

MANUAL OF POLICIES AND PROCEDURES

SECTION 7

CASH CONTROLS

PURPOSE

The City must establish internal controls over cash and cash equivalents to insure that assets are protected and are accounted for in a professional and timely manner. The controls need to reflect the COSO Standards 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the federal Office of Management and Budget. There are variations in the controls needed depending on the process required by the size and complexity of the governmental organizations and its susceptibility to waste, fraud and abuse.

DIVISION OF DUTIES

Segregation of incompatible duties will be implemented in the City. Implemented effectively, this control reduces the risk that any employees will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected. In general, there are three categories of duties or responsibilities that are examined when segregation of duties is discussed:

- Custody of assets.
- Authorization or approval of transactions affecting those assets.
- Recording or reporting of related transactions.

Ideally employees performing any one of the above functions would not also have responsibilities in either of the other two functions. The objective of segregation of duties is to prevent one person from having access to assets and responsibility for maintaining the accountability or authorizing transactions affecting those assets. The level of risk present should also be considered when developing a plan to segregate incompatible duties. When a high level of risk is present (e.g., when dealing with negotiable assets such as cash, negotiable checks, and inventories), there is a greater need for proper segregation of duties.

The responsibilities for cash receipts and cash disbursements are separate whenever feasible. Likewise, the responsibilities for preparing checks and approving checks is separate from the recording or entering of invoices in accounts payable and the general ledger. Users of automated Financial Management Systems may set up routing and approval criteria in the security section of the system to ensure that approvals are obtained by authorized personnel. In governmental systems, the budget and encumbrances to the budget present additional internal controls over spending. Therefore budgets and encumbrances must be maintained and updated.

COLLECTION AND DEPOSIT OF FUNDS

The responsibility for collection and deposits is separate from the recording of cash receipts and general ledger entries. The City designates an employee who does not have general ledger responsibilities or access to the Financial Management System (FMS) to prepare a daily log to record all receipts. Funds should be receipted with either pre numbered receipts by the person collecting the money, or on a cash register or register linked to the FMS. Initial collections may be tracked by roster, ticket sales, or sub receipts. Deposits should be prepared by a cash custodian other than the person collecting the funds or running the cash register and deposited daily at a local bank in accordance with the 24 hour rule. (6.20.2.14, NMAC) During bank reconciliation process, deposit amounts are compared with the cash receipt entries to verify timeliness of deposits. Any unexplained differences should be thoroughly investigated and corrective action taken immediately.

Further separation of duties may be affected if there is a separate employee designated to deposit funds, which have been secured in a tamper proof bag, and sent directly to the bank or given to a money carrier. Validated deposit amounts are compared to depositor prepared deposit slips daily, and all receipts are posted immediately upon receipt. Daily cash receipts are compared to the bank statement to verify timeliness of deposits by the person in the finance department completing this task to create an audit trail. All cash should be kept in a secure location prior to deposit in the bank.

Checks are identified on the deposit slip by maker and amount. If a receipt is voided, all copies shall be marked "VOID" and retained in the daily balancing records. They shall be made available to the City's IPA during the annual audit. Auditors may check the Cash Receipts Journal to verify that there are no missing receipt numbers or skips in the sequence compared to deposit dates to verify that procedures are being followed.

DISBURSEMENT OF FUNDS

Payment for goods and services

A Purchase Order must be submitted and approved by authorized persons before goods, services or merchandise is ordered. The Financial Management System should not allow a purchase order if there is not sufficient budget in the account code string being charged.

Cash disbursements shall be for the following transactions: (1) invoices for goods and services received, (2) disbursements for employment of casual or other labor not under contract, (3) disbursements for contracts (other than payroll), (4) contracted payroll disbursements, and (5) requests for reimbursements.

Disbursements and supporting documents shall include, but not be limited to the following:

- approved purchase order

- bona fide invoices
- purchase order receiving copies that bear the signature of the City employee responsible for receiving supplies, equipment and services, as required by the Procurement Code, Section 13-1-157, NMSA, 1978;
- the signature of the employee who certifies that the payment demand invoice has been examined, footed and cross footed to ensure that amount requested is proper and justified, and that all items of justification for payment are made in order as required by Section 6-5-8, NMSA, 1978;
- bid proposals, or reference to bid proposals, quotations, contractual agreements, state purchasing office or General Services Administration (GSA) agreements, travel reimbursement requests that indicate dates, time of departure, time of arrival, mileage readings, and any other items of justification for payment ;
- accounts payable documentation such as “closed” purchase order or “open” purchase order for only the remaining amount due in order to prevent duplicate payments.

MINIMUM CASH BALANCE

The City’s policy for maintaining a minimum amount of cash for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. The City will maintain the following cash balances based upon either expenditures for the budget year, a specific dollar amount or specific operating days based upon expenditures for the budget year:

General Fund 20%

Environmental Surcharge \$500,000
 Lodger’s Tax \$500,000
 Gas Tax \$500,000
 Infrastructure GRT \$500,000
 Vehicle Replacement Fund \$500,000
 Solid Waste 180 days
 Navajo Gallup Fee 180 days
 Water 180 days
 Electric 180 days
 Waste Water 180 days
 Risk Management \$2,000,000

Any proposals for spending will take these minimums into consideration so that we do not fall below these amounts.

Please note at this time that water and waste water are below these amounts and rate increase requests are pending and will be presented for approval to bring the cash on hand up to the appropriate level.

CASH MANAGEMENT

The City has a written cash management plan that includes an annual budget that is updated and maintained monthly. The CFO should be competent to analyze monthly reports that are presented in a format that meets state and City guidelines. The plan should encompass a monitoring mechanism to ensure that management is able to quickly recognize changing conditions and is able to take appropriate action to mitigate the risk. Such changing conditions could include such conditions as a change in the unit value, a change in the funding formula, a change in the reimbursement process from the federal or state governments, a change in the GRT tax or an emergency situation requiring unplanned use of cash.

Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures or expenses (as appropriate), and transfers. This requirement refers to identification of accounts in the accounting records but does not necessarily extend to physical segregation of assets or liabilities. For example, ***it is not necessary to have a separate bank account for each fund unless required by law, bond indenture, or other reason.*** Effective general ledger control minimizes the need for multiple bank accounts. Bank accounts should be kept to a minimum number in order to minimize unnecessary transfers between bank accounts and confusion in the accounting records.

It is imperative to good internal control that all financial transactions are recorded immediately. No “manual” checks will be allowed, but rather control procedures should be in place to fully utilize features in the Financial Management System. All procedures should be followed by properly voiding or correcting errors with journal entries. Any departure from these procedures should be noted in the evaluation of the internal controls for cash and corrective action should be taken.

CASH RECONCILIATION TO BANK BALANCES

Each calendar month every bank used by the City will supply bank statements for all City accounts either electronically or by mail. If no errors were made by the bank or the City, if all deposits made and all checks drawn by the City reached the bank within the same month, and if no other transactions occurred that affected either the City or the bank's record of cash, the balance of cash reported by the bank to the City should be the same as that shown in the City's own records as of the same point in time. Thus, comparison of the balance shown on the bank statement with shown in the City's own records should verify the latter.

For various reasons, the condition listed above seldom occurs. In most cases, checks issued by the City close to the end of the month do not reach the bank within the same month; deposits made by the City on the last day of the month may not be recorded by the bank until the following month; and such items as service charges by the bank or interest earned are not brought to the attention of the City until the bank statement is received by the City. Hence, there are differences between the City's record of cash and

the bank's record requiring a reconciliation to determine the nature of the differences between the two amounts.

Bank reconciliation is a schedule indicating and explaining any differences between the bank's and the City's cash records. If the difference results only from transactions not yet recorded by the bank, the City's record of cash is considered correct. However, if some part of the difference arises from other items, an adjustment of either the banks or the City's records is required.

The City's Financial Management Systems provide an efficient and accurate bank reconciliation tool, if used in its entirety. The automated bank reconciliation requires listing any adjustments made to the accounting records such as journal entries that are not a result of either deposits or disbursements coming from either the cash receipts journal or the disbursement (Accounts Payable or Payroll Payable) journal. A large number of adjustments may indicate an internal control problem exists. Care must be taken that the criteria and bank accounts are set up correctly in the system.

A widely used form, entitled Reconciliation of Bank and Book Balances, is composed of two distinct sections. One section begins with the balance on the bank statement and works to a balance the bank statement would show if all transactions were recorded. The second section starts with the balance shown by the City's records and works to a balance after all transactions are recorded properly, so that the adjusted bank balance is the same as the adjusted book balance.

Adjusting entries are required to record items properly recognized by the bank but not yet recorded per the books.

CASH ADVANCE

Approval for out-of-town travel advances per pages 44-54 must be obtained according to City's policy from the Department Manager and Department Head, with additional approval of the City Manager for all out of state travel. A Travel Approval and Reimbursement Request form for permission to travel must be completed before the trip and reconciled no more than 15 days after the trip with all receipts attached. The City has a reimbursement policy that is strictly followed to meet IRS regulations. A reimbursement that is requested that does not comply with policy will be denied in order to not jeopardize the City's position with IRS regarding the reporting of travel reimbursements. Uniform application of City policy is necessary so that there is no question or appearance of partiality to a particular employee.

INTER-FUND CASH TRANSFERS

Inter-fund transfers of cash among separate funds of the City are not receipts or expenditures of the City. Such transactions are temporary or permanent transfers of previously receipted cash from one fund to another.

TEMPORARY INTER-FUND TRANSFERS

Temporary inter-fund transfers are transfers of cash from one fund/sub fund to another. Most transfers of this type are temporary cash loans to be repaid at a predetermined date that is approved by the Governing Board, but no later than one year from the approved transfer. Accounts utilized are "due from" and "due to" accounts to indicate inter-fund receivable(s) and payable(s).

