

**Southwest Area Regional Transit District**

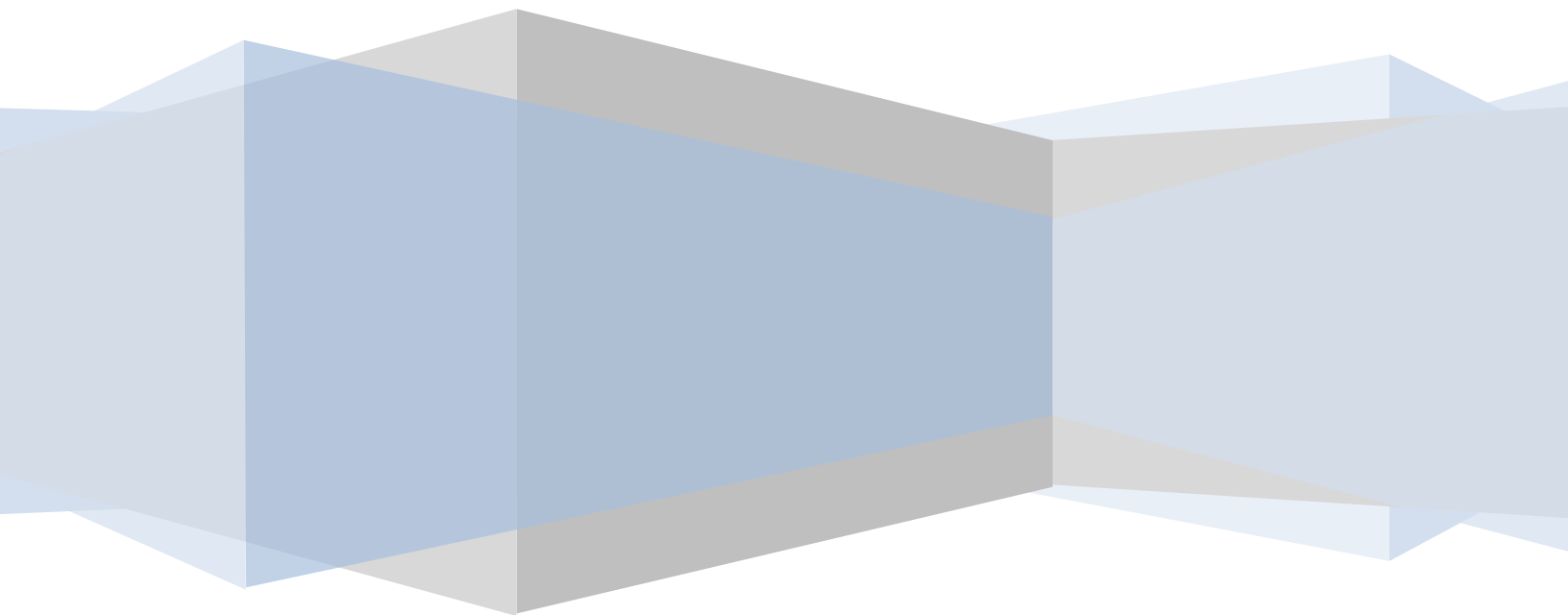
# **INTERNAL CONTROL MANUAL**

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SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
INTERNAL CONTROL MANUAL

INTRODUCTION

This manual is issued to provide guidance on methods used to improve internal management and to put policies, procedures and standards into effect. This manual includes such topics as program year, audit responsibilities and procedures, accounting guide, financial reporting, travel, non-Federal share, budgets and budget changes, and allowable costs.

This manual presents management practices through which financial policies and standards are to be achieved. These techniques relate to the organization of the financial functions and the manner in which these functions are to be performed. These specific subjects discussed are the responsibilities of individuals in the organization, the flow of information from the accounting system to financial management personnel and its use by them, control over assets and liabilities, control over resources and expenditures, procurement, personnel, travel, internal control, budgetary control and cash management, property maintenance, and control of records.

## **SECTION I. INTERNAL CONTROL**

### **A. GENERAL**

Plans and procedures designed to meet the need for controlling financial operations are called “internal control”. Internal control comprises the plan of organization and the related methods and procedures adopted by Southwest Area Regional Transit District (hereinafter SWART) to:

1. Safeguard its assets.
2. Produce accurate accounting data.
3. Contribute to efficient operation.
4. Encourage adherence to management policies, grant conditions, and other regulations and limitations.

Internal control, in principle, is a plan of organization under which employees’ duties are arranged and records and procedures are designed as to make it possible to exercise effective accounting control over assets, liabilities, resources and expenditures. Its basic application involves:

1. Division of responsibility among different employees for a sequence of related functions.
2. Clear establishment of each employee’s responsibilities and duties.
3. Separation of the responsibility for maintaining records from the responsibility for operations, acquisition, and custody of assets.
4. Use of proofs, checks, and other security measures.

Many specific suggestions, included in other sections of this manual, are presented in relation to the financial management functions when appropriate for internal control purposes. This section discusses specific measures and the general application of a sound internal control system.

### **B. SEPARATION OF DUTIES AND RESPONSIBILITIES**

Complete control by one individual over a sequence of related functions presents opportunities for inefficiency. An adequate system for internal control will provide for the separation of employees’ work so no one employee performs a complete cycle of operation.

### **C. PURPOSE AND IMPORTANCE**

The purpose of internal control is to protect funds and other assets of SWART against error, fraud, embezzlement or any dishonest behavior. Although it may be proper to assume that all employees are honest, it is unfair to permit weakness in accounting controls to tempt them toward dishonesty.

An adequate system of internal control promotes compliance with grant conditions, regulations, and internal policies; prevents illegal or unauthorized transactions or acts; and provides proper accounting data and information.

Strong internal control is of special importance to the independent auditor. The degree of internal accounting control has a direct bearing on the extent of detailed checking required to determine the reliability of the records. If there is a good system of internal control, the independent auditor is able to perform his/her examination by means of test-checking transactions. If there is no system of internal control, or it is inadequate, the auditor must make an exhaustive, detailed audit in order to verify that the accounting records are correct. This consumes considerable unnecessary time on the part of both the auditor and the employees and results in a greater cost for auditing services.

### **D. INTERNAL CONTROL CHECKLIST**

Listed below is a suggested checklist for review and analysis of SWART's system of internal control. This checklist is developed to fit SWART's needs and is reviewed periodically. Any weaknesses noted in internal control should be corrected.

1. Maintain a current organizational chart.
2. Employees' duties must be reasonably fixed as to responsibilities.
3. Job descriptions for each position, including employees' duties and responsibilities, are maintained current.
4. The accounting routine is established in an internal control manual.
5. The accounting function must be completely separate from the procurement and receiving process.
6. Internal financial reports will be compiled monthly and will adequately reflect abnormal financial figures and other discrepancies.
7. Sufficient controls will be assigned in order to make collusion improbable.
8. An assigned responsible employee will periodically review insurance coverage.
9. Journal entries must be limited, and should adequately explained and supported by substantial documentation.

## **SECTION II. FINANCIAL POLICY AND ADMINISTRATIVE RESPONSIBILITY**

### **A. RESPONSIBILITIES FOR BASIC POLICY MAKING**

The governing board will formulate through its appropriate policy-making body the financial policies required to assure proper management in accordance with basic management standards and funding agencies' requirements. Once formulated, these policies are administered by SWART'S executive and administrative staff. However, the appropriate policy-making body reviews regularly the operations and activities, including SWART's financial position, to ascertain that its affairs are properly administered, that policy compliance is achieved, and that policy revisions are promulgated as required. The Board remains ultimately responsible for the proper administration of the financial position and operation of SWART. To fulfill these responsibilities, it is important that the review of operations and activities be conducted in a timely and comprehensive manner. To foster a clear understanding and a proper involvement on the part of all concerned with policy making, advising, and implementing responsibilities, many of these policies are expressed in writing.

### **B. FINANCIAL RESPONSIBILITIES OF THE GENERAL MANAGER**

The General Manager has final responsibility for all SWART actions and operations, including those of a financial nature. The General Manager ascertains that the financial operations are adequate; that the principal representative Board is fully informed on all operations; that personnel are adequately trained and efficient; that all grant conditions are complied with; that the entire financial operation complies with SWART funding agencies policies and standards; and that funds expended are for lawful and needed purposes within budgetary limitations.

Even though the General Manager delegates all handling of funds, approval of expenditures, keeping of records, and preparation of financial reports and budgets to subordinates, he/she is personally responsible for them and answerable to the principal representative of the Board in all cases of poor performance, mismanagement, or defalcation.

In the absence of the General Manager, the SWART Assistant General Manager is responsible for the day-to-day operation of SWART.

### **C. FINANCIAL RESPONSIBILITIES OF THE SWART-CHIEF FINANCIAL OFFICER**

The SWART Chief Financial Officer is responsible for the overall management of the fiscal operation of SWART in cooperation with the SWART General Manager. The SWART General Manager approves all expenditures and entries to the general ledger, reviews monthly financial statements for accuracy, and maintains spending within budgetary limits. The Chief Financial Officer responsible for preparing assisting the General Manager in budget revisions, requests for reimbursements, and financial reports. The SWART Chief Financial Officer is also responsible for reviewing and revising financial policies and procedures as needed.

The SWART Chief Financial Officer should advise the General Manager on all matters affecting financial operations.

### **SECTION III. ORGANIZATION AND COMPETENCY OF FINANCIAL PERSONNEL**

#### **A. ORGANIZATIONAL STRUCTURE**

A sound financial organization structure is necessary for proper accounting system operations. It is essential that each employee know exactly what his/her own duties and responsibilities include and who is his/her immediate supervisor. A major organizational weakness can be the failure to follow lines of authority. It is important that reporting responsibility channels be followed. An organizational chart should be developed showing positions and lines of authority. Responsibility for each aspect of financial management should be clearly assigned.

#### **B. COMPETENCY OF FINANCIAL PERSONNEL**

An accounting system is dependent on the people who maintain it. The best accounting system will be worthless if financial personnel are untrained, inexperienced, and unprepared for their duties.

All employees having financial responsibilities should have training and experience commensurate with such responsibilities. The importance of securing financial personnel trained and experienced to perform their duties adequately cannot be overly emphasized.

### **SECTION IV. FINANCIAL STATEMENTS AND REPORTS**

#### **A. GENERAL STANDARDS**

Internal financial statements and reports are those prepared for internal reporting to administrative and management personnel at various levels and the principal representative Board. They provide activity-management information, overall operating management information, and broad policy-level-management information. They are prepared and issued as often as necessary to be of maximum use to management officials.

The computerized accounting system used by SWART is designed to enable the prompt preparation of all needed financial statements and reports. Financial statements and reports disclose clearly all significant financial facts about operations and activities.

Financial statements and reports should meet the following standards:

- 1) Fairness of presentation.
- 2) Compliance with prescribed requirements.
- 3) Timeliness.
- 4) Usefulness.

## 1. Fairness of Presentation

The term “fairness of presentation” refers to the full disclosure of financial information in financial reports. Full disclosure of financial position and the financial results of operation is a primary objective of accounting. Disclosure may be described as the process of communication by which information on financial status, flow of monies, and financial results of operation relating to activities are made known. The essentials of full disclosure in financial reporting include the following:

### a. Completeness and clarity:

All essential financial facts relating to the scope and purpose of each report and the period of time involved are included and clearly displayed.

### b. Accuracy, reliability, and truthfulness:

All financial data presented are accurate, reliable, and truthful. The requirement for accuracy does not rule out the inclusion of reasonable estimates when precise measurement is impracticable, uneconomical, unnecessary, or conducive to delay. However, material estimates are identified as such. Obscuring significant facts and presenting misleading information is avoided.

### c. Accounting support:

Financial statements and reports are based on official records maintained under an adequate accounting system that produces information objectively, disclosing the financial aspects of all events or transactions taking place. If financial data is based on sources other than the accounting system, this is clearly explained. Financial statement content is traceable directly to the accounting records.

### d. No exclusion of significant costs:

All costs applicable to an activity or program must be included in the financial statements and reports.

### e. Form, content and arrangement:

The form, content and arrangement of each financial statement and report is as simple as possible and designed to communicate significant financial information clearly to its reader.

### f. Performance under limitations:

Financial performance in relation to statutory or its limitations is specifically reported.

### g. Consistency:

The financial data reported is derived from accounts that are maintained in all material respects on a consistent basis from period to period. Material changes



in accounting policies, methods, and treatment, if any, and the effects thereof are clearly explained.

h. Terminology:

Consistent and non-technical terminology is used in financial statements and reports to promote clarity and usefulness at all levels of management review.

2. Compliance with Prescribed Requirements

Financial statements and reports prepared by SWART comply with the financial policies and regulations established by funding agencies and are maintained in accordance with established requirements for accounting.

3. Timeliness

All financial statements and reports are produced promptly to be of maximum usefulness. The issuance of statements and reports are not delayed to produce minor refinements of data.

4. Usefulness

Financial statements and reports are designed carefully to present information that is needed by and useful to the persons for whom they were proposed. The preparation and distribution of reports that are unnecessary or excessively detailed are avoided. The need is clearly defined before the report is designed. Reporting policies and practices are reviewed and improved continually.

**B. CHART OF ACCOUNTS**

The SWART chart of accounts encompasses the needs of SWART in code type General Ledger accounts for every transaction made, which affects the Assets, Liabilities, and/or Capital of SWART.

**C. EXPLANATION OF BASIC INTERNAL STATEMENTS AND REPORTS**

**1. Balance Sheet**

The balance sheet shows the nature and book value of all significant assets and all material debts that are owned. It sets out distinctions between assets, liabilities, and fund balance.

Assets are shown on a balance sheet with the most liquid or available items first. Thus cash, which has absolute liquidity, is the first caption listed under the broad category of current assets. This item will include all cash held by SWART, including balances in local and central checking accounts, as well as money market accounts and CD's.

The second major caption, "liabilities", includes, if applicable, accounts payable, inter-fund payables, accrued expenses (escrow fund), and unearned income.

The third and final major caption on the balance sheet, “fund balance”, includes the beginning fund balance, net change in fund balance, and total fund balance. The net change in fund balance reflects the difference in revenue and expenses, and is updated through the computerized general ledger program.

## **2. Statement of Revenues and Expenditures**

The Statement of Revenues and Expenditures summarizes the financial operations during the period covered by the report. The major categories of financial data reported herein are program resources (revenue) and program expenditures. If applicable, non-operating revenue and expenditure accounts are also included on this report. The statements first caption, “revenue” includes resources classified according to source and may or may not include receivables depending on the accounting procedure of SWART.

The next section is “expenditures”. In the Statement of Revenues and Expenditures, expenditures are summarized to reflect the results of operations during the period. Expenditures are grouped to identify the amount of expenses within each budget category.

## **3. Budget Report**

This report furnishes budgetary control when properly used by management. Expenditures to date are compared to budget figures, which allow SWART management to control spending within budgetary limitations.

## **4. Bank Reconciliation**

Bank reconciliation's shall be prepared for all bank accounts on a monthly basis by the designated fiscal employee and approved by the Chief Financial Officer in the Finance Department. The Staff person who prepares checks shall not perform bank reconciliation. Checks will be inspected for appropriate endorsements.

1. The Chief Financial Officer or designee will prepare a reconciliation between the bank balance and the general ledger balance every time a bank statement arrives at SWART to ensure compliance with Federal, State, and other regulations.

2. Reconcilers will describe discrepancies and the bank reconciliation will include a list of any reconciling items such as outstanding checks, deposits in transit, and any other items requiring an explanation and is notated on the reconciliation so that the SWART staff, officers, and auditors are aware of the status of payments.

3. Bank reconciliation and copies of resulting journal entries are filed in the current year's accounting files. All canceled checks returned with bank statements shall be filed in numerical order by bank account and month.

- 4..All state checks that are written off within the same fiscal year as they were written, shall be credited to the same expense or asset account that was debited

when the check was written, or when the expenditure was incurred. For state checks, written off in fiscal years subsequent to the year in which the check was written, the credit shall be to other income.

## **SECTION V. OVERVIEW OF ACCOUNTING SYSTEM AND INTERNAL CONTROLS**

SWART operates on a modified accrual accounting system. Expenditures are booked when the expense is incurred and the invoice is received in SWART's administrative office. Revenues are booked based on the type of contract. On a reimbursement contract, revenue is booked based on monthly expenditures. On a unit cost contract, revenue is booked based on the monthly amounts earned through performance or services rendered. Local revenues and in-kind revenues are booked when received. At SWART's contract year-end, all payables and receivables are booked before the applicable contract is closed.

SWART's accounting system is a software program that is a fund accounting package that allows expenses and revenues to be recorded by fund. It also allows overlapping of fund years which allows financial reports and detail transaction reports to be generated by fund on the fiscal year of each fund or by combined funds based on the fiscal year of SWART. SWART's fiscal year begins September 1<sup>st</sup> and ends August 31<sup>st</sup> of each year.

The accounting system software chart of accounts is set up to allow a fund to represent a contract with a funding source. The funds are numbered to let like contracts be grouped together in summary reports for internal audits.

Account coding in the accounting system software consists of a division, section, mode, phase, and department. The division account codes are used to accumulate programmatic information for the three divisions. The section account codes are used to group data by types of funding. The mode account code is used to track expenses by type of service. The phase account codes are used to sub-total general ledger expense by groupings. The department account codes are another method used to separate different types of expenses that need to be combined. The general ledger expense accounts are set as needed to accumulate programmatic information for the SWART General Manager and should match SWART budget line items as closely as possible.

