

# Cash (Petty Cash, Change Funds and Credit Cards are included)

## CASH

As public servants, it is our responsibility to safeguard taxpayer's dollars while adhering to laws and regulations governing processes over cash handling. Internal controls over cash are necessary to prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process. "Cash" includes coin, currency, checks, money orders and credit card transactions.

There are many reasons for placing controls in various points in these processes that may appear bureaucratic, but are necessary to ensure internal control guidelines are followed and there is accountability to the taxpayers. *This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk. Each entity is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them.* Examples of the results of cash controls are to support that:

Cash receipts rules and regulations are complied with.

Initial control over cash is established.

All cash receipts are recorded and deposited promptly.

Appropriate custody is maintained to protect assets from theft or misappropriation.

Disbursements are properly supported.

Segregation of duties is properly maintained.

### Control Objectives:

1. Controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.
2. Assets are safeguarded from loss through watchful and responsible care and reconciliation functions.
3. Segregation of duties, or mitigating controls, exists within transaction processes, custody, and recording functions.
4. Transactions and events are properly recorded.
5. Staff understands their duties, responsibilities, and accountabilities.
6. Cash handling practices are documented and in compliance with State laws and regulations and, for credit cards, in compliance with Payment Card Industry Standards.
7. Transaction activities are properly authorized.
8. Cash records for authorization and transactions are maintained in accordance with established requirements.
9. Transactions are properly verified before disbursement and records are maintained in accordance with established requirements.
10. Accountability for refunds and credits are maintained.
11. Accounting records are protected from theft, obsolescence, or destruction.
12. There is an accurate statement of cash on hand and in the bank.

### Segregation of Duties

Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are

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called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity.
- Managing custodial activities and record keeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

Stated differently, there are four kinds of functional responsibilities that should be performed by different work units, or at a minimum, by different persons within the same unit:

1. Custody of assets involved: This duty refers to the actual physical possession or effective physical control/safekeeping of property.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a computer system.
3. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions.
4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences.

The advantage derived from proper segregation of duties is twofold:

- Fraud is more difficult to commit because it would require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

Ideally, the following activities should be segregated:

Individuals responsible for data entry of cash deposits should not be responsible for approving these documents.

- Individuals who prepare/record checks should not sign the checks.
- Individuals who prepare/record checks should not reconcile the checking account.
- Individuals responsible for cash receipts functions should be separate from those responsible for cash disbursements.

### Example Segregation of Duties Controls Questions:

		Yes	No	N/A	Comments
1.	Are responsibilities for collection and deposit preparation functions segregated from those for recording cash receipts and general ledger entries?				
2.	Are responsibilities for cash receipts functions segregated from those for cash disbursements?				
3.	Are responsibilities for disbursement preparation				

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	and disbursement approval functions segregated from those for recording or entering cash disbursements information on the general ledger?				
4.	Are responsibilities for the disbursement approval function segregated from those for the disbursement, voucher preparation, and purchasing functions?				
5.	Are responsibilities for entries in the cash receipt and disbursement records segregated from those for general ledger entries?				
6.	Are responsibilities for preparing and approving bank account reconciliations segregated from those for other cash receipt or disbursement functions?				
7.	If computer software is used to account for cash or fund balances, is access to programs and functions within programs, limited to those who have a legitimate need?				
8.	If computer software is used to account for cash or fund balances does an independent person approve bank wire transfers for cash?				

### Example Procedural Controls Questions:

		Yes	No	N/A	Comments
1.	Is there a complete listing of all bank accounts that are under the agency's control?				
2.	Have all bank accounts been reported to a central accounting department or the State Treasurer?				

	<b>Do collections provide for the following:</b>	Yes	No	N/A	Comments
1.	Timely deposits of all receipts made according to State requirements?				
2.	Controls at each collection location, to assure timely deposit and accurate recording of collections?				
3.	Mail opened by two people?				
4.	Remittances by mail listed in duplicate at the time the mail is opened?				
5.	Listing prepared by a person other than the one opening the mail?				
6.	One copy of the listing forwarded, along with the money, to the cashier or depositor?				
7.	Other copy attached as supporting documentation to the accounting transaction?				
8.	A third person periodically comparing the list with the deposit record?				
9.	Amounts of currency contained in each item of mail verified by a second person?				
10.	Documents enclosed with currency are machine date stamped or dated and initialed by the employee opening the mail?				

