

Revenue Control and Management Policy: Payment Controls

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Revenue Control and Management Policy: Cash Receipts Controls*, approved by the GFOA in 2003 and 2007. Other sources used are footnoted in the text.

Recommendation

The GFOA recommends that municipalities include cash receipts controls as part of its revenue policy statement. Payment controls can help municipalities apply guidelines for delinquent penalties and related financial management decision making. Municipalities should include the following components in its payment controls policy:

- Internal controls;
- Depositing of received funds for services;
- Returned cheques;
- Billing practices;
- Escrowed funds; and
- Budgetary review responsibilities.

Purpose

Municipalities should provide appropriate mechanisms to collect all funds for services performed and ensure that proper controls exist over all payments. A payment controls policy can help a municipality develop strong financial management practices. A lack of proper controls over revenues may negatively affect the determination of budgeting, forecasting, reconciliations, and general oversight over the various revenues collected.

Background

Municipalities should include payment controls in its revenue policy in order to ensure that a consistent format is followed when handling the municipality's revenues and payments. In order to keep an accurate record of the funds, municipalities should establish a uniform process of handling receipts. By instituting controls and policies, municipalities should experience a reduction in errors, theft, and fraud. If controls and policies do not exist, it is easier for mistakes to go unnoticed, and for theft and fraud to occur undetected.

Considerations for Policy Developments

In order to develop comprehensive payment controls, municipalities need to include a variety of controls and policies to capture the aspects involved with payments. The more specific the policies and procedures surrounding payments in a municipality, the more control a municipality will have over the payment procedure. Municipalities should consider balancing the costs of implementing the controls with the derived benefits. *Appendix I* provides a description of general guidelines that should be included, while *Appendix II* provides a detailed description of the specific policies that should be included in a municipality's payment controls policy.

Appendices

Appendix I: General Guidelines of a Payment Controls Policy

Appendix II: Specific Components of a Payment Controls Policy

Appendix I: General Guidelines of a Payment Controls Policy

Municipalities should include standard policy guidelines when implementing a payment controls policy. There are general guidelines that can be applied to all types of payments. The following is a brief listing of how municipalities can adequately protect and back up computer files, implement internal controls, and establish a monitoring and evaluation system.

Adequately Protect and Back Up Computer Files

Municipalities should include how they are going to adequately protect and back up their computer files surrounding payments made to the municipality. Staff should have individual passwords, which only allows authorized persons to have access to receipts and bank statements. The use of passwords also allows for placing responsibility and monitoring accountability on an individual basis for any changes made to support programs and data files. Some software programs enhance password security by restricting certain types of transactions or access to certain records to authorized personnel. Passwords should be changed frequently and their use restricted to only those persons that they are assigned.

Secondly, a simple way of securing computerized records is to back up the data everyday and store the back-up files either in a fire proof container or at a different location. If data is lost without adequate back up files, not only would considerable resources be needed to reconstruct or regenerate the work, but it also increases the risk that assets would be more susceptible to loss or misuse without available accounting records to track financial activity.¹

Internal Controls

Municipalities should establish internal control standards and policies over payment receipts. The internal controls should include guidelines for adequate insurance coverage or conducting a rigorous background check on employees who handle cash, and establish objectives and guidelines necessary to help promote reasonable assurance over the protection and safeguarding of assets.

Procedures for implementing these policies, objectives, and guidelines should be established. This should involve specific procedures to address each item in the policy. The procedural steps should also include steps to monitor whether the provisions of the policy are being followed.² Internal control policies can range from broad to specific, depending on the complexity of the operations within the municipality. The more specific the policies, the more clear the procedures around these areas are to be performed exists. This will also create a uniform process, which can reduce errors and make errors more visible.

¹ State of New York Office of the State Comptroller Division of Municipal Affairs. [A Study of Cash Internal Control Practices for Local Governments in New York State](#). November 2000.

² Ibid.

Monitoring and Evaluation System

It may not be practical or cost-effective to have internal control procedures that specifically address every existing risk. Often when specific procedures do not address a specific risk, there are alternative or compensating controls in place that lower risk to an acceptable level. A properly functioning monitoring system that periodically provides cross checks or audits of pertinent functions is often the compensating control in place when specific procedures are not cost effective.³ Even though every aspect of payment controls may not be able to be controlled or have policies to control the activities, municipalities should regularly evaluate the process of payments. With random and regular checks, municipalities are more likely to reveal errors or fraud within the cash receipt system.

³ State of New York Office of the State Comptroller Division of Municipal Affairs. [A Study of Cash Internal Control Practices for Local Governments in New York State](#). November 2000.