The accounting system software provides for budgets to be entered and compared to actual expenditures and revenues. When budgets are amended, the system allows for appropriate line items to be adjusted and corrected.

SWART operates mainly out of a single cash operating account. The accounting system software automatically sets up inter-fund payables and receivables from the operating fund to the other funds when any cash transaction takes place.

Each month, project reports are generated for the SWART General Manager. Data from these reports are used for programmatic as well as financial reporting to funding sources. A copy of each month's expenditure reports are bound in binders and kept on file in the office of the SWART Assistant General Manager.

The procedures and internal controls for specific accounting areas are explained in the following section of the manual.

#### A. CASH RECEIPTS

As mentioned earlier, most of SWART's grant funds are deposited into a single operating checking account. Some non-grant funds and local monies are deposited into individual accounts to be used when necessary.

The following is the daily procedure for cash receipts:

##### Administrative Office Cash Receipts:

The SWART Assistant General Manager opens incoming mail, along with any check(s) received and endorses the check(s) with the "For Deposit Only, Southwest Area Regional Transit District" stamp. He/She logs receipt of the check(s) in the Incoming Checks Binder and gives the check(s) to the SWART Chief Financial Officer.

The SWART Chief Financial Officer prepares the deposit slip. The SWART Finance Assistant takes the deposit to the bank. The SWART Finance Assistant makes two copies of the deposit slip and check(s). One copy is provided to the SWART Finance Assistant/Clerk, who files it in chronological order by month in the Incoming Checks Binder. One copy with any accompanying documentation is logged by the Chief Financial Officer who makes corresponding coding entries in the accounting system program.

At the end of each month, the SWART Finance Assistant/ Clerk provides a copy of the Incoming Checks Log to the SWART Chief Financial Officer. Any time one of the Finance Assistant/ Clerk is absent, the SWART General Manager will assume the responsibilities of the absent employee. The SWART Chief Financial Officer reconciles the deposits against the bank statement each month.

##### Cash Receipts Outside of the Administrative Office:

Monies collected at transit sites are deposited into locked boxes or safes at the sites and monies collected on SWART vehicles are deposited into locked boxes either in the vehicles and/or locked boxes at the sites.

The vehicle operators must submit monies at the end of service for the day, and place them in a designated secure location in the site. In order to maintain a deposit schedule as well as control the amount of funds in the boxes at any given time, the SWART General Manager/Chief Financial Officer and/or SWART Assistant General Manager will periodically perform an analysis of historical data and determine the frequency of deposits for each rural site. The Operations Manager and their designee is responsible for to count the contributions and fares and complete the deposit slips according to the deposit schedule established by Administration. The contribution boxes and fare boxes will remain locked until the money is to be counted and deposited. The people counting the money should complete and sign the Deposits Record form. The Operations Manager must verify that the information is

correct and send copies of the Deposits Record forms to the SWART administrative office as soon as possible in order for the deposit to be made.

Failure to properly handle cash receipts is grounds for disciplinary action and/or reprimand. All staff is provided with written policies regarding handling of cash receipts.

## B. CASH DISBURSEMENTS

SWART operates in numerous sites in eight (8) counties. The SWART General Manager makes most major purchases. The purchase order procedure applies to all purchasing. Staff designated by the SWART General Manager may make small purchases at the local level. All copies of invoices and statements are sent directly to the SWART administrative office and all cash disbursements are made from the SWART administrative office. Listed below are the specific procedures used by SWART for purchasing.

### Major purchases:

SWART is regulated by 49 CFR Part 18, specifically Section 18.36 and FTA Circular 4220.1E, "Third Party Contracting Requirements," and will utilize these regulations as standards for the management, procurement and disposal of property.

The contract requirements and federal regulations control the procedure for major purchases of equipment, supplies, or real property. SWART has a Procurement Policy that meets federal guidelines. An exception to this process occurs only when a purchase is made with local, non-federal funds which does not require competitive bids and does not require the process outlined in the SWART Procurement Manual.

In addition, for internal controls on an in-house basis, the following purchase order procedure has been established.

### SWART PURCHASE ORDER PROCEDURE

1. Before ordering or purchasing any single item of equipment costing \$20,000 or more, an approved Purchase Order must be issued with three formal quotes along with approval of the board of directors.
2. Before ordering or purchasing any single item of equipment costing \$19,999 or less, an approved Purchase Order must be issued with three telephone quotes.
3. Purchase Orders will be consecutively pre-numbered by the PO system. The designee completes the purchase order and sends it to the SWART General Manager,
4. When the PO is approved in the system by the SWART General Manager or designee, it will automatically send the approval for payment to the Chief Financial Officer. Approved Purchase Orders will become part of check backup documentation.
5. The copies of invoices and approvals are stored in the PO System as backup and audit trail.

### Disadvantage Business Enterprise

SWART will adhere to 43 Texas Administrative Code (TAC) §9.300 pertaining to engaging in business with disadvantage businesses. It is the policy of the SWART to:

- (1) Ensure that Small Business Enterprises shall have an equal opportunity to participate in the performance of contracts;
- (2) Create a level playing field on which Small Business Enterprises can compete fairly for contracts and subcontracts;
- (3) Help remove barriers to the participation of Small Business Enterprises in department contracts;
- (4) Assist in the development of firms that can compete successfully in the market place outside the Small Business Enterprise program; and
- (5) Develop and maintain a program in order to facilitate contracting opportunities for small businesses.

SWART will document its good faith effort of meeting this requirement through the following but is not limited to such:

- Mail out annual letters to its vendors informing them of SWART's desire to engage in business with DBE certified business.
- Inform vendors of the process in place to apply to become a certified business enterprise.
- Assist vendors with technical assistance if requested pertaining to the certification program of a disadvantage business enterprise.

