

Cash management and petty cash for Vermont

Public Libraries

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Cash Management

The importance of safeguarding moneys in the form of currency, coin, and checks cannot be overstated. Money in your library must be controlled. In accounting lingo, the steps you take to protect the cash coming into and exiting your library are referred to as **internal controls**. Your reputation *depends* on doing these things “right” in a transparent fashion.

Effective internal controls over cash handling include the following:

1. Adequate segregation of duties,
 2. Supervisory review,
 3. Independent reconciliation of financial and deposit information, and
 4. Written procedures that guide the process.
- Segregation of duties means that each step in the process, from accepting to depositing money and the reconciliation of accounts, is done by a different person. This is an essential control structure that protects against fraud by making it harder for any one person to misuse funds. Perhaps as importantly, it is transparent and leaves no *question* about whether the till is safe because people who are interested can “follow the money trail” from customer to the bank to the ledger.
 - Supervisory review means that there is a person where the “buck stops.” This person is responsible for keeping the library on track with the process and insuring that roles are functioning as intended.
 - Independent reconciliation means that a different person compares the deposit slips to the revenue taken in and everything is “copasetic,” so that money does not go missing.



- Written procedures are rules of engagement when anyone comes into contact with money. They describe how to handle it, how to store it, how to get it to the bank, and how to keep your auditor happy as a clam in mud.

What you need:

1. A pre-numbered duplicate receipt book or a cash register with a working register tape mechanism [otherwise, revert to receipt book].
2. A good cash box and place to lock it away. Safes are recommended, as long as they are secured properly [e.g., internally bolted to the floor].
3. Someone to reconcile the cash box on a regular basis; daily, weekly, monthly, bi-monthly, or quarterly.

Common sources of revenue include the following:

1. Sales, including items like t-shirts, mugs, or used books;
2. Fees, such as lost book replacement or late fees; and
3. Charges, for example photocopier or printer use.

A printed sign for clientele at the front desk (or where you accept payments) that states “A receipt will be provided for all payments!” will help underline the relationship between money taken and recordkeeping. It will serve as a reminder to the customer and the employee that there is a process. This will further reduce cash management risks associated with the transaction.

A word about segregation of duties. Embezzlers slink into their sordid life of crime more easily when they have little blocking their way. Or, put more humanely, better employee “decisions” are made

when the organization follows due diligence in managing money¹. Of course, illegal activity is illegal activity, and any embezzlement is the embezzler's responsibility. However, organizations that create – and follow – a cash management policy and protocol including segregation of duties will reduce the likelihood of embezzlement. The following example describes segregation of duties, includes supervisory review, and is all tied up with a lovely bow on top by independent reconciliation and review.

You will see that I have three different “employees” involved in the sequence, below. This is not possible for most libraries, but you should strive to do your best. There should at least be a segregation of duties between the front desk where the money is received and the deposit and reconciliation. This is where trustees, particularly the treasurer, enters the stage. The treasurer of your library has a vital role to fill in making sure the till is safe.

Cash Management instructions

Here's an example of a cash management protocol with notes. As always, your approach may be slightly different depending on the size of your library, how many employees you have, and the cash flow coming into your coffers.

Employee #1; this will be the employee/volunteer at the desk, or wherever the “point of sale” is, at any given time. When they receive cash or checks, they:

- ✓ Restrictively endorse checks. It would be great if you had a stamp to use, because that would serve as a constant reminder. Otherwise, train your employees to write “for deposit only Town of _____, or _____ Public Library” on the back of the check where the



endorsement area is found. On second thought, buy a stamp!

- ✓ Write a receipt. Use a receipt book with carbon copies. The customer receives the original receipt, just like they would at any business. If the customer doesn't want a receipt, you write it anyways and recycle/toss the original.



- The [yellow] carbon copy stays in the receipt book. If you have a cash register, all the better. Make sure it prints receipts and carbon copies, or you'll be back to writing receipts manually.
- ✓ The sequential carbon copies left in the receipt book become the **transaction log**. This transaction log total for the period must equal the deposit for the period. See “Employee #2” for more, below.

As I noted earlier, revenues may come from different sources. If you wish to keep track of source, and I suggest you do, then each receipt will have a notation about the source. “Book sales,” “t-shirt sales,” “overdue fees,” and “photocopying and printer charges” are examples. These data may be kept in a separate Excel spreadsheet or paper ledger for tracking purposes. All subtotals must equal the grand total (total deposit) for every period of time (i.e. for every period in which the transactions are reconciled – see “Supervisory Review” below).