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11.	A secure area provided for processing and safeguarding incoming cash receipts?				
12.	Access to the secured area restricted to authorized personnel, only?				
13.	Is the secured area locked when not occupied?				
14.	Cash protected by using registers, safes, or locks and kept in areas of limited access?				
15.	Timely notice of cash receipts at separate collection locations given to a central accounting department?				
16.	Cash received at branch locations transmitted to the central office or to the State Treasurer through the banking system?				
17.	Branch personnel restricted to making cash deposits, only?				
18.	Daily reported receipts at separate collection locations compared to records of a general accounting department?				
19.	Restrictive endorsements placed on incoming checks as soon as received?				
20.	"Not sufficient funds" checks delivered to someone independent of those processing and recording cash receipts?				
21.	Established procedures for follow-up of "not sufficient funds" checks?				
22.	If checks received are forwarded to be used as posting media to customers' accounts, are there controls to ensure checks are returned promptly for deposit?				
23.	If payments are made in person, are receipts controlled by cash register, pre-numbered receipts, or other equivalent means?				
24.	Receipts accounted for and balanced to collections records daily?				
25.	Pre-numbered forms accounted for, including a record of voided forms?				
26.	Facilities for protecting undeposited cash receipts?				
27.	Records maintained to assure correct handling and final disposition of items held in suspense?				
28.	Suspense accounting eliminated by direct deposit of money to the correct fund, as much as possible?				
29.	Delay of deposits avoided by making sure fund distribution is immediately determinable?				

	<b>Do disbursements procedures provide for the following:</b>	Yes	No	N/A	Comments
1.	Control over warrant, sight draft, or check-signing machines, as to signature plates and usage?				
2.	Procedures providing for immediate notification, as applicable, to banks, State Treasurer, and State Controller, when warrant, sight draft, or check signers leave the unit or are otherwise no longer authorized to sign?				

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3.	Furnishing invoices and supporting documents to the signer prior to signing the warrant, sight-draft, or check, to help assure funds are disbursed only for authorized purposes; and to help assure laws, rules, and regulations are followed?				
4.	Setting reasonable limits on amounts payable by facsimile signature?				
5.	Requiring two signatures on warrants, sight drafts, or checks over a stated amount?				
6.	Maintaining signature plates in the custody of the person whose facsimile signature is on the plate, when the plate is not in use?				
7.	Using plates only under the signer's control and recording of machine reading by the signer or an appropriate designee, to ascertain all signed warrants, sight drafts, or checks are properly accounted for by comparison to document control totals?				
8.	Direct delivery to the mail room of signed warrants, sight drafts, or checks, making them inaccessible to persons who requested, prepared, or recorded them?				
9.	Prohibiting the drawing of warrants, sight drafts, or checks to "cash" or "bearer"?				
10.	Controls to ensure all payments are made on a timely basis and in accordance with all purchase orders and contracts?				
11.	Controls to ensure duplicate payments are not made?				
12.	Are original invoices (no copies) totaling the amount of the disbursement attached to each voucher before payment?				
13.	Controls to ensure each cash disbursement is properly vouchered and approved by the proper authorities before the disbursement occurs?				

	<b>Do custody procedures provide for the following:</b>	Yes	No	N/A	Comments
1.	Maintenance of controls over the supply of unused and voided warrants, sight drafts, or checks?				
2.	Do the custodian and a responsible supervisor take monthly physical inventories of blank stock?				
3.	Proper authorization of bank accounts or rotary accounts?				
4.	Periodic reviews of and formal reauthorization of depositories?				
5.	Controls and physical safeguards surrounding petty cash funds?				
6.	Maintenance of fidelity insurance coverage?				
7.	Maintenance of separate bank accounts for each fund, or if not, fund control over pooled cash?				

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	<b>Do detail accounting procedures include the following:</b>	Yes	No	N/A	Comments
1.	Procedures ensuring collections and disbursements are recorded accurately and promptly in the correct fund or account?				
2.	Procedures for authorizing and recording inter-bank and inter-fund transfers and providing for proper accounting for those transactions?				

