


**Internal Controls
for Cash Disbursements**

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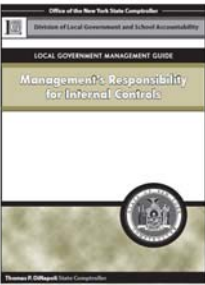


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Learning Objectives

- Definition
- Responsibility
- Origins and Framework
- Cash Disbursement Controls
- Available Tools
- Audit Findings




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Internal Controls

“A process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.”



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Responsibility

- Who is responsible for implementing internal controls?
 - **Management** – Including the Governing Board
- Who is responsible for monitoring internal control compliance?
 - **Management** – Including the Governing Board
- Who is responsible for following internal controls?
 - **Everyone!**

Origins and Framework


- The Committee of Sponsoring Organizations (COSO) of the Treadway Commission
- Five elements of internal controls
 - Control environment
 - Risk assessment
 - Control activities
 - Communication
 - Monitoring

Control Environment

- “Tone at the top”
 - The governing board sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow, and requires appropriate conduct from everyone in the organization.

Control Environment


- Communicating expectation for handling cash disbursements
- Requiring employees to adhere to legal and policy requirements for paying claims and electronic transfers and wires of cash
- Performing an adequate review of reports and supporting cash disbursement records completed by employees, including management



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Risk Assessment


Identify those events, conditions or risks that could significantly affect the achievement of the organization's objectives.



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Risk Assessment

- Opportunity
 - Access to system changes, lack of oversight
- Unfamiliarity
 - Changes to processing procedures, new financial software and system updates
- Complexity



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Risk Assessment

- Change
 - Turnover in positions, changes to employees' positions, financial software, online banking
- Rapid Growth
 - Fast growth without increased staff/resources

Understand the Risk

- Fraud Triangle – Pressure, rationalization and opportunity
- Focus on what you can control – Opportunity
- Understand your process, ask questions and limit opportunity
- Inherent Risk - Higher opportunity with liquid assets, such as cash

Cash Disbursements Risk

- Theft
- Abuse
- Inaccurate reporting to the governing board
- Unauthorized payments
- Incomplete or untimely recording

Cash Disbursements Process

- Paying claims
- Documenting the transaction
- Safeguarding check stock
- Authorizing electronic transfers and wires
- Recording in the accounting records
- Reconciling the accounting and banking records
- Reporting to the managing board
- Monitoring and audits

Determine Risks by Asking Questions

- Who is authorized to sign checks?
- Who is authorized to initiate and approve electronic transfers and wires?
- Who is responsible for processing, recording and disbursing cash?
- Are bank reconciliations completed and reviewed?
- Could unauthorized payments be made?

Control Activities

Policies and procedures designed by management to help ensure that the organization's objectives and goals are not negatively impacted by internal or external risks

Cash Disbursements Control Activities

- Directive controls:
 - Job description, policies and procedures
- Preventative controls:
 - Segregation of duties, computer access
- Detective controls:
 - Bank reconciliations, certification of claims, audits
- Corrective controls:
 - Employee training, disciplinary measures

Understand the Need for Controls

Check Preparation Procedures

- 2-1-1 Assign an employee not responsible for check preparation to order checks, inventory them, and to identify reasons for gaps in the numbering sequence. Issue pre-numbered checks in sequence.

Reason for Control

Assigning responsibility for ordering and inventorying pre-numbered check stock reduces the risk that blank checks will be lost or misused without detection. Pre-numbering establishes an audit trail over check disbursements.

- 2-1-2 Keep blank checks and check stock secure at all times.

Reason for Control

Securing blank checks and check stock in a locked environment helps prevent their misuse.

- 2-1-3 Make checks payable to a specific payee or custodian - never to "cash" or "petty cash."

Reason for Control

Making checks payable to a specific payee reduces the risk that someone could fraudulently cash a check not intended for them.

- 2-1-4 If financial software is used to print checks, restrict the use of hand-drawn checks.

Reason for Control

Frequently, application controls are built into computerized financial modules to detect or prevent payments to unauthorized payees or the disbursement of suspicious dollar amounts. IT application controls can be circumvented by issuing hand-drawn checks; hence their usage should be controlled and limited.

Check Signing Procedures

- 2-2-1 The official responsible for check preparation and signing should not have the authority to solely (or individually) audit and approve claims for payment.

