



Internal Control in Cash Receipts

Proper internal control over cash receipts is essential because, if uncontrolled, cash is the easiest of all assets to misuse without detection. Access to cash must be limited; therefore, it must be controlled as soon as possible after it is received by the local government.

Critical internal control procedures for cash receipts include the following:

- a. Control of incoming cash should be established at the earliest possible point, which is normally with the delivery of the mail. A non-accounting staff person should receive the mail, open it, and list all checks received on a Daily Mail Collection Report. This report should show the date, the name of the person submitting the payment, and the amount and type of the payment. All checks should be restrictively endorsed immediately upon receipt. If there is more than one accounting position, the accounting clerk may perform these endorsements and prepare receipts. The finance officer should perform these duties position if there is only one accounting position.
- b. Cash and checks also are received from the issuance of licenses, permits, or sales of other items. Any payments received by the cashiers should be controlled at the point of collection, and appropriate receipts issued. All licenses and permits should be issued from prenumbered forms and be of such form that similar receipt books could not be easily obtained. All copies should be marked if a form is voided. All copies should be maintained on file for the proper retention period. Unused copies should be controlled by someone other than the issuer(s).
- c. Cash collection should be centralized to the maximum extent possible without hindering operations.
- d. The staff members and cashiers receiving the checks and cash should prepare receipts for all collections. The receipts should be prenumbered, and all issued numbers should be accounted for with receipt registers or lists. Voided receipts should be marked and recorded as such and should not be destroyed. Unissued receipts should be controlled by the staff members authorized to receive cash. The finance officer should perform these functions if he or she is the only accounting staff member. Otherwise, the accounting clerk should assume these responsibilities.
- e. Whenever possible, cash should be tied to goods or services provided, to verify amount of revenue that should have been received. For example, licenses and permits should be controlled through use of prenumbered forms or another manner, such that unit can assure itself that all revenues were received for these services.



- f. An accounting staff member should receive the checks and control listings from the person opening the mail and from the cashiers, Daily Mail and Daily Collection Reports, respectively. The deposit slip should be prepared in duplicate by this accounting staff member. The finance officer should assume this responsibility in a small unit.
- g. Bank deposits should be made daily ([G.S. 159-32](#)). However, if daily cash receipts are less than **\$500**, the unit may elect to make deposits only on days when cumulative receipts on hand amount to at least **\$500** (G.S. 159-32). The governing board must approve this election prior to its being enacted. In any case, all funds received must be deposited on the last business day of the month. Deposits should be taken to the bank by someone other than the person who prepared the deposit. All deposits should be made in official depositories. In **small units**, these functions should be performed by the finance officer. Daily deposits are extremely important in units of government that have decentralized operations since a number of locations will be receiving cash and the amounts may be material.
- h. After the deposit is made and the duplicate has been validated by the bank, the duplicate should be compared to the Daily Collection Report(s) to verify that all cash received was deposited. Physical evidence that the verification was made, such as the staff member making the deposit actually initialing the deposit slip, should be required. **In small units**, the finance officer should assume these responsibilities.
- i. After the duplicate deposit slip is compared to the Daily Collection Report(s), the Daily Collection Report(s) and all duplicate deposit slips should be turned over to the accounts receivable clerk for posting to the subsidiary ledgers and the cash receipts journal. The accounts receivable clerk should reconcile postings to the deposit slips and evidence this reconciliation with his or her initials. Discrepancies should be brought to the attention of appropriate supervisory personnel. **In small units**, the finance officer should assume these responsibilities. Units of government that use on-line banking can reconcile deposits to general ledger record of deposit on a daily basis and no less frequently than weekly.
- j. Cash maintained on the premises should be kept to a minimum. All cash maintained should be in either a cashier's change fund or a petty cash fund. In either case, the staff member directly responsible for it should maintain the cash under strict sole control; no one else should have access to the cash. In other words, cashiers should never work out of each other's cash drawers. Cashiers should reconcile their change funds at the end of each day and maintain written reconciliations bearing their signatures as evidence that the reconciliations were performed. If at all possible, reconciliations should be conducted in the presence of another person for verification purposes. Periodic surprise cash counts should be conducted for both change funds and petty cash funds by staff members other than those responsible for the cash.



These counts should be documented and also should include the reconciler's signature. Any discrepancies in a cash reconciliation should be reported immediately to the finance officer or to a board member if the finance officer is responsible for the cash. **In a small unit**, the finance officer or a board member should conduct the surprise cash counts.

- k. Funds not deposited should be located in a safe location, such as a safe on the premises. Access to the safe should be controlled. A locked file cabinet is not considered a safe location. Several Units deposit cash daily for amounts less than \$250 due to lack of safe location on site.
- l. Back-up keys to the cash should be maintained under dual control at all times for each cash supply so that cash can be obtained in case of emergencies or unexpected absences. These keys should be signed in and out by both staff members having control over them whenever it is necessary to use the keys. Any cash that is accessed by these staff members should be counted under dual control prior to the cash being used, and the amount of cash on hand should be reconciled to the last reconciliation performed by the staff member normally responsible for the cash. A written record of the reconciliation should be maintained and signed by both staff members. **In small units**, the finance officer can be one of the two persons responsible for the back-up keys. In very small operations, it might be necessary for a board member to serve as one of the two persons necessary to access the cash.

Internal Control Over Deposits in Financial Institutions

In addition to providing a deterrent to misuse, a good internal control system over a unit's deposits held in financial institutions should detect quickly any errors made by those institutions. Units rely on their institutions to provide accurate records, yet as a part of the stewardship responsibilities over public funds, the finance officer must be prepared to ensure the accuracy of such records.

Critical internal control procedures for deposits in financial institutions include the following:

- a. All deposits should only be in institutions authorized by the governing body of the unit.
- b. All funds held by financial institutions must either be insured by the FDIC or fully collateralized in accordance with [G.S. 159-31\(b\)](#). Units should insure that their accounts are classified as public depositories with the bank.
- c. The financial institutions that hold the unit's funds should be instructed to notify the governing body, or their delegate, of any unusual items or transactions occurring on the account, such as insufficient funds notices or checks made payable to cash.



- d. Current signature cards and other documents required by the institution(s) should be maintained on file with the unit's financial institution(s) at all times, indicating which staff members can sign checks on which accounts. These documents should be in strict accordance with the authorizations to sign checks as approved by the governing body. Terminated employees should be removed from signature cards and other bank documents immediately.
- e. All bank statements should be reconciled promptly upon receipt by a staff member independent of the cash receipts and disbursements functions. Statements should be delivered unopened to this staff member. Units can use on-line banking to monitor cash withdrawals daily or weekly to ensure that unauthorized transactions are not being made.

In performing the monthly reconciliations or daily monitoring, the staff member should check for the following:

1) For all deposits:

- Compare dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal.
- Investigate bank transfers to see that both sides of the transaction have been recorded in the unit's financial records.

2). For all disbursements:

- Account for all check numbers, including voided checks.
- Examine cancelled checks for authorized signatures, irregular endorsements and alterations.
- Look for checks payable to cash. Investigate these items.

All discrepancies should be reported to the finance officer immediately. All reconciling items should be investigated and approved by the finance officer or reviewing board member. Upon completion, all reconciliations should be reviewed by a responsible official. **In small units**, a board member may perform the bank reconciliations. If an accounting clerk is available to do the reconciliations, he or she may do so, but a board member should review the reconciliations.