

Village of Thornton – Finance Department

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 \$200 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 \$2,400 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

Variance Investigation Checklist

Supplement to the Immaterial Variance and Bank Reconciliation Tolerance Policy
for the purposes of active fraud risk monitoring

Basic Information

Bank Account / Fund	
Period Ending	
Prepared By	
Date Prepared	
Variance Amount	
Immateriality Threshold	

- Exceeds threshold
- Below threshold but unusual in nature
- Pattern of recurring variance identified

Nature of Variance

- Timing difference (deposit in transit)
- Outstanding check
- Posting error (bank)
- Posting error (general ledger)
- Duplicate entry
- Omitted entry
- Transposition error
- Unauthorized transaction
- Unsupported journal entry
- System override
- Other: _____

Required Investigation Procedures

Complete all applicable steps:

- Verified prior month ending reconciled balance
- Compared bank statement to general ledger detail
- Reviewed detailed transaction activity for unusual amounts
- Examined cleared checks for:
 - Handwritten checks
 - Out-of-sequence checks
 - Checks to unfamiliar vendors
 - Missing endorsements
- Reviewed deposits for:
 - Missing sequential receipt numbers
 - Unusual timing (weekends/holidays)
 - Round-dollar deposits
 - Delayed posting
- Reviewed journal entries for:
 - Manual entries outside normal process
 - Entries posted after business hours
 - Entries without supporting documentation
 - Entries posted by unauthorized personnel
- Confirmed no duplicate or reversed postings
- Reviewed subsequent month activity
- Contacted bank (if applicable)
- Verified segregation of duties was maintained

Additional procedures performed:

Fraud Red-Flag Assessment

Indicate whether any of the following were identified:

- Unexplained adjustments
- Repeated “immaterial” variances
- Override of established controls

- Missing documentation
- Resistance to providing records
- Vendor information changes without documentation
- Unusual employee access patterns
- Checks written just below approval threshold
- Transfers between funds without explanation
- Unsupported write-offs
- Other concern: _____

If any box is checked, explain in detail:

Root Cause Determination

- Clerical error
- Timing issue
- Process deficiency
- Training issue
- System configuration issue
- Internal control weakness
- Suspected policy violation
- Potential fraud indicator

Resolution and Corrective Action

- Adjusting journal entry recorded
- Bank correction requested
- Policy clarification issued
- Staff training conducted
- Control strengthened
- Referred to Village Administrator
- Referred to legal counsel
- Referred to external auditor
- No action required (documented timing difference)

Journal and Reference Number (if applicable): _____

Date Resolved: _____

Escalation Determination

If potential fraud risk identified:

- Village Administrator notified
- External Auditor notified
- