

Payment Processing

October 2013

References

- Section 4(c), Florida Constitution states in part, “The chief financial officer shall serve as the chief fiscal officer of the state, and shall settle and approve accounts against the state...”.
- Section 216.141(3), Florida Statutes, states in part, “The Chief Financial Officer as chief fiscal officer, shall use the Florida Accounting Information Resource [FLAIR] Subsystem ... for account purposes in the performance of and accounting for all of his or her constitutional and statutory duties and responsibilities.”

References

- Section 17.03(1), Florida Statutes, states, “The Chief Financial Officer of this state, using generally accepted auditing procedures for testing or sampling, shall examine, audit, and settle all accounts, claims, and demands, whatsoever, against the state, arising under any law or resolution of the Legislature, and issue a warrant to the Treasurer directing the Treasurer to pay out of the State Treasury such amount as he or she allows thereon.”

References

- Using the guidelines provided by the CFO and statute and administrative code, each agency determines the organizational structure for its financial accounting and reporting units.
- In some agency finance and accounting offices, the responsibilities for expenditures and disbursements are managed by different teams: general payables (from POs), travel reimbursements, contractual services, purchasing cards, and grants management.

Payment Processing Topics

- **Prompt Payment**
- **Agency Processes (Departmental FLAIR)**
 - **Encumbrances and Payables**
 - **Inspection and Approval**
 - **Voucher Processing**
 - **Issuing Payment**
- **CFO Processes (Central FLAIR)**
 - **Voucher Processing/Voucher Audit**
 - **W9 Validation/Form 1099 Processing**
 - **Payee Files**
 - **Issuing Payment**

Prompt Payment

- **Florida Statutes Section 215.422(1) – (3)** states that an agency has 20 days from prompt pay start date to deliver qualifying invoices to the CFO for payment.
- **Florida Statutes Section 215.422(2)** states that “the Department of Financial Services shall approve payment of an invoice no later than 10 days after the agency’s filing of the approved invoice.”

Prompt Payment

- **If a payment is not issued within 40 days (35 days for payments to health care providers) of the prompt payment start date, interest shall accrue to the vendor for the period from the 40 day after the prompt pay start date until the payment is issued.**
- **FLAIR automatically generates these interest penalty invoices.**

Prompt Payment

- **Florida Statutes Section 215.422(6) states “The Department of Financial Services shall monitor each agency's and the judicial branch's compliance with the time limits and interest penalty provisions of this section.”**
- **An Agency that submits 95% of invoices to the CFO within the 20 day prompt payment period is considered to be in compliance with this section.**

Agency Processes

Departmental FLAIR

Encumbrances & Payables

- An encumbrance is an accounting entry that reserves budget for the purchase of good or services
 - An agency has the option when issuing a purchase order to have MyFloridaMarketPlace send an encumbrance transaction to FLAIR (TR60)
 - Encumbrances are maintained only in Departmental FLAIR at agency discretion.
- FLAIR does not support Pre-Encumbrances (amount expected to spend when developing purchase requisitions).
- Some agencies only record encumbrances at fiscal year end for the CAFR and the Carry Forward Process.

Encumbrances & Payables

- A payable is an amount owed for goods or services already received.
 - Payables are maintained only in Departmental FLAIR at agency discretion.
- Some agencies only record payables at fiscal year end for the CAFR and the Carry Forward Process.
- Because there is no Statewide policy for agencies to record encumbrances and payables during the fiscal year there is no “Enterprise View” of the State’s financial obligations at any time except for the CAFR.

Inspection and Approval

- Agencies are individually responsible for developing appropriate controls to confirm goods and services acquired are accounted for and paid in a timely manner.
- Guidance regarding inspection and approval requirements are provided in 215.422(1) – (3), F.S.
- In most cases inspection and approval of goods and services must be completed in five days of receipt unless otherwise stated.

