



City of Galveston

City Auditor's Office

Audit Plan FY2023

June 28, 2023

F&CPG2023 - 2

City of Galveston Finance Department Audit of Cash and Bank Reconciliation Procedures

Why We Did This Memo

On July 29, 2022, the Mayor and City Council approved the City Auditor's Audit Plan for the 2023 fiscal year. The audit plan included a Financial and Compliance Policy Guide (F&CPG) to examine and evaluate the implementation of Written Cash and Bank Reconciliation Procedures and Controls.

What We Did

We audited the Cash and Bank Reconciliation Policies, Procedures, and Controls used by the City of Galveston Finance Department for compliance with Governmental Accounting.

What We Found

The City Auditor's Office has no findings to report for the City of Galveston Cash and Bank Reconciliation Procedures. The City of Galveston's written Cash and Bank Reconciliation Procedures were determined to be an impressive work product.

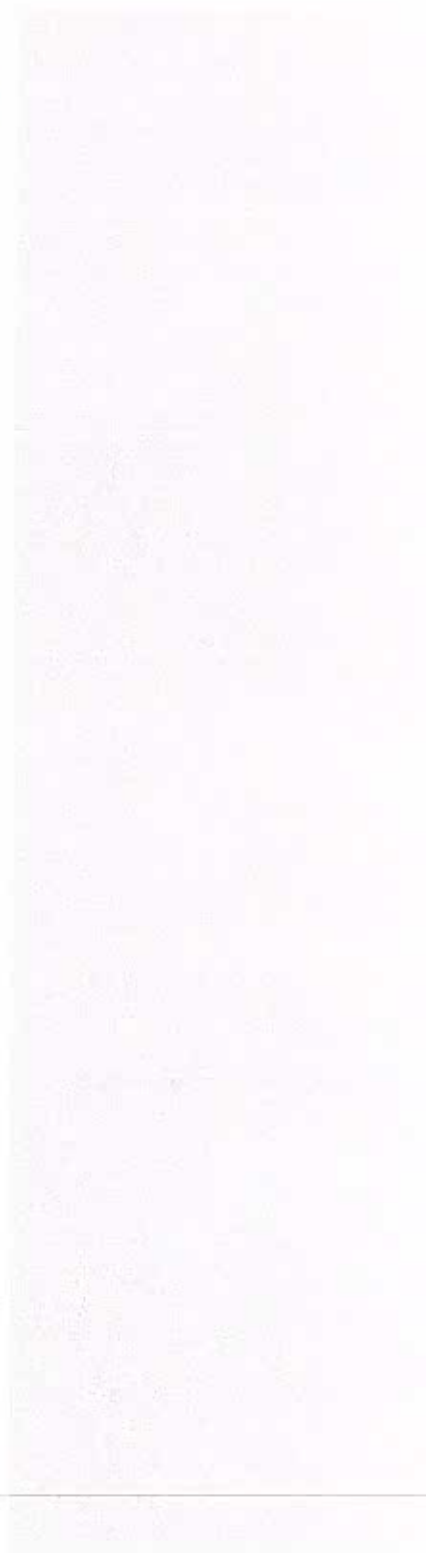
Office of the City Auditor

We would like to thank you for the opportunity to be of service to The City of Galveston Finance Department. We look forward to working with the City of Galveston on your Follow-Up Audit (FUA) for continued Compliance with Cash and Bank Reconciliation Procedures.

City Manager's Comment – The Manager appreciates the opportunity to review the work and conclusions of the auditor. The enhancements evident in today's processes and procedures are reflective of a joint effort led by the City's CFO and a team of exceedingly qualified staff along with the Auditor's office.



**The City of Galveston
Bank Reconciliation Policies, Procedures, and Controls
Manual**





Section 1. Identification of Reconciled Bank Balances

Suggested Policy for Identification of Reconciled Balances 1.0
Procedure 1.1 Example: One Page Summary of Reconciled Bank Balances 1.1

Section 2. City of Galveston Documented Procedures for Bank Reconciliations

Suggested Policy for Documented Procedures for Bank Reconciliations 2.0
Procedure 2.1 Reconcile Unmatched Items with Cashiering Locations and Department Managers 2.1
Procedure 2.2 Checklist Procedures to Reconcile General Ledger to Book Balance 2.2
Procedure 2.3 Example: Bank Account Reconciliations Activity 2.3
Procedure 2.4 Checklist of Additional Issues for Performing Bank Reconciliations 2.4
Procedure 2.5 Checklist of Adequate Segregation of Duties for Bank Reconciliations 2.5
Procedure 2.6 Checklist of Analytical Procedures Performed by [City Controller](#) 2.6
Procedure 2.7 Procedures for Interbank Transfers 2.7
Procedure 2.8 Procedures for Bank Account Closures 2.8
Procedure 2.9 Procedures for Account Balance Communication with Banks 2.9
Procedure 2.10 Procedures for Posting Checks Payable to the [City of Galveston](#) 2.10
Procedure 2.11 Procedures for Mailstop Numbers 2.11
Procedure 2.12 Procedures for Lockboxes 2.12
Procedure 2.13 Procedures for Managing Cash Flows 2.13
Procedure 2.14 Procedures for Negotiations for Faster In-Coming Check Availability 2.14
Procedure 2.15 Procedures for Opening Zero Balance Accounts 2.15
Procedure 2.16 Procedures for Elimination of Multiple Approvals 2.16
Procedure 2.17 Table: Account Setups 2.17
Control 2.18 Control for Finalizing Bank Reconciliations 2.18
Control 2.19 Controls for Check Stock, Supporting Documents, and Check Signers 2.19
Control 2.20 Controls for Check Payments 2.20
Control 2.21 Basic Check Handling Controls 2.21

