

**ENTITY NAME:** \_\_\_\_\_

## **CASH**

We need to understand:

- How and by whom the transactions are initiated
- The accounting processing involved from initiation of a transaction to its inclusion in the general ledger or financial statements, including how the computer is used to process data
- The supporting documents involved, including accounting records and journals, source documents, and electronic means involved in the processing of the transactions
- The documents and reports generated by the accounting system

### **SECTION A**

#### **INTERNAL CONTROL OBJECTIVES**

- Access to cash, cash receipts, and cash disbursements records is restricted.
- Cash receipts are recorded correctly as to account, amount, and period and are deposited promptly intact.
- Cash receipts are applied properly to customer balances.
- Cash disbursements are made for goods or services authorized and received.
- Cash disbursements are recorded correctly as to account, amount, and period.
- Cash balance records are reconciled regularly to bank statements and differences are investigated.

#### **POTENTIAL ERRORS AND FRAUD**

##### **Cash Receipts**

- Cash receipts are recorded incorrectly.
- Items are sold for cash, the sale is not recorded, and cash is misappropriated.
- Checks received are deposited but not recorded; checks are written to employees for the same amount and also are not recorded.
- Customer remittances are misappropriated, and collectible accounts are written off or otherwise credited.

- Lapping occurs (e.g., cash receipts are misappropriated and shortages are concealed by delaying postings of cash receipts).

**Cash Disbursements**

- Payment is made for goods or services that are not authorized or not received.
- Checks are made out to wrong payees.
- Invoices are paid twice.
- Vendor invoices are altered and photocopied to conceal alteration; payment benefits third parties.
- Check signature or endorsement is forged.
- Disbursements are misclassified or not recorded.
- Disbursements are recorded at the wrong amount or in the wrong period.
- Checks are issued for the benefit of employees or third parties, and payees are changed in the cash disbursements journal.
- Cash disbursements journal is overstated; overstated amount is recorded and the difference is misappropriated.
- Kiting occurs (exploiting the time required for a check to clear the bank [“float” period] to conceal shortage of cash).

***UNDERSTANDING OF ACCOUNTING SYSTEM***

1. How and by whom are the transactions initiated?

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2. Describe the source documents that support the transactions.

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3. Describe the computer software that is used in the processing of accounting information.

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4. Describe the documents and reports generated by the accounting system.

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5. Describe the accounting processing, records, and files (including how frequently they are updated) that are used to process the transactions, including how transactions are reflected in journals of original entry and in the general ledger.

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**SECTION B**

**FURTHER UNDERSTANDING OF CONTROL ACTIVITIES**

**Cash Receipts**

	Yes	No	N/A
1. Is mail opened by someone independent of cashier, accounts receivable bookkeeper, or other accounting employees who may initiate or post journal entries?	_____	_____	_____
2. Is the delivery of unopened business mail prohibited to employees having access to the accounting records?	_____	_____	_____
3. Does the employee who opens the mail:			
a. Place restrictive endorsements (“For deposit only”) on all checks received?	_____	_____	_____
b. Prepare a list of the money, checks, and other receipts?	_____	_____	_____
c. Forward all remittances to the person responsible for preparing and making the daily bank deposit?	_____	_____	_____
d. Forward the total of all remittances to the person responsible for comparing it to the authenticated deposit ticket and amount recorded?	_____	_____	_____
4. Is a lockbox used?	_____	_____	_____
5. Is an independent listing of cash receipts prepared before the receipts are submitted to the cashier or accounts receivable bookkeeper?	_____	_____	_____
6. Does an independent person verify the listing against the deposit slips?	_____	_____	_____
7. Do cash sales occur? If yes:	_____	_____	_____
a. Are cash receipts prenumbered?	_____	_____	_____
b. Is an independent check of prenumbered receipts done daily and reconciled to cash collections?	_____	_____	_____
c. Are cash register tape totals reconciled to amount of cash in drawer?	_____	_____	_____
d. Do cash refunds require approval?	_____	_____	_____
8. Are authenticated deposit slips retained and reconciled to the corresponding amounts in the cash receipts records?	_____	_____	_____
9. Are cash receipts deposited intact daily?	_____	_____	_____
10. Is the bank deposit made by someone other than the cashier or the accounts receivable bookkeeper?	_____	_____	_____
11. Are employees who handle receipts bonded?	_____	_____	_____

