

FINANCE MEMORANDUM
#08-11

DATE: December 11, 2008

TO: Honorable Mayor Kathleen M. Novak and City Council Members

FROM: Bill Simmons, City Manager *WSP*
James Hayes, Acting Finance Director *JH*
SuzAnne Garcia, Treasury Manager *SG*

SUBJECT: Operating Account Bank Reconciliation Update

Staff has developed the following processes to determine past and mitigate future unreconciled differences:

1. Electronic transactions are being tracked according to the bank settlement dates. The source documents required have been identified and we now have staffing that can build the prior months worksheets and keep up with the current period.
2. The outstanding checks have been reconciled. As we properly reconcile the account, the outstanding check differences between the City and the bank will be incorporated. Also, Staff will reconcile monthly so that the difference does not occur again.

Staff continues working to get this completed as soon as possible, focusing our activity on getting the account reconciled and preparing a summary of the reconciling adjustments. Starting with, January 2006, Staff has commenced verifying and or fully reconciling the monthly activity utilizing the processes mentioned above. The detail transaction data has been compiled through October 2008 and the account has been fully reconciled through the month of May 2006.

It is important to note that the unreconciled difference is not suspected to be actual funds missing from the City's operating account. The critical component is that Staff has developed processes to determine past unreconciled differences and mitigate future unreconciled differences.

Staff will continue to update Council on the status of the bank reconciliation as part of the regular financial presentation, currently scheduled for January 8, 2009.

BACKGROUND:

In their June 2, 2008, management letter regarding the 2007 audit, Swanhorst & Company LLC made the following statement regarding bank reconciliation:

At December 31, 2007, the City's bank account reconciliation did not agree to the accounting system by approximately \$28,000. We reviewed additional monthly bank reconciliations and discovered that a similar difference existed throughout the year. Because cash reconciliations are a key internal control to detect errors or even fraud, we recommend that the City identify and

clear any reconciling items on a timely basis. In addition, bank reconciliations should be reviewed by a second person.

Staff's immediate response to this item was the following:

In direct relation to the increase in the number of variations and volume of electronic transactions, the complexity and amount of time required to reconcile the monthly transactions has also increased. Staff is working to not only reconcile the difference, but identify methods and processes to gain efficiencies in the reconciliation process.

The city currently has seven different types of electronic transactions, namely; utility billing lockbox, sales tax lockbox, credit cards, City website debit card payments, City website credit card payments, 3rd party website payments, and automated scheduled payments. The City has eight cashiering stations accepting credit card payments, and two stations accepting City website debits payments. This results in the possibility of 21 different deposit types (including the six cash deposit stations) occurring in one business day requiring reconciliation.

BUDGET/TIME IMPLICATIONS:

Staff continues to work toward the full reconciliation of the prior two years and to continue with the processes developed to mitigate future unreconciled differences.

With the number of variations, the volume of electronic transactions, and the complexity of the reconciliation, staff expects to complete the reconciliation for 2006 and 2007 by year end. Ongoing, staff expects to spend 20-30 hours each month on reconciliation.

STAFF REFERENCE:

If Councilmembers have any comments or questions, you may contact Jim Hayes at jhayes@northglenn.org, or at 303-450-8937.