

System-wide Policy: FI0505 - Accounts Payable	
Version: 14	Effective Date: 02/18/2020

FI0505 – Accounts Payable

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Objective:

To provide guidelines for efficiently paying the university’s non-payroll obligations while ensuring compliance with IRS regulations and establishing proper internal controls to prevent fraud, waste and abuse.

Policy:

[Overview](#)

The Treasurer's Office is responsible for making payments for non-payroll business obligations that are authorized, approved and compliant with university policies and IRS regulations. To process these obligations efficiently, certain authority has been delegated to campus business

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offices and departments and they are responsible for ensuring that payments are processed accurately, timely and in accordance with applicable policies. In other instances, it is essential that additional controls exist to ensure compliance with IRS regulations or other policies and these transactions must be processed by the Treasurer's Office. In all situations, it is essential that proper controls and separation of duties exist to ensure that all transactions are business related, correct, authorized, and properly classified.

Payment Processes

1. The following non-payroll related payment processes exist. These are briefly described below in an effort to guide departments on the correct process.
 - **Procurement Cards** - The procurement card is a special credit card that is provided to departments for making purchases generally costing less than \$10,000, with some restrictions, or from existing university framework orders with no dollar limitations. Purchases costing \$10,000 or more require competitive bidding, and the purchase of some items with the card is not permitted, such as entertainment over \$1,000 and assets \$5,000 or greater. This is the preferred method of payment for most departmental purchases. See [FI0530 - Procurement Cards](#) for policies and other restrictions related to procurement cards.
 - **Petty Cash** - Departments who require frequent cash purchases for minor items may request a petty cash fund. Petty cash funds may not be used to pay for services or to compensate employees. See [FI0525 - Petty Cash](#) for policies and restrictions related to these funds.
 - **Travel Reimbursements** - Any reimbursement for employee, student, or guest travel must be processed in accordance with the university's travel policy (See [FI0705 - Travel](#)). These transactions are initiated in the departments and audited by the appropriate business office. Contracts that provide for reimbursement for travel, meals, or lodging will be paid in accordance with the university travel policy unless otherwise addressed in the agreement.
 - **Payments to University Students** - All academic type payments to a student enrolled at a University campus must be processed through a campus financial

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aid office to ensure that the student’s financial aid eligibility is correctly calculated. These payments may include scholarships, grants, and other academic awards. Departments must consult [FI0535 - Student Payments \(Non-Employment Related\)](#) for more guidance on student payments.

- **Refunds** - Campus/unit business officers are responsible for approving procedures for their departments that are authorized to issue refunds. Other requirements related to refunds are discussed under the Refund section of this policy.
 - **Purchases from Other University Departments** - All inter-university business must be processed through internal transfers (See [FI0520 - Internal Transfers](#)). This would include purchases of goods and services from other university departments such as bookstores, graphic services, and telephone services. Procurement cards must not be used for these purchases, since the university incurs a processing fee for accepting credit card payments.
2. **Domestic Purchase Order Payments** - Purchase orders are agreements issued by the university's purchasing departments to a vendor indicating the types, quantities, and agreed prices for products and services. The campus/unit business officers are responsible for determining the best method for processing these payments in their area. These payments are usually initiated and approved at the departmental level.
 3. **Domestic Contract Payments** - The university's obligation from contracts is sometimes not as evident as it is on a purchase order. Therefore, payments associated with contracts will be entered into the university's financial system and routed to the Treasurer's Office, with the exception of those delegated to the business office at the Health Science Center.
 4. **Payments without a Purchase Order or Contract** –
 - **Less than \$10,000** - Payments less than \$10,000 can be processed by departments without a contract or purchase order, provided an invoice is provided by the vendor. If the vendor requires a contract or purchase order, then the payment must be processed against that purchase order or contract using the applicable transaction and the policies related to purchase order or contract payments. Departments may not split transactions or instruct vendors to split invoices to avoid the purchasing requirements associated with

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transactions that are \$10,000 or greater.

