



Agency Policies and Procedures

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**Ordering, Receiving, and Payment Processing
(Three-Way Match)**

Policy Objectives:

Agency policies and procedures for procuring goods and services are designed to ensure that:

- Goods and services are acquired only when necessary in a cost effective, legal, and efficient manner,
- The three-way match of a purchase order (PO), packing slip, and the invoice occurs before payments are made, and appropriate entries are made in the state's accounting system, and
- Sufficient internal controls exist, that when operating effectively, provide reasonable assurance of agency compliance with pertinent financial laws, policies and procedures, and reliable financial information in the Minnesota Accounting and Procurement System (MAPS) data warehouse.

Effective Implementation Date: February 12, 2007

Background Information:

This policy and procedure relates to the preparation and processing of POs, the receipt of goods or services, and the payment of invoices. These agency policies and procedures supplement the Department of Administration (Admin) Materials Management Division's *Authority for Local Purchase (ALP) Manual* and the *MAPS Operations Manual*.

During 2002-2003 the Financial Management and Reporting Division (FMR) launched a mini-audit project for payments processed in MAPS. The project's objectives included improving accounting and financial reporting practices within the agency and enhancing compliance with pertinent financial laws, policies and procedures. To achieve these objectives, FMR developed *Payment Processing Guidelines*. These guidelines assist MAPS users in knowing what represents (1) acceptable and unacceptable documentation for the receipt and payment of goods and services, (2) the proper dates to enter in MAPS to indicate when goods or services were received, when the invoice was received, and when prompt payment should occur, and (3) a proper authorization of invoices for payment processing. These guidelines also supplement this policy; an Internet link to them can be found in the See Also section of this document.

This policy and procedure revision is Admin's intent to implement a more centralized environment for its purchasing and payment functions. This will be a significant departure from the largely decentralized structure that exists at the time of this revision. FMR will lead the agency through this transition. This policy and procedure revision already takes into consideration and addresses any centralization plans made as of the policy and procedure revision date.

When the term “purchase order” is used in this document, the reader should be aware that this term is used in the broadest sense to include professional/technical service contracts and other agreements.

When the term “packing slip” is used in this document, the reader should be aware that this term is used in the broadest sense to include receiving reports and other substitute receipt documentation.

Authority:

- [Minnesota Statute 15.06, subd. 6\(4\) *General Powers of Commissioners*](http://www.revisor.leg.state.mn.us/stats/15/06.html) – This statute specifies the general powers of a state commissioner to prescribe procedures for the internal management of a department (<http://www.revisor.leg.state.mn.us/stats/15/06.html>).
- **MAPS Operations Manual:**
 - [Policy and Procedure 0702-02 *Obligations Incurred Before Funds were Properly Encumbered/ Budgeted*](http://www.mmb.state.mn.us/chapter-7/344-344) – This policy document specifies that agencies should develop internal procedures for (1) ensuring proper management of obligations and transactions paid through Common Inbound Transaction Architecture (CITA) and Interface Warrant Print (IWP), and (2) handling all Minnesota Statutes 16A.15, subd. 3 and 16C.05, subd. 2 violations. (<http://www.mmb.state.mn.us/chapter-7/344-344>).
 - [Policy and Procedure 0705-03 *Professional/Technical Service Contracts*](http://www.mmb.state.mn.us/chapter-7/363-363) – This policy document specifies that agencies should have their own internal policies and procedures on contracting which expand on the requirements found in the *Contracts Manual*, and establish specific internal processing steps (<http://www.mmb.state.mn.us/chapter-7/363-363>).
 - [Policy and Procedure 0803-01 *Payment Requests, Preparation and Approval*](http://www.mmb.state.mn.us/chapter-8/313-313) – This policy document states that agencies may also choose to set their own tolerance level that allows a payment to be processed for more than originally encumbered (<http://www.mmb.state.mn.us/chapter-8/313-313>).

Business Risks:

Noncompliance and/or inconsistent application of this policy increases the likelihood for:

- Fraudulent activities to occur when incompatible duties are performed by the same individual,
- Purchasing that conflicts with statutory requirements,
- Acceptance of incorrect or inferior materials and supplies,
- Failure to pay promptly and take advantage of early payment discounts,
- Improper payment requests and unauthorized receipt of goods or services,
- Improper payments to vendors,
- Inaccurate input of data into MAPS, and
- Missing documents or information.

