

**LOCAL GOVERNMENT SERVICES BUREAU
STATE FINANCIAL SERVICES DIVISION**



CASH RECONCILIATION

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June 2020

LEARNING OUTCOMES

GOAL 1

Cash Reconciliation

GOAL 2

Related Internal Controls

GOAL 3

Tracking Debits & Credits
throughout the month



RECONCILIATION OF CASH

Duties of a Municipal Treasurer (MCA 7-6-612)

- Receive, disburse and serve as custodian of all public money.
- Provide for accountability of the entity's cash receipts, deposits and investments of all departments, offices and boards.
- Pay all claims or warrants when presented for payment when there are funds in the treasury to pay the warrants/checks.
- Require periodic departmental reports of money receipts and their disposition on forms (to the governing body)
- The governing body shall direct the municipal treasurer to open separate accounts for receipt of money for the governing body. *Only the municipal treasurer may open an account for the receipt of local government money*



RECONCILIATION OF CASH

A Municipal Treasurer's primary function is to manage the cash by:

- Reconciling bank accounts, investments & cash on hand to the general ledger monthly
 - As soon as statements arrive preferably
 - At the same time each month

The Municipal Treasurer should verify:

- Deposits made to all bank accounts during the period balance with all deposits/cash receipts
- Payments from each bank account balances with checks & electronic withdrawals paid during the period
- Transfers between bank accounts
- All transactions are posted in records during the period
 - Interest should be receipted in the month it is earned



RECONCILIATION OF CASH

Bank Reconciliation is the process of comparing transactions from the accounting records against those presented on the bank statements/records.

- Compare the total of the receipts written/posted for the month to the total of the bank deposits for the month
 - Ensure interest earned is receipted or a journal voucher is prepared at month-end
- Compare the total disbursements for the month to the total of claims and electronic payment items
 - Ensure any bank fees are entered in accounting records or a journal voucher is prepared at month-end
 - Redeem checks in the accounting software to establish the outstanding checks



RECONCILIATION OF CASH

Bank Reconciliation will uncover possible discrepancies caused by:

- Timing differences
- Data input error or software glitches
- Bank error
- “Automatic” or “Electronic” charges or deposits
- Employee theft

Bank Reconciliation allows for:

- Timely correction of errors
- Timely adjustments for charges and/or deposits
- Correction of other irregularities



Reconciliation of Cash - Definitions

- Cash – Cash balances on hand, bank and investment balances.
- Cash Equivalents – Temporary investments of cash not required at present time but could be available within three months whereas short-term investments mature within 12 months.
- Bank Statement – Statement issued by bank to the customer showing current balances.
- Deposits in Transit – Amounts that the entity has already received and recorded but are not recorded by the bank at the time the statement is presented (it will be on the next statement).
- Outstanding checks – Checks that have been written and entered in records but have not cleared the bank account.



Reconciliation of Cash – Definitions Cont.

- Redeemed checks – Checks that have been written, entered in records and have cleared the bank account.
- NSF Check – Check that was not honored by the bank it was written on because the account did not have enough money to cover the check.
- Bank error – An error made by a bank processing the check. The error can be an incorrect amount, wrong account or omission of an item.
- Bank Service Charge – Fees deducted by the bank for the processing of checks, overdraft fees, stop payment order, check or deposit printing fees.
- Interest earned – The interest earned and added to the account during the statement cycle.



Reconciliation of Cash – Definitions Cont.

- Cash Receipts – A pre-numbered receipt that is written (or input if using receipting software) for all incoming payments of cash, checks, automatic deposits, interest earned.
 - A cash receipt should be made immediately.
- Petty Cash Account – An account used to make change and pay for small expenditures. This account can be a combination of cash and a checking account with a small balance.
 - Original receipts should be provided to show where expenditures were made. A claim check could be written to the petty cash fund to replenish. The expenditures of the claim would be coded by reviewing the receipts.



Reconciliation of Cash – Where to start?

- **REMEMBER:** This is one of the most important aspects of your position as a Clerk or Clerk/Treasurer.
- *Protect yourself and your position by accurately reconciling cash on a consistent basis*
- *Report problems if you can't resolve them!*



RECONCILIATION OF CASH – STEP 1:

STEP 1: Start at the beginning - Receipting

- Each time you take in revenue – write a receipt or input it in your receipting software immediately.
 - Each receipt should say if the payment was cash, check, credit card, ACH (auto deposit).
 - Stamp or endorse checks immediately.
 - Keep cash and checks in a secure location.



RECONCILIATION OF CASH

If not using a software-generated method:

Cash receipts should:

- Be pre-printed and pre-numbered.
- Have multiple copies.
- Include the date.
- Amount – numerical and written.
- Show who it was received from – Example: MT Dept of Transportation – gas tax
- Fund and revenue account information.
- A description of the transaction if necessary – Example: donation for park playground equipment by Jane Doe
- Type of payment received – cash, check, credit card or ACH or other electronic deposit.
- Be signed by the person who accepted payment.



RECONCILIATION OF CASH – Receipt Example

City of Somewhere, MT		Receipt #25996
Fund # _____	Account # _____	Date _____
Received from _____	\$ _____	
Written amount _____		
For _____		
<input type="checkbox"/> Cash		
<input type="checkbox"/> Check k# _____		
<input type="checkbox"/> Auto _____		
<input type="checkbox"/> Credit Card	Accepted by _____	

Includes the requirements:

- Pre-numbered
- Fund and Account #
- Includes the date
- Amount written and numerical
- Who it was received from & for what
- Form of payment
- Who accepted the payment



RECONCILIATION OF CASH

Keep control of the cash & cash receipt book

- All cash receipts should be written in numerical order.
- The cash and checks should be included in the next bank deposit ~ until then store in a safe location!
- All checks received by the City/Town should be made payable to the City/Town.
- All checks received should be stamped or endorsed immediately upon receipt.
- If cash is received and a cash receipt is written, do not use this cash to replenish petty cash or cash a personal check for someone.
- If you void a cash receipt do not destroy it or its copies, keep all copies with the other cash receipts.
(Document on the receipt the reason it was voided)



RECONCILIATION OF CASH

When accepting cash:

- Always keep the cash in view of the customer until you have completed the transaction.
- Always count the cash in the presence of the customer.
- Separate the bills by denomination all facing one direction (largest denomination on top), stack coins by denomination.
- Check each bill to ensure the denomination.
- Add up the bills, if your total doesn't agree, repeat the count until it agrees – reverse the order of the denomination (largest on bottom, face up).
- If a discrepancy still exists, ask a co-worker (if available) to count.
- Don't put the cash away until you verify it is correct and the transaction is complete.



RECONCILIATION OF CASH

Keeping a cash drawer:

- Keep the cash drawer locked – never leave it unlocked or unattended if it is removable.
- Keep it in a consistent manner.
- Arrange currency divided by denomination.
- Ensure all bills face the same direction.
- Have a separate compartment for checks.
- Verify the dollar amount of the beginning balance (Petty Cash amount).
- Have periodic & sporadic reviews of the cash drawer by another employee, Mayor or Council member – keep a log of the reviews.



RECONCILIATION OF CASH – STEP 2:

STEP 2: Making the Bank Deposits

Cash receipts = Bank deposit slips

- When doing a bank deposit – add up all cash receipts and verify they balance with the total of your bank deposit slips.
 - Don't take the deposit to the bank until you verify it balances.
 - Use duplicate bank deposit slips in a book – keep the copy in the book in the order they were written.



