NOTE: Text in **BLUE** represents guidance points**; BOLD BLUE text represents internal control guidance;** text in **BLACK** represents example policy language. The **[BLACK]** text in parenthesis requires editing to your specific circumstances.

This policy was developed to set forth the regulations and procedures regarding all cash management activities of **[the governmental entity]**, including:

- Bank Account Management
- Cash and Check Handling (Receipting)
  - Central
  - Off-site
  - Lockbox
- Cash Accounting and Bank Reconciliations
  - Cash Accounting
  - Bank Reconciliations
- On-line Banking
  - Administration/Authorization
  - Electronic Payments
  - Account Transfers
- Petty Cash

Policies covering the authorization of payments are documented in a separate policies and procedures document.

Bank Account Management

Generally, the authorization to open accounts should limited to one or two individuals **(dual authorization)** within the entity. Individual departments or elected officials should not have the authority to open accounts, unless authorized by law. Typically the municipality's Treasurer will serve as the primary authority; however, when dual authorization is warranted, this responsibility might be shared between the Treasurer and the Chief Financial Officer/Controller. Each municipality should review its structure and determine what works best within their legal and structural framework. All accounts should be in the name of the municipality and under the entity's EIN.

Signors on the account should be persons of responsibility and authority. Only persons authorized to establish bank accounts should appoint additional signors. **Signors should be restricted to the dollar amount of a particular transaction based on their level of authority.**

All bank accounts must be in the name of **[the entity]** and established using the **[the entity's]** EIN**.** The opening of new bank accounts and appointment of signors must be initiated by the **[Treasurer]** and approved by the **[Chief Financial Officer].** Should a new bank account be required, the requesting department must contact the **[Treasurer]**.

Requests to close bank accounts must also be initiated by the **[Treasurer]** and approved by the **[Chief Financial Officer]**.

In general, pooling of cash (depositing cash from multiple funds/sources to be used for multiple purposes in one account or portfolio of accounts) is preferred for easier maintenance and to provide greater return. However, it may be necessary to segregate restricted funds from operating funds and this can be accomplished by establishing a separate bank account or portfolio of accounts.

All general purpose cash of **[the entity]** is deposited into the general pool. Restricted funds are maintained in a segregated pool and are not available for use for general **[Entity Type]** operations. Any funds not needed immediately for operations are invested in accordance with the **[Entity's]** Investment Policy.

It is good practice to have a contract for banking services that is bid at pre determined intervals. This appropriate interval will vary depending on the size of the entity. A successful bidder will not only have reasonable fee, but also must be able to provide a superior level of fraud prevention/detection, (especially for online transactions) and customer service. At a minimum, the bank must provide for positive pay, debit block and controlled disbursement accounts.

Every government should regularly review its account analysis statement to ensure that the bank fees are agreement with the contract.

Cash and Check Handling (Receipting)

To the extent practical, when municipal operations reside in a single building, cash receipts should be collected in a central location (typically the Treasurer's Office). Off-site locations (golf courses, pools, etc.) may also need to handle cash receipts. The cash receipting software/system will vary by municipality and will be based largely on the size of the organization.

Central

- All cash received at the **[Entity]** hall is processed by the cashiers in the Treasurer's Office.
- All receipts must be processed using the **[cash receipting software]**.
- Photo identification must be presented by the payee in order to accept payment by check. The cashier shall verify that the name and address on the identification match that on the on the check. If they do not match, the check cannot be accepted.

- Photo identification is Checks are endorsed by the cashier when received.
- A receipt must be issued for each transaction
- Daily, all cashiers shall balance their cash drawers to the cash receipting system.
- The supervisor shall review the cashiers' reconciliations and prepare the deposit at the end of the day.
- Deposits shall be made daily and will be picked up by armored car.

Note: Entity's may use *Remote Deposit Capture* to image checks and send the images electronically to the bank in batch. Should an entity choose to use this method, a policy must be set on how long the checks are to be maintained.

