Center for Government Innovation

Best Practices for Bank Reconciliations

Office of the Washington State Auditor
Pat McCarthy

A bank reconciliation is a control activity that compares banking records to accounting records, and ultimately ensures that both sets of records agree with one another. Reconciliations identify unapproved or unallowable activities. If government staff or the bank were to make an error or not record something promptly, reconciliations can bring this to light. Reconciliations also provide management with a true cash position. This best practice guidance is designed to help any government, large or small, to complete better bank reconciliations.

This best practice guide uses "cash" to mean both cash and investments. "Bank accounts" are likewise inclusive of investment accounts, certificates of deposit, zero-balance accounts and accounts kept by fiscal agents. "Bank accounts," for governments that use the county as their treasurer, would refer to a county treasurer's account and subsequent treasurer's statements.

1) **Perform reconciliations at least monthly.** All attempts should be made to reconcile every account at least monthly, as required in the Budgeting, Accounting and Reporting System (BARS) Manual [1]. This makes the reconciliation process and investigation of variances easier and allows for timely resolution of any errors. It also allows for management to better understand the municipality's cash position at all times to meet cash flow needs.

2. **Use a proof of cash, also known as a four-column bank reconciliation process** [2]. Proofs of cash reconcile revenues and expenditures in addition to beginning and ending cash. Reconciling revenues and expenditures allows for much quicker identification of errors. Appendix A contains an example of a proof of cash.

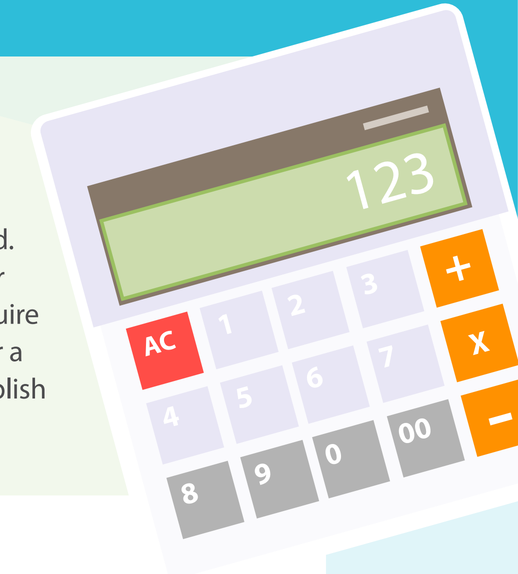
3. **Document reconciliations.** Documentation of reconciliations should include source documents used in the reconciliation and a schedule showing the comparisons made and adjustments or reconciling items identified with sufficient detail and clarity to enable effective review [3]. Documentation could be maintained in binders or electronically. Management should expect those in charge of performing the reconciliation to establish clear documentation of their process so it can be easily confirmed by others and reproduced if needed. Clear documentation also facilitates cross-training or succession planning, so as to avoid a breakdown in this key control in the event of staff turnover or absence.

4. **Ensure that staff involved in the reconciliation process understand what they are reviewing and why. They should be trained on what to look for and on the purpose of a reconciliation.** This includes understanding the transactions and types of activity in each account, how they are recorded, and how to resolve discrepancies. The best reconciliations are those performed and reviewed by staff with experience and training.

[1] *Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.9.15 – Bank Reconciliations, Controls*

[2] *Budgeting, Accounting and Reporting System (BARS) Manual 3.1.9.15 – Bank Reconciliations, Controls*

[3] *Standards for Internal Control in the Federal Government [Green Book], 3.09 & 12.02-04*



5. **Ensure all transactions are recorded promptly to the general ledger.** How and when transactions are posted to the general ledger affect the reconciliation process. Transactions should be recorded as they occur, based on source records, not from bank statement activity at month's end. Governments will gain a more robust verification of accuracy, not only for recordkeeping but also to identify errors. For transactions that might require more time to research, governments may elect to use a suspense fund, or a fund that is used to temporarily hold unclassified transactions, to accomplish a prompt and complete recording while additional details are gathered [4].

6. **Limit the amount of one-to-many, many-to-one, and many-to-many relationships between bank accounts and general ledger accounts.** It takes more time to reconcile transactions and accounts that do not match individually. For example, it can add undue complexity when multiple deposits reconcile to a single transaction in an accounting system, or when multiple general ledger and bank accounts can only be reconciled when added together. Governments should be aware of these specific relationships, and limit them as much as possible to make the reconciliation process more efficient. This could simply involve how accounts are set up, how deposits are documented, or how entries are made in the general ledger.

7. **Ensure that your policy designates a reasonable period, such as two weeks, to research and resolve discrepancies.** If there are errors or possible fraudulent transactions, this process will help to identify them quickly to avoid incurring additional errors or losses. These *enforceable* windows ensure that there is ample time for research, while still ensuring that any errors are resolved within policy.

