

Sample Two Person Cash Expenditure Process

Even a small entity will probably have three individuals to have full separation of duties. However, if it is not possible to separate the three functions, additional controls and reviews will need to be put into place. Prenumbered vouchers, which should be used for all cash systems, become especially important when staff is limited. For example, here is what a two-person set up might look like for a cash disbursement function:

1. A request for payment arrives and is reviewed by the accounting clerk. S/he certifies that the goods or services have been received and prepares a prenumbered payment voucher for the manager. (RECORDING)
2. The manager approves the payment voucher. (AUTHORIZING)
3. The accounting clerk prepares the payment – check or cash. (CUSTODY)
4. The manager signs the check or initials the cash payment and ensures the payment is made. (AUTHORIZING)
5. The accounting clerk records the transaction in the books. (RECORDING)

The accounting clerk has **custody** of cash and checks and **records** cash transactions. This is a control risk. An unscrupulous accounting clerk could prepare and record a cash transaction to him/herself. A mitigating control measure is to use prenumbered payment vouchers that are signed by the **authorizer**. These prenumbered vouchers must be accounted for and reconciled to actual, approved cash transactions regularly. Such a system would catch errors as well as discourage our unscrupulous accounting clerk from attempting to steal funds.