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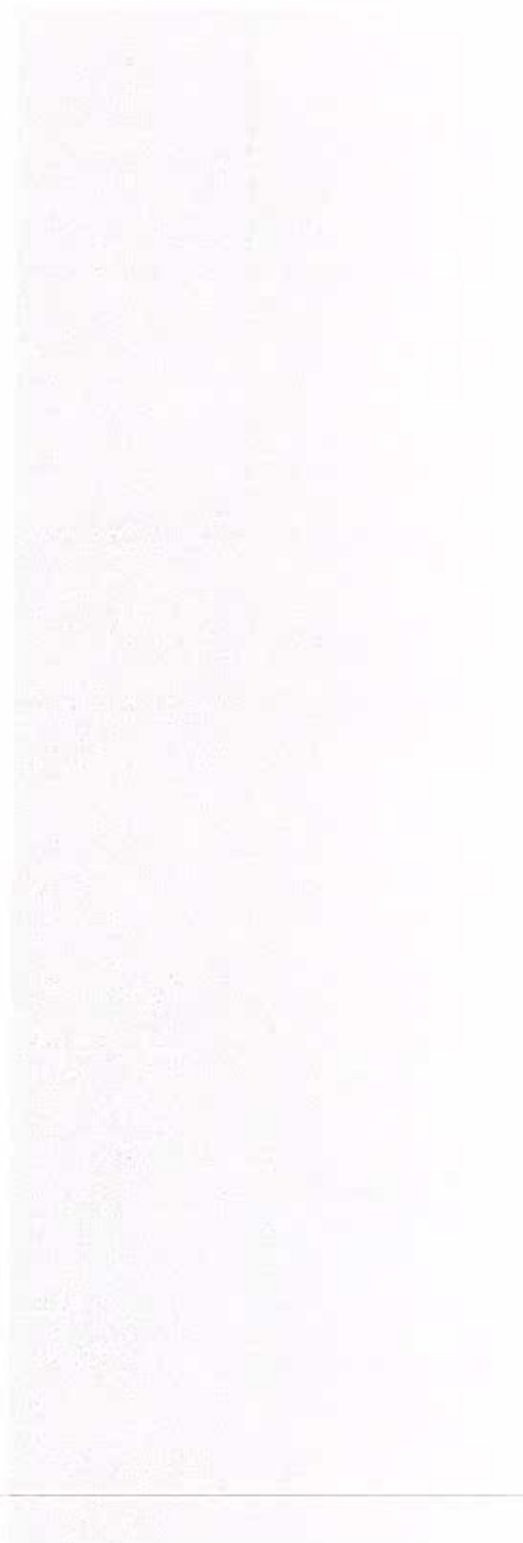
Control 2.22 Computerized Check Handling Controls 2.22

Control 2.23 Control for Lockboxes 2.23

Section 3. Notification of Bank Reconciliation Issues

Suggested Policy for Notification of Bank Reconciliation Issues 3.0

Procedure 3.1 Time Period to Notify City of Galveston of Bank Reconciliation Issues 3.1





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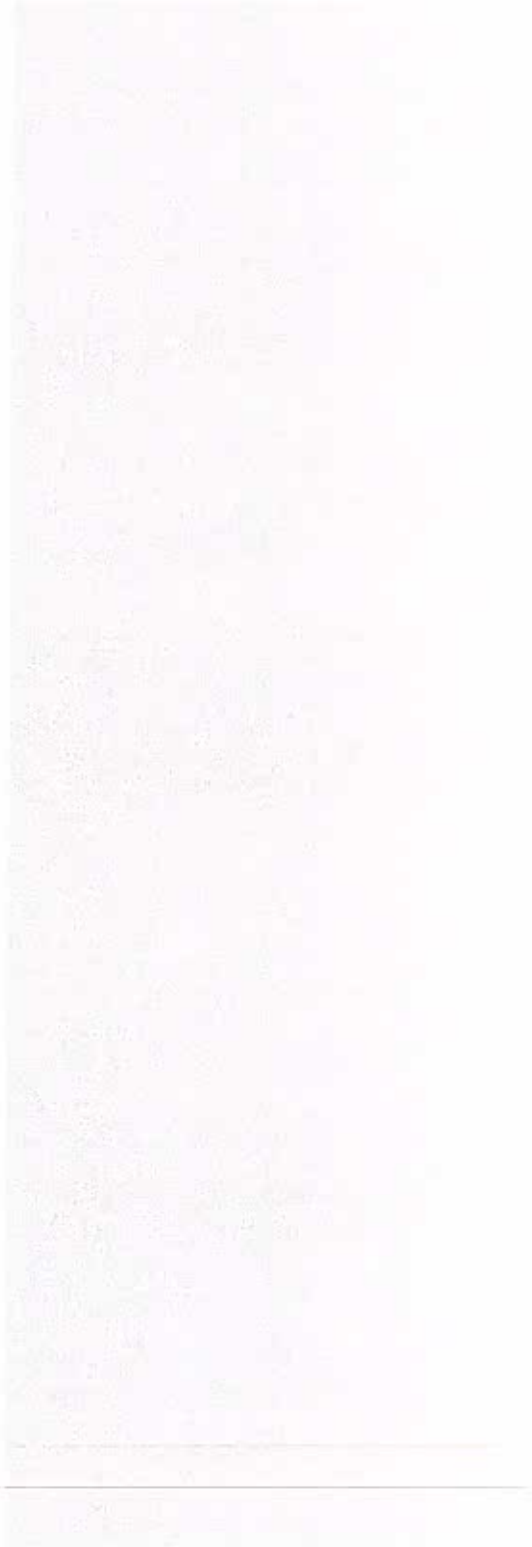
SUGGESTED POLICIES FOR BANK RECONCILIATIONS FOR THE CITY OF GALVESTON TO ADOPT

All bank accounts and their respective reconciled balances will be identified to the City Council on a monthly basis. Appropriate descriptions should be used (e.g. Operating Account, Payroll Account, etc.) so that City Council can quickly and easily identify each account.

City Council Approval
Date: _____

City Council Denial Date: _____

Previously Approved Date: _____





1.1

Procedure 1.1- Reconciled Bank Balances

This procedure applies to all bank accounts held by the City of Galveston. A one-page summary of all City of Galveston bank accounts showing each account's reconciled general ledger balance ~~is~~ available monthly to all City Council members. Frequent bank reconciliations are essential to prevent fraud and ensure that the City of Galveston funds are handled with fiscal and fiduciary responsibility. This summary ~~is~~ named "Bank Reconciliation Summary" and filed in a central file where City Council can review it at their convenience.

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Example: Bank Reconciliation – Operating Account

Bank Reconciliation Frost Demand Accounts FY 2023 for the month of February 2023				
BALANCES PER BANK STATEMENTS:				
Bank		Bank Acct #	Balance	
Frost Bank - Demand Account (1154)				6,057,046.28
Frost Repurchase Agreement				0.00
Total Bank Balance				6,057,046.28
Outstanding checks:				
Unpaid Health Insurance checks Frost				0.00
Unpaid Commercial checks Frost				(874,770.05)
Unpaid Payroll checks Frost				(26,319.02)
Total O/S Checks				(901,089.07)
Deposits in Transit:				774,147.53
Adjusted Bank Balance				5,930,104.74
BALANCES PER GENERAL LEDGER:				
General Ledger Account		G/L Acct #	Balance	
Frost Repurchase Agreement		101019		0.00
Demand - Frost Account		101600	5,903,473.84	5,903,473.84
Outstanding Entries & Variances - January 2023				
Utility Billing				
Returns	April		(295.38)	
Total January variance				(295.38)
Outstanding Entries & Variances - February 2023				
Planning				
PLANNING #5334 MERCHANT FEE	March		480.23	
Muni Court				
MUNI COURT #0036 BANK FEES	March		730.20	
Island Transit				
March deposit correction	March		8.00	
Utility Billing				
Returns	March		(1,984.11)	
Fees current	March		31,870.98	
Online Deposit Variances	???		163.61	
Duplicate posting; need to reverse	Deatra		(2,929.74)	
ACH (Duplicate postings; need reversals)	Deatra		(860.46)	
City Cashier				
CC Merchant Fees Focus 3918	J2305080	March	195.71	
CITY MARSHALL #3236 BANK FEES	J2305081	March	147.78	
GPD 9468 BANK FEES	J2305084	March	98.54	
Parks and Recreation				
PARKS & REC GATEWAY FEE		March	38.70	
PARKS & REC #7001 MERCH FEE		March	263.66	
Downtown Parking				
February Merchant Fees		March	7,825.83	
Unmatched				
Ad Valorem variance		March	(0.03)	
AIRPORT #6750 BANK FEES	J2305088	March	148.93	
WIRE TRANSFER P21 TERM EMP CONT	J2305129	March	24,799.60	
MUNI COURT #0037 BANK FEES	J2305118	March	1,651.95	
FEB'23 ONLINE PLANNING PMTS/FEES	J2305111	March	(69,681.87)	
Pub Works Merchant Fees 9630	J2305085	March	1,408.83	
IDC BANK TRANSFER - FEB RECON	J2305108	March	32,555.94	
Total February variance			26,926.28	26,926.28
Outstanding Entries & Variances - March 2023				
Total March variance				
Adjusted GL Balance				5,930,104.74
Variance				0.00

Prepared By: *Sammy V. Jacobs 4/21/2023*

Reviewed By:

Example: Bank Reconciliation – Investment Accounts

City of Galveston Bank Reconciliation Investment Accounts FY 2022 for the month ending February 28, 2023			
Bank	Bank Acct #		Balance
US Bank Investments (12 Accts)			
Series A City HOT Debt Ser Acct		\$ 478,109.27	
Series B Venue HOT Debt Service Acct		477,599.03	
Series A City HOT Debt Service Seasonal		242,108.40	
Series B Venue HOT Debt Ser Seasonal Reserve Account		241,851.78	
Series A Surplus Account		685,269.15	
Series A City HOT Account		50,899.27	
Series B Venue HOT Account		253.54	
Series A City HOT Debt Service Reserve Acct		1,081,687.50	
Series B Venue HOT Debt Ser Reserve Account		1,068,406.26	
Series A Operating Acct		-	
Series A Operating Reserve Account		199,999.98	
Series A Capital Account		800,000.46	5,026,184.64
Front-Salekeeping of Investments			80,000,000.00
TexPool - (101022)			59,479,196.96
TexPool Prime - (101023)			27,515,118.49
TexPool - (101023)			10,152,243.34
TexPool Prime - (101028)			11,679,383.40
LOGIC - (101027)			65,292,405.50
Wilmington Trust - BaySide at Watermans PID (Revenue Bond Series 2014) 3 accounts			2,155,173.54
Total Bank Balance:			261,299,765.87
Deposits in Transit:			
RCVD DECEMBER CY22 STATE HOT FUNDS (J2305093) Texpool Investments			(307,583.50)
RCVD DECEMBER CY22 STATE HOT FUNDS (J2305093) Texas Prime Investments			307,583.50
			0.00
Outstanding Disbursements:			
Adjusted Bank Balance			261,299,765.87
BALANCES PER GENERAL LEDGER:			
GL Account Name	GL Acct #		
US Bank Investments	101016		5,026,184.64
Investments at Par	101022		80,000,000.00
Texpool Investments	101023		59,786,780.46
Texas Prime Investments	101025		-
Texas Prime Investments	101031		27,207,534.98
LOGIC Investments	101027		65,292,405.50
Texpool Prime Investments (IDC)	101028		11,679,383.40
Texpool Investments (IDC)	101029		10,152,243.34
Wilmington Trust	101030		2,160,023.54
Total General Ledger Balance:			
Outstanding Disbursements:			
RECORD PYMT OF TRUST FEES			(4,850.00)
Adjusted GL Balance			261,299,765.86
Variance			0.01

Example: Bank Reconciliation Summary

Bank Reconciliation Summary For Month Ending February 2023								
Cash Receipts	DIT - January	G/L Accts 101000	Frost Smt Activity - Dept Accts	Frost Smt Activity - Demand Acct	Over/Under	S/B DIT - February	DIT - February	Difference
Planning (1914)	4,192.00	40,876.87	198,888.83	192.00	497,467.66	21,292.25	6,712.25	(70,008.31)
Municipal Court (1187)	14,458.62	146,072.18	178,185.71		9,895.47	24,315.08	22,622.58	1,492.53
Island Transit (1027)	778.84	8,895.17	8,904.15		182.02	943.85	848.89	8.00
Utility Billing (1030)	181,302.73	3,628,982.67	3,685,374.33	32,263.81	105,434.53	281,737.31	278,889.58	5,287.35
City Casino (1318)	41,828.85	897,375.93	771,183.48		86,222.48	128,152.13	118,417.70	8,734.43
Payment on Account		117,870.36		117,870.36	0.00	0.00		0.00
Parks & Recreation (7383)	2,150.00	88,836.18	88,048.47		689.89	3,038.80	3,020.00	18.80
Pocket Parks (8385)					0.00	0.00		0.00
Downtown Parking (7378 & 8384)	4,706.85	82,055.77	3,888.20	80,833.88	287.99	5,084.28	3,321.75	1,742.54
Sweep					0.00	0.00		0.00
Ad Valorem tax revenue	3,171,981.83	6,388,523.14	6,927,270.28	(2,630,747.13)	341,234.48	341,234.48	341,234.48	0.00
Matched credits and debits		(5,384,592.13)	(5,384,592.13)		0.00	0.00		0.00
Unmatched		7,806.97		4,735.81	3,070.36	3,070.36		3,070.36
Prior Month Reconciling Items Received				356,384.72	(356,384.72)	(356,384.72)		0.00
Total Cash Receipts	3,421,844.13	4,822,747.89	4,826,821.34	3,141,844.68	(2,684,706.75)	368,853.43	774,147.43	(416,784.11)
Disbursements	O/S Checks - January	G/L Accts 101000	Frost Smt Activity - Dept Accts	Frost Smt Activity - Demand Acct	Over/Under	S/B O/S Checks - February	O/S Checks - February	Difference
Vendor Checks Issued/Paid (1170)	(763,103.84)	(6,628,754.06)	(3,653,359.40)	(2,663,728.45)	(111,606.21)	(874,770.85)	(874,770.85)	0.00
Health Insurance (1189)	9	(2,488.48)	(2,488.48)		0.00	0.00	0.00	0.00
Payroll Disbursed Checks (1142)	(28,400.81)	(2,948,185.45)	(2,348,277.28)		81.89	(28,318.92)	(28,318.92)	0.00
Total Disbursements	(819,914.66)	(11,927,433.04)	(8,354,025.16)	(2,663,728.45)	(111,824.32)	(931,889.77)	(931,889.77)	0.00
Cash Receipts Less Disbursements	2,601,929.47	(4,444,871.94)	(1,887,806.92)	478,116.23	(2,187,286.25)	(2,601,929.47)	(2,601,929.47)	0.00
G/L and Bank Stmt Totals (All Bank Accounts)		24,444,871.94	(1,887,806.92)	478,116.23	(2,187,286.25)			
Difference		0.00	0.00	0.00	0.00			0.00

2.0

OVERVIEW

SUGGESTED POLICIES FOR BANK RECONCILIATIONS FOR THE CITY OF GALVESTON TO ADOPT

The City Controller develops and maintains documented procedures for reconciling each bank account held by The City of Galveston to ensure:

1. All receipts and disbursements are recorded.
2. Checks are clearing the bank in a reasonable time.
3. Reconciling items are appropriate and are recorded timely.
4. The reconciled cash balance agrees with the general ledger cash balances.

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2.1

Procedure 2.1-Reconcile Unmatched Items

This procedure provides that the Finance Department works together with the cashiering locations and departmental managers to identify and resolve reconciling items on a timely basis. Any unmatched book/bank lines or other reconciling items are corrected on the City of Galveston's financial statements as necessary. All unmatched items are researched and identified before the reconciliation is completed. These items are marked as to when the items will be resolved and cleared from the reconciliation.

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Bank account reconciliations are prepared by a reconciliation accountant (Preparer) and approved by a Finance Department Manager (Approver). Their signatures on the bank account reconciliation summary confirms that current procedures were followed, and that the reconciliation accurately presents the status of the account at the bank and the general ledger.

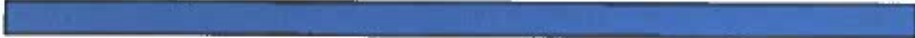
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Procedure 2.2-Checklist Reconcile General Ledger to Book Balance

This procedure is a checklist once the month-end bank statement arrives to reconcile the general ledger to the bank balance with the following seven steps:

1. The City of Galveston creates a new Excel book every month for each bank account. The first page of each book has a tab for procedures/instructions.
2. Check off all issued checks that have cleared the bank on the bank statement. If any check amounts the bank listed differ from those listed in the general ledger, make a journal entry to correct the bank balance. All checks not cleared should be listed on the bank reconciliation as outstanding. Any checks not clearing within two months should be identified as "Old Outstanding."
3. Check off all deposits that are listed as having been received by the bank on the bank statement. If any deposit amounts the bank listed differ from those listed in the general ledger, make a journal entry to correct the bank balance. All deposits not clearing should be listed as deposits-in-transit on the bank reconciliation.
4. Make a separate journal entry for each special expense or revenue item on the bank statement, such as a monthly account processing fee.
5. Record in the accounting system any manual checks not previously recorded but are listed on the bank statement as having cleared the bank.
6. If all items reconcile and the bank statement still does not match the general ledger, the only remaining possible solution is that the beginning bank reconciliation was incorrect. If so, verify that the previous month's bank reconciliation was completed correctly.
7. When the reconciliation is complete, store it with the bank statement in a bank statement file for the current year, which should be sorted by month.
8. Review all journal entries resulting from the bank reconciliation, determine which ones were the result of transaction errors, and meet with the accounting staff to determine remediation steps to keep these errors from occurring in the future.



Procedure 2.3

Example: Bank Account Reconciliations Activity

Activity	Preparer	Approver
Ensure all transactions for General Ledger and subledgers are entered.	✓	
Identify balance sheet accounts to be reconciled and the source documentation to reconcile against.	✓	
Review the account balance from the general ledger with source documentation based on the reconciliation type.	✓	
Identify reconciling items.	✓	
Approve Bank Reconciliations.		✓
Request additional support for reconciling items if necessary.	✓	
Provide additional information/ justification for reconciling items.	✓	
Determine if an adjusting entry is necessary. If yes, post adjusting entry to the appropriate Subledgers of General Ledger as necessary.		✓
Add any additional comments to support the reconciliation, if necessary.	✓	
Verify the General Ledger account balance and supporting documentation reconciliation.	✓	✓
Sign off/ approve the bank account reconciliations.	✓	✓

Example: Bank Account Reconciliations Procedures

Utility Billing Recon Procedures

Bank Recon: S/Accounting/Bank Recon/FY/Month/Supporting Documents/Utility Billing

1. Open a previous month/Save as-current month you are working on
2. "Deposits" tab
 - Highlight Columns BB-CB-38 / Clear Contents / EB-E38 clear contents/Do not clear "Totals" columns
3. "Online" tab
 - Highlight Columns C17-117 / Clear Contents / M17-117 clear contents
 - Clear contents in "Frost", "ACH-Demand", and "Banner" tabs

Customer Service will give you their Daily Cash Reconciliation paperwork on a daily basis. Compare this information to the Cusi Customer Payment History Report (below)

4. Login to Cusi / Reporting / History Reports / Customer Payment History / From 1/1/20 to 1/1/20 / Preview / Print last page / Write the date on top of page / Run for each day (See example A)
 - Compare Customer Payment History Report (See example B) with Daily Cash Reconciliation (see example C) / Put a check mark by each amount
 - If the total from Daily Cash Recon doesn't match Customer payment History-put correct amount next to amount listed and write "Cusi" above it

5. Daily Cash Reconciliation
 - Match up any NSF, Adjustments, or Misc with Posting Totals-Condensed (highlight) / check off on Daily Cash Recon

6. Utility Billing Workbook-Get your totals from Cusi Customer Payment History
 - "Deposit" tab (Column B) / Cash / Enter total from report (Cash)
 - Column C-(Checks,AQ2, Frost) / Enter total from report / you will have 3 totals in this column / list them all [add = to sum up]

7. "Online" tab
 - Column C-G / Enter total from Cusi Customer Payment History Report / for each day
 - Column / NSF is "Returns" Enter from Daily Cash Reconciliation paperwork (Customer Service) / Enter as a negative number / list each amount individually (example \$650 =-25+25+600)
 - Column I - Enter From T-Tech Report (from Customer Service)

8. T-Tech Reports (from Customer Service) / Enter T-Tech (online checks) in Column T

9. Cusi-Run Reporting / History Reports / Customer Payment History / 1/1/20 - 1/31/20 / Report Type: Summary / Preview
 - The totals should match totals from Row 45 (Deposits) tab and Row 82 (Online) tab (see example D)

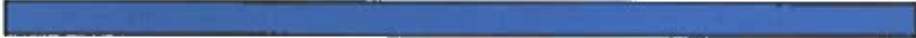
10. Frost Bank Statement-S: Accounting/Bank Statements/Frost/ 1200 Utility Billing / Print Statement
 - Use Statement to enter columns M,N,Q,R,S
 - Use Statement to enter column E ("Deposits" tab)
 - Copy Statement and paste in "Frost" tab / Highlight / sort by Text/ Add totals at bottom of page (Columns I,J)

11. Focus Statement - S: Accounting/Bank Statements/Focus/Utility Billing 0032
 - Use Statement to enter columns O and P
 - Column E45 should match D49

12. Cusi - Run Reporting / Financial Reports / Batch Totals for each day (1/1/20 - 1/1/20) / Find "TRF" / If TRF displays, print the page that shows all TRF
 - TRF - you will add each TRF to the category listed / example: Check (18.02) / Add to Checks (Deposits) tab for that day / As a negative number / see example E

T-Tech - Run Reports / Reports List/ Settlement Batches by Detail Date/ Proceed/ Excel Format/Print-Save as S:Bank Recons/Month/Supporting Documents

13. Make sure you sign/date all of the Daily Reconciliation and T-Tech paperwork. Give box to Tammy when finished



Procedure 2.4-Checklist of Additional Issues for Performing Bank Reconciliations

This procedure serves as a checklist of additional issues that may arise while performing bank reconciliations.

1. Identify all reconciling items and the separation of those items into timing differences (i.e., those that will clear with the passage of time), such as "Old Outstanding Checks."
2. If a check remains un-cashed for three years, the Accountant prepares a "Report of Property Presumed Abandoned Report." According to State Comptroller, you cannot treat as abandoned until 3 years.
3. Unposted receipts are investigated if outstanding for more than 30 days. The City Controller works with the appropriate staff to resolve unposted receipts.
4. The Finance Department compares the current-year ending cash balances with the next-year beginning balances and reconciles any discrepancies at the end of each fiscal year.
5. The Finance Department voids and reissues checks as necessary and records the replacement check number and date drawn for the wrong vendor or wrong amounts. Documentation is signed off by Controller.

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Procedure 2.5-Checklist of Adequate Segregation of Duties

This procedure offers a list of bank reconciliation duties that must have adequate segregation among those who reconcile bank accounts and:

- Collect accounts receivable.
- Open the mail or copy the check received.
- Prepare deposits.
- Deposit cash receipts.
- Post cash receipts to the receivables sub-ledger.
- Review the receivables sub-ledger.
- Review the receivables aging trial balance.
- Authorize write-offs of delinquent accounts.
- Independently investigate receivables discrepancies.
- Maintain or authorize receivable adjustments.
- Edit the receivables master file.
- Investigate discrepancies or issues related to revenue.
- Review, authorize or sign checks.
- Initiate checks for expenditures.
- Prepare checks.
- Mail checks.
- Edit the vendor master file.
- Investigate discrepancies or issues involving expenditures.

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<#>Bank statements are received and reviewed by other responsible individuals before being submitted for reconciliation to the individuals who will actually reconcile the bank accounts

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Procedure 2.6-Checklist of Adequate Procedures to be Performed by the Finance Director

This procedure allows for analytical analysis to be addressed by the City Controller

1. Obtain explanations for significant account variations from the prior period.
2. Assess the reasonableness of cash balances in light of your understanding of the government's activities and current operating results. Consider amounts held for other governmental units, such as Industrial Development Corporation.
3. Consider the need to inquire financial institution officials about or confirm federal depository insurance coverage.
4. Consider the need to determine that collateral pledged, if any, to secure the deposits were adequate at various times during the year.
5. Trace deposits in transit per the bank reconciliation to the deposits in the subsequent bank statement, noting the reasonableness of the time period book and bank recordings.
6. Inspect selected canceled checks that cleared on the subsequent bank statement. Trace checks dated before the balance sheet date to the list of outstanding checks.
7. Inspect the dates on which checks cleared the bank. Investigate any large or unusually outstanding checks that cleared the bank. Investigate any large or unusual outstanding checks that cleared on the subsequent bank statement but took a long time to clear and/or outstanding checks that did not clear. Also, inquire of whether any check drawn before the balance sheet date was released after that date or is being held. Consider whether such checks should be classified as accounts payable.

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2.7

Procedure 2.7-Interbank Transfers

This procedure gives guidance to the Finance Director that all Interbank Transfers are properly accounted for:

Prepare a schedule of interbank transfers for three (3) days before and after the balance sheet date and perform the following procedures:

1. Determine whether transfers between each bank account were recorded in the same period (that is, all transfers made before the end of the period were recorded in each bank account before the period ended, and vice versa for transfers made after the end of the period).
2. Determine whether transfers are not clearing the bank in the same accounting period they were initiated and are properly reflected as reconciling items on bank reconciliations.
3. Determine whether transfers were made from accounts for which transfers are prohibited by funding sources or the [City of Galveston](#).
4. Review Bank Statements for interbank transfers made at various times during the year and investigate unexpected transfers.

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Example: Bank Account Transfer Form

Bank Transfer			
CDBG DISASTER TDHCA			
Request Date:		6/1/23	
From:		To:	
Item #	NEIGHBORHOOD STABILIZATION	[REDACTED]	Frost Demand Account [REDACTED]
1	Amount: \$0.00		Amount: \$50.00
			Frost Demand Account [REDACTED]
2	Amount: \$0.00		Amount: \$0.00
			Frost Demand Account [REDACTED]
3	Amount: \$0.00		Amount: \$0.00
			Frost Demand Account [REDACTED]
4	Amount: \$0.00		Amount: \$0.00
			Frost Demand Account [REDACTED]
5	Amount: \$0.00		Amount: \$0.00
			Frost Demand Account [REDACTED]
6	Amount: \$0.00		Amount: \$0.00
			Frost Demand Account [REDACTED]
References \$50 Corelogic Solutions refund to be returned to demand.			
Confirmation #		_____	
Date:		_____	
By:		_____	
Prepared by:		Cameo Gibson	



2.8

Procedure 2.8- Bank Account Closures

This procedure furnishes direction when bank accounts are closed during the accounting period. For bank accounts closed during the accounting period, the Finance Director documents this closure by tracing the authorization to the City Council minutes.

Commented [TJ4]: Why would we need Council authorization to close an account?



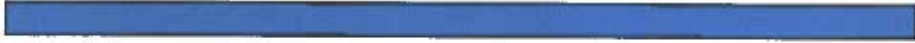
2.9

Procedure 2.9-Account Balance Communication with Banks

This procedure addresses the Finance Department's need to know the bank's current checking account balance.

The City of Galveston has direct access to its account information through a website banking portal. This access is free and requires no other special software besides an Internet browser. The more advanced sites allow The City of Galveston to download check images, initiate wire transfers, and move funds between accounts.

Deleted: The most common way to find out is to call the City of Galveston bank representative. This is a slow and sometimes inaccurate approach since the representative may not be available or misread the screen's information. A more straightforward approach is to provide



Procedure 2.10-Posting In-Coming Checks Payable to the City

This procedure tackles avoiding delays in posting incoming checks made payable to the City of Galveston as the payee. Although this procedure is not directly connected to the bank reconciliation, it helps to prevent a real bottleneck problem in the accounting department if employed at the time of the bank reconciliation process. This problem could result in a lengthening of the time interval before the checks are deposited at the bank, resulting in lost investment income.

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When there is a sudden influx of incoming checks payable to the City of Galveston, the accounting staff may require an extra day to post them all against the accounts receivable database. This delay can also occur when the payments being made are slightly different from the receivables they are paying, requiring some delay while the differences are reconciled.

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To avoid this problem, the accounting department makes a photocopy of incoming checks as they arrive so that postings can be done from the copies rather than the original checks.

This allows the deposit to be made immediately rather than later. The main problem is the danger that a check will not be copied or that the copy will be lost, which results in a missed posting to the accounts receivable database. This problem leads to downstream collections and research problems involving backtracking to find the missing checks. However, it is avoided through proper reconciliation procedures that match the total number of copied checks to the total number of actual checks and the total dollar amount posted to the total amount on the copied checks.

Procedure 2.11-Mailstop Numbers

This procedure is about allowing the City of Galveston to use Mailstop Numbers. In a well-organized mailroom, incoming letters are opened, sorted by the recipient, and distributed throughout the organization in an orderly manner. This is not optimal from a cash flow perspective since mail processing can add multiple hours to the cash-receiving process, which can delay cash deposits at the bank until the following day.

To reduce this delay's duration, the City of Galveston encourages all payors to remit their payments via several forms of electronic payment methods.

The accounting department person who receives the checks from the mailroom staff itemizes the incoming checks and then forwards them to the appropriate Accountant for recordation.

Deleted: should consider having all payors remit their payments to a specific mail stop number. They include the mailing address on their payments to the accounting department rather than including them in the normal letter distribution process. This process acceleration can result in faster incoming check deposits, increasing investment income earned.

Deleted: The problem with this best practice is that it sidesteps a standard cash control: having the mailroom staff create an itemized list of checks received, which is later compared to the amounts recorded in the accounting records. This control can be transferred to the accounting department person who receives the checks from the mailroom staff by mail stop numbers; this person can itemize the incoming checks and then forward them to the Finance Department for recordation.

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2.12

Procedure 2.12-Lockboxes

This procedure is about collecting the City of Galveston funds through specifically identified lockboxes. This is a perfect procedure to follow since receipts from a particular area in the City of Galveston could be given to the wrong accounting person for further processing and causing delays in transit to the bank. ~~The City uses a single electronic lockbox to receive PID assessments which are recorded via a journal entry by a designated Accountant.~~

Deleted: it would be necessary for accounting department staff to open the lockboxes in teams and prepare a log. This log of all receipts would later be compared to the deposit slip sent out by the accounting department to ensure that all receipts have been deposited. This is a non-value-added step, though providing some control over receipts processed directly by the City of Galveston is necessary.

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Procedure 2.13-Managing Cash Flow

This procedure involves the individual in charge of managing the City of Galveston's cash flows, which should always try to retain cash for investment purposes. A legitimate way to retain cash for an extra day or two is to use controlled disbursements. This best practice is based on the principle of mail float, which means that one can print and immediately mail a check to pay for an invoice on its due date. The payee can receive and cash it, but the check will not clear for a day or two longer than was previously the case, resulting in extra time during which the City of Galveston still controls the funds. These extra steps can give the City of Galveston the capability to keep virtually all of its excess cash in investments, extracting only the bare minimum each day to be covered for immediate cash requirements. Thus, controlled disbursements allow a company to retain its cash longer and use the new off-site bank account as a zero-balance account. Both of these actions can significantly increase the amount of the City of Galveston's operating funds on hand.

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One problem with a controlled-disbursements account is that the amount of additional float made available through this method is gradually shrinking. The Federal Reserve Bank gradually eliminates those pockets of inefficient check clearing throughout the country to periodically change the bank's location that it uses as its check-clearing point. Eventually, the longest additional float time to be gained by this method will probably be limited to a single day. Also, the concept is one of the most expensive bank services. Consequently, the cost must be carefully calculated and offset against the City of Galveston projects to ensure a worthwhile implementation project.



2.14

Procedure 2.14-Negotiations for Faster Incoming Check Availability

This procedure consists of negotiating faster deposited incoming check availability for the [City of Galveston](#). One of the standard tricks used by banks to create a larger store of funds that they can invest in is to delay the availability of money from deposited checks. You can see delays of as long as five days for some checks, even though the checks may have cleared much sooner. As a general rule, if checks are not clearing the bank within two days, it is time to negotiate with the bank to reduce the amount of float it takes or switch to another bank willing to make money available within a shorter time frame.

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2.15

Procedure 2.15

This procedure comprises the use of zero balance accounts. Zero balance accounts are automatic fund mobilization accounts that ensure the City of Galveston has enough funds to cover its obligations. This prevents the City of Galveston from bank penalties that are considerable for not having sufficient cash on hand to cover obligations and allows the City of Galveston to earn investment income on their money for as long as possible. It saves the City of Galveston the task of monitoring the rate at which checks are being cashed, guessing when checks will be cashed, and using all sorts of time-consuming non-efficient averaging methods to reasonably guess how much money should be left in the non-investment account.

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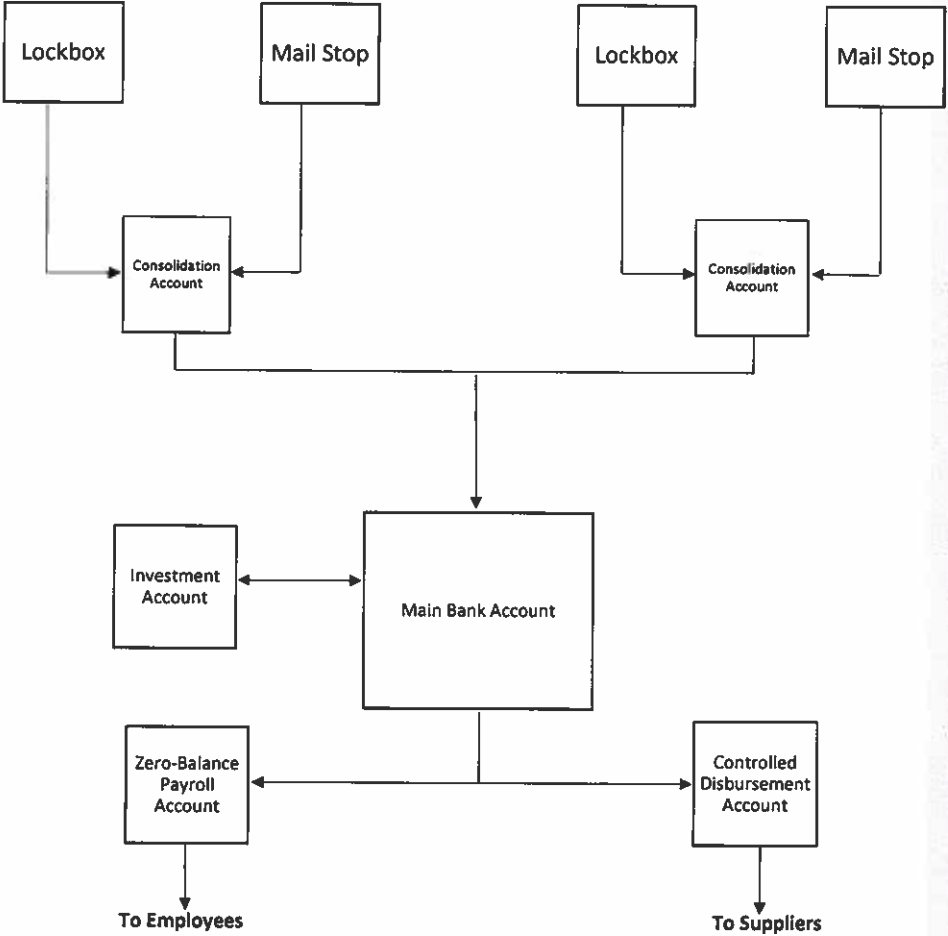
Procedure 2.16-Elimination of Multiple Approvals

This procedure uses the elimination of multiple approvals for efficiency. A typical problem, when interim financial statements are produced is to have employees wait for approval before they are allowed to complete their tasks or pass along work to other employees, who cannot begin until the approvals are given. When there are too many approvals to obtain, especially in areas where the approvals are not needed, the interim financial statements may not be ready on time. The Finance Director of the City of Galveston should investigate processes in which approvals are not needed and are slowing down creating of the City of Galveston's interim financial statements.



