



Overview

Merced County has established procedures outlining proper cash handling guidelines for County Departments to adhere to when handling cash. These procedures provide guidelines covering all cash funds and cash transactions under the control of County officials or employees. All Department Heads whose office accepts cash or checks for any purpose are responsible for ensuring that proper procedures for handling and accounting of cash are followed. Cash handling requires special control measures that must be monitored continually by supervisory personnel to detect any vulnerability.

Definitions

Cash Handling is defined as accepting, processing, safekeeping, and depositing of, coins and paper currency, checks (including traveler's checks and money orders), credit card transactions, e-commerce (electronic transactions) including automated clearing house (ACH), other debit and credit transactions, prepaid debit, gift cards, and gift certificates.

Legal Tender, also referred to herein as Cash, is United States coins and paper currency.

Negotiable Paper is defined as bank checks and express and post office money orders, per California Government Code 6151.5.

Procedures

1.0 General Internal Controls

- 1.1 Segregation of Duties:** It is advisable for different parts of the Cash Handling process to be assigned to different employees. For instance, one person can receive and record payments, another make the deposit, and a third reconcile the account. Segregation of duties provides the checks and balances necessary to ensure an efficient, accurate and secure Cash Handling system.
- 1.2 Security:** Departments shall record and control the access to and use of valuable assets, including Cash. Departments shall also control access to information technology systems that are used to process and account for transactions.
- 1.3 Physical Safekeeping Measures:**
 - a. Cash shall be kept in a secure place, such as a cash register, locked drawer, locked file cabinet or locked safe at all times, except when access is required to conduct County business.
 - b. The amount of Cash on hand should be kept to a minimum.

- c. Safes shall be kept in limited access areas, out of public sight and should be designed adequately to provide the appropriate level of security.
- d. Access to a safe shall be available only to authorized personnel.
- e. The combination to a safe (if there is one) should be changed whenever an employee who has knowledge of the combination terminates County employment, is transferred to another department, or is removed from Cash Handling functions.
- f. Precautions shall be taken when Cash is transported. Cash shall never be transported through interoffice transmittals or US Mail. Cash and checks shall be transported using a zipped and locked deposit bag in person.
- g. Transmittal records or receipts showing transference of custody shall be kept whenever Cash or checks are passed to the custody of another person. Sufficient records shall be kept to determine the composition of a loss of Cash or checks if a loss occurs. Records shall be kept for a minimum of five years.

2.0 Cash Collection

2.1 The County receives various funding sources, including:

- a. Revenues from taxes, permits, licenses, franchises, fines, penalties, forfeitures, use of monies and property, charges for services, miscellaneous fees, etc.
- b. Funds from State, Federal and other government agencies.
- c. Other financial sources.

2.2 County departments may accept any form of legal tender or negotiable paper.

- a. When receiving payment in Cash, County departments may accept any amount of paper currency and coin, but are not required by law to accept coin (the right to refuse coin is generally only exercised when the amount of coin presented is excessive and cumbersome to count).
- b. Negotiable paper is legally valid for the payment of debts. County departments shall accept negotiable paper in payment of amounts due.

2.3 County departments may accept personal checks for payments per California Government Code 6157, if the maker of the check shows satisfactory proof of California residence (such as a valid California Driver's license or identification card) and the personal check is drawn on a banking institution located in this state. The driver's license number or ID number shall be written on the face of the check between the payer's name and the date, and clearly labeled to indicate what it is.

2.4 County departments may not accept third-party checks. A third-party check is a check endorsed and negotiated by someone other than the check writer or original payee.

2.5 County departments may not accept prepaid Gift Cards and Certificates of any kind for payment, as prepaid Gift Cards and Certificates are not a form of Negotiable Paper.

2.6 All Negotiable Paper shall be stamped with a restrictive endorsement (i.e.: "For Deposit to Merced County Treasurer Only – Account of [agency]") immediately upon receipt, except for those accepted directly by the Treasurer's Office for electronic transmission to the bank for deposit to the County's account.

- 2.7** California Government Code 6159 allows the County to accept electronic forms of payment including Automated Clearing House (ACH) transactions, wire transfers, and credit or debit cards.
- 2.8** All incoming ACH and wire transfers shall be received in accounts maintained by the Treasurer's Office. It is the responsibility of the department receiving such funds to provide accurate information for incoming amounts in The County's accounting system and to notify the Treasurer's Office and the Auditor's Office prior to receipt of these funds.
- 2.9** When receipting an incoming ACH or wire transfer, the total deposit must equal the total amount received in the bank.
- 2.10** The Treasurer's Office is authorized to enter into any Financial or Service Agreement necessary and reasonable for the use of credit cards as a medium of payment. The Treasurer's Office shall maintain a contract with a bank for these services. Any department wishing to accept credit cards must contact the Auditor's Office and the Treasurer's Office for approval. The administrative fee to provide this function may be passed down to the cardholder.

3.0 Cash Collection Internal Controls

- 3.1** Personal checks, cashier's checks, and money orders made payable to the County shall be accepted for the exact amount due, with no Cash change given to the payer. Traveler's checks may only be accepted when they are being accepted as payment for service (taxes, legal filings, etc.), and only in an amount which is no greater than \$20 more than the cost of the service. At no time should change in an amount greater than \$20 be given for payment by Traveler's check.
- 3.2** No employee is permitted to commingle their own or any other person's private monies with County funds. In addition, County funds shall not be used to cash payroll checks or other personal checks. Employees shall not borrow money or issue personal IOU's in exchange for County funds of anykind.
- 3.3** At no time shall purchases or expenditures of any kind be made from Cash received by any County department. Employee personal funds shall not be used to reimburse shortages in County Cash funds. Any deliberate misuse, alteration, or falsification of documentation involving Cash or Negotiable Paper will lead to disciplinary action, up to and including termination.
- 3.4** It is critical that a cashier is trained to recognize any counterfeit bill (i.e., paper currency) which may be presented. When this happens, the cashier shall continue with the transaction as normal, but notate the payer's description, date and time and alert the Treasurer's Office. The Treasurer's Office shall forward the suspected counterfeit bill to the bank, who will contact the U.S. Secret Service. Should the suspected bill be counterfeit, the department will be directed to adjust the deposit.

4.0 Receipting Systems

- 4.1** A County receipt (either manual or cash register/machine generated) shall be issued to the payer for the exact amount of all money received for each transaction (payments received via mail will have receipts mailed upon request). In all circumstances, the date and time of the transaction must be

printed on the face of the receipt. The issuer of the receipt and mode of payment accepted shall also be clearly marked.

- 4.2** Receipts must be numbered and used in sequential order. All receipt numbers in a series, including voided receipts, must be accounted for. If a cash register is used, all register tapes and system logs must be retained for audit purposes.
- 4.3** When receipts are used, they are to be filled-out by the issuing department and signed by the department staff. A copy is to be given to the payer, a copy is to remain in the receipt book, and a copy is to be attached to the deposit support retained by the department. Receipt records shall be retained for a minimum of five years.
- 4.4** Cash register systems may be used in departments. Additional departmental internal control policies and procedures must be developed and followed for such use.
- 4.5** Automated systems are used for the receipt and control of monies received by departments which have a large volume of Cash receipt transactions. The Department Head, in coordination with the Auditor-Controller, is responsible for developing and adopting the necessary operating procedures to provide adequate controls for these systems. Such procedures should be based on the following general guidelines.
 - a. Each cashier shall be assigned a separate cash drawer or cash register till in order to segregate responsibility for Cash overages and shortages.
 - b. The cashier shall keep the cash drawer locked when not in use and be responsible for the Cash in the drawer.
 - c. At the start of each business day or shift, the cashier shall count and verify that the contents of the cash drawer equal their assigned change fund.
 - d. Transaction numbers should be assigned in numerical sequence.
 - e. A duplicate record of each transaction must be recorded on a tape or other medium in the system.
 - f. If a keying or distribution error is found on the permanent record, the employee shall:
 1. Correct the error;
 2. Make a brief explanation on the end-of-day paperwork; and
 3. Have the correction reviewed and initialed by the supervisor in charge.
 - g. Any employee performing a daily reconciliation shall reconcile the system end-of-day paperwork to the Cash receipts.
- 4.6** Departments are to store unused receipts in a secure location to prevent unauthorized usage. Unused receipts must be periodically inventoried by an employee who normally does not have custody of or issue such receipts.
- 4.7** To void a receipt, print the word "VOID" in large letters on the receipt. All copies of the voided receipt must be retained in the receipt book. To void a cash register receipt, the detail audit tape shall be annotated with the word "VOID" next to the corresponding entry. Regardless of the receipt system being used, once a receipt is voided, the immediate supervisor must initial the voided receipt.

- 4.8** It is not uncommon for departments to receive payments through the mail. When this occurs, the employee who opens and/or sorts the mail shall not prepare the deposit. If possible, the mail should be opened and/or sorted in the presence of two or more employees. The employee who receives payments by mail (remittances) must not also reconcile the cash receipts.
- 4.9** Receipt copies need not be sent for payments made by mail (unless the payer requests a receipt or the Auditor-Controller's Office directs that a receipt be mailed). They must, however, be kept in the receipt book or in the system.

5.0 Deposits

- 5.1** Under California Government Code 6153, all revenues collected by County departments must be deposited in the County Treasury as soon as practicable. Outside bank accounts shall be used only if permitted by law and authorized by the Board of Supervisors. Preferably, all money will be deposited directly into the County Treasury.
- 5.2** All money collected by County departments shall be deposited intact, i.e., in the same form and amounts originally collected. Cash on hand awaiting deposit may not be used to cash checks. County departments are permitted to accept checks and money orders only for the exact amount due. Deposits should be made regularly in order to minimize the duration Cash is retained in the department.
- 5.3** All receipts should be deposited daily, wherever possible, but never less than weekly. The total amount of receipts issued must be reconciled to the deposit and to the total amount of Cash and Negotiable Paper. This reconciliation must be performed by someone independent of Cash Handling and recording functions, wherever possible. Deposits shall be made by an employee other than the cashier or the person who issues receipts.

6.0 Depositing Procedures

- 6.1** The originating department shall prepare the deposit in The County's accounting system and indicate coding of the fund, budget unit, or cost center, and account into which the deposit should be credited and accounted. The department shall bring the deposit paperwork and deliver the funds to the Treasurer's Office for deposit. The Treasurer's Office shall verify the amount being deposited and approve the transaction in the County's accounting system.
- 6.2** In the event a department or district is not located in Merced County, the Merced County Treasury can provide deposit slips and the department may deposit the funds directly at a local preauthorized branch.
- 6.3** For departments or districts who routinely deposit large sums of Cash (over \$200,000 in a single deposit), the Merced County Treasury will provide deposit slips and the department must deposit the funds directly at a local branch. Additional fees for large Cash sum deposits may occur.
- 6.4** Credit card payments are completed only after a batch settlement is transmitted. All credit card payments must be settled and submitted for deposit on a daily basis. A Settlement Report must

accompany a completed deposit ticket. The Settlement Report is a summary of transactions for a specific date or date range, and lists the total number of transactions and the total dollar amount. Most Settlement Reports will subtotal by types of credit cards used, and distinguish between charges and credits or refunds.

7.0 Transportation of Funds and Deposit Responsibilities

7.1 Departments (Agencies):

- a. Are responsible for depositing receipts with the Treasurer's Office.
- b. Are issued a locking deposit bag by the Treasurer's Office.
- c. Shall prepare the deposit and lock the bag.
- d. Shall not allow the transporting employee to have access to the deposit bag key.
- e. Shall never place a deposit bag in the mail or interoffice mail, but deliver it in person.
- f. Shall maintain deposit bag in proper custody at all times (never leave the bag unattended).

7.2 Treasurer's Office:

- a. Shall not accept deposits delivered in an unlocked bag. In the event an unlocked deposit bag is delivered, the Chief Deputy Treasurer or Assistant Treasurer – Tax Collector shall be notified of the incident before the transporting agent leaves. The Chief Deputy or Assistant will notify the department involved to resolve the matter.
- b. Shall ensure the department, bag number, date, and time is listed on the bag log and initialed by the transporting agent and the person receiving the bag.
- c. Shall ensure received deposit bags are maintained in locked custody until processed.
- d. Shall not process deposit bags until a deposit entry is prepared in The County's accounting system.
- e. Shall adhere to the following for out-of-balance deposits: Cash will be verified at the time of delivery; if it does not match the submitted deposit in The County's accountingsystem, it will be refused and sent back to the department until a correction is made. Checks will be verified at the end of the day (11:00 AM); if a discrepancy is found, the department will be directed to correct the deposit in the County's accounting system or the deposit will be rejected and returned to the department.

8.0 Cash Overages and Shortages

8.1 The Auditor-Controller considers Cash shortages and overages to be a serious problem. Receipt of payments by a cashier is an important function that should follow set procedures in order to reduce or eliminate potential Cash overages or shortages. Cash discrepancies are a result of a breakdown in Cash Handling procedures. All shortages and overages must be accounted for and reported separately and must not be offset or netted against each other. Any cashier experiencing a Cash overage or shortage must report this fact to their supervisor immediately upon discovery. Except for overages and shortages pertaining to funds established under CA Government Code sections 29370-29390.1, overages and shortages shall be handled as follows:

8.2 Cash Overages

- a. All Cash overages (other than deposited funds outlined in section “d” below) must be entered into The County’s accounting system by recording the difference to Other Revenue-Cash Overage (revenue code 97998). Unless otherwise prescribed by law, overages of less than \$20 may be entered without notifying the Auditor-Controller’s Office. Cash overages of \$20 or more must be reported to the Auditor-Controller’s Office. Such reports should describe the facts and circumstances related to the overage, as known by the cash custodian and/or a supervisor, and must be forwarded to the Auditor-Controller’s Office no later than the close of business the day after the overage is discovered.
- b. All Cash overages, regardless of amount, must be deposited timely and intact, together with all other Cash receipts collected by the responsible department or agency.
- c. If the source of the Cash overage is made known to the custodian after deposit is made, the custodian shall initiate a claim for refund. Such refund claim must be verified and approved by authorized department personnel.
- d. If funds deposited in the Treasurer’s Office are accepted as whole but later identified by the bank to be over, then the amount of the overage shall be accounted for as an adjustment to the original depositor’s fund, if determinable. If the originating depositor cannot be identified then the overage shall be accounted for as an adjustment to the Treasurer’s fund.

8.3 Cash Shortages

- a. All Cash shortages (other than deposited funds outlined in section “d” below) must be entered into The County’s accounting system by recording the difference to Other Exp-Cash Shortage (expenditure code 33500). Unless otherwise prescribed by law, shortages of less than \$20 may be entered without notifying the Auditor-Controller’s Office. Cash shortages of \$20 or more must be reported to the Auditor-Controller’s Office. Such reports should describe the facts and circumstances related to the shortage, as known by the Cash custodian and/or a supervisor, and must be forwarded to the Auditor-Controller’s Office no later than the close of business on the day after the shortage is discovered.
- b. When shortages involve Negotiable Paper (i.e., a check is lost by County staff before being deposited), departments must contact the maker(s), notify them to put a stop payment on the original check, and request a replacement check.
- c. **Immediate notification to the Auditor-Controller’s Office is required in the case of suspected fraud, theft or gross negligence** so that it can be investigated and appropriate recommendations can be made to the Board of Supervisors pursuant to Government Code Section 29390. If theft or negligence is suspected, the Auditor-Controller’s office shall establish the amount of the loss and the circumstances surrounding the shortage. The Auditor-Controller shall issue a report, with recommendations, based upon the findings in the case. A copy of the report shall be sent to the Board of Supervisors and the District Attorney, as applicable.

- d. If funds deposited in the Treasurer's Office are accepted as whole but later identified by the bank to be short, then the amount of the shortage shall be accounted for as an adjustment to the original depositor's fund, if determinable. If the originating depositor cannot be identified then the shortage shall be accounted for as an adjustment to the Treasurer's fund.

9.0 Non-Sufficient Funds Checks (NSF Checks) and Other Returned Checks

- 9.1 The Treasurer's Office shall perform NSF check processes as allowed under the provisions of California Government Codes 6154 – 6157.

10.0 Imprest Cash

- 10.1 Imprest Cash is defined as a sum of money set aside for making change or paying small obligations for which the issuance of a voucher or warrant would be too expensive and time consuming. Imprest cash funds are available to those County departments having a justifiable need for establishing imprest cash funds.
- 10.2 The types of imprest cash funds used by Merced County departments are petty cash funds and change funds.
- 10.3 The use of imprest cash is restricted to making monetarily small expenditures and making change. Imprest cash funds must never be drawn for personal use nor employee reimbursements.
- 10.4 The department must exercise great care to provide for security of the imprest cash funds and to control and authorize expenditures from them. Furthermore, accurate and complete records and receipts must be maintained to substantiate all imprest cash transactions. Departments may at their own discretion increase the controls over the imprest cash funds over those outlined in this Policy and may impose limitations on imprest cash fund use.
- 10.5 Per Government Code 29321 and 29370, the Board of Supervisors may, by ordinance or resolution, authorize the County Auditor to perform the functions of the Board in establishing, increasing, reducing, or discontinuing any of the Revolving Funds and Change Funds, including an imprest cash fund. The Board may at any time increase, reduce or discontinue any revolving fund established by its order and the Board may at any time discontinue the Change Fund per Government Code 29330 and 29379, accordingly.
- 10.6 Establishment of an imprest cash fund
 - a. Departments which have a justifiable need for an imprest cash fund must submit a request to the Auditor-Controller which states how the fund is to be used, the amount required and the name of the proposed petty cash custodian(s).

- b. The Auditor-Controller's Office then reviews the Department's internal control policies and procedures and assists the Department with preparation of the related Board Agenda item.
- c. The Board of Supervisors may establish, by Resolution, an imprest cash fund for specific purposes in various departments. The Auditor-Controller's Office, upon Board approval, issues the necessary warrant payable to the imprest cash custodian.
- d. Any changes to the imprest cash custodian must be made in writing to the Auditor-Controller's Office.

