



# **The North Carolina Office of the State Controller**

# **Internal Controls Over Cash Processes**

**June 7, 2010**

**David McCoy  
State Controller**



# Introduction

## Statewide Internal Control Program

Enhancing  
Accountability in  
Government through  
Leadership and  
Education





# Introduction

## Administrative Items

- New audio conferencing service; phones have been muted.
- Course materials have been provided in advance.
- Qualifies for up to 2 hours of CPE.
- Polling questions
- Use chat pod for questions.
- For technical assistance – Call Josh at (919) 707-0765 or Jennifer at (919) 707-0764.





# Introduction

## Agenda

<u>Estimated Time</u>	<u>Topic</u>
2:00 - 2:05	<i>Welcome and Introduction - Ben McLawhorn</i>
2:05 -2:20	<i>Overview of Cash Management - Melody Tart</i>
2:20 - 2:30	<i>Overview of Internal Controls and Risk - Joshua Georghiou</i>
2:30 - 2:50	<i>Opportunity for Fraud- Joshua Georghiou</i>
2:50 -3:00	<i>Cash Policies and Procedures- Wynona Cash</i>
3:00 - 3:05	<i>Cash Security Practices- Wynona Cash</i>
3:05 - 3:20	<i>Identifying the Risk- Amanda Williams</i>
3:20 - 3:35	<i>Implementing Internal Controls over Cash Processes - Wynona Cash</i>
3:35 - 3:50	<i>Key Take-Aways and Questions and Answers - Wynona Cash</i>



# Overview of Cash Management



# Overview of Cash Management

## Cash Management Legislation

### General Statute 147-86.10

- All agencies, institutions, departments, bureaus, boards, commissions and officers of the State. . . shall devise techniques and procedures for the **receipt**, **deposit** and **disbursement** of moneys coming into their control and required by law to be deposited with the State Treasurer.
- [http://www.osc.nc.gov/programs/cash\\_management/statutes.html#1478610](http://www.osc.nc.gov/programs/cash_management/statutes.html#1478610)



# Overview of Cash Management

## Uniform Statewide Cash Management Plan

- The State Controller, with the advice and assistance of the State Treasurer, the State Budget Officer, and the State Auditor, shall develop, implement and amend as necessary a uniform statewide plan to carry out the cash management policy for all State agencies.



# Overview of Cash Management

## Cash Management over Receipts:

- All funds received by a State employee in the normal course of business are deposited with the State Treasurer.
- Funds are to be deposited daily according to G.S. 147-77.
- Funds due to the State are promptly billed, collected and deposited.



# Overview of Cash Management

## Cash Management over Receipts (cont.):

- Billings due to the state no more than 90 days shall be turned over to the Attorney General's Office for collection.
- Electronic payments should be accepted to the greatest extent possible.



# Overview of Cash Management

## Cash Management over Receipts (cont.):

### Policy for collecting of processing fee for returned checks:

- G.S. 25-3-506 allows for the charging and collecting of a processing fee not to exceed \$25 for checks that have been refused by the financial institution due to insufficient funds or the drawer did not have an account at that institution.



# Overview of Cash Management

## Cash Management over Disbursements:

- Moneys deposited with the State Treasurer remain on deposit with the State Treasurer until final disbursement to the ultimate payee.
- Order in which appropriations and other available resources are expended shall be subject to G.S. 143c regardless of whether the State agency disbursing or expending the moneys is subject to the State Budget Act.



# Overview of Cash Management

## Cash Management over Disbursements (cont.):

- Federal and other reimbursements of expenditures paid from State funds shall be paid immediately to the source of the State funds.
- Billings to the State for goods received or services rendered shall be paid neither early nor late but on the discount date or the due date to the extent practicable. Therefore the state does not have a reason to be assessed late fees.



# Overview of Cash Management

## Cash Management over Disbursements (cont.):

- Disbursement cycles for each agency shall be established to the extent practicable so that the overall efficiency of the warrant disbursement system is maximized while maintaining prompt payment of bills due.
- Electronic Funds Transfer (EFT) should be used for certain payments between State and local units, vendors and employees when it is determined to be mutually beneficial to both parties.
- State administered procurement cards should be used to provide employees with food, lodging and other applicable subsistence in emergency situations.



# Overview of Cash Management

## Interest Maximized

- For the General and Highway Fund, Interest earnings shall not be allocated to an account by the State Treasurer unless all of the moneys in the account are expressly eligible by law for receiving interest allocations otherwise the interest in earned by the General or Highway Fund.

## New Technologies

- New technologies and procedures shall be considered whenever the technologies and procedures are economically beneficial to the State as a whole.



# Overview of Cash Management

## Penalty

- A willful or continued failure of an employee paid from State funds or employed by a State agency to follow the statewide cash management plan is sufficient cause for immediate dismissal of the employee.



# Overview of Cash Management

## Agency Cash Management Plans:

- Each agency, as defined in G.S.147-86.10, must develop and maintain in its records a cash management plan that is approved by signature and date by the State Controller and the state agency chief financial officer.
- This plan must be consistent with and complete of statutory requirements and the elements of the uniform statewide cash management.



# Overview of Cash Management

## Agency Cash Management Plans (cont.):

- Any significant change to the agency cash management plan contemplated by the state agency must be submitted to the Office of the State Controller for review and approval prior to the change going into effect.
- Techniques and procedures devised by a state agency for the receipt, deposit, and disbursement of moneys coming into its control must be consistent with and complete of the elements in its cash management plan.



# Overview of Cash Management

## Delegation of Disbursing Authority

- The State Controller administers the State disbursing system by authorizing state agencies, through execution of a Delegation of Disbursing Authority, to make expenditures through a disbursing account maintained with the State Treasurer.
- “Delegation of Disbursing Authority” agreements must be kept current. A new Delegation of Disbursing Authority is required when any of the parties to the agreement have changed.



