getting unstuck

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HOW TO GET THROUGH YOUR **BANK RECONCILIATION**

Governmental finances are complex, and even with tools like software to simplify them, the processes remain fraught with opportunities for errors. Successfully managing your reconciliation process begins with understanding all its moving parts.

Governmental finances are complex, which is why so many governments use a manual bank reconciliation process to reconcile their bank accounts. Even though software does exist to *assist* in the bank reconciliation process, for some organizations, it can be a case of too many moving parts. **And that means you might get stuck.**

When you work on a bank reconciliation, you are essentially trying to find the differences between the book balance and the bank balance, and then documenting those differences for the period you are working on.

THE OBVIOUS TIPS

Start with the obvious—it's easy to get them wrong in the midst of working on a reconciliation.

- Keep in mind which bank account(s) you are reconciling. If you are reconciling two accounts at once, keep them straight.
- Keep in mind which general ledger cash (or equivalent) account is representing the bank account being reconciled.
- Be aware of the period beginning and end dates, as this is particularly important for identifying deposits in transit and outstanding checks.

There are four more things to always keep in mind and apply to each transaction you review when doing the bank reconciliation. You will need to carefully consider what the instances are that cause a net:

- Increase or decrease to cash in the bank
- Increase or decrease to cash in the books
- Zero effect to cash in the bank
- Zero effect to cash in the books

To test out your understanding, simply follow the cycle of when a check gets issued, sent to a vendor, and then cashed by that vendor. Ask yourself: During this process, when is there a change in the bank balance, and when is there a change in the book balance?

Test yourself further by complicating the situation. Consider these "what if" scenarios:

- The check is issued on the last day of the month
- The check gets posted to the general ledger with a posting date in the next month
- The vendor tries to cash the check and it bounces in the next month, and then the vendor or bank re-deposits the check in the month after that[1]

(Find answers at the end of this article.)

UNCOMPLICATING THINGS

Successfully managing your reconciliation process begins with understanding all of its potential moving parts.

Record Keeping. The number of cash accounts in your general ledger can complicate the bank reconciliation process. For example, too many or too few can cause difficulties. If you have too many and don't account properly for which transactions are coming out of the correct account, or if you don't retain sufficient bank records, staff may not fully understand which general ledger cash account is meant to represent which bank account. If you have too few, then staff may not be able to perform proper tracking of outstanding checks and deposits in transit searches. If you aren't sure if you have too little or too many, then you may use the amount of time taken to prepare the bank reconciliation as a measure. Or you might need to ask a professional, preferably a certified public accountant or other professional experienced in bank reconciliation preparation engagements.

Similarly, the number of funds or cost centers you're dealing with makes a difference, along with the number of cashiering systems, billing systems, and subledgers feeding the general ledger. These all contribute to the level of complexity and difficulty you will encounter when preparing the bank reconciliation.

Having too many cooks in the kitchen is another issue, especially if they are not appropriately trained. If too many people are posting transactions to the general

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ledger, either manually or by initiating software interfaces, the likelihood of errors increases. If staff members aren't adequately trained, it may take longer to trace the source of a (potentially recurring) problem.

Banking. The number of bank accounts can complicate the bank reconciliation process. In addition to the number of accounts, account structure also makes a difference. For example, take zero balance accounts (ZBAs, which are bank accounts that connect with a designated bank account). Deposits and withdrawals on ZBAs immediately make the same dollar amount withdrawals and deposits onto the account that you designated. ZBAs are often used for payroll payment runs, or for bank accounts that have recurring "book" transfers. ZBAs can help simplify the outstanding check balance calculation if there are multiple checkbooks drawing from the same bank account. This helps because you can separate the bank accounts that are issuing checks from different check books, even though they are all getting funded by the same source.

In addition, keep in mind that bank services—such as positive pay and ACH debit block—can help with both reconciliation and fraud prevention. Positive pay services allow the accountholder to submit records to the bank for checks already issued, so the bank is informed of check numbers, amounts, and payee names before vendors cash their checks. The positive pay service identifies checks being cashed by vendors that have check numbers, payee names, or amounts that do not match the records already provided by the accountholder. The bank will notify the accountholder and ask how to proceed. This helps prevent fraudulent checks from being drawn on the bank account. Additionally, once positive pay is activated, some banks also provide a complimentary service called account reconcilement that uses this information, which in turn greatly assists in calculating your outstanding check balance.

If your government signs up for ACH debit block services on any of its accounts, any third-party attempts to make withdrawals on the bank account electronically through ACH will be blocked. Account holders can specify which third-party ACH debits they are willing to allow and for how much.

Also take a look at the bank statement. Is it difficult to read or understand? Some investment account statements aren't straightforward and require detailed review to understand the types of transactions that have taken place during the period. For example, a margin loan might have been taken out against one of the government's investment accounts. The person reviewing the bank statement for that investment account may not realize that deposits to it could immediately be used to repay the margin loan first, mistakenly thinking the money was available to transfer out or be used for more investment purchases. Misunderstanding this could lead to a lack of accountability for the loan payable balance on the entity's general ledger.

