

OREGON ACCOUNTING MANUAL		
DAS DEPARTMENT OF ADMINISTRATIVE SERVICES STATEWIDE POLICY	NUMBER 10.20.00	SUPERSEDES 10.20.00.PR dated 04/04/2003 10.20.00.PO <u>Dated 07/01/2001</u>
	EFFECTIVE DATE MM/DD/YYYY	PAGE NUMBER Pages 1 of <u>12</u>
Division Chief Financial Office	REFERENCE/AUTHORITY ORS 291.001 ORS 291.015 ORS 293.180 ORS 293.265 ORS 293.295 ORS 293.306 ORS 293.525	
SUBJECT Internal Control: Cash	APPROVED SIGNATURE	

PURPOSE

This policy provides guidance on internal cash controls.

APPLICABILITY

This policy applies to all state agencies that are subject to the Oregon Accounting Manual (OAM), as outlined in [OAM 01.05.00. Introduction: Scope and Applicability](#).

FORMS/EXHIBITS/INSTRUCTIONS

None.

DEFINITIONS

Refer to [OAM 65.00.00](#) Glossary for definitions.

EXCLUSIONS AND SPECIAL SITUATIONS

None.

POLICY :

101. The principle of accountability, insofar as it relates to cash on hand and bank accounts, can best be described as follows: the custodian of every cash fund is responsible for the integrity of the cash fund and his/her discharge of that responsibility is to be reviewed periodically. For petty cash, change funds, and cash receipts, this review consists of surprise counts by independent employees. For bank accounts, it consists of an independent reconciliation of the agency cash balances. The designation of

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specific responsibility for custody of cash funds is vitally important, and should be done through organization charts, operating manuals, position descriptions, or similar written documents.

102. All officers and employees who have access to cash and/or are accountable for property of the state or held by the state in trust for others should have adequate surety coverage. It may be appropriate to conduct a background check on prospective employees. In the state, all officers and employees, whether classified, elected or appointed, have blanket faithful performance coverage through a bond obtained by the Risk Management Division, Department of Administrative Services. Risk Management keeps a master policy on file and available for inspection and invoices each agency for its proportionate share of the premium. However, certain inappropriate action by a state employee may negate this insurance protection for him/her.

103. Controls and safeguards must be adequate to provide management with a reasonable degree of assurance that cash and cash related transactions will be properly accounted for and controlled.

Treasury and Bank Accounts

104. The Oregon State Treasury (OST), in consultation with the Department of Administrative Services, may establish or designate accounts and funds as legally authorized. Most cash accounts and funds are established by specific statutes or in the Oregon Constitution. Accounts and funds shall be administered in accordance with written directive or policy issued or approved by OST. These accounts and funds may be established whenever necessary or convenient for carrying out accounting, budget preparation, cash management, financial management, financial reporting or similar statutory functions. The cash accounts and funds must also be set up in the Statewide Financial Management Application (SFMA).

105. When money is received by an agency, it is deposited at the bank. With some exceptions, OST does not allow a state agency to have an account at a bank. Instead, the agency's account is at Treasury. When agencies deposit money at the bank, they are actually depositing to the Treasurer's account at the bank. In effect, Treasury is the agency's bank and has contracted with various commercial banks to accept deposits from agencies as a mechanism for agencies to efficiently deposit money to their accounts at Treasury.

Petty Cash

106. An agency may establish a petty cash fund with legislative approval. The fund can only be established from legally authorized appropriations or limitations. (See ORS 293.180.)

Change Funds

107. An agency may establish change funds without legislative or Department of Administrative Services (DAS) approval. A change fund established is subject to periodic audit by the Secretary of State, Audits Division.

PROCEDURE:

108. As a part of the required internal control documentation, each agency having the power to collect state moneys should design and document internal controls for cash. The written procedures, often located in an operations manual, describe the duties of employees who handle cash. These procedures

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establish and document the flow of cash, cash documents, controls over cash, and the recording of cash transactions. Use of a flow chart to complement the narrative is encouraged.

109. Collections, cashiering (deposits), bank reconciliation, and recording of accounts receivable are to be segregated to the extent possible so that accuracy and completeness can be verified through independent checks.

