Review of City's Bank Reconciliation and Deposit Procedures

The Audit Committee recommends the adoption of the following report (September 13, 2000) from the City Auditor.

The Audit Committee reports, for the information of Council, having received the report (September 26, 2000) from the Chief Financial Officer and Treasurer.

Purpose:

The purpose of this report is to respond to the request of the Budget Advisory Committee that the City Auditor report, "on the frequency and regularity of the reconciliation of the City's bank accounts" and, "confirm the adequacy of the existing process for reconciliation of bank accounts." This report also includes the results of a review relating to the timely deposit of cheques received.

Financial Impact Statement:

There are no financial implications resulting from the adoption of this report.

Recommendations:

It is recommended that:

(1) the Chief Financial Officer and Treasurer implement formal policies and procedures with respect to the reconciliation of the City's bank accounts including the requirement:

(a) that bank reconciliations for all bank accounts be completed within 30 days of month-end;

(b) that all reconciling items be properly investigated on a timely basis and supported by appropriate documentation;

(c) that supervisory review of each bank reconciliation include the review of unusual reconciling items and signing of each reconciliation as evidence of supervisory approval; and

(d) that procedures be implemented to ensure timely and accurate recording of reconciliation adjustments in the general ledger;

(2) the Chief Financial Officer and Treasurer, in conjunction with all other Commissioners, establish a policy requiring daily deposits of cheques received and establish a reporting procedure for deposits such that:

(a) staff responsible for the receipt of cheques be required to restrictively endorse such cheques with an appropriate City of Toronto corporate name and date stamp;

(b) staff preparing bank deposits review the date stamps on cheques being deposited. Where significant delays are noted between the date on the date stamp and the date of deposit, this fact should be brought to the attention of appropriate supervisory staff for necessary action; and

(c) the Accounting Services Division work with departments to identify where additional training is required regarding the use of the general ledger account codes.

Background:

For the past several years auditors of both the former municipalities and the new City's external auditor have issued management letters. In several instances, these reports commented on the need for more timely completion of bank reconciliations and the importance of properly addressing reconciling items on the bank reconciliations. As part of the City Auditor's procedures, recommendations from past reports are periodically reviewed to determine the current status of the issue identified.

In addition, on April 26, 2000, Council approved Report No. 5 of the Policy and Finance Committee that requested the City Auditor to report on:

- the frequency and regularity of the reconciliation of all of the City's bank accounts; and

- the adequacy of the existing process for reconciliation of bank accounts.

Our review included discussions with supervisory staff to determine the status of bank reconciliation procedures as well as processes involved in relation to the timely banking of cheques. Based on these discussions, a representative sample of bank reconciliations was selected and examined for completeness, accuracy and verification of reconciling items. In addition, a number of daily bank deposits were examined and evaluated to determine the existence and causes of any delays in the making of bank deposits.

Comments:

As at August 2000, the Banking/Funds Unit of the Finance Department was responsible for the reconciliation of 51 bank accounts. A Funds Supervisor and a number of full and part-time staff of the Accounting Services Division are responsible for the reconciliation of these accounts. Staff in the Finance Department continue to rationalize the number of bank accounts required and it is expected that many of these accounts will be eliminated or combined.

Our review was limited to the bank accounts controlled by the Finance Department. Other bank accounts administered by other Departments will be reviewed during the course of our audits of individual departments.

Accounting Services Division's internal reports indicate that bank reconciliations are now being done on a timely basis. While this is technically correct, the bank reconciliations, as completed, are inadequate. Although accounting records reconcile to the bank balances, many of the items appearing on the reconciliation are unsupported or are identified as coming from an unknown source. Many of these items have been carried forward from month to month without appropriate investigation.

An essential component of the reconciliation process includes a review and investigation of all reconciling items. A process that identifies differences between the accounting records and the bank has no internal control value if such differences are not investigated. The prompt independent reconciliation of all bank accounts, along with the investigation of reconciling items, is an important internal control facility in ensuring that all transactions that have been processed through the City's bank accounts are proper and appropriate. It is therefore essential that the bank reconciliation process is carried out monthly and that any anomalies are followed up immediately.

