



**CITY OF RICHMOND**  
**City Auditor's Office**

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**DATE:** August 1, 2023

**TO:** Lincoln Saunders  
Chief Administrative Officer

**FROM:** Louis Lassiter *LL*  
City Auditor

**SUBJECT:** Bank Reconciliations - Disbursement Account audit

The City Auditor's Office has completed the Department of Finance Bank Reconciliations audit and the final report is attached.

We would like to thank the Finance staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee  
The Richmond City Council  
Sabrina Joy-Hogg, DCAO of Finance & Administration  
Sheila White, Director of Finance

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City of

# RICHMOND

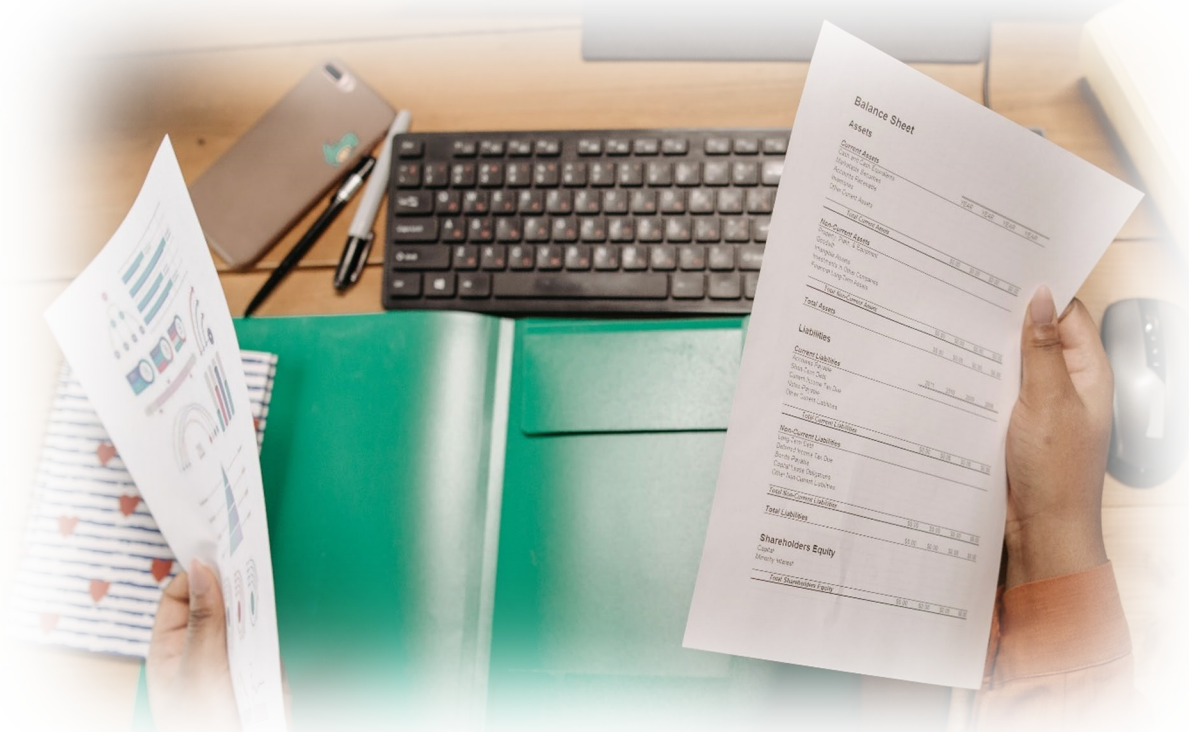
Office of the City Auditor

Audit Report# 2024-02

Department of Finance

Bank Reconciliations - Disbursement Account

August 1, 2023



**Audit Report Staff**

Lou Lassiter, City Auditor  
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August 2023

## Highlights

*Audit Report to the Audit Committee, City Council, and the Administration.*

### Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY2023 audit plan approved by the Audit Committee. The objective for this audit was to evaluate the internal controls over the bank reconciliation process for the disbursement account.

### What We Recommend:

The Director of the Finance Department:

- ***Complete and formalize the policies and procedures for the automated bank reconciliation process.***



## Bank Reconciliations

### Background

As of January 2023, the Department of Finance has automated the bank reconciliation process for the disbursement account using the Cash Management Module in CORERP system. The disbursement account is the account that houses funds that are used to pay expenses. Finance uses the Account Payable Subsystem (APSS) and the General Ledger to record transactions. Finance matches all daily Bank Administration Institute (BAI) files, which contain all bank statement entries, to the APSS and the General Ledger (GL).

### What Works Well

#### Bank Reconciliation

The Auditors re-performed the January 2023 bank reconciliation using the manual bank reconciliation process and noted that overall, internal financial records matched the bank records with minimal exceptions.

### Needs Improvement

#### Finding #1 – Vendor Payments

During the scope of the audit Virginia Retirement System (VRS) payments were neither confirmed timely nor was the support documentation submitted to Finance in a timely manner. The Auditors reviewed seven months of vendor payments by comparing the month that the payment was paid on the bank statement to the date that HR submitted the payment to Finance and noted four out of seven payments were not submitted timely to Finance. Per the HR Deputy Director, delays in submitting the ACH documentation to Finance was due to HR staffing vacancies and training of new staff in HR.

#### Finding #2 – Policies and Procedures

The Department of Finance began running an automated reconciliation process for the disbursement bank account parallel to the manual process in August 2022 and fully transitioned to the process in January 2023. Since then, the Finance Department has not developed formalized policies and procedures for the automated bank reconciliation process. Some procedures to complete the automated process are documented, but they are not complete. The automated bank reconciliation for the disbursement account is a newly created process.

Management concurred with 1 of 1 recommendation. We appreciate the cooperation received from management and staff while conducting this audit.

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***Richmond City Auditor’s Report #2024-02***

*Bank Reconciliation – Disbursement Account*

*August 1, 2023*

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**BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY,  
MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS**

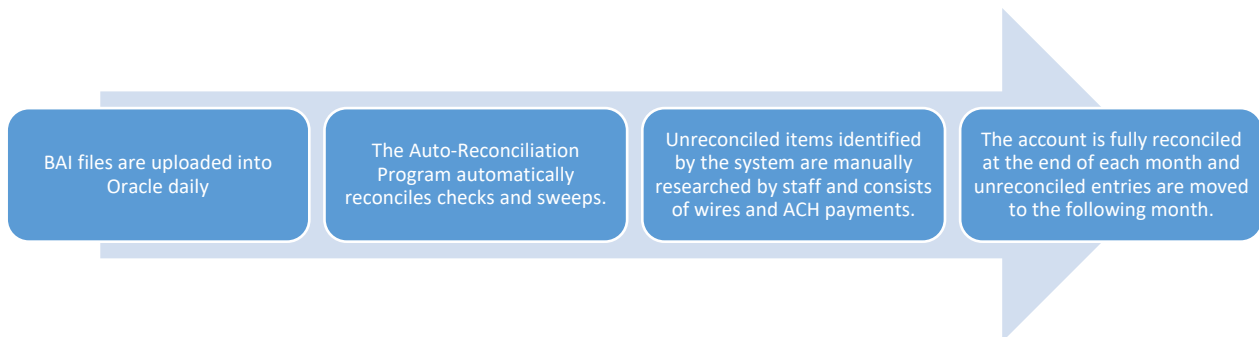
This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

**BACKGROUND**

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The Department of Finance performs a reconciliation of the disbursement account on a monthly basis. Prior to January 2023, the bank reconciliations were performed manually by accounting staff. The bank reconciliation process is now mostly automated using the Cash Management Module in the CORERP system.

Finance uses the Cash Management Module within Oracle to complete the monthly bank reconciliation of the disbursement account. The disbursement account is the account that houses funds that are used to pay expenses. Finance also uses the Account Payable Subsystem (APSS), a module within Oracle, to process payments to vendors. The transactions within the APSS are reviewed daily to assist with the completion of the reconciliation. An overview of the process is shown in the following graphic.



Further narrative details of the process are contained in Appendix A.

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*Bank Reconciliation – Disbursement Account*

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### **OBJECTIVE**

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Evaluate the internal controls over the bank reconciliation process for the disbursement account.

### **SCOPE**

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The scope of this audit included the 7-month period ending January 31, 2023 and the current operating environment.

### **METHODOLOGY**

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The Auditors performed the following procedures to complete this audit:

- Interviewed staff to understand the processes and procedures related to the Bank Reconciliations.
- Conducted testing to determine if bank reconciliations were completed timely and accurately.
- Evaluated the effectiveness of the automated reconciliation process.
- Selected the month of January to re-perform the reconciliation as it was the most recent.
- Conducted other tests, as deemed necessary.

### **MANAGEMENT RESPONSIBILITY**

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City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

### **INTERNAL CONTROLS**

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by

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## ***Richmond City Auditor's Report #2024-02***

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management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the Auditors concluded that the Department of Finance has an efficient bank reconciliation process in place, however, some areas may need to be improved. Details of these findings are discussed throughout the report.

## **FINDINGS and RECOMMENDATIONS**

### **What Works Well**

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The Auditors re-performed the January 2023 bank reconciliation using the manual bank reconciliation process and noted that overall, internal financial records matched the bank records with minimal exceptions.

### **What Needs Improvement**

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#### ***Finding #1 – Vendor Payments***

##### **Condition:**

The Department of Human Resources (HR) is responsible for validating VRS amounts by the 10<sup>th</sup> of each month. Once validated, an ACH payment is drafted automatically approximately 3 business days later from the City's bank account. HR then should submit vendor ACH payment documentation to Finance monthly prior to the completion of their reconciliation so Finance can enter the payment into the accounting system. During the scope of the audit, VRS payments were

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neither confirmed timely nor was the support documentation submitted to Finance in a timely manner. The Auditors reviewed seven months of vendor payments by comparing the month that the payment was paid on the bank statement to the date that HR submitted the payment to Finance and noted half were not submitted timely to Finance as follows:

Month	*Amount	HR Confirmed Payment by the 10th	Documentation Submitted Timely to Finance (Yes/No)
July 2022	\$723,194	No	Yes
August 2022	\$668,937	No	Yes
September 2022	\$880,168	No	Yes
October 2022	\$628,910	No	No
November 2022	\$672,043	No	No
December 2022	\$657,259	No	No
January 2023	\$670,314	No	Yes

Auditor Prepared. \* Amounts were rounded to the nearest dollar.

#### Criteria:

Human Resources is required to confirm the VRS payments by the 10<sup>th</sup> of the month. All payments should be recorded promptly in the general ledger. Support documentation for payments should be submitted on a timely basis.

#### Cause:

Per the HR Deputy Director, delays in submitting the ACH documentation to Finance are due to HR staffing vacancies and training of new staff in HR.

#### Effect:

The city's accounting system is not reflective of payments that have been processed.

#### Recommendation:

- *The auditors observed three additional months after January 2023 to see if the process had improved. The auditors noted the following and will not issue a recommendation:*



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Month	*Amount	HR Confirmed Payment by the 10th	Documentation Submitted Timely to Finance (Yes/No)
February 2023	\$663,227	Yes	Yes
March 2023	\$638,843	No	Yes
April 2023	\$686,729	Yes	Yes

Auditor Prepared. \* Amounts were rounded to the nearest dollar.

