

# Cash

Suggested procedures for reviewing and testing Cash.



# Cash

A well performed collateral examination will provide the following

- ✓ **Analytical review** of key areas that includes:
  - ✓ **Year to year comparisons and trend analysis** of key performance metrics.
  - ✓ **Explanations for fluctuations** noted in any of the above performance metrics
- ✓ **Substantive testing to verify:**
  - ✓ Authenticity, existence and valuation of balances reported
  - ✓ Existence of internal controls and proper procedures



# Cash

The analytical review portion of a Cash exam consists of the following procedures

- Cash Receipts - Analysis of Deposits
- Cash Disbursements- Analysis of payments made



# Analysis of Bank Deposits

W/P: Analysis of Bank Deposits										
W/P Summary		Month								
Source	Jun	Jul	Aug	Sep	Oct	Nov	Total	Avg/Mo.		
A/R (lck Bx)	1301	1450	879	1526	1328	0	6,484	1,080.7		
Invest. Account	448	345	311	336	283	0	1,723	287.2		
Other	11	1	3	4	1	0	20	3.3		
0	0	0	0	0	0	0	0	-		
0	0	0	0	0	0	0	0	-		
0	0	0	0	0	0	0	0	-		
0	0	0	0	0	0	0	0	-		
0	0	0	0	0	0	0	0	-		
Bank Stmt	1,760	1,796	1,193	1,866	1,612	0	8,227	1,371.2		
Notes: November Bank Stmt not received										
Omit 000's		Sources								
Month	Day	A/R (lck Bx)	Invest. Account	Other						Total Deposit
	Jun	1301	448	11						1760
	Jul	1450	345	1						1796
	Aug	879	311	3						1193
	Sep	1526	336	4						1866
	Oct	1328	283	1						1612

Bank deposits are analyzed to ensure that all sources of cash are appropriate. Results of this procedure **can identify diverted customer payments, fixed asset disposals, receipt of insurance proceeds.**

## Analysis includes:

- Identification of all sources of cash
- Identification of AR or other cash not deposited properly



# Cash

The substantive testing portion of a Cash exam consists of the following procedures

- Cash receipts reconciliation
- Cancelled check review
- Bank Reconciliations/Proof of Cash



# Analysis of Cash Receipts

W/P: Cash Receipts Analysis																	
W/P Summary		3 Month				6 Month				Notes:							
	Jun	Jul	Aug	Total	Sep	Oct	Nov	Total									
Gross Cash	1,301	1,450	879	\$ 3,630	1,526	1,328	1,125	7,609	\$11M under freight for 6/97 is actually \$10M is Sundry Income, \$1M is "promotion"  \$4M for Sep is actually a tote Deposit								
Cash Dil.	-	-	-	\$ -	-	-	-	-									
Cash Dil/Gr. Cash	0%	0%	0%	0%	0%	0%	0%	0%									
Net A/R Cash	1,301	1,450	879	\$ 3,630	1,526	1,328	1,125	7,609									
Non A/R Cash	459	346	314	\$ 1,119	340	284	-	1,743									
Total Cash Coll.	1,760	1,796	1,193	\$ 4,749	1,866	1,612	1,125	9,352									
Comparison Prd	24																
OMIT 000'S		Analysis of Cash Dilution						Analysis of Non A/R Cash									
Row#	Month	Gr Cr. to A/R	Disc	C/B's	W/O's	Freight	Other	Cash Dil.	Net A/R Cash	Inv Acct Freight	Trans	Ins Ref	Total Non A/R	Total Coll'd	Amount Lender	BOM I/T to BNY	EOM I/T to BNY
1	Dec 95	1,023						0	1,023				-	1,023			
2	Jan 96	1,113						0	1,113				-	1,113			
3	Feb	956						0	956				-	956			
4	Mar	1,055						0	1,055				-	1,055			
5	Apr	1,309						0	1,309				-	1,309			
6	May	1,217						0	1,217				-	1,217			

The analysis of cash is completed to reconcile the gross credit to AR to the actual amount deposited. **Results can indicate poor internal controls, dilution that occurs at the time of cash application, diverted cash**

## The procedure includes:

- Reconciling reduction of A/R to net cash received.
- Identifying components of cash dilution.
- Identifying components of non-A/R cash.
- Identifying cash not forwarded to lender (full dominion accounts).

