Revolving Funds

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County Auditor-Controller

Governed by:

- Government Code Section 29320-29334
- Board Resolution No. 74-156
Revolving Funds

What is a Revolving Fund?
An authorized amount of cash in the form of currency, a bank checking account or both.

Why Do We Use Revolving Funds?
• Expedited Purchases
  – Outside normal A/P processing
• Change Drawers
  – Parking Garage
• Travel Advances
  – Prior approval by Department Head
Revolving Funds

Do We Use Revolving Funds For Services?
NO! The revolving fund should not be used to pay for services, (e.g., medical, repairs, pest control), unless it is an absolute emergency.

IRS Income Tax Regulation Section 6041
The Auditor-Controller Office is required by law to issue 1099s for services over $600 in a calendar year.
**Revolving Funds**

**How is a Revolving Fund Established?**
An AR-1 Form is submitted to the Auditor-Controller’s Office for approval.
Roving Funds

Where is the AR-1 Form Located?

Auditor-Controller’s Office Website:
http://www.auditorcontroller.org/opencms/index.html

* Under Std. Practice Manual/SPM Forms

Revolving Funds

What is an AR-1 Form?
An AR-1 Form is a formal request to establish, increase, decrease or discontinue a revolving fund.
Revolving Funds

AR-1 Form Requires:
An Officer from the department to state the need or reason for the request, the amount and the name of the custodian.

Revolving Funds

Who is an Officer?
An “officer of the county” includes any elective or appointive officer of the county, and any person in charge of any office, department, service or institution of the county.
Revolution Funds

Who is a Custodian?
A custodian is designated by an officer of the county and is responsible for maintaining control over the revolving fund.

Revolution Funds

Who Approves Disbursements?
• Purchases from a revolving fund must be approved by an authorized person.

• The authorized person cannot be a custodian, check signer, or have any reconciliation duties.
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Revolving Fund Supporting Documentation
Before reimbursing an employee for purchases, the custodian is to refer to the D-1 Policy and examine all supporting documents for appropriateness.

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What is the D-1 Policy?
The D-1 policy establishes procedures and standards for reimbursements related to travel, and other actual and necessary expenses incurred by county officers, employees, and other authorized persons.
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Do We Use the Revolving Fund to Reimburse Employee Expense?

• **NO!** Lodging, transportation, meals, and mileage should apply to the D-1 policy.
  – Employee reimbursements should go through the normal A/P process.

Replenishment Requirements:

• Revolving fund replenishment voucher
• Original receipts with date
• Justification
• Employee expense report if travel advance is issued (Refer to D-1 Policy).
• Summary sheet of all items being replenished.
• Approved voucher by Department Head.
Revolving Funds

How Often Should the Department Submit a Voucher to ACO for Replenishment?

• At least once in a quarterly basis.
• Preferably monthly if there is a lot of activity.
• Do not wait until the end of the year.

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• On Form AR-1, if the you check YES on question #2 that there will be a checking account, you will also be required to complete SPM Form AP-5 “Request to Establish a Checking Account”
• The checking account should have at least two signors (Custodian can not be a signor)
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Checking Account Reconciliation

• Should be reconciled monthly.
• Should be reconciled by an independent person with no revolving fund duties.
• Should include check number, payee, date and amount.
• An inspection of cancelled checks for signature and proper endorsement is necessary.

• Unusual reconciling items should be brought to the attention of management.
• Reconciliation should be initialed and dated by preparer and reviewer.
Revolving Funds

Revolving Fund Reconciliation

• Should be reconciled in a monthly basis.
• Should be reconciled by an independent person with no revolving fund duties.
• The same person reconciling the checking account can reconcile the revolving fund.
• The revolving fund should reconcile to the checking account balance.

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Revolving Fund Reconciliation

• Unusual reconciling items should be brought to the attention of management.
• Reconciliation should be initialed and dated by preparer and reviewer.
Revolving Funds

Cash Overage and Shortages:
If a department is missing a receipt or has an overage or shortage in their revolving fund they are to notify the Auditor-Controller’s Office by using the following forms:

- SPM Form AR-3 Daily Cash Overage and Shortage
- SPM Form AR-4 Monthly Cash Overage and Shortage

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SPM Form AR-3 Cash Overage/Shortage Daily Report
Revolving Funds

SPM Form AR-4 Cash Overage/Shortage Monthly Report

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Where are the Cash Overage and Shortage Forms Located?