Policies and Procedures:

1. Internal Controls

- A. Division management must separate duties for ordering, receiving, and payment processing among employees to ensure that no one person has control over all three functions. In smaller offices without sufficient staff to allow the optimum separation of duties, management should place greater reliance on having mitigating controls in place. Such controls include management’s review and authorization of invoices prior to payment, or another individual’s (one who is not involved in ordering, receiving, or processing payments for goods or services) analysis of monthly expenditure reports for appropriateness.
- B. Employees entering orders and/or processing payments in MAPS must obtain adequate training to perform their assigned duties. At a minimum, this training should include appropriate MAPS training and FMR-provided training on the content of this policy.

- C. Employees performing purchasing activities (e.g., coordinating the solicitation process and awarding POs) must be certified at the appropriate ALP level.
 - D. Appropriate invoice payment tolerance levels must be specified in MAPS:
 - 1. Persons authorized to set Admin's invoice payment tolerance limits include employees cleared for the Agency Database Tables (ADAT) and the Reference Tables (REFR) security groups. Employees with ADAT clearance are limited only to each FMR accounting director (and respective back-up personnel) and the MAPS agency security officer.
 - 2. Payment tolerance limits must be set at 50% of the original encumbrance amount, not to exceed \$50. Note: Payment tolerance limits do not apply to blanket POs as MAPS will not permit payments to be processed beyond the encumbered amount.
 - 3. The tolerance limits are designed to enable one to process the payment of an invoice when the invoice total exceeds the PO amount due to additional legitimate unanticipated charges (e.g., freight/delivery charges, or sales taxes). Examples of charges that are not legitimate include:
 - a. The vendor ships and invoices a larger quantity of an item than was ordered. In this situation, the division should contact the vendor to coordinate the return of the unordered goods if appropriate. The division should only pay for the goods that were ordered and/or accepted.
 - b. The vendor's invoice includes a freight charge. However, a written bid request from the division clearly stated that the vendor should itemize any freight charges in its bid, and the vendor's subsequent bid did not specify a freight charge. In this case, the freight charge should not be paid.
 - c. The vendor's invoice includes sales tax. However, the goods being purchased are covered by the state's *Direct Pay Permit* (ST-I). In this case, the division should deduct the sales tax from the vendor's invoice when stated on a separate line and contact the vendor about *Direct Pay Permit* (ST-1). When payment is processed for goods with the commodity code tax indicator of "Y", MAPS will automatically generate a payment for the sales tax directly to the Minnesota Department of Revenue. If tax indicator is "N", no sales tax payment is generated automatically through MAPS.
 - E. Each division must maintain an official, current list of employees delegated with authority to approve purchase requests. Divisions/boards/councils for whom FMR processes orders must supply this list, along with the employee signatures, to the appropriate FMR order processing personnel.
 - F. Each division must maintain an official, current list of employees delegated with authority to approve payments. Divisions/boards/councils for whom FMR processes payments must supply this list, along with the employee signatures, to the appropriate FMR payment processing personnel.
2. Requesting and Ordering Goods or Services
- A. Agency personnel identifying a need for goods or services should submit an approved written purchase request, as directed below, to the appropriate purchasing staff for preparation of the PO.
 - 1. Use of the *Purchase Request* form (FMR-005-02) is strongly recommended for all purchases, especially those for capital assets, betterments, and sensitive items. For purchase requests being sent to FMR for order creation, the *Purchase Request* form is required.
 - 2. If this form is not used, the written purchase request must contain, at a minimum, the following data:
 - a. Requestor's name, phone number, and date,
 - b. MAPS funding string (with object code, if known),
 - c. Suggested vendor name and address (if available),
 - d. Name and "ship to" location of person to receive the goods or services,
 - e. "Bill to" location,
 - f. Requested delivery date,
 - g. Product code (if the requestor knows this data for the specific product that is being requisitioned),
 - h. Quantity,
 - i. Description (also indicate if the item is for resale or for division use),
 - j. A note if the item requested is a sensitive item, consumable inventory, capital asset and/or betterment (provide the asset number for any requested capital asset or betterment),
 - k. Unit price,
 - l. Total price, and