Reason for Control

Segregating check preparation and check signing from the audit and approval of claims prevents an official (or employees under his or her control) from making improper purchases, approving them for payment, and then preparing the check to pay for such purchases without being detected.

- 2-2-2 Limit check signing authority to as few officers as possible and only to those positions authorized by law to sign checks.

Reason for Control

Limiting check signing authority reduces the opportunity for fraudulent checks to be written and signed. Each locality should consult with its attorney regarding statutory authorizations for signing checks.

- 2-2-3 The official responsible for signing checks (or a deputy) should compare prepared checks to an audited and approved warrant or a payroll register prior to releasing such checks.

Reason for Control

Comparing prepared vendor checks to the listing of audited and approved claims and comparing prepared and payroll checks to the payroll register can assist in the detection of unauthorized or erroneous checks before they are sent to vendors or distributed to employees.

- 2-2-4 Electronic signature disks or other forms of facsimile signatures should be secured in a locked location under the control of the signatory. Signature disks or other facsimile signatures should only be used under the direct supervision of the official (or deputy) whose signature is on the disk.

Reason for Control

The official responsible for signing checks should always ensure that any facsimile of his or her signature is protected from unauthorized use. To prevent unauthorized use of facsimile signatures, the official with signatory authority (or his or her deputy) should be present whenever his or her signature is applied to prepared checks.

- 2-2-5 Do not sign blank checks.

Reason for Control

A blank, signed check may be used for any purpose and for any amount. Signing a blank check increases the possibility that a check could be made payable to an unauthorized payee or for an unauthorized amount.

2-2-6 After checks are printed, someone outside the check processing function should account for all checks printed, voided or returned to stock unused.
Reason for Control
 Accounting for all checks helps ensure that no checks are lost, stolen or misused.

Petty Cash Procedures

2-3-1 A petty cash fund must be established (increased or decreased) only in accordance with legal requirements, generally, by resolution of the governing board. The resolution should establish the custodian and amount for the fund. Petty cash funds should be authorized at the lowest amount practical.
Reason for Control
 Board authorization establishes accountability over the amount authorized for petty cash and designates the person responsible for safeguarding and maintaining petty cash records.

2-3-2 Custody of the petty cash fund should be assigned to only one employee. As petty cash custodian, this employee should handle all petty cash transactions and should secure the fund in a locked location separate from other cash drawers.
Reason for Control
 Having more than one person with access to the petty cash fund diminishes the accountability and security of this fund. Restricting access to the petty cash fund is the best way to prevent unauthorized use or theft of petty cash.

2-3-3 A voucher (or claim) requesting reimbursement of petty cash expenses should be submitted to the claims auditing body or claims auditing official, consistent with law. Original receipts for all petty cash expenditures should be attached to the voucher.
Reason for Control
 The examination of petty cash expenditures by the claims auditing body or claims auditing official deters improper petty cash expenditures and ensures that requests for reimbursement are appropriate. Original receipts provide proof of what was purchased and are the basis for replenishing the fund.

2-3-4 The custodian of the petty cash fund should periodically reconcile petty cash on-hand and unreimbursed receipts to the petty cash amount authorized by the governing board.
Reason for Control
 Periodic reconciliations ensure that all petty cash is accounted for.

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Wire Transfer Procedures

2-4-1 All wire transfers should be made at the direction of the chief fiscal officer or other officer having custody of the monies being disbursed, or in their absence, by their deputies. Before approval is granted, documentation detailing the amount, purpose, and destination of the wire should be presented for review. Such documentation should be retained for audit purposes.
Reason for Control
 Preapproval of wire transfer documentation will reduce the occurrence of errors or fraud occurring in electronic transfers. Generally, wire transfers cannot be easily retrieved, if at all, so it is important that all wire information be 100 percent accurate.¹

2-4-2 If wire transfer software resides on a local hard drive, secure the computer on which the software resides in a locked room if possible and with password protection.
Reason for Control
 Restricting access to computers with wire transfer capability reduces opportunities for unauthorized individuals to execute wire transfers.

2-4-3 If using in-house wire transfer software, the chief fiscal officer or other authorized officer, and the IT department should be knowledgeable about application controls available in the software. Such application controls should be activated at the levels appropriate for the scope of wire transfer activity.
Reason for Control
 Application controls, such as limit controls, can be set to prevent the execution of wire transfers unless certain pre-established conditions are met.

