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**Office of the City Auditor**

**Audit Report**

**AUDIT OF MONTHLY BANK RECONCILIATIONS**

(Report No. A08-014)

**May 16, 2008**

**City Auditor**

Craig D. Kinton

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## **Executive Summary**

Monthly bank reconciliations are neither accurate nor timely. The City Controller's Office's (CCO) and other City departments' inability to prepare accurate and timely monthly bank reconciliations has been a long-standing issue and remains unresolved.

Several factors contribute to the CCO's difficulties in completing monthly bank reconciliations accurately and timely:

- The CCO and the departments share monthly bank reconciliation responsibilities without clear policies and procedures
- The departments do not consistently record cash, checks, and credit cards (financial transactions) in the general ledger accurately and timely
- The departments do not resolve outstanding reconciling items timely
- The departments are not held accountable when they do not review the general ledger and the bank statements, identify and resolve outstanding reconciling items, and communicate the resolution to the CCO
- Accounting controls are not effective and Administrative Directive (AD) 4-9, Internal Control, and AD 4-13, Cash and Debt Management Policies and Procedures, are not consistently followed
- Automated bank reconciliation software is not fully developed and used

Accurate and timely monthly bank reconciliations reduce the risk that errors on the part of the City and / or the bank will remain undetected and uncorrected. Without effective accounting controls, general ledger accounts may be inaccurate and incomplete, funds may not be accounted for properly, and cash balances may not be reliable. Monthly bank reconciliations are also an important internal control for detecting fraudulent payments.

### **Background Summary**

The City has 26 bank accounts. The CCO reconciles 24 of the 26 bank accounts to AMS Advantage (the City's general ledger) monthly. Reconciliation responsibilities for the other two accounts reside with Human Resources.

On September 12, 2001, the City purchased bank reconciliation software to automate the bank reconciliation process for 24 of the City's bank accounts at a cost of \$184,000, which included maintenance and support for five years. Beginning in September 2007, the annual maintenance and support fee is \$30,000.

## **Summary of Recommendations**

We recommend the Interim Director of Financial Services / City Controller ensure that financial transactions are recorded in the general ledger accurately and timely and in accordance with AD 4-9, Internal Control, and AD 4-13, Cash and Debt Management Policies and Procedures, and that outstanding reconciling items are resolved within the 45 to 60 days stated in the CCO's monthly bank reconciliation procedures.

We also recommend the Interim Director of Financial Services / City Controller and senior department management analyze the current monthly bank reconciliation process and decide to:

- Centralize the monthly bank reconciliation process within CCO, and / or
- Establish policies and procedures to ensure that both the CCO and the departments are held accountable for accurate and timely monthly bank reconciliations

In addition, we recommend the Interim Director of Financial Services / City Controller ensure that the bank reconciliation software is adequately and effectively used as an automated tool to perform monthly reconciliations.

## **Summary of Management's Response**

The Interim Director of Financial Services / City Controller agrees with three recommendations and partially agrees with one recommendation and intends to take timely actions to address the issues noted in this report. The Interim Director of Financial Services / City Controller's complete response is included as Appendix III to this report.

## **Summary of Objective, Scope and Methodology**

The audit objective was to determine whether monthly bank reconciliations were conducted accurately and timely.

The scope of the audit covered the monthly bank reconciliation processes and procedures for the period October 2006 to April 2007 to ensure that financial transactions are promptly recorded in the City's general ledger and that the general ledger is reconciled to the bank statement timely and accurately.

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The audit methodology included: 1) Gaining an understanding of the CCO's monthly bank reconciliation processes and procedures; 2) Obtaining and reviewing relevant City Administrative Directives and CCO's and departments' policies and procedures; 3) Judgmentally selecting the November 2006 and April 2007 bank reconciliations, to determine whether bank reconciliations were prepared accurately and timely; 4) Reviewing selected bank statements; 5) Interviewing CCO and departmental personnel involved in the monthly bank reconciliation process; 6) Conducting walkthroughs and observations; 7) Testing to determine if the bank and general ledger data were loaded into the bank reconciliation software; and, 8) Evaluating the effectiveness of the automated reconciliation process.

# Audit Results

## **Overall Conclusion**

Monthly bank reconciliations are neither accurate nor timely. The City Controller's Office's (CCO) and other City departments' inability to prepare accurate and timely monthly bank reconciliations has been a long-standing issue which remains unresolved. As of March 31, 2008, monthly bank reconciliations were still four to six months in arrears.

The importance of preparing accurate and timely bank reconciliations was noted by KPMG, LLP at the conclusion of the fiscal year (FY) 2001 audit. In response to KPMG's FY 2001 report, and at the request of the City Manager and the Chief Financial Officer, the City Auditor's Office performed extensive work to assist management with monthly bank reconciliations which were in arrears for the period October 1999 through March 2002. Although reconciling items were identified and steps were taken to improve monthly bank reconciliations, KPMG again included bank reconciliations as management letter comments in the fiscal years 2002, 2005 and 2006 audits.

