



EASTWEST  
BANK

WEDNESDAY'S  
News You Can Use

# Cash Disbursements

&

# Internal Controls

Presented by: **Jesse Tamari**



Carl Vinson  
Institute of Government  
UNIVERSITY OF GEORGIA



# Today's Presenter

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Jesse is East West Bank's Cash management expert with over 10 years of proven track record in client relations, sales and business development.

His excellent understanding of cash management products/operations has allowed him to work extensively on critical projects including planning, development, UAT and successful roll-outs.

Jesse's specialties include Consultative and solution sales, Knowledge of a wide range of cash management solutions, Product development, support & management, Customer relationship management, Transaction banking, and Internet banking.

# Learning Objectives

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At the end of this session, you should be able to:

- Define Internal Control
- Identify Fraud Risk Factors
- Discuss Segregation of Duties
- Recall how to use cash disbursement controls in your online banking system

# Internal Control

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What are they?

# Internal Control

## Definition

Internal controls are the mechanisms, rules and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.

Besides complying with laws and regulations, and preventing employees from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

THE PROCESS TO PROVIDE REASONABLE ASSURANCE OF..

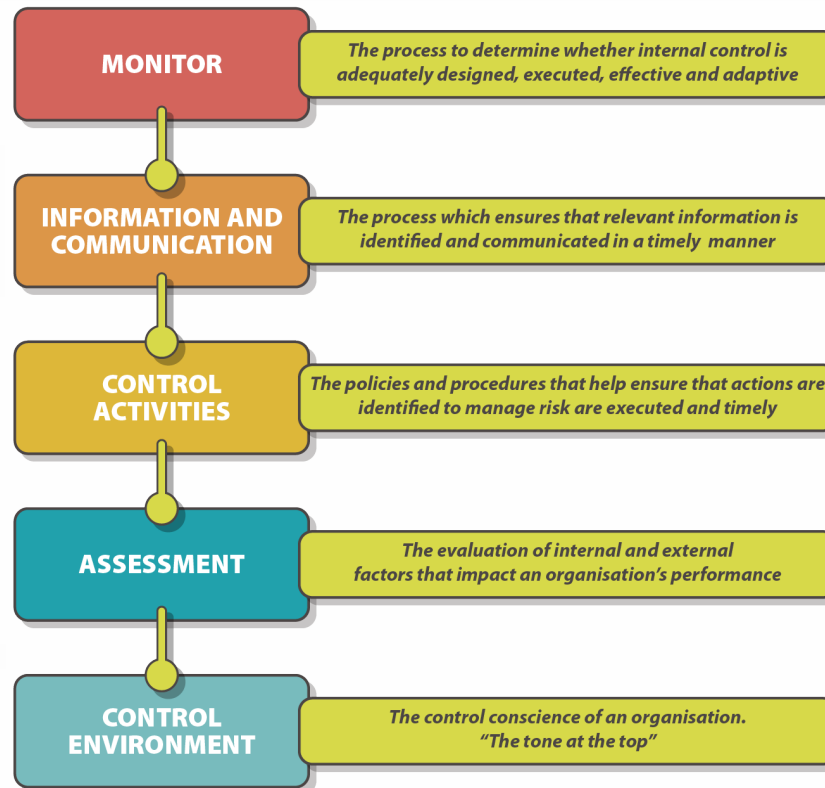
- **Reliability** (Ensure records are accurate and assets are protected)
- **Effectiveness/Efficiency** (Promote operational efficiency)
- **Compliance** (Encourage adherence to policies, rules, regulations, and laws)

**INTERNAL CONTROLS ARE USUALLY PREVENTATIVE**



# Internal Control FACTORS

The building blocks of internal controls



# Knowledge Check

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Internal control is a \_\_\_\_\_ effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives will be achieved.