Eventually, you'll have to make a deposit. This is especially pressing if you have checks, because handling checks in an expeditious manner is a matter of good management for you and the customer. Deposit checks as soon as possible. Additionally, the more money you have on hand, the more risk you carry. Therefore, cash-management policies may have a deposit threshold of a certain amount. For instance, if you have \$200

Commented [S31]: I've never once been offered a receipt while paying library fines.

¹ UVM Employee In Newport Charged With Embezzling \$45,800. March 16, 2011. [Caledonian Record](#).

(or other) on hand in the cash box, you must make a deposit. Or, if you have lower amounts, you may go to a calendar basis, e.g., deposits made every last Friday of the month.

- ✓ Fill out deposit slip, for total the cash and checks.
- ✓ Give checks, cash, and deposit slip / total to **Employee #2** to take it from there.

Employee #2 takes the cash and deposits it, being sure to obtain a deposit receipt. Depending on what type of library you are, municipal, community, or incorporated, Employee #2 (or trustee or volunteer):

- ✓ Securely transports the cash and checks to the bank, or to the town treasurer for deposit.
- ✓ NOTE that securely is an important word. This usually means that *two* people go together to make the deposit. However, this is an impractical rule at small libraries, so secure means *aware* of your surroundings and going *directly* to the town office or bank with no stops between the library and your moneys' destination.

Supervisory review; total receipts = deposit total

Employee #3 is the "supervisory review" portion of this and may be the director or a trustee, most likely the trustee treasurer. The job is relatively simple. The amount of the deposit receipt (received from the bank or the town treasurer) must equal the total of the transaction receipts (from the receipt book) for the period (since the last deposit). The totals must agree with each other.

I have seen situations where we have *more* money in the cash box than we have in the receipt book. How can this be? The most likely answers may include a math error (please count again!), a miscount of money received to the less (e.g., customer gives \$2.75, employee writes \$2.25 on

receipt), or the employee just forgot about writing a receipt. What to do? Just keep up the training, learn from mistakes, and go forward!

Having more money in the cash box than you should is a better problem to have than if receipts total more than what's in the cash box. If you find yourself with *less* money than you should, we could predict that there was a math error. For instance; the fee is \$2.75, customer hands over \$15.00, customer receives \$13.25 of change in error and neither party notices. The deposit *has to equal* the receipts logged. Who is responsible? Technically, it is the director. That written, I, as treasurer, have written checks for very small amounts to the town to fill the gap. This is not embezzlement, these were just process errors. Just keep up the training, learn from mistakes, and go forward! Bigger gaps are bigger problems, of course, and will require research and corrective action.

Petty cash

Petty cash is what is usually referred to as money "in the cash box." The official definition of petty cash, or an "imprest account", states in part that this is "an account into which a fixed amount of money is placed for minor disbursements."²

As such, petty cash is used to make change for customers, or used to buy small items when you need them, like postage, or muffins for the day's meeting -- but only in exceptional cases when using the organization's credit card, completing a purchase order, or requesting a check is not feasible or practical.

Petty cash management goes hand-in-hand with the cash management process described in the proceeding pages. The key difference is that you decide on a "base level" of cash-on-hand after the end of each month or quarter reconciliation. It is *restored* to a fixed amount periodically.

² <https://www.statelibraryofia.org/ld/k-p/new-lib-dir-man/money/budget-mgmt#petty-cash-funds>, accessed May 20, 2020.

Your library is unique; it could be that you have a daily deposit protocol if cash is coming through the door in significant amounts, perhaps weekly. If you're like one of the many smaller libraries with proportionally small revenues, then it could be deposited monthly or bi-monthly.

The table to the right side of this page is an example of a small municipal public library with about \$1,000 worth of revenue per year, mostly from photocopying and lost or damaged book replacement. The library reconciles the "books" bi-monthly. At the end of each two month period, the treasurer adds up the money in the cash box, matches the revenues to the revenue notebook (the ledger), and matches the expenses to the receipts found in the cash box. Because \$40.00 is the level at which the petty cash fund is *restored* to, the treasurer knows that the total amount counted is equal to the revenues, less the expenses, less the \$40 beginning balance.

