

**MANUAL OF PROCEDURES  
PSAB SUPPLEMENT 7  
CASH CONTROLS**

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# MANUAL OF PROCEDURES

## PSAB SUPPLEMENT 7

### CASH CONTROLS

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#### **PURPOSE**

Districts and charter schools 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. (See PSAB Supplement 2, Internal Controls) There are variations in the controls needed depending on the process required by the size and complexity of the district/school and its susceptibility to waste, fraud and abuse.

This manual provides a checklist in the Tips, Tools and Resources section to enable district's and charter schools to review their internal control over cash handling, cash disbursements, and cash receipts. The checklist is divided in regard to the handling of actual cash and checks, and wire transfers, and between public funds and activity funds. The district/school is required have a written policy and procedures for the handling of cash and cash equivalents which is monitored and evaluated periodically to ensure compliance and effectiveness. Cash procedures for handling Activity Funds will be more thoroughly discussed under PSAB Supplement 18, Student Activity and Athletics. (See Tips, Tools and Resources in this manual for checklist and other internal control tools.)

#### **DIVISION OF DUTIES**

##### **COLLECTION AND DEPOSIT OF FUNDS**

The responsibility for collection and deposits is separate from the recording of cash receipts and general ledger entries. Districts should designate 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. If funds are collected at school sites for clubs or cafeteria meals, they should be receipted with either pre numbered receipts at the school site by the person collecting the money, or on a cash register or register linked to cafeteria management software. 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 school funds, which have been secured in a tamper proof bag, directly at the bank. Arrangements may be made with the bank to submit bank receipts directly to the business office for posting to the proper accounts. Validated deposit slips 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. All cash should be kept in a secure location prior to deposit in the bank.

After being properly logged, bank wires and checks received in the business office may be receipted and posted in the Financial Management System, which automatically creates a sequentially numbered receipt. This control helps to ensure that all deposits are accounted for and made available in a timely manner to meet district objectives. Districts may arrange with their bank to fax daily a detail of any wires or ACH transactions received, or properly authorized employees may access bank information on line. A restrictive endorsement (For Deposit Only) is placed on each incoming check upon receipt by the person preparing the daily cash log.

The district has written procedures to follow-up on "non sufficient funds" checks."Non-sufficient funds" checks are delivered to someone independent of processing and recording cash receipts. Collection efforts are pursued by the district.

Checks are identified on the deposit slip by maker and amount. Unused cash receipts are adequately safeguarded. If a receipt is voided, all copies shall be marked "VOID" and retained in the receipt book. They shall be made available to the school district's internal auditor and to the IPA during the annual audit. Internal 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.

Cash is periodically audited by a person other than the custodian at unannounced times. This audit may include comparison of receipts posted to reimbursement requests detail in OBMS and to budgets maintained in the general ledger.

### **The Revenue Subsidiary Ledger**

The posting of a receipt on the Financial Management System automatically creates an entry to both the General Ledger and to the revenue subsidiary ledger. By using account codes as required in PSAB Supplement 3, Uniform Chart of Accounts of this manual, an account detail ledger is created and may be accessed at any time. Account codes can be "rolled up" to encompass multiple funds, or multiple accounts on one report, as called for in the district's accounting procedures. This ledger will contain pertinent information relating to each receipt including but not limited to the name of the remitter, the receipt number (generated by the system), and also receipt information entered in regard to manual pre-numbered receipts, the date of the deposit, and other information as required by the district's procedures. A sequential journal entry number will be created by the system for each receipt which will also be on the detail report. These journal entries in turn create a cash receipts journal for the fiscal year. The journal

shall begin July 1 and be closed as of June 30. This journal shall be presented to the school district's auditor during the annual audit.

Districts may have pre-printed deposit slips specifically coded with the appropriate fund group for the revenue in order to facilitate bank reconciliations, especially if the district/school minimizes the number of bank accounts used. The bank will be able to provide a detail of deposits grouped by the group number for specific funds such as Federal funds, Student Nutrition, or Activity funds on the deposit slip.