### Historically Underutilized Business

SWART will adhere to Texas Statutes Government Code, Chapter 216 and the Texas Administrative Code §20.14 pertaining to engaging in minority business.

SWART promotes full and equal procurement opportunities for small, minority- and women-owned businesses. Companies interested in doing business with SWART are encouraged to become HUB certified.

### Other purchases:

SWART staff, with the permission of the SWART General Manager, may make other purchases. All invoices and statements must be mailed to the SWART administrative office. Payments will be made through the centralized accounting system.

Procedure for cash disbursements:

1. Signed copies of original invoices are mailed to SWART administrative office by vendors or field staff. The SWART General Manager and/or his/her designee are responsible for checking invoices and coding bills to appropriate general ledger funds and accounts. An Expense Coding Voucher is used as a cover sheet for invoices. The SWART General Manager or his/her designee will approve the bills and submit them to the SWART Chief Financial Officer for payment.

2. The SWART Chief Financial Officer is responsible for double-checking the approved bills for accuracy and entering data into the accounting system. The original invoice number is used when possible, and the system identifies invoices that have been previously entered.

When the invoices are posted into the accounts payable system, the expenditure is charged to the fund and general ledger expense account even though a payment has not been made. The accounting system will track accounts payable balances by fund.

3. Generally, accounts payable checks are generated once a week. The original checks must have an original signature. A list of checks is printed from the accounting software indicating at a minimum the check number, check description, vendor name, effective date, and amount. Authorized signatories are the SWART General Manager, SWART Assistant General Manager, SWART Board Chairperson, and SWART Board Treasurer.
4. When the payment is made and the accounts payable check register is posted, the computer accounting system sets up the appropriate inter-fund payables and receivables for the cash disbursements. All accounts payable checks are issued out of the operating cash account.
5. Once the checks have been printed and the list and/or original checks reviewed and authorized, the original checks with any attachments are mailed to the vendors. The check stubs are attached to the documentation and are filed in numerical order. All invoices are stamped with a date paid stamp in order to assure that invoices are not separated from the check copy and paid a second time.
6. All accounts payable checks are pre-numbered and kept under lock.
7. Voided checks are accounted for in the computerized accounting system.
8. In the case of manual checks, the coding and documentation process is the same, but the check is typed manually. Manual checks are entered into accounts payable system so the check numbers and detail vendor information will be complete.
9. As noted earlier, SWART generally pays suppliers from invoices. The statements received from vendors are checked by the SWART Chief Financial Officer for outstanding balances and/or credit balances. If any discrepancies are found, the statements are fully researched.
10. Blank checks are not signed in advance. Payment is not made before merchandise is received.
11. There are certain recurring expenses for SWART that are allocated among several funds (i.e. central office utilities, telephone, supplies, etc.).

Bills related to occupied space shared by SWART and other programs such utilities, repair/maintenance, janitorial, etc. are split based on the proportion determined by number of Administrative employees versus the number of Operational employees.

**# of Employees:**

52	Operating	=	<b>120= 94%</b>
3	Admin		<b>101= 6%</b>

Example:

AMOUNT US\$		EXPENSE ALLOCATION	
<i>100.00</i>			
		<b>FY 2017</b>	<b>FY 2017</b>
<b>CODE</b>	<b>ADMIN 101</b>		
505	FED	50.76%	3.05
506	STATE	27.60%	1.66
510	MTP	21.64%	1.30
<b>TOTAL:</b>		<b>100.00%</b>	<b>6.00</b>
<b>CODE</b>	<b>OPERATING 120</b>		
505	FED	40.18%	37.77
506	STATE	22.71%	21.35
510	MTP	37.11%	34.88
<b>TOTAL:</b>		<b>100.00%</b>	<b>94.00</b>

Consumable supplies are allocated evenly between SWART and other programs.

**C. PETTY CASH AND CHANGE FUNDS**

If contribution monies are available, field staff may use those monies for the purchase of small items or to pay miscellaneous small expenses less than US\$20, such as vehicle washing. For purchases higher than US\$20, a Purchase Order (PO) will have to be entered and approved in the PO system, before acquiring the item with other fund other than Petty Cash. The cash account is controlled, maintained, and administered by the SWART Assistant General Manager and/or SWART Operations Manager. Upon request, records of the cash account are submitted to SWART Finance Administration.



#### D. PROPERTY AND EQUIPMENT

The purpose of financial property accounting and control is to provide reliable and systematically maintained records of investment in property and equipment in order to protect that investment. Appropriate accounting policies and control procedures are adopted for all property. These controls are established as an integral part of the accounting system. An adequate and reliable system of records and related procedures has been adopted to provide a proper accounting for the investment.

Property control in general includes the following:

1. The property ledger is maintained so that assets costing more than \$1,000 can be located and identified.
2. A complete physical inventory of the property ledger's property and equipment is performed periodically.
3. The proper classifications are made between fixed assets, expendable, nonexpendable, and donated equipment.
4. Retirements and disposals of equipment are properly approved and recorded.
5. The proceeds of any liquidated property are properly recorded.
6. Damaged or lost property is properly treated on the accounting records.
7. Insurance recoveries are properly recorded.
8. If inventories of consumable supplies exceed \$1,000 dollars in value, adequate controls are established.
9. For fixed assets purchased with federal funds that exceed \$5,000, a proper inventory tag will be attached and recorded (excluding rolling stock).
10. All fixed assets costing over \$1,000 will be controlled and all fixed assets costing over \$5,000 will be depreciated on schedules and not the general ledger.
11. Federal guidelines for disposition of fixed assets purchased with federal funds will be followed.

#### E. OTHER

1. Employee travel advances or other types of business advances are accounted for promptly, within 5 business days after the travel.
2. Employee loans are prohibited.
3. Investments are properly recorded and controlled.

4. The financial system is designed that no only one person has access to all financial operations records at the same time.

