

Cash Operations Manual – Internal Controls

A. DEFINITION OF INTERNAL CONTROL

Internal control encompasses the policies and procedures that an organization establishes to ensure that it operates in accordance with management's intentions and that accountability is maintained for all transactions. This includes the methods adopted by the organization to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed managerial policies.

This broad definition of internal control includes two different aspects of control: administrative control and accounting control. Administrative (or operational) controls are generally aimed at improving operating efficiencies or otherwise controlling the activities of the organization. These controls are in contrast to internal accounting controls, which are primarily directed at reliable financial reporting (i.e., ensuring the accuracy and reliability of the financial data and safeguarding assets).

Internal controls are usually developed and put into place to either prevent mistakes or detect them on a timely basis if they occur. For example, University departments use transmittal forms to deposit cash, checks, ACH credits and wire transfers with the Treasury Services department. Clerks in Treasury Services verify transmittal forms to make sure that the deposit equals the amount shown on the form and that accurate account numbers are used. These clerks are performing controls designed to prevent mistakes from entering the University accounting system. To detect any mistakes that get through this process, the computer system has been designed so that it will detect (and not accept) out-of-balance transactions and invalid account numbers.

The category (administrative or accounting) into which a specific internal control might fall is not particularly important. Far more relevant are the reasons why internal controls are established and the purposes they serve.

B. PURPOSE OF INTERNAL CONTROL

Internal controls are put into place largely to allow management to monitor operations, identify business risks, and generate pertinent financial and nonfinancial information. In short, internal controls are designed and implemented so that management can run the organization. Internal controls also ensure that responsibilities are met.

Generally speaking, internal controls are established to provide reasonable assurance that:

1. Transactions are executed in accordance with management's authorization.
2. Transactions are recorded as necessary to permit the preparation of accurate financial statements and to maintain accountability for the organization's assets.

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3. Access to assets is restricted to instances authorized by management.
4. Assets are periodically compared with the accounting records, both to determine the accuracy of the records and to account for the assets.

C. INTERNAL CONTROLS OVER CASH

Because cash is negotiable, readily spendable, and easily transported, it is important for proper internal controls to be in place to protect this asset. Accordingly, it is the policy of the University that the following internal controls over cash be implemented throughout the University:

1. Access to cash must be limited. All funds should be kept secure at all times. While in the possession of University departments, administrative offices, and affiliated organizations, funds should be kept in safes, locked boxes or drawers, or in closed cash register drawers. All funds, except for imprest cash, must be deposited in accordance with the daily deposit policy (E-2-4-B-1).
2. Cash operations must be subject to daily supervisory review. To minimize the potential for mistakes in cash operations and/or misappropriation of cash, cash duties should be separated among employees so that in all instances one person (preferably a supervisor) will check the work performed by another.
3. All cash must be completely and accurately recorded in the financial records of the University. To ensure this, transmittal forms should be prepared for all cash receipts indicating the account(s) to which the funds are to be credited.

D. SEPARATION OF DUTIES

The internal control that most effectively assures the secure handling of cash is separation of duties. Having different people receive cash, prepare the transmittal, and reconcile the ledger sheets attains this. This allows each person to serve as a control over the others, catching mistakes and preventing the misappropriation of funds.

In a small office where separation of duties is difficult, it is imperative that the supervisor review cash operations each day.

E. SAFEGUARDING OF ASSETS

Cash is prone to theft or misplacement. Accordingly, it is important to have internal controls in place to safeguard these assets so that access to them is limited to authorized personnel. See section E-2-6 for additional information on security.