

State of Vermont  
Office of the State Treasurer-Treasury Operations Division

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| <b>Financial Process: Bank Account Reconciliation</b>  | <b>Issue Date: February 2008</b> |
| <b>Topic: Internal Control – Best Practices</b>  | <b>Revision Date: April 2011</b> |
| <b>Applicable to: All State Agencies, Departments, and Offices holding bank accounts outside the Office of the State Treasurer</b> | <b>Page: 1 of 4</b>              |

## **Objective**

State Agencies, Departments, and Offices holding bank accounts outside the Office of the State Treasurer shall identify and implement techniques and procedures to reconcile these accounts and to provide adequate security and controls, through segregation of duties, and best practices where feasible, for bank accounts entrusted to them.

## **Risks**

- Lost, stolen, or misappropriated cash (high degree of inherent risk).
- Concealed errors or irregularities going undetected.

## **Definitions**

- ***Bank accounts*** are generally checking accounts operated at department levels that are used to support programmatic revenue and expenditures. Funds disbursed must be consistent with the department's mission and objectives.
- ***Reconciliation*** is the act of confirming that the account balance in the checkbook matches the corresponding bank statement. Monthly reconciliation is crucial to ensure accurate and comprehensive financial reporting, because it identifies errors and inconsistencies requiring correction by verifying the accuracy of each account.
- ***Segregation of duties***, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. This principle is demonstrated in the traditional example of separation of duty found in segregating responsibility for check preparation, check-signing, and bank account reconciliation.

## **Best Practices Include**

- Bank accounts can only be established at selected banks upon approval of the Office of the State Treasurer.
- Bank accounts established at the departmental level must not be used to pay vendors for personal services, employee salaries, wages, loans, advances or bonuses. The VISION accounting system and payroll system will be used for these types of payments.

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- Bank account funding levels should be sufficient to meet the normal operating needs of the department and the purpose of the bank account, and not in excess. Excess funds should be promptly transferred to State operating accounts and accounted for in the VISION accounting system.
- One employee should be assigned responsibility as custodian of the bank account with a designated back-up. Access to and the location of check books and other bank account records and information should be limited and restricted to only the designated custodians.
- The custodian must maintain a register which shall list all receipts, cash and copies of checks received, and for each disbursement, the payee, the date of disbursement, the amount, and the business purpose of the expenditure.
- The custodian must maintain and match a copy of the deposit slip with the bank deposit receipt for reconciliation with the monthly bank statement for all bank account deposits.
- Fully separate payment preparation duties, payment approval duties, and reconciliation duties whenever possible. If full separation is not possible due to staffing limitations, other mitigating controls must be in place and operating correctly.
- Restrictively endorse checks “For Deposit Only” upon receipt. Make frequent deposits (at least weekly).
- The custodian should be responsible for knowing which expenditures are allowable prior to disbursing funds.
- The custodian must reconcile the bank account within 30 days of each statement cutoff, sign and date the reconciliation, and submit it to a supervisor or manager for their review and approval signature. The supervisor or manager must review and sign the reconciliation promptly.
- Departments should perform reviews, at least annually, of the list of persons who are authorized signers on the bank account as maintained by the bank, and update this list promptly as needed. This must also be done each time there is a change in staff of a designated authorized signer on the bank account.
- Departments will maintain written procedures for all bank accounts activity. Procedures should address staff responsibilities (custodian duties), key activities, timelines, the safeguarding of the bank account, and reconciliation.

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- Reconciliation procedures must include, (1) outstanding checks and deposits lists, (2) signatures by the person performing the reconciliation and approving the reconciliation, (3) procedures for resolving outstanding checks over 6 months old, and (4) procedures for resolving outstanding deposits over one month old.
- Procedures should be reviewed on a regular basis for applicability and for monitoring self-compliance.
- Any reconciling items should be resolved in a timely manner. The Treasury Operations Division of the Office of the State Treasurer will assist in the clearing of reconciling items as needed.
- Upon suspicion of fraud or theft notify the appropriate supervisory personnel and the Treasury Operations Director of the Office of the State Treasurer immediately.
- Department management should perform unannounced bank account reviews and/or reconciliations periodically.
- In all cases, consideration should be given to closing a bank account if there is no longer a need.
- Established bank accounts may only be closed upon approval of the Office of the State Treasurer.
- Any checks outstanding more than one year must be escheated to the Unclaimed Property Division of the Office of the State Treasurer according to the abandoned property statutes. See Sec. 27.14 V.S.A. § 1242 (a) (11) and associated statutes.
- No account information shall be sent over the internet, to include images of checks, without prior written approval from the Office of the State Treasurer.
- Compliance with these guidelines, and with departmental procedures, is required to keep the account active.

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### **Annual Reporting**

Annually at June 30 each department that maintains an approved bank account at a selected bank must complete and submit a questionnaire that contains information about the use of the account, on the individuals that are the authorized signers, those who are authorized to make expenditures, those who perform reconciliations, and those who approve reconciliations. A copy of each June 30 bank statement along with a completed and approved account reconciliation, a sample voided check, a copy of the outstanding check register as of June 30, and a copy of the procedures used to control the use and reconciliation of the bank account, must be attached to each questionnaire. For departments using a single set of procedures for multiple bank accounts only one set of procedures should be submitted.