SUBJECT:

Petty Cash and Change Fund Accounts

PURPOSE:

To describe a procedure for the creation and management of a petty cash or change fund account.

DISCUSSION:

This specific practice addresses petty cash and change fund accounts, rather than what are often mistakenly called "petty cash and change funds." Actually, these are general ledger asset accounts which have the function of reimbursing small purchases without the necessity of preparing a voucher check or making change.

The amount of currency in a petty cash account is variable, depending on the authorization of the county board. However, the intent of such an account is for small, irregular transactions. For this reason, they generally should be maintained at the lowest practical level--probably $100.

The primary advantage of a petty cash account is its flexibility; however, because of this flexibility, special care should be exercised in its creation and maintenance. The county administrators for whom the account is created are directly responsible for monies under their control. The county finance officer should, however, make certain that proper cash handling procedures are known and, to the extent possible, should see that such procedures are followed by all county officials and employees.

A change fund's sole purpose is for making change for customers doing business with the different county offices. The change fund accounts also are established by the county board. The amount of the account depends on the nature, size, and frequency of transactions within a particular county office. Change fund accounts should not be used for making purchases.

PROCEDURES:

1. Creating the Petty Cash or Change Fund Account

   a. The county board must authorize each petty cash or change fund account pursuant to the applicable Minnesota statute. Any change in the authorized amount also must be approved by the county board.

   b. Designate a responsible officer, cashier, or specially designated deputy who will be the custodian responsible for the account. This custodian should be independent of invoice processing, check signing, general accounting, and cash receipt functions.

      When it is not practical to hire additional personnel or to reallocate duties among existing employees, the county board must establish some mechanism of review that accomplishes the objectives of the segregation of duties. For example, periodic monitoring of cash receipts and/or independent performance of an account reconciliation add controls when complete segregation of duties is not possible.

   c. Issue and turn over a check for the amount authorized to the individual responsible for the account. The custodian should in return give a receipt for the amount to the disbursing agent.

   d. The custodian should place the petty cash or change fund in a secured location.

   e. Notify all employees who might make use of the petty cash account.

      - Describe what type of transaction will be honored,

      - Indicate the maximum amount that will be allowed for any single transaction,

      - Identify the supporting documentation needed for reimbursement, and

      - Describe who must approve transactions.

   f. Whenever an individual's appointment as custodian is terminated, the fund must be replenished and the imprest account turned over to their replacement or other appropriate official.

2. Disbursements from Petty Cash

   a. Prior to requesting reimbursement for a petty cash purchase, the employee making the request should:

      - Prepare a petty cash voucher (in ink) as evidence of the transaction,

      - Attach an appropriate receipt to the voucher, and

      - Have the transaction approved.

   b. Upon receiving a request for reimbursement from the petty cash account, the petty cash custodian should:

      - Compare the voucher with attached sales receipt and other documentation to ensure accuracy and appropriateness of the disbursement;

      - Check to see that voucher is completed in ink;

      - Verify approval signature;

      - If voucher is satisfactory, pay the approved petty cash amount; and

      - Place petty cash vouchers and documentation in the petty cash drawer.

   c. When cash in the account has been reduced to the point that routine transactions cannot be met, a claim is prepared (see step 4), which itemizes the various disbursements and which is presented to the county board. The county board will act upon this claim as it does other claims and will approve or disapprove replenishment of this account.

3. Control of Petty Cash or Change Accounts

   a. The account should be maintained at a single, secured location and at the lowest reasonable level.

   b. Petty cash should be replenished only after following the verification and approval procedures outlined below.

c. Under no circumstances should the petty cash account be commingled with personal funds of a county official or employee, nor should they be used to make advances to officials or employees, even if secured by check or other I.O.U.'s. Entities should not cash checks out of (from) cash receipts because this destroys the intactness of deposits.

d. Receipts from vending machines and other miscellaneous services should be recorded and deposited like other revenue. These amounts should not be commingled with petty cash. While collections typically will be commingled with change funds, the deposit of these collections must be made intact and the composition of checks and cash must match the mode of payment for those collections.

e. Unannounced reconciliations of petty cash or change accounts by independent personnel should be made on a non-regular basis to ensure the integrity of each such account.