PERMANENT INTER-FUND TRANSFERS

Permanent inter-fund transfers are transfers of cash from one fund to another that will not be returned to the fund that provided the cash. Permanent inter-fund transfers should be approved in the City's budget by the Governing council and submitted to the DFA.

On an annual basis all unexpended general fund approved expenditure budget cash will be transferred to a vehicle and equipment replacement fund based upon period 12 financial reports. This amount will be presented to the Council in the subsequent year for budget and transfer approval prior to movement of the funds. The full amount available will be transferred to the vehicle replacement fund up to a fund balance of \$2,500,000. The balance will be calculated using the vehicle replacement fund fiscal year beginning balance plus the transfer less current approved expenditures. Any funds above this amount will be transferred into a separate fund to be utilized for capital improvement projects.

CORRECTION OF POSTING ERRORS

Posting errors are usually found when the City performs the bank reconciliation process. All errors to cash should be investigated by the CFO before the posting of an adjusting entry. An adjusting journal entry should be proposed and approved by the CFO personnel to be posted to the City's General Ledger to indicate necessary corrections. Cross referencing a correcting entry to the original error should be inserted under the "Description" column of the entry. An example notation would be "To correct JE # 345". All Adjusting Journal Entries should be printed and compiled in numerical order in a file for the fiscal year to be reviewed by the City's IPA.

ISSUING DUPLICATE CHECKS

If the original check has not cleared the bank a stop-payment should be filed before any duplicate is issued and the party applying for the duplicate shall file with the fiscal officer of the City an affidavit which shall state that the original check has been lost or destroyed or was never received. Please refer to Section 6-10-60, NMSA, 1978.

Each check issued by City shall have printed on its face the words, "void after 90 days". Refer to Section 6-10-57(F) NMSA, 1978. Whenever any warrant/check is unpaid for one

year after its date, the fiscal officer shall cancel it in accordance with Section 6-10-57(A), NMSA, 1978. The finance department shall keep a register of all canceled checks. The register shall show the number, date and amount of each warrant/check, the name of the payee, the fund out of which it was payable and date of cancellation, in accordance with Section 6-10-57(B), NMSA, 1978. The face amount of each check canceled shall revert and be credited to the fund against which the check was drawn. The entries shall be made to the City's General Ledger in a timely manner. A control procedure should be written and checked for compliance.

CITY POLICY

This listing includes control procedures of the City to affect Internal Control over the Cash and other liquid assets of the City. While the finance department maintains the ultimate control over these assets, there are multiple persons and departments involved in both the Revenue Cycle and the Expenditure Cycle. Thus it is important to detail the processes necessary to protect the assets of the City.

DIVISION OF DUTIES

- Persons processing requests for reimbursements from the state and federal government are separate from those receiving and posting receipts.
- Persons approving requests for reimbursement shall not make general ledger entries.
- Bank reconciliations are prepared by persons independent of cash receipt responsibilities.
- The purchasing and receiving functions are separate.
- The purchasing and inventory functions are separate.
- Accounts payable is separate from purchasing and receiving.
- Accounts payable and general ledger functions are separate.
- Administrative review exists over all receipts and expenditures.

GENERAL CASH RECEIPTS AND COLLECTIONS

- The City maintains policies and procedures for the handling of cash in each department.

- All City employees handling cash must be familiar with cash handling policies and sign an affidavit that they have read and understand the policies, and agree to abide by those policies.
- The finance department will compare the bank receipt to the daily cash reports in every accountable unit and trace to the recording of amounts in the FMS.
- Daily deposits are sent by courier in sealed bank bags.
- Cash drawers are reconciled daily.
- Cash over and short explanations are in writing and signed.
- Checks are restrictively endorsed.
- There is a daily reconciliation of cash receipts.
- Cash is deposited daily.

GENERAL REVENUE CYCLE CONTROLS

- All expected revenue is properly and timely budgeted in the City's general ledger.
- All reimbursement requests are submitted on a timely basis.
- Loans between funds are monitored and minimized by good cash flow control practices.
- Pre-numbered receipts are used to receipt cash received at remote sites or by accountable units within the City.
- The finance department will monitor the receipt books and deposit slips submitted by each the accountable units to insure that all receipts are timely deposited and that there are no missing receipts.

GENERAL EXPENDITURE CONTROLS

- An authorized vendor list is used and vendors are properly approved before being placed on the list.
- Vendor history is maintained/verified and used for inclusion on an authorized vendor list.
- Purchase requisitions are properly authorized.

- Purchase orders are used and are properly authorized.
- Purchase requisitions and purchase orders are pre-numbered.
- All vendors are instructed to send invoices bearing the purchase order number directly to the accounts payable department.
- All vendors are instructed not to accept orders without a purchase order number.
- Accounts payable verifies the mathematical accuracy of vendor invoices.
- The requested payment transaction journal is approved by the CFO or Accountant prior to checks being printed.
- Supporting documents are attached to invoices submitted for payment approval.
- Check controls are in place.
- Manual checks are not used.
- Finance and purchasing staff are required to take vacations.
- The purchase order, receiving report, and vendor invoice are matched prior to invoice entry.