# Overview of Cash Management

## Delegation of Disbursing Authority (cont.):

Mail revised plans or delegations of disbursing authorities to the following:

Office of the State Controller

Attn: Wendy Francis

1410 MSC

Raleigh, NC 27699-1410



# Overview of Internal Controls and Risk



# Overview of Internal Controls and Risk

A **control** is any action taken to mitigate or manage risk and increase the probability that the organization's process will achieve its goals or objectives.





# Overview of Internal Controls and Risk

## Aspects of Internal Control

- Internal control is a process.
- Effected by a state entity's management and other personnel.
- Internal control is pervasive throughout a state entity.
- Internal control can be expected to provide ***only reasonable assurance.***



# Overview of Internal Controls and Risk

## What is the difference between a procedure and a control?

- A procedure is a series of steps taken to accomplish an end; they detail the established/prescribed methods to be followed. They describe “how it should be done”.
- A control is a series of checks and balances that helps managers detect and prevent errors.



# Overview of Internal Controls and Risk

## Types of Internal Control Activities:

- Adequate segregation of duties
- Proper authorization of transactions and activities
- Adequate documentation and records
- Physical control over records and assets
- Independent checks on performance



# Overview of Internal Controls and Risk

**Risk** is the probability that an event or action will adversely affect the organization.





# Overview of Internal Controls and Risk

## What could go wrong? – Impacts of risk

- Inaccurate Financial Reporting
- Large Fines and Settlements
- Loss of Assets
- Noncompliance with Regulations
- Public Scandals
- Poor Business Decisions
- State Auditor Findings





# Overview of Internal Controls and Risk

## Balancing Risk and Control

To achieve a balance between risk and controls, internal controls should be:

- Proactive
- Value-added
- Cost-effective
- Address exposure to risk





# Opportunity for Fraud



# Opportunity for Fraud

## What is Fraud?

*A collection of irregularities and illegal acts characterized by intentional deception, committed by individuals inside or outside of the organization for their personal benefit or to benefit the organization.*





# Opportunity for Fraud

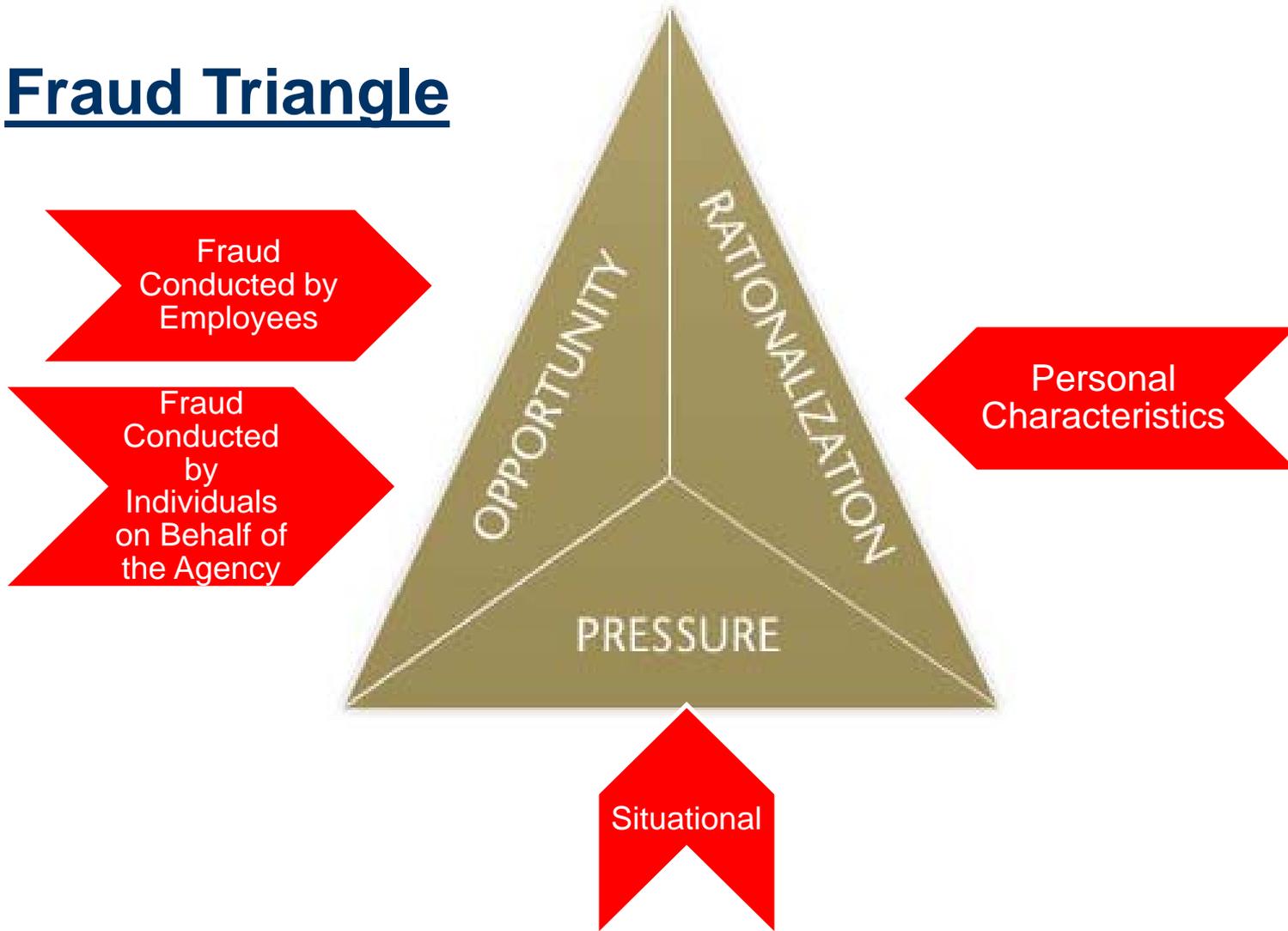
## What Actions Constitute Fraud?