Deposit Reconciliation

110. The reconciliation of bank statements is important for satisfactory control. It serves as a periodic reconciliation of existing assets to recorded amounts. The reconciliation should be done by someone not otherwise responsible for handling cash or cash records and should be reviewed by management.

111. Reconciliations should be performed between agency records and bank or trustee statements for accounts maintained by banks or trustees and between agency records and Treasury statements for funds maintained by the Treasury.

112. A written record of the reconciliation with Treasury or the bank, including a listing of outstanding checks and in-transit deposits should be prepared by the reconciliation accountant and retained with the statements. [Statewide Financial Management Services \(SFMS\)](#) prepares a number of reports to facilitate reconciliations from the [Relational Standard Accounting and Reporting System \(R*STARS\)](#) to Treasury, e.g. DAFR 737-3, which is distributed monthly to the agencies by SFMS.

113. Deposit reconciliation is also mandated for all received accounts by SFMS. Deposits, including incoming Electronic Funds Transfers (EFTs) are not available cash in R*STARS until the deposits are reconciled. This means the deposits recognized at the bank and at OST are interfaced from OST's system to R*STARS. These interfaced transactions are matched with R*STARS recorded entries. Once electronically matched, a transaction code generates, which effects cash available for expenditure. Deposit reconciliation is addressed in the Trea1 chapter of the SFMS desk manual at [Statewide Financial Management Services : SFMS Desk Manual](#)

Received Accounts

114. The statements received from OST or other authorized banks (including fiscal agents or trustees) should be delivered directly to and reconciled by an employee who is not responsible for the receipt or deposit of cash, the disbursement of cash, or the maintenance of the applicable accounting records.

115. The entries on the statement should be compared with the dates and amounts recorded by the agency.

116. An accounting of the numerical sequence of deposits and a list of in-transit deposits should be prepared.

117. The transaction details for checks outstanding for more than one reconciliation period should be investigated. DAS requires warrants and checks to be expired if not presented for payment within two years from the date of issuance.

Suspense Accounts

118. For agencies using suspense accounts and those not interfaced with R*STARS, the total of the paid checks returned should be proved against the charges on the bank statement. (For information on

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recording suspense account information in R*STARS, please refer to the Trea5 chapter of the SFMS desk manual at [Statewide Financial Management Services - SFMS Desk Manual](#)

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- a. An accounting should be made of the numerical sequence of the checks and deposits.
- b. All voided checks should be examined. Such checks should be retained in the numeric file of checks when checks are returned by the bank or Treasury. If checks are not returned by the bank, the voided checks should be filed with the cash disbursement records.
- c. If checks are returned, the signatures and endorsements on the checks should be reviewed on a test basis by the reconciliation staff to be sure they are reasonable and complete.
- d. Checks may be returned by the post office as undeliverable. Strict control should be maintained over such checks. The checks should be delivered by the mail room to an employee responsible for their control. This employee should not have access to the undeposited receipts of the agency. Reasonable efforts should be made to locate the payees. If unsuccessful, then the checks should be marked VOID and kept on file as outstanding checks until they can be expired.

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General Fund

119. SFMS Operations prepares reconciliations of the General Fund and the Lottery Fund at Treasury to the transactions in R*STARS for each accounting month. Outstanding reconciling items are researched and cleared on a statewide basis. Thus, agencies do not need to reconcile cash funds that are part of the legal General Fund or the Lottery Fund. However, agencies are responsible for investigating and clearing reconciling items when notified of them by SFMS Operations.

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Cash Management Improvement Act (CMIA)

120. Accurate cash clearance patterns are required under the federal Cash Management Improvement Act (CMIA). Also, [Generally Accepted Accounting Principles \(GAAP\)](#) require that the passage of time between an accounting event and complete recording of that event be minimized.

121. If a temporary account or fund such as a clearing account or revolving suspense account is used to account initially for an accounting event, the elapsed time between the initial accounting transaction and the subsequent accounting transaction to clear the temporary account and reclassify the accounting event should be minimized.

Cash Receipts

122. The term cash receipts includes receipts from all sources. It includes wire transfers and transfers in of cash, such as transfers to a cash account from another cash account in the same agency.

123. Cash lost before being receipted is more difficult to trace than cash received and recorded. It is imperative that cash receipts and transfers be recorded as soon as they come within the agency's control. Checks are to be restrictively endorsed at the time of collection. Processing of cash receipts should be centralized to the extent workable.

124. Cash transfers should be recorded by someone other than the cashier who is responsible for regular cash receipts. Also, the individual recording cash transfers should have no further access to cash

handling or accounting.

125. In addition, all cash received by an agency should be reconciled daily with the daily cash reports prepared from pre-numbered receipts, licenses, or permits, cash register tapes, mail room tabulations, and similar documents.

126. Disbursements from cash receipts should not be permitted. Any cash shortage or overage should be accounted for, by employee, and should be investigated if material in amount or if a pattern is visible. Unusual items should be adequately documented and explained. ORS 297.120 requires any cash shortages from or suspected to be from employee dishonesty to be promptly reported in writing to the Secretary of State, Audits Division.

127. The initial record of cash received may be a pre-numbered receipt form; a summary of pre-numbered license tickets or permits issued; a cash register tape; a mail room listing; or some other remittance advice, depending on the type of agency and the nature of its revenues. Some agencies use a validation machine to assign control numbers to documents.

128. The correspondence accompanying the remittances should be stamped with the date received, and the payment data recorded thereon. These documents should then be forwarded to accounts receivable or to the accounting office and/or appropriate operating units of the agency.

129. Remittances for which proper distribution cannot be determined should be listed separately.

130. The fundamental rules for attaining control over cash receipts include:

a. Establish control over cash receipts immediately. Restrictive endorsements should be made on all checks as they are received.

b. Deposit each day's cash receipts intact even if proper disposition of receipt is unknown.

c. Deposit cash receipts daily (not later than one business day after receipt per ORS 293.265). Deposits of small amounts of cash can be less frequent but must be at least weekly; however, if deposits are made less frequently than daily, the agency still needs to comply with ORS 293.265. In accordance with ORS 293.265, an agency may use a reasonable, longer period of time (other than one business day) for deposit of specific receipts if the agency documents that a valid business reason exists for using a longer period of time and that the period of time is no longer than necessary to satisfy the business reason, and the agency submits a copy of such documentation to the Secretary of State, Audits Division for review.

d. Separate cash handling from record keeping. Separate billing from cash collection. (Separation may not be possible for small agencies, boards and commissions.)

e. Do not allow any one employee to handle a cash transaction from beginning to end.

f. Change passwords for access to automated accounting records periodically and do not permit shared passwords.

g. Centralize receiving of cash to the extent possible.

h. Locate cash registers so customers can observe amounts as they are recorded.

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- i. Assign prompt reconciliation of Treasury accounts and other authorized bank accounts to individuals not responsible for handling cash.
- j. Secure cash at all times.

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Mail Receipts

131. In many agencies, most receipts are received in the mail. Mail containing remittances should be opened at designated times, usually once or twice a day, by two designated employees. In cases of extremely heavy periods of incoming mail, it may be necessary to open the mail throughout one or more daily shifts by large numbers of personnel. In cases where the volume of receipts is light and/or the cash received is in small amounts and risk evaluation indicates low risk levels, one employee may open the mail. If only one employee opens the mail, additional control procedures may be required, such as adequate supervision, test checks of receipts and deposits, and periodic reassignment of duties.

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132. If several types of revenues are received simultaneously, the documents received from payors should be sorted by type. This can be done by using a bank lockbox or separate post office boxes.

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Receipt Forms

133. The fundamental purpose of the serially pre-numbered receipt form is the control of currency collections. Receipts should be issued for all currency collections regardless of source. Normally, receipt forms would not be used when recording non-currency items where other controls are adequate. However, receipt forms should provide for indicating the purpose and type of money received (currency, check, money order).

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134. Where it is necessary to initially record receipts at different locations, the receipt form may be used as a subsidiary cashbook. In such cases, all receipts including currency, money orders, and similar items should be entered into the pre-numbered receipt book.