	<b>Do general ledger procedures provide for the following:</b>	Yes	No	N/A	Comments
1.	General ledger control over all bank accounts?				
2.	Delivery of bank statements and paid warrants, sight drafts, or checks in unopened envelopes directly to the employee preparing the reconciliation?				
	<b>Do general ledger procedures include the following steps, which are essential to an effective reconciliation?</b>				
3.	Comparison of warrants, sight drafts, or checks in appropriate detail with disbursement records?				
4.	Examination of signature and endorsements, at least on a test basis, to determine forgeries, alterations, improper endorsement?				
4.	Accounting for numerical sequence of warrants, sight drafts, or checks used?				
5.	Comparison of book balances used in reconciliations with balances in general ledger accounts?				
6.	Comparison of deposit amounts and dates with cash receipt entries?				
7.	Footing of cash books?				
8.	Review and approval of all reconciliations and investigation of unusual reconciling items by an official not responsible for receipts and disbursements, including recording evidence of the review and approval, by signing the reconciliation?				
9.	Periodic investigation of checks outstanding for a considerable time?				

### PETTY CASH/CHANGE FUNDS

#### Example Segregation of Duties Control Questions:

		Yes	No	N/A	Comments
1.	Is the custodian of the petty cash and/or change fund prohibited from handling more than one fund or other cash receipts?				
2.	Are the reimbursement vouchers approved by a				

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	responsible employee who does not have direct access to the petty cash?				
3.	Is the frequency of petty cash fund replenishments monitored by someone other than the fund custodian?				
4.	Is the depositing, reconciling and recording of the office/department/s receipts/collections done by someone other than the custodian of the petty cash and/or change funds?				

### Example Procedural Controls Questions:

	Is the petty cash and/or change fund:	Yes	No	N/A	Comments
1.	Properly authorized?				
2.	The responsibility of only one person?				
3.	Controlled by an imprest system?				
4.	Are petty cash vouchers signed by the person receiving the cash?				
5.	Are petty cash vouchers prepared in ink and required for each disbursement?				
6.	Are petty cash vouchers supported by an invoice with the amounts and purpose spelled out?				
7.	Are the vouchers and attachments properly canceled to prevent their reuse?				
8.	Is the petty cash and/or change fund verified by surprise counts?				
9.	Are IOUs, unauthorized advances, and personal checks prohibited?				
10.	Are petty cash funds restricted to disbursements not exceeding a fixed amount?				
11.	Are reimbursements made payable to the petty cash fund custodian?				
12.	Are petty cash and/or change fund balances for the activity's needs?				
13.	Are deposits reconciled to a control (i.e. cash register tape)?				

### C. Custody

		Yes	No	N/A	Comments
1.	Is the physical access to the petty cash and/or change funds restricted to only those people who have authority for its use?				
2.	Are petty cash and/or change funds physically kept in a locked container at all times to safeguard the funds against theft?				

## CREDIT CARDS

### Example Segregation of Duties Control Questions:

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		Yes	No	N/A	Comments
1.	Is the responsibility for processing a credit card payment segregated from the processing of a void?				
2.	Is the responsibility for processing a credit or refund segregated from the payment processing function?				
3.	Is the responsibility for reconciling credit card payments segregated from processing payments, voids, credits and refunds?				

### Example Procedural Controls Questions:

	<b>NOTE:</b> All agencies and departments should have strict security controls over credit card usage to mitigate risks. Merchant fees are based on the security procedures an organization has in place to prevent fraud.				
	<b>When credit cards are accepted in face-to-face transactions:</b>	Yes	No	N/A	Comments
1.	Before the transaction is electronically submitted for approval, is the amount reviewed to ensure the dollar amount charged is correct?				
2.	Is the name on the credit card and the last four digits of the account number compared to the data on the printed receipt?				
3.	Is the customer's signature on the sales receipt compared to the signature on the back of the card?				
4.	Is the name on the credit card verified against other personal identification in the possession of the user such as a photo ID?				
5.	Do <u>only</u> the last four digits and the expiration date appear on the cardholder's copy of the printed receipt?				
6.	If the credit card magnetic strip cannot be read, are there procedures for manually entering the credit card information?				
7.	If the card is declined, are there documented procedures for another acceptable form of payment?				