# Opportunity for Fraud

## Fraud Triangle





# Opportunity for Fraud

## Opportunity

- Familiarity with operations
- Turnover of key employees
- Absence of explicit and uniform personnel policies
- Weak internal controls



# Opportunity for Fraud

## Rationalization

### Behavioral

- “I need it more than the other person.”
- “I’m borrowing and will pay it back later.”
- “Everybody does it.”
- “I’m not paid enough.”

### Personal Characteristics

- Lack of strong code of personal ethics
- A wheeler-dealer personality
- A strong desire to beat the system
- A criminal or questionable background



# Opportunity for Fraud

## Pressure

- High personal debts or financial losses
- Inadequate income for lifestyle
- Excessive gambling
- Emotional trauma in home life or work life
- Peer group pressures





# Opportunity for Fraud

## Accountability and Control Red Flags

- Lack of segregation of duties
- Lack of physical security and/or key control
- Weak links in chain of controls and accountability
- Missing independent checks on performance
- Relaxed management style
- Poor system design
- Inadequate training



# Opportunity for Fraud

## Cash Receipts Process Red Flags

- Consistent shortages in cash on hand
- Excessive number of voided transactions on a regular basis without proper explanation
- Not balancing cash to accounts receivable subledger
- No segregation of duties between the following:
  - Receiving cash
  - Posting to customer accounts
  - Issuing receipts
  - Deposit preparation



# Opportunity for Fraud

## Cash Disbursement Process Red Flags

- High volume of manually prepared disbursement checks
- Paid invoices not properly canceled
- Unrestricted access to blank checks, signature plates, and check-signing equipment
- Frequent volume of voided or missing checks



# Opportunity for Fraud

## How Can You Minimize Exposure to Fraud?

- Develop internal controls to protect your agency and the employee
- Don't let an individual have complete control of a financial process
- Restrict access to computer facilities and data
- Rotate job duties and cross-train
- Review monthly statements



# Opportunity for Fraud

## Motor vehicle worker pleads guilty to embezzling

BOLIVIA, NC -- A former worker has pleaded guilty to embezzling \$100,000 from the North Carolina Division of Motor Vehicles over a five-year period.

The Wilmington Star-News reported Tuesday that 61-year-old Annie Daphine Ross Prince entered the plea Monday in Brunswick County Superior Court and was sentenced to at least five years in prison.

The newspaper said Prince has admitted taking \$388,795 from the Oak Island license plate agency where she worked from January 2001 to February 2006.

Witnesses for Prince said the crime didn't fit with her outward character.

During the hearing, Superior Court Judge Gary Locklear said he almost got emotional as he listened to testimony about Prince's roots in the community. Friends and family filled nearly two rows in the courtroom.

Trest said Prince took small amounts of money at first to help other people and that the embezzlement got bigger over time.

Source: WTVD



# Opportunity for Fraud

## Worker charged with stealing from school

FAYETTEVILLE (WTVD) -- Cumberland County deputies have charged a school employee with embezzlement.

Shelia Harris, 45, was arrested Friday. Investigators say Harris was employed as a cashier in the cafeteria at Eastover Central Elementary School.

Between the dates of September 4, 2008 and February 25, 2009, Harris allegedly stole more than \$1,500 in cash and checks from students and parents for meals.

On March 31, detectives say Harris was seen on surveillance video taking money from the cash register in the cafeteria and putting it in her pocket.

Source: WTVD



# Opportunity for Fraud

## Former School Secretary Charged With Embezzlement

RALEIGH, N.C. — A former Wake County Public School System employee was charged Thursday with one count of embezzlement in connection with nearly \$21,000 missing from the school system.

Kristie Mitchell, 40, of 4352 Pine Springs Court, was a lead secretary at Leesville Road Middle School and was employed by the school system from November 2003 until she resigned June 29, 2007, shortly after officials discovered irregularities during a routine audit, school system spokesman Greg Thomas said.

The audit found money had been taken from the school's Activity Fund and deposit slips had been altered, he said.

"Our auditors discovered what appeared to be some irregularities," Thomas said. "They vigorously investigated them. We acted upon it, and we will be seeking to get the money back."

Mitchell is out of jail on a \$10,000 secured bond. She had no comment when she left the jail late Thursday morning.

Board of Education member [Lori Millberg](#) said Mitchell found a way to circumvent accounting software designed to prevent fraud and took small amounts of money over a period of time, which made it hard to trace.

Source: WRAL



# Opportunity for Fraud

## **Durham sheriff audit: no supervision led to thefts**

DURHAM (WTVD) -- According to documents obtained by ABC11's I-Team, a lack of supervision and financial expertise are to blame for yet another alleged theft at the Durham County Sheriff's Office.

The department is dealing with its second embezzlement within two years. This is not the first time the department's finances have raised concerns.

Kim Perkins, a former Durham County Sheriff's employee, pleaded guilty to embezzlement in 2007. Perkins was accused of stealing more than \$113,000.

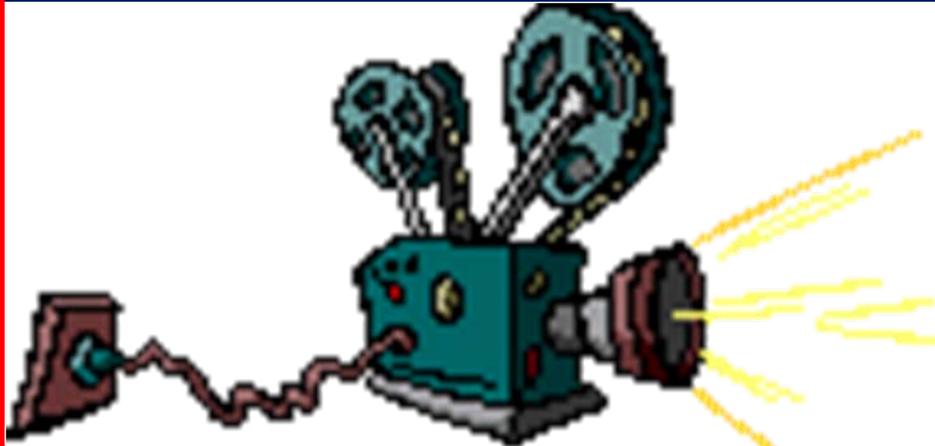
At least one audit shows losses from the case may be nearly three times as much as Perkins was originally prosecuted for. Perkins pleaded guilty and received a suspended sentence. She was placed on two years of supervised probation and ordered to pay back the money she'd stolen.

In documents provided to Eyewitness News, county leaders requested a review of both audits last month. It shows some of the recommendations to improve controls over cash in the Sheriff's Office in 2007 and 2008 were either not implemented correctly or not at all.

Source: WTVD



# Opportunity for Fraud



# Videos





# Opportunity for Fraud

## Video links:

- Senior Center- Charity Embezzlement

<http://www.youtube.com/watch?v=b7sn8FU3iL8&feature=channel>

- Koss Corporation

<http://www.youtube.com/watch?v=YbBH0wSrCCE>



# Opportunity for Fraud

## FIGHT FRAUD, WASTE AND ABUSE!

Call the State Auditor's Hotline  
at **1-800-730-TIPS**

or go to the following link to report online  
anonymously:

<http://www.ncauditor.net/pub2/HotLine.aspx>



# How Important are Cash Policies and Procedures to Your Agency?

# Cash Policies and Procedures

## Policies and Procedures are Critical Controls

Cash handling procedures are used to minimize cash handling risks.

- Multiple cash counts by different people
- End of day closing procedure

Daily deposit procedures are used to minimize cash risks and recognize the maximum earning potential.





# Cash Policies and Procedures

## Policies and Procedures are a Critical Control (cont.)

### Tone at the Top

- Proper operating environment for employees
- Due diligence and transparency





# Cash Security Practices



# Cash Security Practices

## Cash Security is About Prevention

- Proper cash records
  - Clear and accurate recording of all cash transactions
  - Ensure that all cash transactions are documented and recorded immediately, including voided transactions
- Proper cash controls need proper cash records for reconciliation



# Cash Security Practices

## Cash Security is About Prevention (cont.)

Segregation of duties



Physical control over cash



Document cash processes



# Cash Security Practices

## Cash Security is Critical for Internal Control

- Proper cash records
- Regular oversight (authorizations and reconciliations)
- Segregation of duties
- Secure physical handling of cash
- Documented cash management policies and procedures





# Identifying the Risk

“What could go wrong?”



# Identifying the Risk

## Cash Receipts Process

Objective: Account for all cash, check, credit card, and wire transfer payments.

Procedures	Risks “What could go wrong?”	Potential Impact
<ul style="list-style-type: none"><li>• Accept walk-in payments.</li><li>• Open mail-in payments.</li><li>• Issue receipts.</li><li>• Batch and enter receipts.</li></ul>	<ul style="list-style-type: none"><li>• Payments are lost.</li><li>• Payments are stolen.</li><li>• Payments are posted for the wrong amount or to the wrong account.</li></ul>	<ul style="list-style-type: none"><li>• Misstatement of account balance</li><li>• Loss of assets</li></ul> <p style="text-align: center;">↓</p> <p style="text-align: center;"><b>AUDIT FINDINGS</b></p>



# Identifying the Risk

## MANUAL RECEIPT BOOKS NOT PROPERLY CONTROLLED

The College did not properly control the issuance and use of manual cash receipts books to ensure accountability for collections. The use of pre-numbered receipts, when properly reconciled to amounts deposited, is designed to ensure that all monies received are deposited and not lost or misappropriated.

The Cashier's office is responsible for maintaining an inventory of all receipt books. During our audit, we examined the receipt books and noted the following:

- Two receipt books were not included in the inventory.
- Two receipt books had pre-signed receipts and had receipts that were altered with white-out.
- Three receipt books were completely used but had not been returned to the Cashier's office.
- Nine receipt books could not be located.

The use of receipts as a control against error or misappropriation is only effective if all receipts are completely and accurately accounted for and reconciled to collections.



# Identifying the Risk

## Cash Deposit Process

Objective: Deposit all cash and check payments.

Procedures	Risks “What could go wrong?”	Potential Impact
<ul style="list-style-type: none"><li>• Count all cash and check receipts.</li><li>• Print the cash receipts journal.</li><li>• Complete the deposit slip.</li><li>• Place the deposit in a bank bag.</li></ul>	<ul style="list-style-type: none"><li>• The deposit amount does not agree to the cash receipts journal.</li><li>• Cash is not deposited. (lost or stolen)</li><li>• The deposit is not timely.</li></ul>	<ul style="list-style-type: none"><li>• Misstatement of account balance</li><li>• Loss of assets</li><li>• Noncompliance with Daily Deposit Act</li></ul> <p style="text-align: center;">↓</p> <p style="text-align: center;"><b>AUDIT FINDINGS</b></p>



# Identifying the Risk

## INTERNAL CONTROL WEAKNESSES OVER RECEIPTS AND DEPOSITS

There are weaknesses in the Agency's controls over receipts and deposits. Cash register receipts are not being reconciled to the daily deposit slips. An examination of 40 deposits revealed the following:

- The agency was unable to locate documentation consisting of cash register receipts and deposit slips for six deposits.
- The amounts recorded as deposited for 12 deposits did not agree with the supporting documentation. For 11 deposits, the recorded deposit ranged from \$1.08 to \$13.90 more than the cash register receipt. One item was found to be \$20 less than the supporting cash register receipt.

There is the risk that errors will be made when cash is counted, collected or when change is disbursed. Additionally, items could be purchased and cash collected, but the transaction not recorded in the cash register. These weaknesses increase the risk of misappropriation of assets and may result in an over or understatement of receipts.

The Cash Management Section of the Department of State Treasurer Policies Manual requires that adequate records for daily receipts and deposits be maintained.



# Identifying the Risk

## DEPOSITS NOT IN COMPLIANCE WITH STATE REQUIREMENTS

The Department does not have policies and procedures in place to ensure that all monies collected are deposited daily with the State Treasurer. We noted the following significant internal control weaknesses in the Department's various processes:

- Not all monies received are deposited intact daily.
- Receipts issued for cash payments received are not adequately accounted for and used in the reconciliation of deposits made.
- None of the receipts tested were deposited timely in accordance with State law. Examples of amounts involved and the days it took for their deposit follow:
  - \$22,432 was not deposited for 47 days
  - \$17,120 was not deposited for 38 days
  - \$51,910 was not deposited for 2 days

Adequate internal control requires that policies and procedures be in place to ensure that all collections are properly identified and deposited intact in accordance with the Daily Deposit Act. The risk of misappropriation of cash increases when daily deposits are not made in this manner.



# Identifying the Risk

## Cash Disbursements Process

Objective: Make payments to vendors and issue refunds.

Procedures	Risks “What could go wrong?”	Potential Impact
<ul style="list-style-type: none"><li>• Print and issue checks.</li><li>• Requisition funds.</li><li>• Transfer funds.</li><li>• Payments are batched and entered.</li></ul>	<ul style="list-style-type: none"><li>• Checks are issued for the wrong amount.</li><li>• Unissued checks are lost or stolen.</li><li>• Funds are insufficient.</li></ul>	<ul style="list-style-type: none"><li>• Misstatement of account balance</li><li>• Loss of assets</li><li>• Non-sufficient funds (NSF) fees</li></ul> <p style="text-align: center;">↓</p> <p style="text-align: center;"><b>AUDIT FINDINGS</b></p>



# Identifying the Risk

## DEFICIENCIES IN INTERNAL CONTROL OVER CASH DISBURSEMENTS

We noted deficiencies in internal control procedures over cash disbursements as follows:

- Duplicate payments are occurring to University vendors. We noted four instances where vendors were paid twice for the same goods or services provided, which resulted in overpayments of \$95,925.15. Credit memos were subsequently issued for three of the four instances noted.
- The University is writing travel advance checks for anticipated travel months sooner than what is commonly considered good business practice. Checks written for athletic travel are kept in an employee's drawer until picked up. We also noted an instance where an employee was paid \$9,255 on December 17 for meals and lodging expenses associated with two planned trips, even though the trips were not scheduled until February 3 and February 27. Also on December 17, the University wrote a check in the amount of \$4,741.80 directly to a hotel for the lodging associated with one of the trips.

Sound internal controls require management to apply policies and procedures that ensure all transactions are processed with controls designed to prevent errors and misappropriation of assets.



# Identifying the Risk

## Bank Reconciliation Process

Objective: Identify errors and necessary adjustments.

Procedures	Risks “What could go wrong?”	Potential Impact
<ul style="list-style-type: none"><li>• Compare the bank statement to the cash account balance.</li><li>• Identify outstanding items and research unreconciled amounts.</li><li>• Prepare correcting entries.</li></ul>	<ul style="list-style-type: none"><li>• Reconciliations are not prepared or are not timely.</li><li>• Outstanding or unreconciled items are not researched.</li></ul>	<ul style="list-style-type: none"><li>• Loss of Assets</li><li>• Undetected instances of fraud</li><li>• Noncompliance</li></ul> <p style="text-align: center;">↓</p> <p style="text-align: center;"><b>AUDIT FINDINGS</b></p>



# Identifying the Risk

## DEFICIENCIES IN BANK RECONCILIATIONS

The University did not prepare bank reconciliations accurately or timely during our audit year. This increases the risk that an error or misappropriation could occur and not be detected in a timely manner.

Our review of the monthly bank reconciliations for the State disbursing and Institutional Trust Fund (ITF) accounts disclosed the following weaknesses:

- The University did not complete reconciliations for the ITF account in a timely manner. Ten of the 12 monthly reconciliations examined were prepared from four to 80 days late. Consequently, the University has not complied with the State Treasurer's Internal Control Policies Manual, which requires that bank accounts be reconciled promptly after the end of each month. University policies require reconciliation within 15 days of receipt of the monthly State Treasurer's bank statement.
- The University had unreconciled differences between the bank balance and the book balance in both the State disbursing and the ITF accounts. The State disbursing account had six months with unreconciled differences up to \$158,165 at June 30. The ITF account had unreconciled differences for the entire fiscal year up to \$5,900,227 with an unreconciled balance of \$374,919 at June 30.



# Internal Controls Over Cash Processes

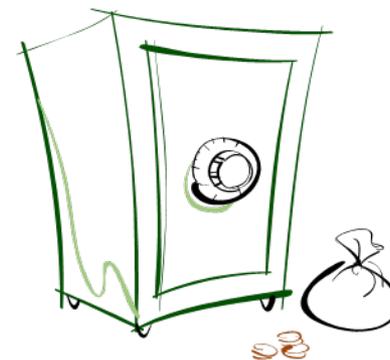
# Internal Controls over Cash Processes

## Cash Processes

Cash Receipts



Deposits



Disbursements



Bank Reconciliations





# Internal Controls over Cash Processes

## Over-the-Counter Receipts

### Cashier



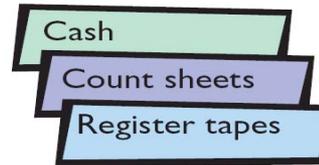
*The customer receives an automated receipt.*

### End of Day Closing

Prepares a Cash Count Sheet and prints the POS totals.