- **Less than \$100,000**– The campus/institute business officers may approve payments without a purchase order or contract for amounts less than \$100,000 and for the following type of payments regardless of their dollar amount:
 1. Utility payments
 2. Athletic conference fees
 3. Postage
 - **\$100,000 or greater** – Payments of \$100,000 or greater require approval of the Chief Financial Officer or designee, except for utility payments, athletic conference fees and postage, which are delegated to the campus/institute business officers.
5. **Foreign Vendor Payments** - IRS regulations require the university to withhold taxes for certain foreign vendor payments. Campuses or departments are responsible for initiating these transactions in the same manner that other domestic invoices are processed. Such transactions will then be routed through IRIS to the Treasurer's Office for additional review and approval. ["Statement for Services" form](#) must be attached to each payment request.
6. **Miscellaneous Payments** - The T-27 form is required if a vendor invoice does not exist. The T-27 payment requests are typically initiated at the department and entered into the university's financial system. T-27 payment requests will be routed to the Treasurer's Office for additional review and approval. Examples of these types of payments include honorariums, professional and consulting services less than \$10,000 and royalty payments.

[Additional Policies](#)

7. Additional policies and restrictions exist for certain types of expenditures. These policies must be consulted and followed when processing payments for the following:
- Entertainment, group arranged events and food for university conferences - [FI0715 - Entertainment, Group Arranged Events, Food and Housing Purchases for UT Sponsored Conferences and Seminars](#)

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- Bookstore purchases - [FI0425 - Campus Bookstore Purchases](#)
- Memberships and subscriptions - [FI0435 - Memberships and Subscriptions](#)
- Retirement receptions - [FI0720 - Retirement Receptions](#)
- Moving allowances - [FI0450 - Moving Stipend](#)
- Employee Gifts - [FI0717 - Employee Gift Acceptance Policy](#)
- Cellular telephones and other wireless devices - [FI0730 - Telephones and Other Communication Devices](#)
- Advance Payments to Vendors - [FI0510 - Advance Payment to Vendors](#)

Separation of Duties

8. Regardless of the type of payment that is being processed, it is essential that the duties of processing payments and performing the monthly reconciliation of the department's cost center or WBS elements are separated as follows:
- **Processing Payments.** When staffing permits the person responsible for processing payments must not also be responsible for placing orders or receiving goods.
 - **Approving Payments.** The authorized approver for the department's cost center or WBS elements must approve all payments for appropriateness, ensure that adequate supporting documentation exists, and ensure that the cost is reasonable. This may be accomplished through the electronic approval process in IRIS for items such as attached invoices and procurement card transactions or it may require manual approval for other items not included or attached in the IRIS transaction.
 - **Ledger Reconciliation.** Every type of expenditure will be charged to a department cost center or WBS element. Therefore, it is essential that an employee who has no responsibility for requisitioning, receiving, or entering invoices in the accounting system to reconcile the department's accounts payable documentation (such as invoices, internal transfers) to the departmental ledgers each month. The importance of the reconciliation process is increased if the staffing is not available to separate the purchasing, receiving and payment functions.

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- **Review of Departmental Ledgers.** The authorized approver for the department's cost center or WBS element must review reconciled ledgers in accordance [FI0115 - Reconciling and Reviewing Departmental Ledgers](#) to ensure that all financial transactions are appropriate, accurately described and properly recorded. The approver must sign the ledgers to document their review of them (electronic approval in IRIS is acceptable). A common separation of duties issue arises when the reconciler is the same person who processes payments, thereby making the reconciliation suspect.

When this happens, the review of the reconciled ledgers must be more thorough. The reviewer must question any suspicious transactions and routinely request to review supporting documentation.

Employee versus Independent Contractor

9. Before processing payments to individuals, departments must take steps to determine the individual's appropriate classification as an employee or an independent contractor. Failing to properly classify these services can result in significant fines and penalties. Therefore, this determination must be made prior to any work being performed by the individual. If the department is unsure of the classification the "[Worker Classification Questionnaire](#)" can assist them. Any questions should be directed to the System Accounts Payable Office.

Payments to Employees

10. Payments to employees must be processed through payroll as compensation, unless they are royalty payments, travel or petty cash reimbursements, payments for participating in clinical trials, or an exception has been granted by the System Office of Finance. Payments for goods or services are also not permitted to former employees for six months after termination. Employees should be rehired if services are being procured from them, within six months of their termination date. Payments are also prohibited to any firm, company, corporation or sole proprietorship in which a university employee, their spouse or their dependent children have more than a five

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percent financial interest and when the employee may directly or indirectly influence the vendor selection.

