund request. Refunds should be paid against the revenue account originally used when collecting the fee. For example, a refund request for a lost book fine should be charged to revenue code 6932.

Accounts payable should verify that the refund request form is complete, signed, and all that the required documentation is attached.

The district should have written policy and procedures on refunds.

From Invoice to Payment

Each district must develop procedures to ensure accuracy of payments and control over check payments and electronic funds transfer (EFT). These procedures must include:

- Internal controls such as verification, approval, and segregation of duties.
- Adhere to all applicable laws.
- Utilize security and processes available within the district's software.
- Consider the number of available staff.

Accounts payable staff process payments based on invoices received by vendors, reimbursement claims submitted by staff, and electronic files received from vendors such as utility companies and purchasing card providers. Accounts payable staff are responsible for the accuracy of payment based on invoices, purchase orders, verification of receipt of goods and services, and approval of travel and expense claims.

The district should appoint an *auditing officer* who is usually the CSFO or director of accounting. The auditing officer is responsible for internal controls over accounts payable and the certification of all accounts payable checks or other payment methods.

The school board of the district may select from its members a *finance committee* to review the accounts payable payments. The school board is responsible and liable for each disbursement by check or EFT.

Control Totals and Batch Processing

The use of batch totals will assist in controlling the accuracy of payment. Batches are a grouping of invoices that will be entered into the system for payment. Batches are usually kept to a manageable size, are similar in their type, and have been prepared by a single accounts payable staff. Batch totals are calculated by running a tape of the total due from the source documents/invoices. After entering the payments into the accounts payable system, the system generated batch totals can be compared to the previously calculated tape totals. The totals should match.

Verification and Approval of Batches

Another key internal control in assuring accuracy is having two sets of eyes on every transaction. In accounts payable, this can be accomplished by having a second individual review the batches of another individual. All data on the batch proof or voucher should be reviewed against source documents. This would include vendor number, vendor address, account codes, invoice number, invoice date, fiscal year, sales tax, and authorization. An electronic approval process may also be utilized to provide evidence of review.

In small districts, a second staff person may not be available for verification and approval. In this case, additional compensating controls should be put in place to assure that one person is not entirely responsible for the payment.

Payment Process

After the accounts payable batches have been entered, verified, and approved, they are ready to process for payment. A payment cycle should be developed by each district which will depend on cash flow, staffing, and board approval policy. Some examples include:

- Weekly on a specific day of the week.
- After each board meeting.
- Monthly on a specific day of the month.

Districts should develop a process to verify the total of all accounts payable batches equal the total of the entire check run.

Printing checks may be done at the district and school level. If the district prints their own checks, the responsibility must be segregated from the accounts payable staff responsible for entering payments. Schools may segregate these duties by having the district print their checks and process their electronic funds transfer (EFT) orders.

Districts paying vendors by electronic funds transfer (EFT) must develop controls over vendor bank routing information. Any requests submitted to the district to change a vendor bank routing or account should be independently verified by a known vendor representative.

For schools and districts printing their own checks, procedures must be developed to secure check stock and access to check printing security. These procedures should include:

- Safeguarding access to preprinted check stock.
- System security to system-generated check forms.
- Safeguarding access to MICR toner.
- Sequential check numbering.
- Segregation of duties between entering invoices and printing and mailing checks.
- Written evidence when transferring responsibility for checks being picked up by district staff or vendors.
- If the ESD mails the checks to the district, a signature should be required when delivered.
- Segregation of duties between those entering invoices and those processing check payments.

Accounts Payable Certification and Approval

Each district must develop a process to certify and approve check payments as required by law. The payment certification laws apply to all payments regardless of whether issued by traditional check or electronic payment. The CSFO/Director of Finance should approve all payments.

CSFO Responsibilities

All claims for the provision of goods and services, other than payroll, to the school district must be pre-audited and certified by the district's CSFO or his/her designee. The certification may be made on an individual voucher /check request or on a blanket certification for the entire check run. The use of a blanket certification does not relieve the CSFO of the responsibility and liability for each individual voucher/check order so certified. The certification must be signed and dated by the CSFO or his/her designee. For all claims, except travel reimbursements certified by claimants, the certification should include the following similar language:

"I, the undersigned, do hereby certify under penalty of perjury that the materials have been furnished, the services rendered, or the labor performed as described herein and that the claim is a just, due and unpaid obligation against _____ School District and that I am authorized to authenticate and certify to said claim."

The auditing officer's certification for employee or school official travel reimbursement claims must include the following similar language:

"I, the undersigned, do hereby certify under penalty of perjury that the claim is a just, due and unpaid obligation against _____ School District and that I am authorized to certify to said claim."

The certification by the district CSFO does not relieve members of the school board from responsibility and liability for each check approved. It is the board's responsibility to ensure that the system of auditing and certifying check payments is operating in a manner to provide the greatest possible protection for the board members and the school district.

School Board's Responsibilities

The school board must approve the issuance of accounts payable checks. This can be done as a Blanket/General Check Certification.

Indication of board of director approval for payment of claim checks and payroll should be recorded in the minutes of the board meeting. The board should be given a listing of all payments. The listing must include all payments by fund, including payroll. Payments include checks, electronic funds transfers and expenditures made directly by the district. The certification may refer to vouchers, checks, or electronic fund transfer numbers as appropriate for the circumstances.

Issuing Checks Prior to Board Approval

Under the authority granted by the school board, school districts may issue payments before the school board approves the claims. The board must enact the following policies and procedures as required by law in order to grant this authority:

- The Superintendent and CSFO designated to sign the checks shall have an official bond in the amount determined by the State.

- The board shall adopt contracting, hiring, purchasing, and disbursing policies that implement effective internal controls.
- The board shall review and approve the claims paid without their prior approval at its next regularly scheduled public meeting.

If the board disapproves any claim paid prior to their approval, the CSFO designated to sign the check related to the disapproved claim shall recognize this claim as a receivable of the district and pursue collection diligently until the amount is either collected or the board is satisfied and approves the claim.

The school board may stipulate that certain kinds of amounts of claims shall not be paid before the board has reviewed the supporting documentation and approved the issuance of checks or checks in payment of those claims.

Board Finance Committee Responsibilities:

All accounts may be audited by a committee of board members chosen in such manner as the board so determines to be styled the "finance committee." Each school district's procedure for the finance committee may vary. This may be one board member responsible for review of selected payments from the payment certification or it may involve all board members who review all details of all payments. In small districts where segregation of business office responsibilities over disbursements is not possible, a more detailed level of board review is recommended.

Wire Transfers, and Other Payment Methods

Several methods are available to school districts to initiate payment to vendors and employees. All accounts payable disbursements must be issued by check or wire transfer. The total of all credit cards and purchasing cards are eventually paid off by a check or wire transfer and approved by the board.

Wire transfers may be available to school districts through their CSFO. Wire transfers are used for large, one-time payments that are time sensitive. All wire transfers must go through the same approval and certification process as checks. After receiving the wire transfer request, the CSFO will wire transfer the funds from the district's account to the recipient using bank routing and account information.

Automated Clearing House (ACH) is an electronic payment done by batch from one bank account to another. It is designed for large volume payments such as direct deposit payroll and vendor payments. ACH payments must go through the same approval and certification process as checks. ACH payments flow through bank accounts, similar to the payroll direct deposit account (see below). These accounts are typically county bank accounts. If the county treasurer allows ACH payments to flow through a district bank account, the funding of the account is run through the county. Not all county treasurers allow the ACH option for vendor payments.

Payroll direct deposit bank accounts may be used for employee travel and expense claims processed through accounts payable. A payroll direct deposit bank account may be owned by the school district or set up by their CSFO. This account is funded for the total amount of an employee payroll or travel and expense claim direct deposit register. The district will transfer funds into the payroll direct deposit account sufficient to cover the EFT register. The transfer process varies from district to district and may be done by EFT or automated through the district. The district then provides a file to the commercial bank listing the employees, the payment amounts, and employees' banking information. The commercial bank then transfers funds out of the payroll direct deposit account into each employee's personal bank account. After the transfer process is complete, the payroll direct deposit account should have a zero balance.

Other payment methods may be used by the district such as credit cards and purchasing cards. These payment methods must be initially authorized by the board. Board approval and authorization of the actual disbursement occurs when a check (or EFT) is issued to pay the credit and purchasing card balance.

Check Voids, and Duplicate Instruments

There are several circumstances when accounts payable may need to void or cancel a check:

- Void a pre-numbered check that has been misprinted.
- Void a check that should never have been issued.
- Void/Stale a check that is outstanding over one year.
- Void a check that has been lost or stolen.

Void Checks

A void is most commonly used with pre-numbered check or check stock. The physical check or check must be in the possession of the district in order to void it. An example of a void would be when a pre-numbered check has been spoiled and can no longer be used. Example: The blank checks 100 through 199 were printed up-side-down and can no longer be used.

- Void a check through the district's software system. The software should provide evidence of the check number and the void status. The entry should reverse the expenditure and accounts payable outstanding if previously posted.
- Clearly mark void across the face of the check or check.

Once a check has been issued and mailed to the payee, it can be voided under certain conditions. The check must still be outstanding. Voiding may be required if the check was issued incorrectly, lost, or stale dated (outstanding over one year).

Accounts payable should:

- Verify that the check is still outstanding.
- Verify the remit address in the vendor data base is correct.
- Void the check in the current fiscal year. This is normally done through the district's fiscal software and should result in a decrease to the original account (usually an expenditure) and a decrease to accounts payable (GL 251).
- Send notification to the CSFO or designee.
- If the check is to be reissued, see Duplicate Checks below.

Checks – Stale dated after one Year

Checks outstanding after one year should be cancelled by utilizing the state check procedure. Each district should review a report with outstanding checks (reconciliation reports) and an attempt made to contact the payee to ensure that the check is redeemed or reissued. If the payee cannot be located the check will need to be voided and the amount remitted to the Department of Revenue, Unclaimed Property Division. See the Unclaimed Property for further details.

Check stale cancellation process for stale dated checks:

- Cancel the check in the *current fiscal year*. This may be done through the district's fiscal software and should result in a decrease/debit to checks outstanding (G/L 0251).
- Send notification to the CSFO or designee.
- Record check cancellation as unclaimed property either as an unclaimed property liability or a credit to an expenditure account. See details in the unclaimed property section of this manual.

Duplicate Checks

It may be necessary to reissue lost and outstanding checks. The district should first verify that the check is still outstanding. This may be done by phone or on-line access to check redemption information. If the check is still outstanding, the district must first obtain an affidavit from the payee and second process a duplicate instrument through their fiscal software.

