Model Cash Receipts, Petty Cash and Returned Checks Policy + Guidance

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The Government Finance Officers Association's (GFOA) recommended practice on cash receipts controls suggests that proper controls over revenues are imperative to ensure sound financial management practices, instill public confidence in municipal operations, and provide accurate, reliable, and timely information on which financial decisions can be made. Budgeting, revenue forecasting, account reconciliation and review, and financial reporting all rely on the proper recording of revenues. Local officials need to provide for appropriate mechanisms, both automated and manual, to collect all funds legally due to the entity and ensure that proper controls exist over all receipts.

Appropriate internal control procedures should be implemented to ensure the safeguarding of all receipts. One of the most important procedures is the segregation of duties. No one individual should be able to authorize or initiate a transaction, record the transaction in the accounting records, maintain custody of the asset resulting from that transaction, and reconcile the activity in the accounting records that pertain to that transaction. All internal controls should be in writing and reviewed on a regular basis.

Consider the following when developing a cash receipts policy:

Authorized Personnel. Only authorized personnel should receive town funds. The model policy that follows includes a list of local officials who could, in the course of their duties, receive funds on behalf of the town. Towns adopting this policy may choose to include other officials in the list or remove officials who are not strictly required to receive funds as part of their statutory duties.

Timely Deposits and Reconciliations. Deposits should be remitted to the bank in a timely manner, preferably daily, and recorded in the accounting records in a timely manner. This both lessens the risk of loss or theft and allows for the funds to be available for investment as soon as possible. Reconciliations to both the general ledger and to any supporting account ledgers should be routinely performed in a

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timely manner. The treasurer's records should be reconciled to the monthly bank statements and to the reports received by other departments. Preparation of the reconciliations should involve more than one person.

Returned Checks. Procedures should be established for processing and collecting returned checks. The procedures should include any fees that might be charged to the check writer, any restrictions that may apply to the repayment of the uncollectible amount, and how the transaction would be recorded in the accounting records.

Petty Cash. A cash receipts policy should require all deposits to be made intact – that is, no cash that is included in the deposit should be used to pay for municipal expenditures. If cash is needed for such expenditures, a petty cash fund should be used and proper procedures for its utilization should be established.

Please note that this model policy has been developed for illustrative purposes only. VLCT makes no express or implied endorsement or recommendation of any financial policy, nor does it make any express or implied guarantee of legal enforceability or legal compliance, nor does VLCT represent that any particular policy is appropriate for any particular municipality. Your legal counsel should review any proposed financial policy before adopting it.

As always, please contact the Municipal Assistance Center if you have questions at info@vlct.org(opens in a new tab) or 800-649-7915.

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