

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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July 1, 1994	July 1, 1994	III	The Accounting Cycle Procedures
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3	May 2024	III-2	Cash Disbursements

INTRODUCTION

Georgia local units of administration (LUAs) issue many cash disbursements in a fiscal year. Normally checks are written or electronic transfers are made to vendors for goods and services and to employees. Most LUAs pay vendors according to a predetermined schedule, pay one primary payroll at the end of the month, and pay hourly employees usually weekly. The primary goal of an LUA's disbursement system is to schedule the payment of resources so that the maximum amount of monies are available for investment for the longest period of time, while paying all vendors and employees on a timely basis. This chapter discusses primary payments to vendors for goods and services. Chapter III-3 discusses the payroll process.

THE CASH DISBURSEMENTS PROCESS

The two primary methods that LUAs use to disburse resources are through a commercial bank check or an electronic funds transfer.

A commercial bank check is most widely used by Georgia LUAs and is the cash disbursement discussed in this chapter. A check is simply an order to pay money on demand to the payee from the LUA's bank account. Electronic funds transfers move monies from one bank to another electronically over datalines.

Normal Vendor Payment Process

Most LUAs have established disbursement patterns. Some LUAs pay invoices weekly, bi-

weekly or monthly. Normally an invoice should be paid within thirty days of receipt. However, many vendors provide payment discounts for prompt payment. LUAs should take advantage of any discounts if cash is available and the accelerated payment does not disrupt the normal cash disbursement process.

The process of paying vendors begins with the LUA's purchasing system. Normally the purchasing process includes the following steps -

1. The LUA issues a purchase order to the vendor,
2. The vendor provides the service or delivers the goods,
3. The LUA staff that receives the goods or services notifies the accounts payable personnel that the services or goods have been received satisfactorily. Normally, a receiving copy of the purchase order is signed indicating to the accounts payable staff that the invoice is ready to be paid.
4. The cash disbursement process begins when the LUA receives the invoice from the vendor and matches the invoice with the receiving copy of the purchase order signed as indicated above.

Rather than using a copy of the purchase order as a receiving copy, some LUAs send a copy of the invoice to the receiving department or school for verification receipt. If this process is used, a copy, not the original invoice, should be used. The advantage to this method is that the department or school confirms the amount of the invoice and the amount to be charged against their operating budget before it is paid. The disadvantage is that the disbursement process is slowed and could harm vendor relations because of late payment.

If the LUA has a purchasing department, normally the purchasing department should approve any increases in prices from the purchase order to the invoice. If the only difference is freight charges, often the accounts payable staff can authorize the increased cost.

Manually-Prepared Checks

Occasionally LUAs must make a payment on a manually-written check (sometimes called a hand drawn check) rather than on a computer-generated check. Exceptions to the normal invoice processing should be minimized and discouraged. Urgency should be the only justification for issuing a manually-prepared check.

INTERNAL CONTROLS

Accounting is the "heart" of an LUA's internal control system. It is critical that internal controls be in place to minimize the risk in disbursing monies.

Checks

Since checks are the lifeline of a cash disbursement system, care must be given in

maintaining and processing them. All checks issued by an LUA must be pre-numbered and each check number must be accounted for. If checks are voided, spoiled, or mutilated, they must be retained and properly filed to prevent reuse. All unissued checks must be maintained in a secure area to which only authorized LUA personnel have access.

Check Signatures

The persons signing checks should be employees other than those who:

- Maintain petty cash,
- Approve disbursements,
- Record cash disbursements,
- Post to the cash disbursements journal,
- Reconcile bank accounts,
- Mail checks.

This distribution of duties is known as "segregation of duties." This concept is one of the key components of internal control systems. Unfortunately in small LUAs, segregating duties often is difficult because of the limited number of LUA staff. In these cases it is often necessary to assign some of the above duties to non-fiscal personnel such as the Superintendent's secretary or an instructional employee in the central office. The segregation of duties is so important to maintaining a good internal control system that every effort must be made to utilize, if necessary, other non-fiscal central office employees to achieve that objective.

It is recommended that all checks must have two authorized signatures. Often the LUA superintendent and either the chief financial officer or the accountant are the staff members most likely to sign checks. It is recommended that the school board authorize individuals to sign checks.

If signature facsimiles are used, the signature plate must be properly secured and its use controlled. If an electronic signature within the accounting software is used, proper administrative controls should be in place to limit access.

Check Payees

Normally vendor checks are payable to businesses. On some occasions they might be payable to owners of businesses. Checks should never be payable to "cash". In no instances, should blank checks ever be signed, even though convenience makes this violation of internal controls very tempting. Prior to placing an order, a completed form W-9 (IRS) should be on

file for the vendor.

Outstanding Checks

Every attempt should be made to properly remit payment. As part of the bank reconciliation process, checks outstanding more than sixty days should be investigated. There should be a financial policy governing the disposition of outstanding checks that have not cleared the bank within a reasonable amount of time. Title 44, Article 5 of the Georgia Code refers to the process to be followed in the event property becomes unclaimed. Go to the Department of Revenue (DOR) website, <https://dor.georgia.gov/document/form/holders-filing-requirements-and-returns-abandoned-property-government-entities/download>, for details regarding different types of payments. Once checks are outstanding beyond the holding period specified by the Unclaimed Property Act, the check should be voided and submitted to the Department of Revenue according to instructions at the above referenced website. It is not acceptable to simply write the check off. If payment is remitted to DOR, documentation of the transaction should be kept.

Summary

1. Checks are written to vendors for goods and services and to employees
2. The two primary methods that LUAs use to disburse resources are through a commercial bank check or an electronic funds transfer
3. The process of paying vendors begins with the LUA's purchasing system.
4. It is critical that internal controls be in place to minimize the risk in disbursing monies.
5. Since checks are the lifeline of a cash disbursement system, care must be given in maintaining and processing them.
6. This distribution of duties when disbursing funds is known as "segregation of duties."
7. There should be a financial policy to govern the disposition of outstanding checks that have not cleared the bank within a reasonable amount of time.