Roles, Responsibilities, and Policies

The Business Office is responsible for:

• Reconciling bank statements and processing financial transactions on a timely basis
• Maintaining an effective system of internal controls
• Adhering to recommended audit procedures and responding to audit findings
• Implementing and monitoring cash handling procedures, cash flow projections
• Periodically reviewing and updating local cash management policies
• Keep in mind...segregation of duties.
What is a Bank Reconciliation?

- A bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as appropriate.
- Your goal: bank and books match!

Timing

- A bank reconciliation should be completed at regular intervals for all bank accounts, to ensure that a district's cash records are correct.
- **Priority!** Should be done every month, shortly after statement is available.
Other Considerations

• A bank reconciliation will also detect some types of fraud after the fact; this information can be used to design better controls over the receipt and payment of cash.

Steps and Worksheet Elements

- Step 1: Enter bank balance
- Step 2: Clear checks in software per statement, match to bank, run list of open checks
- Step 3: Run cash receipts reports, are any deposits not shown on bank statement, and not appearing on books?
- Step 4: Enter any other adjustments
- Step 5: Compare to book balance

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance from statement</td>
<td></td>
</tr>
<tr>
<td>- Outstanding Checks</td>
<td></td>
</tr>
<tr>
<td>+ Outstanding deposits</td>
<td></td>
</tr>
<tr>
<td>Corrections</td>
<td></td>
</tr>
<tr>
<td>Adjusted Bank Balance</td>
<td></td>
</tr>
<tr>
<td>Book Balance</td>
<td>$</td>
</tr>
<tr>
<td>Fund 10</td>
<td>$</td>
</tr>
<tr>
<td>Fund 27</td>
<td>$</td>
</tr>
<tr>
<td>Fund 50</td>
<td>$</td>
</tr>
<tr>
<td>Fund 80</td>
<td>$</td>
</tr>
<tr>
<td>Total Cash</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

What is a Deposit in Transit?

• Deposit in transit. Cash and/or checks that have been received and recorded by an entity, but which have not yet been recorded in the records of the bank where the entity deposits the funds. If this occurs at month-end, the deposit will not appear in the bank statement, and so becomes a reconciling item in the bank reconciliation.
• A deposit in transit occurs when a deposit arrives at the bank too late for it to be recorded that day, or the entity has not yet sent the deposit to the bank at all.
What Are Outstanding Checks?

- **Outstanding check.** A check payment that has been recorded by the district, but which has not yet cleared its bank account as a deduction from cash.
- If it has not yet cleared the bank by the end of the month, it does not appear on the month-end bank statement, and so is a reconciling item in the month-end bank reconciliation.

Note: Reconciling Items Are Normal

- It is extremely unlikely that a district’s ending cash balance and the bank’s ending cash balance will be identical, since there are probably multiple payments and deposits in transit at all times, as well as bank service fees, deposits, and NSF deposits that the district has not yet recorded.
- Even though you know which items are causing you to be out of balance, don’t wait to make the entries. Complete the entries and run a new balance to check.

Step 1 – Beginning Balance

- Print out your bank statements
  - Recommend you keep a separate file for each bank, not all in one month file
  - Allows you to take one at a time and refer back to the previous month
- You will want to check off items. If you have been having trouble balancing, colored markers help!
- Enter the bank ending balance in your spreadsheet
Step 2 – Determine Outstanding Checks

- Clear checks, which means you will use your accounting software bank reconciliation process to designate which checks have been deducted from your account this month
- When clearing, look at the check number AND amount
  - Or upload list from bank
- Match your report to the bank debits
- But... bank statements may not list checks separate from electronic payments

Next Step: Electronic Payments and Receipts

- Repeat... bank statements may not list checks separate from electronic payments
- If your bank does not, you will have to make a tape of ACH and check that total OR continue reconciling ACH to match the grand total of debits
- Recommended that you process payments through ACH or manual check; do not journal entry
- Likewise, use cash receipts vs. journal entries for c

