The importance of reconciliations

- Reconciliation allows organizations to proactively identify and resolve issues.
- Simply isolating differences is not enough to consider two sets of records “reconciled.”
- Errors identified in the reconciliation process should be thoroughly investigated and corrected.

Employees who perform reconciliations are the state’s unsung heroes. Anyone who has tried to compare two versions of anything and isolate the differences knows how incredibly time-consuming and frustrating it can be. Even so, this process is uniquely able to identify errors and promote proactive resolution of issues, making those doing reconciliations MVPs of good government.

Basically, reconciliation is the process of comparing two sets of related records or balances from different sources. Reconciliations may be performed on a daily, weekly, or monthly basis. Regardless, timing is important. Generally, the more often we reconcile, the easier it is to identify and correct discrepancies. When performed by an independent person, a reconciliation provides an impartial check and review of the work of those who maintain the underlying records, providing good segregation of duties.

Effective reconciliations consist of three basic steps: identification of differences, investigation, and resolution. These three steps apply regardless of how complicated the underlying processes are, such as some subsystem to MAPS reconciliations.

In step one, differences are identified. This is the easiest step. In most cases, the two balances will not agree. To facilitate resolution, differences should be sorted and categorized. As tempting as it might be, you cannot declare two sets of records “reconciled” simply by isolating the differences.

In steps two and three, the differences are investigated and resolved. Usually, discrepancies arise from either timing differences or errors. Timing differences occur when one source has recorded a transaction and the other source has not. An example is an outstanding check listed in a check register that has not yet cleared the bank. Timing differences are often routine and not problematic. They only require follow-up to verify that, in fact, the other source eventually recognized the transaction.

In contrast, errors are typically unique and require further investigation to determine the appropriate resolution. All information relating to the error should be assembled and analyzed to ensure the error is corrected appropriately. In addition, when a significant error is uncovered, the cause of the error should be researched. Internal controls over processing the erroneous transaction should be revised, if needed, to prevent recurrance.

Reconciliations are critical control activities. Documented reconciliation procedures, including lists of commonly encountered differences, are important. Supervisors should periodically review key reconciliations to verify they were performed on schedule and all reconciling items were adequately explained and resolved. Staff should be cross-trained on key reconciliations, to ensure they are still completed, even if the normally assigned employee is unavailable.

Suggested Action Steps: Identify your key reconciliations. Make sure processes are in place to ensure reconciliations are performed as scheduled, and differences are adequately investigated and resolved.

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