## **DISBURSEMENT OF FUNDS**

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 as per 6.20.2.9, NMAC. (See PSAB Supplement 1, Budget Planning, Preparation and Maintenance)

### **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.

Cash disbursements made for the purchase of supplies, equipment, services, utilities, fixed charges, contracts (other than payroll of school employees), rent payments, travel reimbursements and all other expenses of a school district that are payable as indicated by an invoice may be paid via an individual voucher as a single payment, or an aggregate payment voucher. If a single voucher is issued to a single payee and the total amount due is charged to more than one budgeted expenditure account and payable by more than one fund, the face of the voucher should include a breakdown of funds. A district must use a clearing account for checks in order to issue one check to a single vendor from multiple funds. Vouchers may be generated automatically by the Financial Management System and may contain all of the checks processed at one time such as weekly, or checks processed by different departments, etc.

Vouchers 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 school 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.

Vouchers should be presented to the local school board for approval prior to the issuance of checks. However, since a local school board generally meets once a month, at which time approval for payment is given, and in order to permit the school district to take advantage of applicable discounts, pay punctually in accordance with vendors' invoices, and to eliminate any undue hardship on the vendor, or other payee, the following process may be utilized by a local school board in accordance with the district administrative procedures.

A local school board, through the issuance of a **formal board resolution**, may authorize the superintendent of schools or his/her designee to approve vouchers for payment prior to a board meeting. A summary listing of the vouchers processed in accordance with the district's published schedule for processing shall be presented to the local school board at its next regular meeting for formal approval and entry in the minutes.

Vouchers shall be numbered in such a manner as to provide a cross reference between the voucher, the check and the check register. All blank checks must be properly safeguarded and an inventory of unused checks should be taken periodically.

Completed vouchers and supporting documentation should be placed in numerical sequence, by the month in which they were paid and filed for future reference and annual audit. (6.20.2.14, NMAC)

The school district shall verify that there is sufficient cash and budget prior to the disbursement of cash.

As funds are made available to a school district to disburse cash to cover the approved budgeted expenditures, adequate internal controls and statutory compliance (Section 6-10-2, NMSA, 1978) make it necessary to establish a Cash Control ledger for each fund. Clearing Accounts may be used to combine more than one fund in one bank account.

### **Payroll and payroll related expenditures**

A separate Payroll Clearing bank account may be established for the purpose of isolating payroll and payroll related expenditures. There are several different procedures that a school district/charter school may follow if it chooses to disburse all payroll and payroll related expenses from the payroll clearing account.

A voucher is prepared for gross payroll and the district's portion of FICA, Medicaid-FICA, ERB, insurance as follows:

- Payroll - gross (by fund)
- FICA - regular district match
- FICA - medicaid district match
- ERB - district portion
- Health Insurance - district portion

Cash is transferred to the payroll clearing account prior to the issuance of the payroll checks to the employees (net pay), wire transfers for federal and state tax deposits, payments for retirement withholding and match, health insurance including the employees and the district's share, and other voluntary withholdings. The payroll clearing account should reconcile to a zero balance after payroll checks and all applicable withholdings and district required matching amounts are paid. An alternative to this process is for the bank to automatically transfer funds from the district's primary account to cover checks and transfers presented to the bank. While the bank account balance will be zero, the reconciled cash balance for the payroll clearing account is a negative amount equal to any outstanding payroll checks or benefits as shown on the outstanding checks listing that the district produces each month.

Some districts may not immediately liquidate the payments to vendors, especially if the vendor will not accept the payment until it has presented an invoice. In some cases, the district's totals and those of the vendor may be different because an employee's activity has just been added to or removed from the plan or has changed the amount of his/her deduction and the district withheld an amount that differs from the vendor. If the check is issued immediately upon finalization of the payroll, it may not be accepted by a vendor that requires the check to match the billing. Districts may have to void and reissue checks if this situation occurs. By leaving this amount as a current year payable until the billing is received and reconciled, a check for the proper amount may be issued. General journals will have to be made by the district to resolve any differences. It is important for good internal cash control to reconcile and make proper entries each month as part of the district's month end closing procedures.



Another method of accounting for payroll is to write a check to the payroll clearing account for the net amount of employee pay. Under this method, all withholdings and matching amounts would be paid via voucher through each applicable fund, or through an accounts payable clearing account. Employee checks would be the only checks issued from the clearing account which should always reconcile to zero after all checks are issued and presented to the bank for payment. The accounts payable created would have to be reconciled as detailed above each month.