***Finding #2: Policies and Procedures***

**Condition:**

The Department of Finance began running an automated reconciliation process for the disbursement bank account parallel to the manual process in August 2022 and fully transitioned to the process in January 2023. Since then, the Finance Department has not developed formalized policies and procedures for the automated bank reconciliation process. Some procedures to complete the automated process are documented, but they are not complete.

**Criteria:**

Written policies and procedures provide guidance to employees to perform their duties consistently in conformance with policies.

**Cause:**

The automated bank reconciliation for the disbursement account is a newly created process.

**Effect:**

Without current policies and procedures, compliance cannot be evaluated, and standard work practices become inconsistent and vary amongst employees.

**Recommendation:**

- 1. We recommend the Director of Finance complete and formalize the policies and procedures for the automated bank reconciliation process.***

## Details of Bank Reconciliation Process

Daily tasks for the reconciliation process consist of:

- Matching all daily Bank Administration Institute (BAI) files, which contain all bank statement entries, to the APSS and the General Ledger (GL).
- Sweep payments, which are payments that keep the disbursement account at zero.

Sweeps are transactions that originate on the bank statement. The disbursement account is a zero balance account. Money is swept in from the concentration account to cover payments on a daily basis to ensure the account balance is zero at the end of each day.

The APSS is integrated with the GL. Transactions within the APSS are automatically recorded within the GL so that the system can match these transactions to the BAI. If a transaction is not uploaded onto the APSS or GL but appears on the bank statement, the transaction is not able to be reconciled. All unmatched bank statement records must be marked as a reconciling entry.

Reconciling entries occur due to factors such as:

- Timing Differences
- Omission
- Errors

General accounting is responsible for inputting transactions into the Oracle system. The reconciliation team ensures that the BAI files match the transactions input into Oracle. The reconciliation process consists of three employees as follows:

- One employee performing the bank reconciliation;
- One employee reviewing the reconciliation and;
- One employee approving the reconciliation.

Additionally, vendor payments will debit the disbursement account automatically each month. Departments are responsible for submitting their payments to Accounts Payable so that the payment can be entered into the APSS.

## Automated Process

The automated process begins with the upload of the BAI files into the Oracle system. The Auto-Reconciliation Program within Oracle automatically reconciles the BAI files to the APSS and the GL by matching transactions using identifiers such as:

- Transaction Numbers
- Transaction Amounts, and
- Dates

The Cash Management Module identifies which days of the month have been reconciled and which days have not. The Finance staff is responsible for starting the Auto-Reconciliation Program daily. Once the system completes the automated process, it identifies which items were not able to be reconciled. The Finance staff will do further research on these reconciling entries.

The reconciliation process at the end of the month performed by the staff to validate the system data is as follows:

- The General Ledger Reconciliation Summary Report is generated and displays the total amount for Unreconciled Payments. The Trial Balance total is then subtracted from the Unreconciled Payments amount.
- The difference between the two total are the reconciling entries that require follow up.

The automated process uses a create account program to create entries for items that originate on the bank statement, such as Sweeps. This bank account transfer automation is done nightly and eliminates the need to create entries manually into the GL. At the end of each month, the sweeps are reconciled by comparing the BAI files to the GL to ensure the money was transferred.

Additionally, the automated process has significantly decreased the number of documents generated monthly. The following documents continue to be generated after the automated process was installed:

- The Trial Balance Report
- General Ledger Report
- APSS Report
- Void Report

Currently, the ACH payments, wires, and receivables are unable to be automatically reconciled. Finance will have to make adjustments to the BAI files in order to have these transactions automatically reconcile. These transactions are currently reconciled using the manual process.

**APPENDIX B: MANAGEMENT RESPONSE FORM****2024-02 Finance - Bank Reconciliations audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Director of Finance complete and formalize the policies and procedures for the automated bank reconciliation process.	Y	We concur with the recommendation. We will finalize the policy and complete the written procedures for the automated bank reconciliations of the disbursement account.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of Finance		31-Dec-23
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>