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COUNTY OF SUTTER

OFFICE OF THE AUDITOR-CONTROLLER

CASH HANDLING

PROCEDURES MANUAL

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ROBERT E. STARK, CPA

AUDITOR-CONTROLLER

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INTERNAL CONTROL OF CASH

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INTERNAL CONTROL OF CASH

1. INTRODUCTION

The purpose of this manual is to establish a better understanding of internal controls and present a set of policies, procedures, and preferred practices designed to safeguard the receipt and disbursement of cash. It is the responsibility of each County officer and department head to provide for the proper control of cash within the guidelines set forth in this manual.

For the purposes of this manual, cash is defined as coin, paper currency and all forms of negotiable instruments. Examples include personal checks, cashier's checks, bank drafts, traveler's checks, money orders and all other instruments that may be transferred by endorsement and delivery within the ordinary course of business activity.

2. INTERNAL CONTROLS

A. **Internal Controls--General Principles**

In a small organization, the manager commonly controls the entire operation through personal supervision and direct participation in its affairs and activities. For example, the manager personally hires and supervises all employees, buys the assets, goods and services bought by the organization, negotiates all agreements and signs all checks. As a result, the manager knows from personal contact and observation that the assets, goods and services for which the checks are issued were indeed received. However, as the organization grows it becomes increasingly difficult to maintain this personal contact and at some point it becomes necessary for a manager to delegate responsibilities and rely upon "internal control procedures" rather than personal contact.

The methods and procedures adopted by an organization to control its operations are collectively known as a system of internal control. In a properly designed system, the procedures encourage adherence to prescribe managerial policies, promote operational efficiencies, protect the organization's assets from waste, fraud and theft, ensure accurate and reliable accounting data and help prevent the appearance of impropriety.

Internal control methods and procedures vary from organization to organization, depending on such factors as the nature of the activities and its size. Some common, broad principles of internal control are as follows:

(1) Responsibilities should be clearly established in a given situation or for a given task.

One person should be made responsible. When responsibility is shared and something goes wrong, it can be difficult to determine an exact cause.

(2) Responsibility for related transactions should be divided.

Responsibility for a divisible transaction or a series of related transactions should be divided between individuals so that the work of one acts as a check on that of another. For example, responsibility for placing orders, receiving merchandise and paying vendors should not be given to one individual. Doing so invites laxity and carelessness in checking the quality and quantity of goods received and in verifying the validity and

accuracy of invoices. It also allows opportunities for purchasing items for personal use and fraudulent payments to fictitious invoices.

(3) Adequate records should be maintained.

Good records enhance control by making specific employees responsible for the care and protection of assets. When an organization has poor accounting control over its assets, dishonest employees soon become aware of this and are quick to take advantage.

(4) Record keeping and custody should be separated.

The person who has access to or is responsible for an asset should not maintain the accounting record for that asset. When this principle is observed, the custodian of an asset, knowing that another person keeps a record of the asset is not apt to either misappropriate the asset or waste it. The record keeper who does not have access to the asset has no reason to falsify the record. Furthermore, if the asset is to be misappropriated and the theft concealed in the records, collusion is necessary.

(5) Personnel should be rotated.

Whenever possible, employees should be rotated in their job assignments. This has a number of advantages. An employee is less apt to be careless or to intentionally commit a wrong when he knows his action will likely be brought to light when job assignments are changed. Also, an employee who has handled a number of assignments in his department is usually more capable at any one job because he understands how that job fits into the work of a department. Finally, a department's work does not cease when a key employee is ill or absent; other employees can perform these functions.

(6) Employees

An internal control system will not function properly unless the employees cooperate and perform their tasks competently and in the prescribed manner.

When employees do not understand the need for certain procedures or feel the procedures cause them unnecessary work, they will often avoid the procedures and, thus, destroy the effectiveness of the entire system. Consequently, an

internal control system should be designed to cause the employees the least amount of work and inconvenience, and the reasons for its prescribed procedures should be fully explained.

(7) Management should constantly review the control system.

An internal control system, no matter how well designed, cannot be expected to function properly without periodic examination and review. An examination or audit may disclose that prescribed procedures are not being followed or that better control or better work at less cost will be gained with a change in the procedures.

A good system of internal control for cash should provide adequate procedures for protecting both cash receipts and cash disbursements. In addition to the broad controls listed above, there are two basic principles that should always be observed:

- All cash receipts should be deposited daily, intact; and
- All disbursements, except those made from a petty cash fund, should be made by check.

Requiring the prompt deposit of receipts intact prevents a person from making use of the money for a few days before depositing it. Requiring all disbursements to be made by check provides a separate and external record of all cash transactions.

B. Cash Control--General Policies and Preferred Practices for Sutter County

- (1) An employee other than the employee performing the functions of cashier and bookkeeper or the person who issues receipts should make deposits to the County Treasury.
- (2) Bank accounts should be reconciled not less than monthly by someone other than the employee performing the functions of cashier and bookkeeper or the person who makes the bank deposits.
- (3) The daily cash receipts should be posted from the duplicate receipts or from the cash register tape by the employee performing the function of cashier or bookkeeper.