Districts must realize that the temporary cash balance created by a payroll payable represents cash that is not available to budget and should not be included in the cash balance reported to the state, but only as a reconciling item to the financial statement cash balance.

A full discussion of internal controls over payroll is contained in PSAB Supplement 14, Payroll.

## DOCUMENTATION

The district has a written cash management plan that includes an annual budget that is updated and maintained monthly. The finance committee should be competent to analyze monthly reports that are presented in a format that meets district procedures. 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 PED, or an emergency situation requiring unplanned use of cash.

The district prepares comprehensive monthly reports to be presented to the financial committee. The district may maintain an internal audit function to assure the accuracy of the reports and that internal control policies are in place and effective by using an internal control tool for evaluating the internal controls over cash. This tool may be similar to the one presented in the Tips, Tools and Resources section of this manual.

General ledger control must exist over all bank accounts. 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.

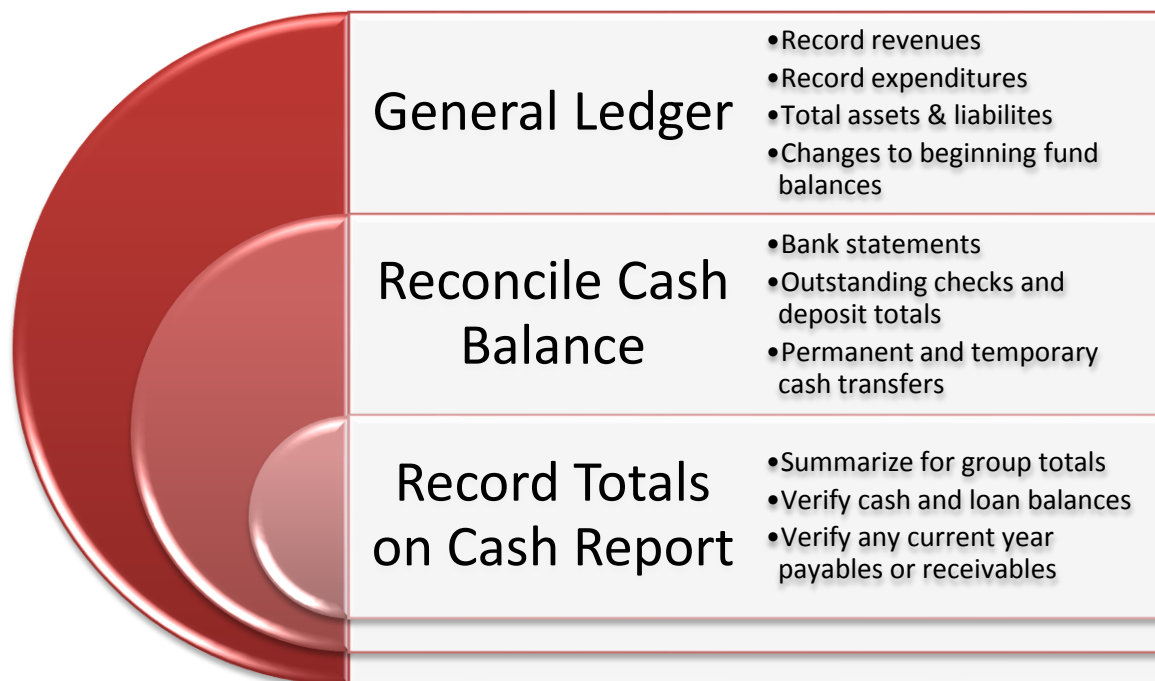
It is imperative to good internal control that all financial transactions are recorded immediately. No “manual” checks should be allowed, but rather control procedures should be in place to fully utilize features in the Financial Management System. All procedures should be followed by properly voiding 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.

**Reconciling with Cash Report**

The Cash Report should flow directly from the General Ledger. Before completing the Cash Report districts/charter schools should first reconcile all bank accounts and properly record any adjusting items such as interest or deductions for banking supplies, or for loans made by the district operational fund to other funds. The cash balance on the final line of the cash report should tie directly to the general ledger cash accounts total. Any differences must be found and corrected prior to submitting the report.



**CASH RECONCILIATION TO BANK BALANCES**

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

For various reasons, the condition listed above seldom occurs. In most cases, checks issued by the district close to the end of the month do not reach the bank within the same month; deposits made by the district 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 district until the bank statement is received by the district. Hence, there are differences between the district's record of cash and the bank's record requiring a reconciliation to determine the nature of the differences between the two amounts.

