

Immaterial Variance and Bank Reconciliation Tolerance Policy

Purpose

The purpose of this policy is to establish a controlled and documented process for resolving immaterial variances identified during monthly bank reconciliations. This policy ensures financial accuracy while promoting efficient use of staff time and maintaining appropriate oversight and internal control.

Policy Statement

All bank accounts shall be reconciled monthly. Differences identified during the reconciliation process must be investigated and resolved timely. However, in limited circumstances where a variance is determined to be immaterial and further research would not be cost-effective, the variance may be cleared in accordance with this policy.

Materiality Threshold

1. Individual Variance Threshold

An unresolved reconciling difference of \$100 or less may be considered immaterial, provided:

- The variance does not indicate fraud, misappropriation, or systemic control failure.
- The variance is not recurring in nature without documented explanation.
- The variance does not impact compliance reporting, grant reporting, or debt covenants.

2. Aggregate Annual Threshold

Total immaterial variances cleared under this policy shall not exceed \$500 in aggregate within a fiscal year per bank account without additional governing body notification.

Reconciliation Tolerance Policy

1. Research Standard

Reasonable efforts must be made to identify the cause of the variance, including:

- Review of prior month reconciliations
- Review of outstanding checks and deposits
- Review of journal entries
- Review of bank activity detail
- Inquiry with relevant vendors or departments if applicable

2. Documentation Requirement

Before clearing an immaterial variance, the preparer must document:

- Amount of variance
- Date identified
- Investigative steps performed
- Conclusion and rationale for immaterial classification
- Statement that no fraud indicators were observed

Entry Classification

Adjustments shall be recorded to an appropriate miscellaneous revenue or expense account designated for reconciliation differences.

The entry description must clearly state:

“Immaterial reconciliation variance cleared in accordance with adopted policy.”

Finance Director / Treasurer Approval Procedure

1. Approval Requirement

All immaterial variance write-offs require written approval by the Finance Director or Treasurer prior to posting.

2. Independent Review

If the Finance Director is the preparer of the reconciliation, the approval must be performed by:

- The Village Administrator, OR
- The Chair of the Finance Committee, OR
- An external accountant engaged by the municipality.

3. Reporting

All variances cleared under this policy shall be summarized quarterly and presented to the Board of Trustees or Finance Committee.

Limitations

This policy may not be used to:

- Conceal errors
- Avoid correcting known misstatements

- Bypass grant or restricted fund reporting requirements
- Offset known receivables or payables

If recurring variances of a similar nature are identified, management must address the root cause rather than continue applying this policy.

Effective Date

This policy becomes effective upon adoption by the Board of Trustees.

Approved by: Simone Jackson

Title: Treasurer

Date: February 11, 2026