SDMT Bank Reconciliations

Audit Report

February 2005

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1.0 Background

York Region, Community Services and Housing Department (CS&H) is responsible for the administration of the Ontario Works program. In January 2000, the Provincial government introduced significant changes to the way Social Assistance is delivered in Ontario. This undertaking, called the Business Transformation Project (BTP), included both revised business processes and a new information technology system called Service Delivery Model Technology (SDMT). SDMT replaced seven existing computer technologies with one web-based, real-time, province-wide database. York Region was forced to adopt the provincially mandated system and implemented SDMT on January 7, 2002.

The intention of SDMT was to provide Consolidated Municipal Service Managers (CMSMs) with a tool to enhance services and improve the delivery system's financial integrity, with a provincial investment of approximately $400 million to develop the SDMT.

The SDMT reports do not correspond to provincial reports that are used to generate York Region's funding. With this loss of functionality from the previous technology, local solutions and extra work have been required to ensure that York Region receives the proper amount of funding.

The SDMT also does not yet provide adequate or accurate reports of payments issued or payments cancelled for use in the bank reconciliation process. Although the variances between York Region's calculations and the reconciliation reports are generally small, no variances existed at the time of transfer to SDMT. As a result of numerous deficiencies encountered since the implementation of SDMT, the bank reconciliation for York Region has become very onerous. The volume of individual small dollar transactions is very large. The total dollar amount disbursed is approximately $3,000,000 per month with the typical individual amount being about $500.

As a result, significant staff resources from CS&H, Financial Services and Information Technology have been spent:

- attempting to understand the SDMT financial reports; and
- creating and maintaining parallel databases to record and validate Ontario Works participant information.

2.0 Approach

We performed the following procedures to attempt to determine the root cause of the items not clearing the bank or not being recorded in the general ledger:

- Interviewed all staff involved in reconciliation process to obtain an understanding of the bank reconciliation procedures.
- Examined the bank reconciliations to determine the nature of the reconciling items.
- Traced reconciling items to source documents on a sample basis.

- Examined the DBD bank reconciliation for October 2003 as compared to November 2003 to determine the total adjustment required to write off all of the unreconciled outstanding items.
- Traced a sample of 10 items that are not clearing off the DBD reconciliation to the benefit claimant files to ensure that all payments were being made appropriately.
- Examined the OW bank reconciliation for October 2003 as compared to November 2003 to determine the total adjustment required to write off all the unreconciled outstanding items.
- Traced a sample of 10 items that are not clearing off the OW reconciliation to the benefit claimant files to ensure that all payments were being made appropriately.
- Examined the SDMT cheque Register and Expenditure Report – 2002 and 2003 differences.

Conclusion

We tried to determine if there was any pattern or similarity of the items that were not clearing. We reviewed transactions by type of transaction, type of clients, origin of posting, regular percentage differences and timing. No trends were found.

The volume of transactions from the introduction of SDMT in January 2002 to September 2003 totalled approximately $61,000,000 with only a net of approximately $86,000 of unknown differences and an accumulative effect of differences in reports of approximately $62,000. This total required adjustment represents only 0.24% of the dollar value of transactions processed.

3.0 Findings and Recommendations

3.1 Timing

Due to the change in bank reconciliation staff in early 2003 there was a delay in the completion of the reconciliations, resulting in a large number of items not being addressed on a timely basis and accumulating on the reconciliations. These items date back a few months therefore more research time is required to determine why the amounts did not reconcile during the month.

It becomes increasingly difficult to investigate unreconciled items as time passes

Recommendation

We recommend for any future staff changes, the current Bank Reconciliation Clerk be retained to train the new clerk for a period of two months in order to properly train the new clerk on how to reconcile the bank accounts. This will help to ensure continuity of timely bank reconciliations, and unreconciled items are addressed on a more timely basis.

Management Response

The current competition environment does not support the retention of employees, who have accepted another position either internally or externally, for 2 months in addition to the recruitment time to train the new clerk.

Documented procedures will be reviewed to ensure they are current and can be easily followed and implement by any future new incumbent in the position.

Bank reconciliations have been prepared and issued within a reasonable timeframe in 2004.

3.2 Communication

Based on discussions with Finance and CS&H staff, there appears to be untimely communication between the departments. Due to the appropriate segregation of duties within the York Region, the person who performs the reconciliations is in the Region's Finance Department and does not deal with any other aspect of Community Services and Housing Department. Therefore, items that do not clear off in any given month must be discussed with the CS&H in order to be cleared. When the person who performs the reconciliations completes the reconciliation, she usually does not hear back from CS&H before she commences the next month's reconciliation, and the items are not cleared. We have observed that within the CS&H, the Accounting and Business Services section appears to communicate effectively with the front line staff. The communication between the Region's Finance Department and CS&H seems to be causing frustration within the process.

Recommendations

We recommend that the Finance Department and the CS&H staff meet regularity to monitor the reconciliation process. The focus of the meetings should be to review the cause of items not clearing in the normal course of business and deal with these anomalies promptly.

We also recommend that the two departments be aware of the procedures that the other department performs that relate to the bank reconciliation process in order to provide the most efficient and effective information to the other. It may be beneficial to write out the steps that are performed to use as a reference or a checklist to attach to each bank reconciliation.

Management Response

Meetings are held with appropriate staff from Finance, CS & H Accounting and Business Services staff and CS & H front line staff as required to review progress and identify any emerging issues for resolution.

In 2004, the Finance Dept has provided bank reconciliation reports on a regular basis allowing for review and action on a more current basis by CS & H program staff. An informal review indicates that most items are now clearing the bank reconciliation during the normal course of business or through timely action of bank reconciliation items.

In the normal course of business, it should not be necessary to have the bank reconciliation clerk in Finance "meet" with program staff regarding bank reconciliation items.