	<b>When credit cards are accepted over the telephone or by mail order:</b>	Yes	No	N/A	Comments
1.	Is the address verified by the person accepting the order? (Agency should have access to an Address Verification Service (AVS) which will verify the user's complete address when the credit card account number and zip code are entered.)				
2.	Is the 3 digit security number used to verify the card owner? Note: if this security number is not checked, it may cause your merchant rate to increase.				
3.	Are there procedures to ensure the document transaction includes the agency's identifying number (invoice number or license number) and				

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	the agency's customer service number?
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	<b>When credit cards are accepted over the internet:</b>	Yes	No	N/A	Comments
1.	Is the amount charged populated based on the customer's selection?				
2.	Does the web site adhere to fraud prevention measures? (for example, Address Verification Services, Card Validations Codes or other fraud prevention tool available from the issuing bank.)				

	<b>Credit Card Deposits and Settlements</b>	Yes	No	N/A	Comments
1.	Do credit card transaction deposits meet the requirements for your agency and State?				
2.	Are the daily receipts totals from all credit card processing devices printed and used to settle transactions for each business day?				
3.	Are the daily receipt transactions for each business day reconciled in a timely manner? (Recommendation: reconciliation should be completed on a daily basis for each day transactions are created. At a minimum, reconciliation should be completed on a weekly basis.)				
4.	Are variances investigated in a timely manner <u>and</u> reasons for the variance documented?				

	<b>Credit Card Reconciliations</b>	Yes	No	N/A	Comments
1.	Are employees trained to know when the settlement cut-off time occurs in order to correctly reconcile the daily transactions?				
2.	Are total credit card receipts reconciled on a daily basis to the total dollar value sold? (For example, total dollar amount reconciled to number of licenses issued via credit cards.)				
3.	Are the amounts reconciled on a day-by-day basis to a statement from the bank servicing the credit card?				
4.	Are the credit card amounts reconciled on a day-by-day basis to a merchant statement which also lists merchant fees?				
5.	Are the credit card amounts reconciled to State Treasury documentation?				
6.	Are reconciliations identified in the previous questions completed in a timely manner in order to meet agency needs and good business practice?				
7.	Are there documented procedures for employees to follow when credit card receipts do not reconcile to the statements identified in the previous questions?				
8.	When appropriate, are credit card receipts used to reconcile a reduction in inventory?				

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	<b>Credit Card Refunds</b>	Yes	No	N/A	Comments
1.	Is the refund policy clearly displayed or communicated to the customer at the time of the initial transaction?				
2.	Are credit card refunds issued in a timely manner, i.e., as near as possible to the date of the original transaction?				
3.	Is there appropriate documentation on file with the credit card refund? (example: documented reason for the refund, was the original entry verified, was the refund made according to the organizations timeline for refunds.)				
4.	Are credits issued to the same credit card used in the original transaction?				
5.	Are there documented procedures for employees to follow if the original credit card has been cancelled or expired?				

	<b>Credit Card Chargebacks</b>	Yes	No	N/A	Comments
1.	Are there documented procedures for employees to follow when a transaction is cancelled by the card issuer? (This usually arises when customers dispute the charge.)				

	<b>Safeguarding Credit Card Records</b>	Yes	No	N/A	Comments
	All agencies accepting credit cards for payment must be in compliance with Payment Card Industry (PCI) standards. More information about these standards can be found at: <a href="https://www.pcisecuritystandards.org/">https://www.pcisecuritystandards.org/</a> Due to the width and depth of these standards, they are not addressed in this document but each organization should take appropriate steps to ensure compliance with the standards.				
1.	Does the agency have documentation to show they are PCI compliant?				
2.	Has the agency submitted the Self-Assessment Questionnaire (SAQ) to their merchant bank?				
	Note: In October 2008, PCI issued new SAQ's which can be found at: <a href="https://www.pcisecuritystandards.org/saq/index.shtml">https://www.pcisecuritystandards.org/saq/index.shtml</a>				