The duties of those employees performing the functions of cashier and bookkeeper should be independent, with neither person having access to the other's records.

- (4) No adjustments should be made to ledger accounts without the express approval of the department head or a supervisor designated by the department head.
- (5) Employees shall not commingle private monies with County funds. Therefore, County funds shall not be used to cash payroll checks or other personal checks. Employees shall not borrow money or issue personal IOU's in exchange for County funds of any kind. Furthermore, employee personal funds shall not be used to reimburse shortages in cash funds nor shall overages be retained to "make up" future shortages or for non-County purposes..
- (6) Accepting personal checks for payments is discretionary. Departments may accept payments for County services in the form of personal checks, bank checks and drafts, money orders, and cashier's checks for the exact amount of purchase. In some cases the County may be subject to financial loss if a bank refuses to honor payment of a customer's check. Usually, this only occurs where the customer receives full benefit of the County service at the time the check is delivered to the County. The department head is responsible for being aware of the types of services provided where this type of loss can result.
- (7) Nationally recognized traveler's checks may be accepted for payments, subject to supervisory approval. Traveler's checks accepted in excess of the amount due should be so noted on the receipt.
- (8) When accepting checks the following safeguards should be followed:
 - a. Accept checks only for the exact amount of the payment.
 - b. Ask for more than one kind of identification.
 - c. Compare the person with the description on the identification as to age, height, etc., and take notice of a photograph, if one is provided.

- d. Have personal checks made out in your presence and made payable to the County department that will receive the revenue.
 - e. Note the address, phone number, and other pertinent data about the maker on the front of the check, as well as the serial number and expiration date of the identification. Also, note the receipt number on the face of the check for later reference.
 - f. Do not honor a check that is stale-dated or post-dated.
 - g. Do not accept third party checks.
- (9) A restricted endorsement stamp must be used on all checks and money orders at the time they are received. For checks and money orders to be deposited in the County Treasury, the endorsement stamp should read:

FOR DEPOSIT ONLY

TO THE SUTTER COUNTY TREASURER

(DEPARTMENT NAME)

For control purposes, only one endorsement stamp should be available.

- (10) When payment is received in more than one form (check, money order, and currency), only one receipt should be issued for the total amount of the payment. A notation should be made on the receipt indicating the different forms of payment and the corresponding amount of each.
- (11) When a check or other instrument is received which covers payment for the accounts of more than one person or entity, a separate receipt should be issued for each person or entity. Exceptions to this policy may be indicated as a result of variations in departmental operations and needs. Where appropriate, this policy may be waived by approval of the Auditor-Controller upon request of the department head.
- (12) All cash should be deposited in a locked, secure depository (a safe, drawer, or cabinet) and access should be restricted to as few employees as possible. When a written safe combination is maintained, it must be kept in a secure location. The combination to the safe should be changed annually or

whenever an employee who has knowledge of the combination terminates County employment or is transferred to another department.

- (13) Offices and desks should be locked during non-working hours and keys should be restricted to the minimum possible number of employees. A written record of office keys should be maintained, and it should be the responsibility of a management employee to ensure that office keys are returned by terminated or transferred employees.
- (14) During working hours, cash must be kept in a cash drawer, cash box, or cash register that is not accessible to unauthorized persons. Cash drawers or cash boxes must be closed and locked when not in use. In order to segregate responsibility for cash overages and shortages, each employee should be assigned a separate cash drawer or cash register till, as recommended in the section on cash register procedures.
- (15) When making change, count out the coins to the nearest dollar, then count the bills. Count the cash twice before paying out; once when removing it from the cash drawer and again as it is given to the customer.
- (16) Never count currency directly into the cash drawer. Always place it on the counter away from the customer's reach, make the necessary change, and complete the transaction. Then, place the customer's payment in the proper compartments of the cash drawer. Keeping the money in sight until the transaction is completed will avoid controversies that might arise as to the amount given by the customer.
- (17) All cash receipts shall be deposited intact into the County Treasury or a commercial bank account at least weekly and preferably daily, if the revenue volume warrants. Do not allow large amounts of cash to accumulate. Depositing intact means that the deposit must consist of the same checks and/or money orders and the same amount of currency and coins as indicated in the receipts for the deposit. This is an integral feature of the internal cash control system.
- (18) Where it is practical or mandated to do so, a list of departmental services and costs should be conspicuously posted at each cash collection point. The cost of infrequently provided services need not be posted but should be available upon customer inquiry.

- (19) Inventory controls should be implemented over pamphlets, books, maps, permits, or other documents for which money is collected. The degree of control should be related to the value of the items with such controls ranging from strict access control over pre-numbered permits to visual control over pamphlets that have limited value and low demand.

3. **CHANGE AND IMPREST CASH FUNDS**

A. General

- (1) The Board of Supervisors is Authorized to establish a cash fund for use by any County officer for the following purposes:
 - a. A change fund for use in making change to perform official County duties. (Government code Section 29325)
 - b. An imprest cash fund for purchasing services or materials that are a legal charge against the County. (Government Code Section 29326)
- (2) Such funds may be established in an amount up to \$25,000 by a Board adopted resolution (Government Code Section 29321) which sets forth:
 - a. The necessity or justification for the fund.
 - b. Identification of the County officer for which the fund is available.
 - c. The fund amount.
- (3) The officer may be authorized to use the fund for making change, when necessary in carrying on his official work. (Government Code Section 29325)
- (4) The County officer for whom the fund was established is personally liable for any losses that may occur unless relieved from accountability by the Board of Supervisors.

B. Authorizing Procedures

The following procedures shall be followed to establish cash funds:

- (1) The requesting County officer shall furnish a letter to the Auditor-Controller which sets forth:
 - a. The purpose for which the cash fund is to be used.
 - b. The fund amount to be established.
 - c. The justification for the establishment of the fund.
- (2) The Auditor-Controller shall review the request and any supporting documentation and determine if establishment of such a fund is justified.
- (3) If not justified, the Auditor-Controller shall return the letter to the requesting officer with an explanation of the reason(s) for disapproval.
- (4) If justified, the Auditor-Controller shall draft an implementing resolution and submit it to the Board of Supervisors.
- (5) Upon adoption of the implementing resolution, the Auditor-Controller shall issue a County warrant in the approved amount to the County officer named in the resolution.

C. Administration of Cash Funds

- (1) All cash funds shall be subject to the requirements set forth in this manual.
- (2) The responsible County officer may request a replenishment of expended imprest cash funds by submitting an official County claim to the Auditor-Controller. This claim shall be accompanied by:
 - a. An expenditure distribution listing.
 - b. Copies of all vendor invoices and vouchers that have been signed by the vendor or cash recipient. In the case of expenditures from confidential funds, the department head may substitute a signed statement indicating that the expenditures were appropriate for the purpose of the fund. Upon approval of the claim, the Auditor-Controller shall issue a warrant to the responsible county officer.

- (3) It shall be the responsibility of the officer having custody of the cash fund to:
 - a. Assure that all vendor invoices, vouchers or other evidence of a transaction are signed by the vendor or other person receiving payment acknowledging the receipt of funds.
 - b. Furnish an accounting of the fund upon demand to the Auditor-Controller. The accounting shall be of a form and content as designated from time to time by the Auditor-Controller.
 - c. Assure that the total of cash and vendor receipts at all times equals the approved amount of the fund.
- (4) The Auditor-Controller shall maintain a list of all active cash change and imprest funds.

4. **BANK ACCOUNTS**

A. **General**

In certain circumstances County departments may be authorized to use commercial bank accounts for their activities. Typically, such accounts are “transfer accounts” used by outlying departments to facilitate the depositing of funds into the County Treasury.

B. **Authorization Procedures**

Departments may be authorized to use commercial bank accounts rather than the County Treasury if circumstances warrant. The following procedures shall be followed to establish a bank account:

- (1) The requesting department shall submit a letter to the Auditor-Controller stating the reason for such an account.
- (2) The Auditor-Controller shall review the request and determine if a commercial bank account is justified. If the request is not justified, the Auditor-Controller shall return the letter to the requesting officer with an explanation of the reason(s) for disapproval. If justified, the Auditor-Controller shall draft an implementing resolution and submit it to the Board of Supervisors.
- (3) The resolution authorizing such an account shall include the following facts:

- a. The specific purpose and justification for the bank depository account.
- b. The identification of the responsible County officer as custodian of the account.
- c. The department location where depository records will be maintained and to which all statements and correspondence are to be sent.
- d. The name and location of the bank depository.
- e. The period of time the account is authorized.

C. Control Policies and Procedures

- (1) All depository accounts shall be established to conform with the following policies and with such other policies as may from time to time be directed by the Auditor-Controller.
 - a. All depository accounts shall be maintained in the name of the Sutter County Treasurer with the responsible Department Head as Trustee. Under no circumstances shall accounts be maintained in an individual's name or departmental name.
 - b. Depository accounts shall be used only for official County business.
 - c. If the account is a transfer account, all checks should be pre-printed with "Sutter County Treasurer" as payee.
 - d. The depository account custodian shall maintain a record of all deposits and disbursements so as to provide the following information:
 - Date of deposit or disbursement
 - Amount of deposit or disbursement
 - Payee and purpose of each disbursement
 - Source of each deposit amount
 - Account balance
 - e. The depository custodian shall reconcile the account at least monthly.

- f. The depository custodian shall furnish an accounting upon demand of the Auditor-Controller or the County Administrative Officer. Said accounting shall be of a form and content as designated from time to time by the Auditor-Controller. Duplicate deposit slips, bank statements and cancelled checks shall be maintained until audited.
- g. The Auditor-Controller shall maintain a list of all current depository accounts and a list of all accounts that were open at any time during the preceding two fiscal years.
- h. In addition to the policies set forth in this section, the handling of funds shall be subject to the cash control procedures outlined in this manual.

