



# TOWN OF ERVING

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## Policy

## RECONCILIATIONS POLICY

Approved: \_\_\_\_\_

  
Selectboard Chair, Jacob A. Smith

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#### .01 Issue Date / Effective Date

This policy is issued on April 6, 2020, with an effective date of April 6, 2020.

#### .02 Purpose

To ensure transactions are in balance, to mitigate fraud, and to safeguard general ledger accuracy, financial officers must conduct regular reconciliations of their accounting records, and these must be reconciled to the general ledger. Although each financial officer is responsible for maintaining independent records of his or her office's transactions, they are also collectively accountable for the overall accuracy of Erving's financial records. Failure to reconcile cash, receivables, and withholdings hampers the Town's ability to produce reliable reports, close its books, make timely submissions to the Division of Local Services (DLS), and complete audits. In addition, unresolved variances reduce the amount of certified free cash and may result in significant deficiency findings by the independent auditor.

#### .03 Applicability

This policy applies to the Town Accountant, Treasurer, Collector, their designees, and all departments that use special revenue funds or have accounts receivable responsibilities (e.g., Police, Fire, etc.).

#### .04 Policy Statement

The Treasurer and all department heads with accounts receivable duties will internally reconcile their respective accounting records and subsequently reconcile them with the Town Accountant according to the guidelines and periodic time frames outlined in this policy.

#### A. Cash Reconciliation

1. To ensure an accurate accounting of all revenue activity, the Treasurer will maintain a cashbook that reflects up-to-date and accurate information for all cash and assets. The Treasurer will make

certain that all cash receipt turnovers are deposited in the bank on a weekly basis. All cash receipts, disbursements, transfers, and interest will be recorded in the cashbook spreadsheet and in the accounting software on a regular basis throughout the month. The cashbook accounts will be reconciled to their corresponding bank account statements as soon as is possible before the end of the following month.

2. The Treasurer will identify all reconciling items, including outstanding checks, deposits in transit, bounced and voided checks, and discrepancies between the cashbook and financial institutions, and will correct them when appropriate. The Treasurer will then forward to the Town Accountant a summary of the reconciled cashbook balances (i.e., Schedule of Treasurer's Cash) and, when needed, a Schedule of Receipts for any adjustments made.
3. The general ledger's cash accounts should reflect only those transactions reported to the Town Accountant by the Treasurer, so that in theory, the general ledger should be in balance with the cashbook. However, errors may occur due to omitting transfers or transactions or applying them in the wrong amounts or to the wrong accounts. Whenever the Town Accountant identifies a discrepancy between the general ledger and the cashbook, the following steps must be taken in conjunction with the Treasurer to determine the cause:
  - a. Compare the total amount of cash receipts reported in the cashbook with the amount recorded in the ledger for that month.
  - b. Compare the total amount of warrants paid during the month as recorded in the cashbook with the total recorded in the ledger for the same period. The last warrant paid must be the last one recorded; otherwise, a timing problem will create a discrepancy.
  - c. If the records still do not agree, the Treasurer and Town Accountant must trace each entry to the ledger until the variance is determined.
4. At each quarter-ending month, the Town Accountant will extend the cash reconciliation process to individually reconcile cash accounts for every individual general ledger cash account that directly corresponds to a specific bank account (e.g., enterprise funds, stabilization funds, trust funds, etc.)

#### **B. Payroll Withholdings Reconciliation**

1. Payroll withholdings include federal and state taxes, child support and other wage assignments for legal obligations, deferred compensation, optional insurances, association dues, and other employer-sponsored options, which are all itemized in separate general ledger accounts.
2. To reduce the risk to the Town for liabilities in excess of withholdings, the Treasurer will conduct a monthly reconciliation of the payroll withholdings to their corresponding accounts payable and identify any discrepancies. For any accounts that don't clear to zero on a monthly basis, the Treasurer will maintain a worksheet that details the amounts withheld and disbursed for each employee/retiree. The Treasurer will provide the results of these activities to the Town Accountant to make any necessary changes or adjustments and provide a copy of the worksheet to the Town Accountant on a quarterly basis for verification of reconciliation to the general ledger.

#### **C. Accounts Receivable Reconciliation**

1. Accounts receivable are outstanding monies owed to the Town, whether from committed bills (i.e., taxes, excises, utility charges) or from uncommitted department invoices (e.g., police details). To ensure these assets are accounted for and balanced, the Collector, the deputy collector, and any

department head with accounts receivable duties (each referred to here as “record-keeper”) will make certain that all cash receipts are recorded timely, maintain a control record for each receivable type and levy year, and verify the detail balance agrees with the receivable control.

2. The receivable control is a record of original entry in which the record-keeper reduces a commitment according to collections, abatements, and exemptions and increases it by refunds issued. To maintain accuracy, the record-keeper must review the detailed list of receivables, identify credit balances as prepaid amounts or investigate them for possible correction, and reconcile the control balance to the detail.
3. Whenever these records do not agree, the record-keeper must determine the discrepancy by:
  - a. Verifying the various transactions (commitments, abatements, refunds, chargebacks) against their supporting documents.
  - b. Comparing the total amount of posted payments to the turnovers accepted by the Treasurer
  - c. Determining whether any revenues were incorrectly recorded as payments to the commitment, such as interest and fees
  - d. The record-keeper will forward a copy of the internally reconciled accounts receivable balances to the Town Accountant. To achieve the core objective of maintaining the general ledger’s integrity, the Town Accountant must regularly reconcile it with the separately maintained departmental receivable balances.

**D. Special Revenue Reconciliation**

1. Governed by various state statutes, special revenue funds are specific revenues segregated from the general fund and earmarked for specific purposes. They include gifts and grants from governmental entities, individuals, and organizations; revolving funds; and receipts reserved for appropriation. To ensure these funds are balanced, the Town Accountant will provide quarterly reports on the activity in these funds. Department heads with responsibility for special revenue funds will verify that all revenues turned over to the Treasurer, expenditures authorized for payment by the Town Accountant, and properly authorized transfers are recorded for the period. These department heads will subsequently notify the Town Accountant of any discrepancies with their records of these funds and assist in resolving the discrepancy.

**E. General Ledger Reconciliation**

1. In addition, it is the Town Accountant’s responsibility to review all accounts analytically from time to time for reasonableness and to identify unusual activity.
2. The Town Accountant will review the payroll withholdings reconciliation report provided by the Treasurer against the general ledger and make corrections to the ledger as needed.
3. All receivable records must be reconciled to the Town Accountant’s general ledger on a quarterly basis. If a given receivable control has been internally reconciled but does not agree with the general ledger balance, the Town Accountant must:
  - a. Review the commitments, charges, payments, abatements, refunds, reclassifications, and adjustments in the general ledger, as appropriate for the particular control.
  - b. Verify whether receipts are recorded to the correct type and levy year.



- c. Verify the dates that activities were recorded.
4. The Town Accountant's receivable accounts in the general ledger should reflect the transactions provided by each particular record-keeper. Therefore, the above steps must resolve any discrepancies between the receivable control and the ledger. If they do not, the record-keeper and Town Accountant must trace each ledger entry until they determine the reason for variance.
5. The Town Accountant may request department heads to supply documentation to verify that all special revenue fund reconciliations match the general ledger. The responsible department head and Town Accountant must research any discrepancy and correct the record(s) as appropriate.

F. Time frames and Documentation

1. Employees subject to this policy will complete reconciliations of their internal accounting records early each month so that subsequent reconciliations to the general ledger take place no later than the 15<sup>th</sup> of the month following the one being reconciled.
2. If, at that time, any variance has not yet been fully resolved, The Town Accountant and Department Head will cooperate to develop a work plan and timetable for resolution. The Town Accountant will maintain documentation of each general ledger reconciliation and a chart listing dates of reconciliations. The Town Accountant will review the status of reconciliations with the Town Administrator on a monthly basis.

G. Audit

All reconciliation activities are subject to audit by Erving's independent auditor.

**.05 References**

DLS Best Practice: [\*Reconciling Cash and Receivables\*](#)

Massachusetts Collectors & Treasurers Association: [\*Treasurer's Manual\*](#) and [\*Collector's Manual\*](#)