- m. Signature of person with spending authority (e.g., manager's approval) and date signed.
 3. If a purchase includes the trade-in of any existing state property, submit a completed *Property Disposition Request* (PDR) form with the *Purchase Request* form (FMR-005-02) or the written purchase request. The PDR form must contain the appropriate Materials Management Division manager's signature indicating that the state property is approved for trade-in. The fair value must also be indicated on the PDR form.
 - B. Upon receipt of a completed, approved *Purchase Request* form (FMR-005-02) or the approved written purchase request, the purchaser procures the requested goods or services in accordance with the appropriate procurement laws and established purchasing policies and practices.
 1. The purchaser or designee enters the purchasing data into MAPS following the *MAPS Point of Entry* guidelines. This action results in an encumbrance of funds as required by statute to ensure that funds will be available at the time of payment.
 2. To avoid common purchasing errors and/or omissions, attention should be given to the following:
 - a. Contracts must be encumbered before authorization to begin work is given.
 - b. All procurements under Minnesota Statutes Chapter 16C (goods, services, biddable utilities, construction, and professional/technical contracts) require an encumbrance prior to incurring an obligation.
 - c. All other obligations not covered by Minnesota Statutes Chapter 16C, with the exception of specific expenditure items that are itemized in MAPS Operations Manual Policy and Procedure 0702-01, *Obligations Incurred Before Funds were Properly Encumbered/Budgeted*, require an encumbrance. However, if these obligations are less than \$2,500, an expense budget is sufficient.
 - d. Field purchase orders (FPOs) should be limited to purchasing commodities only (not services) costing less than \$2,500. FPOs should be used only in immediate-need situations when an employee is not in his or her primary work location and normal purchasing procedures cannot be followed. FPOs should not be used on a routine basis.
 - e. If the vendor's bid includes freight/shipping, a separate line should be included in the PO.
 - f. Certain vendor payments are not covered by the *Direct Pay Permit* (ST-1). Examples include purchases of food, beverages, lodging, motor vehicles, and cellular phone service. As designated in the Minnesota Department of Revenue's *Direct Pay Permit* (ST-1) that is linked to MAPS Operations Manual Policy and Procedure 0807-01, *Sales Taxes on State Agency Payments*, a separate line should be included in the PO for sales tax.
 - g. The PO text should itemize any existing state property (including asset number, if applicable, and its trade-in value) that is being traded-in as part of the purchase for any new goods.
 3. The purchaser or designee signs the PO.
 4. The original PO is submitted to the vendor according to division procedures.
 5. A copy of the signed PO will be retained in the division creating the PO. For purchases of capital assets, betterments, sensitive items, and consumable inventory items, a copy of the signed PO must be sent to the division property management coordinator. Upon request, a copy of the signed PO should be sent to the requester, budget manager, or "ship to" location. The PO is a legal document that binds Admin to the terms stated in the document. These documents are used later in the three-way match process for comparison when goods or services are received and when the vendor's invoice is received.
3. Receiving Goods or Services
- A. When the goods are received, compare the package contents with the specifications and quantity of the good(s) indicated on the PO and the packing slip to ensure that the agency received what was ordered and what the vendor sent.
 - B. Determine if the good(s) is/are in good condition or determine if the services are acceptable. If the goods or services do not agree with the PO or are unacceptable, contact the vendor to resolve the issue (e.g., when the quantity received is less than the quantity ordered) or to make arrangements to return the goods. Note on the packing slip the problem, the resolution, and the date resolved with the vendor.

- C. Return the good(s) to the vendor that do not agree with the PO or are unacceptable. The state does not pay for goods that were not received or not ordered. An exception would be a small overrun within the payment tolerance limits that the division decides to accept. If goods/services are accepted that exceed the payment tolerance limit, the division's decision must be documented with the division budget manager's approval on the packing slip and by increasing the encumbrance in MAPS.
- D. Record the date of receipt of the good(s) or acceptance of the services on the packing slip, and sign the packing slip to approve the receipt of acceptable good(s) or services. In the absence of a packing slip, refer to the *Payment Processing Guidelines* for acceptable documentation.
- E. The original packing slip should be submitted to payment processing personnel. It is optional to retain a copy of the packing slip and attach it to the division's copy of the PO.
- F. Record the receipt in MAPS if using the three-way-match process. In the AGPS component, indicate the date the goods or services were received in the "receipt date" field. In the GFS component, indicate the date the goods or services were received in the "date of receipt" field.