5. GENERAL RECEIPT PROCEDURES

A. Types of Receipt Systems

- (1) An official County receipt shall be issued for the exact amount of all money received by any officer or employee of a department. The receipt system which will be most effective and economical for the needs of the department should be selected, but may not be implemented, nor subsequently revised or changed without the prior approval of the Auditor-Controller.
- (2) Only official County receipt books issued to departments by the Auditor-Controller may be used, unless otherwise expressly approved. The standard official County receipt policy (See Figure 1 below) is pre-numbered and contains an original copy and carbon copy. The original copy is given to the customer and the carbon copy is retained by the issuing department for five years. The Application to the Board of Supervisors for Destruction of Records form may be obtained at the Auditor-Controller's office.

COUNTY of SUTTER STATE OF CALIFORNIA	OFFICIAL RECEIPT	No XXXXXX
Issuing Office or Department	Date	
RECEIVED FROM _____		
THE SUM OF _____ \$ _____		
FOR _____		
Paid By Cash <input type="checkbox"/>	Received By _____	
CK. / M.O. <input type="checkbox"/>	BK. No. _____	Title _____

Figure 1

- (3) Some departments require special purpose variations of the official County receipt, which are designed to meet specific needs. These forms shall be preprinted with sequential receipt numbers, for control purposes, and serve the same purposes as other types of official County receipts. The use of any such manual or automated receipt system must be approved in advance by the Auditor-Controller.
- (4) “Write-it-once” receipt systems consist of a metal, wood or plastic pegboard and a set of journal pages, with a bank of receipts attached at the left-hand side of the journal page. A journal page is placed over the pegs on the pegboard, and the receipts are placed over this, with the top line of each receipt directly aligned with an applicable line on the journal page. As each receipt is written, the information is transferred to the journal page by the carbon on the back of the receipt. These systems also require approval in advance by the Auditor-Controller and must be preprinted with sequential receipt numbers.
- (5) Cash register systems may be used in departments with a large volume of transactions. Internal control policies and procedures for these systems are included in Section 7 entitled “Cash Register Procedures”.

B. Receipt Control

- (1) The Auditor-Controller will purchase all official County receipt books and will maintain a supply of these for distribution to departments.

- (2) Departments shall only use official County receipts issued by the Auditor-Controller.
- (3) The Department Head is responsible for providing a secure, restricted-access location for the storage of receipt books. Receipt books should not be accessible to customers or unauthorized employees.
- (4) The Department Head shall maintain accountability over receipts issued for use by the department. Only one person in each department should be assigned the responsibility for the issuance and control of blank receipts. A written receipt control record shall be maintained indicating the beginning and ending number of the receipts received from the Auditor-Controller, the numbers of receipts used or issued out, and the number of the receipts which are unused and still on hand.
- (5) All receipts shall be issued in numerical sequence.
- (6) The use of special-purpose receipts by a department must have the prior written approval of the Auditor-Controller. The design of the receipt and the quantity to be held in inventory must be approved by the Auditor-Controller. The handling of special-purpose receipts shall otherwise conform to the receipt control provisions of this manual and shall at all times be subject to review and audit by the Auditor-Controller.
- (7) Receipts should be written in ink and all parts should be completed. The form and composition of payment should be clearly noted. Both parties should initial all “cross-outs” and “strike-overs”.

C. Voided Receipts

- (1) If it becomes necessary to void a receipt being written in an official County Receipt Book, the word “VOID” shall be printed in large letters on the receipt. Both copies of the voided receipt shall be retained.
- (2) If it becomes necessary to void a receipt when a “write-it-once” receipt system is used, the word “VOID” shall be printed in large letters on the receipt. The corresponding line on the journal page shall likewise be annotated with the word “VOID”. The voided receipt shall be attached to the journal page and retained by the department for inspection during audits.

- (3) If it becomes necessary to void a receipt when a cash register is being used, the detail audit tape shall be annotated with the word "VOID" and the receipt shall be attached to the cashier reconciliation of the day's business.
- (4) Whenever it becomes necessary to void a receipt (official receipt book, "write-it-once" or cash register), the immediate supervisor of the receipt preparer should be notified of the void and should initial the voided receipt.

6. CASH RECEIVED THROUGH THE MAIL

A. Receiving Mail

Receiving, opening and distributing incoming mail are jobs that should be handled by, or be under the supervision of, a responsible employee other than the employee performing the functions of cashier or bookkeeper. If possible, mail should be opened in the presence of another person. The person in charge should make a list of cash received, indicating the name of the remitter, the amount received and other pertinent data. Preferably, the list should be made in duplicate on numbered forms, with both copies signed by the person opening the mail and by the employee performing the functions of the cashier or bookkeeper to whom the cash is turned over, acknowledging receipt of the total amount on the form. One copy of this list should go to the person who opened the mail and the other to the employee performing the functions of the cashier or bookkeeper.