4. Replenishing Petty Cash

When petty cash requires replenishment, the custodian of the account should:

a. Total all petty cash vouchers on adding machine tape.

b. Add remaining cash and determine if total of cash and vouchers is equal to the total of the petty cash account. If there is a discrepancy, it should be reviewed with the county finance officer for settlement of discrepancies.

c. Submit the reconciled petty cash report as a reimbursement request to the county board.

Accounting Procedures

1. After reimbursement has been approved by the county board, checks should be drawn to replenish each petty cash account.

2. The amount of each disbursement should be recorded as a normal cash disbursement to the appropriate account.

3. No additional entry is required to the petty cash account after its creation, except if it is to be increased, decreased, or closed.

4. The county board or finance officer should make sure the authorized amounts for petty cash and change accounts are included in the general ledger and related balance sheet in the appropriate fund.

5. Petty cash should always be replenished at the end of the fiscal year so that expenses will be reflected in the proper accounting period.

APPLICABLE MINNESOTA STATUTES:

§ 375.162 Imprest cash funds.

Subdivision 1. Procedure. The county board may establish one or more imprest funds for the payment in cash of any proper claim against the county which it is impractical to pay in any other manner. No claim for salary or personal expenses of a county officer or employee shall be paid from an imprest fund. The county board shall appoint a custodian of each imprest fund who shall be responsible for its safekeeping and disbursement according to law. Money for the operation of an imprest fund shall be secured by a warrant issued on the general revenue fund. A claim itemizing all the various demands for which disbursements have been made from the fund shall be presented to the county board at the next county board meeting after the month in which the disbursements have been made. The county board shall act upon it as in the case of other claims and a warrant shall be issued to the custodian for the amount allowed. The custodian shall use the proceeds of the warrant to replenish the fund, and if the county board fails to approve the claim in full for any sufficient reason, the custodian shall be personally responsible for the difference.

Subd. 2. For travel. The county board may authorize an imprest fund for the purpose of advancing money to officers or employees to pay their actual and necessary expenses in attending meetings outside the county or for other travel that is related to the performance of their job duties. The county board shall appoint a custodian of the fund who shall be responsible for its safekeeping and disbursement according to law. Attendance at meetings and other travel outside the county shall be authorized in advance by the county board. At a meeting of the county board in the month after approved travel outside the county, the officer or employee shall submit an itemized claim for the actual and necessary expenses incurred and paid related to the approved travel. The county board shall act upon it as in the case of other claims and a warrant shall be issued to the officer or employee for the amount allowed. The officer or employee shall use the proceeds of the warrant to repay the amount advanced from the fund. If the amount approved by the county board is insufficient to repay the advance, the officer or employee shall be personally responsible for the difference.

§ 375.45 Change funds, establishment.

The county board shall establish funds in the county offices and departments as it deems necessary for the purpose of making change only. The change funds shall be established by making an appropriation for them from the proper fund in whatever amounts the county board shall determine. The officer receiving a change fund shall be its custodian and responsible for its safekeeping and use. The change fund shall not be used to make payments of expenses provided for in section 375.16.

SUBJECT:

Bank Account Reconciliation

PURPOSE:

To verify that the actual cash balance on deposit with financial institutions, including checking and savings accounts, agrees to the accounting records.

OVERVIEW:

County checking and savings accounts are principal financial resources used in daily financial operations. Most county transactions occur within these accounts and generally on a daily basis. It is important that the county compare the transactions and amounts that the financial institution has recorded in the checking and savings accounts with what the county has recorded in the county's books and records. The process of comparing these amounts is referred to as a bank reconciliation. Differences between the amounts usually occur due to timing. Generally, there can be delays between when a county transaction that is recorded in its accounts and when the transaction "clears" the bank account. "Clears" means the transaction has been recognized and recorded by the bank. Because errors may occur (some due to mistakes in recording and others made by the financial institution), prompt monthly reconciliations between the accounts (bank statements) and the books/accounts maintained by the county are necessary. The reconciliation can determine whether errors have occurred or if the differences are normal uncleared/outstanding items. If errors are found, they should be investigated and corrected without delay before monthly statements of operations are prepared.