Off-site

- All cash is to be secured at all times either in a locked drawer, cabinet, safe or vault. Locations that have a cash register with a cash drawer are to ensure that the cash is never left unattended.
- Photo identification must be presented by the payee in order to accept payment by check. The cashier shall verify that the name and address on the identification match that on the on the check. If they do not match, the check cannot be accepted.
- Checks shall be restrictively endorsed as soon as they are received.
- Daily, all cashiers shall balance their cash drawers to the cash receipting system. (It may be that the "receipting system" is simply a pre-numbered receipt pad".)
- Cash drawers/boxes shall maintain a minimal amount in order to make change. This amount varies based on the operation. The drawers shall balance to this amount at the end of the day.
- To the extent practical, cash and checks collected at offsite locations shall be sent to the Treasurer's office or directly to the bank for deposit on a daily basis. Typically, it is less costly to make deposits via armored car than at the bank's counter. For this reason, municipalities should consider sending all receipts to a central location. If the size/sprawl of the municipality makes this impractical, then each location that sends deposits directly to the bank should have unique deposit slips with a location identifier for ease of accounting and reconciling.
    - If the amount of money collected each day at a given off-site location is insignificant, then weekly deposit is acceptable. If cash is not deposited daily, all cash and checks shall be secured in a locked vault/safe until they are forwarded to either the Treasurer's Office or the bank for deposit. An entity might consider a max dollar threshold of funds that can be held prior to deposit (example, when receipts total $500), if daily or weekly deposits do not make sense.

- Deposits shall be transported in a locked or sealed money bag or tamper proof envelope. If the deposit exceeds $____, then the depositor must be accompanied to the bank by an armed officer.
- Vault/safe combinations and key locations (if applicable) shall be changed as soon as possible if a person with access to either no longer works in that location.
- Periodic audits of cash receipts at remote locations will be performed. These might be performed by the Treasurer's office, Internal Audit, external auditors or the CFO/Controllers Office.

Lockbox

A lockbox is a service offered by banks in which the entity receives payments by mail to a post office box and the bank picks up the payments several times a day, deposits them into the entity's account, and notifies the entity of the deposit. Lockbox is the preferred method of handling large volume receipts such as utility bills and tax payments. It allows the entity to have fewer employees processing payments and provides a strong level of internal control.

The bank will send an electronic file of the period's transactions which can be uploaded into the entity's accounting system. **This report should be reconciled to the corresponding deposit made by the lockbox provider. An exception report should be produced for any items that did not post electronically. Exceptions should be researched and resolved in a timely manner.**

Cash Accounting and Bank Reconciliations

Cash Accounting

Each entity will want to ensure that cash activity is being recorded and reconciled on a daily basis. The steps below assume that the general ledger software is separate from the cash accounting software. This will be largely dependent on the size of the organization.

The accounting and reconciling of cash activity is performed daily. The "daily work" has two main categories, 1) Recording of daily transactions 2) Reconciliation of the daily activity and the cash pools. Cash pool reconciliations are only necessary if the entity uses a pooled cash system and transfers funds between pools.

1) **Recording of Daily Transactions**
    a. The banks are "polled" each day. – Polling consists of receiving an electronic file from each bank of the previous day's activity.
    b. The electronic files are uploaded to **[cash accounting software]**

i. Receipts/Bank credits – certain recurring receipts are coded in **[cash accounting software]** to automatically post. Items that are not set up to auto post appear on a Daily Exception Report. Cash Accounting Staff identifies and manually inputs the accounting for the exception items. They identify the accounting treatment either based on knowledge of the transactions, as many of these items are recurring or by research.
ii. Withdrawals/Bank debits – all debits (with the exception of returned items) are supported by documentation which consists either of one of the following; Check/ACH Disbursement Authorization Form, Offline Wire Requests, Interpool Transfer Request, Trustee Disbursement Memos, and other support as deemed appropriate. The accounting treatment is indicated on the respective form and input into **[cash accounting software]** by Cash Accounting staff.

2**) Reconciliation of Daily Activity and Pools**

After all transactions have been verified and entered (step 1b), Cash Accounting staff must perform the following procedures:

- Confirm that the ending daily balances in **[cash accounting software]** agree with the bank balances reported at the bank.
- Confirm that all cash deposits prepared and sent to the bank by **[the Treasurer's office]** appear on the daily polling report.
- Confirm that the all debit entries that were processed for the day agree with the transactions that were processed through the banks.
- Confirm that all debit transactions on the polling report are supported with the appropriate form as indicated in step 1bii above.
- Confirm that activity within the pools is in balance. This will only apply if a pooled cash system is used.

Upon completion of the above reconciling routine, an extraction file is produces and forwarded to accounting for posting to the general ledger. Balancing and uploads are to be completed within two days of the work date.

Bank Reconciliations

Monthly, all bank accounts are reconciled between the bank accounts and the **[cash accounting software]**. Reconciliations are to be prepared by staff and reviewed and approved by the supervisor of cash accounting. If separate software is used for the general ledger, then a reconciliation should be preformed between general ledger and the cash accounting software.

The Reconciliations are to be completed by the 20th of each month and reviewed and approved by end of each month. Any unusual differences should be researched and corrected as soon as possible.

To the extent possible, employees with access to create or modify payments or access to make transfers online should not be involved in the reconciliation of the bank accounts.

On-line Banking

On-line banking is a useful tool, the use of which is becoming more and more widespread. It is important to have proper controls over access to online banking. Online banking can be used to view daily activity, stop payments on checks, download statements and make electronic payments. It is important that employees are granted access only to those functions that are necessary for the completion of their job functions.

Administration

Administrators of on-line banking should be limited to those with a high level of responsibility and authority. **It is best to have two administrators. In order to add or delete users or to make changes to user access, the changes should be initiated by one administrator and approved by another**.

If the administrators are also users, each administrator should have another login ID to be used for their daily transactions. The administrative login ID should be used only for administrative items. Should the daily user ID be stolen, the thief would not have the ability to make carte blanche changes to all user information. This is particularly important if the banking website does not require dual administration to make changes to user information.

Users who will be designated as Electronic Transaction Officers (ETOs), those responsible for initiating and/or approving and releasing electronic payments and making electronic transfers, should not be involved in authorizing payments, reconciling daily cash activity or preparing monthly bank reconciliations.

Electronic Payments

Wire transfers (wires) are electronic movements of money that take place the same day they are approved for payment. ACH (Automated Clearing House) payments are electronic movements of money that clear the day after the approval for payment.

Note: Public Act 738 of 2002 gave Michigan governmental units the ability to make payments using ACH (Automated Clearing House), provided the government prepare a policy for conducting ACH and presents it to the governing body *and* provided that the governing body approves a resolution authorizing the entity to use ACH transactions. The MGFOA has prepared a “Sample ACH and Electronic Transaction Resolution and Policy” which can be found online on the MGFOA’s “Resource” page. That sample should be used in conjunction with the information below.

Wires fees typically carry a cost of $5 - $10 per wire while ACH fees are a fraction of a dollar (typically less than $.15). To the extent possible municipalities should utilize the ACH method of electronic payments versus wires to reduce service fees.

To the extent practical, a municipality should use its accounting systems to initiate electronic payments to vendors and employees. These payments should be transmitted to the bank electronically via the method designated by the bank, typically via a web portal. In general, an ETO who was not involved in the initiation of these transactions should be responsible for releasing the electronic file at the bank. **The ETO should review the authorizing documentation/ACH register and verify that the amount per the documentation agrees to the amount being released.**

It *is* likely, however, that certain payments or movements of money will be made outside of the "normal" check run/payment process. Examples of these payments may be, transfers between accounts, bond payments, and payments for employee benefits and taxes. These payments will likely be made via wire transfer or ACH and be processed by accessing the banking website on-line.

There should be a standard form used initiate wire transfers and online ACH payments. The department requesting the payment should prepare the form, which should be reviewed and signed by someone other than the preparer before forwarding the request for payment to the appropriate individuals (Treasurer or Finance). **There should be two employees involved in creating and approving online wires and ACH payments.** One employee should be responsible for initiating the wire while the other should approve and/or release the payment. Most on-line banking systems *require* this dual control.

- All disbursements of funds using an electronic transfer shall be conducted by the **[Treasurer's Office].** All disbursements require supporting documentation detailing the goods or services purchased, the date of the purchase, the departments and activities serviced by the payments, the department head authorizing the purchase or contract authorizing the purchase.
- All electronic funds transfers must be entered through the general ledger and reviewed and approved by **[Accounting]**, with the exception of transfers between accounts for funding purposes.
- All invoices being paid via electronic transfer shall be approved by the normal accounts payable review process.
- The following payments are not processed through accounts payable and do not follow the accounts payable review process:
    - Payroll
    - Federal and State withholdings
    - Investments, including payment of deferred compensation amounts to the appropriate institution
    - Other exceptions as defined by the **[CFO]**.
    - Transfers between cash pools

When the above payments are made to outside entities, an **[Offline Wire Disbursement Form]** must be prepared by the requestor and signed by the appropriate **[Accounting]** personnel. For transfers of funds between cash pools accounts, an **[Interpool Cash Transfer Request Form]** must be prepared by the requestor and signed by the appropriate **[Accounting]** personnel. These completed forms, along with supporting documentation will be forwarded to the **[Treasurer's Office]** for processing.

- No vendors shall be allowed to automatically withdraw funds from **[Entity Type**] accounts.
- The payment will be entered into the online banking system by one individual and reviewed and approved by another individual.
- Support for the transfer will remain on file at the **[Treasurer's]** office subject to the document **[Entity Type's]** retention policy.

Account transfers

There are generally three reasons for account transfers 1) purchasing or maturing of investments (bonds, CDs), 2) transfers of cash between pools, 3) transfers from savings accounts to disbursing accounts to cover cash flow needs.

Transfers of cash from one between bank accounts at one bank can be made by a single ETO. Transfers of cash between banks will require a wire and will require two ETOs. It is the responsibility of **[the Deputy Treasurer]** to determine the type of transfer warranted.

Transfers required for the purchase or maturity of investments are supported by applicable paperwork (trade tickets, copies of CDs, daily polling report for deposits from maturities, etc.) and the print out of the confirmation of the online transfer/wire.

Transfers of cash between pools are supported by an "Interpool Transfer Request Form", signed by an authorized person and supported by the print out of the confirmation of the online transfer/wire.

Transfers from savings accounts to disbursing accounts (or vice versa) to cover cash flow needs should be supported by the print out of the confirmation of the online transfer/wire with "Funding Transfer" noted on the support.

Each transfer is entered into the **[Entity Type's] [investment accounting system]** and forwarded to cash accounting for input, if necessary, into the cash accounting system.

<u>Petty Cash</u>

A government should consider under what circumstances petty cash can and cannot be issued and used as well as the best way to safe guard that cash. Appropriate uses may vary by government. Example language is below.

Upon request, the **[Chief Financial Officer]** authorizes cash advances to certain departments to establish Petty Cash Funds for incidental purchases of services and supply items which meet all of the following general criteria:

1. The item is considered essential to the operation of the requesting department.
2. The supply item is not carried in the Stockroom.
3. The item does not require prior written approval of an authority other than the requesting department.
4. The item is allowable under **[Entity Type]** policies.
5. Other forms of payment are not possible.
6. Coffee and food item purchases, if related to training and/or public consumption.

Expenses Disallowed

1. Cash loans to employees or making change for employees.
2. Purchasing items at a reduced rate or resale to employees.
3. Cashing of paychecks, personal checks, government checks, travelers checks or money orders.
4. Expenses such as: gifts, flowers, greeting cards, coffee, parking not related to county business, food items such as snacks, donuts, beverages, and lunches.
5. Travel expense reimbursements.
6. Travel advances.
7. Payment for items that are to be purchased through the purchasing system.
8. Payments to independent contractors, consultants, awards, etc., to non**-[Entity Type]** employees. These should be processed through the Accounts payables payment process.
9. Payments to employees for services, awards, bonuses, etc.

When requesting the establishment of a Petty Cash Fund ~~o~~r an increase in an existing Petty Cash Fund, the initiating department must complete a “Request for Petty Cash Fund” form. The initiating department must complete a voucher for the amount requested to establish or increase a Petty Cash Fund. The completed form and voucher must be submitted to the **[CFO]** for approval.

Note that the form should require the designation of a Petty-Cash custodian so that there is written documentation of who is responsible for maintaining and safeguarding the petty-cash.

