cash accounting and custodial funds

# standard operating procedure

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| **USOP NO:** | 1.01 |
| **SUBJECT:** | **Custodial Funds** |
| **SOURCE:** | Office of the University Controller, Cash Accounting |
| **ORIGINAL DATE OF ISSUE:** |  |
| **DATE OF LAST REVISION:** | 6/11/2024 |
| **RATIONALE:** | A Custodial Fund may be established when university funds are needed but normal financial procedures (purchase order, Purchasing Card, etc.) cannot meet the needs of the specific situation. Custodians are responsible for establishing adequate controls over the security, accountability, and proper use of the funds. The actual handling of the cash may be delegated in some cases, but the responsibility for the fund remains with the Custodian. If money is missing, immediately contact the Custodial Fund Coordinator for guidance (see contact information section). Also refer to the university policies: Custodial Funds policy FIN-ACC-560 and Fiscal Misconduct policy FIN-ACC-30.  The custodian is personally responsible for obtaining reimbursement for all disbursements and returning the cash in full at the close of the project. If a university grant account is involved, funds must be returned prior to the expiration of the grant account. It is strongly advised that the custodian contact the [Custodial Funds Coordinators](#_Custodial_fund_contact) for further guidance on the operation of a Custodial Fund, particularly if a checking account or international currencies will be involved.  All funds are reviewed annually by the Office of the University Controller (UCO) or the IU Indianapolis Budget Office to confirm that each fund is still needed. It is the ongoing responsibility of the custodian to maintain detailed records to support the operations of the fund. |
| **PROCEDURE:** | tYPES OF cUSTODIAL fUNDS  * **Change Fund:** Established for the sole purpose of making change for customers. The authorized amount should not exceed what is needed to support required cash drawers. * **Petty Cash Fund:** Established for departmental use for incidental and emergency purchases where alternative means (e.g. Procurement Cards) are not feasible. The authorized amount should never exceed one month's transactions. The use of this type of fund is determined on a case-by-case basis. * **Revolving Fund:** Cash advances to a custodian for use in the operation of a contract, grant, study program, or similar endeavor. The project must be one that due to geographical separation or other acceptable reasons cannot use the normal university procedures of using BUY.IU for payments. The authorized amount should never exceed two month's transactions. If you are paying human subjects, please contact [Human Subjects/IRB Compliance Services](https://research.iu.edu/compliance/human-subjects/index.html).  Establishing a fund Contact the Custodial Fund Coordinator to obtain a New Custodial Fund Agreement Form. This form must be completed by the individual interested in being a custodian. This form must contain the following information:   * Type of Fund being requested (petty cash, revolving, change fund, etc.) * Purpose of Fund * How the Fund will be safeguarded * KFS Account information * Amount being requested   According to the Custodial Fund Policy [FIN-ACC-560](https://policies.iu.edu/policies/fin-acc-560-custodial-funds/index.html):  "A custodian must be an employee of the university who is a faculty member, unit head, or fiscal officer. The custodian must accept personal responsibility for the safety, proper usage, and return of the funds entrusted. The actual handling of the fund may be delegated in some cases, but responsibility for the fund remains with the custodian.”  There may be exceptions to this, but a custodian cannot be a student. They must be a full-time employee. The handling of the fund can be delegated to a graduate student, but the responsibility remains with the custodian.  The agreement must contain the signature of the custodian, fiscal officer, and account manager. If a grant account will be charged for fund expenses, the contracts & grants analyst must also sign to approve the fund. If you have any questions about the form, please contact the Custodial Funds Coordinators.  After reviewing the department’s request, the [Custodial Funds Coordinators](#_Custodial_fund_contact) will either approve a revolving fund or suggest alternatives available within the normal procurement systems of the university (procurement cards, BUY.IU check requests, internal billing, operating loans or operating advances).  