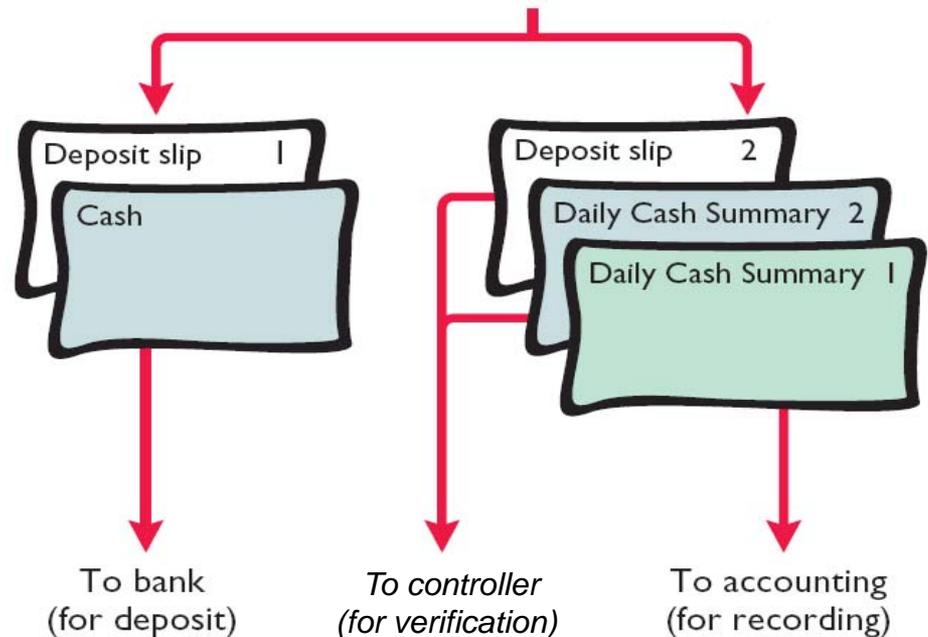
*Reconciles the Cash Count Sheet to the POS totals and signs off.*

### Head Cashier



*Recounts and verifies the totals.*

Prepares the Daily Cash Summary and Deposit slip.





# Internal Controls over Cash Processes

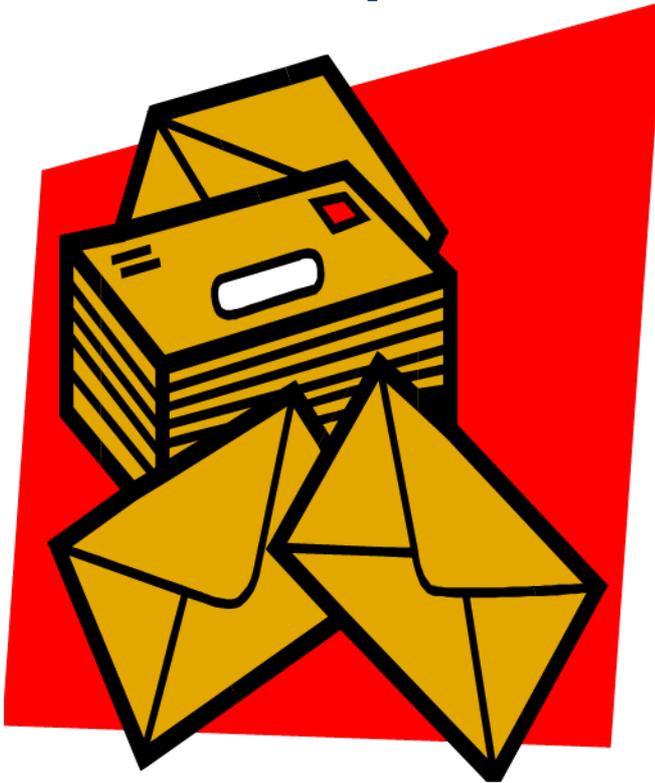
## Manual Receipt Books



- Issued by the Controller's Office
- Pre-numbered receipts
- Triplicate copies
- Includes a receipt in the daily work for each transaction
- Receipt books are reconciled by someone other than the issuer of the receipt.

# Internal Controls over Cash Processes

## Mail Receipts

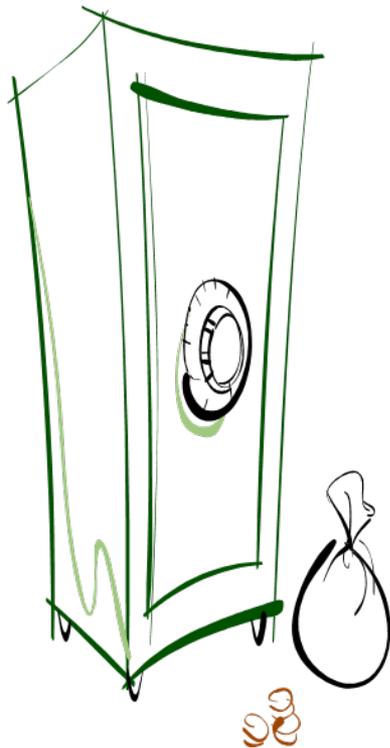


- Open the mail, prepare a list of checks received and forward the list, remittance advices to the Accounting Office.
- Endorse the checks and forward them to the cashier who prepares the daily bank deposit.
- The Accounting Department enters the information from the listing of checks into the general ledger and compares the listing to a validated deposit slip prepared by the cashier.



# Internal Controls over Cash Processes

## Deposits



- Limited access to cash
- Minimum cash on hand
- Don't hold checks or cash. Setup a suspense account.
- Reconcile cash collections to supporting documentation.
- Adhere to the Daily Deposit Act.
- Someone other than the deposit preparer should verify the validated deposit to the Cash Receipts Journal.