Based on our review, the Funds Supervisor does not appear to regularly review the bank reconciliations and, consequently, appropriate action has not been taken to resolve and adjust long outstanding reconciling items. As an example of this, one bank reconciliation includes a reconciling amount of $13.3 million for which the bank reconciliation clerk had no supporting documentation. On further review, it was determined that appropriate supporting documentation was available within Accounting Services Division.

The Funds Supervisor should be instructed to conduct a monthly review of bank reconciliations to ensure satisfactory explanations exist for unusual reconciling items and to initial reconciliations as evidence of supervisory approval.

Implicit in the comments above is the existence of certain deficiencies in internal communications. Procedures should be established to ensure better communication and exchange of information between staff who reconcile banks and staff who record journal entries in the general ledger. This improved communication would help to reduce the number of long outstanding reconciling items appearing on bank reconciliations.

Daily Depositing Delays

Cheques received by the City should be deposited immediately, if not, as soon as possible. Many divisions of the City of Toronto receive cheques daily from the public for payment of various programs and business transactions. It was observed that in some cases cheques have been received and held for some time before being deposited in the bank. Divisional staff indicated this was due to their not knowing the correct general ledger account coding numbers developed for use with the SAP system. Consequently, divisions were holding the deposits until the correct coding numbers were identified.

While it is evident that there are delays in depositing cheques, the extent of the problem cannot be quantified. While we can identify when any cheque received has been deposited in the bank, there are no procedures in place that would enable management to identify when a cheque is

physically received by the City and where any delay in depositing the cheque may have occurred.

All staff responsible for the receipt of cheques should be required to restrictively endorse such cheques with an appropriate City of Toronto corporate name and date stamp.

On receiving cheques, staff preparing deposits should review the date stamp to ensure the cheques have been forwarded on a timely basis. Where significant delays are noted, this fact should be brought to the attention of appropriate supervisory staff for necessary action.

Conclusions:

This review has determined that procedures relating to the timely and accurate completion of bank reconcilations require improvement.

The Chief Financial Officer and Treasurer should implement formal policies and procedures with respect to the reconciliation of the City's bank accounts including:

- documentation of the roles and responsibilities of staff and the Funds Supervisor through preparation of detailed job descriptions;

- monthly supervisory review of each bank reconciliation, investigation of unusual reconciling items and supervisors signatures on reconciliations to evidence their approval;

- implementation of procedures to ensure the timely and accurate recording of reconciliation adjustments in the general ledger; and

- establishment of a policy requiring restrictive endorsements and date stamps on all cheques received for deposit and the daily reporting of deposits.

Our review of the bank reconciliations indicates there are deficiencies in how they have been prepared. It is imperative that sufficient appropriate resources be devoted to proper completion of bank reconciliations including follow-up of all reconciling items and the timely processing of necessary adjustments in the accounting records of the City.

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The Audit Committee also submits the following report (September 26, 2000) from the Chief Financial Officer and Treasurer:

Purpose:

The purpose of this report is to respond to the recommendations provided by the City Auditor is his report on the review of the City's bank reconciliation and deposit procedures. This report provides management's comments to the recommendations contained in the report.

Financial Impact Statement:

There are no financial implications resulting from this report.

Recommendation

It is recommended that this report be received for information.

Discussion

The City Auditor has conducted a review of the City's bank reconciliation and deposit procedures. As a result of this review the Auditor has made several recommendations regarding the completion of bank reconciliations and the depositing of cheques. While we are generally in agreement with the City Auditor's recommendations on bank reconciliations we do have some reservations with respect to the recommendations concerning the handling and depositing of cheques. Below are detailed the recommendations and the management responses.

Bank Reconciliation Recommendations

(a) Recommendation

That bank reconciliations for all bank accounts be completed within 30 days of month-end.

Management Comments

The funds management area of the Accounting Services Division has established a target that 85% of the bank accounts will be reconciled within one month and 100% of the accounts within two months by November 2000. Presently the number of accounts remaining opened is 46. Of these, 23 or 50% are completed to July, 10 to June, 7 to May and 6 are more than 90 days.