Upon fund approval, the Custodial Funds Coordinator will establish the Fund Custodian as a supplier within BUY.IU and initiate a check request to establish the fund. The check will be sent to the custodian’s address listed on the agreement form (BUY.IU supplier address.) The Supplier ID generated will be used for all future reimbursements for this Custodial Fund to properly track fund activity. If a change needs to be made to the custodian’s BUY.IU supplier profile, the department should **not** initiate a BUY.IU Supplier Edit Request Form. This task should only be done by the Custodial Funds Coordinator after receiving the Custodial Fund Modification Form from the Fiscal Officer. Operating a Fund Listed below are the steps that need to be followed in order to operate a Custodial Fund properly:   1. Receive initial disbursement check that created the Custodial Fund.    * If the requested payment method is "W", a Wire Transfer Fee will be charged to the departmental account for the fee involved. A consent form may be required for wires sent out of the USA. 2. Cash the check at IU Indianapolis Banking Services or via a [Change Order Request Form](https://uabur-fireform.eas.iu.edu/online/form/authen/changeorderreq) for Bloomington campus. It may take 7 to 10 business days to receive a change order after submitting the fireform. In general, Cash Accounting no longer approves direct deposit setup for a new custodial fund. Exceptions for ACH deposit for custodial funds must be approved by the Office of the University Controller.    * For campuses other than IN and BL, contact the campus bursar or finance office for cashing instructions. 3. Store the funds on campus in a secure place. Funds should not be stored at the custodian’s home or personal checking account without the fiscal officer’s approval. A custodial fund of $20,000 or more should not be stored in a personal checking account and must utilize an IU account. If a checking account must be used, the Fiscal Officer must contact the Office of the Treasurer to open an IU custodial fund checking account. 4. Use the cash from the fund for the approved purpose.    * The university is exempt from Indiana Sales Tax. This tax should not be paid on purchases. When making a purchase, provide the seller with IU's Sales Tax Certificate number 003123294. A copy of the exemption certificate can be found here: <https://controller.iu.edu/services/suppliers/st-105>    * Disbursements are **not** to be made for:      + Frequent purchases from the same vendor, which can be handled by use of a blanket purchase order      + Hospitality      + Payments to individuals for wages (Unless specifically allowed by the Office of the Vice President and General Counsel and the Office of the University Controller tax department)      + Personal cash advances      + Cashing personal checks    * For more guidance refer to [IU Purchasing Policy](https://purchasing.iu.edu/policies/policies.php). 5. Submit receipts for approved expenses to the fiscal officer or delegate in your department for the fund reimbursement processing in BUY.IU.    * Your department will create a BUY.IU check request using the original BUY.IU Supplier ID number assigned when the Custodial fund was created.    * The Payment Reason should always be "Revolving Fund Reimbursement".    * Enter the total amount for which you have receipts. Each receipt must clearly show the seller's name, date of purchase/service, and a description of items purchased or service performed. In the event a receipt is lost, the Custodian must include a signed explanation and the same information that is required for receipts. Continued submissions without receipts may result in closing the fund.    * For more guidance on submitting receipts for reimbursements refer to [SOP-PURCH-17 Check Request](https://purchasing.iu.edu/policies/pdf/SOP-PURCH-17-Check-Requests.pdf)  (Please choose Revolving Fund Reimbursement Form under Check Requests).    * Expenses submitted for reimbursement should be broken down into the appropriate expenditure by object code. Do not use general, vague, miscellaneous object codes if a more detailed one exists which will accurately reflect the nature of the expenditure being reimbursed. 6. Receive the check for your submitted receipts and proceed through this list again beginning with item number 2 to replenish the custodial fund. 7. Contact the Office of the University Controller tax department ([taxpayer@iu.edu](mailto:taxpayer@iu.edu)) for reporting information for payment for services (including payment to research participants) exceeding $400 per year, per recipient. 8. Contact IU Purchasing to obtain a signed/approved Professional Service Agreement Form before making payments of $5,000 or more (single payment or total of several payments) to a foreign individual or entity.    * This also applies to payments of $10,000 or more to a domestic entity. 9. Contact the Office of the Vice President and General Counsel and the Office of the University Controller tax department ([taxpayer@iu.edu](mailto:taxpayer@iu.edu)) to get approval before making compensation payments to individuals working overseas.  