

[Date]

To the Management and Board of Directors

[Company Name]

[Company Address]

Subject: Management Letter on Internal Control Deficiencies Over Cash Disbursements

Dear [Name],

In connection with our audit of the financial statements of [Company Name] for the year ended [Date], we considered the company's internal control over financial reporting. During our audit, we identified certain deficiencies in internal controls specifically related to the cash disbursement process that we believe merit your attention.

1. Lack of Segregation of Duties

Observation: We noted that the individual responsible for preparing checks also has access to the vendor master file and performs the monthly bank reconciliation.

Risk: This concentration of duties increases the risk of unauthorized or fraudulent payments being issued and concealed.

Recommendation: Responsibilities for check preparation, vendor file maintenance, and bank reconciliations should be assigned to different employees.

2. Missing Supporting Documentation

Observation: During our testing, several disbursements were found to be missing original invoices or formal approval signatures.

Risk: Payments may be made for goods or services not received, or for amounts that have not been verified.

Recommendation: No payment should be processed without a "three-way match" (purchase order, receiving report, and vendor invoice) and a visible approval stamp from the department head.

3. Untimely Cancellation of Invoices

Observation: Paid invoices are not consistently marked as "PAID" upon issuance of the check.

Risk: This increases the likelihood of duplicate payments for the same invoice.

Recommendation: All supporting documents should be immediately stamped "PAID" or perforated once the disbursement is processed.

These comments are intended solely for the information and use of management and the Board of Directors and are not intended to be used by anyone other than these specified parties.

We would like to thank your staff for their cooperation during our audit. We are available to discuss these findings and assist in implementing the recommended improvements.

Sincerely,

[Your Name/Audit Firm Name]

[Title]