



# BANK ACCOUNT RECONCILEMENTS

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding bank account reconcilements. These questions can be used to aid in designing a proper system of internal control over bank reconcilements that will allow incorrect bank reconcilements to be prevented or detected and corrected in a timely manner. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow errors made on the bank reconciliation to be prevented or detected and corrected in a timely manner.

**Components of Internal Control:**

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

**Control Environment - Sets the tone of the unit and influences the effectiveness of internal controls within the unit. It comprises the integrity and ethical values of the unit and is set by the governing board and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control.**

The questions in this section are divided by questions that pertain to the governing board, management and both the governing board and management.

**Governing Board:**

|   | YES | NO |
|---|-----|----|
| 1) Does the governing board oversee the unit's internal control system over the preparation and review of the bank reconciliation?  |     |    |
| 2) If considered necessary, did the governing board establish an oversight committee and appoint members with high ethical values, excellent communication and problem solving skills?  |     |    |
| 3) Does the unit have a mission statement, objective and goals?   |     |    |
| 4) Does the governing board convey periodic messages of expectations to all employees?  |     |    |
| 5) Are there written policies documenting internal control procedures over the preparation and review of the bank reconciliation? If yes, do these written policies outline the authority and responsibility for the preparation and review of the bank reconciliation within the unit and require bank reconcilements to be performed monthly?   |     |    |
| 6) How involved is the governing board in understanding the unit's bank reconciliation process, overseeing the effectiveness of internal controls over the preparation and review of the bank reconciliation, and evaluating whether the accounting records that support the bank reconciliation are correct? For example, is the governing board's involvement limited to attending board meetings, or does the board oversee other things such as unit controls, accounting practices, etc. |     |    |
| 7) Does the governing board have a complete listing of all bank accounts?   |     |    |
| 8) Did the governing board develop an organizational chart? If yes, is the organizational chart current and accurate?   |     |    |
| 9) Have job descriptions been created outlining specific duties? Is yes, do these duties address responsibilities required for the preparation and review of the bank reconciliation  |     |    |
| 10) Has fiscal authority been formally delegated to specific management personnel?  |     |    |
| 11) Did the governing board develop a formal employee evaluation system to set the intervals in which employees will be evaluated? If yes, does the formal evaluation system include disciplinary action that will be taken if an employee does not meet the expectations noted in the evaluation system?   |     |    |
| 12) Does management provide documented processes regarding the preparation and review of the bank reconciliation to the governing board for review?   |     |    |
| 13) How does the governing board oversee the activities of management that are related to financial reporting? What oversight does the governing board give on the accounting records?  |     |    |
| 14) Are accounting department employees required to take vacations?   |     |    |
| 15) Has the governing board developed and implemented an ethics policy? If yes, does the policy address potential conflicts of interest? Is there a system of annual acknowledgment in place where either through e-mail submission or manual documentation, each official and employee attests that they have read the policy and will adhere to the policy?   |     |    |



|   | YES | NO |
|---|-----|----|
| 16) Are there regular meetings of the governing board to set policies and objectives and review the entity's performance? |     |    |
| 17) Are the minutes of such meetings prepared and signed on a timely basis?   |     |    |
| 18) Are confidentiality agreements required for employees who come in contact with confidential information?              |     |    |
| 19) Are policies regarding personal use of computer equipment and software clearly stated?                                |     |    |

