The University of Tennessee

UT Best Business Practices in the IRIS Environment

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Audit and Consulting Services

UT Best Business Practices
in the IRIS Environment

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UT Best Business Practices in the IRIS Environment was developed to assist departmental staff in some of their key duties related to the university's accounting system, IRIS. This guide provides best business practices in the areas of accounts payable, deposits, ledger reconciliation and review, internal transfers, and recordkeeping. These practices, also called internal controls, are meant to help departments comply with applicable policies and ensure that their financial records are accurate and the university's assets are safeguarded. Because great fiduciary responsibility has been placed with departmental staff, internal controls at the department level are crucial to safeguarding university assets.

We hope *Best Business Practices* will guide UT staff in performing departmental operations as caretakers of university assets. For questions or more information about effective controls in the department, contact <u>Audit and Consulting Services</u> at (865) 974-6611. Also, contact the campus/institute business office regarding training classes available on the topics and controls covered in this document.

Processing Invoices

Processing an invoice for payment in the department requires certain manual procedures in addition to those performed to enter and post the transaction in IRIS. The material below describes the minimal procedures departmental personnel are expected to follow while processing and approving invoices.

Following these procedures should enable the department to comply with university fiscal policy and provide reasonably effective approval of invoices. For more information on receiving materials and paying invoices, see University Policies FI0430 and FI0505 and IRIS training materials.

The processing of an invoice for payment should occur in three distinct stages:

- Preparing the invoice for entry to IRIS
- Entering the invoice information into IRIS
- Approving the invoice for payment

Generally, an **authorized department specialist** should prepare and enter the invoice information in IRIS. The approval must be performed by an **authorized department manager**, normally the department head, principal investigator of a sponsored project, or an authorized substitute approver. The department manager must be authorized to obligate university funds according to the requirements of Policy FI0505.

Preparing the Invoice for Entry

Departmental employees receive invoices and collect other information 1) required to support the appropriate expenditure of university funds and 2) needed by the department to properly enter and approve transactions in IRIS.

1. Invoices should be marked with the date received. This procedure is important to document the university's compliance with the state's Prompt Payment Act. It is best to record this date on the actual day received and note it as such, e.g., "received 3/22/2002." Typically, departments use a date stamp.

2. Before further processing, ensure that the invoice is in a basic form acceptable to the university. Invoices received from vendors must meet the following basic criteria:

   - The invoice must be an original document received from the vendor (not written in pencil). Any other form of document (photocopy, facsimile, certified copy, etc.) must include an explanation as to why the department could not obtain an original.

   - The invoice must be billed to The University of Tennessee.

- The invoice must itemize the goods or services provided by the vendor. The itemization should include a description of the goods or services, quantities provided, and unit prices charged.

   Invoices not meeting the basic criteria listed above should not be paid. *Employees should inquire whether the vendor can provide an invoice meeting these criteria before placing an order.*

3. Determine if the vendor has offered a discount for prompt payment. If so, consider whether or not a need exists to expedite the processing of the invoice to qualify for the discount.

4. Verify that goods or services were received and match what was requested from the vendor. This procedure should include comparisons to delivery tickets and ordering information when available. Any delivery tickets should be attached to the invoice for further processing.

5. If the invoice is for one of the following kinds of expenditures, ensure that required additional information is included.

   - *Equipment.* Before entering an invoice for movable equipment or sensitive minor equipment, an asset record must be created in IRIS. Include the asset number on the invoice. See Policy FI0605 and IRIS purchasing instructions for more information.

   - *Entertainment.* Include the purpose and date of function, number of individuals entertained, and price per unit. See Policy FI0715 for details.

   - *Printing charges for documents distributed outside the department* (general ledger account 433100). Include a publication authorization number. Contact the campus/institute business office for information on obtaining this number.

6. Write the framework order number on the invoice, if applicable. A descriptive label, such as "FO," should be used.

7. Verify the mathematical accuracy of the invoice.

8. Verify that Tennessee sales tax is not charged on the invoice. If included, deduct the tax on the face of the invoice.

