

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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INTRODUCTION

Most local units of administration (LUAs) receive a limited number of cash receipts in the central office. An LUA's State and Federal funds are received primarily via electronic funds transfer from the Georgia Department of Education (GaDOE). The LUA receives property taxes from the county tax collectors periodically. The most voluminous cash receipts come from the LUA's school nutrition program and school activity accounts. Though the dollar value may not be high, there is a daily deposit by each school cafeteria. In most LUAs, the deposit slips are listed on a form and sent to the central office weekly for recording in the School Nutrition Special Revenue fund.

As cash and negotiable items (e.g., checks, wire transfers) are received, the staff has two responsibilities:

- Accountability must be established
- Accelerate the deposit of cash receipts

This chapter reviews these responsibilities as well as provides an overview of internal controls for cash receipts. Accounting for revenues and cash receipts is presented in chapter I-9.

ACCOUNTING FOR CASH RECEIPTS

Most LUA business offices include cash-receipting systems and record keeping systems. Many software programs provide excellent record keeping systems for cash receipts.

Responsibility for Cash Receipts

Normally the LUA business manager or bookkeeper is responsible for cash receipts. Some of these responsibilities include:

- Developing written policies and procedures covering collection activities
- Training of staff
- Prudent handling of the LUA's cash

The policies and procedures should address the following:

- The handling of both cash and checks
- The method of documenting cash transactions
- The reporting of these transactions
- The evaluation of cash collection procedures

All LUA personnel involved in cash collections and deposits should be trained to understand the cash receipts system. In addition, the staff has a fiduciary responsibility to the taxpayers in its district as well as to the taxpayers in the State of Georgia for these public monies. Often, staff that collect and deposit monies also may be personally liable for the money in their custody.

Billing Procedures

A standard set of procedures should be developed for all revenues that are collected as a result of a billing process. In LUAs, these revenues usually are limited to billings for tuition and building rentals. In addition, LUAs request cash from GaDOE for various state and federal grants on a periodic basis. This cash normally is requested on DE Form 0147 electronically through the GaDOE Grants Accounting System. An invoice or billing should include at least the following information:

- The name and address of person or company billed
- A description of services the LUA provided
- Date services were provided
- The cost of the service and the amount due
- Remittance information (check payee, remittance address, or electronic transfer)
- A telephone number to call for questions
- Due dates clearly indicated

Another billing issue is "when to bill?" Generally, an invoice should be submitted immediately after the service has been provided or in the case of a tangible item, as soon as it has been delivered to the purchaser. The timing of billing directly affects when an LUA can expect to receive revenues during the fiscal year. Tuition may be billed from one LUA to another for pupils attending the billing LUA's schools or billed directly to parents for pupils attending an LUA other than their resident LUA. The timing of billings usually is agreed upon, between the LUA and the LUA or parent responsible for the billing. In order to improve the LUA's cash flow, tuition billing should be generated monthly. Building rental billings should

be sent immediately after buildings are used. It may be the policy in some LUAs to require a damage deposit and evidence of liability insurance for rental of school facilities.

Accounts Receivable System

A connection must be made between the billing system and an accounts receivable system. Once the service has been provided, a receivable should be debited to ensure that the LUA has recorded the asset. The credit for the transaction depends on whether the modified accrual basis or accrual basis of accounting is used. If the accrual basis of accounting is used, revenue is credited. If the modified accrual basis of accounting is used and the revenue is considered available, revenue is credited. If the revenue is not considered available, deferred inflow of resources will be credited. See Chapter I-7 for basis of accounting discussion. The receivable account is credited when payment is received.

Collection Procedures

Collection policy issues might include:

- Efficiency of cash receipts processing
- Maintenance of internal controls
- Proper handling of cash and checks

Efficiency of cash receipts processing, through reductions in collection float, should be one of the LUA's primary goals. Collection float refers to the time lag caused by the normal processing of revenue receipts through the mail and an LUA's internal processing of cash and checks and subsequent deposit into the bank.

LUAs receive their QBE funds and other grants through electronic funds transfers which basically eliminate any collection float since these monies are deposited directly into the LUA's bank of choice.

Georgia law (O.C.G.A. 48-5-141) requires the county tax collectors to distribute tax collections, including interest earned while held by the tax commissioner, once a week for counties with population over 30,000 and once every two weeks for population under 30,000. School taxes collected for independent school systems by the municipality are directly appropriated to the school board in accordance with O.C.G.A. 48-5-405.

As indicated earlier, the primary cash collectors in an LUA are those employees at the end of each school cafeteria breakfast or lunch line. The greatest risk of cash loss is from negligence. All efforts should be made to ensure that each location collecting cash provides adequate physical security and that cash handling procedures are followed. Because most cash losses are due to lack of training in cash handling, security, and loss prevention procedures, all cash handlers should be trained in cash handling procedures. The amount of actual cash accepted in the food lines has decreased with the use of electronic payment systems by the school districts.

Deposit of Revenue/Receipts

Bank deposits should be made intact daily with no substitutions of checks for cash. In no instances should amounts be removed to purchase any goods or services. If same day deposit is impractical, then the deposit should be made no later than 24 hours after the receipt of cash. The employee making the physical deposit at the bank should be someone other than the cash handler. The deposit bag should remain locked, and kept in a secure location.

All checks should be endorsed with a stamp that reads "for deposit only, account # ____." This endorsement ensures that all checks are deposited in an LUA's account and not diverted for other purposes. Checks received with incorrect payment amounts should be deposited promptly, as errors can be reconciled after a check has been deposited.

Every LUA should have a policy regarding checks that have been returned due to insufficient funds in a checking account. The policy should include redepositing first-time returned checks. As an alternative, LUAs can take advantage of check recovery services that allow virtually risk free processing of checks.

CASH RECEIPT - INTERNAL CONTROLS

Internal controls are established within the accounting system to safeguard the LUA's assets. Because of the risks inherent in cash collections, these controls are essential. Small LUAs have a particular need for an adequate system of internal controls because they lack the margin of safety and greater tolerance for error of large LUAs. A good system of internal controls protects those LUA employees involved in cash collections because they may be held personally liable for the loss of any money because of negligence. All employees who have responsibility for handling cash and checks should be properly bonded to protect the LUA from any cash or property losses.

There are several basic principles of internal controls that apply to the collection of cash.

Proper Authorization of Transactions - All transactions related to cash collections should be approved by an LUA staff member who has responsibility, but is not directly responsible for cash collections, such as the business manager or the superintendent.

Segregation of Duties - The segregation of duties is an extremely important aspect of internal controls. However, this aspect is very difficult to achieve in small LUAs with limited staff. When "segregation of duties" exists, no one LUA employee should ever be placed in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of their duties. For example, no one employee should be allowed to complete the following activities from beginning to end.

- Collecting cash
- Preparing the bank deposit
- Approving the bank deposit

- Recording cash entries in the accounting records
- Reconciling the bank statements
- Preparing monthly financial statements for the school board and administration

Security for records - The internal controls system should limit the access to and use of the assets and records of the cash receipts personnel.

The following is an internal control checklist for cash receipts.

- Are checking accounts authorized by the local board?
- Is the mail opened by an employee who does not make the bank deposit or have access to the accounts receivable ledger?
- Are cash receipts deposited intact daily?
- Is cash deposited by someone other than the person who prepares the bank deposit?
- Are cash receipts reconciled to accounts receivable records or cash receipts reports included in the accounting software?
- Are bank statements reconciled by someone outside the cash collections process?
- Are employees who handle cash bonded?
- Are vacations mandatory?

SUMMARY

Fortunately in Georgia LUAs, most large dollar amounts of revenue are received either through electronic funds transfer or check, therefore, reducing the risk of misappropriation of cash. Periodically, LUA finance staff should review the cash receipts processes to insure the integrity and efficiency of the processes in place. Chapter III-2 provides information regarding cash disbursements and Chapter IV-6 discusses the management of cash and investments.