## F. PERSONNEL AND PAYROLL

SWART is an equal opportunity employer. SWART has an Employee Handbook, Equal Opportunity Policy, and Policies and Procedures Manual, approved by the SWART Board and available to all employees. On a day-to-day basis, the management of personnel matters is the responsibility of the General Manager and/or his/her designees.

Personnel files containing application, W-4, authorization for payment forms, employee evaluations, copies of insurance forms, and other applicable federal and state forms for each employee are maintained by the SWART Assistant General Manager in the SWART Administrative Office.

SWART pay periods are from the 1<sup>st</sup> through the 15<sup>th</sup> and the 16<sup>th</sup> through the end of the month. Each hourly employee completes and submits a Time Sheet, which reflects time worked, and annual leave, sick leave, holidays and any other absences from work. Each exempt (FLSA) employee completes and submits an Exempt Employee Leave Usage Form, which reflects leave used. The Assistant General Manager collects and verifies the forms for accuracy. The employee's supervisor or the SWART General Manager or SWART Assistant General Manager signs the forms.

An employee is never paid in advance for hours worked. Forms received for the first half of the month are processed, but not paid until the last working day of the month. Paychecks are dated the last day worked by SWART Administration during the following pay period. Paychecks are not released unless an original signed and approved Time Sheet or Exempt Employee Leave Usage Form is received in the SWART Administrative Office.

The SWART Chief Financial Officer or SWART Assistant General Manager double-checks and processes approved forms. Data from each form is entered into the accounting payroll program, which calculates pay and deductions. A payroll register is analyzed before checks are prepared.

The original paychecks are printed and will have one original signature. A list of paychecks is printed from the accounting software indicating at a minimum the check number, check description, vendor (employee) name, effective date, and check amount.

After paychecks are issued, a distribution checklist by location is generated, and the SWART Chief Financial Officer or SWART Assistant General Manager prepares the checks for mailing. The supervisor at each field site is responsible for having each employee sign for his/her paycheck. The SWART Chief Financial Officer or SWART Assistant General Manager distributes the paychecks to SWART administrative staff.

The computerized payroll program transfers the total salary and fringe amounts into the accounting program and summarizes each pay period. The payroll program merges with the distribution code listing which tells the accounting program which fund to charge each employee's salary and fringe expense.

Paychecks are issued out of the operating fund and are reconciled each month with other cash disbursements.

## G. AUDIT

SWART is a political subdivision. The annual audit is conducted in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Office of Management and Budget's Circular A-133.

## H. TRAVEL

Travel will be authorized for SWART purposes only in accordance with SWART's official established travel policies and within the limitations set by the funding agencies as delineated in SWART policies and related Memos. The travel regulations and limitations apply to all SWART employees and to any consultants, advisors, board members, or other parties whose travel is paid or reimbursed from SWART funds. All travel will be authorized in advance. All reports of travel expenditures by employees will be comprehensive, complete, and supported by proper documentation as outlined in this section. Travel expenditures will be audited in detail and must be fully supported and authorized by SWART's General Manager

Travel expenditures will not exceed limitations set by SWART financial policies. Travel expenditures will not be paid if the travel is unnecessary or excessive.

Travel out of town which requires staying overnight may be requested and approved in advance by use of a Request for Travel form. Travel monies may be advanced when requested on this form up to the amount equal to the estimated cost shown thereon. This form will also be used to report actual expenses upon completion of a trip and will show the following information and be approved by SWART's General Manager or his/her designee.

1. Name of person requesting travel authorization
2. Date of request
3. Purpose of travel (justification)
4. Destination
5. Dates of proposed travel

6. Estimated total cost of trip and amount of advance requested ( Meals as Per Diem approved by the IRS/ GSA rates)
7. Special or unusual items for which approval is requested
8. Signature of person requesting authorization
9. Signature of person authorizing travel
10. After completion of the trip
  - a. actual cost calculation based on actual room expense with attached receipts for room bills and other significant charges
  - b. additional amount owed to employee by SWART or amount to be reimbursed to SWART by the employee
  - c. signature of traveler
  - d. signature of supervisor and General Manager

Any special or unusual requirements will be specifically authorized, such as auto rental, and will be noted on this form in detail. All information documented on the form will be as specific as possible.

Travel advances will be expensed to the appropriate account at the time the check is written. The disposition of travel monies advanced will be reported on the Request for Travel form within five (5) days after the travel is completed and any unused portion of the travel advance returned at this time. Upon receipt of returned travel monies, the funds will be immediately deposited in the checking account, and the appropriate expenses will be reversed accordingly.

If an advance for travel expense is not requested, employees will be reimbursed for actual expenses as calculated on a Request for Travel form, which should be submitted within 5 days after completion of travel to the SWART General Manager and/or his/her designee. This form will include the destination and purpose of the trip and expenditures made. Receipts should be attached for hotel bills and other significant charges such as transportation ticket stubs. Any monies advanced for travel or direct payment to the hotel will be deducted on the travel report. If a meal is included in registration fees for a specific meeting, one quarter of meal allowance will also be deducted on the travel report, according to the IRS/ GSA Per Diem rates.

Reports of mileage reimbursement for local community or routine out of town travel will be made at least monthly and submitted to the SWART General Manager and/or his/her designee for reimbursement. A Mileage Sheet will be used to document such travel. All expenditures for mileage will be itemized by date. Beginning and ending odometer reading will be furnished along with points visited on each date. Mileage directly to and from an employee's residence and designated job site will not be reimbursed. Advances of monies will not be made for mileage reimbursement.

SWART expenditures for mileage reimbursement and per diem will be subject to funding agency policies and will never exceed the Federal Travel Regulation.

## **I. DAVIS BACON PROVISION**

SWART will insure all federally funded construction contracts in excess of \$2,000 which require compliance with Davis Bacon provisions including the prevailing wage rate requirements as part of a written contract/agreement with potential vendor.

SWART will insure that weekly certified payrolls be obtained for all construction projects funded with Federal awards.

The finance department will be responsible for developing and insuring that agreements are executed between the vendors and the SWART General Manager.