B. Alternate Mail Receiving Procedure

If the foregoing procedure is not feasible, the person opening the mail should total the currency, checks, and money orders received by using an adding machine. The amount on the tape should further be identified by inserting such information as the payer's initials, case number or other identification data next to each dollar amount. The amounts can subsequently be reconciled after all receipts are written by the employees performing the functions of cashier or bookkeeper.

C. Transfer to Cashier for Deposit

The collections should be turned over to the employee performing the functions of cashier or bookkeeper or other person responsible for preparing deposit permit documentation. The collection tape should be compared to the total shown on the deposit permit documents to insure that all funds have been accounted for.

D. Retain Original Copy of Receipt

The original copy of the receipt should be retained in the receipt book unless a receipt is requested or the Auditor-Controller directs that a receipt should be mailed.

7. CASH REGISTER PROCEDURES

Cash registers are used for the receipt and control of monies received by departments with a large volume of cash receipt transactions. The department head, in coordination with the Auditor-Controller, is responsible for developing and adopting the necessary operating procedures for the use and operation of the cash register to provide adequate controls in the cash receipting function of the department. Such procedures shall be based on the following standards:

- Each employee performing the functions of cashier and bookkeeper should be assigned a separate cash drawer with a key. The employees performing the functions of cashier shall keep the cash drawer locked when not in use and shall be responsible for the money in the cash drawer.
- At the start of each business day, the employees performing the functions of the cashier will count and sign for any assigned change funds.
- Cash registers should have the capability of printing transaction numbers in numerical sequence.
- Duplicate imprints of transactions made should be recorded on a tape locked in the cash register (the detail audit tape).
- If an error is made by keying an incorrect amount of distribution, the employee(s) performing the functions of the cashier must note the error, make a brief explanation in ink on the detail audit tape, key in the proper amount, and, at the end of the day, subtract the erroneous amounts from the register total. All corrections made on cash register tapes must be reviewed by and verified by the supervisor in charge.
- At the end of each business day, the supervisor in charge shall clear out the register totals for the day's business. In this connection, the cash register shall have the capability of summarizing transactions by coded distribution key. The employee(s) performing the functions of the cashier shall at no time have the capability of clearing out cash register totals.

- During breaks or lunch periods, provision should be made to fix accountability for monies received by any individual providing cashiering relief.
- At the end of each business day, the supervisor in charge should reconcile the cash register tape total with the monies turned in by the employee(s) performing the functions of the cashier. When reconciled, the employee(s) performing the functions of the cashier and bookkeeper should be furnished a receipt for the monies turned in to the supervisor in charge. The audit tape and reconciliation should be used for the daily posting to the journal (or preparation of a deposit permit) and should be retained by the department.
- If the cash register has a visible display of the amount being entered, the register should be positioned so that the customer can observe the display.

8. RETURNED CHECKS

A. General

- (1) There are a number of reasons a check may be returned unpaid from the bank. The most common of these is due to insufficient funds on deposit by the maker of the check. For the purposes of this Chapter all unpaid checks shall be referred to as NSF items.
- (2) When an NSF item is received from the bank, the customer may have already received the benefit of the services or goods purchased from the County. Examples might include room rental fees, map sales, and duplicating services. In other cases, the benefit to the customer is either delayed beyond the time the check would normally clear the bank (e.g., plan check fees) or where the benefit can be reversed (e.g., property taxes).
- (3) The County Treasurer or other bank account custodian in receipt of an NSF item shall make a determination whether or not the maker of the check has received the benefit of the services/goods provided and shall follow the procedure set forth below. The Auditor-Controller should be consulted in all cases where this determination is not clear.

B. Processing of NSF Checks

The processing of NSF items will vary depending on whether:

- The check was written by a customer or a Department with a depository account.
- The customer has received the benefit of the service or goods purchased.
- The NSF item affects a deposit permit.
- The NSF item is returned to the Treasurer or a bank account custodian.

It is important to resolve every NSF item promptly and aggressively.

- (1) The handling of NSF items is largely a matter of judgment. If the Treasurer or other bank account custodian believes that the payment is collectible, the item should be resubmitted to the bank for processing.
- (2) However, if it is probable that the NSF item is not collectible, the department head should cancel the payment by voiding the receipts, clearly annotating all records, returning the check to the maker with notice of action taken, and, if a deposit permit is affected, forwarding a notice to the County Treasurer so that a debit memo can be prepared.
- (3) If a collection does not appear possible within 10 days and a benefit has been received by the maker, then alternative collection procedures should be considered, e.g. collection agency.

9. CASH OVERAGES

A. General

Any employee performing the function of cashier experiencing a cash overage must submit a written report to the department head "at the close of each business day, setting forth the exact sum of any cash overage in the account for that day." (California Government Code Section 29373)

B. Procedures

- (1) All cash overages, regardless of amount, should be separately deposited with the County Treasury daily and intact, at the same time as all other cash receipts collected by the responsible department or activity. This deposit shall be identified as being a cash overage and recorded to Other Revenues, Account Number 47500.
- (2) When the source of a cash overage is known to the fund custodian, and when the amount of the overage is \$1 or more, the fund custodian shall initiate a refund. Such refunds are payable by County warrant, which must be supported by a properly completed claim form. This claim, along with other information shall make reference to the deposit permit covering the overage.
- (3) A cash overage of \$25 or more should be reported to the Auditor-Controller. The report should set forth the facts and circumstances and be forwarded not later than the close of the business day on which the overage is discovered.

10. CASH SHORTAGES

A. General

In regard to cash shortages, California Government Code Section 29390 states:

“The board of supervisors may, by a resolution incorporating such limitations and safeguards as may be deemed in the best interests of the county, provide that county officers and employees who are responsible for receiving and paying out money may be relieved of shortages in their accounts, where there is no proof of fraud or gross negligence in connection with the shortage and where the loss is not covered by insurance. If the board of supervisors after an investigation and report by the county auditor approves the coverage of such shortage, it shall be entered in its minutes and shall be a charge against the general fund of the county.”

Sutter County adopted the provisions of California Government Code Section 29390.1 (Resolution No. 90-86, June 29, 1990) which states:

“By resolution, the board of supervisors may provide that an application to have a shortage in county funds replenished shall be made with the auditor of the county instead of with the board and may authorize the auditor to perform the functions of the board to replenish the shortage. In the event the board authorizes the auditor to perform such functions of the board, the auditor shall render a written report and give an account to the board of shortage reimbursements at the end of the fiscal year and at such other times as the board directs.”

The procedures to be followed in the case of cash shortages will be based on the nature of the shortage as outlined below.

B. Routine Errors in Cash Handling

- (1) Occasionally, errors will occur in making change and other cash transactions that result in cash shortages. Any employee experiencing an unresolved cash shortage must report the exact sum of any cash deficit to his department head or supervisor at the close of each business day.
- (2) Whenever warranted by the size of the shortage, the department head or supervisor should make a thorough attempt to determine the reason for the shortage. The review might include recounting the cash, reviewing all transactions for the period, and checking the amounts of all checks and money orders to ensure that the receipts were written for the correct amounts.
- (3) The shortage should be reimbursed by using the change fund so that the total receipts for the day will be deposited intact. However, if the change fund is not sufficient to cover the shortage, the affected fund will have to remain short until relief from accountability is either granted or denied.
- (4) At the time reimbursement of the change fund is requested by the department, the Auditor-Controller shall review the detail supporting the cash shortage position of the change fund.
 - a. The change fund custodian shall maintain adequate records and notations to describe the source and nature of all shortages.

- b. Relief from accountability pursuant to Government Code Section 29390 may be sought by the change fund custodian upon written application to the Auditor-Controller. (See Appendix B for a sample format)
 - c. The request for relief must be complete with details of the occurrence and an explanation of corrective measures.
- (5) If the request is granted a claim will be prepared charging the department for the amount of the cash shortage. The Auditor-Controller will issue a warrant to replenish the fund having the shortage.

C. Shortages when Theft or Negligence Is Suspected

- (1) Any person suspecting theft or negligence shall report such irregularities to the department head.
- (2) The department head shall contact the Auditor-Controller and discuss the circumstances of the suspected theft or negligence. The Auditor-Controller may request assistance from the District Attorney's Office if appropriate.
- (3) The Auditor-Controller shall establish the amount of the loss and the circumstances surrounding the shortage. The Auditor-Controller shall issue a report, with recommendations, based on the findings in the case. A copy of the report shall be sent to the Board of Supervisors and the District Attorney.
- (4) The department head may seek relief from accountability as explained above in B(4)b.

11. DEPOSIT PERMITS

A. General

Deposit permits are the enabling document approved by the Auditor-Controller authorizing deposit of funds into the County Treasury. The deposit permit form is prepared by each department and submitted to the Auditor-Controller's office for approval and then to the Treasurer's office for deposit. The form indicates to which accounts the funds are to be credited. (See Appendix C for sample)

B. Permit Procedures

- (1) Receipts should be deposited daily, intact. Less than daily deposits (not to exceed one week) may be warranted if receipts are small or special circumstances exist. Any department head contemplating less than daily deposits must ensure that funds are properly secured and should have authorization from the Auditor-Controller.
- (2) The deposit permit must indicate the receipt numbers of the transactions for which the permit was prepared, for audit purposes,
- (3) The total of the individual receipts must equal the amount being deposited.
- (4) Categorize the total by currency, coin, checks, or wire transfer as listed on the form. List these sub-totals on the deposit permit, reconciling to the totals of the individual receipts retained by the department.
- (5) Departments must retain a validated copy of each deposit permit.