**Section 20-2-14, NMSA 1978 CASH CONTROL STANDARDS:**

*K. All bank accounts shall be reconciled on a monthly basis. Reconciled bank statements are to be reviewed by the business manager and/or assistant superintendent for business administration. The bank statement, deposit slips, and canceled checks shall be made available to the district's auditor during the annual audit.*

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

Generally, most 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. (See example of automated report format below.)

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 school district 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.

Another form of reconciliation, frequently used by auditors and typically illustrated in accounting and auditing textbooks, is the so-called proof of cash or "four-column bank reconciliation" which is shown below. This method of bank reconciliation is also utilized by the district's FMS, but with a slightly different layout. This method is a preferred method because

- It reconciles not only the beginning cash balance but also the receipts, the disbursements, and the adjusted ending balance, after the application of outstanding items. The adjusted balance of \$3,200 in the reconciliation (below) is also the reconciled balance on the district's/charter school's balance sheet (G/L);
- All of the reconciling items that require journal entries for book purposes are grouped in the section devoted to the general ledger balance; and

- The additions and subtractions are accounted for as they relate to the district's journals.

**ABC School District  
Proof of Cash for November  
(Four Column Bank Reconciliation)  
XYZ Bank**

	Balance @ 10/31	Receipts	Disbursements	Balance 11/30
Per bank statement	\$ 3,000.00	\$ 2,450.00	\$ 1,950.00	\$ 3,500.00
Deposits in Transit*				
at 10/31	\$ 100.00	\$ (100.00)		\$ -
at 11/30		\$ 200.00		\$ 200.00
Outstanding Checks*				
at 10/31	\$ -			
at 11/30			\$ 500.00	\$ (500.00)
Adjusted Bank Balance at 11/30	<u>\$ 3,100.00</u>	<u>\$ 2,550.00</u>	<u>\$ 2,450.00</u>	<u>\$ 3,200.00</u>
Per general ledger	\$ 3,100.00	\$ 2,650.00	\$ 2,400.00	\$ 3,350.00
Unrecorded bank charge			\$ 50.00	\$ (50.00)
Recorded deposit twice		\$ (100.00)		\$ (100.00)
Reconciled balance	<u>\$ 3,100.00</u>	<u>\$ 2,550.00</u>	<u>\$ 2,450.00</u>	<u>\$ 3,200.00</u>

Adjusting entries are required to record items properly recognized by the bank but not yet recorded per the books as illustrated below for the ABC school district.

The bank shows a transfer by the district which has been recorded for \$50. The bank has also charged the district a \$50 service fee which has not been recorded by the district.

Nov. 30			
Expenditures	\$ 50.00		
Cash		\$ 50.00	
(To record bank charges for November)			

There is still a difference in the balance calculated on the above form and the actual G/L records for the district. Further examination reveals that the outstanding deposit for \$200 is actually a deposit for \$100 that was inadvertently entered into the financial records twice.

A void journal entry will have to be made to reverse the duplicate deposit, either by voiding the amount in the FMS or by issuing a manual journal entry. Once that is done, the Outstanding Deposit amount will change to \$100, and the difference will become zero.

If this same bank reconciliation was done utilizing the district's financial management system, the bank reconciliation would be presented as follows:

- Bank statement information obtained directly from the bank statements on the left side of the ledger
- Bank statement information entered into the FMS on the right side of the bank statement with any adjustments included to match with the statement from the bank
- The total amounts of outstanding checks and deposits from the FMS listing\*
- A calculated total to indicate the balance of all bank information and adjustments for outstanding items
- The actual balance for the selected cash accounts on the FMS.
- Any difference between the calculated balance and the actual general ledger balance
- General ledger entry required to correct the difference to show a difference of zero



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## Automated Bank Reconciliation Format Example