- A. Process
- B. Procedure
- C. Law
- D. Requirement

# Fraud Risk Factors

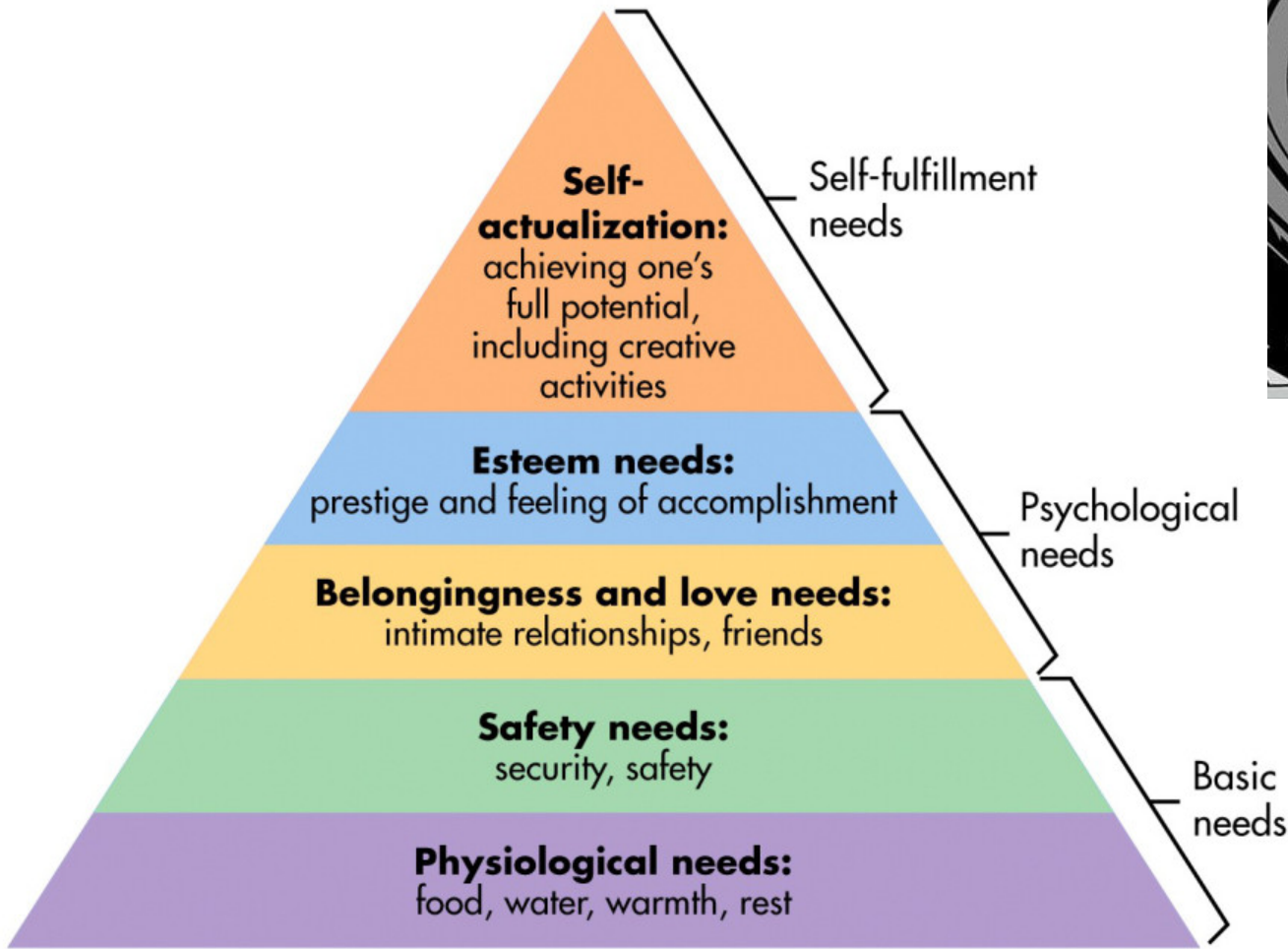
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And how to minimize risk





# FRAUD RISK FACTORS – Pressure



# MISAPPROPRIATION OF ASSETS

## RISK FACTORS

- Lack of Management Oversight
- Inadequate job applicant screening
- Poor recordkeeping
- Poor segregation of duties or independent checks
- Inappropriate transaction authorization and approval
- Poor physical safeguards
- Lack of timely and appropriate transaction documentation
- No mandatory vacation for control function employees

## EXAMPLES

- Large amounts of cash on hand or in process
- Employee access to easily convertible assets
- Inventory or capital assets that are small in size, high in value, or high in demand



# Material MISSTATEMENTS

## RISK FACTORS

- Transactions improperly recorded or not recorded completely/timely
- Unsupported/unauthorized balances or transactions
- Last-minute adjustments significantly affecting financial results



## EXAMPLES

- Missing document or photocopies where originals should be
- Unusual discrepancies between records and confirmation replies
- Significant unexplained items on reconciliations
- Inconsistent, vague, or implausible responses to inquiries or analytical procedures

# Compensating Controls

Management should play an active role in achieving compensating controls

- Review and analyze periodically reports of A/R aging, unpaid bills, and the income statement
- Ask questions – if you aren't sure what the petty cash custodian does with petty cash, ask
- Insist on timely reconciliation and review of bank accounts and reconciliation of subsidiary ledgers to general ledger
- Periodically change the person who reconciles the bank accounts