9. If a different employee is to enter the invoice in IRIS, indicate on the invoice the appropriate cost center/WBS element(s) and general ledger (G/L) account(s) to be charged.

10. Give the invoice with attachments to the employee, if different, who will enter the invoice information in IRIS.

Entering the Invoice in IRIS

A **department specialist** authorized for the applicable cost center/WBS element(s) will enter the invoice information in IRIS and complete the documentation before transactions are approved for payment.

Note: The Treasurer's Office (or designated campus department) must enter and process the following invoices and forms. The department specialist should obtain approval of the invoice or form, make a copy to retain on file, and submit the original to the Treasurer's Office (or designated campus department) for further processing.

- *Invoices for payment on contracts (other than framework purchase orders)*

- *Invoices for personal services*

- *Invoices for payment of travel expenses paid directly to a vendor*

- *Form T-27 for request for special payment, including moving allowances*

- *Form T-30 for the prepayment of conference and seminar registration fees*

- *Invoices for payment to non-resident aliens*

- *Invoices with the amount to be paid in a foreign currency*

- *Credit memos when a check is being requested from the vendor*

For invoices processed centrally, the vendor's federal identification number (or social security number for individuals) should appear on the face of the invoice. If not, the department specialist should contact the vendor to obtain the identification number and write it on the invoice. A descriptive label, such as "Fed ID" (or "SSN"), should be used.

To enter all other types of invoices in IRIS, the department specialist should follow the procedures below.

1. Enter the invoice information in IRIS according to the procedures for the document type KN or RN. The department specialist should park the transaction.

2. Once the document is entered and parked, write the IRIS-generated document number on the invoice. A descriptive label, such as "Doc #," should be used.

3. Batch the invoices to be delivered to the appropriate approver. The invoices must be the original and have all additional documentation attached, such as explanations, delivery tickets, etc. Consider batching the invoices in document number order since this is the default order in which IRIS will present the transactions to the approver.

4. Deliver the batch of original invoices to the approver soon after the invoices were entered in IRIS (preferably by the next business day).

Approving the Invoice for Payment

A **department manager** authorized for the applicable cost center/WBS element(s), normally the department head or the principal investigator of a sponsored project, will approve the invoices and post them for payment. The department manager's approval indicates that university funds are being expended in a proper manner for goods and services to be used for university business. For sponsored projects, the approval of transactions also signifies that charges are allowable and allocable according to the award document, sponsor requirements, and OMB Circular A-21.

The department manager should review parked documents in IRIS for needed approvals at least once a week.

Effective approval requires the department manager to have the original invoices with attachments **in hand** before completing the approval process. Generally, only the original invoice provides sufficient information for the approver to judge the appropriateness of expenditures or to determine that the invoice was processed correctly. In addition, the department manager must have assurance that the goods or services were received before approving an invoice.

Note: Departments should arrange to have a trained and authorized backup available for IRIS processing to ensure continuity. The substitute(s) must be familiar with the approval process and authorized for IRIS.

The department manager should complete the following steps to approve transactions.

1. After selecting an IRIS work item, read any IRIS attachments.

2. Locate the actual supporting invoice and any attachments.

3. From the *Parked Document Release: Overview Screen,* verify the following information with the actual invoice:

    - Document number
    - Vendor name
    - Dollar amount
    - Document date

4. Review the itemized description on the actual invoice and any attachments to determine if the expenditure was appropriate.

5. Display the *Fast Entry* screen to verify that the appropriate cost center/WBS element(s) and G/L account(s) are being charged.

6. If in agreement with the transaction, release/approve it. If not in agreement, reject it and provide a reason in the appropriate field.

7. Sign or initial the actual invoice **in ink** to indicate it has been approved and submitted for payment. Without the manager's signature on the invoice, documentation does not exist to indicate the invoice was available for his or her review. The signature or initials may also serve to mark the invoice as paid to prevent potential confusion when filing the documents and to prevent processing the invoice for payment twice.

8. Return the invoice to the employee who is responsible for filing. (Policy FI0120 requires invoices and supporting documentation to be retained on file for six years.)

