



# CITY AUDITOR REPORT

## 2022-2023 BANK RECONCILIATION CONTROL REVIEW

MAY 2, 2024

### INTRODUCTION/BACKGROUND

The 2023–24 City Council-requested audit plan includes a bank reconciliation audit project. Bank account reconciliation is a key internal control designed to:

- Support the accuracy of cash transactions and ultimately financial statement cash amounts
- Verify cash activity to assist with accurate forecasting and budgeting
- Verify authorized payments are made, to achieve overall financial stewardship goals
- Limit, deter and/or resolve potential inappropriate or fraudulent transactions

The City bank account with the highest activity is the USBank General Operating account; **this account was the focus of this review** (see discussion at **Scope of Review, page 2**). Audit planning noted the October 2023 statement balance was \$27.8 million. October activity consisted of 775 deposit transactions totaling \$37 million, and 408 withdrawal/debit transactions totaling \$31.2 million. Much of this daily bank activity posts as summary amounts comprised of multiple individual items. Statements for January through September 2023 were reviewed, and activity levels were consistent, with the exception of occasional higher investment purchase/maturity transactions.

### EXECUTIVE SUMMARY

- **The legacy E1 system’s reconciliation process in use through 2023 had ongoing issues preceding the tenure of current Finance personnel.** Finance has been developing a Workday system process to correct these issues since the summer of 2023 but is awaiting resolution of issues with integrations of other systems into Workday before the process can be finalized. (*See Comments/Recommendations pp. 3-4 and Management Response, pp. 5-6*).
- **At present, 2024 Workday system bank activity has not been subject to a ‘full’ reconciliation. Staff is performing a ‘high level reconciliation’ to review payroll payments, general activity and the overall account balance.** Finance does not view a lack of full reconciliation at March 31 as unusual, and indicates this is typical due to prioritization of year end tasks. Finance staff plans to fully reconcile the account when the above-referenced automated Workday process is launched once all system integration issues are resolved.
- **Previous E1 system reconciliation issues were caused by gathering information from multiple systems, cumbersome and error-prone manual reconciliation procedures, and delayed/unidentified adjusting entries. One item missed in 2023 was caused by a manual error: a \$974,000 bank-rejected payroll tax payment was not transmitted to the IRS, and was not detected until IRS notification. (*See Audit Comments, p. 3*)**
  - To pursue resolution of these challenges, the City contracted an accounting firm to assist with the completion of ‘21 and ‘22 reconciliations, who also had substantial difficulty in balancing the accounts.
  - Substantial effort was also made to **document E1 system reconciliation procedures and worksteps, and to develop a reconciliation workbook to streamline and standardize the reconciliation** by adding variance analysis, documentation, and explanatory details.
- **Finance management established an internal deadline to record the staff-calculated final E1-related cash reconciliation adjustments.** Management calculated an approximate \$(44,000) remaining *net* cash adjustment, which was written off in April 2024 with City Manager approval.
  - Although the composition of total bank reconciliation adjustments remains unknown, *Finance management views this extensively researched net difference amount as immaterial, and calculates it comprises 0.19% of the current Operating cash account balance. Finance management believes the cost and time of further research efforts would outweigh potential benefits.*
- **A segregation of duties bank reconciliation gap was noted: personnel approving the bank reconciliation also can post financial statement cash account entries.**

The Auditor appreciates the information and time Finance personnel shared to assist with completion of this project.

## **SCOPE OF REVIEW**

To accommodate both the Council's audit plan and the Finance team's Workday implementation workload, the bank reconciliation audit scope was reduced.

The most significant City bank account was the sole focus of this audit project – the USBank General Operating account. A sample of 3 monthly account reconciliations during the 2022 – 2023 time period was selected for audit. For these months, the following review and testing was performed:

- Explanations, source verification, and subsequent bank/cash account clearance entries were obtained for a judgmental sample of material reconciling items
- Reconciliations were reviewed for potential write offs and any related documentation/approvals
- The effective date and performance date of reconciliations was reviewed
- The date and independence of supervisory review of reconciliations was reviewed
- The access which reconciliation performing/approving personnel have to:
  - cash account financial statement entries,
  - originating or approving bank account transactions, and
  - payment and receipt processing or approvalwas reviewed
- Agreement to/use of the correct bank statement balance and financial statement balances to perform the reconciliation was also reviewed

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## **AUDIT COMMENTS**

The following comments relate to bank reconciliation control gaps noted during the audit of the **2022-23 E1 legacy system's account reconciliations**. The E1 system was retired on December 31, 2023; as a result, the *below described gaps/risks relate to activity through year end 2023. Expected action plans/solutions to these gaps are planned through a Workday reconciliation process currently in development*. While this process is in development, the operating account's activity and balance is being monitored via high level review. **For detail of these expected solutions, please refer to Management Response at pages 5-6.**

- 1. The previous E1 system's limitations caused bank reconciliation to be cumbersome, manual, and prone to the potential for errors and delayed/unidentified adjusting entries.** E1 required an external reconciliation each month, which Finance management indicates included obtaining significant activity only available via summarized entries from separate payment processing systems across multiple city functions/departments. Additionally, activity splits/summaries were needed to accurately reconcile bank activity.
- 2. One item caused by such a manual error in the 2023 bank reconciliation was a February '23 bank-rejected payment to the IRS for \$974,000 in payroll taxes.** The City learned of this issue via an October '23 IRS notice, and **immediately paid the taxes**. This missed outstanding payment was caused by manual changes not carried forward to the following month's reconciliation spreadsheet. The reconciling item was added to a corrected version of the May '23 reconciliation when October '23 notification was received from the IRS.
- 3. Other reconciliations reviewed noted several months' delay in E1 system-generated adjusting entries to balance internal/interfund cash between various funds. The timing of this delay was documented on the reconciliation.** Finance staff is currently considering guidelines for how often various types of activity and adjustments will be performed. It has been Finance practice to *not enter* journal entries to closed periods in which any reports have been issued. When reconciliation updates were done in a later period, they were entered in these later open months, and the timing of the entry is noted on the reconciliation.
- 4. Finance established an internal deadline to finalize E-1 related cash reconciliation adjustments in/by late March 2024, in conjunction with the 2023 financial statement audit. Finance determined the net reconciliation adjustment needed for unexplained items was approximately \$(44,000), which was written off to miscellaneous revenue with City Manager approval.**
  - Although the exact nature and amount of individual reconciling items needing adjustment remains unknown, Finance management views this *extensively researched net difference amount as immaterial, and has calculated it to be 0.19% of the operating cash account balance. Finance believes the cost and time of further research efforts would outweigh the potential benefits.*
  - *Future guidelines for the process, documentation, review and approval levels of reconciliation write offs are being considered.* Finance indicates more information on this will be available later in 2024, and plans to include a target date for the progress of this effort as an audit action plan.

## **AUDIT RECOMMENDATIONS**

### **1. WORKDAY RECONCILIATION PROCESS DEVELOPMENT**

Finance management's reconciliation control improvements will rely on a process under development in the recently-implemented Workday financial system. To achieve these improvements effectively and efficiently, Audit recommends that the reconciliation process development effort consider:

#### **➤ Prioritization:**

Audit understands multiple high priority projects and tasks are occurring due to ERP system implementation and year end closing, and management has pended full bank reconciliation until the Workday reconciliation process is developed. Management indicates the process cannot be accomplished until integration issues are resolved with other payment processing systems in the City. Audit also suggests that, *since previous reconciliation challenges were related to a backlog of reconciliation, research, and adjustments*, **prioritizing the reconciliation process launch would help reduce the future risk of delayed reconciliation, research, and adjustment issues.**

#### **➤ Structure:**

As would be expected with a system implementation, Finance management anticipates the Workday bank reconciliation process will be complex, cross-functional, and involve multiple system interfaces. Due to these aspects, process development is expected to occur over a period of time.