To ensure internal control and segregation of duties, the task of reconciling should be assigned to someone not responsible for writing, recording, or signing checks. The unopened account statement and all supporting documentation should be received by the person reconciling the account. After the completion of reconciliation, it should be approved by the appropriate official, such as the finance officer or auditor-treasurer. Many financial institutions provide different account reconciliation services, which could lessen the burden on staff; however, the work provided still should be reviewed by county staff. In counties where there is limited staff and adequate segregation of duties is a concern, senior management or board members should review the bank reconciliation as a means of mitigating this internal control weakness.

The financial institution **must** return all redeemed canceled checks to the county. The county should retain these documents for six years after the year they originated. The reasons for receiving the canceled checks are:

- It is an important internal control. County staff could detect many fraudulent disbursements by reviewing the front and back of all redeemed checks.

- As an original document, the checks are an integral part of the audit trail for disbursement transactions. It is important for both appropriate county staff and external auditors to have access to original source documents.

PROCEDURES:

The following are the steps involved in reconciling a bank account:

1. Compare canceled checks, electronic funds transfers, debit memos, and credit memos with corresponding entries on the bank statement.

2. Compare deposits recorded by the bank with deposits entered in the county books and evidenced by bank deposit slips.

3. Sort checks in numerical sequence and sort other items in date sequence. It can be useful to separate returned checks between those issued in the current month from those issued previous to the current month.

4. List any deposits recorded in the county books that were not included on the bank statement. (Most often these occur with deposits made at the end of the month and are known as "deposits in transit.")

5. Note on the previous month's reconciliation any canceled checks returned with the current statement and compare check numbers, amounts, and endorsements. These checks should be on the outstanding check list of the previous month's reconciliation.

6. Compare payee name, endorsement, check number, and amount with the check register or disbursements journal for the checks issued during the current month. Note all items in the register and investigate any discrepancies. (In addition to errors, this is a means of identifying fraudulent or altered checks.)

7. Determine that all returned checks, debit memos, and service charges are entered in the disbursements journal.

8. List the outstanding (uncleared) checks at the end of the month:

   a. First, list the checks issued from the prior month's reconciliation that have still not cleared the bank account.

   b. Then, list checks issued during the current month that are shown to be outstanding in the check register or other record.

9. Prepare a bank reconciliation form and determine if county books balance to the bank statement.

   a. Name of bank,

   b. Account number,

   c. Date of bank statement,

   d. Ending balance as shown by bank statement,

   e. Date and amount of each deposit not recorded by bank,

   f. Explanation and amount of any errors made by bank which will increase the balance,

   g. Subtotal of amounts listed above, and

   h. Outstanding checks at end of period as shown by list developed in Step 10 below.

10. Explain any errors by the bank which will decrease the balance.

11. If the balances do not agree, an error has been made in one of three ways:

    a. A mistake in the process of reconciling the balances,

    b. An incorrect entry by the county, or

    c. An incorrect entry by the bank.

    Re-check all work step by step. Find the errors, if any, and correct them. Often, errors by the financial institution are found and corrected. This should result in offsetting entries on the bank statement, and these items should be matched. If no errors were made in the reconciliation process, review all entries by the bank and on county books for discrepancies. Note the discrepancies for action by the finance officer on a separate page and attach it to the reconciliation form.

12. Enter the name of person who reconciled the account and the date completed on the bottom of the form.

13. Forward the reconciliation and bank statement (along with canceled checks, deposit slips, and any notes on errors) to the finance officer for review and action.

14. Advise the finance officer of any needed corrections.

15. The finance officer should approve the reconciliation form and file it in a secure place.

16. After the monthly reconciliation is complete, determine if any checks outstanding over a month have been outstanding long enough to be subject to escheat (unclaimed property) law (reversion of unclaimed amounts to the county).

17. Prepare a list of checks subject to escheat and advise claimants (based on county policy) and, if possible, of the potential reversion of the amount.

18. After the appropriate procedure or time period, and at the direction of the finance officer, notify the bank and follow the requirements of the unclaimed property laws.

Often, the bank reconciliation can be performed using the computer system. In these cases, some of the above steps can be made using the computer, such as identifying cleared and uncleared items. The calculations and reports can then be done by the computer.

SUBJECT:

Monitoring Cash Balances

PURPOSE:

To provide a regular means of monitoring cash balances in each official depository and identifying how to optimize this resource.