Appendix II: Specific Components of a Payment Controls Policy

Beyond implementing computer back up files, internal controls, and a monitoring and evaluation system, municipalities need to implement specific policies dealing with the daily tasks surrounding payments. The potential for fraud and theft does increase with a lack of policies and controls, and properly implemented and managed policies can help prevent these challenges. The following is a list of policies and procedures that can be applied to cash, cheque, money order, credit card, debit card, and electronic online payments. The standard policies and procedures listed should be included in a municipality's payments controls policy.

Procedures for Issuing Receipts

- Receipts should always:
 - Have a unique transaction number;
 - Self-duplicating or using carbon copy paper; and
 - Recorded in a payment journal in numerical order.
- Receipts should include all pertinent information, clearly indicating the purpose of the funds.
- Send or give the original receipt to the individual, company, or organization.
- If the taxpayer does not request a receipt, it should still be prepared.
- Manual process of issuing receipts:
 - After writing a receipt, the quality of the copy should be clear and legible for the municipality's records.
 - If an error is made in writing a receipt or if the receipt must be cancelled, write 'VOID' across the receipt and staple the receipt to the office copy and leave in the receipt book. If the receipt has already been removed from the book, match it up with the corresponding copy in the book, and staple the two together and write 'VOID' across the receipt. In either case, ensure 'VOID' is written on both the receipt and the copy.⁴
 - When money is received in the form of a cheque or money order, the back of the cheque or money order should be immediately and always stamped on the back with "for deposit only to the credit of ..." and the name of the municipality.
 - In a computerized accounting system where manually produced receipts are issued on a temporary basis, these receipts should be clearly marked 'TEMPORARY'. The official receipts should be forwarded when available.⁵

⁴ Municipal Training and Development Partnership of Newfoundland and Labrador. Cash Handling Essentials for Municipal Governments A "Best Practices" Guide. The Royal Canadian Mounted Police. Fall 2000. <http://www.mpa.gov.nl.ca/mpa/pdf/CashHandlingManualWEBVERSION.pdf>.

⁵ Ibid.

Depositing of Received Funds for Services

- All payments should be made out to the name of the municipality. Any changes or corrections should be initialled on the face of the instrument.
- Remote payment sites may be established for the convenience of ratepayers. Documented and monitoring internal controls should be established at the individual collection sites.
- Non-remote payment information should be consolidated to a central office or system.⁶

Un-Deposited Receipts and Timely Bank Deposits

- Municipalities should protect un-deposited receipts by making regular and timely bank deposits.
- Receipts should be deposited in the bank on a daily basis or as soon as practicable from the date of receipt.
- If there are un-deposited receipts, they should be adequately safeguarded and stored in a secure device and location, such as a safe. Safeguarding of receipts with prompt deposits of those receipts increases the security of cash and reduces the risk of loss.⁷
 - Safeguarding could include dual custody of cash not yet counted, sealed bank bags, secure methods of transferring funds to the bank, and separate verification of bank deposits.
- Cash receipts should be deposited intact, and the total receipts should equal the total bank deposits.
- Cash receipts should be easily reconciled and traced to the bank statements and the general ledger entries by date of deposit, if they are deposited intact.⁸

Returned Cheques

- Cheques returned due to insufficient funds should be processed the day they are advised or received.
- Municipalities should charge ratepayers a fee for returned cheques. This should be clearly stated on the original bill the ratepayer received.⁹
- Municipalities should charge at least the minimum cost returning the cheque.¹⁰

⁶ County of Hanover, Virginia. Revenue Policy. 2007. http://www.co.hanover.va.us/finance/adopted/07/C_policyandreg-Revenue.pdf.

⁷ State of New York Office of the State Comptroller Division of Municipal Affairs. A Study of Cash Internal Control Practices for Local Governments in New York State. November 2000.

⁸ City of Saco, Maine. Cash Collection Policy. April 2, 1999. <http://www.sacomaine.org/archives/policies/pol-cash.pdf>.

⁹ County of Hanover, Virginia. Revenue Policy. 2007. http://www.co.hanover.va.us/finance/adopted/07/C_policyandreg-Revenue.pdf.

¹⁰ Town of Ajax, Ontario. Tax Billing & Collection 2007 Tax Bills. <http://www.townofajax.com/Page110.aspx>.

Restrict Cheque-Signing Devices

- When a mechanical cheque-signing device is used, the signature plate or stamp should be properly safeguarded and secured.
- Restricting custody of the signature plate or stamp will reduce the possibility for misuse and theft.¹¹
- Municipalities should maintain dual custody when in use.