12. SUMMARY OF CASH CONTROL PROCEDURES

A. **Internal Control--General Principles**

- (1) Establish clear responsibilities for a given situation task.
- (2) Divide responsibility for related transactions.
- (3) Maintain adequate records.
- (4) Separate record keeping and asset custody.
- (5) Rotate personnel.
- (6) Keep employees informed.
- (7) Review systems and procedures periodically.

B. **Specific Cash Control Requirements**

- (1) All cash receipts shall be deposited intact into the County Treasury or a commercial bank account at least weekly and preferably daily if the revenue volume warrants. Large amounts of cash shall not be allowed to accumulate. Depositing intact means that the deposit must consist of the same checks and/or money orders and the same amount of currency and coins as indicated in the receipts for the deposit.
- (2) Deposits should be made by someone other than the person performing the functions of cashier or bookkeeper, or the person who issues receipts.
- (3) Bank accounts should be reconciled and reviewed at least monthly by someone other than the employee performing the functions of cashier or bookkeeper, or the person who makes the bank deposits.
- (4) The duties of those employees performing the functions of cashier and bookkeeper should be independent, with neither person having access to the other's records.
- (5) No adjustments should be made to ledger accounts without the express approval of the department head or a supervisor designated by the department head.

- (6) Employees shall not commingle private monies with County funds. County funds shall not be used to cash payroll checks or other personal checks. Likewise, employees shall not borrow money or issue personal I.O.U.'s in exchange for County funds of any kind.
- (7) Employee personal funds shall not be used to reimburse shortages in cash funds. Overages in cash funds shall not be retained to "make up" future shortages or for non-County purposes.
- (8) All cash overages, regardless of amount, should be separately deposited with the County Treasury, as a cash overage, at the same time as all other cash receipts are deposited.
- (9) Departments may accept payments for County services in the form of personal checks, bank checks and drafts, money orders, and cashier's checks for the exact amount of purchase. Accepting personal checks for payments is discretionary.
- (10) An endorsement stamp, restricted to "Deposit in the County Treasury" must be used on all checks and money orders at the time they are received.
- (11) During working hours, cash must be kept in a cash drawer, cash box or cash register that is not accessible to unauthorized persons. Cash drawers or cash boxes must be closed and locked when not in use. Whenever possible, each employee receiving cash should be assigned a separate cash drawer or cash register till.
- (12) If cash is not deposited on a daily basis, it should be kept in a locked, secure place (a safe, drawer, or cabinet) with access restricted to as few employees as possible.
- (13) An official County receipt shall be issued for the exact amount of all money received by any officer or employee of a department. Unless otherwise expressly approved, only official County receipt books issued to departments by the Auditor-Controller may be used. Other systems that may be approved for use include "pegboard" and cash register systems.
- (14) All receipts shall be issued in numerical sequence.

- (15) Receipts should be written in ink and all parts should be completed. The form and composition of payment should be clearly noted. Both parties should initial all “cross-outs” and “strike-overs”.
- (16) Departments shall maintain accountability over receipts issued for use by the department. Receipt books should not be accessible to customers or unauthorized employees.
- (17) If it becomes necessary to void a receipt being written in an official County receipt book, it shall be done by printing the word “VOID” in large letters on the receipt. Both copies of the voided receipt shall be retained in the receipt book for inspection during audits.
- (18) If it becomes necessary to void a receipt when a cash register is being used, the detail audit tape shall be annotated with the word “VOID” and the receipt shall be attached to the cashier’s reconciliation of the day’s business.
- (19) Whenever it becomes necessary to void a receipt, the immediate supervisor of the receipt preparer should be notified of the void and should initial the voided receipt.

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APPENDIX

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APPENDIX A

**SAMPLE OF CASH RECEIPTS RECORD AVAILABLE FROM AUDITOR-
CONTROLLER'S OFFICE (refer to page 13)**

COUNTY of SUTTER STATE OF CALIFORNIA	OFFICIAL RECEIPT	No XXXXXX
_____	_____	____/____/____
Issuing Office or Department		Date
RECEIVED FROM _____		
THE SUM OF _____		\$ _____
FOR _____		
Paid By Cash <input type="checkbox"/>		Received By _____
CK. / M.O. <input type="checkbox"/>	BK. No. _____	Title _____

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APPENDIX B: IMAGE OF "RELIEF FROM SHORTAGES" FORM

(See next page for a full size form for printing or photocopying)

COUNTY OF SUTTER

**Request for Relief of County Officers and Employees
from Shortages in Accounts**

To: Auditor-Controller

Date:

On _____ (date) _____ a cash shortage in the amount of _____ \$xx.xx _____ was disclosed in the reconciliation of the cash receipts.

This shortage has been thoroughly investigated and the circumstances surrounding the loss are set forth in detail in the attachment to this letter. Considering that no proof of fraud or gross negligence has been found and that the loss is not covered by insurance, I respectfully request relief from the shortage as provided by Section 29390 of the California Government Code.