4. Paying the Invoice

- A. On the invoice, stamp or manually record the date that the invoice was first received by the agency. Central Mail, in its function of mail delivery, is not considered the first to receive the invoice in the agency.
- B. Confirm that the invoice is the original invoice or other acceptable documentation as noted in the *Payment Processing Guidelines*. If it is necessary to pay from a document that is not the original invoice (e.g., a fax copy of the invoice), indicate on the invoice why the original invoice is not available and initial after these comments.
- C. Verify the invoice as follows:
 - 1. Confirm that the invoice agrees with all the terms of the PO, and if appropriate, the packing slip. To avoid common errors and/or omissions, attention should be given to paying the appropriate vendor, and properly paying any applicable sales tax and/or any shipping/handling fees.
 - 2. If an invoice is incorrect or improper, notify the vendor within ten business days of discovering the error. Document all discussions with the vendor. The employee contacting the vendor should make notations of any agreed upon adjustments on the invoice, and initial and date the invoice. If the vendor is okay with the person adjusting the invoice and making payment accordingly, then continue the payment processing procedures.
 - 3. Alternatively, if the vendor provides a corrected invoice or credit memo, make payment from this document and /or attach the credit memo to the original invoice.
- D. Obtain written approval from the appropriate authority to process payment to the vendor. The following exceptions to this required procedure exist:
 - 1. Payment personnel may process an invoice for payment without additional review and division authorization only in instances when the original invoice and the packing slip (acknowledging acceptance of goods/services) match the PO exactly.
 - 2. In addition, in situations where FMR is processing payments for division/boards/councils, FMR can approve payments under the following circumstances if the invoiced division and FMR have agreed to these procedures in a written and approved service level agreement:
 - a. FMR may process an invoice for payment without additional review and authorization when the invoice amount is less than the PO but the charges are legitimate and not in error (e.g., the vendor decides to further discount the selling price after receiving the PO.)
 - b. FMR may provide the authorization to pay if the invoice is higher than the PO, but only if the additional charges are legitimate and should have been included on the PO, and the overage is no greater than the tolerance limits set by agency policy (50% of PO amount, not to exceed \$50).
 - c. FMR may provide payment authorization for invoices against blanket orders established for routine, recurring services (e.g., utility services, pager services, postage costs, photocopier rental, etc.) if the invoiced amounts are reasonably predictable and consistent with the obligations the blanket order was intended to cover. FMR must not provide authorization for payment of telephone or similar charges where the division/board/council must review and approve the charges for internal control purposes. For any contractual agreement, the state's authorized