Forms Used in the Accounts Payable Process

Conference and Seminar Prepayment Form (Form T-30). This form is used to prepay conference and seminar fees. Form T-30 and required attachments should be sent to the Treasurer's Office (or campus/institute business office) for processing two weeks before payment is due. Departments must not enter these types of payments directly in IRIS.

Request for Special Payment (Form T-27). An invoice from a vendor or individual or a Form T-27 prepared by the department must be used to initiate payment for services procured through contracts or informal agreements and for moving allowances. Such invoices or T-27s should be forwarded to the Treasurer's Office (or campus/institute business office) for payment. See Policy FI0450 for details on moving allowances.

Special Remittance and Order Form (Form T-29). This form must be used when advance payment is required and an invoice is not available. Departments must complete the Form T-29, enter the required information in IRIS, and send a copy of the form to the vendor after the check is issued. Payment will be mailed separately by the Treasurer's Office. Documentation to support the items ordered must be attached to the T-29 and maintained on file in the responsible office. The form should **not** be used to prepay conference and seminar registration fees.

Internal transfers are used to transfer funds in conducting interdepartmental business. The internal transfer authorizes charges to be made to department cost center/WBS elements for items such as goods and services from university service departments (e.g., campus bookstores, catering, laboratories, print shops, office supply stores), for equipment and supply transfers between departments, sharing costs among cost centers, and correcting erroneous entries in deposits, invoices, and sponsored projects.

For more details on the use of internal transfers, see University Policy FI0425 on bookstore purchases, Policy FI0605 on equipment, and Policy FI0220 on cost transfers in sponsored projects.

Types of Internal Transfers

- An internal transfer (document type ZD) is completed by the service or initiating department and sent electronically to the receiving department in IRIS. All departments involved must electronically approve this transaction before it is posted. Such transactions include transferring equipment between departments, sharing costs among cost centers, correcting errors in deposits and invoices, and correcting erroneous charges on sponsored projects.

- An internal transfer (document type ZE) is electronically charged to a cost center/WBS element and does not require approval in IRIS. Tentative approval for these transactions occurs in advance when the department orders goods or services. Final approval of the transactions occurs passively when a department does not object to the charges appearing on its cost center/WBS element ledgers. Such transactions include direct billings for bookstore purchases; telephone services; postage, laboratory, printing, and catering charges; and computing services in which departments receive supporting information separately.

Special Requirements

The internal transfer should include a description in IRIS of the goods or services provided, including contact information for the initiating and receiving departments, and describe the reason for the transfer. Different types of costs (general ledger accounts) should be shown as separate transactions, not as a total cost on one internal transfer.

Any supporting documentation generated by the department initiating the transfer should be retained six years for audit purposes (see Policy FI0120).

Restrictions

The internal transfer may **not** be used for the following types of transactions:

- Budget adjustments
- Fund balance adjustments
- Funding given by one department to another

III. Deposits

In the IRIS environment, departmental staff are responsible for entering deposit information in the university's accounting system. Most departments enter their deposit information directly in IRIS. (Departments with a small volume of deposits may use the cashier's office or business office.) See University Policy FI0310 for further details on receipts and deposits for money received.

Depositing Procedures

Departments should follow the procedures below when preparing bank deposits.

1. The money to be deposited should be counted and verified with the total amount recorded on receipts, cash registers, or other records of money received. The deposit must include all money received, after removing any existing change funds. Expenditures may not be made from money received, and the money may not be retained in the department for its use.

2. A bank deposit ticket covering money received should be prepared in triplicate according to Policy FI0310. The original deposit ticket will accompany the deposit to the bank; one copy will go to the campus central cashier; and the third copy remains in the department's files. (The Memphis campus requires deposit tickets to be prepared in quadruplicate, with the original going to the bank, two validated copies to the campus central cashier, and a copy for departmental files.) Also see 5. below.