Inspection and Approval

- **For every invoice, an agency maintains:**
 - **Date goods and services are received**
 - **Date goods and services are inspected and approved**
 - **Date invoice is received (at bill to address)**
- **From the latter of these dates a “prompt pay start day” is determined. This is often referred to as the “three date stamp date”.**
- **Agencies are required to record the later of these three dates in the Transaction field in FLAIR.**

Voucher Processing

- Once satisfied with the invoice review, agencies record Expenditures through the Departmental Accounting Disbursements function.
- Agencies can record a disbursement using one of several transaction types:
 - Encumbered disbursement (TR70)
 - Payable disbursement (TR53)
 - Unencumbered disbursement (TR51)
 - Revolving Fund disbursement (TR52)

Voucher Processing

- **FLAIR validates information with each transaction:**
 - **Vendor Information**
 - Verifies that the vendor has a validated W-9 on file with the department
 - Verifies that the vendor record is active
 - FLAIR verifies that funds are available for the transaction (Allotment, Cash, Budget Releases)
 - FLAIR verifies data codes with the title files
 - For example, Organization Code, Object Code, and FLAIR Account Code
 - Disbursements can be generated from the subsidiary records (Encumbrances and Accounts Payable)

Voucher Processing

- Nightly FLAIR processing generates a Statewide Document Number.
- The next business day vouchers may be printed.
- Vouchers are sorted by FLAIR Site code.
 - An agency can have more than one FLAIR site code which enables the agency to group certain types of payments.
- Depending on the transaction type and the system edits, several different types of vouchers / schedules may be produced.
- Vouchers are assembled with supporting documentation.
- Agencies must send those vouchers selected for audit to the department .

Voucher Processing

- Voucher schedules are limited to one FLAIR Account code and one FLAIR grouping character or Agency assigned voucher number.
- Vendor Invoices are consolidated by Agency, FLAIR Account Code, and FEIN.
 - If an invoice is being paid from multiple FLAIR Account codes, it will result in two vouchers and two warrants.

Payment Processing

- **The agency maintains the original documentation waiting for voucher posting and the return of warrants or EFT remittance advice.**
- **After receipt of warrants/EFT remittance advice, typically as a control measure, invoices are matched to the warrant/EFT. Vouchers and invoices are marked as paid, and filed.**
- **Warrants and EFT Remittance Advice are mailed to the vendors by the paying agency.**

CFO Processes

Central FLAIR

Authority

- Section 17.03(1), Florida Statutes, states, “The Chief Financial Officer of this state, using generally accepted auditing procedures for testing or sampling, shall examine, audit, and settle all accounts, claims, and demands, whatsoever, against the state, arising under any law or resolution of the Legislature, and issue a warrant [payment order] to the Treasurer [CFO] directing the Treasurer to pay out of the State Treasury such amount as shall be allowed by the Chief Financial Officer thereon.”

Voucher Processing

- During nightly Departmental FLAIR processing, voucher schedules are assigned a statewide document number (SWDN). These records are then sent to Central FLAIR for processing.
- All transactions entering Central FLAIR are subjected to system edits:
 - Access Control Security
 - Valid account codes
 - Cash and Budget Balance checking
- Determining which Departmental FLAIR transactions are subject to Central FLAIR pre-audit is done during Departmental FLAIR nightly voucher processing.

Voucher Processing

- Agencies are required to forward supporting document to DFS for any vouchers selected for pre-audit.
- Documentation needed to support a payment is:
 - Original approved invoice giving description, units procured and cost,
 - Agency acceptance and approval, and
 - Authorizing document.

Voucher Audit

- **100% Pre-Audit coverage is not possible given the high volume of payments.**
- **The Bureau of Auditing within the Department of Financial Services determines which payments to select for pre-audit.**
- **Payments selected for pre-audit must be approved and a warrant issued or must be rejected within 10 days of receipt of the request to pay (Section 215.422(1)-(3)).**

Voucher Audit

- The Bureau of Auditing provides a proper mixture of audit coverage utilizing:
 - **Payment Flag Table** – payments matching the key data elements in this table will be held for audit
 - Vendor Name/ID
 - FLAIR Account Code
 - Object Code
 - **Auto Pay Table** – payments matching the key data elements in this table will by-pass the pre-audit
 - Object Code
 - **Sampling Thresholds**
 - Invoices less than or equal to \$10,000 are selected for pre-audit based on established criteria for each agency processing site
 - Invoices greater than \$10,000 are pre-audited