Bank Statement		System Balance After Canceling Checks & Deposits	
Beginning Balance	\$ 3,000.00	Beginning Bank Balance	\$ 3,000.00
+ Total Deposits	\$ 2,400.00	Deposits Cleared	\$ 2,400.00
- Total Checks	\$ 1,800.00	Checks Cleared Adjustments Recorded	\$ (50.00)
=/- Other Adjustments	\$ (100.00)	Ending Balance	\$ 3,550.00
<b>Ending Balance</b>	<b>\$ 3,500.00</b>	Adjustments Needed	\$ (50.00)
		<b>Ending Bank Balance</b>	<b>\$ 3,500.00</b>
		Outstanding Deposits*	\$ 200.00
		Outstanding Checks*	\$ (500.00)
		Calculated G/L Balance	\$ 3,200.00
		Actual G/L Balance	\$ 3,300.00
		Difference*	\$ 100.00

*\*A correction is still needed to be made to the General Ledger for \$100 in this example.*

If this same bank reconciliation was presented in a two column columnar manual format it would look like the following example.

Balance per Bank		Balance per G/L	
	\$ 3,500.00		\$ 3,350.00
Less: OS Checks	(500.00)	Adj. for Service Chg	(50.00)
Plus: OS Deposits	200.00	Void Deposit	(100.00)
Reconciled Balance	\$ 3,200.00		\$ 3,200.00

The corrected cash balance as of the date of the reconciliation is \$3,200, or \$3,350 per books decreased by \$50.00 and decreased by \$100.00, as per the entries and correction detailed above.

\*There should be outstanding deposits/checks lists to support these amounts.

## CASH REPORT

The school district shall submit the Cash Reports to the PED by the last working day of the month following the end of the reporting period unless extended to a later date by the secretary of education. This report represents all transactions accumulated thus far for the year at the end of the month being presented. See Instructions and Sample Form in the Tips, Tools and Resources section of this manual,

Each audit shall include a cash reconciliation reconciling the cash balance at the end of the previous fiscal year to the cash balance at the end of the current fiscal year. If there are differences between these amounts compared to the required PED quarterly (monthly) and annual Cash Reports, adjusting entries should be provided to the school district. If the cash is not able to be reconciled, the audit should contain a finding stating the PED reports do not reconcile to school district records. Sample schedules are detailed in PSAB Supplement 5, Financial Statements and the Audit Rule (2.2.2.12 C (4)(b), NMAC).

## CHARGE BACKS

Occasionally, a check tendered to the school will be returned by the bank. When this occurs, the bank will charge the school district account. In order to reflect the charge made by the bank on the school general ledger, a separate line object shall be maintained as an accounts receivable. Authorized personnel may be at the supervisory level. The detail will create an Insufficient Fund Check ledger and a detail report may be run at any time. An Adjusting Journal Entry will be required to properly record this transaction.

- Debit the Insufficient Fund Checks account code by the amount of the returned check.
- Credit cash in bank with the amount of the returned check by the name of the originator of the check.

If cash is collected for the check, the same procedure for recording the adjustment is used except the entry will be the reverse of the one described above. When the check is redeposited, a separate deposit should be made and identified as "redeposit of John Doe's check" and a credit entry is made to the account code(accounts receivable) originally charged. This account code may be restricted and may require a supervisor to make this entry.

Uncollectible checks must remain in an Insufficient Funds Subsidiary ledger. The school district/charter school may remove uncollectible checks from the books, but must maintain a ledger for perpetuity. After final audit an uncollected check may be written off the

district's ledger by crediting Cash and debiting Fund Balance as the original revenue account was closed at the end of the audited year.

## PETTY CASH FUND

School Districts/Charter Schools are discouraged from maintaining any petty cash funds. However, there may be extenuating circumstances that call for small amounts of cash to be kept on hand. Petty cash funds are established by drawing a check made to the order of the employee charged with the responsibility of the fund (e.g. John Doe, Petty Cash Custodian). Access to petty cash funds must be strictly limited to the Petty Cash Custodian. If a cash purchase is necessary, it is recommended that it be handled by a reimbursement to the individual making the purchase rather than the issuance of cash prior to purchase. Normally, immediate purchases may be made by purchase order with subsequent payment on a school district check/warrant. If school district policy and procedures include keeping a small amount of money available to facilitate small payments such as COD orders delivered for a school activity, the following is required:

- A petty cash voucher is prepared and a check is issued to the responsible employee for a set amount, e.g. \$50 and shall not exceed limits set by administrative procedures.
- A receipt for cash withdrawn from petty cash fund and an invoice for purchase made must be obtained.
- The receipt and supporting documentation should be attached to voucher when replenishing the petty cash fund.
- A replenishment voucher is prepared when the petty cash fund needs to be replenished to original amount. e.g. \$50.