Separate Record Keeping Duties

- Good internal control practices should ensure that one person does not control all key aspects of transactions.
 - For example, one person should not receive the funds, record the transaction in the accounting records, make bank deposits, prepare and disburse payments, or perform cash reconciliations.
- Although some municipalities may be too small to have separate duties for all payment tasks, only one employee should not complete the entire payment process. Increased supervision or job rotation can be alternative controls.¹²
- Job rotation can act as an effective tool to separate the duties without hiring more staff. Job rotation could occur on a regular basis, having financial duties rotated for 8-12 weeks and several times a year.¹³

Timely and Complete Accounting Records

- To be fully accountable, municipalities must establish and maintain adequate accounting records to identify, assemble, classify, record, and report their transactions.
- If accounting records are not complete and up to date, errors or irregularities that have occurred will be difficult to identify and correct, and can potentially be discovered by the payee or subsequent audit.
- Decisions based on incorrect or past accounting reports can lead to poor decisions.
- Municipalities should implement controls to ensure that accounting records are completed within the time frames established, and that one or more technically competent municipal employees review the accounting records.¹⁴

Reconcile Bank Statements to Accounting Records

- To help ensure that transactions are recorded accurately and that funds have been properly accounted for, reconciliations should be performed each month, at minimum. If volumes dictate, daily reconciliations may be advisable.

¹¹ State of New York Office of the State Comptroller Division of Municipal Affairs. [A Study of Cash Internal Control Practices for Local Governments in New York State](#). November 2000.

¹² Ibid.

¹³ Municipal Training and Development Partnership of Newfoundland and Labrador. [Cash Handling Essentials for Municipal Governments A “Best Practices” Guide](#). The Royal Canadian Mounted Police. Fall 2000. <http://www.mpa.gov.nl.ca/mpa/pdf/CashHandlingManualWEBVERSION.pdf>.

¹⁴ State of New York Office of the State Comptroller Division of Municipal Affairs. [A Study of Cash Internal Control Practices for Local Governments in New York State](#). November 2000.

- A proper reconciliation should involve comparing bank statement balances to municipal payment book balance recorded in the accounting records.
- Differences disclosed in the reconciliation process may be indicative of errors or irregularities, and should be promptly investigated.
- These reconciliations should be formally documented and retained on file to be available for audit purposes. The receipts should also be reconciled with the bank deposit statements.¹⁵
- Without timely and regular reconciliations performed, a municipality's financial resources are at greater risk of undetected errors, fraud, or theft.¹⁶

Establish an Investment Record

- To help track and properly monitor investment activity, municipalities should keep an investment record. An investment record should show:
 - Each certificate of deposit purchased;
 - The respective amount for each fund;
 - The place where it is kept;
 - The rate of interest;
 - Dates and other details of acquisition and disposition; and
 - Amounts received from the disposition of the investment.
- The maintenance of an investment record should provide the municipality with information to properly monitor and account for investments and facilitate the preparation of periodic cash reconciliations.¹⁷
- Municipalities are required to follow the Municipal Government Act (MGA) when investing funds. The following is Section 100 from the MGA:

Investment of Funds

- 1) *Funds in a sinking fund, capital reserve fund, utility depreciation fund, or other fund of a municipality shall be*
 - a) *Deposited in an interest bearing account at a bank doing business in the Province;*
 - b) *Invested pursuant to an investment policy adopted by the council and approved by the Minister; or*
 - c) *Invested in investments in which a trustee is permitted to invest pursuant to the Trustee Act.*
- 2) *Income arising from the investment of a fund is part of that fund unless the council otherwise provides.*
- 3) *The council may pledge any investments to the credit of the capital reserve fund as collateral security for a borrowing for a capital purpose.*

¹⁵ City of Saco, Maine. Cash Collection Policy. April 2, 1999.

<http://www.sacomaine.org/archives/policies/pol-cash.pdf>.

¹⁶ State of New York Office of the State Comptroller Division of Municipal Affairs. A Study of Cash Internal Control Practices for Local Governments in New York State. November 2000.

¹⁷ Ibid.

Prepaid or Performance Guaranteed Funds

- Funds received by the municipality in advance of revenue recognition criteria or funds that are anticipated to be remitted back in relief of meeting performance guarantees or prepaid funds, such funds should be recorded in a separate account.
- Prepaid or performance guarantee funds will only accrue interest back to the individual account if explicitly stated in the policy agreement, otherwise the prepaid funds should accrue interest to the general fund.
- Upon the municipality meeting the criteria for revenue recognition, such prepaid or performance guaranteed funds should be transferred and recognized as revenue in an applicable fund, in a timely manner.
- For those performance guarantees, such funds should be returned back upon compliance or retained in meeting established municipal procedures for the use of those funds.¹⁸

¹⁸ County of Hanover, Virginia. Revenue Policy. 2007. http://www.co.hanover.va.us/finance/adopted/07/C_policyandreg-Revenue.pdf.

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