135. To ensure maximum potential control over cash receipts from the use of pre-numbered receipt forms, the following procedures should be followed:

- a. The forms should be pre-numbered and printed in triplicate. When prepared, the original is given to the person from whom the cash is received; the duplicate is used to establish accountability for the cash collected and the triplicate is retained in numerical sequence to establish accountability for the forms used. The original should be clearly differentiated from the copies by color or with the word "COPY" displayed prominently on the duplicate and triplicate.

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- b. When it is necessary to void or cancel a receipt form, the original should be marked void so it cannot be reused, and the original should be attached to the duplicate and triplicate and should be retained.

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- c. A listing of the quantities of forms delivered and the numbers thereon obtained from the printer provides a basis for perpetual inventory control over the forms available for use and reconciliation of issued forms. The inventory and custody of forms should be segregated from the cashiering function and accounting records for cash. The book inventory should be periodically verified against the actual forms on hand by an individual other than the one maintaining the record.

Automated Collection Methods

Cash Registers

136. There are two separate objectives regarding control of receipts collected through the use of a UPS code scanner or a cash register. (1) to assure all cash collected is recorded on the register, and (2) to assure all cash recorded on the register is accounted for and turned over to the designated employee for deposit. Some degree of assurance can be provided through certain techniques. For example, cash register sales of certain commodities can be controlled by keeping a perpetual inventory at "retail" value on the merchandise available for sale. Physical inventories are taken periodically, and the cashier should account for the value of the book inventory under his/her control either in physical stock on hand or cash collected.

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137. Control can also be provided by positioning the cash register so that amounts recorded on the register are obviously displayed to the customers and customers are provided with receipts for their transactions. An additional control technique employs "spotters", unknown to the cashier, to periodically observe the cashiering function.

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138. The register should be equipped with a tape on which cash collected is listed and accumulated. To determine that all register tapes are accounted for:

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- a. Control should be maintained over all cash registers by manufacturer's number, or other suitable means, to preclude substitution or use of cash registers not authorized.
- b. The cumulative total on each register should be locked by a service technician so it cannot be cleared and turned back.
- c. If transaction numbers cannot be turned back and are printed on the tape, assurance is provided when the first transaction number on each tape consecutively follows the last number on the previous tape.

139. An individual other than the register cashier should count the cash and extract the register tape in the cashier's presence. The amount collected should be balanced with the register total, as shown by the tape or the cumulative locked-in totals. All register tapes and reports and readings should be collected by someone independent of the collection process and retained chronologically in a file.

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Validation Machines

140. Some agencies use a validation machine to account for and control cash receipts. This machine prints a number on the check received and prepares a corresponding list of receipts showing the number assigned, the date, and the amount. The validation machine is normally operated by an individual who is not part of the accounting staff.

Prelisting

141. Each cash transmittal should be accompanied by the corresponding duplicate copies of the prenumbered receipts issued or the validation machine tape and a cover document (prelisting) identifying the dollar amount, sequence of receipt numbers transmitted, and the period of time covered by the transmittal. The prelisting is prepared in as many copies as required. The original and copies should be forwarded, together with the remittances, to the cashier for deposit.

Deposits

142. Moneys received should be turned over to a designated cashier for deposit at prescribed intervals. If possible, this transmittal should be made within one business day of receipt. If daily transmittals are not feasible due to location of collection or other business reasons, or if amounts of collections are nominal, transmittals may be made less frequently but should not be less frequent than once a week. If deposits are made less frequently than daily, the agency needs to comply with ORS 293.265. In accordance with ORS 293.265, an agency may use a reasonable, longer period of time (other than one business day) for deposit of specific receipts if the agency documents that a valid business reason exists for using a longer period of time and that the period of time is no longer than necessary to satisfy the business reason, and the agency submits a copy of such documentation to the [Secretary of State](#), Audits Division for review.

143. A specific exception to the statutory requirement of depositing all receipts to a Treasury account is that a state agency may return any bank check whenever such bank check or money order is incomplete or the report or record applied for is not available or releasable or the payment is not owed. The agency shall keep a record of the check or money order returned.

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Electronic Funds Transfer (EFT)

144. Electronic Funds Transfer (EFT) usually means transfer through the Automated Clearing House (ACH) or the Federal Reserve's Fedwire system. EFT's offer a number of control advantages over paper-based systems. An EFT system generally has various levels of security, which may include encryption of data, authentication of transaction accuracy, and secured access to facilities. There is no paper item to be lost in the mail or stolen from the mailbox. There is no need to go to the bank to make a deposit.