Step 2 – Other Charges, Fees, and Deductions

- Not making reconciliation easier
- You may have made electronic payments (oh joy)
  - Process as manual check or ACH and clear
- You may have allowed automatic withdrawals (double joy)
  - Process as manual check or ACH and clear
- You may have deposited checks with non-sufficient funds (triple joy)
  - Debit the original revenue account and notify original receiver
  - Enter as expenses all bank charges/wire fees appearing on the bank statement which have not already been recorded in the district’s records.
  - Run outstanding check/cleared checks report; when matched, enter outstanding check amount on your worksheet
Example: Journal Entries vs. ACH

- No vendor information
- Duplication
- Errors

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>30,000</td>
<td>90,000</td>
<td>30,000</td>
</tr>
<tr>
<td>90,000</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>30,000</td>
<td>90,000</td>
<td>30,000</td>
</tr>
<tr>
<td>90,000</td>
<td>30,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Step 3 – Cash Receipts and Deposits

- Enter as revenue all other receipts which have not already been recorded in the district’s records.
- Identify sender and purpose, code and enter using cash receipts
- Run the cash receipts register, match to deposits
- If a deposit is in cash receipts but not bank, it is a deposit in transit
- Enter deposit in transit on your worksheet
  - Could clone, reverse, and post to following month
- Your bank statement credits and your deposits in transit should equal the cash receipts

Reconciliation Worksheet

<table>
<thead>
<tr>
<th>Action</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balance</td>
<td>$320,000</td>
</tr>
<tr>
<td>- Check printing charge</td>
<td>-200</td>
</tr>
<tr>
<td>- Service charge</td>
<td>-150</td>
</tr>
<tr>
<td>- NSF fee</td>
<td>-10</td>
</tr>
<tr>
<td>- NSF deposit rejected</td>
<td>-500</td>
</tr>
<tr>
<td>+ Interest income</td>
<td>+30</td>
</tr>
<tr>
<td>- Uncleared checks</td>
<td>-80,000</td>
</tr>
<tr>
<td>+ Deposits in transit</td>
<td>+25,000</td>
</tr>
<tr>
<td>Book balance</td>
<td>$264,170</td>
</tr>
</tbody>
</table>
Process Review

- The essential process flow for a bank reconciliation is to start with the bank's ending cash balance, add to it any deposits in transit, subtract any checks that have not yet cleared the bank, and either add or deduct any other items.
- Then, adjust the district’s records; deduct from it any bank service fees, NSF checks and penalties, and add to it any interest earned.
- At the end of this process, the adjusted bank balance should equal the district's ending adjusted cash balance.

Segregation of duties

"Many hands make light work." – John Heywood, English writer & poet

OR

"Too many cooks spoil the broth." Jane Austen, author

- Need to work together efficiently
- Should be less work not more work
- Lots of hands along the way, where did we go wrong?
- Training, understanding their role

What If?

If the balances do not match, then continue reviewing the bank reconciliation for additional reconciling items. Look for the following items:

- Checks recorded in the bank records at a different amount from what is recorded in the district’s records (should catch earlier in clearing)
- Deposits or electronic receipts recorded in the bank records at a different amount from what is recorded in the district’s records (Ditto)
- Checks or electronic withdrawals recorded in the bank records that are not recorded or differ from district's records
- Deposits recorded in the bank records are not recorded in the district’s records
- Duplicate receipts or journal entries
- Entries posted to the wrong month
- Inbound or outbound wires, transfers, and fees
If You Notice…

- Uncleared checks that continue to not be presented. There will be a residual number of checks that either are not presented to the bank for payment for a long time, or which are never presented for payment.
- Double check to make sure that it was not a duplicate payment that was never voided.
- Check with the bank...did this clear and could have been missed in the past?
- Contact the payee to see if they ever received the check; you will likely need to void the old check and issue them a new one.
- State regulations apply if the payee cannot be located. Must be written off and funds sent to the state.