3. An IRIS deposit document (ZK entry) or Report of Departmental Collections (Form T-33) should be prepared. The purpose of this document or form is to provide the information necessary to post the deposit to the university's accounting system. An additional purpose is to provide a link between the department's receipt records and deposits recorded in IRIS. Generally, departments enter the deposit information directly in IRIS using the ZK document entry and then print the deposit document from the system. The applicable receipt numbers should be recorded on the IRIS document. Departments that are unable to enter deposit information directly in IRIS should prepare a Report of Departmental Collections (Form T-33).

   Note: Detailed steps for preparing and transmitting deposits and for completing the ZK document are available on the Bursar's Office websites for UT Knoxville (Deposit Instructions) and the Health Science Center (Central Cash Deposits).

4. All checks and currency should be sealed in an envelope or deposit bag along with the original deposit ticket. Departments are responsible for the contents of the bag or envelope agreeing with the amount to be deposited or exchanged. For this reason, a properly sealed container is important to protect the contents of the deposit as it transmitted to the bank. The campus central cashier should be contacted regarding specific requirements for the type of container to use for deposits.

5. The deposit should be transmitted to the bank as soon as possible after it is completed (see Frequency of Deposits below). Generally, departments transmit deposits to the campus central cashier, who sends the money to the bank. A

security officer or departmental employee may take the deposit to the cashier, as follows.

- If a security officer picks up the deposit, the printed deposit document (or original Form T-33) and a copy of the deposit ticket must be attached to the outside of the sealed envelope or bag. Security officers will not accept unsealed deposits. The security officer should sign and date the deposit document (or original Form T-33) or other document (e.g., log or manifest). The department should keep a copy of the signed documentation, along with a copy of the deposit ticket, in its files.

  If the transmittal is to obtain change, the department should maintain a log or manifest that the security officer signs upon pick-up and return of the change bag.

- If a departmental employee delivers deposits directly to the campus central cashier, the printed deposit document (or original Form T-33) and a copy of the deposit ticket should be attached to the outside of a sealed envelope or bag. If the deposit is not in a sealed envelope or bag, the employee must wait until it has been counted in the cashier's office. The employee should have an additional copy of the deposit document (or a copy of Form T-33), which will be stamped by the cashier's office. The stamped copy should be retained in departmental files along with the department's copy of the deposit ticket.

6. Departments should regularly verify that their deposits were credited to the appropriate cost center or WBS element, as indicated on the deposit document (or Form T-33).

Note: Departments that receive money should develop written procedures to collect and transmit it to the central cashier or to deposit it into a university depository account.

Credit and Debit Card Deposits

Departments or activities that **regularly** receive payment for goods and/or services in routine operations are eligible to accept credit and debit cards as an additional method of payment, with the appropriate approvals (see Policy FI0310). For credit and debit card deposits, electronic transactions may be made through point of sale (POS) terminals or the internet. Depositing procedures are as follows.

- Departments or units that receive credit and debit deposits should enter deposit information in IRIS.

- Departments or units that are unable to enter deposit information must prepare a Form T-33 for each deposit.

- Batch release reports generated by the POS terminals or the internet payment system must be attached to the deposit document printed from IRIS (or Form T-33). These documents should be forwarded to the

appropriate campus office for processing and posting to official university records.

Frequency of Deposits

To comply with university policy and state law, money received must be deposited or transmitted to the campus central cashier within three business days of receipt. Whenever large amounts of money are involved, however, departments should attempt to make deposits more frequently.

Reminders for Safeguarding Money

To help protect the university's assets from theft or misappropriation, departments should follow certain procedures. Some important reminders for safeguarding money received are listed below.

1. Department heads should see that university funds are protected until they are deposited or transmitted to the campus central cashier, as follows.

   - Proper safekeeping facilities should be used.

   - Deposits should never be sent through campus mail.

   - Safe combinations and keys that access money should be safeguarded appropriately.

   - Safe combinations should be changed whenever security is compromised or knowledgeable employees leave the department.

   - No more than two or three responsible employees should have access to funds stored in a department.

   - Currency and checks should not be left overnight in cash registers, drawers, or other unsecured locations.

