

Internal Controls for Cash Receipts

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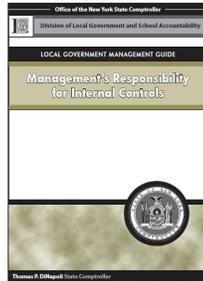


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Learning Objectives

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



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Definition

- “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.”
 - Internal controls are activities or procedures designed to provide reasonable assurance that operations are “going according to plan.”

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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.

Cash Receipts Control Environment

- Communicating expectation for properly handling cash.
- Requiring employees to adhere to legal requirements for timely deposit.
- Performing an adequate review of reports completed by employees, including management.

Risk Assessment

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

Risk Assessment (continued)

- Opportunity
 - Cash, high theft assets, control over assets
- Unfamiliarity
 - Newer programs or processes
- Complexity
 - Difficult or complex programs

Risk Assessment (continued)

- Change
 - Turnover or change in program
- Rapid Growth
 - Fast growth without increased staff / resources

Understand the Risk

- Inherent Risk - Higher opportunity with liquid assets, such as cash.
- Fraud Triangle - Pressure, Rationalization and Opportunity
- Focus on What You Can Control - Opportunity
- Understand Your Process, Ask Questions and Limit Opportunity

Cash Receipts Risk

- Incomplete or Untimely Recording
 - Unable to identify pertinent details needed for adequate oversight, risk of substitution.
- Untimely Depositing
 - Longer the cash remains un-deposited, high risk it will be mishandled.
- Inaccurate Reporting to the Board
 - Concealment of theft.

Cash Receipts Process

- Collection of payment
- Documenting the transaction (receipt)
- Safeguarding and depositing collections
- Recording in the accounting records
- Reconciling the accounting and banking records
- Reporting the activity to the managing Board

Determine Risks by Asking Questions

- Where is cash collected?
- Who is collecting, recording and depositing cash?
- Can unauthorized employees access cash prior to deposit?
- Are reconciliations completed?
- How timely are reconciliations performed?
- Could cash be stolen without detection?
- Will accounting errors be detected?
- What happens if there is a discrepancy?

Cash Receipts Risk Assessment

Cash Receipts	YES	NO
Is the cash receipts journal up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
Is the cash receipts journal maintained in a manner that identifies the date received, payer, purpose and the amount either individually or totals referenced to subsidiary receipt records (e.g., water rents receipts register)?	<input type="checkbox"/>	<input type="checkbox"/>
Are un-deposited cash receipts safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>
Are duplicate deposit slips kept?	<input type="checkbox"/>	<input type="checkbox"/>
Do deposit amounts agree with cash receipt amounts?	<input type="checkbox"/>	<input type="checkbox"/>
Are deposits made timely and recorded up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
<i>Last Recorded Deposit: Date _____ Amount _____</i>		
Is the cash receipts journal totaled and summarized monthly?	<input type="checkbox"/>	<input type="checkbox"/>

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 Receipts Control Activities

- Directive Controls:
 - Job description, cash receipt policies
- Preventative Controls:
 - Segregation of duties, restricted computer access
- Detective Controls:
 - Reconciliations, inventories, budget vs. actual reports
- Corrective Controls:
 - Employee training, management assessment

Understand the Need for Controls

Collection Procedures

- 1-1-4 Instruct collectors that personal or payroll checks cannot be cashed from moneys in their cash drawers.

Reason for Control

This policy makes it clear that employees may not temporarily "borrow" cash and cover the removal with a personal check, even if temporarily. It also reduces the risk of noncollection on bad employee checks.

- 1-1-5 Instruct collectors not to accept checks for amounts over the amount due.

Reason for Control

Local governments are not banks and providing "cash back" services to customers should not be allowed.

- 1-1-6 Where no other evidence satisfactory for the purpose of audit is available, a serially press-numbered duplicate receipt form should be issued for any cash, checks, or money orders received. One copy should be provided to the customer and one copy should be retained for audit purposes.³

Reason for Control

Duplicate receipt forms provide an audit trail for moneys received when the amounts collected cannot be confirmed by other records, such as tax bills or billing stubs and remittance advices.

Understand the Need for Controls

Deposit Procedures

1-2-1 Secure undeposited cash and prepared deposits in a vault or safe (or other locked storage) until they are deposited in the bank. Restrict access to the vault or safe, or keep other storage methods locked when not in use.

Reason for Control

Securing cash limits unauthorized access before it can be deposited in the bank.

1-2-2 Deposit cash timely.

Reason for Control

Certain local government officers are required by law to deposit within certain timeframes. Consult with your local government attorney for guidance on laws specific to your office. However, while the statutory deadline is the latest point in time at which a deposit may be made, from an internal control perspective, the best approach is to deposit moneys as soon as possible. The longer money remains undeposited, the greater the risk that loss or theft can occur.

1-2-3 Deposit cash receipts intact.

Reason for the Control

"Intact" means that all cash collected since the last deposit must be deposited in the same form as it was collected (cash, check, or money order). This practice deters the cashing of checks from the proceeds of collections.

Understand the Need for Controls

Record-Keeping Procedures

1-3-1 Record receipts in the accounting system timely.

Reason for Control

Accountability over cash receipts is enhanced when cash is recorded in the accounting records as soon as practicable from the date cash is received. The longer receipts go without being entered into the accounting system, the greater the risk an employee could misappropriate funds.

1-3-2 For each cash drawer, daily cash collection records or cash register tapes should be reconciled to the amount of cash on hand at the end of the day (sometimes referred to as the daily "cash-out").

Reason for Control

Daily cash-out procedures help to uncover discrepancies between actual cash collected and recorded amounts in a timely manner.

1-3-3 Employees responsible for collecting cash and preparing bank deposits should not record cash transactions in the accounting records.

Reason for Control

The basic rule in play here is the need to segregate asset custody from record-keeping duties. Segregating the duties of "receiving cash" from "recording cash transactions" prevents a single employee from stealing undeposited cash (or substituting checks received for cash taken) and altering cash receipt journals or other records to disguise the theft. Similarly, segregating the duties of preparing or making bank deposits from recording duties prevents an employee from removing cash from bank deposit and altering accounting records to disguise the theft.

Assessing Controls

- Continuously assess controls that may be in place and determining if they are working properly and are efficient and effective.
 - Cash is safeguarded until deposit
 - Deposits are made timely and intact
 - Accounting records are accurate

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.

Information and Communication

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

Cash Receipts Information and Communication

- How are cash receipts documented and by whom?
- What happens if an employee violates depositing policies and regulations?
- 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
 - Walking the spaces
 - See the evidence

Cash Receipts Monitoring

- Supervisory review of issued receipts to identify any missing records (sequence check).
- Reconciliations of cash receipts to bank statements and accounting records.
- Requiring reports be submitted to and periodically reviewed by the Board.

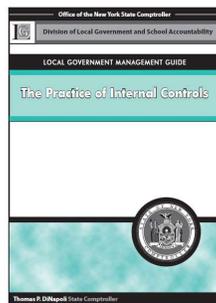
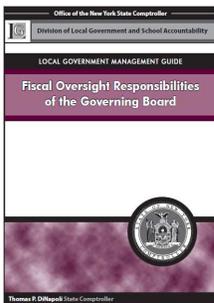
Don't take someone's word for it.

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

Audit Findings

- Comprehensive cash collections policies were not developed.
- Collections lacked supporting documentation.
- Incomplete and inaccurate collection records were maintained.
- Deposits were not made timely or intact.
- Accurate and timely reconciliations were not maintained or reported to management.

Available Tools



Available Tools

- CPA Audit Reports
- OSC Audit Reports
- Policy Manuals and Procedures
- Training
- Other Municipalities/Districts
- Associations



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Thank You

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