If the **[CFO]** approves the request, a copy of the approved request and the voucher will be forwarded to **[Accounts Payable]**, where the voucher will be reviewed to ensure necessary approvals have been received. **[Accounts Payable]** will process the payment and deliver a petty cash check to the Petty-Cash custodian, designated by requesting department. It will be the custodian's responsibility to cash the check, monitor the use of and replenish the cash.

If the department needs to change the custodian appointment for any reason (reassignment, termination, etc.) written acknowledgement needs to be provided to the **[CFO or designee]** within five business days. At that time, the new custodian must provide written verification of the condition of the fund to the department head and the **[CFO or designee]**.

Security

Petty cash must be kept in vaults or locked files restricted to the custodian and the alternate custodian. Cash boxes with locks for additional security are also recommended.

Use of Petty Cash

Depending on the size of the government and the frequency of use of the petty cash, an entity may want to establish "petty cash vouchers" contain a brief, but clear description of the item, and should indicate the fund, activity and line item to be charged. The form should be signed by the receiver, approver and disburser of petty cash funds. If petty cash vouchers are not used, the business purpose should be noted on the invoice/receipt which should be signed by the employee. A spreadsheet could also be used to log the necessary information.

Payments for services and supplies must be supported by a petty cash voucher along with an original receipt or invoice.

Replenishments

Replenishment of petty cash funds must be obtained by means of a voucher. The replenishment vouchers must summarize the Petty Cash Vouchers paid since the last replenishment, and include the original receipts or invoices for those transactions. The replenishment vouchers must be complete in all details (i.e., department, payee, fund, activity, line item, description and authorized signature). If the **[CFO or designee]** determines that inappropriate payments were made, petty cash privileges may be revoked. Otherwise the **[CFO or designee]** will sign the voucher and forward it to Accounts Payable for payment.

Annual Review of Petty Cash

Department heads shall review the status of their petty cash annually. If it is determined that the department has no further need for its cash advance or a part thereof, the unneeded cash advance should be returned to the **[CFO or designee]**.

Petty Cash Audits

Petty cash may be audited (unannounced) at random times throughout the year. Any department found to be in violation of this policy may lose its petty cash privileges.

Loss of Petty Cash Advances

When a loss or shortage of petty cash is discovered due to theft or other causes, the department head will immediately notify the CFO, and confirm the notice with a written communication providing details of the loss or shortage, as known.

Road Commission Logo *POLICY*

CASH MANAGEMENT

It is the policy of the Board of (**Road Commission Name**) that all cash shall be managed according to Generally Accepted Accounting Principles (GAAP) and that internal controls will be in place to ensure efficient safeguards, proper handling and appropriate record keeping.

FINANCIAL INSTITUTION ACCOUNTS

All financial institution accounts must be in the name of Board and established using its federal Employer Identification Number (EIN)**.**

The opening of new financial institution accounts and appointment of signors must be initiated by the Finance Director and approved by the Managing Director**.** The financial institution's Resolution and Authorization document is to be signed by the Board Chairman.

Checks issued on **(Road Commission Name**) financial institution accounts are required to be endorsed by two authorized signers. The Managing Director and Finance Director are authorized signers.

Requests to close financial institution accounts must be initiated by the Finance Director, or designee and approved by the Managing Director.

Investments are managed in compliance with the Investments Policy.

DEPOSITS

All general purpose cash of **(Road Commission name)** is deposited with **(County name)** County Treasurer's office into the financial institution account held on behalf of **(Road Commission Name)**. Deposits may also be processed for special purpose financial institution accounts such as a payroll tax accounts. The Finance Director is to ensure proper controls, integrity of data, and safekeeping of deposits.

Funds Received by Cash or Check:
All cash receipts will be logged and deposited in accordance with proper internal control procedures.

Funds Received by Wire Transfer and Automated Clearing House (ACH):
Electronic deposits will be made directly to the financial institution account held by the **(County Name)** Treasurer on behalf of **(Road Commission name)**, and recorded accurately in the **(Road Commission name)** general ledger.

Financial Institution Transfers between (Road Commission name) Financial institution Accounts:
All financial institution necessary transfers will be documented and processed upon the

Finance Director approval. The financial institution processing will require dual authorization.