   - Deposits should be made promptly before holiday periods.

2. If a deposit includes large sums of currency and checks, the department should consider:

   - Requesting security officers to transport the deposit
   - Using night depository services
   - Making deposits daily (or more frequently)

3. When staffing permits, an employee who does not handle money received, including preparing deposits, should perform a monthly reconciliation.

4. Employees who invoice customers or record payments in accounts receivable records should not have access to money received.

Note: If departments are unable to separate duties as described, the campus internal audit department should be contacted to help find an alternate solution.

Forms Used in the Depositing Process

Deposit Document (ZK Entry)

Departments that enter deposit information in IRIS. Deposit information entered in IRIS should include the responsible employee's name or department; deposit date; deposit ticket number; official receipt number(s); dollar amount(s); general ledger account number(s); and cost center, WBS element, and/or fund number(s) to be credited. If credit card totals are included, also enter the departmental phone number and merchant number. The campus central cashier will post the entry in IRIS.

The employee who enters the deposit information should print the deposit document from IRIS and attach it to the sealed envelope or bag along with a copy of the deposit ticket.

Report of Departmental Collections (Form T-33)

Departments that are unable to enter deposit information in IRIS. The Report of Departmental Collections (Form T-33) should indicate the date of the receipt(s); official receipt number(s); payor's name; description of items covered; amount; deposit ticket number; general ledger account number(s); and cost center, WBS element, and/or fund number(s) to be credited.

This section describes the steps involved in assuring that department ledgers are accurate and transactions have been authorized. The first step involves performing a monthly reconciliation of departmental records to the cost centers and WBS elements in IRIS. A second, closely related step is for the department head, or person responsible for the department's cost center/WBS element(s), to review the reconciled ledgers and document the review. (Also see University Policy FI0115.)

For these controls to be successful, an adequate separation of duties must exist among staff who enter data in IRIS, receipt revenue, prepare deposits, and process payments and those who reconcile the ledgers.

The Reconciliation Process

Although departments may review their ongoing ledger activity in IRIS and print the ledgers at any time, a formal reconciliation of the accounting records should be performed **as soon as possible after the month closes**. A reconciliation of the ledger consists of the following process.

- **Compare** departmental records with the current month's transactions (encumbrances, charges, and deposits) listed on the department's ledgers. Ensure that the correct cost center/WBS element, general ledger account, amount, etc., were charged.

- **Verify** the sponsor award amount and budget for sponsored projects. Also note the end date and ensure that charges occurred within the project period.

- **Ensure** that all transactions appearing on the ledgers which are not supported by the department's records are accurate and authorized.

- **Provide** the reconciled ledgers for the cost center/WBS element(s) to the department head each month.

Note: The department head may designate an exempt or non-exempt employee to perform the reconciliation.

What are some risks if the ledgers are not reconciled each month?

Data entry errors are possible; therefore, the department is responsible for ensuring that all transactions initiated from the department were recorded in IRIS as intended.

Deposits and several types of charges are posted without workflow approval and may not be known to the department until they are identified during a reconciliation. The department is responsible for determining that such transactions are appropriate.

Separation of Duties

Although a monthly reconciliation of the department's ledgers is an excellent control, the oversight and control value of the reconciliation is greatly diminished when performed by the same employee who, for example, entered the transactions or processed the invoice

for items purchased by the department. The duties described below should be **further** separated if sufficient staff are available.

The Cash Receipting Function

Whenever staffing allows, the duties of handling money and performing the monthly reconciliation of the department's cost center/WBS element(s) should be separated as follows.

Receipting Revenue. This employee should receipt the incoming revenue, complete the bank deposit ticket, enter the deposit information in IRIS (or complete the Form T-33), and prepare the funds (cash, checks, and/or credit card receipts) for pick-up or delivery to the campus central cashier.

Ledger Reconciliation. An employee who has no responsibility for handling money received should reconcile the department's receipt book to the deposit document printed from IRIS (or completed Form T-33) and ultimately to the departmental ledgers each month. The reconciliation should include verification that transactions written in receipt books were credited correctly to the ledgers.