# Compensating Controls

- Cross-train employees to reconcile the accounts of another person
- Require employees who are involved in accounting functions to take a vacation of at least one week in length
- Require two signatures on checks in excess of certain amounts
- Consider outsourcing functions (payroll, preparation of bank reconciliations, etc.)
- Use a lockbox service
- Restrict access to inventory to only authorized personnel
- Unused checks and petty cash should be kept locked up in a restricted area with limited access

# Knowledge Check

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The fraud triangle includes

- A. Incentive/Pressure, Rationalization and Control Activities
- B. Rationalization, Segregation of Duties and Opportunity
- C. Opportunity, Periodic Audits and Rationalization
- D. Incentive/Pressure, Opportunity and Rationalization

# CASH DISBURSEMENTS TO VENDORS

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# CASH DISBURSEMENTS TO VENDORS

## GENERAL CONTROLS

- Bank accounts are authorized by the governing board or appropriate level of management
- Individual responsible for signing checks are authorized by the governing board or appropriate level of management
- Mechanical check signers and signature plate
- Dual signatures for checks over a certain amount
- Signing blank checks – good idea???
- Prohibit checks payable to cash
- All disbursements are made by check
- Positive pay
- Account reconciliation



# CASH DISBURSEMENTS TO VENDORS

## GENERAL CONTROLS

- Checks are not returned to preparer after signing
- Stale (old) checks are investigated periodically by individuals independent of accounts payable and cash disbursement functions
- Wire Transfers
  - Passwords for authorized users
  - Bank callback verifications
  - Specify accounts to be transferred to/from
  - Dual Control
  - Approval structure
  - Templets and recurring transfers

# CASH DISBURSEMENTS TO VENDORS

## PURCHASING CONTROLS

- Purchasing documents (POs, receiving reports, etc.):
  - Prenumbered
  - Sequence is accounted for regularly
  - Unissued forms are controlled
  - Retain voided documents
  - Approved vendor list
  - Documents are prenumbered: POs, receiving reports, debit/credit memos, shipping orders for returned goods
  - POs are reviewed to ensure the expenditure is within budget or other restrictions
  - Reconciliation reporting
  - Presentment reports
  - Outstanding reports

# CASH DISBURSEMENTS TO VENDORS

## CHECKS

- Prenumbered
- Sequence is accounted for regularly
- Unissued checks security
- Cancel and retain voided documents
- Use of check signer



## CHECK PROCESSING

- Prepared after proper matching to support documentation
- Support documentation is appropriately marked/canceled with the check number
- Signed by authorized signers
- Dual signatures obtained, if required
- Check for clerical accuracy, pricing, quantities received, brand name, etc. to the vendor invoice
- Check signer reviews all supporting documents
- Promptly recorded to the general ledger

# Electronic Disbursements to Vendors

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Segregation of Duties and General Controls

# ELECTRONIC DISBURSEMENTS TO VENDORS

## ELECTRONIC PAYMENT OVERVIEW

- Efficient and effective
- Federal & State are mandating the use for some tax receipts and payments to other government units
- Many vendors also require or encourage the use of electronic payments
- Taking advantage of its effectiveness and to meet the growing demands of citizens and taxpayers for more ease and accessibility in government services

## METHODS

- Fedwire – generally used for large dollar transactions
- ACH – used for batch processing
- EBT – electronic system allowing at a point of sale terminal or ATM
- Purchase Card

# ELECTRONIC DISBURSEMENTS TO VENDORS

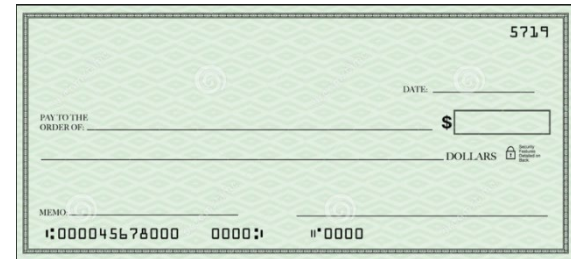
## SAFEGUARDS

- Strong internal & information technology controls
- Written agreements with banks & third parties
- Dual controls authorizing non-repetitive transactions
- Dual controls for establishment of repetitive transactions
- Establishment of dollar limits for authorized personnel
- Passwords for authorized personnel
- File receipt verification
- Pre-noting or testing ACH transactions
- Implementation and periodic review of internal controls that address:
  - Access controls
  - Confidentiality of data
  - Integrity of data
  - Any other security issues as appropriate

# ELECTRONIC DISBURSEMENTS TO VENDORS

## SAFEGUARDS

- **Positive Pay w/Payee** - powerful check fraud reduction tool that enables customers to compare checks that they issued against checks presented to bank for payment.
- **ACH Positive Pay** - fraud reduction tool that strengthens our customer's defenses by blocking unauthorized payments or filtering authorized payments



**Account Reconciliation** – streamline manual reconciliation process

# Payroll Function Controls

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# Payroll Function

## GENERAL CONTROLS

- Individuals involved in the preparation/processing of payroll should not have access to personnel records
- Individuals involved in the preparation/processing of payroll should be independent of time keeping and distribution of checks
- Payroll should be subject to final approval by someone independent of payroll preparation and time keeping
- Payroll checks should be distributed by someone independent of timekeeping and preparation of payroll checks

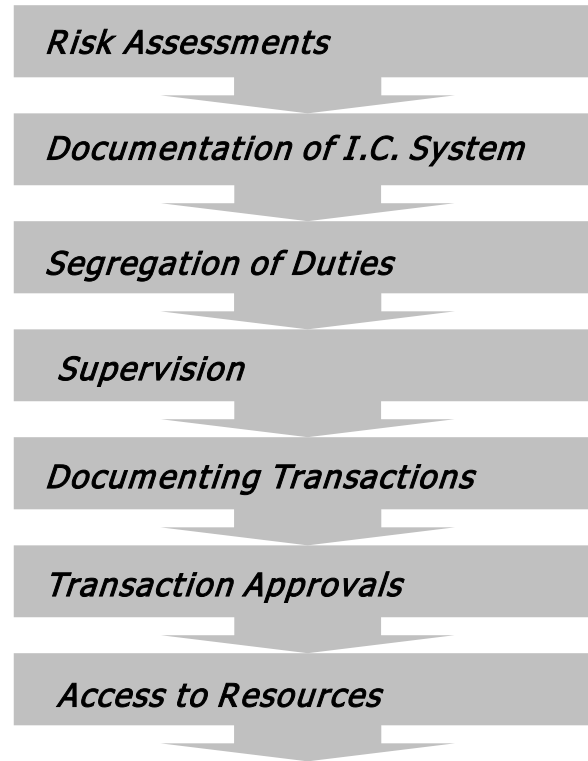
# INTERNAL CONTROL STRATEGIES

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Let's Set Things Right



# Internal Control Structure



# Policy Suggestions

- 1. Written policy signed by all employees**
- 2. Establish or outsource a whistleblower hotline**
- 3. Create rewards for whistleblowers**
- 4. Prosecute perpetrators**
- 5. Management sets example and encourages team effort to prevent fraud**

# Knowledge Check

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Which of the following is a preventative control

- A. Bank reconciliation
- B. Segregation of duties
- C. Issuing financial reports
- D. Periodic audits

# QUESTIONS?



Jesse Tamari

FVP-GTS Senior Sales Consultant

GTS Sales

[Jesse.Tamari@eastwestbank.com](mailto:Jesse.Tamari@eastwestbank.com)

Alisha Fulcher

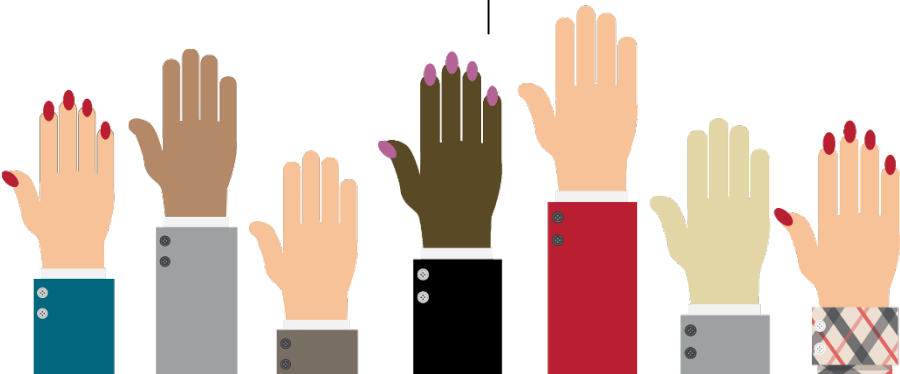
[Alisha.Fulcher@eastwestbank.com](mailto:Alisha.Fulcher@eastwestbank.com)

404.998.7338

Jim Browning

[Jim.Browning@eastwestbank.com](mailto:Jim.Browning@eastwestbank.com)

678.727.8152



# Thank You!



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