RECONCILIATION OF CASH – STEP 2:

STEP 2: Tracking Bank Deposits & Cash Balances throughout the month:

The depository record allows you to track one or more accounts:

Town of Somewhere Month of: June 20xx					Water Construction			Money Market			STIP			
Operating Account:					Account			Account			Account			
Notes:	Date	Transaction:	Debits	Credits	Ending balance	Beg Bal	Trans Amt.	50,000.00	Beg Bal	Trans Amt.	16,000.00	Beg Bal:	Trans Amt.	50,000.00
		Beginning Balance:			200350									
Balance forward:					200,350.00									
	6/04	Deposit	5200		205,550.00	Deposit	3,396.41	53,396.41	Interest	200	16,200.00	Interest:	100	50,100.00
	6/05	Claims checks		5200	200,350.00	Deposit	3,184.00	56,580.41			16,200.00			50,100.00
	6/11	Deposit	6900		207,250.00	Deposit	1,132.13	57,712.54			16,200.00			50,100.00
	6/14	Deposit - UB	4640		211,890.00	Checks	-20,000.00	37,712.54			16,200.00			50,100.00
	6/18	Deposit	6853.14		218,743.14			37,712.54			16,200.00			50,100.00
	6/19	Claim checks		16200	202,543.14			37,712.54			16,200.00			50,100.00
	6/22	Deposit	4500		207,043.14			37,712.54			16,200.00			50,100.00
	6/22	ACH Deposit	16000		223,043.14			37,712.54			16,200.00			50,100.00
	6/29	Deposit	8000		231,043.14			37,712.54			16,200.00			50,100.00
	6/29	Payroll - checks		21500	209,543.14			37,712.54			16,200.00			50,100.00
	6/29	Payroll - EFTPS		1900	207,643.14			37,712.54			16,200.00			50,100.00
	6/29	Payroll - liabilities		1600	206,043.14			37,712.54			16,200.00			50,100.00
	6/30	interest	26.01		206,069.15			37,712.54			16,200.00			50,100.00
					206,069.15			37,712.54			16,200.00			50,100.00
					Checking Acct. Ending Balance:	balance check:		0.00	balance check:		0.00	balance check:		0.00
					Balance on Statement:	Statement balance	37,712.54		Statement balance	16,200.00		Statement balance	50,100.00	
					Outstanding checks:	Outstanding checks								
					Deposits in Transit:	Deposits in transit								
					0.00									
					Ending Checking Acct Balan:	Ending balance	37,712.54		Ending balance	16,200.00		Ending balance	50,100.00	
					206,069.15									
					Per Monthly Statements:									
					Clerk petty cash									
					150									
					Per Software Cash Report:	Bank Balance - acct 0464		210,070.99						
					314,233.53	Clerk petty cash		150.00						
					Difference:	Water Const Balance:		37,712.54						
					0.00	Money Market Balance:		16,200.00						
					should be zero	STIP		50,100.00						
					Total Balance of all accounts:			314,233.53						



RECONCILIATION OF CASH – STEP 2:

STEP 2: Tracking Bank Deposits & Cash Balances using a Depository Record:

- Add deposits as they take place.
- Add claims/payroll checks as written.
- DEPOSITS:
 - Your deposits
 - ACH deposits
- CLAIMS
- PAYROLL

Town of Somewhere					
Month of: June 20xx					
Operating Account:					
Notes:	Date	Transaction:	Debits	Credits	Ending balance
		Beginning Balance:			200350
Balance forward:					200,350.00
	6/04	Deposit	5200		205,550.00
	6/05	Claims checks		5200	200,350.00
	6/11	Deposit	6900		207,250.00
	6/14	Deposit - UB	4640		211,890.00
	6/18	Deposit	6853.14		218,743.14
	6/19	Claim checks		16200	202,543.14
	6/22	Deposit	4500		207,043.14
	6/22	ACH Deposit	16000		223,043.14
	6/29	Deposit	8000		231,043.14
	6/29	Payroll - checks		21500	209,543.14
	6/29	Payroll - EFTPS		1900	207,643.14
	6/29	Payroll - liabilities		1600	206,043.14
	6/30	interest	26.01		206,069.15
					206,069.15
					206,069.15



RECONCILIATION OF CASH – Internal Controls

Internal Controls for bank deposits:

- Have a cash management policy:
 - It should state how and who handles receipting and deposits.
- The person that writes the receipts should not be the one to prepare the bank deposit (not possible in smaller entities).
- Develop other internal controls to compensate ~ such as having the Mayor or Council spot check the deposits at random intervals by adding the items for deposit and comparing to the cash receipts and to the bank deposit slips.
- Verify efficiency and effectiveness of operations – *If it isn't working change how you do it!*



RECONCILIATION OF CASH

Handling automatic & electronic transactions:

- Interest – leave a cash receipt open at month-end to receipt monthly bank and investment interest payments.
- If you have access to on-line banking:
 - Check for ACH deposits periodically – write a cash receipt.
 - Watch for notification of auto deposits in your mail or email.
 - Prepare a journal voucher for electronic payments that are not run through the claims or payroll process.
 - Such as monthly loan payments or bank service charges.



RECONCILIATION OF CASH

TIP: Put it where it isn't!

- If an item appears on the bank statement but not in the software:
 - Put it there by receipt or journal voucher – Example: interest

- If an item is already in the software but not yet on the bank statement:
 - Put it there by making an adjustment to the bank balance – Example: deposit in transit



RECONCILIATION OF CASH – STEP 3:

STEP 3: Month-end processing:

- Ensure all bank statements have been received.
 - Review the statements immediately for any transactions that **have not** been receipted for revenues or journal vouchers for expenditures.
 - Receipt all interest earned in the month.
 - Journal Voucher any service charges or monthly transfers, including monthly inter-fund transfers.
 - Note that any NSF checks that were charged against your bank account have been properly adjusted for in your computer system.
- Redeem checks that have cleared the bank.
 - Put checks in numerical order.
 - Redeem in software using vendor instructions.
- Prepare an outstanding checks list by running a report from your software.
- Ensure voided checks were handled correctly.



RECONCILIATION OF CASH – STEP 3:

STEP 3: Month-end processing cont.:

- Make sure to post the payroll from the payroll software to the accounting software immediately after each payroll cycle.
- Redeem checks in the accounting software for the appropriate accounting period.
- Reconcile the claims and payroll clearing funds at month-end (*funds 7910 & 7930*).
 - The balance should be warrants payable (outstanding) and due to others (accruals of quarterly payments – for payments not yet made).



RECONCILIATION OF CASH – STEP 3:

STEP 3: Month-end processing cont.:

- Reconcile the claims and payroll clearing funds
 - The balance should be warrants payable (outstanding) and due to others (accruals of quarterly payments – for payments not yet made).
 - Compare the ending totals to the outstanding checks at month-end.

TOWN OF SOMEWHERE TRIAL BALANCE			
FUND 7930 - CLAIMS CLEARING FUND			
June 30, 2013			
Account Number	Description		Totals
ASSETS			
Current Assets			
101000	Cash and cash equivalents	3,001.84	3,001.84
	Total Current Assets	3,001.84	3,001.84
	Total Assets	3,001.84	3,001.84
LIABILITIES			
Current Liabilities			
201000	Checks payable	3,001.84	3,001.84
212000	Due to other governments	0.00	0.00
	Total Current Liabilities	3,001.84	3,001.84

Checking Acct. Ending Balance:	
Balance on Statement:	210,070.99
Outstanding checks:	4,001.84
Deposits in Transit:	0.00
Ending Checking Acct Balance	206,069.15

TOWN OF SOMEWHERE TRIAL BALANCE			
FUND 7910 - PAYROLL CLEARING FUND			
June 30, 2013			
Account Number	Description		Totals
ASSETS			
Current Assets			
101000	Cash and cash equivalents	1,000.00	1,000.00
	Total Current Assets	1,000.00	1,000.00
	Total Assets	1,000.00	1,000.00
LIABILITIES			
Current Liabilities			
201000	Checks payable	1,000.00	1,000.00
212000	Due to other governments	0.00	0.00
	Total Current Liabilities	1,000.00	1,000.00



RECONCILIATION OF CASH – STEP 4:

STEP 4: The Reconciliation

- Total your cash receipts for the month and run a software report – *If they balance proceed*.
 - Verify the total of cash receipts, utility billing receipts and journal vouchers in lieu of cash receipts to the total of bank deposits on all bank and investment statements.
 - If this doesn't balance research and correct.
 - Check that all cash receipts or revenue vouchers are posted.
 - Verify the interest earned to the amount receipted.
 - Compare deposits on bank statements to your deposit slips.
 - Check bank statement for ACH deposits.
- Once this balances move forward with the next step of the reconciliation process.



RECONCILIATION OF CASH – STEP 4:

STEP 4: The Reconciliation cont.

- Total all checks written and electronic transactions (payroll & claims) and compare to bank transactions.
 - Look for any journal entries made for withdrawals not made by payroll or claims checks (disregard inter-fund journal vouchers).
 - Add any outstanding electronic transactions to the outstanding checks report.
 - Take the total of all checks and electronic transactions (PERS, Taxes, Auto loan withdrawals) compare to the bank statement.
 - If this doesn't balance check for any bank withdrawals that you did not make in your records.
 - Remember – put it where it isn't!
- Once this balances move forward with the next step of the reconciliation process.



RECONCILIATION OF CASH – STEP 4:

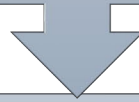
STEP 4: The Reconciliation cont.

- Take the ending bank statement balance:
 - + Add any deposits in transit (deposits you have receipted in but did not make it to the bank at month-end).
 - -Subtract any outstanding checks and electronic payments that have not cleared the bank account to find adjusted bank balance.
- Run a cash report in your software.
- Compare the ending cash balance of all funds to the adjusted bank balance, except claims and payroll clearing funds.

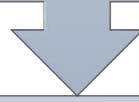


RECONCILIATION OF CASH - Summary

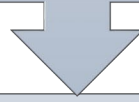
Step 1: Review Cash Receipts for Accuracy



Step 2: Cash Receipts = Bank Deposits



Step 3: Month-end Processes: Transfers;
Interest & Service Charges; Redeem Checks; Outstanding List



Step 4: Reconciliation:
Bank balances – Outstanding Checks + Deposits in Transit
= Cash balance of funds



RECONCILIATION OF CASH – STEP 4:

STEP 4: The Reconciliation cont.

Town of Somewhere
Month of: June 20xx

Operating Account:						Water Construction			Money Market Account			STIP		
Notes:	Date	Transaction:	Debits	Credits	Ending balance	Beg Bal	Trans Amt.	50,000.00	Beg Bal	Trans Amt.	16,000.00	Beg Bal:	Trans Amt.	50,000.00
		Beginning Balance:			200350									
		Balance forward:			200,350.00									
	6/04	Deposit	5200		205,550.00	Deposit	3,396.41	53,396.41	Interest	200	16,200.00	Interest:	100	50,100.00
	6/05	Claims checks		5200	200,350.00	Deposit	3,184.00	56,580.41			16,200.00			50,100.00
	6/11	Deposit	6900		207,250.00	Deposit	1,132.13	57,712.54			16,200.00			50,100.00
	6/14	Deposit - UB	4640		211,890.00	Checks	-20,000.00	37,712.54			16,200.00			50,100.00
	6/18	Deposit	6853.14		218,743.14			37,712.54			16,200.00			50,100.00
	6/19	Claim checks		16200	202,543.14			37,712.54			16,200.00			50,100.00
	6/22	Deposit	4500		207,043.14			37,712.54			16,200.00			50,100.00
	6/22	ACH Deposit	16000		223,043.14			37,712.54			16,200.00			50,100.00
	6/29	Deposit	8000		231,043.14			37,712.54			16,200.00			50,100.00
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	6/29	Payroll - EFTPS		1900	207,643.14			37,712.54			16,200.00			50,100.00
	6/29	Payroll - liabilities		1600	206,043.14			37,712.54			16,200.00			50,100.00
	6/30	interest	26.01		206,069.15			37,712.54			16,200.00			50,100.00
					206,069.15			37,712.54			16,200.00			50,100.00
					206,069.15			37,712.54			16,200.00			50,100.00
		Checking Acct. Ending Balance:				balance check:		0.00	balance check:		0.00	balance check:		0.00
		Balance on Statement:			210,070.99	Statement balance		37,712.54	Statement balance		16,200.00	Statement balance		50,100.00
		Outstanding checks:			4,001.84	Outstanding checks								
		Deposits in Transit:			0.00	Deposits in transit								
		Ending Checking Acct Balan:			206,069.15	Ending balance		37,712.54	Ending balance		16,200.00	Ending balance		50,100.00
		Per Monthly Statements:												
		Clerk petty cash			150									
		Per Software Cash Report:			314,233.53	Bank Balance - acct 0464		210,070.99						
						Clerk petty cash		150.00						
		Difference:			0.00	Water Const Balance:		37,712.54						
		should be zero				Money Market Balance:		16,200.00						
						STIP		50,100.00						
						Total Balance of all accounts:		314,233.53						

- Input the following information:
1. Bank balances per statements
 2. Outstanding check information
 3. Deposits in Transit
 4. Total cash balance per software



RECONCILIATION OF CASH – STEP 4:

STEP 4: The Reconciliation cont.

Town of Somewhere Month of: June 20xx					Water Construction			Money Market			STIP			
Operating Account:	Date	Transaction:	Debits	Credits	Ending balance	Beg Bal	Trans Amt.	50,000.00	Beg Bal	Trans Amt.	16,000.00	Beg Bal:	Trans Amt.	50,000.00
Notes:		Beginning Balance:			200350									
Balance forward:					200,350.00									
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	6/05	Claims checks		5200	200,350.00	Deposit	3,184.00	56,580.41			16,200.00			50,100.00
	6/11	Deposit	6900		207,250.00	Deposit	1,132.13	57,712.54			16,200.00			50,100.00
	6/14	Deposit - UB	4640		211,890.00	Checks	-20,000.00	37,712.54			16,200.00			50,100.00
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	6/30	interest	26.01		206,069.15			37,712.54			16,200.00			50,100.00
					206,069.15			37,712.54			16,200.00			50,100.00
		Checking Acct. Ending Balance:				balance check:	0.00		balance check:	0.00		balance check:	0.00	
		Balance on Statement:			210,070.99	Statement balance	37,712.54		Statement balance	16,200.00		Statement balance	50,100.00	
		Outstanding checks:			4,001.84	Outstanding checks								
		Deposits in Transit:			0.00	Deposits in transit								
		Ending Checking Acct Balance:			206,069.15	Ending balance	37,712.54		Ending balance	16,200.00		Ending balance	50,100.00	
		Per Monthly Statements:												
		Clerk petty cash	150											
		Per Software Cash Report:	314,233.53											
		Bank Balance - acct 0464			210,070.99									
		Clerk petty cash			150.00									
		Water Const Balance:			37,712.54									
		Money Market Balance:			16,200.00									
		STIP			50,100.00									
		Total Balance of all accounts:			314,233.53									

Compare the balance per software to the Total Balance of all Accounts:

- If they **balance**, it's reconciled until next month.
- If they **don't balance**, find what you are off before you move on.



RECONCILIATION OF CASH – Common Errors

Check the following for errors:

- Is the beginning balance correct?
- Do deposit totals = cash receipts?
- Are all deposits recorded, and all checks recorded?
- Review voided items ~ Checks, Claims, Cash Receipts.
- Review automatic transactions, electronic items.
- Review for transposition errors (divisible by 9).
- Review for addition or subtraction errors.
- Amount(s) recorded incorrectly.
- Review interest earned, service charges.
- Bank statement balance correct – right time period comparison?
- Review for deposits in transit.
- Review redeemed checks that is still outstanding.
- Review NSF check amounts.



RECONCILIATION OF CASH – Common Errors

Additional tips to finding errors:

- Is the amount you are off a familiar number?
- Compare the redeemed check amounts in your software to the bank statement.
- Compare the deposits in your software to the bank statement.
- Review the cash receipts again, comparing both written and numerical amounts.
- Double-check the bank statement balance you are using.
- Re-check additions and subtractions.
- Take a break from reconciling and come back to it – if possible, have someone else review these items to double-check.



QUESTIONS?

