

Date: [Date]

To: [Management Name/Board of Directors]

From: [Auditor/Internal Controller Name]

Subject: Management Letter: Deficiencies in Petty Cash Disbursement Controls

Dear [Management Name],

In connection with our recent audit of the financial statements for the period ended [Date], we reviewed the internal controls regarding petty cash disbursements. Our objective was to ensure funds are handled securely and transactions are recorded accurately.

During our review, we identified the following deficiencies and offer recommendations for improvement:

1. Lack of Supporting Documentation

Observation: Several disbursements were made without original receipts or invoices attached to the payment vouchers.

Risk: Risk of unauthorized or fraudulent payments and inaccurate financial reporting.

Recommendation: No petty cash should be released without a valid original receipt. All vouchers must be cross-referenced to supporting documents.

2. Inadequate Segregation of Duties

Observation: The petty cash custodian is responsible for both authorizing payments and performing the monthly reconciliation.

Risk: Errors or misappropriation of funds may go undetected.

Recommendation: A person independent of the petty cash handling process should perform and sign off on monthly reconciliations.

3. Missing Approval Signatures

Observation: We noted instances where petty cash vouchers were processed without the required department head approval.

Risk: Potential for budget overruns and non-business related expenditures.

Recommendation: Strictly enforce the policy that all vouchers must be signed by an authorized manager before the custodian releases funds.

4. Physical Security of Cash

Observation: The petty cash box was found unlocked and stored in an accessible area during business hours.

Risk: Increased risk of physical theft of cash.

Recommendation: Keep the petty cash fund in a locked box inside a secured safe or cabinet, with access restricted only to the designated custodian.

This communication is intended solely for the information and use of management and is not intended to be used by anyone other than these specified parties.

Sincerely,

[Your Signature]

[Your Title]