- representative, as identified in the contractual agreement, must approve the original invoice for payment processing.
- E. Forward the approved invoice to appropriate payment processing personnel.
 - F. If processing a payment from a fax copy of an original invoice or another acceptable copy of an original invoice, prior to processing the payment, the payment processor must:
 - 1. Confirm that the invoice is an acceptable copy of the original invoice, as identified in the *Payment Processing Guidelines*, and
 - 2. Check the state's accounting system and/or data warehouse to ensure that the invoice has not been paid previously.
 - G. Process the invoice for payment in the appropriate MAPS component. If an order was not created, follow the *MAPS Point of Entry* guidelines to determine the proper MAPS component to use.
 - 1. If the vendor offers an early payment discount, plan to process the invoice payment expediently within the early payment discount period specified on the invoice. Check for any other discounts that may apply, e.g., bulk purchase discounts. Make a notation on the invoice of any discounts taken and the amount paid.
 - 2. If the vendor does not offer an early payment discount, plan to make payment of the invoice within 30 days following acceptable receipt of the invoice, merchandise, or service, whichever is later. If the vendor invoice is not paid within the 30-day prompt payment period, enter the appropriate prompt payment reason code (e.g., L for late payment, C for contested payment, etc.) into MAPS.
 - 3. Utility and telephone payments are exempt from the prompt payment law. Their terms and late fees supersede those of the prompt payment law. Utility and telephone company invoices should be paid by the invoice or account statement due date. Interest charges for such companies will normally appear on the next billing cycle invoice.
 - 4. As part of processing the invoice for payment, record the receipt of the invoice and the receipt of the goods or services in MAPS (if it hasn't already been entered). (Note that in MAPS, the "receipt date" or "date of receipt" is the date that the goods were received or services were rendered, and the "invoice received date" is the date that the invoice was received.)
 - 5. If the vendor's remittance address in MAPS is not the same address indicated on the invoice, verify that the correct vendor number (including 2-digit location code) is being used. Update the vendor file listing, as necessary, with the correct remittance address.
 - 6. After processing the payment in MAPS, initial, identify the scheduled pay date, write the voucher number on the invoice, and provide the date that the payment was entered into MAPS.
 - 7. For purchases of capital assets, betterments, sensitive items, and consumable inventory items, provide a copy of the payment documentation to the appropriate division property management coordinator for recordkeeping purposes.
 - F. Divisions will file and retain original invoices. It is preferable to file original invoices by fiscal year and then in alphabetical order by vendor name. For those divisions/boards/councils for whom FMR processes payments, the original invoice and attached documents will be retained in FMR. Invoices must be retained for at least six years to satisfy legal requirements.
5. Handling Minnesota Statutes 16A.15, subd. 3 and 16C.05, subd. 2 Violations
- A. Any employee responsible for authorizing an obligation or executing a contract (signed by all parties) prior to the required expense budget/encumbrance must complete the appropriate violation form: *the Purchasing Violation Form* or the *Minnesota Statutes 16A.15-16C.05 Violation Form*. Each form describes the circumstances under which the violation occurred. An Internet link to each form can be found in the Forms section of this document.
 - 1. The *Purchasing Violation Form* must be used for violations relating to a non-P/T contract purchase made under an individual's authority for local purchase.
 - 2. The *Minnesota Statutes 16A.15-16C.05 Violation Form* must be used for violations relating to professional/technical contracts.
 - B. The employee responsible for the violation must sign the violation form and forward it to the appropriate agency authority for review and signature depending upon the type of violation.

1. The minimum signatures required for the *Purchasing Violation Form* are the person responsible for the violation, that person's supervisor, the agency head (or designee), and the FMR accounting director.
 2. The minimum signatures required for the Minnesota Statutes *16A.15-16C.05 Violation Form* depend upon which violation occurred.
 - a. A Minnesota Statute 16A.15, subd. 3 violation requires the signatures of the person responsible, the deputy/assistant commissioner, and the FMR accounting director.
 - b. A Minnesota Statute 16C.05, subd. 2 violation requires the signatures of the person responsible for the violation and the deputy/assistant commissioner.
 - C. For each violation form that the FMR accounting director must sign, the FMR accounting director must assign a control number to the violation, record the violation, and file a copy of the original violation form in the agency log. In addition to copies of the violation forms, this log contains a list that reports the assigned control number for each violation, the division name associated with the employee responsible for the violation, the obligation amount, and the obligation date. The FMR accounting director is responsible for returning the completed, signed original violation form to the person responsible for the violation in the division.
 - D. The person responsible for the Minnesota Statutes 16A.15, subd. 3 and/or 16C.05, subd. 2 violation is responsible for distributing the original and copies of the completed, signed violation form as follows:
 1. A copy of the appropriate form (refer to procedure 5.B.2 above) for a Minnesota Statute 16A.15, subd. 3 violation should be sent to the Director of Admin's Materials Management Division only if the obligation amount exceeds the purchaser's Authority for Local Purchase level.
 2. A copy of the appropriate form (refer to procedure 5.B.2 above) for a Minnesota Statute 16C.05, subd. 2 violation should be sent to the Director of Admin's Materials Management Division.
 3. The original completed, signed violation form should accompany the payment documentation to avoid processing delays.
 - E. The FMR accounting director should periodically monitor activity reported in the log to ensure that divisions within the agency are taking appropriate actions to prevent these violations from recurring.
 - F. Refer also to MAPS Operations Manual Policy and Procedure 0702-02, *Obligations Incurred Before Funds were Properly Encumbered/Budgeted*, for a list of actions that are not considered a violation of either Minnesota Statute 16A.15, subd. 3 or 16C.05, subd. 2.
6. Exceptions Granted on a Case-by-Case Basis
- A. Exceptions to the procedures contained in this policy will be made on a case-by-case basis with prior written approval from the agency Financial Management Director or designee.
 - B. Divisions requesting an exception should submit a written, detailed justification to the agency Financial Management Director of the need to deviate from complying with one or more provisions in this policy.