# Analysis of Canceled Checks

W/P: Cancelled Check Review				
		<input checked="" type="radio"/> Sort By Dollar Amount (Descending) <input type="radio"/> Sort Exceptions First (Descending \$)		
<b>W/P Summary</b>	<b>Total</b>	<b>Top Ten Cancelled Checks</b>		
Total \$ Disbursed	-	<b>Vendor/Payee</b>	<b>Check #</b>	<b>Date</b>
Total \$ Analyzed	-	0	0	<b>Amount</b>
Total % Analyzed	-	0	0	<b>Explanation</b>
Total # Analyzed	-	0	0	-
<b># of Exceptions</b>	<b>0</b>	<b>\$ Value of Exceptions</b>	<b>0</b>	-
<b>Notes</b>				
Examiner visually reviewed cancelled checks for the three months ended 10/97. No exceptions were noted.				
<b>Vendor/Payee Chk #</b>	<b>Month</b>	<b>Date</b>	<b>Chk Amt</b>	<b>Exception (y/n) ?</b>
				<b>Docmntation</b>
				<b>Explanation</b>

The analysis of cancelled checks is completed to ensure that disbursements are proper and for business purposes. **Results can indicate improper payments, unusual payments, and held checks. It can also be used to verify specific payments.**

## The procedure includes:

- Tracing payments to underlying documentation including the cancelled check, the vendor invoice, and receiving documentation
- Comparing the invoice due date to the check date and cleared date
- Identifying major disbursements
- Identifying unusual disbursements



# Bank Reconciliation/Proof of Cash

<b>W/P:</b> Bank Recs				was 8/97-10/97. \$64M difference in Aig is a correction from July.										
<b>Bank:</b> Chemical Operating Acct														
<b>Date:</b> Oct-97 G/L Acct #: 006-01 Sep-97 G/L Acct #: 006-01 Aug G/L Acct #: 006-01														
	<b>G/L</b>	<b>Bank</b>	<b>Diff.</b>	<b>G/L</b>	<b>Bank</b>	<b>Diff.</b>	<b>G/L</b>	<b>Bank</b>	<b>Diff.</b>	<b>G/L</b>	<b>Bank</b>		<b>G/L</b>	<b>Bank</b>
<b>BOM Balance</b>	125	125	0	34	34	0	148	84	64					
<b>Net Cash Received:</b>	1611	1621	-10	1865	1866	-1	1129	1193	-64					
<b>Net Cash Disbursed:</b>	1708	1701	7	1774	1775	-1	1242	1242	0					
<b>Other:</b>			0			0			0					
			0			0			0					
<b>EOM Balance</b>	28	45	-17	125	125	0	35	35	0	0	0		0	0
<b>Out Standing Checks:</b>	16													
<b>Deposits I/T:</b>														
<b>Other</b>														
<b>Adjusted Balance:</b>	44	45		125	125		35	35		0	0		0	0
<b>Difference</b>		-1			0			0						0
<b>Outstanding Checks:</b>														
<b>Payee</b>	<b>Date</b>	<b>Number</b>	<b>Held Amount:</b>		<b>Deposits I/T</b>		<b>Other</b>		<b>Explanation</b>					
Fed Tax		31-Oct	<b>Amount</b>	<b>Held? (y/n)</b>	<b>Date</b>	<b>Amount</b>	<b>Date</b>	<b>Amount</b>						
			16 n											

The bank reconciliation review is completed to ensure that the company's bank reconciliations are complete and timely. **Results can indicate unapplied cash, poor internal controls, held checks**

## The procedure includes:

- Analyzing the company's bank reconciliations and understanding reconciling items
- Agreeing cash balances, cash receipts and disbursements to bank statements



# ECG Enterprises, Inc.

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Please feel free to contact ECG Enterprises to arrange for a collateral examination.

ECG is a new and young company, built on Greg Isenberg's extensive experience in the commercial finance industry.

ECG specializes in **protecting lenders by designing and implementing audit programs** that:

- Identify collateral risk lenders may not be aware of
- Identify favorable and unfavorable trends in a borrower's financial and/or collateral performance
- Provide relationship managers with strategic information not readily available elsewhere.