

[Date]

To: [Owner Name/Board of Directors]

[Business Name]

[Business Address]

Subject: Management Letter - Internal Control Recommendations for Cash Handling and Segregation of Duties

Dear [Recipient Name],

In connection with our recent review of your financial processes, we are providing recommendations to strengthen your internal controls, specifically regarding cash handling and the segregation of accounting duties.

1. Segregation of Duties

Observation: Currently, a single individual is responsible for [e.g., receiving cash, recording transactions, and performing bank reconciliations].

Risk: Lack of oversight increases the risk of errors or intentional misappropriation of funds remaining undetected.

Recommendation: Responsibilities should be divided among different employees. Ideally, the person who handles physical cash should not be the same person who records the entries in the accounting system or performs the monthly bank reconciliation.

2. Cash Receipting and Deposits

Observation: [e.g., Cash is not deposited daily or is kept in an unsecure location].

Risk: Undeposited funds are susceptible to theft or loss.

Recommendation: All cash and checks received should be logged immediately upon receipt. Deposits should be made intact on a daily basis. Use a locking safe for any funds held overnight.

3. Bank Reconciliations

Observation: [e.g., Bank reconciliations are not reviewed by management].

Risk: Discrepancies between bank balances and book balances may go unnoticed.

Recommendation: A person independent of the cash handling process should perform the reconciliation. Furthermore, the business owner should review and sign off on the completed reconciliation and the original bank statement each month.

4. Petty Cash Oversight

Observation: [e.g., Petty cash vouchers are missing or not reconciled].

Risk: Small amounts of cash can be misused over time without proper documentation.

Recommendation: Maintain a formal petty cash fund with a fixed balance. Require a receipt for every disbursement and perform periodic surprise counts of the fund.

We are available to discuss these recommendations in further detail and assist with the implementation of these controls.

Sincerely,

[Your Name/Firm Name]

[Title]