Transactions should clear from the reconciliation through the normal business process or for items that the front line staff can not process due to system restrictions, authorized written notification should be sent to the bank reconciliation clerk requesting the item be manually removed from the reconciliation and a journal entry processed to book the adjustment.

3.3 Direct Bank Deposit (DBD) Bank Reconciliation

In reviewing the DBD bank reconciliations we noted that many of the items appear to be offsetting with minor differences. The overall difference is $6,475.15, which is the accumulation of minor differences between the SDMT expense report and the amounts actually clearing the bank. The items mainly relate to periods prior to May, 2003. This could be debited to the Cheque Account (OW) expenses. This would result in a clean bank reconciliation which would start the 2004 year with normal reconciling items. With improved communication as discussed above and a starting point without unreconciled differences future reconciliations will be easier to perform and reconciling items should be readily identifiable and resolved on a timely basis.

Recommendation

We recommend that the following entry be recorded:

Debit	OW expenses	$6,475.15	
Credit	Bank (DBD)		$6,475.15

Management response

In December 2004, an adjustment was processed according to the auditor's recommendation based on the December 2003 reconciliation. The amounts were as follows:

Debit	OW expenses	$8,472.56	
Credit	Bank (DBD)		$8,472.56

3.4 Cheque Account (OW) Bank Reconciliations

We examined the October, 2003 reconciliation as compared to the November, 2003 reconciliation and have separated the reconciling items into two categories:

3.4.1 Cheques Cashed not Keyed / Outstanding Cheques / Reconciling Items

SDMT provides a cheque register listing all cheques produced which is compared to a list of transactions received from the bank through an Access Database. As the Bank Reconciliation Clerk does not have access to SDMT, she relies on the information given to her regarding changes that have been made, such as cheques which are renumbered. Differences in cheque amounts between recorded amount and the amount clearing the bank make-up most of the reconciling items. There are also some older outstanding cheques and cashed not keyed items. The total as of October 31, 2003 of these uncleared items is $92,619.38. To clear these items will require significant team work between the two departments. The difficulties in obtaining detailed information from SDMT compound the problem. A fresh start and improved communication as mentioned previously would be very beneficial.

3.4.2 SDMT Cheque Register and Expenditure Report – 2002 and 2003 Differences

Each month, SDMT produces two reports, the first is the Expenditure report and the second is the cheque register. Prior to the implementation of SDMT, these two reports matched, therefore no adjustments were required. With the implementation of SDMT, the two reports did not match. The cheque register is used to reconcile the bank. The Expenditure report is used to make the entry for the expenses into the general ledger and to report to the Province on “Form V” to receive funding for the program. The difference accumulated for January to December 2002 was $53,947.15 with expenses per the expenditure report being greater than the cheque register. In 2003 the expenses continued being greater than the cheque register, with the difference of $8,351.59 for January to September, 2003, showing considerable improvement.

It is not possible to use the cheque register to record the expenses as most cheques are issued for multiple benefits which must be recorded separately. It was expected that the differences between the reports were due to timing differences and that these would eventually clear, however each month the differences are in the same directions – i.e. the expenses recorded are greater than the cheques written.

It is very important to have an audit trail when making entries into the general ledger. In any disbursements system, the primary source documents in the audit trail are cancelled cheques or direct deposit memos through the bank. The entries that are being made to the general ledger bank account currently do not have the traditional audit trail from the expense and bank general ledger accounts to the cancelled cheques and debit memos due to provincial cheque and expense reports not agreeing.

The volume of transactions from the introduction of SDMT in January 2002 to September 2003 totalled approximately $61,000,000 with only a net of approximately $86,000 of unknown differences and an accumulative effect of differences in reports of approximately $62,000. This total adjustment represents only 0.24% of the dollar value of transactions processed.

<u>Recommendations</u>

We recommend that the following entries be recorded:

Debit	Bank (OW)	$92,619.38	
	Credit OW expenses		$92,619.38
To adjust for unreconciled differences			

Debit Bank (OW)		$62,298.74	
	Credit OW expenses		$62,298.74

To adjust for cumulative difference between the cheque register and expenditure reports.

We also recommend that starting in 2004, the entries be made as follows:

Debit Expenses		A	
Debit or Credit	Difference Account		A-B
Credit Bank			B

Where:

A = Amount from the Expenditure report per SDMT
B = Cheque register per SDMT
A-B = the unreconciled difference

This difference account should be classified as an expense account and grouped with the other OW accounts.

We recommend continued communication with the Province to determine their status in finding a resolution to the issue regarding providing a better audit trail for the cheque register and expenditure report to the general ledger postings.

Management response:

The audit recommendation has been implemented and journal entries were processed in December 2004, utilizing the December 2003 bank reconciliation report and items dated prior to 2004 that were still identified in Sept 2004.

The actual entries processed can be summarized as follows:

To clear unreconciled differences

Debit Bank		42,515.36	
Credit	OW expenditures		42,515.36

To adjust for cumulative differences between the SDMT cheque register and the SDMT Expenditure report for 2002 and 2003

Debit Bank		$65,340.89	
Credit	OW Expenditures		$65,340.89

The cumulative difference for January to November 2004 is $2,791.22 and an entry has also been processed in 2004 according to the auditor recommendation.

CS & H staff continue to work with Provincial staff to resolve ongoing technical issues and reconciling items.

The total impact of all audit recommended adjusting bank reconciliation entries, including the DBD, is a reduction in total Ontario Works Expenditures of $99,383.69 representing approximately 2 years of adjustments. This is approximately 0.14% of the dollar value of transactions processed in these 2 years.

It is anticipated that up to $79,506.95 in Provincial subsidy may need to be repaid as a result of these adjustments.

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