Vendor Creation/ Modification

11. Before a payment can be processed, the vendor must exist in IRIS. If the vendor is not located, a request must be sent to the vendor through the university's [vendor portal](#). The vendor is then responsible for creating an account and supplying the necessary information and documents. The department will be notified when a vendor record has been successfully created. Departments are not permitted to create accounts on behalf of vendors. If the vendor needs to change information such as an address or W-9, the department will need to also send an invite through the vendor portal. Once the vendor has created an account, supplied their information and this information has been validated, the department requestor will be notified.

Appropriate Invoices

12. Regardless of the payment process used or the type of goods or services procured, an appropriate invoice or receipt must be obtained from the vendor. The university will pay for materials or services upon receipt of all goods and services and receipt of an original, itemized invoice. E-mailed, faxed or electronic invoices are acceptable.
- Acceptable receipts include vendor invoices, charge slips, cash register receipts, or printouts of e-mail or web page transaction confirmations, provided they include the following information:
 1. Itemized description of the goods or services purchased including unit price
 2. Vendor name
 3. Transaction date
 4. Transaction total
 5. Vendor address
 - Order forms are not acceptable invoices. For subscriptions, however, a copy of the renewal notice or initial subscription request is considered adequate.
 - Transactions detail from the UT Market Place is an acceptable receipt, since

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it is a university system and all relevant information is retained and available through this system. Electronic invoices received through the UT Market Place are also acceptable.

- All invoices must be billed to the University of Tennessee.
- Invoices written in pencil will not be accepted by the university.
- University employees must never create a vendor's invoice.

Preparing Invoices for Approval and Payment

13. The following procedures must be followed when preparing invoices for approval and payment (These requirements do not apply to electronic invoices received through the UT Market Place):

- Upon receipt of an invoice, the date received (month, day, year) must either be either written or stamped on the invoice.
- Steps must be taken to ensure that the goods or services were not previously paid on a procurement card, through a previous invoice, or by another method.
- Invoices must be compared to (1) the delivery ticket (when available) to verify that all materials have been received and (2) the purchase order, or contract (if applicable) to verify quantities and price. If a purchase order was issued, the purchase order number must appear on the invoice. If this number is not preprinted, the department must write it on the invoice.
- Invoices must be verified for mathematical accuracy. If an error is discovered, the department must either contact the vendor and request a revised invoice or receive verbal approval from the vendor to correct the invoice. If an invoice is corrected, the name of the individual with the vendor who authorized the change must be written on the front of the invoice.
- Prompt payment discounts must be taken whenever possible. Invoices with cash discount terms must receive priority processing to help ensure payment within the discount period. If a difference exists between discount terms on a purchase order and those on an invoice, the discounts most favorable to the university must be taken. Discounts do not normally apply to freight items.

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- Tennessee sales tax must be deducted. ([Click here to access the Tennessee Sales Tax Certificate Exemption.](#))
- The cost center/WBS element(s) and appropriate general ledger (G/L) account(s) to be charged must be entered into IRIS and the invoice must be attached to the IRIS transaction.
- After the materials or services identified on an invoice have been delivered or performed, the accounting information associated with the payment can be entered into the IRIS system or recorded on the invoice if it is forwarded to another department for entry into IRIS.
- The actual invoice must be marked paid, scanned, and attached to the applicable IRIS transaction. It will then be routed to the employee authorized to approve expenditures for the department. This individual must review the accounting information, review the attached invoice, and approve or reject the transaction
- Before processing certain types of invoices, the following special requirements must be noted:
 1. For movable equipment and sensitive minor equipment, an asset record must first be created in the university's accounting system. For more details, see [FI0605 - Equipment](#).
 2. For entertainment expenses, invoices must contain all information identified in [FI0715 - Entertainment, Group Arranged Events, Food and Housing Purchases for UT Sponsored Conferences and Seminars](#).
 3. For printing documents for distribution outside the department, such invoices (charged to G/L 433100) must contain a publication authorization number. Contact the designated campus or unit department for information on obtaining this number (or waiver from obtaining a number).
 4. For invoices/T-27 forms for foreign vendors, a "[Statement for Services](#)" form must be attached.

[Approving Invoices for Payment](#)

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14. The [IRI USER ID REQUEST/CHANGES FORM](#) is used to establish approvers for the university's accounting system. [FI0150 - Approvals](#) provides the overall guidelines for identifying approvers and authority for delegating approvals.

[Retaining Invoices](#)

15. Copies of invoices must be retained until after the ledger reconciliation and the ledger must reference the IRIS transaction to enable fast retrieval. Invoices related to federally sponsored projects may require a longer retention period. Departments must contact the sponsor before disposing of these records. See [FI0120 - Records Management](#) for the record retention requirements and suggested filing procedures. Documents associated with refunds must be retained in the department for 6 years or longer if required by the sponsor of a federally funded project. See [REFUND FORM](#).

[Invoices Processed Centrally](#)

16. Most invoices may be entered in the university accounting system by departments. The Treasurer's Office, however, must enter the following items.
- Invoices with the amount to be paid shown in a foreign currency. The cost associated with converting the currency to U.S. dollars will be billed to the cost center/WBS element charged for the transactions.
 - Invoices to non-resident aliens, even if the amount is in U.S. dollars. All non-resident aliens must complete the university's "University of Tennessee Independent Contractor/guest Traveler Form" and attach all applicable documents listed on the Payroll Office's website for non-resident aliens <http://payroll.tennessee.edu/nraic.htm> before any payments can be processed. These documents must be attached to the invoice or T-27 form and forwarded to the Treasurer's Office.
 - Credit memos when the vendor requests a payment
17. The Treasurer's Office or campus/unit business office must review invoices for payment of travel expenses paid directly to a vendor. (See [FI0705 - Travel](#).)

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18. Departments are responsible for maintaining copies of all invoices and forms sent to the Treasurer's Office or Campus Business Office for central processing. Copies must be kept until after the ledgers have been reconciled.

Electronic Invoices

19. Certain vendors in the UT Market Place will transmit electronic invoices for orders placed in the UT Market Place. These will be charged to the account(s) associated with the order, after the department indicates that the goods have been received. The receipt of the goods is done in the UT Market Place. A system-generated invoice will be transmitted from the UT Market Place to IRIS and attached to the appropriate departmental ledger for reconciliation purposes. Assets purchased through the UT Market Place will require the departments to create an asset number before the electronic invoice can be processed by the System Accounts Payable office. All credit memos associated with these vendors will also be processed centrally by the System Accounts Payable office. To prevent duplicate payments, departments will not be able to process invoices to vendors participating in electronic invoicing. Electronic invoices will not impact P-card purchases in the UT Market Place and this is the preferred method of settlement.

Refunds

20. The university returns funds to individuals, institutions, and companies for a variety of reasons including: overpayments, duplicate payments, payments received in error, cancellations and some deposits. Each department that issues refunds must develop and follow its own policy concerning the amount and authority for processing refunds. These refund policies must be reviewed and approved by the campus Chief Business Officers. Campus Chief Business Officers (or designee) can require refund processing to be handled centrally.
21. Each refund must be supported by documentation that includes:
- name of the person, institution or company receiving the refund (original payor)
 - mailing address

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- reason for the refund
- university receipt number or deposit information of when the money was originally received
- dollar amount of refund
- cost center, fund, WBSE, general ledger account where the refund is to be charged (usually the same cost center, fund, WBSE, general ledger account of the original receipt)
- department head's approval

Note: The "[REFUND](#)" form can be used to provide this information.

Payment Options

22. The university has four payment options. The vendor will be required to select one of these methods during the vendor creation process.

- E-Payables - The University's preferred payment method is E-payables in which a single use credit card number is provided to the vendor. Once a payment is approved, the vendor is notified and they can process the payment through their credit card processor for the amount owed. The payment terms for E-Payables are "Net" meaning that the payment will be made as soon as the goods or services have been received and the invoice has been authorized for payment.
- Direct Deposit (ACH) - If a vendor is not willing to accept E-Payables as a method of payment, the university will make every effort to pay them via a direct deposit into the vendor's bank account. The payment terms for direct deposit are Net 30 (N30).
- Checks - Processing payment checks for vendor payments is time consuming and more expensive for the university than E-Payables or ACH. Thus, payments by this method are discouraged and the payments terms are Net 40 (N40) in accordance with the Prompt Payment Act described below.
- Wire Transfer - Wire transfers will only be processed for international vendors if a purchase order or a contract requires a payment in this manner. This is a manual and very expensive manner to process payments. All fees associated

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with these payments will be charged to the department making this request. If a wire is required and is not covered by a purchase order or contract, there will be an additional administrative fee charged to the department.