## **Monthly bank reconciliations are neither accurate nor timely**

Monthly bank reconciliations contain outstanding reconciling items because departments do not consistently record financial transactions timely and accurately as required by Administrative Directive (AD) 4-9, Internal Control. Departments also do not routinely review the general ledger and the bank statements to identify outstanding reconciling items, research and resolve the items, and timely communicate the resolution to the CCO.

The November 2006 bank reconciliation was judgmentally selected to gain an understanding of the reconciling categories and to analyze whether the outstanding reconciling items identified were resolved within the 45 to 60 days required by CCO policies. As of November 2006, there were 19,356 outstanding reconciling items.

### **Bank Reconciliation Process**

Monthly data from 24 of the City's 26 bank accounts are loaded into the bank reconciliation software.

The bank reconciliation software compares bank data with the City's general ledger data at a point in time.

The bank reconciliation software generates the Combined Rollup report which shows the outstanding reconciling items (debits and credits) by department and by general ledger account.

The CCO identifies the outstanding reconciling items by department.

The CCO sends an e-mail requesting the applicable department resolve the outstanding reconciling items.

The departments resolve outstanding reconciling items and notify CCO.

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Table 1 shows that a significant dollar amount of outstanding reconciling items identified in the November 2006 bank reconciliation remained unresolved as of November 2007, one year later.

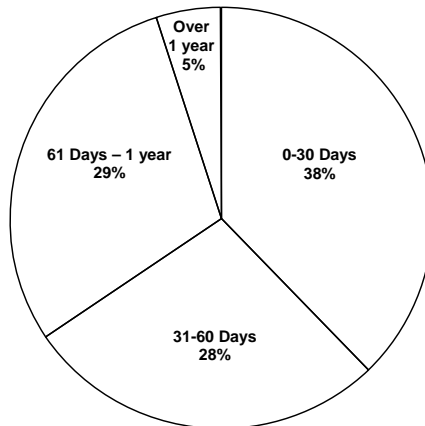
**Table 1 – Reconciling Categories Identified as Outstanding as of November 2006 and Still Unresolved One Year Later**

Reconciling Categories	Outstanding Reconciling Amount as of November 2006	Outstanding Reconciling Amount as of November 2007
Deposits in transit	\$ 10,320,365	\$ 7,084,727
Outstanding checks not recorded by the bank	\$ 8,709,979	\$ 900,589
Credit card receipts and payroll expense items	\$ 10,935,651	\$ 199,340
Deposits not recorded in the general ledger	\$ 28,387,495	\$ 9,236,689
Checks paid by the bank not recorded in the general ledger	\$ 2,585,806	\$ 50

Nineteen of the 24 bank accounts reconciled by the CCO are credit card accounts. A significant number (4,412) of the outstanding reconciling items noted in the November 2006 bank reconciliation were related to credit card transactions; therefore, we prepared an aging analysis to determine how timely the CCO resolved these outstanding reconciling credit card items.

The aging analysis in Chart 1 below shows that 1,515 of the 4,412 outstanding reconciling credit card items (or 34 percent) were still outstanding from 61 days (29 percent) to over one year (five percent) later, which does not comply with the 45 to 60 days time limit specified in the CCO’s monthly bank reconciliation procedures.

**Chart 1 - Outstanding Reconciling Credit Card Items on the November 2006 Combined Rollup**



Source: Aging-analysis prepared by auditor



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Further analysis of these outstanding reconciling credit card items showed that 836 (or approximately 19 percent) of the 4,412 outstanding reconciling items were still not resolved as of April 2007 (five months later).

The following AD 4-9 policies, if consistently followed by the departments, would improve the accuracy and timeliness of the City's monthly bank reconciliations:

- Section 6.3.2 - Transactions and other significant events are to be recorded on a timely basis and properly classified
- Section 7.1.5.4(D) - All authorized events should be identified and the required transactions created, documented, and properly processed. Transactions are to be added to files in the appropriate systems and accurately reported in a timely manner.

**Recommendation I:**

We recommend the Interim Director of Financial Services/City Controller ensure that financial transactions are recorded in the general ledger accurately and timely and outstanding reconciling items are resolved within the 45 to 60 days stated in the CCO's monthly bank reconciliation procedures and by addressing the additional recommendations discussed in this report.

**Management's Response**

Agree. The City Controller's Office is working towards final resolution of management letter comments related to bank reconciliations in prior years' external audits. The recommendations identified in this report have been or are being addressed to improve the overall bank reconciliation process and resolve external audit comments. During the audit period of November 2006 through November 2007, deposits not recorded in the general ledger reduced from \$28,387,495 to \$9,236,689; checks paid by the bank and not recorded in the general ledger reduced from \$2,585,806 to \$50.