To replenish the imprest cash or change fund I request authorization to submit a claim to the Auditor-Controller charging:

_____ (department name) _____, Budget _____ (number) _____,

Office Expense Account No. 52170 in the amount of the aforementioned cash shortage, payable to: _____ (name of fund or account to which receipts are deposited) _____.

Date: _____ Signature: _____

AUDITOR-CONTROLLER REVIEW

The circumstances concerning this shortage have been reviewed and the request for relief from the shortage is: approved ___ disapproved ___

Date: _____ By: _____

COUNTY COUNSEL REVIEW

The circumstances concerning this shortage have been reviewed and the request for relief from the shortage is: approved ___ disapproved ___

Date: _____ By: _____

COUNTY OF SUTTER

**Request for Relief of County Officers and Employees
from Shortages in Accounts**

To: Auditor-Controller

Date:

On _____ a cash shortage in the amount of _____ was disclosed in the reconciliation of the cash receipts.

This shortage has been thoroughly investigated and the circumstances surrounding the loss are set forth in detail in the attachment to this letter. Considering that no proof of fraud or gross negligence has been found and that the loss is not covered by insurance, I respectfully request relief from the shortage as provided by Section 29390 of the California Government Code.

To replenish the imprest cash or change fund I request authorization to submit a claim to the Auditor-Controller charging:

_____, Budget _____,

Office Expense Account No. 52170 in the amount of the aforementioned cash shortage, payable to:

Date: _____

Signature: _____

AUDITOR-CONTROLLER REVIEW

The circumstances concerning this shortage have been reviewed and the request for relief from the shortage is: approved ____ disapproved ____

Date: _____

By: _____

COUNTY COUNSEL REVIEW

The circumstances concerning this shortage have been reviewed and the request for relief from the shortage is: approved ____ disapproved ____

Date: _____

By: _____

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APPENDIX D

Disbursement (Payment) Controls

- (1) All disbursements, except from authorized petty cash funds, shall be made by county warrant or check.
- (2) Departments shall adhere to restrictions on delegated purchasing authority.
- (3) When requisitioning goods, departments should ensure that requisitions are initiated or approved only by authorized personnel.
- (4) Quantities ordered should be sufficient to obtain quantity discounts and avoid continual reordering without creating storage costs.
- (5) When receiving goods or services, departments, shall:
 - a. Ensure that quantity and quality of goods received are as ordered.
 - b. Ensure that all receiving slips are dated and signed by a person authorized by the department head to receive goods. Delivery location must be shown if goods are not picked up by the County.
- (6) When paying bills, departments shall:
 - a. Ensure that the commodities and services listed on an invoice have been received and were required for use.
 - b. Ensure that invoices are charged to the proper contract.
 - c. Ensure that invoices are tested to verify the quantity, price, and extensions.
 - d. Ensure that all invoices are dated and signed by the persons requisitioning the goods or services, after review of the receiving slips and the invoices.
 - e. Ensure that the original invoice is submitted to the Auditor-Controller's Office. If the original invoice is not available, the copy must clearly indicate "Original copy is not available". Generally, payments should not be made from statements.

- f. Ensure that any refunds or credits are properly applied or received. Ensure that there are adequate funds appropriated for expenditures and that correct coding is entered.
- (7) Claim request and accounts payable documents should be verified to expenditure records to ensure correct posting of payments.

APPENDIX E

Inventory Controls

(1) General

- a.** Inventories shall be protected against loss, theft, and damage through adequate physical controls, e.g., locked access, storage facilities.
- b.** Persons authorizing inventory purchases shall not also be responsible for inventory custody and /or records.
- c.** When the value of an inventory warrants:
 - Maintain separate-item accountability by units and dollars for inventory quantities received, issued, and on hand.
 - Ensure that inventory issues are authorized (either signed for or based on stock requisitions).
 - Conduct periodic physical inventories, determining differences between book and physical inventories and adjusting inventory records.
 - Persons conducting physical inventories shall not be the same persons conducting the physical inventories or maintaining inventory records.
 - Person approving inventory adjustments shall not be the same person conducting the physical inventories or maintaining inventory records.
 - Calculate inventory issue prices according to an acceptable and consistent method (manual systems).

(2) Fixed Assets and “Sensitive Items”

- a.** Assets shall be protected against loss, theft, and damage through adequate physical controls, e.g. locked storage. Inventory tags should be prominently applied. Missing tags should be replaced.

- b.** Conduct annual physical inventory, locating or accounting for all assets.
 - Person(s) conducting the physical inventory shall not be the same persons having custody of the assets.
- c.** For items frequently assigned to different personnel or locations, additional records should be maintained showing items--with identifying numbers/descriptions--and assigned location or responsible person.

(3) Accountable Items For Sale

- a.** Inventory controls should be implemented over pamphlets, books, maps, license tags, permits, or other documents for which money is collected.
- b.** Controls should be related to the value of the accountable items, ranging from strict access control over pre-numbered permits to visual control over pamphlets that have limited value and low demand.

NOTES:

