

GFOA Recommended Practice

Revenue Policy: Cash Receipts Controls (2003)

Background. To ensure strong financial management practices, the proper controls over revenues are imperative in determining budget, forecasting, reconciliations and general oversight over the various revenues collected.

As part of performing governmental services, management must provide for appropriate mechanisms, automated and manual, to collect all funds for services performed and ensure that proper controls exist over all receipts.

Recommendation. This recommended practice advocates for the inclusion of cash receipts controls and policy statements as part of a revenue policy.

When formulating cash receipts controls and policy statements, it is imperative that such controls abide by authoritative standards and practices as they pertain to Governmental Accounting Standards Board (GASB) pronouncements and state laws, as there may be some variability amongst states in applying parameters for management discretion regarding delinquent penalties and related financial management decision-making. The following factors, as applicable, should be considered in the development of cash receipts controls in a revenue policy:

- Internal Controls: All aspects of cash receipts shall be subject to proper internal controls with standard controls documented and followed by revenue generating departments:
 - Segregation of duties – authorization, recordation, custodian functions, and reconciliation.
 - Daily processing - daily cash/collection total reconciled to subsequent deposit.
 - Timely depositing of funds received – For those governmental entities that have centralized cash collection points with direct supervision by treasury management, daily processing procedures should be developed and adhered to including daily deposit to financial institutions.
 - For those governmental entities that may have decentralized cash collection points (remote sites from the primary treasury function), then appropriate procedures should be established that address the timeliness of when such remote collections are deposited either directly to a financial institution and/or through the centralized treasury management function that would include both a dollar threshold (e.g., point when cash/checks collected exceeds a certain dollar threshold) and/or time threshold (e.g., all collections should be deposited within a certain amount of days from receipt).
 - Reconciliation to the general ledger and other supporting accounting ledgers shall be performed in a timely manner.
 - Physical security procedures during work hours and non-working hours for all funds received and change drawers maintained.
 - Automated system resources should be utilized where practical to provide better processing and reconciliation support as well as providing a more efficient and effective manner to manage receipts.

- Overpayments - Overpayments shall not be accepted when the intention is to provide a cash refund back to the customer. For other instances of overpayments, the standard practice would be to apply such overpayment as a credit to next bill, with any exception to this standard practice noted in departmental procedures.
- Use of lockbox processing will be considered when the benefits of such processing exceed the costs for such services or if internal controls substantially enhance mitigating potential risks.
- Upon any suspicion of fraud, the departmental supervisor would timely notify the appropriate personnel (e.g., internal audit, law enforcement) for further investigation.
- If there is any suspicion regarding non-compliance of internal control directives, the departmental supervisor will notify the appropriate personnel (e.g., internal audit) for further review.
- Depositing of Received Funds for Services
 - An established treasury management division should serve as the primary recipient of all monetary payments via cash, check, wire transfer and credit card, unless there are established guidelines for a revenue process for which the treasury management division does not serve as the primary recipient.
 - Remote cash and check collection points should be established where appropriate customer service benefits are evident. Documented internal controls need to be established with such collection points. The ultimate remittance or deposit of such collection receipts should be documented and systematically performed by the applicable officials.
 - Non-remote collection site departments are encouraged to direct all receipts to the centralized treasury function and utilize information provided by the cash receipt and general ledger system in determining the propriety and reasonableness of such revenue transactions relative to departmental function.
- Returned Checks - Unless otherwise stated per ordinance or resolution, all checks returned due to insufficient funds in the customer's account should be processed by the treasury division in conjunction with departmental assistance, as appropriate, and fees shall be charged for the returned check in conjunction with the treasury division established practices. This process should include processing the check at least twice through the entity's financial institution.
- Billing Practices - Unless otherwise stated per ordinance or resolution, all initiated bills should have established terms (e.g., 30 days from bill date) and all bills should be generated within an established time after initial service provision (e.g., within 45 days).
- Escrowed Funds - For those funds received in advance of revenue recognition criteria or for which such funds are anticipated to be remitted back to payee in relief of meeting performance guarantee, such funds should be deposited into an escrow account or trust fund if held by the entity. Escrowed funds should only accrue interest back to an individual account if explicitly stated in the escrow agreement. Otherwise such escrow funds will accrue interest to General Fund or other applicable fund(s). Upon the government meeting the criteria for revenue recognition, such escrowed funds will be timely transferred and recognized as revenue in the applicable fund. For those performance guarantee escrows, such funds should be returned back to the payee upon compliance or retained in meeting established procedures for use of such funds.

- Budgetary Review Responsibilities - Revenue initiating departments should have oversight in the formulation of budgeting applicable revenues from a forecasting perspective. Such revenue estimates should be supported by variables (base, rate, etc.) that comprise such revenue. Monitoring of revenue budget should be performed in a timely manner throughout the fiscal year and should include an analysis of actual vs. budgeted variances. Continued compliance of revenue with all laws and/or regulations should be primarily the responsibility of the revenue initiating department.

References

- *Adoption of Financial Policies, Recommended Practices for State and Local Governments*, GFOA.

Approved by the GFOA's Executive Board, October 17, 2003.