Modifying a Fund There are several reasons a Custodial Fund would need to be modified. Here are a few examples:   * Custodian change * Request for increase in fund * Change in account number * Purpose of fund changes * Closing or Decreasing a Fund * Change in contact, phone, email, etc.   To report these changes, the Custodian needs to contact the [Custodial Funds Coordinators](#_Custodial_fund_contact) to obtain a [Modify Custodial Fund Agreement Form](https://fms.iu.edu/cash-control/custodial-funds/custodial-fund-forms/). This amended agreement will act as the formal agreement between the Custodian and the university. Closing a Fund Listed below are the steps that need to be followed to close a Custodial Fund properly:   1. To begin the fund closure process, the custodian should contact the Custodial Funds Coordinator to obtain a Modify Custodial Fund Agreement Form. 2. There are different procedures for returning funds    * For remaining funds in the form of currency, the currency must be sent to the campus bursar to be deposited into the UCO account (e.g., 1008001). Contact the applicable campus bursar for specific deposit instructions. Please check if your campus requires IU Police transportation for currency.    * For remaining funds in a personal or university bank account, write a check payable to Indiana University for the unspent funds and deposit it to the UCO account (e.g., 1008001) with the campus bursar. Contact the applicable campus bursar for specific deposit instructions.    * For funds that were spent and not reimbursed, process a check request in BUY.IU for the appropriate amount. The account used in the check should be the department’s fund expense account. The check must have **special handling** instructions for it to reach the Office of the University Controller.      + Special Handling Instructions        - Check the “special handling box”        - Set the special handling campus to BL        - Instructions Text 1: “Issue payment by check only, send to the Music Practice Building, 1024 E. 3rd St.”        - Instructions Text 2: “Contact custfund@iu.edu when the check is ready.”      + *UCO completes the cash receipt document for this method.* 3. Complete a cash receipt document for the return of funds and provide the document number(s) to the Custodial Funds Coordinator. In the CR document use the applicable receivable account (e.g., 1008001) and object code 8001.    * Include the custodial fund’s supplier ID in the description of the document 4. Return the completed and signed Modify Custodial Fund form to the appropriate Custodial Funds Coordinator.   For custodial funds that were created from a departmental account, please contact the Custodial Funds Coordinator for specific instructions on closing the custodial fund.  **Please note that it is the responsibility of the custodian and the fiscal officer to close custodial fund in a timely manner after the program/purpose has been completed.** Reconciling a Fund Custodial fund reconciliations are required for all custodial fund accounts to document the security of the cash. The total of all paid receipts, reimbursement invoice vouchers in transit, and cash on hand must agree with the authorized amount of the fund at all times. Cash should be counted daily. Reconciliations are required because the funds are not subject to the normal accounting controls.  Domestic Custodial Fund reconciliations are due on a monthly basis. For Custodial Funds with activity outside of the US, reconciliations must be submitted every 3 to 5 months. All custodial funds are reviewed annually to confirm that funds are compliant with applicable policy and procedures. Any fund which fails to comply, including not submitting the required Custodial Fund Reconciliations on a timely basis, may be subject to more detailed review by the Office of the University Controller or Internal Audit. Consistent non-compliance may result in the fund being closed.  For Change Funds, Petty Cash Funds, and Revolving Funds - Complete the Indiana University Custodial Fund Reconciliation form.  For Revolving Funds with a bank account - The Custodial Fund Reconciliation for funds with IU checking accounts form must also be accompanied by a copy of the bank statement **(but not bank statements for personal accounts)**, cancelled checks, a list of outstanding checks (date, check number, amount, and payee) and any other information that is pertinent. The Custodial Funds Coordinator will review these reconciliations; however, the Custodian is ultimately responsible for the accuracy of the reconciliation.  Please see Custodial Fund Reconciliation Forms here <https://controller.iu.edu/compliance/form-library> (under Form after filtering for Custodial Funds)  There must be at least two persons present when cash is counted for the reconciliation. Reconciliations that do not have two different persons listed in the “Cash Counted By” and “Count Witnessed By” will be rejected.  **\*Exception for Summer Custodial Funds\***  If the custodial fund only operates during summer months, a reconciliation is needed only once per year, but must be submitted **no more than 60 days** after the activity has completed. The submitted reconciliation must have bank statements for **all** months that the program operated.  The reconciliation should include details on how much money was spent and how much is left over. When the summer activity has concluded and the reconciliations are finished, the fund must follow closing procedures to return the money to the university. Shortage or theft Any money missing from the custodian’s fund must be reported to the appropriate authorities.  Shortages must be reported to the Custodial Funds Coordinator and Internal Audit ([iuaudit@iu.edu](mailto:iuaudit@iu.edu)). Include details on the amount of the shortage and explanations for how the shortage may have occurred.  Theft, whether confirmed or suspected, must be reported to the Custodial Funds Coordinator, Internal Audit, and the [Indiana University Police Department](https://protect.iu.edu/iu-police-department/contact/index.html) of the applicable campus. Other InformationAudit of a fund Custodial Funds must be made available upon request of the Internal Audit Department and external auditors who will conduct periodic audits to aid the department in proper handling of the funds. Internal Audit will determine that the Custodian is the one named in the university records and the funds are accounted for properly.  Each year, Cash Accounting will send a Revalidation Request Form to the custodians and fiscal officers of each fund. The form requires the custodian and fiscal officer to confirm the status, management, control procedures and the continued need of the fund in the current calendar year. It also includes IU policies related to custodial fund operation and management. Important Bank Account Information In certain circumstances, a revolving fund may require its own university checking account. Per the university bank account policy, all university bank accounts may only be set up by Treasury Operations. Contact the Custodial Fund Coordinators for more information.  Custodial funds with university bank accounts require daily monitoring by the custodian and the bank account reconciliations must be prepared monthly.  Custodians using a personal foreign bank account to store custodial funds with $10,000 or more at any time during the year must file a Report of Foreign Bank and Financial Accounts (FBAR) to the Internal Revenue Service. This filing is the custodian’s personal responsibility and not the responsibility of Indiana University. stale checks written from an iu revolving fund checking account If an approved IU revolving fund checking account is used to write checks for the fund’s activities, the Custodian and the Fiscal Officer must keep track of the outstanding checks. If checks are outstanding for six months or more, the funds must be transferred to Cash Accounting by June 15th of each year for timely reporting of unclaimed property to the appropriate states. Stop payments will NOT be made for these checks since the cost of placing an annual stop payment will likely exceed the value of the stale checks. In the unlikely event the checks do get cashed after remitting them as unclaimed property, the department will need to recognize it as an expense. Please contact [custfund@iu.edu](mailto:custfund@iu.edu) for instructions on how to transfer the stale funds. Custodial fund Coordinator by campus  |  |  | | --- | --- | | Bloomington, East, Kokomo, Northwest, Southeast, and South Bend campuses:  Office of University Controller  1024 E. Third St., Music Practice #128 Bloomington, IN  [custfund@iu.edu](mailto:custfund@iu.edu)  [(812) 855-](tel:+8128557100)1641 FAX:(812) 856-4483 | IU Indianapolis, Fort Wayne and Columbus Campuses: [Aline Danielson](mailto:adaniels@iupui.edu) Budget Office AD 4055 Indianapolis, IN  [adaniels@iu.edu](mailto:adaniels@iu.edu)  [(317) 274-5003](tel:+3172745003) FAX:(317) 274-2639 | |
| **CROSS REFERENCES:** | [Custodial Fund Policy FIN-ACC-560](https://policies.iu.edu/policies/fin-acc-560-custodial-funds/index.html)  [University Bank Account Policy FIN-TRE-52](https://policies.iu.edu/policies/fin-tre-52-establishing-closing-university-bank-accounts/index.html)  [Fiscal Misconduct Policy FIN-ACC-30](https://policies.iu.edu/policies/fin-acc-30-fiscal-misconduct/index.html)  [IU Purchasing Policies](https://policies.iu.edu/categories/financial.html?type=purchasing)  [Office of the University Controller Reference Material Library (Custodial Forms)](https://controller.iu.edu/compliance/form-library) |