

BEST PRACTICES IN CASH HANDLING

Almost all local governments have operations that involve over-the-counter collections from the general public. Collections may be in the form of personal checks, debit card transactions, credit card transactions, money orders or cash. These collections may be for a number of things including:

- Tax Payments;
- Utility payments;
- Fees;
- Court Collections;
- Permits; and
- Other service charges.

Documentation for each transaction may be generated manually by the use of a receipt form or through the use of an electronic device or computer that will provide detailed and/or summary information. At the end of the day, this documentation is reconciled to the total of the cash, checks and other payment forms in the cash drawer less the starting amount in coins and currency.

Over-the-counter collections require a cashier to manually make change for a customer. This process demands accuracy by the cashier and such is subject to human error. Invariably, overages and shortages will occur.

Some local governments retain overages separately or as part of the starting cash drawer balance to cover future shortages. Some local governments require the cashier to immediately make up the shortage. This approach has some risk as it may increase employee turnover, or worse, it may become a motivating factor for the employee to take any overage to balance the account.



According to the Government Finance Officers Association (GFOA), proper controls over revenues are imperative in determining budget, forecasting, reconciliations, and general oversight over the various revenues collected. Proper controls over all receipts (including cash) must exist to ensure all funds are collected for services performed by the government. Accordingly, governments should establish a revenue policy that incorporates the following control procedures for over-the-counter cash collections:

General Controls

- Use automated systems (e.g., computer or cash register) where practical to increase cash processing efficiency and to provide more detailed support for reconciliations.
- Establish a starting cash drawer amount and other funds held in reserve to ensure sufficient currency to make change.
- Require daily verification of the starting balance by the responsible cashier to assign accountability.
- Require collections for each individual cash drawer be reconciled daily, documented, signed off by the responsible cashier and deposited in a timely manner.
- Segregate duties between collection, recordation, reconciliation and deposit processes.
- Overages should be recorded as other revenue and shortages should be recorded as other expenditures.
- Disallow the acceptance of overpayments when the intention is to give a cash refund to the customer.
- Management should encourage cashiers to report overages and shortages.
- Management should summarize cashiers' cumulative overages and shortages and use this information in evaluating employee performance.

Security Controls

- Establish strict physical access controls to the cash drawer.
- Assign responsibility to the cashier for securing the cash drawer.
- Require periodic draw-downs by management or the cashier during days of large collections to ensure that the amount of cash in each drawer does not become excessive.



Management Controls

- Require management to verify the daily receipt and reconciliation process.
- Require management to monitor and track daily overages and shortages for each cashier.
- Require management to use trend information regarding overages and shortages as part of the employee's evaluation and performance review.
- Specify the actions to be taken by management based on the dollar amount and/or frequency of overages and shortages.

Monitoring Controls

- Monitor deposits to ensure cash is actually being deposited.
- Perform timely bank account reconciliations and investigate any discrepancies between your internal records and the bank's records.
- Conduct surprise cash counts to ensure the accuracy of collections.
- Perform trend analysis of cash deposits and activity levels, which may identify anomalies or potential fraud.
- Monitor register voids and use of "no sale" key – investigate excessive use.

When the amounts collected are significant, the Auditor of State's office will review, as part of the audit process, a government's control policies and procedures for over-the-counter cash collections, including the corrective action that management takes to minimize the occurrence of overages and shortages. Please note that the Auditor of State's determination whether a FFR is warranted may be influenced by the failure to establish or adhere to adequate controls.

The Auditor of State's office recognizes that even the most honest employees make errors in recording cash. Therefore, the Auditor of State will not issue FFR for insignificant cash shortages a cashier reports to management as part of their reconciliation process, if the government's management monitors overages and shortages and suitably follows up on patterns of shortages. Conversely, we may report shortages as findings for recovery if a government's controls are not in place or are inadequate.

SAMPLE CASH-HANDLING POLICIES

Governments should develop policies that most appropriately suit their needs. As such, the number of controls and restrictions included in the policy is a determination of each respective government. While samples of cash-handling policies are widely available, the following policies contain varying levels of procedural controls that governments might find useful in developing or retooling their cash-handling policy.

City of San Luis Obispo, California

www.auditor.state.oh.us/publications/bestpractices/fall07sanluisobispocashmanagement.pdf

Of the cash-handling policies reviewed, the city of San Luis Obispo's policies and procedures on cash management are the most thorough and comprehensive. They are divided into the following sections: General Information, Public Service, Cash Handling, Daily Cashier Operations and Security and Loss and Prevention. They also provide extensive guidance on how to perform the duties of a cashier. Most notably, they stress the importance of customer service. For instance, the policy and procedures state, "There's no such thing as 'just' a city cashier. As far as most citizens are concerned, you are the city!"

Town of Windsor, California

www.auditor.state.oh.us/publications/bestpractices/fall07townofwindsorcashcontrolshandling.pdf

Windsor's cash controls and handling policy is concisely written yet includes a number of important controls designed to safeguard cash and other collections. The controls are designed to help ensure that the cash receipting process is performed uniformly among the town's various departments. The policy requires departments to maintain only the absolute minimum amount of collections on their premises to ensure safety and to maximize Windsor's return on investments.

Ashtabula County Joint Vocational School District, Ohio

www.auditor.state.oh.us/publications/bestpractices/fall07acjvscashpolicies.pdf

Ashtabula County Joint Vocational School District (JVSD) has established cash collection and deposit regulations that provide guidance and associated controls in each area and collection point where cash is normally receipted (e.g., Cafeteria Receipts, Principal's Office, Summer School Fees, etc.). Uniquely, the regulations include a copy of Ohio Rev. Code § 9.38, which is the applicable legal requirement governing the deposit of public money.

City of Solon, Ohio

www.auditor.state.oh.us/publications/bestpractices/fall07cityofsoloncashprocedures.pdf

The city of Solon has developed procedural guidance for its Tax Division and for other areas on the proper receipt and deposit of collections. Although the guidance is designed to meet the specific needs of the city, it contains many of the preferred controls and restrictions to ensure money is properly safeguarded.