What Goes Where. You'll also need to understand:

- The last fully reconciled bank reconciliation and its related reconciling items.
- All the possible ways that debits and credits are getting posted to the bank statement, and who in your organization is responsible for booking these transactions. Knowing this can help you narrow down likely sources of mistakes or deficiencies in the bank reconciliation process
- All the possible ways that cash (or equivalent) transactions are recognized or recorded in the general ledger.

Find out which cashiering systems, billing systems, or sub-ledgers are already in place, which are feeding into the general ledger (including online), and how they are feeding into it. For example, other sub-ledgers that could be feeding your general ledger include payroll modules, accounts payable (check processing) modules, or corporate credit card-issuer platforms.

GETTING TO WORK

Once you understand all that, you can get started on the bank reconciliation.

Start work on the bank reconciliation by reviewing all of the entries that affect the related cash account in the general ledger. Ask yourself: can all of those entries that have been recorded be traced to the appropriate bank statement? If not, then consider reversing or adjusting the entries, or consider asking for help from a certified professional accountant or from a professional who has experience in bank reconciliation engagements.

If you can't trace all of the bank statement deposits to the general ledger or to the cashiering system, something is wrong, which means you'll need to do more research. While you're reviewing these, mark the bank date next to each one.

Review all bank statement credits and debits to determine if they were recorded. If they weren't, then note them as a reconciling item and record them if necessary. If any of those reconciling items will reverse in the next period, you may decide not to post a journal entry for them. Instead, you could keep track of it for that month's bank reconciliation, then carry that reconciling item forward until a future month when the transaction occurs that reverses the effect of that item on your bank reconciliation balance. While you are reviewing these, mark the book date next to each one.

Keep an organized list of reconciling items, including the following fields:

» The month of the bank reconciliation you're working on

» A detailed description of the reconciling items and why each item is needed

» The dollar amount of the reconciling item, along with a notation about whether it will be a credit or debit to the cash account

» Whether a journal entry will be needed, or whether the reconciling item will reverse itself at a future date.

» If a journal entry is needed, then note the general ledger account (code) it would need to be charged to, other than the cash account.

» The journal entry number used to make the entry to the general ledger, if applicable.

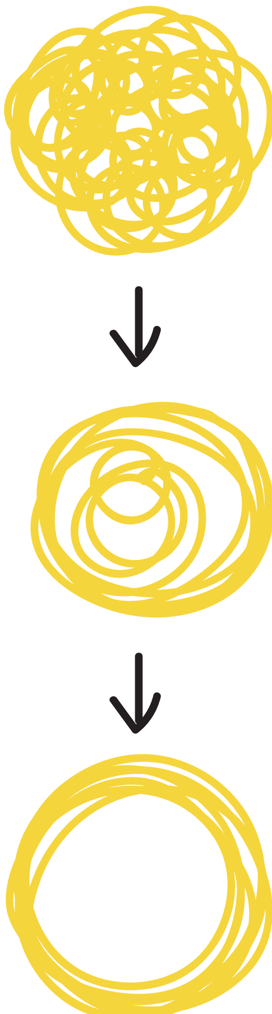
DEPOSITS IN TRANSIT

A deposit in transit happens when the entity's books have recorded a deposit on a particular date, but the bank is showing the deposit date to be in a different period that isn't already covered by the book balance. Perhaps you have recorded a deposit on the books on December 31 and it feeds into the December 31 book balance, but the bank shows the deposit date as being January 2, which is not part of the December 31 bank balance. This is a deposit in transit, and it is also a reconciling item to your bank reconciliation.

Deposits in transit can get complicated if merchant processors can group transactions or batches differently than your cashiering system. For example, some cashiering systems close a day's worth of transactions (or a "batch") at 5 p.m., while the merchant processor closes a day's batch at 11:59 p.m. This is a situation that can cause difficulty for reconciling, because the merchant processor may have a different set of transactions in one day's batch than the cashiering system. You can have a negative deposit in transit if the bank statement shows a deposit in the current period, but you haven't recorded the transaction in your books until a future period. You can also have a negative deposit in transit if you recorded a credit card disputed transaction (or other bank statement debit), but the bank shows that debit in a future period.

To make this reconciliation process easier, ask cashiers to keep sufficient supporting documentation like deposit slip copies or credit card batch transmission reports. A batch settlement report should also be kept.

A key process of the revenue cycle is the way credit card revenues get posted to the bank statement; it has a direct effect on how deposits in transit are calculated. For one thing, having multiple merchant IDs can either add to or remove the complexity from the reconciliation, depending on the set up of the bank accounts and set up of general ledger accounts. Let's consider this example: your government has multiple credit-card-revenue-collection points, and each collection point has more than one merchant ID number. Despite this set up, these are only posted to one bank account, and so the reconciliation could be difficult and time-consuming. Having multiple general-ledger accounts represented at each



location could also add to the complexity, as there is more to track and more to look through when searching for errors.