The finance department will be responsible for obtaining required documents needed to meet requirements of the Davis Bacon provisions.

## **J. JOURNAL ENTRIES**

In the event that SWART must perform Journal Entries, the following must occur:

1. The request for such Journal Entries will be made by the Independent Auditors or the Chief Financial Officer.
2. The Independent Auditors or the Chief Financial Officer will determine the nature of the Journal Entry and which program budgets will be affected by such.
3. The General Manager will approve and assign either the Chief Financial Officer or Finance Assistant/ Clerk the act of performing the Journal Entry through written form.
4. The assignee will perform the Journal Entry within 24 hours of the written order.
5. All supporting documentation to the Journal Entry will be filed with the appropriate transaction function.

## **K. CREDIT CARD/DEBIT CARD TRANSACTION RECEIPTS**

1. The District will utilize a 3<sup>rd</sup> party service to process all credit card/debit card transactions.
2. Dispatch/Schedulers or designated personnel will process credit card transactions through either in person or by telephone.
3. A percentage is charged to each transaction to cover fees charged by credit card institutions.
4. Following each transaction that is created in the system, Dispatchers/Schedulers or designated personnel will obtain the customer signature, produce the receipt of purchase, and obtain a copy for their files.
5. Once the transactions are approved and submitted to the 3<sup>rd</sup> party service; the General Manager and the finance department will receive a notice of all transactions via email depicting the settlement amount for the day. This amount is then deposited electronically to District's Banking Institution.
6. The finance department will insure that the payment is received in the Bank and will record the revenues in the MIP fund accounting system.
7. On the 1<sup>st</sup> of each month, the 3<sup>rd</sup> party service will deduct the processing charge fee from the District's Banking Institution.
8. The Finance Department will post the monthly processing charge fees to the MIP fund accounting system.

9. The Finance Department will reconcile collections/transactions along with fares collected, and manifest recordings with the Dispatchers/Schedule or designated personnel on a monthly basis for auditing purposes.

## **L. SWART BUSINESS DEBIT/ CREDIT CARD USAGE**

### **1. Procedure**

The safeguarding of SWARTs' Business Debit/Credit Card is the responsibility of the SWART General Manager and Chief Financial Officer, except when signed out by an employee for a specific purchase. An approved Purchase Order must be presented to the CFO, whose duties include purchasing, before the employee can sign out the debit/ credit card. Purchases made with the debit/credit card must conform to the approved Policies and Procedures set for SWART. Any purchase made with the debit/ credit card must also conform with regards to the Approval Credit Limits and quote requirements. Individuals are responsible for returning the debit/ credit card and receipt promptly to the Finance Department after the purchase. It is the employee's responsibility to have the debit/ credit card signed back in to the CFO. Debit/ Credit Card charges shall be reconciled on a monthly basis by the Finance/ Assistance Clerk with the monthly debit/ credit card statements.

### **2. Debit/ Credit Card Security**

The debit/ credit cards will be secured by the Finance Department and kept in a safe place. Account numbers should not be posted or left in conspicuous places.

### **3. Purchase Log**

Purchase Log of credit card transaction will be maintained by SWARTs' Finance Department.

### **4. Credit Card Limits**

Each purchase will have a limit of \$1,000 for purchase of goods. For travel use, the limit is \$1,500. Travel use should be in accordance with agency travel procedures.

### **5. Acceptable Uses, Limits, and Procedures**

Each issued credit card should be used solely for Agency Official Business. The debit/ credit card shall not be used for personnel or private business practice.

### **6. Specialty Credit Cards**

Specialty Credit Cards may be used to purchase specific items, such as fuel for fixed routes or goods. All PROCEDURES as set in section L is still mandated. Employees that require a Specialty Credit Card on a long-term basis must sign a

Cardholder Agreement. When mileage money is provided, Specialty credit card usage is prohibited. Misusage of credit card will be grounds for disciplinary action, up to and including termination of employment.

#### 7. Lost or Stolen Credit Card

If a credit card is lost or stolen the cardholder must immediately call the bank that issued the lost or stolen credit card.

### M. PAYROLL

#### **Staff Payroll**

Originating Document -Employee Data -The Employee Status Form is completed by Human Resources for review of compliance with all personnel policies and procedures. The Assistant General Manager shall then submit the Status Form to the General Manager for approval. After approval, the Status Form is then submitted to the Chief Financial Officer. The Employee Status Form is reviewed by the CFO to determine that funds are budgeted, and available. Once the CFO approves the form, the form is then submitted for payroll processing.

Originating Document -Timesheets and Leave Requests-The approved timesheet, and Leave Request/ Absence form, shall be presented to the CFO on the scheduled date. The Finance Department shall perform the following:

1. Ascertain that a timesheet has been submitted for each employee indicated on active file. Timesheet will reflect the account or program to be charged as approved by the General Manager and immediate Supervisor.
2. Check timesheets for accuracy, match submitted leave requests and related time sheets to determine if documents concur.
3. Determine whether leave requested has been earned;
4. Enters leave earned/taken in the computerized payroll module, this file shall maintain balances; and
5. Enters timesheets in computerized payroll module.

Originating Document - Payroll Check. -Upon the completion of the above steps, the Finance Department shall process payroll checks on the computer. The computer payroll module automatically computes current payroll and cumulative payroll for each active employee on a semimonthly basis. The following reports are generated each pay period:

1. Edit List -includes time entered for comparison with original time sheets
2. Check Register -includes date, employee name ID code, check number and net pay amount
3. Payroll Register -includes by employee, current and cumulative, gross pay and deductions.
4. Direct Deposit File Register

## **SECTION VI. BUDGETARY CONTROL AND CASH MANAGEMENT**

### **A. GENERAL**

SWART's budgets express the plan of operation in financial terms. Budgets show the amount of total monies approved for expenditure within object classifications. Budgetary control imposed by the funding agencies restricts expenditures, within certain limitations, to amounts approved by classifications.