23. The university will comply with the payment terms specified in a university purchase order or contract. If the vendor, however, accepts E-Payables, the payment terms will be Net.
24. In 1985, the Tennessee General Assembly enacted the Prompt Payment Act. This legislation established vendors' rights to collect interest from state agencies on delinquent accounts at 1.5 percent per month on the outstanding balance after 45 days of the receipt of the invoice or date the goods or services were received, whichever is later.
25. Departments are responsible for maintaining proper documentation to ensure compliance with the Prompt Payment Act. This may be accomplished by performing the following:
 - Upon receipt of an invoice, the date received (month, day, year) must either be written or stamped on the invoice.
 - If the invoice is received before the goods, the date the goods are received (or services performed) should be written on the invoice or delivery ticket. Payment terms will begin when the goods are received.
 - Other concerns such as defective goods and/or partial shipments should be documented.
26. Interest payments for delinquent accounts will be made only upon receipt of an original invoice from the vendor and verification that such payment is due. The department is responsible for this verification and the cost of the interest. The following steps should be followed when paying an invoice that contains an interest charge.
 - The original invoice and the contract or purchase order number should be referenced on the original interest invoice.
 - All interest payments must be charged to the cost center/WBS element used for the original invoice. General ledger account 442300 should be used for the interest expense classification.

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- Information from the invoice for interest should be entered into the university's accounting system and approved by the department for processing and payment.
27. If the department determines that an invoice for interest is not due, the department must notify the vendor and provide the necessary documentation and/or reasons to refute the interest charge.

Deadline for Fiscal Year Expenditures

28. Departments should note the following guidelines to ensure the prompt submission of expense items.
- Designated personnel in each department must process invoices, payrolls, cash items, travel expenses, and return all undelivered checks prior to the close of the fiscal year.
 - All expense items incurred before June 30 must be paid in the current fiscal year and may not be held and charged against the following fiscal year. Conference registrations may be pre-paid up to six months in advance, if the payment results in savings to the university.
 - Outstanding purchase orders for items not delivered before June 30 will be encumbered against appropriations for the following fiscal year.
 - Maintenance agreements beginning in July, or subscriptions and memberships beginning in September or later, must be paid from funds for the following fiscal year.

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Payments Processed on a T-27

29. If the vendor is unable to provide an invoice, the [T-27, REQUEST FOR SPECIAL PAYMENT](#) (see Appendix A), must be entered and attached in the university's financial system (unless one of the items specified in #11 above.) This would typically include payments for awards, honorariums, speaking fees, event ticket settlements and other similar events. If an invoice is provided by the vendor, the T-27 should not be used and the invoice should be entered and attached in the university's financial system.
30. The following payments cannot be processed using the [T-27](#) form:
- Payments to employees with the exception of royalty and clinical trial payments. All other payments to employees should be processed through the payroll system.
 - Academic payments to students including scholarships, fellowships, and other academic awards. These payments should normally be processed through the campuses' financial aid office. The campus financial aid office should be consulted before submitting payments of this nature to the accounts payable office.
31. Before submitting the FORM T-27, the department should make sure that the proposed vendor has been established in the IRIS system. If the vendor does not exist, the department should send a request to the vendor to create an account.
32. The university department that receives services outlined in the T-27 is responsible for determining that the services have been satisfactorily performed, the charges are appropriate and the appropriate department personnel have authorized the payment. The department is also responsible for maintaining records supporting the services provided. Final payment should not be requested until all work and contractual obligations have been fulfilled.
33. As noted above, payments to a non-resident alien must be entered by the Treasurer's Office. For payments to a non-resident alien, the university's "Independent Contractor/Guest Traveler Form" must be completed and all applicable documents must also be completed and attached to the T-27 before a payment can be processed.

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See the Payroll Office's website for more information on processing non-resident alien payments <http://payroll.tennessee.edu/nraic.htm>

Forms

- [FI0725-Appendix-A.pdf](#)
- [Instructions to Access IRIS User ID Request/Changes Form](#)
- [Refund Form](#)
- [Statement for Services](#)
- [Worker Classification Questionnaire](#)

PROCEDURES:

To view links to campus policies and procedures, click here:

<https://policy.tennessee.edu/campus-policies-procedures/>

FOR MORE INFORMATION:

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Related Policies: [FI0150 - Approvals](#), [FI0120 - Records Management](#), [FI0450 - Moving Stipend](#), [FI0605 - Equipment](#), [FI0705 - Travel](#), [FI0715 - Entertainment, Group Arranged Events, Food and Housing Purchases for UT Sponsored Conferences and Seminars](#)