Forms:

FMR-005-02 [Purchase Request](#)
[Property Disposition Request](#)
[Purchasing Violation Form](#) for all Minnesota Statutes 16A.15, subd. 3 and 16C.05, subd.2 violations except those relating to professional/ technical contracts

(<http://www.mmd.admin.state.mn.us/Doc/violation.doc>)

[16A.15-16C.05 Violation Form](#) for Professional/Technical Contract

(<http://www.mmd.admin.state.mn.us/pdf/0716a15-16cmemo.pdf>)

(When you access this link, the form is found on page 4 of 6 of Section 7 of the Professional /Technical Contract Manual.)

FMR-009-01 [Request for Approval to Incur Special Expenses](#)

(<http://www.admin.state.mn.us/fmr/documents/Policies%20&%20Procedures/Forms/FMR-009-01%20Request%20to%20Incur%20SpecialExpense.pdf>)

See Also:

FMR-4C-01 [*Employee Travel Expenses*](#)

(<http://www.admin.state.mn.us/fmr/documents/Policies%20&%20Procedures/Procurement-Expenditures/FMR-4C-01%20Employee%20Travel%20Expense.pdf>)

FMR-004-01 [*Authorization for Out-of-State Travel*](#)

(<http://www.admin.state.mn.us/fmr/documents/Policies%20&%20Procedures/Forms/FMR-004-01%20out-state-travel%20authorization.doc>)

FMR-4D-01 [*Special Expenses*](#)

(<http://www.admin.state.mn.us/fmr/documents/Policies%20&%20Procedures/Procurement-Expenditures/FMR-4D-01%20Special%20Expenses.pdf>)

[*MAPS Operations Manual Chapter 7 Procurement*](#)

(<http://www.mmb.state.mn.us/chapter-7>)

[*MAPS Operations Manual, Chapter 7A Purchasing Services from the Department of Administration*](#)

(<http://www.mmb.state.mn.us/chapter-7a>)

[*MAPS Operations Manual Chapter 8 Expenditure and Interagency Expenditures*](#)

(<http://www.mmb.state.mn.us/chapter-8>)

[*MAPS Point of Entry Guidelines*](#)

(<http://www.mmb.state.mn.us/doc/maps/ref-entry.pdf>)

Minnesota Department of Revenue [*Direct Pay Permit*](#) (ST-I)

(<http://www.mmb.state.mn.us/doc/maps/forms/fi807dp.pdf>)

Minnesota Rule 8130.3400 [*Direct Pay Permit Procedure*](#)

(<http://www.revisor.leg.state.mn.us/arule/8130/3400.html>)

[*MAPS User Advisories*](#)

(<http://www.mmb.state.mn.us/maps-adv>)

[*Authority for Local Purchase \(ALP\) Manual*](#) and correspondence from the Department of Administration's Materials Management Division regarding updates to procedures for ordering and/or paying for goods and services

(<http://www.mmd.admin.state.mn.us/alpmanual.htm>)

[*Agency Information Bulletin 03.19 - Property Management Reporting and Accountability*](#)

(http://www.state.mn.us/portal/mn/jsp/content.do?agency=Administration&action=content&contenttype=EDITORIAL&contentkey=Bulletin_0319_Property_Management_Reporting_and_Accountability_060105021449)

[*Payment Processing Guidelines*](#)

(<http://www.admin.state.mn.us/fmr/documents/Policies%20&%20Procedures/Reference/Payment%20Processing%20Guidelines/February%202007%20PAYMENT%20PROCESSING%20GUIDELINES.pdf>)

Minnesota Department of Revenue [*Sales Tax Fact Sheets*](#)

(http://www.taxes.state.mn.us/taxes/sales/publications/fact_sheets_by_name/sales_fact_sheet_by_name.shtml)

Refer to the *Glossary* for definitions of the key terms listed below:

betterments

capital assets

consumable inventory

demand survey

direct pay permit

field purchase order (FPO)

MAPS funding string

master lease