	Yes	No	N/A
12. Is the accounts receivable bookkeeper restricted from:			
a. Preparing the bank deposit?	_____	_____	_____
b. Obtaining access to the cash receipts book?	_____	_____	_____
c. Having access to collections from customers?	_____	_____	_____
13. Are banks instructed not to cash checks drawn to the order of the entity?	_____	_____	_____
4. Is the cashier restricted from gaining access to the accounts receivable records and bank and customer statements?	_____	_____	_____
15. Does a person independent of the cash receipts and accounts receivable functions compare entries to the cash receipts journal with:			
a. Authenticated bank deposit slips?	_____	_____	_____
b. Deposit per the bank statements?	_____	_____	_____
c. Listing of cash receipts prepared when mail is opened?	_____	_____	_____
16. Are areas where physical handling of cash takes place reasonably safeguarded?	_____	_____	_____
17. Is information adequately captured from remittances for accurate posting of credits to customer accounts or for proper classification regarding its sources (e.g., taxes, utilities, other)?	_____	_____	_____
18. Do postings to the general ledger control and subsidiary accounts include the date on which the remittance was received?	_____	_____	_____
19. Are postings to the general ledger made by a person independent of the person receiving the money?	_____	_____	_____
20. Are customer complaints handled by a person independent of the cashier or accounts receivable functions?	_____	_____	_____

**Cash Disbursements**

	Yes	No	N/A
1. Are all disbursements made by check except those from petty cash?	_____	_____	_____
2. Are prenumbered checks used and all numbers accounted for?	_____	_____	_____
3. Are voided checks properly defaced and retained?	_____	_____	_____
4. Are dual signatures required for checks over a predetermined amount? If yes:	_____	_____	_____
a. Are the check signers independent of each other?	_____	_____	_____
b. Is approved supporting documentation presented to each check signer?	_____	_____	_____

	Yes	No	N/A
5. Is signing of checks in advance or in blank prohibited?	_____	_____	_____
6. Are checks payable to “cash” or “bearer” prohibited?	_____	_____	_____
7. Is access to unused checks limited to authorized persons?	_____	_____	_____
8. Is a check-signing machine used? If yes:	_____	_____	_____
a. At all times, are the keys, signature plate, and operation of the signing machine under control of the official whose signature is on the plate?	_____	_____	_____
b. Are the employees who have custody of the keys and plate, and who operate the check-signing machine, independent of check-preparation functions and denied access to blank checks?	_____	_____	_____
c. Are the checks issued to the machine operator counted in advance, and reconciled with the totals indicated on the check-signing machine by someone other than the machine operator?	_____	_____	_____
9. Are invoices, vouchers, and other supporting documents presented with the checks submitted for signature?	_____	_____	_____
10. Are supporting documents for checks properly canceled (e.g., stamped “paid”) to avoid duplicate payment?	_____	_____	_____
11. Do proper safeguards exist to prevent checks that have been mailed from returning to the accounts payable bookkeeper or to the employee who drew the checks?	_____	_____	_____
12. Is the check-signing function independent of purchasing, cash bookkeeping, and preparation of checks?	_____	_____	_____
13. Are bank accounts and check signers authorized by the governing body?	_____	_____	_____
14. Are all checks promptly recorded upon issuance and listed in detail (e.g., in a check register)?	_____	_____	_____
15. Are payroll checks drawn against a separate bank account?	_____	_____	_____

**Petty Cash Funds**

	Yes	No	N/A
1. Are petty cash funds maintained on an imprest basis? If yes, are they:	_____	_____	_____
a. Reasonably small in amount?	_____	_____	_____
b. Kept in a safe area?	_____	_____	_____
c. Regularly counted by someone other than the custodian?	_____	_____	_____
2. Are petty cash disbursements:	_____	_____	_____
a. Supported by prenumbered vouchers?	_____	_____	_____

	Yes	No	N/A
b. Restricted to a predetermined maximum dollar amount?	_____	_____	_____
3. Are vouchers canceled or marked to prevent duplicate reimbursement?	_____	_____	_____
4. Do advances to employees and I.O.U.'s require proper approval?	_____	_____	_____
5. Are checks for reimbursement of petty cash funds:			
a. Made out to the order of the custodian?	_____	_____	_____
b. Subject to the same review and approval as invoices?	_____	_____	_____
6. Are surprise counts made at reasonable intervals by an employee independent of the custodian?	_____	_____	_____

**Cash Reconciliations**

	Yes	No	N/A
1. Are bank statements, related canceled checks, deposit tickets, and related memos received directly from the bank by the employee performing the reconciliations?	_____	_____	_____
2. Are bank accounts reconciled monthly by a person independent of cash receipts, general ledger, accounts receivable, or accounts payable functions?	_____	_____	_____
3. Do bank reconciliation procedures include:			
a. Accounting for the sequence of all check numbers?	_____	_____	_____
b. Examining the paid checks for date, name, endorsement, and cancellation and comparing them to the cash disbursements journal?	_____	_____	_____
c. Comparing the detail of bank deposits to cash receipts records?	_____	_____	_____
d. Investigating other reconciling items (e.g., checks returned for insufficient funds)?	_____	_____	_____
e. Following up on old outstanding checks?	_____	_____	_____
4. Is independent review performed of monthly bank reconciliations?	_____	_____	_____