The Accounts Payable Function

Whenever staffing allows, the duties of processing payments and performing the monthly reconciliation of the department's cost center/WBS element(s) should be separated as follows.

Processing Payments. One employee should requisition and receive goods and process the invoice for approval.

Ledger Reconciliation. An employee who has no responsibility for requisitioning, receiving, or entering invoices to IRIS should reconcile the department's accounts payable documentation (i.e., invoices, internal transfers) to the departmental ledgers each month.

Reviewing the Departmental Ledger

The second important control in overseeing the department's financial records is the review and approval of the reconciled ledgers by an authorized approver. Just as reviewing a personal bank statement is a wise practice for ensuring the accuracy of transactions listed on the statement, management's review of the reconciled ledgers is an equally prudent business practice.

Review of the ledgers by an authorized approver for the department's cost center/WBS element(s) ensures oversight of all department funds. Not all transactions are configured to be processed through IRIS workflow; therefore, such a review helps ensure that **all** financial transactions are appropriate, accurately described, and properly recorded. This review also provides management with information about the status of budgets under their control.

Note: The authorized approver is normally the department head. The approver may delegate an exempt employee to review the department's ledgers, such as a business manager or principal investigator of a sponsored project. PIs should review their own ledgers.

What should the approver/department head look for in reviewing the ledgers?

The review of the ledgers is a broader and less detailed process than the steps involved in the reconciliation. Specifically, the authorized approver should ask himself or herself the following questions:

- According to the department's budget, has a cost center or WBS element been overspent? If so, why?

- Do the transactions appear appropriate for departmental/university business?

- Are there any suspicious-looking transactions?

- Does it appear that the ledgers have been reconciled?

- Has the reconciler explained any unrecognized transactions?

The approver should sign or initial the reconciled ledgers each month to indicate there were no unauthorized transactions.

If problems are noted, the approver should ensure that appropriate corrective measures are taken so that the same problems do not appear again in subsequent months' ledgers.

Note: Policy FI0120 requires departments to retain reconciled and reviewed ledgers for a year.

What are some risks if the reconciled ledgers are not reviewed each month?

- Reconciliations are not being performed; therefore, errors or unauthorized transactions may not be detected.

- Departmental employees who are authorized to access the department's cost center/WBS element(s) could post improper or unauthorized transactions (i.e., bypass workflow) without the approver's permission or knowledge.

- The budget can be overspent.

V. Recordkeeping

Filing Records in the Department

University Policy FI0120 requires that official records be stored in a consistent fashion in the department; in a manner that provides protection against misplacement, destruction, or theft; and in a way that allows quick identification and retrieval. For certain records, departments are the responsible office, and the minimum retention periods reflect this responsibility. Failure to retain proper documentation can result in disciplinary action, including termination.

The following suggested procedures are meant to assist departments in effectively carrying out their responsibilities for retaining and filing payroll, disbursement, and deposit records. Departments may use other methods, provided they accomplish the requirements described above.

1. Original, confidential, and sensitive documents should be stored in a secure location.

2. Records should first be separated and stored based on their category or type. For example, paid invoices, deposit information, procurement card data, and payroll information should be stored and filed in separate locations.

3. Payroll records such as time sheets or time cards may be stored by pay period and in chronological order.

4. Procurement card data should be separated by card number if a department has more than one card. Receipts should then be filed with each card statement in chronological order. These documents should also be stored according to instructions in Policy FI0530.

5. Deposit information should be stored chronologically.

6. Paid invoices and other disbursement documents may be stored in the following manner.

   - If a department has more than one cost center or WBS element, the records associated with each cost center or WBS element should be separated.

   - If fewer than 25 invoices are paid in one year, all invoices may be kept in one file for each fiscal year.

   - If more than 25 invoices are paid in one year, a separate file should be established for each vendor.

Note: *When audits occur, departments will be asked to retrieve invoices by IRIS document number. Auditors may or may not provide a vendor name for invoices. Departments should file records according to their daily needs and should be able to retrieve their records easily when requested.*