Cash Management using Traditional Methods

Good day and thank you for reading. Our last article provided an overview of cash management challenges in the retail sector, including increased risk and reduced efficiencies.

In this article, we will go into more detail on some of the traditional means by which retailers manage their cash, and how these methods play into the risk and efficiency factors previously described.

Methods retailers typically use when managing cash

In a retail store environment, a cashier will start her shift with a starting till. This is an amount of money made up of a certain amount of notes of varying denominations and a certain amount of coin. For example, a starting till might have 4 ten dollar bills, 7 five dollar bills, 10 one dollar bill, a roll of quarters, 2 rolls of nickels, and 2 rolls of pennies, all totaling $100.

Throughout the day, the cashier will make cash sales during her shift, thereby increasing the amount of cash in her till. Most retail organizations employ store policies that limit the amount of cash in the till at any given time. This helps to minimize the amount of cash exposed to potential robbery. Given these policies, it is common for the excess cash to be removed from the till and placed in a secure location, which is usually a drop safe located in the back of the store. Depending on the volume of cash sales occurring throughout the shift, the removal of excess cash from the till may occur more than once during a shift.

There are many methods by which the cash sales get deposited to a traditional safe, but an envelope drop process or a till sweep process are most common. Envelope drops are typical in convenience stores. Till sweeps are typical in quick serve restaurants and other retail stores. Let's expand on these further.

Envelope Drop Process

The envelope drop process typically requires that, once the amount of cash in a cashier's till exceeds the designated amount (which may be identified to the cashier by the point-of-sale system), the cashier is to place the excess cash into a numbered envelope. The envelopes may be a different color for each business day. The cashier writes the amount of cash and the number of the envelope on a drop log sheet, and drops the envelope into a slot in a safe. At the end of a cashier's shift, the cashier runs a report (frequently referred to as the "Z" Report) from the point-of-sale system, which has accumulated all the transactions by payment media. A manager may then balance the cashier to see if all the cash is accounted for. The manager knows how much money was in the till at the start of the shift, how much was declared to be deposited based on the drop log, and how much remains in the till. The net of these

should equal the cash sales reported by the POS system. The manager may do this balance at the end of each cashier shift or in the morning of the following day as they prepare the bank deposit.

Each store has a defined time to end the business day, for example 6 a.m. At this time the manager on duty ends the day on the POS system. The cashiers will then start using envelopes of a different color or number series to indicate they are for the new business day that is just beginning. Later in the morning, but in time to get the deposit to the bank for this day's deposit reporting, the manager will open the safe and remove the envelopes from all shifts from the business day that was ended at 6 a.m. Envelopes with the new business day's color or numbers are put back in the safe.

The manager should then count all the envelopes and compare the count to the number of envelopes written on the drop log sheet. If there is a discrepancy, the manager should compare the numbers on the envelopes to those on the drop log to determine which one(s) is missing.

The manager will then compare the actual amount in each envelope to the amount written on the log sheet. Then the manager can balance each cashier against the POS report and their starting and ending till amounts.

Once each cashier has been verified and balanced, the manager creates the deposit by separating the notes by denomination, totaling the amount, and creating a deposit ticket.

One other important point to note is that the safe likely also contains change – rolls of coins and perhaps stacks of small denomination notes ($1s and $5s typically). When the manager prepares the deposit, it should match the exact amount of the business cash sales as reported by the POS. Any excess cash should remain in the safe to be used as change for the current and future business days. It will also be balanced to ensure that the safe is in complete balance – both sales funds and change funds. Additional change funds will be acquired at the bank on a regular basis.

It is common for change funds to be a fixed amount. Thus, if a roll of quarters is removed to place in a till, it should be replaced with $10 in notes placed in the safe. This $10 is not part of the next deposit. It will be used to purchase new coins when the deposit is made.

Till Sweep Process

Till sweeps involve a manager on duty approaching cashiers on a regular basis during their shift to jointly count excess cash in their till. In this process, a manager removes excess cash and, with the cashier watching, counts the cash removed. Once the amount removed is agreed upon, the manager typically writes a "cash ticket" for the amount removed and gives it to the cashier. The cashier places the cash ticket in their till in lieu of the cash. The manager places the swept cash in a safe.

At the end of each cashier shift, a manager and cashier jointly balance the till. The POS report shows the cash sales, and instead of the envelope drop log mentioned in the prior process, the manager and cashier jointly count down the money in the till, including the cash tickets. Netting this total with the starting and ending till amounts should balance to the POS cash sales.

Sometime after the business day is ended by the manager, but in time to ensure the manager can get to the bank and make the deposit before the commercial deposit cutoff time for credit, the manager will open the safe, combine the cash sweeps, and prepare a deposit. The amount to deposit must match the POS cash sales.

How does cash get from a store to a bank account where it can be used?

Once a deposit is prepared as described above, either the manager takes it to the bank or a Cash-in-Transit (CIT)/ armored car company arrives to pick it up and make the deposit.

Manager Makes Deposit

The manager needs to transport the deposit to the bank prior to the bank's cutoff time for commercial deposits. If the deposit arrives too late, it will not show up on the store's bank statement until the next day. This can cause a deposit discrepancy.

The manager should put the deposit in a tamper evident bag or zippered, lockable canvas bag along with a deposit ticket specifying the amount of the deposit by denomination. The manager will then typically drive to the bank in their own car, for which many retailers pay the manager a nominal amount for each trip. For safety reasons, some retailers require that two people go to the bank with the cash deposit, thus requiring additional labor and time away from the store.