¹ General Municipal Law Section 5-a provides that, whenever an officer of a local government is authorized or directed to disburse or transfer funds in his or her custody, the officer may do so by means of an electronic or wire transfer. All such disbursements are subject to laws that are otherwise applicable to disbursements or transfers (e.g., audit of claims requirements) and the governing board of the local government must have entered into a written agreement with the depository bank or trust company containing certain terms and conditions as set forth in section 5-a. The statute requires that the bank or trust company provide to the officer ordering the transfer written confirmation of each transaction no later than the business day following the day on which the funds are transmitted. It further makes it a duty of the governing board to adopt a system of internal controls for the documentation and reporting of all wire or electronic transfers.

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2-4-4 If using in-house wire transfer software, consider requiring two passwords to be provided before a wire transfer can be executed.
Reason for Control
 Dual passwords (executed by different individuals) will prevent the person preparing the wire transfer from transmitting it without supervisory approval.

2-4-5 If using in-house wire transfer software, ensure that firewalls and intrusion detection capabilities are installed and working properly.
Reason for Control
 It is important to protect wire transfer computers from external intrusions by hackers.


2-4-6 If initiating wire transfers by telephone or fax, require the transmitting bank to confirm the amount and destination of the transfer by calling a supervisor or another employee before the wire is executed.
Reason for Control
 By requiring the bank to confirm telephone or fax requests, the opportunity for a single employee to execute an improper or inaccurate wire transfer will be controlled.

2-4-7 Employees who execute wire transfers should not prepare or post journal entries or reconcile bank accounts. When it is not practical to segregate these duties, a compensating control, such as supervisory review of journal entries, should be considered.
Reason for Control
 Segregating the execution of wire transfers from the recording and reconciliation functions prevents a single employee from controlling the execution, accounting, and reconciliation of wire transfer activity and thereby limits the opportunity for disguising a wire transfer error or fraud.

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Assessing Controls


- Continuously assess controls that may be in place and determine if they are working properly and are efficient and effective.
 - Authorizations match system inputs
 - Check stock is safeguarded
 - Prescribed forms are used appropriately
 - Accounting records are accurate
 - Audits are performed



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Information and Communication

- Each employee should:
 - Understand their role.
 - Understand how their actions relate to others.
 - Understand that they have a responsibility to communicate problems they notice.
- Information and communication **MUST** be allowed to flow in all directions.



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Information and Communication

- Training opportunities
 - Annual
- Review of policies and procedures
- Addressing consequences
- Reporting of inaccuracies
- Exceptions



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Management Concerns

- How are cash disbursements documented and by whom?
- What happens if an employee violates the policies or procedures?
- Who is providing oversight to detect inaccuracies?
- How can you provide confidence to taxpayers that cash is safeguarded?

Monitoring

- Monitoring determines whether or not policies and procedures are being followed.
- Monitoring identifies significant control deficiencies timely.

Monitoring

- Converting policies to actions
- Personnel policies, contracts and bargaining agreements
- No consequences
- Finding the cracks:
 - Follow-up questions
 - See the evidence
 - Observation

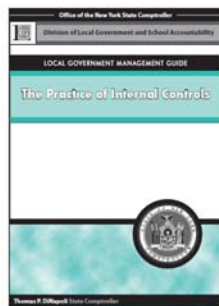
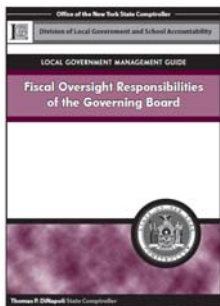
Cash Disbursements Monitoring

- Supervisory review of cash disbursements
- Reconciliation of bank statements
- Requiring reports to be submitted to and reviewed by the Board

Don't take someone's word for it.

Do not forget to ask follow-up questions and ask for evidence.
"Show Me... Let me see..."

Available Tools



Available Tools

- CPA audit reports
- OSC audit reports
- Policy manuals and procedures
- Training
- Other municipalities/districts
- Associations

Audit Findings

- Theft of money
- Inadequate policies and procedures
- Unauthorized payments
- Disbursements lacked supporting documentation
- Inadequate board or management oversight
- Reconciliations were not accurate and timely

Thank You

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Survey