The budget includes all detail supporting information and line item amounts that make up the program account budget approved by the funding agencies. The budget must be comparable with the accounting classification utilized by SWART. Accounting records may be classified into more detailed object line items for internal use, if desired. Internal supporting budget papers will show the following:

1. The specific time period within which the money is to be spent (grant period or program year).
2. Projected sources of revenue by type and amount.
3. Projected amount to be spent for each classification, i.e., personnel, fringe, travel, equipment, supplies, contractual, and other, with supporting line item detail within each classification.

Sources of money are an integral part of the budget. The four main sources of funds for SWART are Federal, State, local, and in-kind. Obviously the sources of money must at least equal the total money to be expended in the budget.

Budgetary control relates to the continual surveillance that must be maintained to assure that both sources of money and expenditures are progressing in accordance with the financial plan, as expressed in the budget. Any deviations from this plan should be determined as early as possible and either eliminated by a change in the expenditure rate or provided for by budget revision.

Budgetary control is the responsibility of the SWART General Manager. To accomplish this, it is essential that financial operating information including budgetary comparisons be made available at the end of each month.

### **B. BUDGET REVISIONS**

Certain internal budgetary revisions or transfers are permissible without prior approval of the funding agencies. Revisions or transfers in excess of limitations must receive prior written approval. This may be requested by furnishing the funding agencies with an analysis of SWART accounts and other categories for which increases are desired (which also shows those categories that are to be decreased by corresponding amounts if appropriate), together with a written justification or explanation of the requested budget revision.



## **C. GRANT / CONTRACT MANAGEMENT**

### **Federal and State Grant/Contract - Reimbursement of Funds**

Grant/contract funds may be requested by SWART under reimbursement arrangements in which SWART bills the grantor for program costs incurred. Some contracts may provide for advance payments or permit SWART to draw against letters of credit as grant expenditures are accrued. Upon receipt of grant award notification, the General Manager will forward the original instrument to the Chief Financial Officer. The CFO shall then use such copy in obtaining grant draw down instructions from the grantor agency.

In most state grants, draw down generally be allowed on a combination of reimbursement and Advance. Accordingly, the Finance Department will prepare estimates of cash required, as needed. These estimates will consist of both paid program amounts and unpaid invoices.

Upon Completion of the estimate, a "Request for Advance/Reimbursement Form" will be prepared and Submitted to the grantor agency. The General Manager approves the form for final Request to the grantor.

Upon receipt of the cash, the cash receipts internal controls described in Section V of this manual shall be performed.

### **Non-Federal and State Grant/Contract - Billing of Funds**

The General Manager shall review the grant/contract award documents to determine the type of billing or drawdown procedures, information and forms required. Upon making this determination, the Billing Clerks shall prepare the necessary information and forms for a drawdown or billing process.

The CFO or designee will prepare and make journal entry to record each grant award or contract.

The CFO and General Manager will review each award or contract to insure that all financial provisions will be complied with.

## **D. CASH MANAGEMENT**

Cash management by the SWART shall minimize the lapse between the receipt of funds and disbursement of those funds. The CFO shall prepare cash analysis report at least monthly for review by the General Manager. This report must evaluate cash needs of itself by using a cash forecasting tool. The excess cash analysis shall compare amounts advanced with the actual expenditures for the same period. This shall require that reconciliation of bank accounts occur in a timely fashion in order that comparisons can be made against budgeted and disbursement needs or accruals of the organization.

The cash forecasting tool will estimate future cash needs and limit the advance requests to the minimum needed. The CFO will recommend cash advance requests to the General Manager based on the actual, immediate cash requirements of carrying out program activities. Thus, the disbursal policy of the SWART is to pay all accounts on a net 30 days from receipt of goods or services, unless special terms are negotiated for payment on demand or net 15 days from receipt of goods or services. These terms shall be defined at the time the purchase order is issued and authorized by the General Manager, verified against the approved budget, and requests for Billing are prepared based on a systematic record of projected disbursal or cash needs.

The CFO shall cause a weekly record, or as often as needed, of all obligations/encumbrances processed through the department. This record shall be compared against the known true balances of all accounts maintained in the Finance Department, and shall serve as a basis to forecast cash needs by the SWART. The payment of payroll expenses will be made on a published schedule basis and the accounts payable shall be ordered for payment by the CFO based on the cash available to cover expenditures. At a minimum, the CFO shall authorize checks to be issued by the 15th and the last working day of each month to assure sound planning for Billing of funds from the grantors. Interim checks may be issued as long as sufficient funds are on hand and a balance of cash over expenses is soundly maintained.

## **SECTION VII. MAINTENANCE OF FINANCIAL RECORDS**

### **A. GENERAL**

All financial records, including source documents supporting accounting transactions, the general ledger, subsidiary ledgers, personnel and payroll records, canceled checks, and all other related documents and records will be retained in accordance with funding agency regulations. These records will be maintained in an orderly manner and will be available, for audit purposes, to the funding agencies or the Comptroller General of the United States or any other authorized representative. SWART will maintain all records in order, so any information desired can be easily located.

### **B. RECORD STORAGE**

SWART will protect all records adequately against fire or other damage. Records will be stored in such a manner that they are accessible during the retention period without great difficulty. SWART accounting records will be maintained for a minimum of six (6) years, but may be maintained longer if an unresolved audit is pending.

**SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Documentation of  
Review and Approval of Revised  
Internal Control Manual**

On the 30 day of August, 2017, at a meeting of the Board of Directors of Southwest Area Regional Transit District, held in the City of Uvalde, Uvalde County, with a quorum of Board of Directors present,

The SWART Internal Control Manual dated May 2012 was reviewed and revised.

It was duly moved and seconded that the revisions to the Internal Control Manual be approved.

The motion was passed by a majority of those present and voting in accordance with the By-Laws.

I certify that the above and foregoing constitutes a true and correct copy of part of the minutes of a meeting of the Board of Directors held on August 30, 2017.

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Board Secretary