The manager may wait in line at the commercial deposit window for several minutes, as other managers from other businesses are also trying to make the bank cutoff time. When making the deposit, the bank teller may count the deposit while the manager watches, or the deposit, in its tamper evident bag, may just be signed over for processing later, perhaps at a central cash processing site. The bank typically charges a fee to have the account, a fee for each deposit, plus a fee per hundred or thousand dollars counted with each deposit. Fees charged for deposits in a bank branch are often higher than fees charged if the deposit is brought to the bank's central processing vault by a CIT company.

Manager buys Change while at the Bank

While at the bank, the store manager may request and pay for change funds – rolls of coin and straps or half straps of small denomination currency notes. By policy, many banks charge a fee to provide the change fund. However, at the bank branch level, person to person, it is very common for the bank teller to collect the appropriate amount of cash for the amount of change provided (i.e., $100 for a strap of 100 $1 bills, $10 for a roll of quarters, etc.), but to not charge the fee.

The bank where the deposit is made is usually the closest or one of the closest to the store location. This is done to minimize exposure to robbery and to minimize the time the manager is out of the store. Thus a retailer with several locations in a particular geographical area may use several different banks and each store may have their own unique account along with the associated cost to have that account at that bank.

Some retailers make more than one deposit per day. For instance, some quick serve restaurants require each shift manager to be responsible for the cash balance of their shift and to make a deposit for the shift. While the day shift manager makes their deposit at the commercial window inside the bank, an evening shift manager might make the deposit to a night drop.

Before the retailer can use these deposits to pay employees, vendors, etc., all the money needs to get to a consolidated account. Unless all the stores are already being deposited to the same bank (or a branch thereof) the retailer will sweep each of the individual store accounts at these multiple banks into an account at their "concentration bank". Depending on the retailer's approach, this may introduce a day's delay in getting each store's business day cash to the concentration account.

The retailer determines how much to sweep based on varying methods. One method is centralized POS reporting that tells the retailer how much each store sold in cash each business day. Another is automatic instructions for the individual banks where deposits were made to transfer the deposits every day to the concentration account. Some retailers even use historical sales to estimate how much should be swept. In any event, if the manager did not make the deposit in time, the retailer may receive an insufficient funds (NSF) charge for withdrawing money that isn't there.

Manager Gives Deposit to CIT

Instead of personally taking the deposit to the bank, the store may contract with a cash-in-transit (CIT) service to transport the funds. If this is the case, then the store manager will place the deposit in a tamper evident bag and place the bag back in the safe until the CIT company arrives. When the armored truck arrives, the manager will open the safe, remove the deposit, and turn it over to the CIT representative, who should inspect it to ensure the integrity of the bag has not been compromised. The CIT representative will give the manager a receipt for the deposit said to contain the amount of money in the deposit.

The CIT company will take the deposit to either the customer's bank for processing, or to their own vault for processing on behalf of the bank. If the CIT company processes the deposit, it will then consolidate the deposit with other deposits for the same retailer and make a single consolidated deposit to the bank. If the deposit has been delivered to the bank, the bank will process it along with other deposits for that retailer. In either case, fees apply. The fees may be a flat fee per deposit, or a fee per deposit plus a fee per hundred or thousand dollars counted. As noted above, the fee will likely be lower than if the deposit were made at a branch of the bank.

As stated before, the money still must get to a centralized account. There may be sweep fees associated with doing so if the bank to which the deposits are made in a particular market is different from the concentration bank.

The Virtual Vault

An important concept to understand is what is frequently called a "virtual vault". A virtual vault is an arrangement between a bank and a CIT company whereby the CIT company establishes an inventory for

the bank in a designated geographical market. Frequently, the bank has no presence in that market. The CIT company picks up and processes deposits of the bank's customers and delivers change funds to them out of the bank's inventory. At appropriate times, excess cash in the bank's inventory is deposited to the bank's Federal Reserve account by the CIT company. The importance of this concept is that it enables a bank to extend its reach into markets where it has no people or facilities. This enables a retailer to use their preferred bank in markets where they would otherwise not be able to do so.

How do retailers know if all their cash got to the bank?

When sales are made at the cash register, the POS system records the amount of the sale by method of payment. At the end of each business day, a report is run at the store that tells the manager how much cash should have been received. As described above, this is the amount for which a deposit should be made. But what if the cash is short, due to robbery, internal theft, honest mistakes, counterfeits, etc.? The amount verified by the bank or the CIT company will not match the point-of-sale report.

The retailer receives data including the amount of cash sales from each store, each business day. The retailer also receives data showing the verified deposit amounts, usually from the bank but sometimes from the CIT company, if the CIT company processed the deposit (as in a virtual vault). The retailer compares the POS cash sales by store by business day to the total verified by the bank or CIT by store by business day. This is usually an automated process, requiring a reconciliation clerk to act only on those which differ by a set amount (frequently $1 or more).

If there is a discrepancy between the amount of cash reported by the store's POS system and the amount verified by the bank or CIT, the reconciliation clerk will begin to try to resolve the difference. It may be as simple as a counterfeit, or a shortage on one business day offset by an overage the following day. If the reconciliation clerk cannot resolve the discrepancy and it is large enough or repetitive, it will probably be turned over to someone who specializes in loss prevention. Loss prevention will then investigate.

This article provided a summary of how retailers handle their cash using traditional methods, which is certainly an involved process. In the next article, we will address different functions within a retail organization and the costs they face when handling cash using these methods.

Thank you for reading.