

Internal Controls for Revolving Account Fund and Petty Cash

Internal controls for cash disbursements are vital to ensure that payments made from revolving account funds or petty cash are properly authorized, recorded, and protected against fraud. Effective controls help prevent errors, misuse, and financial mismanagement. Below are key internal controls that should be implemented for cash disbursements from revolving funds and petty cash accounts in school districts:

Segregation of Duties

- **Objective:** To ensure that no one person has full control over the entire disbursement process for revolving funds or petty cash.
- **Implementation:**
 - One individual should request or authorize the disbursement (e.g., petty cash custodian).
 - Another person should review the transaction and approve it (e.g., supervisor or finance officer).
 - A third person should reconcile and record the transaction in the accounting system.
- **Example:** A petty cash custodian requests a disbursement, a supervisor verifies the request, and an accounting clerk records the payment in the system.

Authorization and Approval Process

- **Objective:** To ensure all revolving fund and petty cash transactions are legitimate and pre-approved.
- **Implementation:**
 - Every disbursement from the revolving fund or petty cash should require approval from an authorized district official before processing.
 - All disbursements should be supported by documentation, such as receipts or invoices, which must be reviewed before disbursement is approved.
- **Example:** A staff member requests petty cash to purchase supplies, and a finance officer reviews the request, ensuring the amount is appropriate and the receipts match.

Use of Pre-numbered Receipts or Records

- **Objective:** To track all revolving fund and petty cash disbursements and prevent unauthorized disbursements.
- **Implementation:**
 - Use pre-numbered receipts or records for each petty cash disbursement or revolving fund transaction.
 - Ensure these records are carefully tracked and stored for reconciliation purposes.
- **Example:** Each petty cash transaction is recorded in a ledger with a corresponding pre-numbered receipt that is matched to the disbursement record.

Limits on Petty Cash Withdrawals

- **Objective:** To limit the amount of money disbursed from petty cash or revolving funds and reduce the risk of misuse.
- **Implementation:**
 - Establish a maximum withdrawal limit for petty cash and specify the allowable types of expenses.
 - For amounts above the limit, require approval from a senior district official before funds are released.
- **Example:** Petty cash withdrawals are limited to \$100, and any request above this limit requires the finance officer's approval.

Regular Reconciliation of Revolving Fund and Petty Cash

- **Objective:** To ensure all disbursements are accurately recorded and that funds are safeguarded against misuse or discrepancies.
- **Implementation:**
 - Perform regular reconciliations of the revolving fund and petty cash accounts at least monthly, or more frequently if necessary.
 - Discrepancies should be investigated immediately and corrected.
- **Example:** The finance department conducts a monthly reconciliation of petty cash to ensure the balance matches the records of disbursements and receipts.

Secure Handling of Cash and Payment Methods

- **Objective:** To prevent unauthorized access to petty cash and revolving funds.
- **Implementation:**
 - Store petty cash in a locked, secure location, and restrict access to authorized personnel only.
 - Ensure that only authorized individuals can approve or process revolving fund disbursements.
- **Example:** Petty cash is stored in a locked cash box in the finance office, with access restricted to the petty cash custodian and a supervisor.

Documentation and Record Keeping

- **Objective:** To ensure all revolving fund and petty cash transactions are properly documented and available for review.
- **Implementation:**
 - Every disbursement should be accompanied by supporting documentation, such as receipts, purchase orders, or invoices.
 - Keep these records organized and ensure they are retained in accordance with district policies for audit purposes.
- **Example:** When a petty cash disbursement is made, a receipt is provided, and the documentation is filed along with the disbursement request form.

Regular Audits and Reviews

- **Objective:** To identify weaknesses in the disbursement process and ensure compliance with internal controls.
- **Implementation:**
 - Conduct periodic internal audits to assess compliance with policies for revolving funds and petty cash.
 - Ensure external audits are conducted annually to validate financial controls and provide oversight.
- **Example:** An internal auditor reviews petty cash transactions every quarter to verify that all disbursements are properly documented and authorized.

Approval for Voided or Canceled Payments

- **Objective:** To ensure transparency and accountability in voiding or canceling transactions from petty cash or revolving accounts.
- **Implementation:**
 - Any voided or canceled disbursement must be documented and approved by a supervisor.
 - The reasons for voiding or canceling must be recorded, and any supporting documentation should be retained.
- **Example:** If a petty cash transaction is voided due to an error, a supervisor must approve the void, and the voided receipt is retained for audit purposes.

Example Scenario of Revolving Fund and Petty Cash Disbursement Controls:

- **Scenario:** A school district uses petty cash to purchase classroom supplies.
- **Control Steps:**
 1. The request for petty cash is made by a teacher and approved by the department head.
 2. The petty cash custodian disburses the cash and keeps the receipt for the purchase.
 3. The finance officer reviews and approves the petty cash expenditure based on the submitted receipt.
 4. The petty cash balance is reconciled monthly by an independent staff member, and any discrepancies are investigated.

By establishing and adhering to these internal controls, school districts can enhance the safeguarding of revolving funds and petty cash, ensuring that funds are used efficiently and effectively, with reduced risks of misuse, fraud, and financial mismanagement.