Auditor-Controller’s Office Website:
http://www.auditorcontroller.org/opencms/index.html

* Under Std. Practice Manual/SPM Forms
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SPM Form AR-3 and AR-4 Requirements:
• The SPM Form AR-3 and AR-4 are due two weeks after the close of the month and MUST be signed by a Department Head. (Refer to Policy #710)

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SPM Form AR-3 and AR-4 Requirements:
• Department will list the date, fund, department id, account, amount and explanation for the overage and/or shortage.
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SPM Form AR-3 and AR-4 Requirement:
• Departments cannot use the Revolving Fund to replenish a Shortage in other funds. By doing so they are commingling the funds (Internal Control Handbook).

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SPM Form AR-3 and AR-4 Requirement:
• Quarterly, departments will be reimbursed for shortages. A Form 11 is prepared and taken to the board within 60 days from the end of the quarter.
Rrevolving Funds

SPM Form AR-3 and AR-4 Requirement:

• Shortages will be handled as follows:
  – To replenish shortages the department will provide a vendor code, warrant payable to, and an address on SPM Form AR-4.
  – Departments with Shortages of $20 or more are required to notify the Auditor-Controller’s Internal Audit Division (Refer to Section III Policy# 3)
Revolving Funds

SPM Form AR-3 and AR-4 Requirement:

- Overages will be handled as follows:
  - All overages must be returned to the fund that initially established the revolving fund.
  - The Treasurer Cash Receipt (TCR) number must be notated on the SPM Form AR-4.

Revolving Funds

What is a Matrix?

The matrix ensures that internal controls are in place. It allows the department to separate certain duties from the custodian, and makes certain the funds are being handled appropriately.
Matrix

<table>
<thead>
<tr>
<th>Employee Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>x</td>
</tr>
<tr>
<td>x</td>
</tr>
</tbody>
</table>

Legend for Segregation of Duties Matrix (Employee Name/Title)

- A: ACO Custodian
- B: ACO Custodian Supervisor
- C: ACO Accounting Tech
- D: ACO Accountant
- E: ACO Accountant Supervisor
- F: ACO Department Head
- G: ACO Department Head
- H: ACO Department Head

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Internal Controls:

- For internal controls we recommend departments to **Review** their **Vendor ID** and make sure that the replenishment warrant is made out the department name not the custodian name.
- SPM Form AP-7 is used when establishing a new vendor id.
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Internal Controls:

• The Auditor Controller’s Office will be reviewing each revolving fund account individually to determine if the funds are being utilized.

• The Auditor Controller’s office has the authority to increase, decrease, or discontinue a revolving fund. (Government Code 29321.1)

What is Required at Year End?

California Government Code Section 29321.1 requires the Auditor-Controller to render a written report to the Board of Supervisors at the end of each fiscal year identifying the revolving funds in existence during the fiscal year, the amount of such fund, and the officer using the fund.
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Board of Supervisor’s Written Report Requirement:
• Schedule W
• Treasurer's Office List
• A Form 11

Revolving Funds

Schedule W
• Identifies:
  – Fund and department
  – Treasury number
  – Revolving fund amount
  – Location
  – Custodian
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Treasurer’s Office List
- Contains:
  - Treasury number
  - Department name
  - Revolving fund amount
  - Custodian
- The Treasurer’s Office list is compared with Schedule W

Revolving Funds

Form 11
- The Form 11 is submitted for approval to the Board of Supervisors.
  - California Government Code 29321.1
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Discontinuance of a Revolving Fund

- The Custodian must request and obtain reimbursement for all unreimbursed expenditures.
- A check or cash must be returned to the Treasurer’s Office.
- The Treasurer will sign the AR-1 Form approving the discontinuance of the fund.
- The signed AR-1 Form will then go to the Auditor-Controller’s office to close out the account in the PeopleSoft, General Ledger Module.

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Questions

The End