In addition, credit card revenue is collected in different ways. These include independent machines at a cashier's countertop, and/or MagTek readers connected to a cashier's computer. There are also parking meters, pay-on-foot stations, and online payment gateways. Each of these mechanisms groups credit card transactions for the day into a batch, records the date and authorization codes, and transmits the batch to the appointed merchant processor. The appointed merchant processor will help collect the money and deposit it to the agency collecting the revenue. When the merchant processor makes a deposit to the agency's bank account, it settles the transaction.

This process alone contains many points that could make the bank reconciliation more complicated.

For example, the time of day when the entity's cashiering system closes the credit card batch could be different than that of the mechanism that does the closing. This can cause the credit card batch in the cashiering module—which likely interfaces with the general ledger—to have a different total than the batch that was transmitted to the merchant processor, which subsequently gets settled to the entity's bank account.

Another example is when a credit card is swiped and the mechanism doesn't get the approval code right away to move forward. The mechanism may attempt to get the approval code for that transaction for the next few days, therefore making that day's batch different from what your cashiering module shows as the batch of credit card transactions for that day.

A third example is when merchant processors take their commissions directly from the credit card batch, instead of once a month in a single debit transaction to the bank account. This can also cause confusion when reconciling the totals of credit card transactions against the entity's cashiering system or general ledger.

For each of the steps along the way, make sure you have adequate reports—from the cashiering system, from the merchant processors, from payment gateway providers, and from the bank.

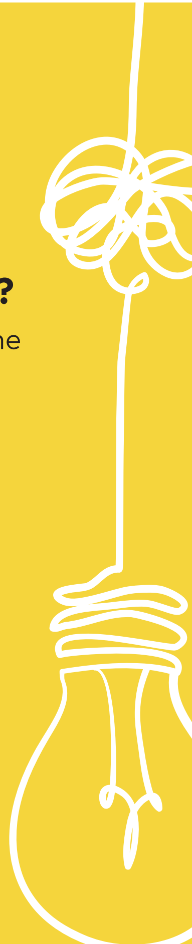
OUTSTANDING CHECKS

A check is "outstanding" when it is recorded in the general ledger but has not yet been paid by the bank. There are several ways in which outstanding checks can get complicated. The finance software's report of outstanding checks may not always be accurate, or it might appear that the bank has paid a check twice. It's also possible that a check has been voided in the entity's system, but the software is still counting it as outstanding.

It is therefore necessary to perform a "mini" reconciliation for the outstanding check balance, as a step within the overall bank reconciliation. The formula for getting the ending balance of outstanding checks is:

Beginning balance of outstanding checks + checks issued (including voided checks) - checks paid.

When subtracting checks paid, be sure to take into consideration checks that were rejected or not paid for other reasons.



WHAT IF YOU'RE STUCK?

If you're stuck, consider reviewing the following:

- The sign (positive or negative) of your existing reconciling items
- Reconciling items from a prior period that have reversed themselves in the current period. These can now be removed from the list of reconciling items
- Typos from data entry
- A missed deposit in transit
- An additional outstanding or voided check that was not already accounted for
- A transaction that should be accounted for within a different general ledger cash account
- Calculation of change in the fair market value
- Transactions that were accidentally posted twice

WHAT IF YOU'RE *STILL* STUCK?

If you're still stuck, there are a couple of possibilities to consider:

- You didn't completely perform all of the recommended steps in the above reconciliation strategy and therefore need to perform them again, one-by-one, more carefully.
- There may be a problem with your beginning balance, which could be masking unidentified reconciling items, where the prior bank reconciliation was not properly done. You may need to go back and reconcile the prior period again.

CONCLUSIONS

Many factors can complicate the process of performing a bank reconciliation, from the bank and from your own entity's bookkeeping cycle and software. Performing a successful bank reconciliation requires knowledge of both your entity's accounting practices and its banking system. You'll also need to keep an open mind—don't take anything for granted, including work performed by other staff members, the capabilities of your software, or even a bank's presentation of financial activity. Instead, test for accuracy and for reasonableness, and determine for yourself if you have enough information to complete the bank reconciliation or if more research will be needed to find other reconciling items.

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[1] Here are the answers. If a check is issued/printed in an accounting module feeding into the general ledger that has not yet posted to the general ledger, then the net effect to the books and to the bank is zero. Issuing/printing a check decreases the cash balance in the books only in the period posted to the general ledger and does not yet have an effect on the bank balance. When the vendor tries to cash the check at the bank, the bank account balance decreases. If the vendor check bounces or gets rejected, then the bank account balance increases. If the vendor tries to cash its check at the bank again, then the bank account balance will decrease again. At this point, the bank balance and the book balance will have decreased by the same amount for that check that was issued and paid.

[2] Robert Half, "More Finance Functions Are Embracing Cloud Technology: Here's Why," July 10, 2017, RobertHalf.com.