

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT

TECHNICAL ASSISTANCE

Comptroller

BULLETIN

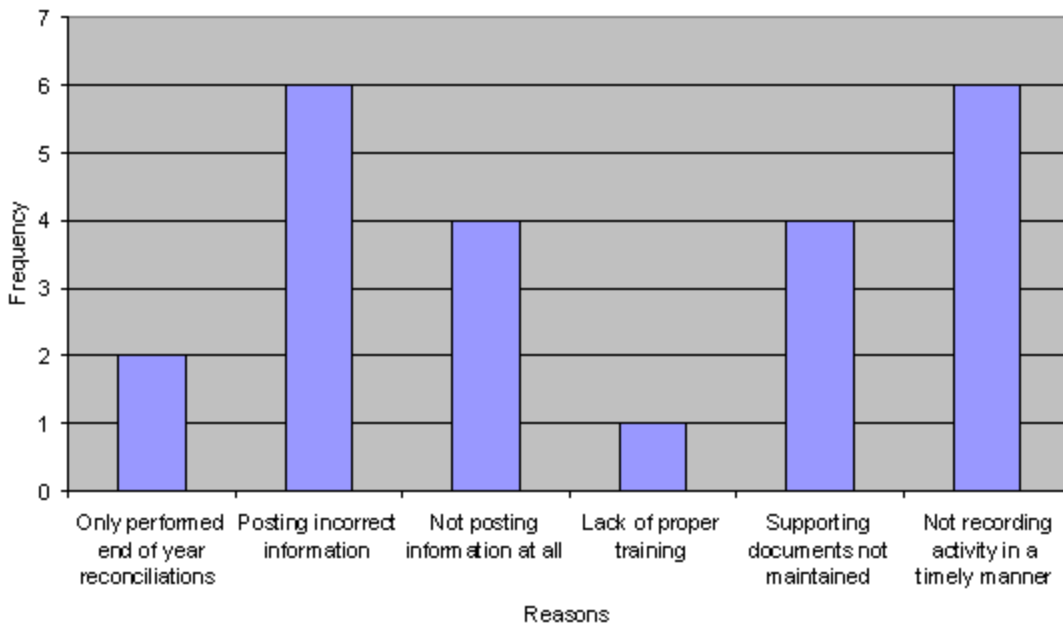


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TECHNICAL ASSISTANCE BULLETIN

A recurring issue that some of our audits have found within the past few years is that some municipalities do not perform routine bank reconciliations. This technical assistance bulletin is provided to stress the importance of bank reconciliations and provide guidance for successfully completing one. Please review the following information, and if you have any questions feel free to contact your regional office.

Audits of twelve municipalities completed in 2001 and 2002 contained specific findings dealing with cash management and bank reconciliations. As the following chart shows, there were varying reasons why these municipalities were cited as having improper bank reconciliations.

Common Findings with Improper Bank Reconciliations
For Audits completed in 2001 and 2002



Why are Bank Reconciliations Important?

1. Bank reconciliations may uncover differences that may need further investigating.
2. Bank reconciliations help to safeguard cash by detecting errors on the part of the bank and/or the municipality when recording activities in accounts.
3. Bank reconciliations can make you aware of recording errors and other problems more quickly by enabling you to isolate the problem.
4. Bank reconciliations help to create stronger internal control, whereby accountability over cash assets is greatly enhanced.
5. Bank reconciliations ensure that account balances are accurate, and that they reflect the true financial position of the municipality, so governing bodies can make more informed decisions.

Please Note: A thorough example of a properly completed bank reconciliations is attached for your reference.

Common Reasons Why Bank Reconciliations Weren't Properly Completed

We found two main reasons why bank reconciliations weren't being done properly: a lack of oversight over the person responsible for completing the bank reconciliations, and lack of knowledge on how to complete monthly bank reconciliations.

Lack of Oversight

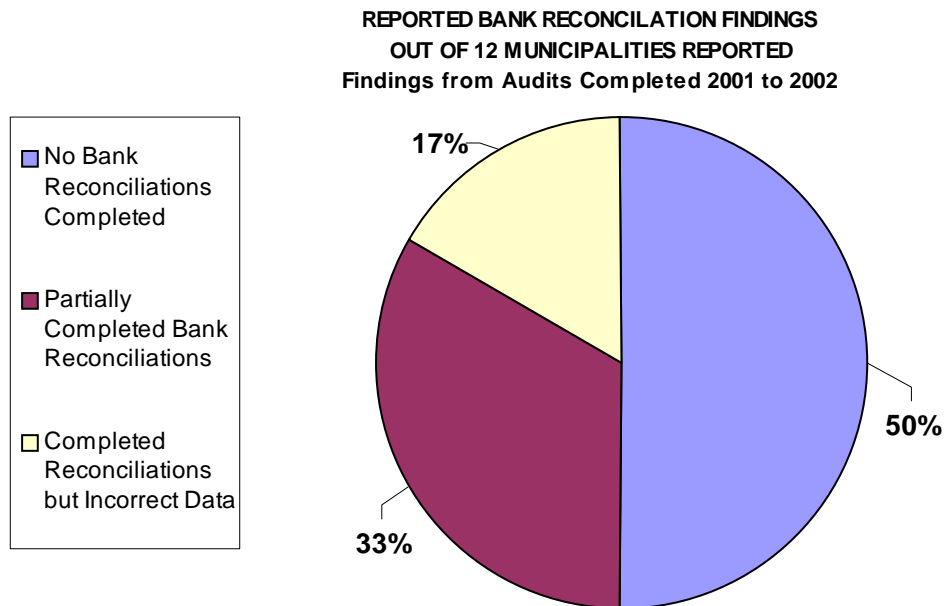
We found that some municipalities did not exercise proper oversight over the person responsible for completing the bank reconciliation. The lack of oversight can lead to the risk that discrepancies will not be detected or resolved in a timely manner, and also can lead to a higher risk of theft by employees.