Steps in processing duplicate checks:

- Verify that the check is outstanding.
- Obtain a signed and notarized affidavit of lost check from the payee
- Send notice to the CSFO or designee of the duplicate issue.
- Enter the duplicate instrument in the financial software.
- Issue a duplicate instrument to the payee.

When presented with a request to reissue a lost check, the first step is to verify that the check is still outstanding. To obtain the most up-to-date information, the district should call or access on-line check redemption information at their financial institution.

Before a duplicate check is issued, the district must require the payee or the person representing the payee to make application for the issuance of the duplicate by filing a written affidavit specifically alleging on oath that he/she is the proper owner, payee or legal representative of such owner or payee of the original check. Additional information required in the affidavit is the date of the issue, the check number, the amount, and for what services, claim or purposes the original instrument or series of instruments of which it is a part of was issued, and that the original has been lost or destroyed and has not been paid.

The following is a sample affidavit for use by all school districts:

AFFIDAVIT

STATE OF ALABAMA)

COUNTY OF _____)

I, _____, being first duly sworn upon oath, depose and say that I am the proper owner, payee, or legal representative of such owner or payee of _____ School District.

_____, original (check/check) No. _____ dated _____ in the amount of _____ dollars (\$_____) which said instrument was issued in payment for _____ and that the same has been lost or destroyed and has not been paid.

(Signature)

Subscribed and sworn to before me this _____ day of _____, 20____.

(Notary Public in and for the State of Alabama)

Residing at _____

Upon receipt of the fully executed affidavit, the district should reissue the check through the district's financial software. There should be a clear tie between the duplicate check and the original check number for good internal control. An outstanding check without a tie to a duplicate issue could result in unclaimed property liability.

Sales Tax

Sales tax is a tax on the consumer for the purchase of items, rentals, repair, and installation of tangible personal property including labor. Alabama public schools are non-profit education institutions and are exempt from certain sales and use taxes under the Code of Alabama of 1975 §40-23-4 (a)(15), as amended. Alabama public school are exempt under the following Alabama Department of Revenue Administrative Code Sections:

- 810-6-3- .47 .03 Sales of Property to State, City, or County for Use by Public Schools
- 810-6-3- .47 .04 Sales to Public Schools
- 810-6-3- .47.05 Sales to Public Schools -Athletic Equipment
- 810-6-3- .47 .06 Sales to Public Schools, Public School Principals or Teachers, etc.

Sales tax should not be paid on purchases from in-state vendors unless the items do not qualify for the sale tax exemption. Since a specific exemption is provided by law, an exemption certificate is not needed. For more information regarding the sales and use tax may be found at, <https://www.revenue.alabama.gov>.

Accounts payable is responsible for verifying that all invoices for sales tax charges and determining if sales tax should be added to an invoice.

Bid Laws

Funds that are considered to be subject to bid law are funds received from sources such as taxation, state or county appropriations, and some grants. § 16-13B-1, et seq., Ala. Code 1975 applies to County and City Boards of Education. Bid provisions apply to all expenditures of funds of whatever nature for labor, services, and work involving \$40,000 or more. Bid provisions apply to all expenditures of funds for the purchase or lease of materials, equipment, supplies, or other personal property involving \$40,000 or more. If expenditure is in excess of \$40,000, the law requires a contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder.

With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by, Title 39, Chapters 1-8, Code of Alabama (1975) all contracts of whatever nature for labor, services, work, or for the purchase or lease of materials, equipment, supplies, other personal property or other nonprofessional services, involving forty thousand dollars **(\$40,000) or more**, made by or on behalf of any state department, board, bureau, commission, committee, institution, corporation, authority, or office shall, be let by free and open competitive bidding, on sealed bids, to the lowest responsible bidder.

Public Works

“Public work” is defined as “[t]he construction, installation, repair, renovation, or maintenance of public buildings, structures, sewers, waterworks, roads, curbs, gutters, side walls, bridges, docks, underpasses, and viaducts as well as any other improvement to be constructed, installed, repaired, renovated, or maintained on public property and to be paid, in whole or in part, with public funds or with financing to be retired with public funds in the form of lease payments or otherwise.” § 39-1-1, et seq., Ala. Code 1975 applies to all public works contracts on the state, county, and municipal levels of government within the State of Alabama. § 39-1-1, Ala. Code 1975.

As per § 39-2-2(a), Ala. Code 1975, before entering into any contract for a public works involving an amount in excess of one hundred thousand dollars (\$100,000), the awarding authority shall advertise for sealed bids.

As per § 39-2-2(b)(1), Ala. Code 1975, “An awarding authority may let contracts for public works involving one hundred thousand dollars (\$100,000) or less with or without advertising or sealed bids.”

Anytime a school district enters into a project that falls under the definition of public works, public works requirements will apply.

Internal Controls and Cybersecurity

Internal control is a process, affected by an entity’s school board, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operation, reliability of financial reporting, compliance with applicable laws and regulations. Internal controls should benefit rather than hinder the school district and will be unique based on the internal controls of the individual school district’s operating environment. They also need to be cost-effective.

Each school district is responsible for reviewing their business practices and to determine where risks exist and where and how controls can be established to mitigate them. High risk areas in accounts payable are:

- Purchasing card transactions
- Petty cash account transactions
- Employee travel and expense reimbursements
- Contractual/personal services invoices

The payment of vendors supplying materials ordered through the district purchase order process has the lowest risk. This is due to the number of verifications and approvals in place.

Key internal control activities over accounts payable should include:

- Approvals
- Verifications
- Reconciliations
- Physical controls
- Segregation of duties
- Review and analysis

Approvals and verifications occur during many stages of the purchase to pay process. These activities are covered in detail in the appropriate sections of this manual. It is important for the Accounts Payable Department to have *approval lists* or sample signatures from CSFO/Director of Finance to ensure appropriate approvals are being received.

Reconciliation activities in accounts payable should occur in several areas. Vendor statements should be reconciled to district payment records. Purchasing card summary statements should be reconciled to individual cardholder documentation.

Reconciling of general ledger accounts pertaining to accounts payable must also be done. These accounts include: Accounts Payable Liability, Contractor Retainage Payable Liability, Checks Outstanding, Purchasing Card Payable, Prepaid Expenses, and Inventories.

Physical controls relating to the Accounts Payable Department pertain to check stock and MICR toner. Physical control and security activities are covered in detail in the “Check, Wire Transfers and Other Payment Methods” section. Physical controls should also be in place for password documentation and computer devices used to authorize electronic payments.

Segregation of duties is one of the most important features of a good internal control structure. Segregation of duties means that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. In a large district, segregation levels may be by department while in a small district it will be by individual. In accounts payable, the following activities must be properly segregated:

- The individual who approves the check run should not be the individual who prints the checks.
- The individual who approves the check issue should not be the person who receives returned checks (example: bad address).
- The individual who processes payment should not also be responsible for the fixed asset.
- The individual who enters payments should not process the check.
- The individual who uploads electronic payments should not also approve their release.
- The individual who mails out checks should not be the individual who is creating the payment.
- The individual who maintains the vendor database should not be the person who is creating the payments.

How each district implements segregation of duties will depend on the size of the district and available external resources. The district may also be able to implement *compensating controls* such as regular review by management of vendor files and payment history.

Review and analysis are good practices for maintaining controls in accounts payable. If segregation of duties is not possible, then management review becomes even more important as a compensating control.

Management review of the following areas is recommended:

- Vendor payment totals and variance over three-year periods.
- Vendor database for duplicate vendors.
- Purchase of merchandise not delivered to a district location.
- Review that documented procedures are being followed.
- Review of expenditure variance from budget/appropriations.
- Review and analyze variance in general ledger accounts pertaining to accounts payable (accounts payable liability, etc.).
- Review by CSFO/Accounting Supervisor at schools and departments of their budget to actual interim financial reports.
-

Cybersecurity

A common cyber threat in accounts payable is phishing. Cybercriminals are becoming increasingly sophisticated, they create convincing emails or messages, imitating trusted vendors or employees. These fraudulent communications are designed to trick staff into divulging confidential information or approving unauthorized transactions. Invoice fraud is another substantial risk in accounts payable. Cybercriminals use deceptive practices to trick school districts into transferring funds to false accounts. They may use counterfeit invoices, imitate legitimate vendors, or alter banking information in an effort to divert funds.

Internal controls activities over cybersecurity in accounts payable should include:

- Managing passwords by using robust passwords and developing a habit of changing passwords regularly to deter unwanted access.
- Continuous training on accounts payable cyber threats.
- Securing payment processes for accounts payable against cyber threats by implementing enhanced security measures like encryption, two-factor identification and positive pay.
- Validating the authenticity of all invoices and vendors.
- Verifying all vendor change of address directly with vendor.
- Verifying all ACH vendor payment changes directly with the vendor.
- Notifying the CSFO of all bank inquiries regarding a vendor payment.
- Notifying the CSFO of any suspicious activity or inquiries.
- Notifying the IT department of all suspicious e-mails or other cybersecurity threats.

Independent Contractor versus Employee

Independent contractors are paid through the district's accounts payable process. Employees are paid through payroll. It is important to correctly classify a worker and pay them correctly. For federal tax purposes, this is an important distinction. Worker classification affects how a worker pays their federal income tax, social security, and Medicare taxes, and how they file their federal tax return. Other important factors are workers compensation coverage and retirement earnings. Relevant factors in determining whether a worker is an independent contractor, or an employee *are behavioral control, financial control, and relationship of the parties.*

Behavior Control

These factors show whether the worker has a right to direct or control how the work is done. A worker is an *employee* if the district has the right to direct and control the worker. This would include telling the worker how, when, and where to do the work, what tools or equipment to use, what assistants to hire, and where to purchase supplies and equipment. Also, if the district provides the worker with training this usually suggests the worker is an *employee*.

Financial Control

If the worker is not reimbursed for some or all their business expenses, then they may be an *independent contractor*. Also, if the worker can realize a profit or incur a loss, this suggests the worker is an *independent contractor*.

Relationship of the Parties

The ways the district and the worker perceive their relationship also helps determine their status as an independent contractor or employee. If the district pays the workers benefits such as insurance, pension, or paid leave, the worker is considered an *employee*. If the worker is not paid benefits, the worker may be either an employee or an independent contractor. A written contract between the district and the worker may provide additional insight into the relationship intended.