Let's look at this library's March and April revenue and expenses from the petty cash box.

On March 1:

- The **cash box began with the restored base amount: \$40.00** (row 1, in Table 1).
- In March and April the ledger book recorded \$121.25 in photocopying, and \$30.00 in payments for damaged and lost books. **Total revenue = \$121.25 + \$30.00 = \$151.25** (row 2).
- The treasurer also finds two receipts in the cash box -- \$10.00 from a local bakery and \$5.00 from a local store, line item is crayons. **Total expense = \$10.00 + \$5.00 = \$15.00** (row 3). Both receipts have a hand-written note stating that the business purpose was the "children's' program".
- The cash box will equal \$40.00 + \$151.25 - \$15.00 = **\$176.25** (row 4)
- The treasurer restores the cash box to **\$40.00** (row 5).

- The treasurer now has **\$136.25** (\$176.25 - \$40.00) to take to the bank to deposit (row 6).

Row	Table 1. Reconciling the petty cash box	Amount
1	Beginning balance March 1:	\$40.00
2	Revenue recorded in notebook:	\$151.25
3	Two receipts, totaled:	\$15.00
4	Cash in cash box counted:	\$176.25
5	Ending balance April 31 – cash box restored to \$40.00	\$40.00
6	Bank deposit:	\$136.25

Example of a written petty cash process

You can find many library petty cash policy and procedure examples on the Internet. Here's a modified one from a small Vermont *municipal* public library-- again one that handles about \$1,000 in revenue per year.

1. A bound notebook will be kept that accounts for all library cash receipts.
2. Cash is defined as currency and checks.
3. The notebook will record date cash received, what service or item it was received for, and the amount.
4. The cash will be kept in a locked cash box in a locked cabinet or desk drawer after hours.
5. The "restored" funds in the cash box upon reconciliation will be \$40. This amount is allowed as cash-on-hand due to the occasional likelihood of miscellaneous small expenses like educational program costs.
6. All expenses greater than \$25.00 must be made using standard purchase protocols as determined by the library (and town).

7. Expenses may be made from cash-on-hand. Documentation required includes:
 - a. Full itemized receipt
 - b. Clear statement of business purpose of expense
 - c. No sales tax may be paid (employee must “eat” this amount. Sorry, that’s the “cost” of using cash in a pinch.) The library, of course, could use a standard set of vendors in the area that have their non-taxable status on record. In that case, the vendor will be able to exempt your purchase from sales tax.
8. Reconciliation of photocopies and revenue must be completed within one business week of the end of bi-monthly period.
9. Printout of number of copies made “for sale” from photocopier will be used to reconcile photocopying reimbursement.
10. Board of Trustees Treasurer will double-check each bi-monthly period’s record with reasonable timeliness.
11. Cash-on-hand greater than \$40 will be submitted to the Town Treasurer for deposit with reasonable timeliness.

If you want to take a deeper dive into selected fiscal guidelines and working documents, the Internet has many examples as noted, including:

PDF of the Cranbury (NJ) Public Library [financial policy manual](#).

PDF of Henry County (KY) Public Library’s [financial policies and procedures](#), including riveting reading on cash drawer policy.

The State Library of Iowa has a short but lucid account of [petty cash funds](#) that is always in the top ten lists of “must read” petty cash thrillers.

For further reading on Vermont public library budget and human resource topics please visit my [UVM Extension website](#). For further, further reading, please bookmark the [Vermont Department of Libraries](#) landing page for library directors.

Business purpose. A bookkeeper, accountant, financial manager, or auditor will examine an expense in a very particular way. In order for them to “allow” the expense, it must have a clear business purpose. To that end, I recommend writing the business purpose on the invoice, receipt, purchase order request, or other relevant document. When you follow this advice, the person who is responsible for paying, approving, or otherwise reviewing the expense can see why you bought the item.

An example is a receipt from a bakery. If there’s no note saying something like “for attendees at today’s educational program (see flyer, attached),” the reviewer will not know why you bought the items. The default assumption on the part of the skeptical (it’s in their job description) bookkeeper is that you were hungry and held an unfortunate (for you) belief that donuts were a well-deserved library employee perquisite. And then you’d have some explaining to do. Save everyone’s time – write down the business purpose of every expense that isn’t obvious to the most ill-informed.

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