**Management:**

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|--|--|--|
| 1) Does management develop and maintain documentation of the internal control system regarding the preparation and review of the bank reconciliation?  |  |  |
| 2) What procedures did management put in place for the preparation and review of the bank reconciliation and review of cash and investment balances?<br>a. Does management assign responsibility and delegate authority to achieve a correct bank reconciliation and ensure it is prepared monthly?  |  |  |
| 3) Have all bank accounts been reported to management?   |  |  |
| 4) Does management establish an organizational structure, assign responsibility and delegate authority in order to achieve a correct bank reconciliation in a timely manner? If yes, did management establish and document the organizational structure of each office and department? Examples of items to incorporate into the structure could include: an organizational chart, outline of specific duties, designation of responsible persons for each part of the accounting process, documentation of internal control procedures over specific accounting areas, etc. |  |  |
| 5) Does management ensure compliance with the unit's personnel policies and procedures concerning hiring, training, promoting and compensating?  |  |  |
| 6) Does management check credentials and references for new employees?   |  |  |
| 7) Do employees who are involved in the preparation and review of the bank reconciliation receive continuous or periodic training? If yes, what kind of training do employees receive to help them maintain their accounting and financial reporting competencies?<br>a. What background, education, and experience do accounting personnel have that assist them with their duties?   |  |  |
| 8) Does management reward employees for following good internal control practices through promotions or increase in compensation?  |  |  |
| 9) Is turnover of key fiscal personnel relatively low?   |  |  |
| 10) Does the workload of accounting employees facilitate the preparation of reliable accounting records?   |  |  |
| 11) Does management evaluate performance and hold individuals accountable for their responsibilities? If yes, what action is taken for employees not performing their responsibilities?  |  |  |
| 12) Is cross training completed to ensure that more than one employee is knowledgeable about the bank reconciliation process? This cross training would allow more than one employee to be aware of potential design deficiencies in the internal controls or of noncompliance with internal controls.   |  |  |
| 13) Do accounting supervisors frequently prepare reports or reconciliations to verify the accuracy of financial transactions?  |  |  |
| 14) Does management take an active role in the financial reporting of the unit?  |  |  |
| 15) Is management actually involved in supervision of the various functions?   |  |  |
| 16) Does management ask employees for their suggestions on how to improve processes?   |  |  |
| 17) Has management given a high priority to its internal control structure?  |  |  |
| 18) Does management emphasize meeting the budget and/or financial and operating goals?   |  |  |
| 19) Is management willing to adjust the financial statements for misstatements that approach a material amount?  |  |  |
| 20) Does management discuss internal controls at management and other staff meetings?  |  |  |

**Governing Board and Management:**

|  |  |  |
|--|--|--|
| 1) Does the governing board and management stress adherence to policies and procedures?  |  |  |
| 2) Is there a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements? |  |  |
| 3) Is the entity meeting its financial obligations?  |  |  |



**Risk Assessment - Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. It is the basis for determining how risk will be managed.**

|  | YES | NO |
|--|-----|----|
| 1) Does management identify, analyze and respond to risks regarding the preparation and review of the bank reconciliation?   |     |    |
| a. What areas have been identified regarding the preparation and review of the bank reconciliation that may be exposed to risk?  |     |    |
| i. Risk factors may include non-compliance with statutes, changes in management or employees, competence and experience of personnel assigned to the bank reconciliation process, findings reported in prior audits regarding the bank reconciliation, new accounting system, new technology allowing alteration of documents, volume of receipt and disbursement transactions, susceptibility of fraud occurring in receipting and disbursing activities (including both misappropriation of assets and fraudulent financial reporting), bank errors and various fees not investigated timely, nonsufficient checks received and no timely follow up, insufficient documentation, interest and finance charges, unauthorized access to accounting applications, override of system controls, etc. |     |    |
| b. Does management analyze the identified risks to determine the effect of risk on achieving a correct bank reconciliation? For example, does management consider how likely the risk will occur, if the risk is based on complex or unusual transactions, if the risk is based on fraud, etc.   |     |    |
| c. How has management addressed risks associated with using computerized accounting records, such as unauthorized access to applications or data, potential loss of data, and reliance or inadequate systems that may adversely affect internal control?   |     |    |
| d. How has management responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and/or institute proper internal controls.  |     |    |
| e. When needed, does management go back to the governing board to enact or modify policies that will that will clearly define these areas?   |     |    |
| 2) Does management clearly define proper procedures for the preparation and review of the bank reconciliation to enable the identification of risks and to define risk tolerances? Written procedures should be clear and address items such as who will be involved in the bank reconciliation process, how a correct bank reconciliation will be achieved and when will proper bank reconciliation procedures be in place.   |     |    |
| 3) How does management prevent fraud and errors in the accounting records, which are used to compute cash and investment balances? For example, are important internal control procedures in place such as approvals, regular preparation or review of reconciliations, review of supporting schedules or reports, etc.?   |     |    |
| 4) Is management continually aware of changes, both external and internal, that could affect a correct bank reconciliation? If yes, does management determine any modifications needed in the internal control process to adopt to these changes?  |     |    |
| 5) Did the governing board or management incorporate external requirements, such as state statutes and Uniform Compliance Guidelines?  |     |    |
| 6) What procedures are in place to ensure that the information reported on the bank reconciliation is correct and reflective of the accounting records and the bank reconciliation is performed monthly?   |     |    |
| 7) Are employees involved in the bank reconciliation process bonded?   |     |    |

**Control Activities - The actions and tools management establishes through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives and to respond to risk in the internal control system.**

An integral part of the control activity component is segregation of duties. However, in very small governmental units, such segregation may not be practical. In this case, compensating activities should be implemented which may include additional levels of review for key operational processes and random and/or periodic review of selected transactions. In smaller units, these reviews and testing of processes might be performed by governing boards or other elected officials.