IRS Publication 1779 will help districts determine the status of a worker as either an independent contractor or an employee. The district may receive a determination from the IRS by completing IRS Form SS-8 and sending to:

Internal Revenue Service
SS-8 Determinations
P.O. Box 1231
Stop 4106 AUCSC
Austin, TX 78767

If the worker is determined to be acting as an *employee*, they may not be paid through accounts payable. The individual must be paid through payroll at a board approved rate of pay. This does not include employees who may have a licensed business that is substantially different from their job with the district. An example would be a teacher that owns and operates a moving service. The moving service, although owned by a district employee, may be set up as a vendor and paid through accounts payable if all requirements are met for an independent contractor.

If a worker is determined to be acting as an *independent contractor*, they are paid through accounts payable and issued a 1099-NEC for the amounts paid during the calendar year. See IRS 1099 Reporting section for complete details on issuing 1099-NEC reports.

Further information on what determines an employee versus an independent contractor can be found on the following web sites:

- [IRS - Topic 762 - Independent Contractor vs. Employee](#)
- [SSA Online - Who is an employer?](#)
- [Misclassification of Employees as Independent Contractors | U.S. Department of Labor \(dol.gov\)](#)

IRS 1099 Reporting

The IRS requires that school districts report certain accounts payable vendor payments annually on IRS Form 1099-NEC and 1099-MISC. Districts are required to report payments over \$600 for services performed by someone who is not an employee. This is primarily for services performed by businesses or individuals who are not incorporated. The reporting process serves to assure the IRS that these vendors are claiming these earnings for income tax purposes.

1099 reporting is on a *calendar year basis*. A copy of the 1099-NEC or 1099-MISC forms must be provided to the vendor by January 31 of the following year. File 1099-NEC with the IRS on or before February 1 using either paper or electronic filing procedures. File 1099-MISC with the IRS by March 1 if you file on paper or by March 31 if you file electronically.

New Vendors

The district should obtain from every new vendor a form W-9, 8832, or a substitute W-9 form. The information provided on this form is required for 1099 reporting. The completed W-9 will provide the district with the vendor's legal name, address, business structure (sole proprietor, corporation, etc.) and Tax Identification Number (TIN). From the business structure information, the district will be able to determine if the vendor is a 1099 vendor. This information should be entered into the district's vendor database and the vendor flagged as a 1099 vendor. There should only be one vendor number or vendor name in the district's database for any TIN number.

Districts should avoid making payments to vendors prior to receiving a completed W-9 or substitute W-9 form. If the district is not able to obtain the required W-9 information, the district must deduct *backup withholding tax* from the vendor payments.

Backup Withholding Tax

Backup withholding tax must be applied only if the district makes reportable payments to persons, businesses, or corporations who have not furnished a valid TIN. The withholding rate is 24%. Backup withholding applies to many payments reported on Form 1099-MISC and Form 1099-NEC. *The school district is liable for the tax, whether or not the tax has been withheld from the vendor's payment.*

- The district must report withholding to the vendor and to the IRS in Box 4 of Form 1099 NEC and Form 1099-MISC, annually, due 1/31/xx.
- Payment of backup withholding is paid by EFTPS to the IRS.

TIN Verifying

School districts may verify any TIN* by registering with the IRS's TIN Matching Program. Use of the TIN Matching program will reduce the number of TIN/Name mismatches. Register with IRS e-service. (* TIN = SSN or EIN).

1099-NEC Nonemployee Compensation

Beginning in tax year 2020, use Form 1099-NEC to report non-employee compensation including attorney fees.

Items to report:

- Payments of \$600 or more for the calendar year.
- Paid in the course of school district business.

- For services or a combination of services and products (box 1).
- Payments to an attorney (box 1).
- Backup withholding (box 4).

Items not to report:

- Payments to employees such as fringe benefits or travel reimbursements (*note: if not paid as part of an accountable plan, travel reimbursements and auto expenses should be included in wages and reported on W-2*).
- Generally, payments to corporations.
 - Except payments to medical and health care providers.
 - Except payments to attorneys for legal services.
- Payments for merchandise, telephone, inventory, storage, freight, lodging, and similar items.
- Payments of rent to real estate paid to real estate agents or property managers.
- Payments made on a Purchasing Card. 1099 reporting is the responsibility of the Purchasing Card provider.

1099-NEC Reporting by Box Number

Box 1 Nonemployee Compensation

Nonemployee compensation of \$600 or more is reported in box 1. This includes services performed for the district by an individual who is not an employee. This includes fees, commissions, prizes and awards, and other forms of compensation.

Professional Services are reported in box 1. Examples are accountant and financial consultants, speakers and trainers, management and employee relations consultants, contractors, architects, engineers, attorneys (including corporations), instructional specialists (health care specialists are box 6 of form 1099-MISC), DJs for school dances, etc.

- Include payments for services.
- Include payments for parts and materials used to perform the service if supplying the parts or materials was incidental to providing the service. For example, the district hires a heating repair technician to repair an air conditioning unit. The invoice includes the amount for labor and another amount for parts needed for the repair.
- *Exclude* payment for reimbursable travel costs such as mileage, meals, and lodging (must be documented).
- Include payments for taxable fringe benefits. Use the same criteria you would for an employee in determining if the expenses are taxable or not.

Attorney Fees are also included in box 1 for both individuals and corporations. Gross proceeds paid to an attorney are not reported here but are reported on 1099-MISC box 10.

Box 4. Federal Income Tax Withheld Enter

backup withholding.