At all times the petty cash fund will contain cash and/or invoices totaling the full amount of the petty cash fund. The fund should be reimbursed as required. The petty cash fund should remain at the amount originally established and is subject to internal audit at any time.

The school district should ensure that petty cash and change funds are reflected on the district's balance sheet as cash on hand. Petty cash and change funds shall not be used to make loans to employees or for cashing checks.

In some instances, such as in the cafeteria and athletics, a change fund may be required. The amount of the change fund is established by drawing a check from regular checking to the employee of the district responsible for the change fund. Control and safeguarding of petty cash and change fund is the employee's responsibility. The district should ensure that established amounts are maintained by performing unannounced internal audits. All change funds should be deposited to the bank when not needed such as over school breaks or at the end of the school year.



## CASH ADVANCE

Approval for out-of-town travel advances must be obtained according to district policy from the school principal, the business office or other designated manager prior to departure. A form for permission to travel and another to reconcile expenses, after the trip, is required and should be submitted according to district policy. The district must have 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 district's position with IRS regarding the reporting of travel reimbursements. Uniform application of district 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 and distinct funds of the school district are not receipts or expenditures of the school district. Such transactions are temporary or permanent transfers of previously receipted cash from one fund/subfund to another and are listed on the Cash report as "Inter-fund Cash Transfer" , positive(+) or negative(-) as required. (See Appendix to this supplement).

### Cash Flow

Special Revenue funds require a loan from the Operational fund to cover the original expenditure. A reimbursement request must be sent via the OBMS system to request reimbursement for the expenditures. To insure adequate cash flow, reimbursements must be filed as often as permitted and the reimbursement tracked to ensure repayment from the Department of Finance and Administration (DFA). Loans may become almost permanent in nature without district/charter school planning to spend the grant funds early in the fiscal year and file for reimbursement timely to ensure loans are repaid by the end of fiscal year.

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### Flowthrough Grant Cash Cycle 1

#### TEMPORARY INTER-FUND TRANSFERS

Temporary inter-fund transfers are transfers of cash from one fund/subfund to another. Most transfers of this type are temporary cash loans to be repaid at a predetermined date that is approved by the local school board, but no later than one year from the approved transfer. Accounts utilized are "due from" (object 14000) and "due to" accounts (object 24000) to indicate inter-fund receivable(s) and payable(s). (See Supplement 3, Uniform Chart of Accounts). Temporary transfers require local board approval only. Districts/charter schools may make a loan from the operational fund to another fund based on the maximum expected need during the year in order to minimize the cycles of board approval, making a loan and repaying it several times during the year, with a goal of having the loan repaid at year end.

#### PERMANENT INTER-FUND TRANSFERS

Permanent inter-fund transfers are transfers of cash from one fund/subfund to another that will not be returned to the fund/subfund that provided the cash. Permanent inter-fund transfers require local school board and PED approval. The transfer request shall be submitted on Form PED 994 and be reflected on line 9 of the Cash Report. See the Tips, Tools and Resources section of this manual.

## **CORRECTION OF POSTING ERRORS**

Posting errors are usually found when the school district reconciles the accounts prior to preparing the Cash Reports. An adjusting journal entry should be proposed and approved by authorized personnel to be posted to the district'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 book for the fiscal year.

## **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 district 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 the state, county, municipality or school district shall have printed on its face the words, "void after one year from date". 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. If the district's bank has a lower cut off such as six months, district policy may reflect "void after six months from date". The fiscal officer 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 district's General Ledger in a timely manner. A control procedure should be written and checked for compliance.

Warrants/checks cancelled are void and the indebtedness evidenced thereby is extinguished, which is hereby declared to be an express condition of every contract under which public school warrants/checks are issued except that any fiscal officer may issue a new warrant/check for a canceled payroll warrant/check upon a voucher issued by the responsible employing authority certifying that the services for which the canceled payroll warrant/check had been issued, were in fact rendered and that payment therefore had not been received, if there is sufficient money in the fund from which the original payroll warrant/check was drawn to cover the new warrant/check.