OVERVIEW:

Because county receipts seldom correspond to disbursements which must be made, there may at times be large amounts of idle funds, while at other times there may scarcely be enough funds to cover current needs. For these reasons, all counties will find it useful to monitor balances in county depositories and plan for regular investment of idle funds. With online banking and computers, the ability to monitor cash balances has greatly improved. The practice of monitoring cash balances should become a regular procedure done even daily if balances change significantly. The following procedures provide examples of how this process can be accomplished routinely.

For smaller counties, a cash balance report should be prepared weekly. In larger counties, where there is a high volume of transactions, a daily cash balance report with the same general format may be desirable. When daily cash balances are abnormally high, smaller counties may elect to complete the report daily to quickly know what balances are available for immediate investment.

PROCEDURES:

Determining Cash Balances

1. Assemble the following information:

    a. Book balances by bank,

    b. Total deposits since the previous report, and

    c. Total checks issued since the previous report.

2. Compute new cash balances for each depository:

   a. Enter the previous day's closing balance for each fund and for the bank in total;

   b. Enter all deposits made since compiling the previous report;

   c. Enter any other adjustments which might increase cash in accounts and subtotal all items 2a to 2c;

   d. Enter the total amount for all checks issued since compiling the last report;

   e. Enter any other adjustments which might decrease bank cash;

   f. Deduct the amounts computed in 2d and 2e from the subtotal derived in 2c;

   g. Compute the amount in bank time deposits for each fund; and

   h. Compute the balance for the bank.

3. Repeat this procedure on a daily or weekly basis.

DISCUSSION:

Investing Cash Balances

All idle county funds not needed in the immediate future (even one day away) can be invested to increase county revenues at minimum cost or risk. In the larger counties, hundreds of dollars can probably be earned each day; in smaller counties, investing the large periodic tax receipts each day can provide the same level of earnings.[1] In Minnesota, qualified investments are established by Minn. Stat. §§ 118A.04 and 118A.05, and include time deposits, U.S. and U.S. agency securities, repurchase agreements, certain state and local government securities, certain types of mutual funds whose only investments are in securities described above, in any securities which are a general obligation of the State of Minnesota or any of its municipalities, or in commercial paper issued by United States corporations, or their Canadian subsidiaries that is of the

[1]At a simple interest rate of four percent, a $100,000 certificate of deposit generates nearly $11 each day.

highest quality and mature in 270 days or less. This is only a partial list of legal investments and, when investing, the county should review the requirements of Minn. Stat. ch. 118A.

To make adequate use of idle cash, an accurate forecast of all cash sources and cash requirements should be prepared and closely monitored. Key elements include a historical revenue and expense analysis (a total cash flow forecast) and other forecasted large and smaller receipts or disbursements: other maturing investments, sale of county assets, receipt of state and federal funds, or payrolls, debt retirement, and knowledge of upcoming other unusually large payments.

A great deal of current literature on local government finance exists. Many fine cash management systems have been described. They enable finance officers to plan cash requirements, monitor available funds and investments, and properly staff the function at minimum cost.

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SUBJECT:

Electronic Funds Transfer

PURPOSE:

To provide guidance on establishing policies to control and monitor electronic funds transfers.

OVERVIEW:

The electronic funds transfer (EFT) is the deposit to or disbursement from a financial institution account by means of wire or other electronic communication. Minn. Stat. § 385.071 governs the circumstances under which electronic funds transfers may be used. The statute states the following:

> Electronic funds transfer is the process of value exchange via mechanical means without the use of checks, drafts, or similar negotiable instruments. Notwithstanding any other law to the contrary, a county may make electronic funds transfers for investment purposes and for all county expenditures. The county board shall establish policies and procedures for investment and expenditure transactions via electronic funds transfer.

We prescribe the following accounting procedures:

1. Receiving money by EFT:

   a. Prepare a treasurer's receipt upon receiving notice from the payor that the funds have been transferred to your financial account. The county should not wait for the financial institution to notify you of receipt of the funds. However, you may want to contact your financial institution to confirm the expected funds have arrived.

Enter the following information on the receipt:

- Date of receipt
- Name of person, company, or agency transferring money into your account.
- Name and number of fund(s).
- COFARS account number.
- Notation that funds were received by EFT.

b. A file must be maintained of those payors who have agreed in writing to receipt funds to your account electronically.

