

CHAPTER 7 TRUSTEE BANK ACCOUNT REVIEW AND RECONCILIATION PROCEDURES

Overview of Bank Reconciliations

A bank reconciliation identifies the account balance per the bank statement and the account balance per the accounting records (Form 2), as of month end, and identifies the differences, such as deposits or transfers in transit, outstanding checks, NSF checks, service charges, and errors made by the bank or by the trustee. In general, deposits in transit and outstanding checks will resolve themselves without further action by the trustee (except for lost deposits, errors, or checks that have been outstanding for more than 90 days). Other reconciling items require the trustee to take specific action to correct the problem. For example, if a check is returned unpaid by the payer's bank, the trustee will need to record the NSF check on Form 2 and initiate collection proceedings.

Chapter 7 Trustee Bank Account Review and Reconciliation Procedures

1. Core bank account review and reconciliation requirements:
 - a. Monthly review and reconciliation of all bank accounts;
 - b. Timely posting of all banking transactions on Form 2 (except for bank errors that are reversed in the same month);
 - c. Timely investigation of unusual items;
 - d. Timely follow up of reconciling items that require correction; and
 - e. Trustee supervision of, and involvement with, the reconciliation process.
2. Trustee review of bank statements and canceled checks for unusual items (Handbook Chapter 9.D.1.b):
 - a. The person who receives the mail gives the unopened envelopes containing the monthly statements and canceled checks directly to the trustee.
 - b. The trustee reviews the statements and canceled checks for errors, unusual transfers and endorsements, alterations, and forged or unauthorized signatures within ten days of receipt (and before giving the documents to an assistant to prepare the bank reconciliations).
 - c. If discrepancies are discovered, the trustee brings them to the bank's attention immediately (e.g., within ten days of receiving the bank statements).
 - d. With Check 21, the canceled checks may be front and back check images printed on paper. If any canceled check image is illegible, the trustee requests a clearer image, a full-size image, or a substitute check.
 - e. The trustee is not required to initial and date the bank statements as evidence of this review.

3. Comparison of bank statement and Form 2 balances (Handbook Chapter 9.D.2)

- a. On a monthly basis, the trustee or an assistant reconciles all bankruptcy estate accounts before the end of the following month.
- b. The reconciliation can be documented on the face of the bank statement or another form created for this purpose. A bank reconciliation report printed from the trustee's case management system may be used. A complete reconciliation contains the following information:
 - i. Bank statement balance
 - ii. Form 2 balance
 - iii. All reconciling items, individually identified and explained (see d below)
 - iv. Preparer's initials and the date to document who prepared the reconciliation
 - v. Trustee's initials and the date for a sample of reconciliations selected by the trustee to review and approve

Note: Initials and dates on the bank statements, by themselves, do not constitute a bank reconciliation. The preparer must record the Form 2 balance on the statement, note the difference, and explain the reconciling items if the difference is other than zero.

- c. If the trustee uses reports generated by the case management system, the following additional procedures apply:
 - i. The report, usually a summary of all open bank accounts in one report, must have a cut-off date that matches the bank statement date (e.g., end of the calendar month).
 - ii. Both the bank statement balance and the Form 2 balance for each account must appear on the report.
 - iii. Each bank statement balance must be compared with the balance on the physical bank statement to verify that they match. This comparison may be documented with check marks. Note: it is necessary to validate the bank statement balances per the system-generated report against the physical bank statements to ensure that the report is accurate.
 - iv. If the bank statement balance and Form 2 balance do not match, a detail reconciliation must be prepared or printed so that the differences can be itemized and investigated (see d. below).
 - v. Both the preparer and the trustee (if not the preparer) must initial and date the report to document who prepared and who reviewed and approved the reconciliation.

- vi. Reconciliation reports containing multiple accounts should be kept in chronological order in a file or notebook. Reconciliation reports for individual accounts should be kept with the bank statements in the estate files.

d. Disposition of reconciling items:

- i. If the difference is due to a deposit or transfer in transit, the amount is matched to the latest deposit/transfer on Form 2. This deposit or transfer should have been made within 1 - 2 days of month end. If an older deposit or transfer is still in transit, the trustee needs to investigate the reason. The deposit could have been posted to the wrong account in the trustee's system or lost in transit to the bank. A delayed transfer could be due to bank error.
- ii. If the difference is due to outstanding checks, the dates and amounts of the checks are verified against Form 2. If any checks are more than 90 days old, the trustee needs to determine why the checks have not cleared, void them on Form 2, issue stop payments, and re-issue the checks.
- iii. If the difference is due to a service charge or back up withholding, the trustee needs to contact the bank to reverse the charges and record the item on Form 2.
- iv. If the difference is due to an NSF check, the trustee needs to contact the payer to replace the check. The item is recorded on Form 2 and formally tracked in an NSF check log.
- v. If any reconciling item is due to bank error, it should be brought to the bank's attention within 30 days of receiving the bank statements.

4. As the bank reconciliations are being prepared, it is a good time to do the following:

- a. If an account has a zero balance and the TDR has been filed, the trustee should arrange with the bank to close the account.
- b. The trustee or assistant should verify that all canceled checks listed on the bank statement have been received. This will save time later when gathering the bank records to submit to the United States Trustee with the TFR. This also enables the trustee or assistant to identify checks that cleared the bank without a check number (due to bank error).
- c. The trustee or assistant can verify that estate funds are properly invested.
- d. The trustee can verify, on a test basis, that incoming receipts are promptly and properly deposited by comparing the cash receipts log to the deposit slips and bank statements.