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties.

|  | YES | NO |
|--|-----|----|
| 1) Is there a system of checks and balances (segregation of duties) to ensure a correct bank reconciliation?   |     |    |
| a. Are responsibilities for reviewing the bank reconciliation segregated from those preparing the bank reconciliation?   |     |    |
| b. Are responsibilities for preparing the bank reconciliation segregated from those involved in receipting and disbursing activities?  |     |    |
| c. Are responsibilities for preparing a reconciliation between the receipts ledger and the credits to the bank account segregated from those involved in the receipting process?     |     |    |
| d. Are responsibilities for preparing a reconciliation between the disbursements ledger and the debits to the bank account segregated from those involved in the disbursing process? |     |    |



|   | YES | NO |
|---|-----|----|
| 2) Does management present the bank reconciliation to the governing board for review and approval?  |     |    |
| 3) Did management design the entity's information system and related control activities to ensure the proper preparation and review of the bank reconciliation?   |     |    |
| a. Did management implement control activities through written policies?  |     |    |
| b. Is access to the bank reconciliation applications appropriately controlled by user logins and passwords?   |     |    |
| c. Do individuals involved in the bank reconciliation process share their user id and password?   |     |    |
| 4) Are bank statements received directly by the appropriate level of management or another appropriate person and reviewed prior to routing to the individual who performs the bank reconciliation?   |     |    |
| 5) Does management or a designated individual review and check the accuracy of the bank reconciliation by comparing it to supporting documentation used and verify the bank reconciliation was performed monthly? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed? |     |    |
| 6) Are canceled checks examined to ensure vendors are recognized, signatures are by authorized signers and endorsements are appropriate?  |     |    |
| 7) Are bank statements and cancelled checks examined to ensure checks are not issued out of sequence?   |     |    |
| 8) Is the individual authorized to oversee the bank reconciliation knowledgeable in the bank reconciliation process?  |     |    |
| 9) Does the individual authorized to oversee cash and investment balances understand the unit's recordkeeping system?   |     |    |
| 10) Is there a checklist for the preparation and review of the bank reconciliation that includes the following?   |     |    |
| a. Employee names with their responsibilities and duties  |     |    |
| b. Deadlines for completing the bank reconciliation   |     |    |
| c. Detail of supporting documentation required  |     |    |
| d. Supporting documentation required for all reconciling items  |     |    |
| 11) Is there a periodic investigation of checks outstanding for a considerable time?  |     |    |

**Information and Communication - Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information.**

|   | YES | NO |
|---|-----|----|
| 1) Are procedures established to ensure that proper communication and documentation exists for internal communications between offices, departments, management and the governing board regarding the preparation and review of bank reconciliations? |     |    |
| a. How does the unit internally communicate information to employees regarding the preparation and review of the bank reconciliation, including responsibilities for internal control? Are records maintained to document this communication?         |     |    |
| b. Are procedures established to ensure that the communication requirements are being followed and necessary information is being communicated properly?  |     |    |
| c. Are procedures established for feedback on and clarification of the information provided?  |     |    |
| 2) What procedures are in place to collect the information needed to complete the bank reconciliation?  |     |    |
| a. Does management use the most current information available to ensure the bank reconciliation is correct?   |     |    |

**Monitoring – Activities that allow management to assess the quality of internal controls over time and make adjustments as necessary. Proper monitoring ensures that controls function properly.**

|   | YES | NO |
|---|-----|----|
| 1) Are procedures in place to ensure that appropriate personnel perform their required duties sufficiently and adequately follow the policies and procedures of the unit regarding the preparation and review of the bank reconciliation? |     |    |
| 2) Are internal controls over the bank reconciliation process evaluated for weaknesses on a regular basis? For example personnel changes, newly elected officials, new technology, etc.   |     |    |
| a. What follow-up action is taken for identified problems or weaknesses in internal controls regarding the preparation and review of the bank reconciliation?   |     |    |
| 3) Are monthly reports detailing receipts, disbursements, cash and investment balances and appropriations of the funds provided to the appropriate department to review for accuracy and reasonableness?                                  |     |    |
| 4) Are monthly reports detailing receipts, disbursements, cash and investment balances and appropriations of the funds provided to management to review for accuracy and reasonableness?  |     |    |
| 5) Are monthly reports of receipts, disbursements, cash and investment balances and appropriations of the funds provided to the governing board to review?  |     |    |
| 6) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?  |     |    |