**Cash Is King: The Importance of Monitoring and Controlling Cash**

**By John Poulopoulos, CPA, and Jennifer Birmingham, CPA**

September 2014 – We've all heard the proverbial saying "cash is king," but how does a business (or kingdom!) protect its king? Cash *is* critical and it is commonly used to determine the health and wealth of a business. Sufficient amounts of cash provide the necessary buying power to provide a stream of income to the business owners, keep it current on all its obligations, and purchase equipment when the business needs it most. If a company is short on cash, bills are not paid on a timely basis, payroll may be delayed, and relationships with vendors and employees deteriorate. Cash is also the asset that is most easily stolen, misreported, or mismanaged. We have identified certain cash controls that are often neglected and overlooked; however, without them, a company could fail.

Business cash inflows (income sources) and outflows (expenses) are keys to success, but only if monitored appropriately. Appropriate controls will vary with the size and complexity of the company. Monitoring cash can be addressed by considering the implementation of the following controls:

- Owners (or their appropriate representative, such as the CFO) should have business bank statements mailed to their home or another offsite location (or access them electronically), and should periodically perform a thorough review of the statements, including a review of payees and endorsements on checks, the frequency and amounts of deposits, and any other unusual transactions. Before handing the statements to the accounting department, it is also a best practice to make a copy of the original statements. As a business owner, reviewing the bank statements sets the tone that you are fiscally responsible for the well-being of the business, and that you have an eye on the cash inflows and outflows. Also, there is no risk of an employee making changes to the original bank statements to cover fraud or embezzlement, since the owner has a copy and has already seen it.
- Bank reconciliations should be performed on a timely basis, shortly after the bank statements have been received. After preparation of the bank reconciliation by accounting personnel, the owner or a member of management should review it for accuracy. The reviewer should compare the bank balances after the reconciliation to the copy of the original bank statement. The reconciliation should balance and the reviewer should ask about uncleared checks on the outstanding check list or deposits in transit older than a few days.
- If checks are received in the mail, one person opens the mail and lists the checks received on the deposit slip. Another person records the receipts to the accounting system, and a third person reconciles the bank accounts. This segregation of duties is a strong control option, and will minimize errors and deter the theft of cash receipts.
- To reduce the amount of time between receiving checks and depositing checks into your bank account, consider implementing an electronic deposit system. Paper checks are scanned by an electronic scanner provided by the bank and are automatically deposited into the bank account. Paper checks are destroyed once the monthly bank statements have been received and the deposits have been reconciled.

- A bank's lockbox service allows all checks to be sent directly to a special P.O. Box, instead of the business address. The bank receives the contents of the P.O. Box, opens the payments, and processes them for deposit directly into the bank account. Lockbox banking reduces the amount of time between a customer's payment and deposit into the bank account, and prevents any diversion of receipts at the source. Banks charge fees for this service.
- Cash registers and credit card machines should be balanced and reconciled daily. Any significant overages or shortages on these reconciliations should be investigated on a timely basis.
- The person who signs the checks should review all the accompanying documentation and ensure that the vendor being paid is an approved vendor. Depending upon the volume, consider having all checks manually signed.
- The person who signs the checks and releases wire transfers should be different from the person who has access to the blank check stock or has the ability to establish a wire transfer. Another individual should record these transactions to the accounting system. This system of segregating duties helps prevent collusion and misappropriation of cash.
- Owners should carefully consider who should be authorized as check signers on the business bank accounts. Consider obtaining background checks on the signers. Any changes in signers due to terminations should immediately be addressed with the bank.
- The use of a signature stamp on checks should be discouraged. However, many businesses feel one is necessary, in the absence of an authorized signer. The signature stamp should only be utilized on rare occasions, should always be kept secured, and should only be available to an individual who is bonded with an insurance company.
- A company may want to consider a dual-signature policy in which checks over a certain dollar limit require two signatures (e.g., two officers of the company).
- A company should establish an approved vendor list, which identifies those vendors who have been vetted to provide goods and services. As invoices are being processed, the vendors should be matched to the vendor list before being paid. Having an authorized vendor list can prevent employees from paying vendors who have not been authorized.

By considering and implementing some or all of the procedures described above, companies will have an increased awareness of cash, installed deterrents to theft and embezzlement, and informed owners who understand how cash is flowing through the company. If you would like more information about effective cash controls, Michael Silver and Company CPAs can help determine the best course of action for your specific situation.

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