Ongoing efforts have been made to bring these reconciliations up to date including additional staffing, appointing on an interim basis a new supervisor and reallocating responsibilities to address the different skill levels of staff .

In addition, efforts are continuing to identify bank accounts that can be closed. This exercise is expected to be completed by October 2000. It is anticipated that through the ongoing efforts that the completion targets will be met by November.

(b) Recommendation

That all reconciling items be properly investigated on a timely basis and supported by appropriate documents.

Management Comments

In March 1999 there were 113 open bank accounts to reconcile. As of the date of this report these have been reduced to 45 open accounts and 1 closed account still requiring a final reconciliation to be completed. During the past 18 months considerable effort has been to bring the completion of bank reconciliations to a current status. It has not always been easy to quickly identify the proper treatment of reconciling items, some of which predated amalgamation. As management has worked with staff and has been able to evaluate the skills of these employees it became clear that reassignment of responsibilities was required in order to provide for the skills necessary to investigate some of the items. Reassignment of duties has been completed to address the need to investigate reconciling items in a timely manner.

In order to address new reconciling items, daily reports are produced and reviewed by funds management staff to identify differences between recorded disbursements and amounts cleared through the bank accounts. Deposits recorded in bank accounts are compared to accounting records as the deposit information is received from the bank. Funds management staff have been instructed to investigate any differences immediately and ensure that proper adjustments are made in the accounting records.

(c) Recommendation

That supervisory review of each bank reconciliation include the review of unusual reconciling items and signing of each reconciliation as evidence of supervisory approval.

Management Comments

The Supervisor has been instructed to initial each bank reconciliation as evidence of her review.

(d) Recommendation

That implementation of procedures to ensure timely and accurate recording of reconciliation adjustments in the general ledger.

Management Comments

In order to address new reconciling items, daily reports are produced and reviewed by funds management staff to identify differences between recorded disbursements and amounts cleared through the bank accounts. Deposits recorded in bank accounts are compared to accounting records as the deposit information is received from the bank.

Funds management staff have been instructed to investigate any differences immediately and ensure that proper adjustments are made in the accounting records.

(e) Recommendation

Staff responsible for the receipt of cheques be required to restrictively endorse such cheques with an appropriate City of Toronto corporate name and date stamp.

Management Comments

All cheques are endorsed at the time of deposit. Cheques are presently received in departments as well as centralised cashier locations in various civic centres. It is not desirable to provide all departments with endorsing stamps. Instead, only those individuals responsible for preparing the bank deposits should endorse the cheques. Departmental staff should not hold on to cheques but immediately forwarded them to the cashiers or accounts receivable area in Accounting Services.

(f) Recommendation

Staff preparing bank deposits review the date stamps on cheques being deposited. Where significant delays are noted between the date on the date stamp and the date of the deposit, this fact should be brought to the attention of appropriate supervisory staff for necessary action.

Management Comments

Staff in the Accounting Services Division currently review the dates of cheques forwarded for deposit. Where cheques are received in Accounting Services well after the date of the cheque, departmental staff are advised of the delayed receipt and are reminded of the need for timely submission of cheques to Accounting Services. The addition of a date stamp would not add any significant additional control over the timely submission of cheques to Accounting Services.

(g) Recommendation

The Accounting Services Division work with Departments to identify where additional training is required regarding the use of the general ledger account codes.

Management Comments

Accounting Services identifies and addresses as practical the need for additional training in all aspects of the use of the financial information system including the preparation of accounting documents using applicable general ledger account codes. Generally when an individual holds back a cheque it is because they are unsure where to record the cheque. Usually this is because they have not been fully trained in departmental procedures rather

than in the use of account codes. Departments retain the responsibility to ensure departmental staff are properly instructed in the use of departmental account codes.

Conclusions:

It is necessary for proper financial controls that bank reconciliations be performed on a timely basis and all reconciling items be investigated and adjusted within a short time period. The Accounting Services Division of the Finance Department is committed to continue its efforts to ensure that the reconciliations are completed in this manner. The target of a 85% completion rate within one month and a 100% within 2 months is both reasonable and achievable.

The Division will continue to monitor cheques received for deposit and will advise senior departmental staff when negotiable items are not received on a timely basis.

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