When Finished…

Bank Reconciliation Statement
For Month Ended March 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balance</td>
<td>$850,000</td>
</tr>
<tr>
<td>Less: Checks outstanding</td>
<td>-225,000 See detail</td>
</tr>
<tr>
<td>Add: Deposits in transit</td>
<td>+100,000 See detail</td>
</tr>
<tr>
<td>+/- Other adjustments</td>
<td>0</td>
</tr>
<tr>
<td>Book balance</td>
<td>$725,000</td>
</tr>
<tr>
<td>Un-reconciled difference</td>
<td>$0</td>
</tr>
</tbody>
</table>

Reconciliation Worksheet for Auditor

- Completed every month
  - Consider a tab for each year
  - Columns for each month
- One sheet printout
- Signature line, oversight and approval
Not So Easy….

- Fund 60 payments
  - Could be paid from wrong account
  - Could be deposited in wrong account
  - Could require due to/due from entries

Regular Routine ACH Payments

- Remember to tie out WRS, Fed/FICA, state taxes BEFORE sending payment and this will reduce mistakes
- Payments forwarded must clear out the liability account and match the amount you enter as a payment in the software

Credit Card Processing

- Typically deducted directly from your account
- Not on books until receipts and bills are processed
- Require users to submit their coding entries or receipts
- Use ACH process or manual check to put expenses in records
Fees, Food Service, Other Fun Receipts

- May be easier to run reports that only include actual payments received at the bank
- E-funds, RevTrak, SchoolPay, etc.
- Shortens reconciliation time, less deposits in transit
- At end of year, activity slows and tying out is simpler

Example of Issue on Your Books

- Cash reconciles, but....
  - You may not have adjusted the books appropriately
  - Balance could be correct but the funds could be in error
  - Balance could be correct but have incorrect revenue or expense entries

Transferring from Investment Accounts

<table>
<thead>
<tr>
<th>Account Balance</th>
<th>FY Debits</th>
<th>FY Credits</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGIP ($2,562,328.62)</td>
<td>$13,093,023.54</td>
<td>$11,198,760.60</td>
<td>$668,065.92</td>
</tr>
<tr>
<td>LGIP ($2,181,146.72)</td>
<td>$607,325.33</td>
<td>$75,221.97</td>
<td>$2,713,250.08</td>
</tr>
<tr>
<td>LGIP ($147,122.24)</td>
<td>$160.49</td>
<td>$11.42</td>
<td>$147,271.31</td>
</tr>
<tr>
<td>LGIP ($427,997.39)</td>
<td>$181,293.17</td>
<td>$43,404.11</td>
<td>$565,886.45</td>
</tr>
<tr>
<td>Total ($193,937.73)</td>
<td>$13,881,802.53</td>
<td>$11,317,398.10</td>
<td>$2,758,342.16</td>
</tr>
</tbody>
</table>

All transfers from LGIP to Gen'l checking were coded to Fd 10 Created negative balances and did not represent true balance

Recommendations:
- Could set up separate LGIP accounts for each fund's state deposits
- Could have all deposits made directly to Gen'l account, transfer out funds you intend to invest
- Could journal entry Fd10, FD27, and FD50 with each transfer
Separate reconciliations

• Don’t consolidate all cash accounts into one monthly reconciliation
• Start with low-activity account
  • Example separate payroll account
  • Investment account
  • Make entries for adjustments, don’t let them build up

• Other suggestions?
  • Questions?

Are We Having Fun Yet?

• Remember: reconciling items are normal
• If you follow a process, it will work out
• If you are falling behind, prioritize
• Work on smaller, low-activity accounts first
• If it doesn’t make sense, stop doing it!
• Use the automated reconciling process (Skyward)
• Ask others for process improvements

Seek Assistance!

• If you inherited a flawed system, revise it
• If reconciliation is mentioned in the audit report, prioritize
Disclosures

Robert W. Baird & Co. Incorporated is providing this information to you for discussion purposes only. The information does not contemplate or relate to a future issuance of municipal securities. Baird is not recommending that you take any action, and this information is not intended to be regarded as “advice” within the meaning of Section 15B of the Securities Exchange Act of 1934 or the rules thereunder. In providing this information, Baird is not acting as an advisor to you and does not owe you a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934. You should discuss the information contained herein with any and all internal or external advisors and experts you deem appropriate before acting on the information.

Information and situations are intended to reflect rules and law for the state of Wisconsin.