Procedure 2.17-Table

Account Setups





2.18

Control 2.18-Finalizing Bank Reconciliations



Deleted: This control represents the bank reconciliation, which is the central control over cash from the perspective of issuing interim financial statements since it verifies the cash balance and detects additional expenses. The control is:¶
Complete a preliminary bank reconciliation a few days prior to closing the City of Galveston books before month-end. Then, finalize the bank reconciliation after the interim financial statements are ready to be approved by the CFO and presented to the Board of Trustees
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Control 2.19-Check Stock, Supporting Documents, and Check Signers

This control itemizes manual cash disbursement controls, in which there is extremely tight control over the check stock, supporting documents, and check signers. Controls are as follows:

- 1. Secure the Check Stock. ~~All check stock is stored in a secured area.~~
- 2. Track Check Stock Numbers. ~~The City's financial system electronically generates check numbers.~~
- 3. Verify That all Check Stock Ordered Has Been Received. ~~Since the City's financial system electronically generates checks and check numbers, the City purchases non formatted check stock.~~
- 4. Segregate Check Signing Duties. ???
- 5. Avoid Signing Blank Checks. The check signers do not sign a blank check under any circumstances.
- 6. Compare the Check to Voucher Package. The check signers review the backup information in the voucher package attached to each check, compare the dollar amount of the voucher package to the amount being paid on the face of the check, and bring unauthorized payment instances to the attention of the ~~finance Director/Controller.~~
- 7. Perforate Voucher Package. ???
- 8. Destroy or Perforate and Lock Up Canceled Checks. ~~All canceled checks will be perforated with the word "VOID", noted on a log and filed appropriately.~~
- 9. Fund Bank Account to Match Issued Checks. The ~~Controller~~ funds the checking account only in an amount sufficient to cover checks identified in the check register.
- 10. Segregate Bank Reconciliation Duties. ???

Deleted: All check stock will be in a locked storage cabinet. The combination of the storage cabinet's lock will not be in a public location.

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Deleted: The CFO will retain in a secure location a list of all check numbers used that is separate from the check stock storage area and update this list promptly whenever new check stock is used. The CFO will investigate promptly when check stock numbers are missing.

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Deleted: The CFO will compare the number of checks ordered to the number that arrives and notify the bank to cancel all checks having missing check numbers.

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Deleted: The check signer will not be responsible for or have access to any other accounting activities.

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Deleted: The voucher package will be perforated with the "Paid" stamp once the associate payment has been sent to the vendor to ensure that the voucher package is not used again as backup material for another payment.

Deleted: All canceled checks will be perforated with the word "Canceled" and stored in a locked cabinet

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Deleted: The person reconciling the bank accounts will have no responsibility for or access to any disbursement functions.



Control 2.20-Check Payments

The following controls provide additional control over check payments, they are:

- 1. Secure Signature Plates. ~~The accounting department is prohibited from using signature plates and signature stamps when processing check payments.~~
- 2. Require a Manual Signature on Large Checks. A senior ~~Executive~~ must review and manually sign all checks ~~exceeding \$25,000.~~
- 3. Use Positive Pay. The accounting department sends a list of issued checks to the City of Galveston bank, which the bank shall use as the basis for accepting checks.

Deleted: The accounting department will store signature plates and signature stamps in a locked safe at all times other than when check printing is being conducted.
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Control 2.21-Basic Check Handling

Basic check handling controls are as follows:

1. Endorse Checks "For Deposit Only." Employees opening mail (mail stop numbers) stamp incoming checks with a "for deposit only" stamp.
2. Apply Cash Within One Day. The Finance Department applies cash to open accounts receivables within one day of the receipt of the associated check.
3. Review Unapplied Cash. The Finance Department promptly contacts Payors of incoming checks to the City of Galveston regarding the proper disposition of cash receipts when there is no information regarding the invoice number to which they are to be assigned.
4. Review NSF Checks. ~~The Finance Department contacts payors of NSF checks to cure their payments immediately.~~
5. Review Metrics. The Controller reviews metrics for the presence of decreasing cash to total current assets and investigate possible skimming issues if these conditions are present.
6. Require Cash Application Staff to Take Vacations. ~~The Finance Department encourages all the cash application staff to take their earned vacation days each year.~~

Deleted: <#> Several Staff Open the Mail. Two employees will open the mail (mail stop numbers) together and verify the checklist report's contents mutually
Deleted: <#> ¶
Deleted: <#> Review Restrictive Endorsements. The Finance Department will review checks for restrictive endorsements and forward any such checks to the legal staff before cashing them.
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Deleted: The Finance Department will route nonsufficient funds (NSF) incoming checks to the legal department for further action.
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Deleted: The Finance Department will require the cash application staff to take the full amount of their earned vacations each year.
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Control 2.22-Computerized Check Handling Controls

Computerized Check Handling Controls are as follows:

1. **Restrict Software Access.** The computer system restricts access to the cash receipts system to authorized users.
2. **Prepare to Check Prelist.** The staff opening mail (preferably from mail stop numbers) logs a list of checks received through the mail, called a deposit memo log, and enter this information into the computer system.
3. **Convert Customers to Electronic Payments.** The Finance Department works with various departments to periodically contact customers regarding conversion to electronic payments.

Deleted: The staff opening mail (preferably from mail stop numbers) will prepare a list of checks received through the mail, called a mail checklist, and enter this information into the computer system.

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Deleted: <#>Match Check Prelist to Cash Receipts Journal. The accounting department will run a report comparing checks listed in the cash receipts journal to the mail check prelist and investigate any differences.¶
<#>Match Check Prelist to Remittance Advice and Cash Receipts Journal. The accounting department will run a report comparing checks listed in the cash receipts journal to the mail check list, as well as to remittances, and investigate any differences.

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Deleted: <#>The CFO will periodically contact customers regarding conversion to electronic payments.

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Control 2.23-Lockboxes

The control for lockboxes is as follows:

- 1. Reconcile Lockbox Remittances to Cash Receipts Journal. ~~The Finance Department reconciles the electronic lockbox payments with the overall bank reconciliation process.~~

Deleted: The Finance Department will obtain the cash receipts journal for the date associated with lockbox remittances and check copies forwarded by the bank, match the report to the received items, and investigate any differences.

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3.0

SUGGESTED POLICY FOR BANK RECONCILIATIONS FOR THE CITY OF GALVESTON TO ADOPT

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The Finance Department will notify the City Council as soon as possible of potential shortages or problems with the submission of the reconciled bank account balances.

City Council Approval
Date:

City Council Denial Date:

Previously Approved Date:



3.1

Procedure 3.1

This procedure requires the Finance Director to notify the City Council upon completing monthly bank reconciliations of any potential cash shortages or problems in a time period not to exceed three days. Bank reconciliations are to be completed monthly.