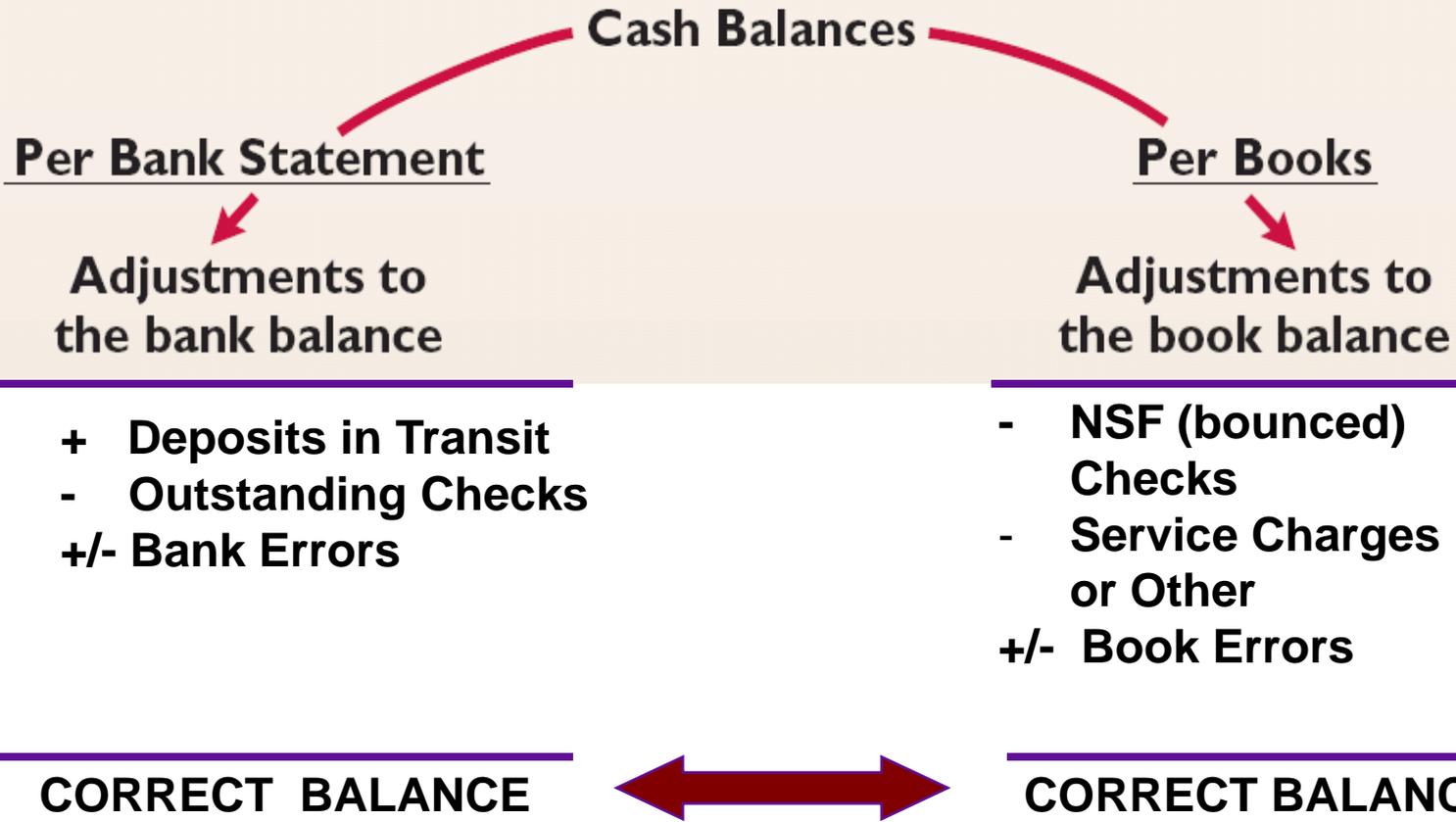


# Internal Controls over Cash Processes

## Bank Reconciliation

Preparer:  
Reviewer:

Date:  
Date:

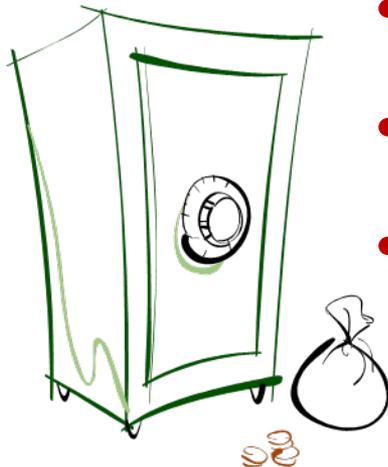
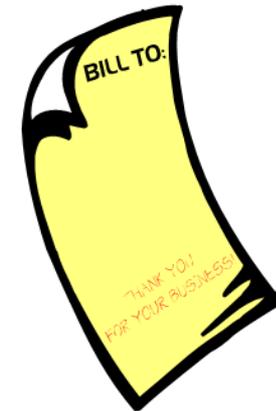


# Internal Controls over Cash Processes

## Cash Controls



- Establishment of responsibility
- Segregation of duties
- Documentation of procedures
- Safeguarding of assets
- Independent internal verification
- Other controls





# Key Take-Aways



# Key Take-Aways

## Cash Management Legislation

- All agencies, institutions, departments, bureaus, boards, commissions and officers of the State...shall devise techniques and procedures for the receipt, deposit and disbursement of moneys coming into their control and required by law to be deposited with the State Treasurer.

## Uniform Statewide Plan

- State Controller shall develop, implement and amend as necessary an uniform statewide plan to carry out the cash management policy for all State agencies, to include the following elements:
  - Cash management over receipts
  - Cash management over disbursements
  - Interest maximized
  - New Technologies
  - Penalties



# Key Take-Aways

## Agency Cash Management Plans:

- Develop and maintain a cash management plan that is approved by the State Controller and the state agency Chief Financial Officer.
- Comply with statutory requirements and the elements of the uniform statewide cash management.
- Significant changes must be submitted to the Office of the State Controller for review and approval prior to the change.
- Techniques and procedures devised for the receipt, deposit, and disbursement of moneys coming into its control must be consistent with and complete of the elements in its cash management plan.