8. **Know your banking institutions' policies for resolving errors.** Check with your banking institutions about limitations they might have for correcting banking errors. For example, many banks will limit error resolution to 60 days after the transaction date. Similarly, many insurance policies only cover certain fraud losses if the losses are identified within a certain number of days. Design your policy and procedures to ensure banking errors or fraud is identified timely to avoid a loss at the government's expense.

[4] *While it is possible for suspense funds to be used for a variety of transaction types, local governments would be expected use suspense funds exclusively for receipts (BARS 3.6.11 – Suspense Funds)*

9. **Create unique general ledger accounts for bank accounts with unique transaction types.** For example, if remote cash site deposits are always made to one bank account, create a separate cash general ledger account to reconcile. This helps create efficiencies in both the reconciliation process (because all transaction types are the same) and the resolution process (because the sources of each transaction is known).

10. **Ensure that staff assigned to reconcile bank accounts do not have access to bank deposits, accounts payable or payroll checks, and cannot authorize electronic fund transfers or be a signer on a bank account.** Segregating incompatible duties ensures that an error or any unusual activity can be caught quickly by someone other than the person performing the duty. For more information about how to segregate these duties, or implementing additional controls, see our Segregation of Duties Guide [5].

11. **If using applications or tools (such as spreadsheets) to perform reconciliations, implement adequate security controls over their use.** These controls should ensure that the spreadsheet's integrity is kept intact so that the spreadsheet can produce accurate and complete data for the reconciler. Passwords, tracked changes, audit trails, and check figures will provide better assurance that any calculations made are those intended [6].

12. **Investigate each reconciling item to the source.** Track reconciling items to either the source transaction's evidence or support, or to the original bank statement. If an unknown item cannot be identified, isolate and observe it during your next reconciliation. Greater emphasis on its identification is needed if the amount increases or changes dramatically.

13. **Independently review reconciliations.** The primary purpose of a supervisory review is to confirm that the key control has been properly performed. However, if the government has been unable to completely segregate duties, the review becomes a necessary compensating control and should be performed to a much more detailed extent. Reviewers should obtain original bank statements or have view-only access to online statements. A supervisory review should always be documented by signature and date to provide evidence of that control activity.

[5] *Segregation of Duties: Essential Internal Controls*, p. 33-36.

[6] *Segregation of Duties: Essential Internal Controls*, p. 37-39

14. **Periodically review and update reconciliation procedures.** Like all key controls, bank reconciliation procedures should be occasionally evaluated and updated as needed. Updates might be necessary due to new accounting software, changes to receipting or payment processes (such as switching vendors or implementing an electronic funds transfer process), staff turnover, or changes to when and how banking records are received.

15. **Periodically review bank accounts and signers.** Verify mailing addresses and account owners, close accounts that are no longer in use, and investigate with the bank any unrecognized accounts. For each account, signers and online account access might need to be updated due to staff turnover or to preserve segregation of duties when staff change roles or duties. Although such signature authority changes should occur immediately as part of personnel actions, a periodic review serves to double-check that nothing was missed [7]. These periodic reviews allow you to optimize your number and type of bank accounts, banking practices and accounting practices to speed up reconciliations.

[7] *This may also be a good opportunity to confirm bank instructions for electronic fund transfer authorizations and other items as discussed in the Budgeting, Accounting and Reporting System (BARS) Manual, section 3.8.11.*

Related resources

[Segregation of Duties Guide]

[Checklist for Preparing GAAP Financial Statements] and/or [Checklist for Preparing Cash Basis Financial Statements]

[Government Finance Officers Association: Bank Account Fraud Prevention]

Questions? Concerns?

Contact the Center for Government Innovation at the Office of the Washington State Auditor at: center@sao.wa.gov

Disclaimer

This resource is provided for informational purposes only. It does not represent prescriptive guidance, legal advice, an audit recommendation, or audit assurance. It does not relieve governments of their responsibilities to assess risks, design appropriate controls, and make management decisions.

Appendix A: Using a proof of cash to acheive global reconciliations

A four column bank reconciliation, also known as a proof of cash, reconciles ending cash as well as deposits and withdrawals to activity reported on the financial statements. Whereas a traditional bank reconciliation only reconciles cash as of a certain moment in time (typically the end of the month or year), a proof of cash reconciles both the ending balance and the activity over time. This allows for a more complete reconciliation, and streamlines follow-up on errors made when recording transactions.

You can find an example template for a global proof of cash in [our resources database]. Please note that this example does not represent prescriptive guidance that local governments must follow. Rather, it is intended to be an example that local governments may refer to when used in conjunction with additional reconciliation procedures.