145. Agencies should work with OST to determine the best method available to take advantage of the opportunities of the ACH system. For additional details and required forms, see [OST's Cash Management Manual](#) at their web site at [OST Cash Management Manual](#).

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Cash Disbursements

146. Where segregation of duties cannot meet optimum, the control requirement should provide as much separation as possible between the responsibilities for originating requisitions; placing orders; reporting receipts; and approving invoices for payment.

147. All disbursements, except those using electronic funds transfer or from non-bank petty cash funds should be made by check or warrant.

148. Agencies shall process vouchers on a timely basis. The state's vendors have performed a service or provided a good for the benefit of state government, once all required approval, documentation, and verifications have been obtained, payments shall be issued without unnecessary delay. Timely payment supports strong vendor relationships, maintains the state's reputation for fiscal responsibility, and helps avoid late fees or service disruptions. As required by statute and to avoid paying interest on accounts, most vendors must be paid within 45 days while construction-related vendors must be paid within 30 days. Agencies shall not purposefully delay payments, even to enhance interest earnings.

149. If a state agency does not pay a private vendor on time for goods or services, the state may be responsible for paying late charges. For most vendors, a payment is considered overdue if it is not made within 45 days of one of the following:

- The date the agency received the vendor's invoice.
- The date of the initial billing statement (if no invoice was provided), or
- The date the claim became valid by agreement or by law.

Late charges are limited to 8% per year and must be paid from the agency's existing appropriation or budget authority.

150. The following standards should be applied in prescribing procedures for handling cash disbursements in the agency:

- An agency policy and procedure manual should be developed to describe the authority and responsibility for expenditures in accordance with state policies and procedures.
- The functions of approving vouchers, preparing checks, and recording disbursements should be handled by different employees. Employees handling disbursements should not have duties relating to cash receipts or the reconciliation of bank accounts.
- Payment should be made or vouchers prepared only after the original and all copies of pertinent papers have been approved. Payment should only be made from original invoices, or in limited and unusual situations, from original statements.
- Vouchers or checks should be approved or signed only on presentation of satisfactory documentary evidence that disbursement is properly authorized.
- Invoices and, if applicable, statements should be canceled or stamped in a prescribed manner in order to preclude reuse of the documents.
- A periodic review of the documentation supporting payments should be made by an authorized employee to ensure all processing steps and approvals are being properly applied.

Checks and Warrants

151. All agencies drawing checks and warrants on Treasury accounts will use the single state check design. The single state check utilizes a controlled paper stock with numerous security features and a background design that makes all state checks and warrants easily recognizable as state items. Instructions for ordering can be found at OST's web site: [OST Cash Management Manual](#)

152. As a protection against misuse or alteration, care should be exercised in preparing checks and warrants. Written and figure amounts should be inserted far to the left in prescribed spaces to avoid the possibility of a later insertion in front of the correct figure. Checks should never be drawn to bearer or cash.

- A limited number of employees should be authorized to sign checks and/or warrants and the signatures of these employees should be on file.
- The supporting vouchers and documents should accompany the checks when submitted for signature. These documents should be examined before signatures are affixed. The documents should bear the prescribed approvals, showing compliance with purchasing, receiving, and payment procedures.