# Key Take-Aways

## What is ....?

- Control
- Risk





# Key Take-Aways

## Balancing Risk and Control

To achieve a balance between risk and controls, internal controls should be:

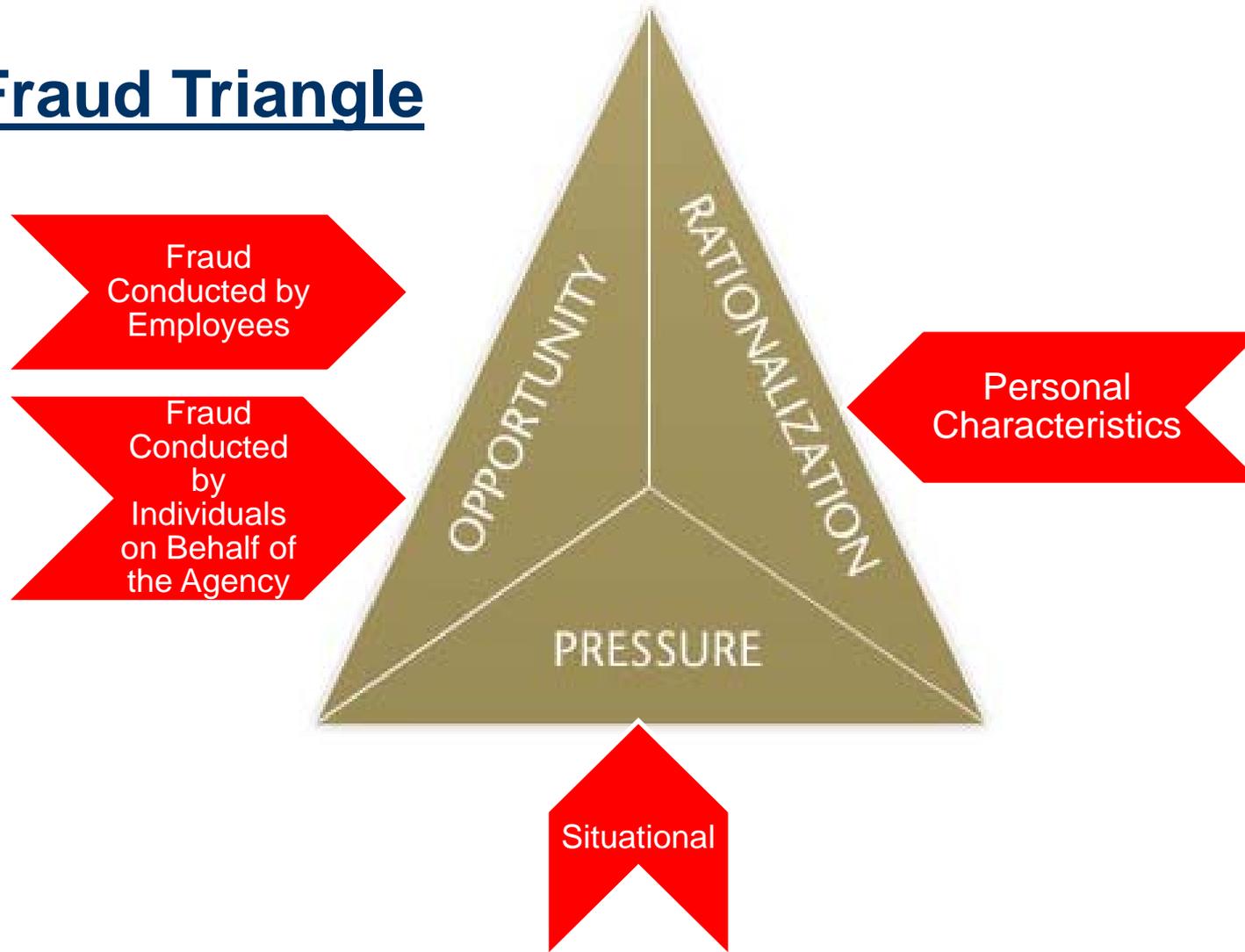
- Proactive
- Value-added
- Cost-effective
- Address exposure to risk.





# Key Take-Aways

## Fraud Triangle





# Key Take-Away

## Cash Receipts Process Red Flags

- Consistent shortages in cash on hand
- Excessive number of voided transactions on a regular basis without proper explanation
- Not balancing cash to accounts receivable subledger
- No segregation of duties between the following:
  - Receiving cash
  - Posting to customer accounts
  - Issuing receipts
  - Deposit preparation



# Key Take-Aways

## Cash Disbursement Process Red Flags

- High volume of manually prepared disbursement checks
- Paid invoices not properly canceled
- Unrestricted access to blank checks, signature plates, and check-signing equipment
- Frequent volume of voided or missing checks



# Key Take-Aways

## How Can You Minimize Exposure to Fraud?

- Develop internal controls to protect your agency and the employee
- Don't let an individual have complete control of a financial process
- Restrict access to computer facilities and data
- Rotate job duties and cross-train
- Review monthly statements





# Key Take-Aways

## What could go wrong? – Impacts of risk

- Inaccurate Financial Reporting
- Large Fines and Settlements
- Loss of Assets
- Noncompliance with Regulations
- Public Scandals
- Poor Business Decisions
- State Auditor Findings



# Key Take-Aways

## Cash Controls



- Establishment of Responsibility
- Segregation of Duties
- Documentation of Procedures
- Safeguard of Assets
- Independent Internal Verification
- Other Controls





# Questions And Answers

# INTERNAL CONTROLS OVER CASH PROCESSES



For questions or additional information, you may contact Risk Mitigation Services at:

[OSC.EagleSupport@lists.osc.nc.gov](mailto:OSC.EagleSupport@lists.osc.nc.gov)