1099-MISC Miscellaneous Income

Beginning in tax year 2020, use Form 1099-NEC to report nonemployee compensation including attorney fees. Use 1099-MISC for all other 1099 reporting requirements.

Report each person in the course of school district business to whom the district paid the following during the calendar year:

- At least \$10 in royalties (box 2)
- At least \$600 in:
- Rents (box 1);
- Prizes and awards (box 3);
- Medical and health care payments (box 6);
- Payments to an attorney for gross proceeds. (box 10)
- Backup withholding (box 4)

Payments for which a Form 1099-MISC is not required include all of the following.

- Generally payments to corporations. (See reportable payments to corporations below.)
- Payments to limited liability company (LLC) that is treated as a C or S corporation.
- Payments of rent to real estate agents or property managers.
- Wages paid to employees (report on Form W-2)
- Payments made with the district's purchasing or credit card.

Reportable payments to corporations. The following payments made to corporations generally must be reported on Form 1099-MISC.

- Medical and health care payments reported in box 6.
- Gross proceeds paid to an attorney reported in box 10.

Payments to attorneys. The term "attorney" includes a law firm or other provider of legal services. Attorneys' fees of \$600 or more paid in the course of the district's business are reportable in box 1 of Form 1099-NEC.

Gross proceeds paid to attorneys. Gross proceeds are not for the attorney's service fee. Gross proceeds are settlement fees paid to the attorney on behalf of the claimant. Gross proceeds are reported in box 10 of form 1099-MISC. Additionally, the district must report the settlement to the claimant on a separate 1099-MISC in box 3.

1099-MISC Reporting by Box Number

Payments need to be reported in the correct box on 1099-MISC form.

Box 1 Rents

The district must report rents over \$600 in box 1. Include real estate rents such as office space, classroom space, event space, or teacher housing. Do not include rents paid to real estate agents or property managers. Also include rental of equipment such as vehicles, or heavy equipment. If the rental included machine and operator, prorate between box 1 and box 7.

Box 2 Royalties

The district must report gross royalty payment of \$10 or more in box 2. An example would be payments for a royalty to produce a play, paid directly to the playwright.

Box 3 Other Income

Deceased Employee Wages

The district must report payments to the estate of a deceased employee in box 3 of the 1099-MISC form. This is in addition to the W-2 reporting requirements for deceased employee wages. Accounts Payable will need to work with their payroll department on reporting deceased employee wages.

Legal Settlements

The district must report legal settlements paid to claimants in box 3. For example, the district settles with the parents of a special education student for services required but not provided by the district. Payments made to the attorneys are reported under box 10. See box 10 below for further details.

Box 4 Federal Income Tax Withheld

If the payee is unable to furnish their TIN, payments are subject to backup withholding. Backup withholding is reported in box 4. See Backup Withholding below for further details.

Box 6 Medical and Healthcare Payments

School districts must report payments of \$600 or more made in the course of district business to each physician, nurse, or supplier or provider of medical or health care services. This includes corporations. Medical and healthcare payments must also be reported if the district is self-insured for industrial insurance. In the case of self-insured industrial insurance, your third party administrator will typically report 1099 information on the district's behalf.

Medical payments and healthcare reporting requirements include:

- Report payments of \$600 or more in box 6.
- Report payments for all individuals, partnerships, and corporations.
- Medical payments include doctor fees, drug testing, lab fees, physical therapy, etc.
- Do not report payments to pharmacies, tax exempt hospitals, or governmental agencies.*

When payment is made to a corporation for medical and health care, list the corporation as the recipient on the 1099 rather than the individual providing the services.

Box 10 Gross Proceeds Paid to an Attorney

Gross proceeds are the payments made to an attorney as part of a legal settlement or court order. Gross proceeds may be issued in the names of the attorney and the client. Gross proceeds may include an amount for the attorney's services. If the district cannot determine the attorney fees, report all of gross proceeds in box 10. If the district can determine the amount of attorney fees included in the gross proceeds, report the fee in box 1 on form 1099-NEC and report nothing in box 10 on form 1099-MISC.

Here are some examples:

Box 10 example: The school district agrees to settle all matters involved with a property claim for \$30,000 and pays the claimant's attorney for a release. The \$30,000 is reported in box 10.

Box 10 and Box 3 example: The district agrees to settle all matters involved with a property claim for \$30,000 and issues a check made out to both the claimant and the claimant's attorney for a release. The \$30,000 is reported in box 10 on the attorney's 1099-MISC and \$30,000 is reported in box 3 on the claimant's 1099-MISC.

Submitting Returns

Paper returns should be mailed to the Internal Revenue Service Center listed for your district's area on the Form 1096 instructions. Electronic filing is required if the district has 250 or more returns. File electronically through the Filing Information Returns Electronically System (FIRE System).

File 1099-NEC on or before February 1 using either paper or electronic filing procedures. File 1099-MISC by March 1 if you file on paper or March 31 if you file electronically.

Backup Withholding

School districts are required to do backup withholding if payments are made to persons, businesses or corporations who have not furnished a valid Tax Identification Number (TIN). The withholding rate is 24%. This 24% tax must be deducted from all vendor payments to ensure that IRS received the tax due on this income.

Backup withholding applies to payments reportable on Form 1099-NEC and Form 1099-MISC. Backup withholding begins when aggregate payments for the calendar year equal or exceed \$600 or immediately if payee was subject to backup withholding the prior year, the IRS notified the district to begin backup withholding, or the payee provided an invalid TIN 2-of-3 year rule.