## **EMPLOYERS/SCHOOL BOARD SURETY FIDELITY INSURANCE BOND COVERAGE**

Persons who handle or manage funds shall be bonded in the amount prescribed by the New Mexico Public School Insurance Authority (NMPSIA). A local school board may elect to obtain a schedule or blanket corporate surety bond covering all local school board members, and school district administrators and employees for any period not exceeding

four (4) years. The member districts of NMPSIA should be aware of the employee fidelity bond provided to its members. See PSAB Supplement 11, Insurance.

Criminal background checks are performed on all district personnel in accordance with Section 28-2-1.6, NMSA 1978

Bank Signatories are periodically reviewed and formally re-authorized by the School Board.

## **SAMPLE CASH CONTROLS**

This listing includes control procedures of the district to affect Internal Control over the Cash and other liquid assets of the district. While the District's Business Office 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 district. This listing is a sample which needs to be modified to meet the needs of each district depending on size, systems and board policy.

## **DIVISION OF DUTIES**

- Persons processing requests for reimbursements from the state are separate from those receiving and posting receipts.
- Persons requesting requests for reimbursement shall not make general ledger entries.
- State reports from the OBMS system are reviewed and compared to the district's general ledger to support receipts posted and timeliness of deposits. (24 hour rule)
- 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, receiving, and disbursement functions.
- Accounts payable and general ledger functions are separate.
- Administrative review exists over all receipts and expenditures.

## GENERAL CASH RECEIPTS AND COLLECTIONS

- The district maintains policies and procedures for the handling of cash.
- All district 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.
- Cash received by mail is first handled by non-business office personnel who log in checks received in the mail, then submit checks directly to the business office.
- The bank receipt is compared with a cash advice remitted by the accountable unit by business office personnel and entered into the general ledger through the deposits manager of the financial management system.
- Lock boxes are used to secure funds in transit to the bank.
- 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.
- Personnel with access to cash and inventory are bonded.

## GENERAL REVENUE CYCLE CONTROLS

- All grant awards and other expected revenue is properly and timely budgeted to the district's general ledger.
- All reimbursement requests are submitted to PED via OBMS on a timely basis.
- Loans from the Operational Fund to other funds are monitored and minimized by good cash flow control practices.
- Pre-numbered receipts are used to receipt cash received at school sites or by accountable units such as the School Lunch Program that deposit funds directly to the district's bank accounts.
- Business office personnel audit the receipt books and deposit slips submitted by the accountable units to insure that all receipts are timely deposited and that there

are no missing receipts. Additional controls are included in the activity and agency funds section to insure that fund raisers are authorized and there is a proper method for tracking funds collected. See PSAB Supplement 18, Student Activity and Athletics.

## **GENERAL EXPENDITURE CONTROLS**

- An authorized vendor list is used.
- Vendor history is maintained/verified and used for inclusion on an authorized vendor list.
- An authorized price list is used for bid items.
- 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 payment transaction journal is approved by the school board monthly.
- Supporting documents are attached to invoices submitted for payment approval.
- Check controls are in place.
- Manual checks are not used.
- Check signers do not maintain cash accounting records.
- A voucher system is used to authorize check production.
- The accounting staff should not be check signers.
- Blank checks are not signed.
- Signed checks are immediately mailed by someone other than personnel responsible for check production and recordkeeping.

- Purchasing agent, inventory personnel, receiving personnel and check signers are bonded.
- Purchasing agents and check signers are required to take vacations.
- The purchase order, receiving report, and vendor invoice are matched prior to invoice entry.
- Monthly vendor statements are compared with the accounts payable aging and corrective action taken.

### **BUDGETARY CONTROLS**

- Expenditures are budgeted annually in the general ledger. Actual expenditures are compared to the budgeted amounts to verify accuracy of forecasts.
- Budgetary authority must be in place prior to issuing purchase requisition. The Financial Management System restricts access to users and approvers by both account code and budgeted amounts.
- All estimated revenue is budgeted into the general ledger and actual receipts are periodically compared to budgeted revenue amounts to verify accuracy of forecasts.
- Budget adjustment requests are made periodically to account for changing conditions such as new grants or reallocation of expenditures. These approved requests are posted timely to the General Ledger.

### **THE PED CASH REPORT**

The required format for the PED Cash Report is in the Tips, Tools and Resources section of this manual with detailed instructions for filling out this form. This form is a required report. Failure for timely, correct filing may cause an audit finding and funds to be withheld..



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