

# Bank Reconciliation: Procedures for Adjusting Cash and Accounts

**WASBO FALL CONFERENCE**

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# 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!



# What is a Bank Reconciliation?

- A **bank reconciliation** is used to compare your records to those of your **bank**, to see if there are any differences between these two sets of records for your cash transactions. The ending balance of your version of the cash records is known as the book balance, while the **bank's** version is called the **bank** balance.
- Verifies you have everything entered in your accounting records
- May be entered incorrectly, but it's in the records 😊



## 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

Balance from statement	\$
- Outstanding Checks	\$
+ Outstanding deposits	\$
Corrections	\$
Adjusted Bank Balance	\$
Book Blance	
Fund 10	\$
Fund 27	\$
Fund 50	\$
Fund 80	\$
Total Cash	\$
Difference	\$0.00



## 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.

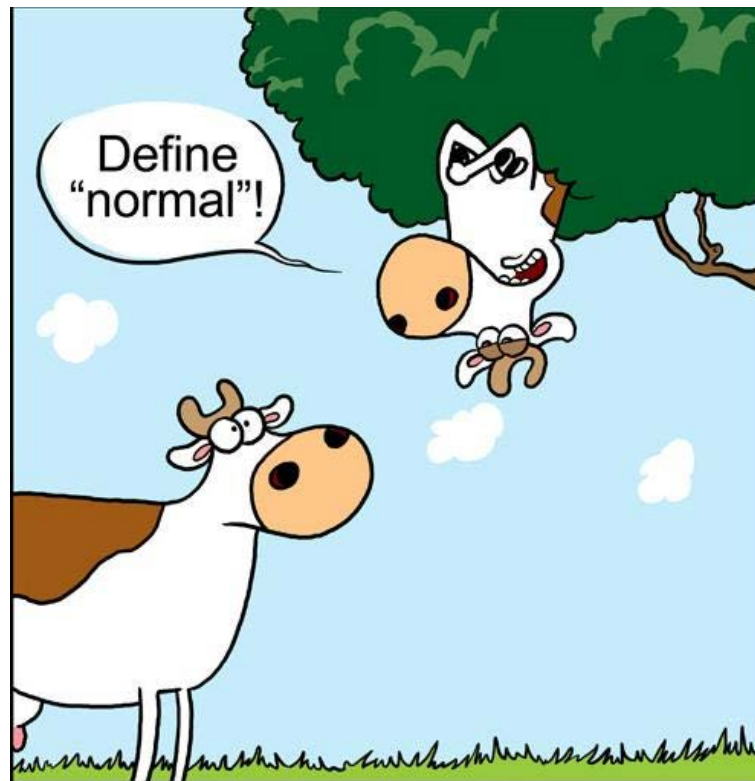
# What Are Outstanding Checks?

- *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; there may be multiple payments and deposits in transit at all times, as well as bank service fees and NSF issues that have not yet been 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.



# 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



# Beginning Balance

## STEP 1

- 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



# Determine Outstanding Checks

## STEP 2

- 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

# Electronic Payments and Receipts

## STEP 3

- 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 collections



# Other Charges, Fees, and Deductions

## STEP 4

- 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





# Journal Entries vs. ACH

## EXAMPLE

- No vendor information
- Duplication
- Errors

General Journal GJ1

Date	Account Title and Description	Ref.	Debit	Credit
20X1				
Aug. 1	Cash		50,000	
	Notes Payable			50,000
	Borrowed \$50,000			
3	Equipment		30,000	
	Cash			30,000
	Purchased equipment			
6	Vehicles		20,000	
	Notes Payable			18,000
	Cash			2,000
	Purchased delivery truck			

VS.



# Cash Receipts and Deposits

## STEP 3

- 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

		Action
Bank balance	<u>\$320,000</u>	
- Check printing charge	-200	JE Debit expense, credit cash
- Service charge	-150	JE Debit expense, credit cash
- NSF fee	-10	JE Debit expense, credit cash
- NSF deposit rejected	- 500	JE Debit revenue, credit cash
+ Interest income	+ 30	Cash receipt credit interest revenue
- Uncleared checks	- 80,000	None
+ Deposits in transit	<u>+ 25,000</u>	None
<b>Book balance</b>	<b><u>\$264,170</u></b>	

## 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.



## What If?

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

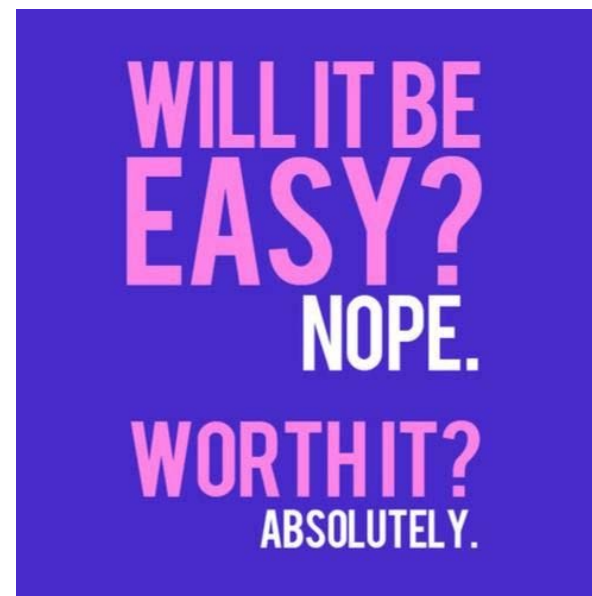
- Checks recorded in the bank records at a different amount from what is recorded in the district's records (*should catch earlier in clearing*)
- Deposits or electronic receipts recorded in the bank records at a different amount from what is recorded in the district's records (*Ditto*)
- Checks or electronic 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.

## 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

		<b>Beginning</b>			<b>Ending</b>
	<b>Account</b>	<b>Balance</b>	<b>FY Debits</b>	<b>FY Credits</b>	<b>Balance</b>
10 A 712203	LGIP	(\$2,562,328.62)	\$13,093,023.54	\$11,198,760.60	(\$668,065.68)
27 A 712203	LGIP	\$2,181,146.72	\$607,325.33	\$75,221.97	\$2,713,250.08
39 A 712203	LGIP	\$147,122.24	\$160.49	\$11.42	\$147,271.31
50 A 712203	LGIP	\$427,997.39	\$181,293.17	\$43,404.11	\$565,886.45
	<b>Total</b>	<b>\$193,937.73</b>	<b>\$13,881,802.53</b>	<b>\$11,317,398.10</b>	<b>\$2,758,342.16</b>

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 May Be Best

- Create separate reconciliations for each cash account
- Start with low-activity account
  - Example separate payroll account
  - Investment account
- Make entries for adjustments, don't let them build up
  
- Reconciliation worksheet from software or local worksheet
  - Show reconciling items and have back up documentation
  - Have approved each month for audit
- Other suggestions?

# 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
- If you are timely with reconciliations, keep it up!



Questions?



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