Reconciling items result from deposits not posted to the general ledger (unposted deposits), or from deposits which do not match receipts posted to the general ledger (unmatched deposits). Such unmatched deposits exist when either the document number for the transaction in the general ledger does not match the bank's deposit slip number, or when the amount posted to the general ledger does not exactly match the amount posted to the bank. Occasionally, the source of unmatched deposits is unknown, and requires unnecessary efforts by staff to clear the reconciling item. The City Controller's Office is taking steps to further reduce reconciling items, as outlined in the following Management Responses.

Additional staff has been assigned to the bank reconciliation process to improve oversight, reduce the backlog of reconciling items and identify improvements. Previously, the City Controller's Office had one staff accountant performing reconciliations, with oversight provided by the Manager of Financial Reporting. In

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October 2006, a Manager was hired to oversee the reconciliation process. A senior accountant and one additional staff accountant were also added.

Throughout fiscal year 2007, the Controller's Office worked with Communication and Information Services (CIS) to identify areas where improvements could easily be implemented. Additionally, the City Auditor's Office reviewed the software and procedures for efficiencies and completeness.

### Software review

Due to a volume of approximately 1,000 transactions per day, further automation of the process will reduce considerably the time required to prepare a bank reconciliation. Additionally, the improper configuration of the system led to the reconciliation being a manual and time intensive process. Through attrition the City Controller's Office has lost knowledge of the software operations and configuration, requiring proper training by the software vendor.

The bank reconciliation software is a major component of the bank reconciliation process. The current version of the software is seven years old. Management has contacted the software vendor to conduct a preliminary assessment and develop an implementation plan. This phase of the project is anticipated to be completed by the end of May. The City Controller's Office and CIS will work together to implement recommended changes to the bank reconciliation software.

The upgrade will provide additional reporting capabilities, including an aging of the cash transactions by department and a bank to book reconciliation of cash. To ensure information is properly flowing to the software, the software vendor will identify changes to the current process. The City Controller's Office is working closely with Purchasing and CIS to implement changes in a minimal amount of time.

Upon completion, the vendor will provide training to City Controller's Office staff.

### Process review

The City will review the bank reconciliation process through the Zip Team approach to identify efficiencies. The Zip Team will consist of members of the Controller's Office and various departments. Members will document and review the manual processes involved in entering and depositing cash receipts. The Zip Team will then test possible changes and recommend improvements.

The City is also working with Bank of America to conduct a review of the cash receipts, disbursements and investment processes. While the bank reconciliation is not a major part of the review, Bank of America was asked to notify the City of potential changes based on industry practice.

Recommendations from the Bank of America review and software vendor preliminary assessment will be communicated to the Zip Team for further testing. The approved changes will be incorporated into the final procedure manual.

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The City Controller’s Office, with the assistance of the Zip Team, will revise and document all policies, procedures and administrative directives. The current Administrative Directive 4-9 does not clearly define the duties and responsibilities of departments, nor does it specifically define timeliness and classifications. City Controller’s Office internal procedures reference timely resolution to be 45 to 60 days, and do not address the steps to take to reach resolution. Based on Zip Team recommendations, City Controller’s Office will work towards significantly reducing the time allowed to resolve outstanding issues.

Once this process is finalized, formal training will be provided to City staff.

Implementation Date: Software review and implementation: to be determined, based on vendor implementation plan

Process review and implementation: June 30, 2008

Responsible Manager: Bank Reconciliation Manager

**Several factors contribute to the City Controller’s Office’s difficulties in completing monthly bank reconciliations accurately and timely**

Accounting and monthly bank reconciliation responsibilities are shared between the CCO and the departments which create difficulties for the CCO in completing monthly bank reconciliations accurately and timely.

The CCO and departments do not have common policies and procedures relating to the monthly bank reconciliation process which clearly delineate roles and responsibilities. Department management decides which personnel to assign to perform monthly bank reconciliation responsibilities and how accurately and timely financial transactions are recorded. Departments also determine when to resolve outstanding reconciling items identified by the CCO.

Departments do not consistently record financial transactions in the general ledger accurately and timely. (For additional details, please refer to the tables on pages 12 through 13.) When the CCO notifies departments that additional

**Bank Reconciliation Responsibilities**

**CCO responsibilities:**

Completing monthly bank reconciliations timely;

Identifying and resolving reconciling items by contacting either the bank or the respective department for additional information; and,

Providing relevant bank reconciliation training to departments.

**Department responsibilities:**

Collecting payments, such as water utility and parking fines, and depositing the payments within 24 hours;

Recording financial transactions in the subsidiary and general ledgers timely and according to procedures; and,

Addressing the CCO’s identification of reconciling items and communicating the resolution to CCO personnel.

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research or actions, such as recording omitted financial transactions or correcting errors, are needed to resolve outstanding reconciling items the departments do not respond timely. The CCO, however, does not have the authority to require the departments to record and resolve outstanding reconciling items.

Departments are not held accountable when they do not review the general ledger and the bank statements, identify, and resolve outstanding reconciling items, and communicate the resolution to the CCO. As a result, numerous outstanding reconciling items are left unresolved for several months and timely subsequent reconciliations become more burdensome because the number of outstanding items continues to grow.

The CCO uses e-mail as the primary means of communication to notify departments and to request assistance in resolving the outstanding reconciling items. This communication method has not proven effective; however, the CCO has not taken the additional steps necessary to improve the departments' responsiveness, such as:

- Notifying the City Manager's Office and department directors when department staff do not resolve outstanding reconciling items within the 45 to 60 days required by CCO policy
- Providing aging reports so that the City Manager's Office, department directors, and staff know whether outstanding reconciling items have been addressed. This report would help the departments prioritize and focus staff resources to resolve outstanding reconciling items
- Providing periodic bank reconciliation training so that department staff with bank reconciliation responsibilities has the knowledge and skills to perform the work accurately and timely

The monthly bank reconciliation process is a joint effort by the CCO and the departments. Without mutual coordination of activities and a commitment by the departments to accurately and timely record financial transactions in the general ledger and resolve outstanding reconciling items the City cannot correct these long-standing bank reconciliation issues.

### **Recommendation II:**

We recommend the Interim Director of Financial Services / City Controller and senior department management analyze the current monthly bank reconciliation process and decide to:

- Centralize the monthly bank reconciliation process within CCO, and / or

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- Establish policies and procedures to ensure that both the CCO and the departments are accountable for accurate and timely monthly bank reconciliations.

### **Management's Response**

Partially Agree.

#### Centralization

Centralization of staff receiving and entering cash deposits will be reviewed. More immediately, the City is pursuing standardization of those processes through a single billing application. This will result in a level of centralization through the use of technology which can be more easily monitored by the City Controller's Office.

#### Reporting

The software does not provide adequate reporting. Until recently, the ability to identify activity occurring at the bank could not be isolated to a responsible department within the City of Dallas. While those reports are now available, summary and aging reports are needed to provide management adequate reporting on department progress.

The bank reconciliation software vendor has been contacted about the functionality of the software. In addition to the reports identified by the City Auditor's Office, the software should allow for management reporting to identify effectiveness and efficiency of the City departments.

Implementation Date: To be determined, based on vendor implementation plan

Responsible Manager: Bank Reconciliation Manager

### **Monthly bank reconciliations, an important accounting control, are not functioning as intended and relevant administrative directives are not consistently followed**

Monthly bank reconciliations, an important accounting control, are not functioning as intended. AD 4-9, Internal Control, which requires financial transactions to be classified properly and recorded timely and AD 4-13, Cash and Debt Management Policies and Procedures, Section 5.1, which requires cash collections to be deposited within one business day of receipt, are not consistently followed. Monthly bank reconciliation processes developed and enforced through well-documented policies and procedures, including a documented review of work performed, would lead to the timely resolution of the outstanding reconciling items discussed below.

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Deposit and disbursement items \$50,000 and over, identified on the November 2006 bank reconciliation, were selected for further analysis. The results of the analyses are as follows.

**Deposits (\$50,000 and over) recorded in the general ledger not recorded by bank.**

As of November 2007, 15 of 24 (or 63 percent) of the deposit warrants totaling \$5,054,047, were identified as Deposits in Transit (DIT) in the November 2006 bank reconciliation as recorded in the general ledger, but not credited by the bank, remained unresolved a year later. (See Table 2 below.)

**Table 2**

<b>Deposits Recorded in the General Ledger not Recorded by the Bank (\$50,000 and Over)</b>	<b>Number of Deposit Warrants</b>	<b>Amount</b>
As of November 2006	24	\$ 8,170,220
Recorded by the Bank as of November 2007	9	3,116,173
<b>Remaining deposits recorded in the general ledger, but not recorded in the bank as of November 2007</b>	<b>15</b>	<b>5,054,047</b>

DIT items identified during the monthly bank reconciliation process are amounts recorded as deposits in the general ledger that have not been processed by the bank.

**Deposits (\$50,000 and over) recorded by the bank not recorded in the general ledger.**

As of November 2007, 16 of the 77 deposits (or 21 percent) totaling \$7,491,812, identified in the November 2006 bank reconciliation as not recorded in the general ledger, remained unresolved a year later. (See Table 3 below.)

**Table 3**

<b>Bank Deposits (\$50,000 and Over)</b>	<b>Number of Deposit Warrants</b>	<b>Amount</b>
As of November 2006	77	\$ 22,937,514
Recorded in the general ledger as of November 2007	61	15,445,702
<b>Remaining bank deposits not recorded in the general ledger as of November 2007</b>	<b>16</b>	<b>7,491,812</b>

The departments prepare deposit receipts for the amounts deposited into the bank and record the associated financial transactions in the subsidiary ledgers;

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however, these financial transactions are not recorded timely in the general ledger.

**Disbursements (\$50,000 and Over) paid by the bank not recorded in the general ledger.**

Disbursements, \$50,000 and over, processed and paid by the bank, but not recorded in the general ledger as of November 2006, were researched and resolved as of November 2007. Before recording the disbursement in the general ledger, departments must make sure that the bank did not make an error, such as paying a check from the wrong account or making a duplicate payment. (See Table 4 below.)

**Table 4**

<b>Disbursements Paid by the Bank not Recorded in the General Ledger (\$50,000 and Over)</b>	<b>Number of Checks</b>	<b>Amount</b>
Disbursements paid by the bank, but not recorded in the general ledger as of November 2006	6	\$ 2,184,460
Disbursements paid by the bank and recorded in the general ledger as of November 2007	0	2,184,460
<b>Remaining disbursements paid by the bank, but not recorded in the general ledger as of November 2007</b>	<b>0</b>	<b>0</b>

**Disbursements (\$50,000 and Over) recorded in the general ledger but not processed by the bank.**

As of November 2007, three of 44 checks (7 percent) totaling \$597,152, identified in the November 2006 bank reconciliation as recorded in the general ledger, but not processed by the bank, remained unresolved a year later. (See Table 5 below.)

**Table 5**

<b>Disbursements (\$50,000 and Over) Recorded in the General Ledger but not Processed by the Bank</b>	<b>Number of Checks</b>	<b>Amount</b>
Disbursements recorded in the general ledger as of November 2006, but not recorded by the bank	44	\$ 12,555,018
Disbursements recorded in the general ledger and paid by the bank as of November 2007	41	11,957,866
<b>Remaining disbursements recorded in the general ledger, but not processed by the bank as of November 2007</b>	<b>3</b>	<b>597,152</b>

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The integrity of the accounting system is weakened by the lack of effective monthly bank reconciliation processes. There may be recording errors or unrecorded transactions in the accounting system without discovery by City personnel. As a result, general ledger accounts may be incomplete and inaccurate, funds may not be properly accounted for, and cash balances may not be reliable. In addition, unauthorized transactions (fraud) can remain undetected.

AD 4-9, Internal Control, states the following:

- Section 6.3.2 - Transactions and other significant events are to be recorded on a timely basis and properly classified
- Section 7.1.5.4 (D) - All authorized events should be identified and the required transactions created, documented, and properly processed. Transactions are to be added to files in the appropriate systems and accurately reported in a timely manner.

AD 4-13, Cash and Debt Management Policies and Procedures, Section 5.1 states Department Directors are responsible for depositing cash collections into the City Treasury on day of receipt or within one business day of receipt.

Additionally, prudent business practice requires that recorded financial transactions be periodically evaluated and substantiated.

**Recommendation III:**

We recommend the Interim Director of Financial Services / City Controller work with the department directors to ensure that the CCO and departments consistently comply with AD 4-9 and AD 4-13.

**Management's Response**

Agree. The revised administrative directives will clearly define the roles and responsibilities of the departments, along with compliance with governing acts and best practices. Results from the Zip Team approach mentioned in management's response to Recommendation I above will be incorporated into the revised administrative directives. Reports mentioned in management's response to Recommendation II will assist the City Controller's Office in identifying departments not in compliance with revised procedures.

Implementation Date: Revised administrative directive: September 30, 2008; Reports: to be determined, based on vendor implementation plan

Responsible Manager: Bank Reconciliation Manager



## **Bank reconciliation software is not adequately configured and effectively used**

Some features of the bank reconciliation software designed to allow automated reconciliation and analysis of account balances have not been configured or implemented to maximize and fully use the software's capabilities. For example, the automatic reconciliation feature is turned off. Instead of allowing the bank reconciliation software to automatically reconcile bank and general ledger transactions, CCO personnel manually match hundreds of individual items daily to complete the reconciliations of 24 of the City's 26 bank accounts. The automated reconciliation feature is designed to streamline the reconciliation process by transferring the matching process (comparing general ledger transactions to bank transactions) from a manual user-intensive effort to a completely automated process.

Other issues affecting the reconciliation efficiencies include:

The bank-to-book (Proof of Cash) feature is not currently available. CCO cannot easily determine and resolve the reasons for account out-of-balance conditions (at any point in time). The Proof of Cash report would allow the CCO to ensure the accuracy and completeness of the daily cash balance per the general ledger and to determine out-of-balance conditions within an account. The bank reconciliation software vendor stated that this report could be developed upon the CCO's request.

Incomplete data. Bank reconciliation software does not have all of the data needed to match general ledger transactions with bank transactions. As a result, CCO personnel must manually research and attempt to resolve thousands of unmatched items. For example, Worker's Compensation account data is not provided by the third-party administrator in an electronic format or in sufficient detail; therefore, CCO personnel must manually enter summary level data from a hard copy document. The bank reconciliation software then attempts to match the summary level data with individual transactions from the bank, which results in a significant number of unmatched items.

Limited user licenses. The department purchased three user licenses, but there are four staff members who routinely perform reconciliation activities. The lack of sufficient licenses impedes departmental productivity.

User training. CCO has not obtained sufficient user training to allow users to gain a more complete understanding of the bank reconciliation software. Without adequate training, CCO personnel cannot complete their reconciliations efficiently and on a timely basis.

**Recommendation IV:**

We recommend that the Interim Director of Financial Services / City Controller:

- Ensure that the bank reconciliation software is properly configured to efficiently use the integrated automatic reconciliation feature of the software;
- Work with the bank reconciliation software vendor to develop a bank-to-book report;
- Work with the third-party Worker’s Compensation Administrator to obtain, on a regular basis, an automated file that contains detailed transactional data; and,
- Evaluate the purchase of additional software licenses.

**Management’s Response**

Agree. The City Controller’s Office is currently working with Purchasing, CIS and the vendor to evaluate the software configuration. This includes updating the existing software, developing additional reports, automating the reconciliation of worker’s compensation data and evaluating the need for additional software licenses.

Implementation Date: To be determined, based on vendor implementation plan

Responsible Manager: Bank Reconciliation Manager

## Background, Objective, Scope and Methodology

### Background

The City Controller's Office's (CCO) and the departments' inability to prepare accurate and timely monthly bank reconciliations has been a long-standing issue and remains unresolved. The importance of preparing accurate and timely bank reconciliations was noted by KPMG, LLP at the conclusion of the fiscal year (FY) 2001 audit. In response to KPMG's FY 2001 report, and at the request of the City Manager and the Chief Financial Officer, the City Auditor's Office performed extensive work to assist management with monthly bank reconciliations which were in arrears for the period October 1999 through March 2002.

The City Auditor's audit report, *Review of Monthly Bank Reconciliations*, dated July 30, 2003, stated:

*"The CCO has since implemented some policies and procedures to ensure that assigned and supervisory personnel are knowledgeable, adequately trained, and cross trained; procedures are current, written, and approved; and, monthly bank reconciliations are reviewed for accuracy and reliability.*

The report, however, included recommendations for additional policies and procedures which were needed to ensure:

- Monthly bank reconciliations are completed in a timely manner
- Internal controls address
  - Promptly accounting for reconciling items
  - Timely notifying departments regarding outstanding reconciling items and establishing procedures for resolution and removal
- Evaluations are made to determine whether the manual effort required to complete monthly bank reconciliations can be reduced
- The workload (job duties) assigned to the Accountant II position can be reasonable accomplished timely, effectively, and efficiently
- The CCO improves its record keeping and filing system

Although reconciling items were identified and steps were taken to improve monthly bank reconciliations, KPMG again included bank reconciliations as management letter comments in the fiscal years 2002, 2005 and 2006 audits.

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Current monthly bank reconciliation responsibilities are as follows:

City Controller Responsibilities

CCO is responsible for reconciling the general ledger to 24 of the City's 26 bank accounts. (Note: The Department of Human Resources assumes the responsibility for reconciling the other two bank accounts.) In order to meet this responsibility, the CCO must:

- Complete monthly bank reconciliations timely
- Identify and resolve outstanding reconciling items by contacting either the bank or the respective department for additional information
- Provide relevant training for City departments

City Department Responsibilities

Departments are responsible for collecting payments, such as water utility, parking fines, fees and other charges, and depositing the payments within one business day. Additionally, departments are responsible for recording the financial transactions to the general ledger. Finally, departments are responsible for the ongoing review, identification, and resolution of outstanding reconciling items and communicating the resolution to the CCO.

City Bank Reconciliation Process

The general ledger has the following 26 accounts which correspond to the number of bank accounts:

- Deposit Account - 1
- Disbursement Account - 1
- Concentration Account - 1
- Credit Card Accounts - 19
- Return Item - 1
- Dallas City Homes - 1
- Human Resources - 2

On September 12, 2001, the City purchased for \$184,800 bank reconciliation software along with maintenance and support for five years to automate the CCO's bank reconciliation process for 24 of the City's 26 bank accounts. Currently, the City pays annual maintenance fees of \$30,000 for technical support services and software updates.

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Each month, the CCO verifies that the monthly activity for the bank and the general ledger is loaded into the bank reconciliation software by:

- Processing the Cash Summary Report from the general ledger to determine that the total amount of cash receipts, automatic-disbursements, electronic fund transfers, manual warrants, and other transactions (return items, change funds, etc.) recorded in the general ledger agree with the total in the bank reconciliation software
- Determining that the bank data for each account agrees with the amount recorded in the bank reconciliation software

The bank reconciliation software can compare and match large numbers of items automatically within seconds. The bank reconciliation software has the ability to filter specific requested information, such as amounts, document numbers, accounting periods, or vendor / employee names to assist the user in resolving outstanding reconciling items. The bank reconciliation software also has the ability to export bank and general ledger information into Excel for further analysis.

### **Objective, Scope and Methodology**

This audit was conducted under authority of the City Charter, Chapter IX, and Section 3 and in accordance with generally accepted government auditing standards.

The audit objective was to determine whether monthly bank reconciliation processes are conducted accurately and timely and covered the period from October 2006 to April 2007. We also reviewed certain matters, procedures, and transactions occurring outside that period to understand and verify information related to the audit period and to determine if the monthly bank reconciliations were up-to-date as of March 31, 2008.

To achieve the audit objective, the following steps were performed:

- Gained an understanding of the CCO's monthly bank reconciliation processes and procedures
- Obtaining and reviewing relevant City Administrative Directives and CCO and departments' policies and procedures
- Judgmentally selecting the November 2006 and April 2007 bank reconciliations, to determine whether bank reconciliations were prepared accurately and timely

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- Reviewing selected bank statements
- Interviewing CCO and departmental personnel involved in the monthly bank reconciliation process
- Conducting walkthroughs and observations
- Testing to determine if the bank and general ledger data loaded into bank reconciliation software
- Evaluating the effectiveness of the automated reconciliation process

In addition, the following audit tests were performed:

- Judgmentally selected daily credit card transactions for November 2006 relating to the following departments:
  - Building Inspection and Engineering
  - Court & Detention Services
  - Office of Financial Services - Special Collections
  - Park and Recreation - Dallas Zoo
- Judgmentally selected deposit and disbursement items for items over \$50,000 outstanding on the November 2006 reconciliation statement

**Major Contributors to This Report**

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Adam Wong, CPA, Auditor  
Theresa Hampden, CPA Quality Control Manager

## Management's Response

### Memorandum

RECEIVED

MAY 15 2008



DATE: May 15, 2008

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:  
AUDIT OF MONTHLY BANK RECONCILIATIONS

CITY AUDITOR'S OFFICE

Our responses to the audit report recommendations are as follows:

#### **Recommendation I:**

We recommend the Interim Director of Financial Services / City Controller ensure that financial transactions are recorded in the general ledger accurately and timely and outstanding reconciling items are resolved within the 45 to 60 days stated in the CCO's Monthly bank reconciliation procedures and by addressing the additional recommendations discussed in this report.

#### **Management Response / Corrective Action Plan**

Agree       Disagree       Partially Agree

The City Controller's Office is working towards final resolution of management letter comments related to bank reconciliations in prior years' external audits. The recommendations identified in this report have been or are being addressed to improve the overall bank reconciliation process and resolve external audit comments. During the audit period of November 2006 through November 2007, deposits not recorded in the general ledger reduced from \$28,387,495 to \$9,236,689; checks paid by the bank and not recorded in the general ledger reduced from \$2,585,806 to \$50.

Reconciling items result from deposits not posted to the general ledger (unposted deposits), or from deposits which do not match receipts posted to the general ledger (unmatched deposits). Such unmatched deposits exist when either the document number for the transaction in the general ledger does not match the bank's deposit slip number, or when the amount posted to the general ledger does not exactly match the amount posted to the bank. Occasionally, the source of unmatched deposits is unknown, and requires unnecessary efforts by staff to clear the reconciling item. The City Controller's Office is taking steps to further reduce reconciling items, as outlined in the following Management Responses.

Additional staff have been assigned to the bank reconciliation process to improve oversight, reduce the backlog of reconciling items and identify improvements. Previously, the City Controller's Office had one staff accountant performing reconciliations, with oversight provided by the Manager of Financial Reporting. In October 2006, a Manager was hired to oversee the reconciliation process. A senior accountant and one additional staff accountant were also added.

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Throughout fiscal year 2007, the Controller's Office worked with Communication and Information Services (CIS) to identify areas where improvements could easily be implemented. Additionally, the City Auditor's Office reviewed the software and procedures for efficiencies and completeness.

### **Software review**

Due to a volume of approximately 1,000 transactions per day, further automation of the process will reduce considerably the time required to prepare a bank reconciliation. Additionally, the improper configuration of the system led to the reconciliation being a manual and time intensive process. Through attrition the City Controller's Office has lost knowledge of the software operations and configuration, requiring proper training by the software vendor.

The bank reconciliation software is a major component of the bank reconciliation process. The current version of the software is seven years old. Management has contacted the software vendor to conduct a preliminary assessment and develop an implementation plan. This phase of the project is anticipated to be completed by the end of May. The City Controller's Office and CIS will work together to implement recommended changes to the bank reconciliation software.