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- c. Signature cards, properly approved, should be on file for those employees authorized to approve documents, such as purchase orders and vouchers, and receiving reports. For agencies using electronic approvals, these documentation controls are essential.
- d. Checks should not be distributed or mailed by the same employee who prepares the checks if he/she has access to the applicable records.
- e. When dual signatures are required on checks, the two employees authorized to sign checks should be administratively independent of each other. Rubber stamps should not be used for check signing.
- f. Check signing machines and laser signatures should not be used, except in cases where a large volume of checks are processed. When they are used, the signature plates should be kept in the custody of the officials authorized to sign checks or their authorized representatives. Although the use of the machine relieves the officials of the manual signing operation, these officials will still be held responsible for an examination of the supporting documentation. If two signatures are required, a separate signature plate should be used for each signature.
- g. Check signing machines usually provide registers to control either or both the number of checks signed, and the total amount processed through the machine. These control totals should be reconciled daily with the recorded cash disbursements.
- h. When it is necessary to void a check, it should be marked "VOID" and the signature space crossed out. All voided checks should be filed numerically with the paid checks returned by the bank and kept by the agency. If checks are not returned by the bank, the voided checks should be filed with the cash disbursement records.
- i. The number of pre-numbered checks purchased should be supported by a listing from the printer as to the quantity shipped and the check numbers included in the shipment. Unused check stock should be kept in a locked or otherwise secure area. All check numbers should be accounted for by someone lacking access and responsibility for check stock and check issuance.
- j. All checks written should be entered in numerical order in a cash disbursements journal or other cash disbursement record. Separate disbursement records should be kept for each checking account. With an automated cash disbursement system, the computer should generate an appropriate cash disbursement record.

Petty Cash and Change Funds

153. Each agency with a petty cash fund and/or change fund must develop its own written operating and reconciliation procedures.
154. Petty cash funds must be maintained on an imprest basis, meaning each fund will be replenished for the exact amount of the expenditures made from the fund. The fund must be replenished as required to maintain cash at the authorized level.
155. A custodian of a petty cash fund must be designated as responsible to account for and service the fund. The custodian can use petty cash to reimburse claims approved by employees designated to approve cash payments from the fund. For claim reimbursement, there must be a valid receipt and

signature approval for purchase.

156. Change funds must meet a specific business need such as currency and coin needed to provide customer purchase convenience or special program related circumstances. Change funds are to be kept at the minimum level necessary to handle normal customer service needs. Deleted:
157. An employee must be designated to be responsible for the agency change funds. If change funds are further distributed to individual employees, each employee is responsible for the change fund so entrusted. Deleted: Deleted: person
158. The amount of each change fund remains constant, and that amount should be withheld at the close of each day from the total cash in the register or cash drawer as the funds with which to begin the following day. The remaining cash is recorded as the current day's receipts and is reconciled to the receipt documents. Deleted:
159. At a minimum, the following internal controls over petty cash and agency change funds must be established:
 - a. If the agency maintains a change fund in addition to a petty cash fund, the two funds must be kept separate and not be commingled.
 - b. Secure physical cash at all times.
 - c. Conduct periodic unannounced counts by an independent employee not the petty cash custodian or change fund cashier.
 - d. The petty cash custodian must not be authorized to approve cash payments from the fund or to authorize replenishment of the fund. Deleted: <#>1
 - e. Personal checks are not allowed to be cashed from agency cash funds.
 - f. All disbursements from the petty cash fund should be supported by invoices and vouchers properly approved and dated. These documents should be examined and canceled when the fund is reimbursed.
 - g. The accounting section in the agency should keep a record of the amount of each change fund and its location. Each fund custodian must provide a signed receipt to establish accountability for the change fund entrusted to him/her. The receipts are to be kept on file in accounting.
 - h. Daily cash receipts from business transactions should be deposited and should not be retained in the change fund after the close of the business day.
 - i. Update policies and procedures as needed and ensure compliance.
 - j. Periodically evaluate each petty cash and change funds as to need and size. To the extent possible, eliminate petty cash and change funds.

Postage

160. Controls over postage can be most effectively established through the use of a postage meter. All metered postage should be purchased by check or warrant, payable to the postmaster. An employee independent of the mailroom should verify the amount entered on the meter is the full amount of the check or warrant. Under no circumstances should checks or warrants issued for metered postage be used for the purchase of stamps or exchanged for cash.

161. The postmaster's receipts for metered postage should be retained and a daily record be kept of the meter readings; at intervals, the changes in the ascending and descending meter readings should be reconciled with metered postage purchases for the period.

162. Special circumstances may require the use of postage stamps. This practice should be kept to a minimum and controlled by the use of requisitions. The stamps should be purchased by check. A single individual should be responsible for the distribution of the stamps and should maintain a record of receipt and distribution. At intervals, the stamps in custody of this individual should be inventoried and reconciled with the stamps purchased and requisitions filled. The reconciliation should be performed by a staff other than the individual with custody of the stamps.

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