Voucher Audit

- Those vouchers having transactions selected for pre-audit are loaded in the Central FLAIR audit queue.
- Any vouchers not placed in the audit queue, automatically post.
- Certain transactions are directly loaded and posted into Central FLAIR from Agency disbursement systems and by-pass the sampling process.
 - **There are three primary reasons for this type of processing:**
 - volume of temporary payees (i.e., unclaimed property claims)
 - timely payment needs (i.e., sales tax refunds)
 - payee privacy requirements (i.e., public assistance)

Voucher Audit

- One of the following actions is taken for those vouchers loaded in the audit queue:
 - Approve all the transactions on a voucher
 - Approve with modification
 - Delete an invoice
 - Decrease the amount of an invoice
 - Change the object code
 - Return the voucher to the Agency for correction
 - Record Reason Code in FLAIR
 - Delete
 - Record Reason Code in FLAIR
- Manual Vouchers are the result of entries made manually in Central FLAIR
 - Agencies must then record the corresponding transactions in Departmental FLAIR

Disbursement Corrections

- Returns for Central FLAIR are automatically reversed in Departmental FLAIR.
- Agencies can make corrections in Departmental FLAIR that are not sent to Central FLAIR using the accrual indicator.
- Correcting entries not sent to Central FLAIR can have an impact to the 1099 system.
 - 1099 system would then need to be manually adjusted.

W9 Verification

- **Section 6109(a)(1) of the Internal Revenue Code (IRC) requires individuals doing business with the State of Florida to provide their correct Taxpayer Identification Number (TIN) to the Department, who must file tax information returns with the IRS. (Form 1099)**
- **To meet this requirement, FLAIR requires a valid Substitute Form W9 to be on file with DFS before a payment transaction to a Form 1099 reportable object is allowed**

W9 Verification/Form 1099 Processing

- The department created a State of Florida Vendor website which enables vendors to submit Florida Substitute Form W9s electronically.
 - Taxpayer Identification Numbers and names are electronically sent to the IRS for verification.
 - Those records that match IRS records are deemed as “valid”
 - Over 80,000 Substitute Form W-9s have been validated
- After a transaction is processed, Central FLAIR accumulates the information and adds it to the 1099 system.
- Each month a validation process determines which payments are reportable on Form 1099.

Form 1099 Processing

- In January the 1099s are sent to recipients and in March they are transmitted to the IRS.
- In October the IRS returns a file of 1099 whose Name/TIN combination do not match the IRS data.
- The State is required to notify the recipients of this mismatch by sending out B notices.
- The B notice requires that a valid Name/TIN combination be sent to the State.

Form 1099 Processing

- The IRS can assess Backup Withholding to vendors that meet certain requirements.
- Payments to vendors subject to Backup Withholding must be reduced by the established rate and the amounts withheld must be remitted to the IRS.
 - Currently FLAIR does not have this capability

Payee Files

Payee Files

- **Payments recorded in Departmental FLAIR leverage one of two payee files:**
 - **Vendor Employee file (VE):** Maintained at the agency level. Intended for employee records only.
 - **Statewide Vendor file (VS):** State's central repository of vendor information.

Vendor Employee File

- **As of July 2013, the VE File contained 328,615 total records.**
 - **175,720 of the records have a corresponding W4 on file with the Bureau of State Payrolls.**

Statewide Vendor File

- As of July 2013, the VS File contained a total of 294,598 vendor records
 - 208,653 records are unique Taxpayer Identification Numbers (TINs)
 - 10,453 records on the file are listed with a fictitious TIN ('N' vendors)
 - 65,421 records on the file are listed as a Social Security Number ('S' Vendors)
 - 132,779 records on the file are listed with a Federal Employer Identification Number ('F' Vendors)
 - 36,968 records are flagged as containing confidential information

Statewide Vendor File

- This file is used to validate the payee on disbursement (payment) transactions and vendor payment reports.
- Information is also used for several websites: vendor payment history and CFO's "Vendor Payments" transparency site.
- Vendors are added to SWVF by one of three methods:
 - MFMP Vendor Information Portal (VIP) adds vendors to SWVF at the vendor's request.
 - DFS can add vendors directly to SWVF at an agency's request.
 - Authorized agency employees add vendors to SWVF if the vendor meets specific criteria.