The upgrade will provide additional reporting capabilities, including an aging of the cash transactions by department and a bank to book reconciliation of cash. To ensure information is properly flowing to the software, the software vendor will identify changes to the current process. The City Controller's Office is working closely with Purchasing and CIS to implement changes in a minimal amount of time.

Upon completion, the vendor will provide training to City Controller's Office staff.

### **Process review**

The City will review the bank reconciliation process through the Zip Team approach to identify efficiencies. The Zip Team will consist of members of the Controller's Office and various departments. Members will document and review the manual processes involved in entering and depositing cash receipts. The Zip Team will then test possible changes and recommend improvements.

The City is also working with Bank of America to conduct a review of the cash receipts, disbursements and investment processes. While the bank reconciliation is not a major part of the review, Bank of America was asked to notify the City of potential changes based on industry practice.

Recommendations from the Bank of America review and software vendor preliminary assessment will be communicated to the Zip Team for further testing. The approved changes will be incorporated into the final procedure manual.

The City Controller's Office, with the assistance of the Zip Team, will revise and document all policies, procedures and administrative directives. The current Administrative Directive 4-9 does not clearly define the duties and responsibilities of departments, nor does it specifically define timeliness and classifications. City Controller's Office internal procedures reference timely resolution to be 45 to 60 days, and do not address the steps to take to reach resolution. Based on Zip Team

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recommendations, City Controller's Office will work towards significantly reducing the time allowed to resolve outstanding issues.

Once this process is finalized, formal training will be provided to City staff.

### **Implementation Date**

Software review and implementation: to be determined, based on vendor implementation plan

Process review and implementation: June 30, 2008

### **Responsible Manager**

Bank Reconciliation Manager

### **Recommendation II:**

We recommend the Interim Director of Financial Services / City Controller and senior department management analyze the current monthly bank reconciliation process and decide to:

- Centralize the monthly bank reconciliation process within CCO, and / or
- Establish policies and procedures to ensure that both the CCO and the departments are accountable for accurate and timely monthly bank reconciliations.

### **Management Response / Corrective Action Plan**

Agree       Disagree       Partially Agree

### **Centralization**

Centralization of staff receiving and entering cash deposits will be reviewed. More immediately, the City is pursuing standardization of those processes through a single billing application. This will result in a level of centralization through the use of technology which can be more easily monitored by the City Controller's Office.

### **Reporting**

The software does not provide adequate reporting. Until recently, the ability to identify activity occurring at the bank could not be isolated to a responsible department within the City of Dallas. While those reports are now available, summary and aging reports are needed to provide management adequate reporting on department progress.

The bank reconciliation software vendor has been contacted about the functionality of the software. In addition to the reports identified by the City Auditor's Office, the software should allow for management reporting to identify effectiveness and efficiency of the City departments.

### **Implementation Date**

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To be determined, based on vendor implementation plan

**Responsible Manager**  
Bank Reconciliation Manager

**Recommendation III:**

We recommend the Interim Director of Financial Services/City Controller work with the department directors to ensure that the CCO and departments consistently comply with AD 4-9 and AD 4-13.

**Management Response / Corrective Action Plan**  
Agree       Disagree       Partially Agree

The revised administrative directives will clearly define the roles and responsibilities of the departments, along with compliance with governing acts and best practices. Results from the Zip Team approach mentioned in management's response to Recommendation I above will be incorporated into the revised administrative directives. Reports mentioned in management's response to Recommendation II will assist the City Controller's Office in identifying departments not in compliance with revised procedures.

**Implementation Date**  
Revised administrative directive: September 30, 2008  
Reports: to be determined, based on vendor implementation plan

**Responsible Manager**  
Bank Reconciliation Manager

**Recommendation IV:**

- We recommend the Interim Director of Financial Services/City Controller:
- Ensure that the bank reconciliation software is properly configured to efficiently use the integrated automatic reconciliation feature of the software;
  - Work with the bank reconciliation software vendor to develop a bank-to-book report;
  - Work with the third-party Worker's compensation administrator to obtain, on a regular basis, an automated file that contains detailed transactional data; and,
  - Evaluate the purchase of additional software licenses.

**Management Response / Corrective Action Plan**  
Agree       Disagree       Partially Agree

As stated above, City Controller's Office is currently working with Purchasing, CIS and the vendor to evaluate the software configuration. This includes updating the existing "Dallas: The City That Works: Diverse, Vibrant, and Progressive."

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software, developing additional reports, automating the reconciliation of worker's compensation data and evaluating the need for additional software licenses.

**Implementation Date**

To be determined, based on vendor implementation plan

**Responsible Manager**

Bank Reconciliation Manager

Sincerely,



Edward R. Scott  
City Controller

C: David Cook, Chief Financial Officer  
Mary Suhm, City Manager