2. Disbursing money by EFT:

a. Prepare a record which shows:

- Chronological number of the EFT payment.
- Time and date of disbursement.
- Payee - name, address, and account number.
- Amount of disbursement.
- Purpose of disbursement.
- COFARS account number.
- Name and number of fund(s).

- Disbursing bank's unique transaction identification number, if available.

- Receiving bank or financial institution's identification number.

b. A file must be maintained of authorizations signed by payees who have thereby agreed to have funds disbursed to their accounts electronically.

c. The treasurer should notify the disbursing bank that access to files, records, and documentation of all EFT transactions involving tile treasurer should be provided to the State Auditor when required for the conduct of the statutory post audit.

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SUBJECT:

Use of Credit Cards

PURPOSE:

To provide guidance on establishing policies to control and monitor the use of credit cards.

DISCUSSION:

Minn. Stat. § 375.171 authorizes counties to make purchases with credit cards. The law also places restrictions on the use of the credit cards. The statute states the following:

> A county board may authorize the use of a credit card by any county officer or employee otherwise authorized to make a purchase on behalf of the county. If a county officer or employee makes a purchase by credit card that is not approved by the county board, the officer or employee is personally liable for the amount of the purchase. A purchase by credit card must otherwise comply with all statutes, rules, or county policy applicable to county purchases.

As noted above, the statute both authorizes the use and places restrictions on how credit cards may be used. The use of a credit is restricted to purchases for the county. Pursuant to the language of the statute, county credit cards should be used only by those employees and officers of the county otherwise authorized to make county purchases.

Since use of the credit card is restricted to purchases for the county, no personal use is permitted. The statute further provides that if officers and employees make purchases for the county that are not authorized by the county board, they become personally liable for the amount of the purchase.

Minn. Stat. § 375.171 further requires that the use of a credit card must be consistent with other state law. For example, Minn. Stat. § 471.38 requires that claims presented for payment be in writing and itemized. Bills received from a credit card company lack sufficient detail to comply with these statutory sections. Therefore, counties must also have the invoices and receipts, from the actual purchases, needed to support the items charged in the bill from the credit card company.

In addition to the requirements of Minn. Stat. § 471.38, Minn. Stat. § 375.12 requires publication of county board minutes, including claims allowed by the board. Considered together, these statutes require counties to publish a list of payments to those vendors providing goods and services to the county. Listing only the credit card company would merely identify the method of payment. It would not identify the vendors providing goods and services to the county. Therefore, it is the Office of the State Auditor's position that if a county published only the identity of the credit card company rather than the vendors, the county would not be in compliance with Minn. Stat. §§ 375.12 and 471.38.

Further, the use of credit cards would require the county to act in compliance with Minnesota chapter 475. This statutory chapter governs the issuance of debt by public entities and a number of restrictions attached to the issuance of any obligation. Minn. Stat. § 375.171 is not intended to be another method of creating debt for the county, but rather authorizes another type of payment method. Therefore, it is incumbent on counties to adopt a policy of paying the total amount of credit card charges on the monthly credit card bill. The statute does not authorize the creation of a new form of debt for the counties.

PRACTICES:

A comprehensive credit card use policy should be adopted that implements statutory requirements, good management practices, and internal controls. A comprehensive policy should:

- Identify the employees and officers who are authorized to make purchases on behalf of the county and are eligible to use the card,
- Identify the particular purchases that are to be made with the credit card,
- Set up a review process for all purchases made with the credit card,
- Prohibit the use of a county credit card for personal purchases,
- Require supporting documentation for each purchase made, and
- Inform the users of the credit cards of these policy requirements.

The county also should restrict the total amount of charges that can be made on the county credit cards. This will help limit the county's exposure to theft or other improper use of the county credit card.

The ability to use a credit card for small purchases in the ordinary course of business may be advantageous to the county. However, the ability of a card holder to make the county liable for an improper or illegal purchase is an inherent risk associated with the use of credit cards. Compliance with the requirements of the statute and the adoption and adherence to a policy implementing further internal controls will greatly reduce the county's exposure to loss of public funds through theft or misuse of a county credit card.

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