Statewide Vendor File

- Agencies may add confidential vendors to SWVF.
- Confidential vendors and payments to confidential vendors are exempt from public records review, pursuant to Chapter 119, F.S.
- Only the agency adding a confidential vendor record will be able to view the record in SWVF.
- The adding agency is responsible for maintaining the information and defending any claim of exemption from the public records law
- DFS will not display confidential vendors on any website that reports vendor payment information.

Statewide Vendor File

- Only DFS can update SWVF FLAIR vendor records.
- Agencies must request FLAIR vendor records be updated by DFS.
 - All update requests must be supported with a verified Substitute Form W9 or correspondence from the vendor.
- MFMP Vendors must update their records through MFMP VIP.

Statewide Vendor File

- To maintain data integrity within SWVF, DFS must purge vendor records.
- FLAIR will not purge records that are on an Accounts Receivable, Encumbrance, Payable subsidiary file or that are associated with an active Florida Accountability Contract Tracking System (FACTS) contract.
- For a vendor to remain on SWVF, the vendor's FEIN must be used in a transaction:
 - FLAIR will purge vendor records after 18 months of inactivity.
 - FLAIR will purge Payees and non-Foreign vendor records after the records have been in delete status for 14 months.

Issuing Payment

**Journal Transfers, Warrant, EFT, Purchasing Card,
and Revolving Fund**

Authority

- Section 17.03(1), Florida Statutes, states, “The Chief Financial Officer of this state, using generally accepted auditing procedures for testing or sampling, shall examine, audit, and settle all accounts, claims, and demands, whatsoever, against the state, arising under any law or resolution of the Legislature, and issue a warrant [payment order] to the Treasurer [CFO] directing the Treasurer to pay out of the State Treasury such amount as he or she allows thereon.”
- Section 17.075(1), Florida Statutes, states, “The Chief Financial Officer is authorized to establish the form or forms of state warrants which are to be drawn by him or her and of other orders for payment or disbursement of moneys out of the State Treasury and to change the form thereof from time to time as the Chief Financial Officer may consider necessary or appropriate. Such orders for payment may be in any form, but, regardless of form, each order shall be subject to the accounting and recordkeeping requirements applicable to state warrants.”

Methods

- There are five payment methods:
 - **Journal Transfer (JT):** Affecting account balances through FLAIR transactions.
 - **Warrant:** State issued financial instrument authorizing Treasury to pay the holder.
 - **Electronic Funds Transfer (EFT):** Electronically transferring funds from a State bank account to a payee's designated account.
 - **Revolving Fund:** A payment mechanism that enables an agency to generate a check immediately. Typically the revolving fund is used for small dollar purchases.
 - **Purchasing Card:** State issued credit card.

Journal Transfers

- **Journal Transfers are transfers within and between agencies**
- **Journal transfers do not disbursement cash from the Treasury.**
- **FLAIR provides for two different types of Journal Transfers**
 - **JT1 – Expenditure to Expenditure transfers**
 - **JT2 – Expenditure to Revenue transfers**

Journal Transfers

- Instead of a 12 FEIN, the transaction is recorded with the first 21 digits of the FLAIR account code being entered in the vendor ID field.
- The receiving agency must acknowledge the change in expenditures balances that impact cash and budget (when applicable)
- Agencies that do not recognize or classify transfers appropriately result in Inter-fund balance issues at year end.

Warrants

- There are six types of warrants:
 - 1: Public Assistance
 - 2: Re-employment Compensation
 - 3: Salary
 - 4: Expense
 - 5: Retirement
 - 9: Re-employment Compensation
- FLAIR processing is different depending on the warrant type.
- Warrant stock is inventoried and maintained by the department.