Funds received from Credit Card Charges:
The Credit Card Acceptance Policy authorizes **(Road Commission name)** to accept credit card payment and provides procedural parameters. All credit card charges will be logged and recorded in accordance with proper internal control procedures.

Returned Checks prior to Depositing:
If it is determined by the Finance Director, or designee that a check should be returned prior to deposit, it will be properly recorded in the cash log, copies made for documentation before return by United States Postal Service mail.

FINANCIAL INSTITUTION RECONCILIATIONS:

All financial institution statements reconciliation are performed on a monthly basis by the Senior Accountant, or designee, and reviewed and approved by the Finance Director.

Senior Accountant, or designee is to complete periodic audits of deposit records, cash log and receipts. The Finance Director is to review audit results, and follow up as needed.

Senior Accountant, or designee will review all outstanding checks on a monthly basis, and follow up with the payee as needed.

CASH DISBURSEMENTS

(Road Commission name) has procedures in place to safe guard the disbursement of funds for valid business purposes after approvals by authorized persons in compliance with policy and regulatory requirements.

The Board must approve the disbursements prior to releasing the payment. The Board pre-approves payroll and emergency purchases as authorized in the Purchasing Policy, but those expenditures must be presented to the Board at a subsequent meeting.

Wherever possible, duties such as custody of purchase cards and blank checks, initiating expenditures, approving expenditures, maintaining documentation, issuing checks and reconciling records should be segregated among different **(Road Commission name)** finance department staff. When segregation of duties is not possible, compensating controls such as management supervision and review of cash disbursement records by independent parties shall be implemented.

The following controls will be utilized:

1. All checks, purchase cards, and access to financial institution accounts, etc. shall be secured and controlled by the finance department with limited access.

2. Expenditure transactions must be approved by the individual(s) having sufficient knowledge and authority to evaluate the transaction for reasonableness and appropriateness. The approver is to note the appropriate distribution code, and sign the documents.
3. All disbursement activity shall be substantiated by supporting documents. The finance department is to verify that proper supporting documents and authorizations are in place (signatures for approval, purchase orders, receipts, invoices, bids or quotes, reimbursement forms, travel vouchers, journal entries, reconciliations, time record, status report, etc.), as well as, the mathematical accuracy.
4. All expenditures made using cash, checks, purchase cards, electronic fund transfers, etc. shall be recorded in the **(Road Commission name)** accounting records.
5. Passwords shall be established on user access to the accounting system and changed periodically in compliance with the Acceptable Use Policy.
6. Checks shall be made payable to specified payees and never to "cash" or "bearer."
7. **(Road Commission name)** sales tax exempt status should be used in conformity with the State of Michigan guidelines.
8. Unclaimed checks will be reviewed regularly and reissued as appropriate. If an unclaimed check has reached the dormancy period of one year by March 31 it will be escheated to the State of Michigan in compliance with the Uniform Unclaimed Property Act, 1995 P.A. 29 as enacted by the Michigan Legislature.
9. Positive Pay financial institution services will be utilized for all paper checks issued. **(Road Commission name)** will notify their financial institution of the checks they have issued that are currently valid. They will also notify the financial institution of the checks that have been voided. Information shall include check number, check date, and check amount for verification.

PETTY CASH

It is the policy of the **(Road Commission name)** to maintain a petty cash fund of $200.00 for the purpose of making minor disbursements (up to $50.) It is the responsibility of the Finance Director, or designee to ensure the petty cash fund is secured and reconciled on a regular basis.

Disbursement from the petty cash fund may be made for approved expenditures. Every disbursement must be supported by a receipt or other appropriate documentation for payment of services and supplies.

The petty cash fund will be replenished as needed and at a minimum quarterly by the Senior Accountant, or designee. The replenishment request must summarize the petty cash vouchers/receipts paid since the last replenishment, and include the original receipts or invoices for those transactions. The replenishment vouchers must be complete in all details (i.e., payee, account distribution, description and authorized signature).

Overages and Shortages: Any overages and shortages should be noted and tracked by the Senior Accountant, or designee and then reviewed and certified by the Finance Director.

Adopted: **Enter date**