Amounts deducted from the vendor payments for backup withholding should be recorded as a liability on the district's books until they are remitted to the IRS. Record as a liability in account 630 Due to Governmental Units and an expenditure code applicable to the original payment.

Report withholding to the payee and the IRS in box 4 of Form 1099-NEC or Form 1099-MISC whichever applies. Remit withholding amounts to the IRS annually, due January 31 of the following year. Use form 945 to report and pay withholding to the IRS.

Errors and Corrections

Common errors in reporting 1099 information are:

- Failure to obtain identifying information before making payment. Avoid this by requiring Form W-9 or substitute W-9.
- Failure to aggregate payments from all expense categories. Avoid this by editing your vendor database for duplicate vendors or duplicated TIN numbers.
 - Assuming vendor is a corporation because:
 - The vendor's name includes "Company or Associates."
 - EIN is furnished.
 - The LLC designation was not interpreted correctly. The district must file a corrected return to avoid penalties.

Penalties

An automatic failure occurs when the information return/payee statement contains errors in the name, TIN, and/or amount. Penalties may also be assessed for late filing of 1099 information. The IRS will notify the district if penalties will be assessed unless the district can establish a reasonable cause for the delayed filing.

If you think you won't make the deadline, file for an extension! Use form 8806, due January 31, for a 30-day extension

Records Retention

Retain IRS reporting records for three years. If backup withholding applies, keep for four years.

Unclaimed Property

Unclaimed Property is money or intangible property owed to an individual or business. Property is considered unclaimed after it is held for a period of time with no owner contact, and a good faith effort has been made to locate the owner. Abandoned property is turned over to the Alabama Office of State Treasurer Office of Unclaimed Property from many sources including any business entity, financial institution, insurance company or other holder of unclaimed property as described by law, whether for profit or not for profit and other legal or government entities including school districts.

The Unclaimed Property Act of 2013 provides that the State Treasurer shall serve as the custodian of property or funds deemed abandoned under its provisions. This law requires that all businesses review their records each year to determine whether they are in possession of any reportable unclaimed property, to file an annual report of their findings, and to remit the unclaimed property to the Alabama Office of State Treasurer's Unclaimed Property. The report must be filed before November 1 of each year and cover the 12 months preceding July 1 of that year and any unclaimed property not reported from previous years. The rightful owners can find any and all unclaimed property belonging to them by accessing the unclaimed property website and submitting a claim. Reporting forms and more information on reporting guidelines may be found at [Alabama Unclaimed Property - Official State Website \(findyourunclaimedproperty.com\)](https://findyourunclaimedproperty.com)

Accounts Payable transactions may result in unclaimed property primarily due to unredeemed checks and checks for vendors, parent refunds, and employee travel and expense claims.

Note: Districts paying employee travel and expense claims through direct deposit may see a significant reduction in unredeemed checks, replacement checks, and possible unclaimed property.

The Accounting and Budgeting Connection

Expenditures

In accounts payable, the majority of disbursements are posted to expenditure account codes. *Expenditures* are charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year. Expenditures decrease the net financial position of the district.

An accounting system is the means by which financial transactions are planned, captured during the actual operation of the school system, recorded in the books of accounts, and then analyzed to produce the various reports for management, financial status, and accountability.

Expenditures are reported in the General Ledger (G/L), Class 5, in a control account requiring subsidiary accounts to track further details about the expenditures. The structure outlined in the Financial Planning,

Budgeting and Reporting System for Alabama Public Schools provides a classification structure that will meet the school systems' needs and will provide comparable data when reports from the different school systems are combined.

The system component structure is designed to serve as a flexible tool to meet the needs of all school systems in the State of Alabama. It creates a common means of communication to be used in planning, recording, accumulating, controlling, and reporting the financial activities of the school systems. All school systems should uniformly utilize this component structure to provide comparability between school systems.

The Financial Planning, Budgeting and Reporting System for Alabama Public Schools requires a series of subsidiary expenditure accounts. State required expenditure codes in the General Fund include a four digit function code, a three digit object code, a four digit cost center code, a four digit source of fund code and a four digit program code.

A complete listing and description of state accounting codes in The Financial Planning, Budgeting and Reporting System for Alabama Public Schools. [Accounting Manual \(alabamaachieves.org\)](http://alabamaachieves.org). It is important that all districts adhere to the required account code structure.

Encumbrances

Another key factor in managing a district's budget is the *encumbrance* system. An encumbrance occurs when a purchase order is issued. The reason for encumbrances is to see what funds are already committed and are not available.

Budgets

The work of *accounts payable* has a direct and important role in producing budget reports that help the CSFO/Accounting Supervisor track their expenditures against their program budgets. Accounts payable's work plays an important role in assisting a CSFO/Accounting Supervisor with their fiscal responsibilities. Accounts payable staff must understand the encumbrance systems and the effects on budget balance reports.

Accounts payable must also understand the district and state account code structure. Account codes are usually provided by the CSFO/Accounting Supervisor requisitioning the expenditure. However, there may be times when accounts payable staff need to add or correct an account code.

CSFO/Accounting Supervisors are responsible for:

- Providing expenditure account codes within their responsibility.
- Encumbering their purchase requisitions with reasonable cost estimates.
- Approving expenditures over the encumbered amount (or above the district approved tolerance percentage).
- Approving any direct expenditure to their budget accounts.
- Monitoring their expenditures against the district approved budget.