Warrants

- Section 17.26 F.S. authorizes the automatic cancellation of state warrants not presented for payment after one year (escheatment or stale-date).
- Chapter 717 F.S. States that the funds represented by these cancellations are assumed to be stale dated.
 - **FLAIR automatically redirects stale dated warrants**
 - The funds associated to federally funded warrants are returned to the agency that issued the payment
 - The funds associated to state funded warrants are automatically sent to Unclaimed Property to be reported as “abandoned” property

Payment Issued File (Positive Pay)

- During the Central FLAIR nightly Warrant processing a file is prepared for the Treasurer called the “Treasurer’s Warrant Issued File” to be used as part of the Positive Pay function.
- The Positive Pay function prohibits the Treasury’s contracted bank from honoring the warrants that are not listed on the file.
 - The Treasury must approve payment of those warrants not listed on the Positive Pay file.

Electronic Funds Transfer

- **Central FLAIR determines to issue a Warrant or EFT during the Central FLAIR nightly Warrant processing:**
 - **The Vendor Number/SSN and Payee Name are compared with the EFT Authorization File**
 - **If the number and name match an EFT is prepared instead of a warrant.**
- **As the EFTs are produced, the funds to cover the EFTs are moved from the FLAIR account codes in Central FLAIR to the Central FLAIR EFT Clearing Account Code.**

Electronic Funds Transfer

- There are 3 types of EFTs with separate codes issued;
 - 6 – Retirement EFT
 - 7 – Salary EFT
 - 8 – Expense EFT
- FLAIR processing is different depending on the EFT type.
- EFT files are transmitted to the processing bank the following day to be posted to the payees account on the settlement date.

Electronic Funds Transfer

- **Employees, Retirees and Vendors must apply to receive EFT payments with the Department.**
 - **The Division of Accounting and Auditing maintains the EFT authorization file as part of Central FLAIR.**
 - **Vendors can only request EFT by submitting paper**
 - **Employee and retirees can apply for EFT online through two portals maintained by the Department of Management Services.**
- **The department receives approximately 4,200 paper authorization requests each month**

Issuing Payment

- **The day after the Division of Accounting & Auditing approves a voucher schedule, warrants and EFT notices are printed by the department.**
- **Daily agency couriers collect the warrants.**
- **Agencies mails warrants and EFT notices for payments generated by that agency.**

Purchasing Card

- **The Purchasing Card (P-Card) program is a collaborative effort among state agencies to streamline the purchasing process for small dollar, recurring, low risk items.**
 - **Each agency tailors the program to meet its needs.**
 - **Each agency has the responsibility to ensure proper accountability measures and controls are in place for its P-Card program.**

Purchasing Card

- **The FLAIR P-Card module allows for expenditures to be recorded under the vendor that the goods/services were procured from however a payment is not issued to that vendor.**
- **Daily approved and vouchered P-Card transactions are consolidated and one payment is issued to the contracted PCard service provider.**
- **FLAIR P-Card module provides a system generated approval process.**

Purchasing Card

- **DFS and the Department of Management Services are currently working on a competitive procurement to replace the FLAIR P-Card module**
- **The new solution must submit approved P-Card changes to FLAIR/accounting system for cash/budget checking prior to settling the charges with the bank.**
- **The accounting system will remain the book of record for reporting purposes.**

Purchasing Card

P-Card Statistics for Fiscal Year 2013

Number of Issued P-Cards	20,055
Number of P-Card Transactions	570,427
Amount of Transactions	\$ 143,373,465.34

Revolving Funds

- A Revolving fund is a fund held outside the Treasury.
- An agency must obtain the approval of the CFO prior to establishing any public funds that are to be held outside the Treasury.
 - To date there are approximately 190 revolving funds and 87 petty cash funds authorized.
 - An agency will use an available trust fund as the source of cash, or if need be, a general fund managed by the CFO.

Revolving Funds

- **Agencies are individually responsible for developing appropriate methods and controls to ensure funds and records are safeguarded and transactions are accounted for and settled in a timely manner.**