10.7 Increasing, Decreasing or Discontinuing Imprest Cash

- a. Cash that is held in imprest cash funds is susceptible to theft or fraud and will only be authorized at a minimal level.
- b. When an increase in the imprest cash amount is required, the department must submit a request to the Auditor-Controller for the increased amount and should adequately justify the request. The process of increasing an imprest cash fund is the same as establishment of a new imprest cash fund.
- c. When the department wishes to reduce the amount of the authorization or the authorized amount should be discontinued completely, the department must submit a request to the Auditor-Controller to explain the reasons for decreasing or discontinuing the imprest cash fund. Cash in the amount of the reduction shall be returned to the Treasurer's Office. A copy of the deposit journal entry and deposit ticket must be submitted to the Auditor-Controller's Office. The necessary journal must be processed accordingly.

10.8 Change Funds

- a. A Change Fund is an imprest cash fund used to make change for the general public when necessary in carrying on a department's official work.
- b. Cash in Change Funds shall not be used to make purchases or expenditures of any kind.
- c. Cash in Change Funds shall not be used to make loans or advances to employees, department officials, or the general public.
- d. The custodian of a Change Fund shall be responsible for the following:
 1. Safe and secure storage
 2. Keeping the fund separate from all other funds
 3. Requiring the fund to be balanced daily
- e. Responsible department officials shall make unannounced surprise counts of these funds periodically. Authorized personnel from the Auditor-Controller's Office shall be permitted to conduct cash counts at any time during regular county office hours.
- f. Unusual or unexplained shortages or overages in Change Funds shall be reported to the Auditor-Controller immediately upon their discovery, so that the Auditor-Controller's Office may investigate in a timely manner. The Auditor-Controller will then make appropriate recommendations to the Board of Supervisors (i.e. relief of accountability for shortages or transfer of overages to the General Fund).
- g. The department official responsible for the fund shall report a count of the cash in the fund to verify that the amount on hand is correct as of June 30th of each year. A Statement of verification of Change Fund, which states that the balance of the Change Fund is verified by the department official or designee, and states the date that verification is done, must be sent to the Auditor's Office by July 31st.

11.0 Prepaid Debit Cards, Gift Cards and Certificates

11.1 Some departments distribute prepaid cards in order to aid clients that meet related program requirements. Prepaid cards are cash equivalent assets and shall be treated and considered as cash, and in like manner. This policy covers basic guidelines in dealing with prepaid cards and certificates. Each department head is responsible for developing and implementing the guidelines and procedures necessary to ensure proper controls over, and safeguarding and handling of, such cards and certificates in the department.

11.2 General Guidelines:

- a. Departments shall maintain adequate accounting records to ensure appropriate use of and accountability for all cards and certificates.
- b. Cards and certificates will be in increments of \$100 or less, with a maximum purchase amount of less than \$2,500 by the department from any one vendor at any one time, following the purchasing procedures of section 11.3 of this policy.
- c. Departments shall not split orders for cards to ensure each purchase remains less than \$2,500.
- d. Purchases of \$2,500 or greater shall be handled by the Purchasing Department and require advance written approval of the Auditor-Controller's Office.
- e. Prepaid cards shall not be utilized for County procurement purposes.

11.3 Internal Control Procedures

At a minimum, the following internal control procedures must be followed by the department that has a prepaid cards or certificates program:

- a) Each card shall be documented in an inventory, to include: department name, card number, card monetary limit, date received, distributing employee name, distributing employee signature, date distributed, client name, client signature and witness signature.
- b) An employee shall be designated as the custodian of prepaid cards and certificates. At all times, the custodian shall be able to account for the cards and certificates.
- c) Prepaid cards and certificates shall be kept in a secure, locked location (preferably a safe) to which access is limited to a minimal number of personnel.
- d) Cards and certificates on hand shall be reconciled on a monthly basis to those purchased and distributed to ensure that no cards or certificates are missing and to ensure the inventory amount is accurate. The reconciliation should be completed by someone other than the custodian.
- e) Card or certificate recipients must print and sign their name, and date the prepaid card or certificate request in order to document their receipt of the prepaid card or certificate.
- f) Departments must also follow any documentation requirements specific to the program or function for which they are distributing prepaid cards or certificates.
- g) In the event of a discrepancy in accounting records for prepaid cards or certificates, the incident shall be reported to the department's supervisory personnel immediately upon discovery. Any discrepancy of \$20 or more must be reported to the Auditor-Controller immediately for investigation.