Accounts payable is responsible for:

- Verifying that expenditure account codes are correct per the district's chart of accounts and the Financial Planning, Budgeting and Reporting System for Alabama Public Schools.
- Verifying that the account code provided by the CSFO/Accounting Supervisor is within their responsibility.
- Paying against purchased orders within the encumbered amounts or within the district's approved tolerance percentage.
- Paying to the correct account code on the purchase order.
- Closing or finalizing completed purchases orders to release encumbrance balances.

Accounts payable's responsibility over account coding may vary from district to district.

Inventories and Prepaid Items

Inventories

Although most accounts payable disbursements are for expenditures, there are two major exceptions:

- Inventories
- Prepaid Items

Inventories are large quantities of supplies, held in a central location, to be distributed to users as required. The most typical example is food service commodities. Inventories are also used for other material amounts of supplies held for later use. Examples might include bus fuel stored in underground storage tanks or general supplies held in a central warehouse.

Inventory is recorded in the following two asset accounts:

- 0141 Inventory – Supplies and Materials
- 0142 Inventory – USDA Commodities
- 0143 Inventory - Food

Year End Expenditure Accruals

A school district's fiscal year begins on October 1 and runs through September 30. Districts must finalize and submit their financial data to the state each year by November 1 each year on their Financial Statement. During the period after September 30 through the final submission of the Financial Statement, school district must accrue expenditures based on expenditure recognition rules. Expenditure recognition rules require that expenditures be recorded in the correct fiscal year.

Expenditure recognition: In school district accounting, expenditures are recognized in the period when goods and services have been received.

- Expenditures are charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year.
- Cash basis – expenditures are recognized when they are paid.
- Accrual Basis – expenditures are recognized based on a legal obligation to pay.

After September 30, the district will continue to receive invoices for expenditures that were *incurred* and *benefited* the prior fiscal year. For example, on October 15, the district received an invoice for \$5,000 for

services provided in September. The expenditure must be posted back to September 30. Other examples of expenditure accruals:

- Items received prior to or on 9/30.
- Services performed prior to or on 9/30.
- The percentage of completion on a construction contract through 9/30.

Accounts payable is responsible for assessing which fiscal year to post the invoice against. Accounts payable must enter the invoice with the correct date and codes required by the software to post to the correct fiscal

The standard accounting practice is to reverse an expenditure accrual journal entry at the beginning of the new fiscal year. This makes it possible for accounts payable to process all invoices through the normal process without duplicating a previously accrued expenditure.

Reconciling General Ledger 251 Accounts Payable

At the fiscal year end, the balance in general ledger account 251 Accounts Payable should reconcile to a list of unpaid invoices (Accounts Payable Register) and expenditure accruals.

Resources/References

Bureau of the Financial Services, US Department of the Treasury: <https://www.fiscal.treasury.gov/> (Prompt Pay)

Alabama Department of Archives and History: <http://www.archives.alabama.gov>

Government Finance Officers Association: <http://www.gfoa.org/purchasing-card-programs> GFOA Purchasing Card Programs, Best Practice, September 2020. (Pcards)

IRS Office of Federal, State & Local Governments, Fringe Benefit Guide (Revised 10-2022)
<https://www.irs.gov/pub/irs-pdf/p5137.pdf> (Travel)

Internal Revenue Service,(1099 Reporting)
[Am I Required to File a Form 1099 or Other Information Return? | Internal Revenue Service \(irs.gov\)](#)

Internal Revenue Service, Federal, State, Local Governments (FSLG): [Resources for Federal, State and Local Governments | Internal Revenue Service \(irs.gov\)](#)

Internal Revenue Service: www.irs.gov IRS Publication 1779 (Employee vs. Contractor)

Internal Revenue Service: <https://www.irs.gov/pub/irs-pdf/i1099gi.pdf> 2023 General Instructions for Certain Information Returns (IRS 1099 Reporting)

Internal Revenue Service: http://www.irs.gov/irb/2011-42_IRB/ar12.html (Travel)

Social Security Administration: [SSA Online - Who is an employer?](#) (Employee vs. Contractor)

US General Services Administration: www.gsa.gov/portal/category/100120 (Meal and Lodging Per Diem Rates)

Alabama Department of Revenue: <https://www.revenue.alabama.gov>

U.S. Department of Labor:

[Misclassification of Employees as Independent Contractors | U.S. Department of Labor \(dol.gov\)](https://www.dol.gov/agencies/whd/flsa/misclassification)
<https://www.dol.gov/agencies/whd/flsa/misclassification>

Alabama Office of State Treasurer: <https://alabamafindyourunclaimedproperty.com>
[Alabama Unclaimed Property - Official State Website \(findyourunclaimedproperty.com\)](https://alabamafindyourunclaimedproperty.com)

<https://alisondb.legislature.state.al.us/alison/codeofalabama/1975/161869.htm>

[INTRODUCTION \(alabamaachieves.org\)](https://www.alabamaachieves.org/) <https://www.alabamaachieves.org/wp-content/uploads/2021/07/alabama-bid-laws-summary.pdf>

[Westlaw - 13 full text items for Alabama Statutes And Court Rules Chapter 13B Competitive Bidding f \(2\).pdf](#)