For example, we noted in one of the audits that a lack of oversight on behalf of a supervisor led to the bookkeeper making transaction mistakes totaling \$927,016, including \$23,984 in cash accounts. When audited, the reason given for the mistakes was a lack of training and inexperience. The reconciliation of bank account balances with accounting records is a necessary element of an effective internal control system for cash. This "check" should be a routine procedure in a municipality's accounting process. In this specific case, with a newly hired bookkeeper, the supervisor should have been even more insistent on reviewing the bank account reconciliations. With proper oversight, the supervisor should have noticed the bookkeeper's inexperience and lack of training and could have helped to reconcile accounts and correct any errors.

Internal control is key to ensuring that account balances are accurate so that the financial position of the municipality is accurate and the municipality's governing body can make informed decisions. One way to achieve effective internal controls is through effective oversight of employees. With proper oversight, you reduce the risk of errors going undetected. With the preparation of monthly bank reconciliations the supervisor has a tool for finding any discrepancies and can detect problems in account balances within a reasonable period of time.

Bank Reconciliations

Another common problem was that these municipalities had improper bank reconciliations. In the twelve municipalities cited, 50 percent were found to have not completed any monthly bank reconciliations for the year, 33 percent were found to have partially completed bank reconciliations for the year, and 17 percent were found to have inaccurately completed bank reconciliations.



When reviewed further, of the six municipalities that did not complete bank reconciliations monthly, two reconciled their accounts only once at the end of the year, and four did not reconcile the accounts at all, but simply relied on the balances stated in the town's books. In one of these municipalities, we noted that the mayor independently determined the cash balance from bank statements and cancelled checks for reporting in the annual financial report. In another municipality the clerk-treasurer reconciled available cash in the cash worksheets (ledgers), but did not reconcile cash in the bank account to the amount in the cash worksheets (ledgers). The lack of completed reconciliations led to inaccurate recordings, posting errors and the misstating of finances on the annual financial report.

The six municipalities that had partial reconciliations or unreliable reconciliations had several causes for their inaccuracy. The most common errors in reporting were due to posting errors on the part of the bookkeeper. When reviewed, four of the municipalities were found to have forgotten to post certain activities in their accounts, and all six were found to have incorrect postings to accounts throughout the fiscal year. In one municipality, our audit revealed that a lack of training on the bookkeeper's part led to partial or unreliable reconciliations. In four of the municipalities, audits revealed that supporting documents were not maintained, thus leading to an inability to seek out or investigate problems. All of the municipalities cited as having unreliable or partial reconciliations were additionally cited as not having recorded activities to accounts in a timely manner.

Monthly bank reconciliations lead to more accurate records and quicker detection of errors in account balances, thus making them a vital part of the internal control process and essential to a municipality's financial system.

RECOMMENDATIONS:

After the *Office of the State Comptroller* completes an audit of a municipality, auditors recommend certain procedures to help the municipality correct the situation. The following is a list of remedies that are recommended for those municipalities with inadequate cash management and bank reconciliations.

- ❖ Bank and cash reconciliations should be performed monthly to compare bank balances to balances in the general ledger cash accounts. This is done to ensure accuracy and accountability for all cash transactions.
- ❖ Preparing monthly reconciliations and having timely record keeping will allow municipalities to find and investigate errors quicker.
- ❖ Someone other than the person responsible for completing monthly bank reconciliations should monitor account balances and statements to ensure more accurate and effective internal control.
- ❖ Accurate records will keep municipal officials more informed, and allow them to make better financial decisions.
- ❖ For more additional information from the *Office of the State Comptroller* on this topic, refer to the following publications: *Accounting and Reporting Manual* and *Local Government Management Guide*.

How to Properly Perform Bank Reconciliations

1. Begin with recording the balance from your books and the bank balance that is shown on the monthly statement you receive. (Books: \$5,385.95 , Bank: \$5,535.80)
2. On the bank side, subtract any outstanding checks that you see recorded on your books that have not yet been received by the bank. (\$267.08)
3. Also on the bank side of your paper, you then need to add into that balance any deposits that are showing on your books, but not on your bank statement. (\$78.58)
4. Now on your books side subtract any kind of bank fee that is being charged to you. (\$38.65)(don't forget to record the bank fee in your books)**
5. You should then have an adjusted bank balance as well as an adjusted book balance, they should now equal. (Book: \$5,347.30 , Bank: \$5,347.30)

Example: **Book Balance:**

General Fund: \$3,694.33
 Water Fund: 927.78
 Sewer Fund: 763.84

Less: Bank Charges not on books

Adjusted Book Balance:

Bank Balance:

Plus Deposits not Credited

Less Outstanding Checks:
 # 462 \$ 51.34
 # 465 68.19
 # 467 147.55

Adjusted Bank Balance:

| | |
|-------------------------------|------------|
| | \$5,385.95 |
| - | \$38.65 |
| | |
| Adjusted Book Balance: | \$5,347.30 |
| | |
| + | \$78.58 |
| | |
| | \$5,614.38 |
| | |
| Adjusted Bank Balance: | \$267.08 |
| | |
| | \$5,347.30 |

**** Adjusting Entry to Record Bank Fees:**

| | Sub Account | Debit | Credit |
|-----------------------------|-------------|---------|---------|
| 522 Expenditures | | \$38.65 | |
| 1325.4 Treasurer- Con.t Exp | \$38.65 | | |
| 200 Cash | | | \$38.65 |

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