- **To ensure the bank reconciliation process is developed with optimal efficiency, Audit recommends management consider further defining process development to include information/expectations for:**
  - Systems/data needs
  - Anticipated tasks and dependencies
  - Stakeholder roles/responsibilities – and related anticipated resource commitments
  - Estimated timelines for key tasks and overall process completion

### **2. BANK RECONCILIATION CONTROL ELEMENTS**

Multiple elements comprise the effective design and operation of a bank reconciliation control. To safeguard against potential future control gaps in reconciliation, research, and cash adjusting entries, Audit recommends several control features be considered as part of the upcoming reconciliation process, including:

- Establishment of target timelines for performance of the bank reconciliation, conduct of needed research, review/approval of the reconciliation, and recording/posting of adjusting entries
- Documentation of the date of cash adjusting entries, and inclusion of/linkage to documents supporting adjustment amounts and accounts
- Documentation of the reconciliation preparer and reviewer/approver
- Documentation of the date of reconciliation and date of review/approval
- Establishment of guidance on the nature, amount, age and authorization levels needed to write off any unexplained cash reconciling differences

## **MANAGEMENT RESPONSE**

Finance management appreciates the insights and the time and flexibility provided by the City Auditor on the Bank Reconciliation audit. Bank reconciliation is a key control in cash management and helps ensure validity of the financial reports of the city. As the City Auditor indicates, the prior ERP system E1 led to an external manual spreadsheet reconciliation with hand-keyed lines of data across a dozen tabs in multiple excel workbooks. Each month required a new set of workbooks with data carried over from prior workbooks as well as uploaded from different sources. This manual process had many opportunities for failure and human error in data elements. One such failure was the February 23' federal tax payment that US Bank blocked based on an ACH limitation threshold on the account. The outstanding payment was not carried over to the following months set of workbooks. Finance Management subsequently established a notification from US Bank for all blocked payments. As well as requiring a review and confirmation of all payroll payments be documented in the completion of the payroll process. Prior payroll control only required documentation of authorization of transmittal of payment.

Many of the issues with the City's bank reconciliation processes precede the City's current finance team, and our staff has worked on addressing and improving this process throughout our tenure with the City. A total of \$3.5M in unreconciled transactions were researched and properly recorded by our current staff from 2022 – 2023, bringing the net total unreconciled amount down to \$(44,000). We made a recommendation to the City Manager to write off this remaining balance as Finance leadership felt that the remaining amount was immaterial given the extensive efforts our accounting staff had made over the past two years. This amount was completed as a reconciliation adjustment in April of this year.

Early in the Workday ERP implementation process, it was management's direction to work towards leveraging efficiencies and technology with a bank reconciliation process internal in Workday utilizing as much automation and core source data as possible. This fundamental process optimization has required a complete reconfiguration and understanding of the data transactions being pulled in through integrations from cashier platforms throughout the City. Five of these external systems will have automated integrations while others will still have to be a manual upload process of system data. Before we can begin our daily and monthly reconciliations in Workday, there are several integration issues with these external systems that need to be resolved. Finance is currently working daily with our internal partners in IT And PMO to get these issues resolved as soon as possible. Below are key steps management has outlined to complete for a successful transition to the new Workday bank reconciliation process:

- Completion of the 2023 manual reconciliation with listing of outstanding bank transactions to be imported into Workday
- Beginning balance and outstanding bank transactions confirmed within Workday bank reconciliation module
- Finalization of integrations at the appropriate payment source level detail.
  - Northstar
  - Granicus
  - Energov
  - Waste Works
  - Active Net
- Finalization of cash receipts manual data uploads at the appropriate payment source level detail

- Justware
  - Chameleon
  - Library
  - Tuition Express
- Creating of first notice rules to automate reoccurring transactions
    - Banking daily sweeps
    - Tivity Health-Registration Fees
    - Purple Wave- VERN sales of surplus property
    - Wellpoint Claim payment- Health & Dental reimbursement
    - Cry Wolf- False alarm fees
    - IND Incentives- Recreation monthly passes
  - Begin daily reconciliation within Workday
  - Identify a Cash Agent for all divisions to assist in researching discrepancies and unidentified deposits/transactions
    - Target Improvements in daily cash closeouts and invoicing within Workday
  - Create and distribute notification to agencies depositing funds without remittance details
  - Create notification and backup pickup plan for missed Garda pickups
  - Transition all payroll payments to process through Payroll sweep account to segment and assist in reconciliation of activity
  - Creation of a Treasury Management policy outlining bank reconciliation control elements outlined in the Internal Audit recommendation section 2.

As Finance continues to make progress on our 2024 bank reconciliation and further defines our processes and procedures in the new system, we will continue to provide updates to the Internal Auditor and Audit Committee, as requested.