

# Internal Controls for Cash Disbursements

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Internal controls for cash disbursements are crucial to ensuring that all payments made are properly authorized, recorded, and safeguarded against fraud or misuse. Effective internal controls help prevent errors, unauthorized transactions, and financial mismanagement. Below are key internal controls specific to cash disbursements that school districts should implement:

## Segregation of Duties

- **Objective:** To prevent any one individual from having complete control over cash disbursement functions.
- **Implementation:**
  - One individual should prepare the payment (e.g., accounts payable clerk).
  - A different individual should review and approve the payment (e.g., finance officer or administrator).
  - A separate person should record the transaction in the accounting system to prevent manipulation.
- **Example:** A staff member prepares a check for a vendor payment, a supervisor approves it, and an accounting clerk records it in the financial system.

## Authorization and Approval Process

- **Objective:** To ensure that all disbursements are legitimate and approved before payment is made.
- **Implementation:**
  - All disbursements should require proper approval from an authorized official before processing.
  - Supporting documentation (e.g., invoices, purchase orders) should be reviewed before payment approval.
- **Example:** Before issuing a check to a vendor, the business office verifies that the invoice matches the purchase order and supervisor approval is obtained.

## Use of Pre-numbered Checks or Electronic Payments

- **Objective:** To maintain proper tracking and prevent unauthorized disbursements.
- **Implementation:**
  - Pre-numbered checks should be used to track all payments.
  - Electronic payments should be processed through secure and authorized banking channels.
- **Example:** The district uses a check register to track check numbers and a secure online system for electronic transfers with dual authorization.

## Dual Signatures for Large Payments

- **Objective:** To enhance oversight for significant transactions.
- **Implementation:**
  - Checks or electronic payments above a certain threshold should require two authorized signatures or approvals.
  - Approval limits should be set and documented in financial policies.
- **Example:** Any payment over \$5,000 requires approval from both the district superintendent and the chief financial officer.

## Regular Reconciliation of Bank Statements

- **Objective:** To ensure that all disbursements are properly recorded and prevent unauthorized transactions.
- **Implementation:**
  - Monthly reconciliation of bank statements should be performed by an individual who is not involved in processing disbursements.
  - Any discrepancies should be investigated and resolved immediately.
- **Example:** The district's finance manager reviews the bank statement against the accounting records each month to verify all transactions.

## Vendor Verification and Maintenance

- **Objective:** To prevent fraudulent or duplicate payments.
- **Implementation:**
  - A vendor approval process should be established, requiring verification before adding new vendors to the system.
  - Periodic reviews should be conducted to remove inactive or duplicate vendors.
- **Example:** Before paying a new vendor, the business office verifies the legitimacy of the company and confirms tax identification details.

## Secure Handling of Blank Checks and Payment Methods

- **Objective:** To prevent unauthorized access to district funds.
- **Implementation:**
  - Blank checks should be stored in a locked, secure location.
  - Access to the district's electronic banking system should be restricted to authorized personnel.
- **Example:** Only the finance director and designated staff have access to the check stock, which is kept in a secure cabinet.

## Documentation and Record Keeping

- **Objective:** To ensure all disbursements are supported by proper documentation and available for review.
- **Implementation:**
  - Every disbursement should have accompanying records, including invoices, approvals, and payment confirmations.
  - Records should be retained in accordance with district policies and audit requirements.
- **Example:** When an invoice is paid, the payment confirmation, invoice, and purchase order are filed together for audit purposes.

## Regular Audits and Reviews

- **Objective:** To identify any weaknesses in the cash disbursement process and ensure compliance.
- **Implementation:**
  - Internal audits should be conducted periodically to assess compliance with policies.
  - External audits should be performed annually to validate financial controls.
- **Example:** An internal audit team reviews cash disbursement records every quarter to check for any discrepancies or unauthorized payments.

## Approval for Voided or Canceled Payments

- **Objective:** To ensure transparency in the cancellation of payments.
- **Implementation:**
  - Voided checks or canceled payments must be documented and approved by a supervisor.
  - Records should include the reason for voiding and any supporting documentation.
- **Example:** If a check is voided due to an error, a supervisor signs off on the void request and the voided check is retained for reference.

## Example Scenario of Cash Disbursement Internal Controls:

- **Scenario:** A school district processes a vendor payment for new classroom supplies.
- **Control Steps:**
  - A purchase order is approved before the order is placed.
  - Upon receiving the supplies, the district verifies the invoice against the purchase order.
  - The accounts payable clerk prepares the check, and the finance officer reviews and approves the payment.
  - The check is signed by two authorized personnel before being mailed.
  - The business manager reconciles the bank statement at the end of the month to confirm the payment was processed correctly.

By implementing these internal controls, school districts can safeguard their cash disbursements, reduce the risk of fraud, and ensure compliance with financial policies and regulations.