

# **IMMATERIAL VARIANCE & BANK RECONCILIATION POLICY – Q&A**

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## **Why would we ever allow a difference at all?**

*In an ideal world every bank reconciliation is exact and balancing the books is quick and easy. However, in practice, very small timing or administrative differences can occasionally remain even after thorough investigation. This policy does not allow for unexplained differences — it establishes a documented process, a strict threshold, and required approval before anything can be cleared.*

*The thing to remember is that this policy ensures everything is controlled and not casual.*

## **Does this mean we're out of balance?**

*No. All bank activity/money movement will have been fully traced and matched. This policy addresses rare, immaterial residual amounts after extensive reconciliation work, not structural imbalances.*

## **Could someone use this to hide fraud?**

*No. The policy includes a low dollar threshold, requires documented investigative steps, and mandates discretion and approval before any variance can be cleared. Fraud indicators must be ruled out before the policy can be applied.*

*The name of the game is “safeguards”.*

## **Why not just keep researching until it's found?**

*The Treasurer would absolutely investigate thoroughly. However, at a certain point the staff time required to chase a very small amount exceeds the financial significance of the amount itself. The policy ensures we balance accuracy with responsible use of taxpayer-funded staff time.*

## **How do we know this won't become a pattern?**

*The policy includes an annual aggregate limit and requires reporting. If recurring variances appear, that would signal a systemic issue that must be corrected rather than cleared.*

## **Is policy in place because something went wrong?**

*No. This is part of strengthening our financial framework. Rather than handling small differences informally, we are formalizing the process with defined thresholds and oversight.*

### **Who approves these write-offs?**

*Due to our limited staffing, segregation of duties at that level is not operationally feasible and the Treasurer serves as both preparer and reviewer for reconciliations. The control in this environment comes from documentation, threshold limits, and transparency to the Board. Any variance cleared under the policy will be documented and available for review.*

*Whereas the control would be dual approval in an organization with a Treasurer/Finance Director and a Staff Accountant, the control for our Village is the structured transparency.*

### **What is the dollar limit?**

*The policy sets a specific per-item threshold and an annual cap. Anything above that threshold must be fully resolved.*

### **Has this happened before?**

*In prior years, small differences were likely handled without a formal written framework. This policy ensures going forward that any such instance is documented, reviewed, and transparent.*

### **Is this common in other municipalities?**

*Yes. Materiality thresholds and reconciliation tolerance policies are common best practices in governmental accounting. What's important is that they are documented and controlled, which is what this policy accomplishes.*

### **Are we lowering our standards by implementing this policy?**

*Actually, we are raising them. Previously there was no formal framework. This policy introduces documentation requirements, approval controls, and reporting safeguards.*

### **Could this affect our chances at a "clean audit"?**

*A documented policy with defined thresholds and approval procedures strengthens audit defensibility because it shows the Board has established formal internal controls.*

### **What does this policy not do?**

*This policy does not reduce control. It increases it. The goal is not to allow small differences, but to govern how they are handled if they do occur.*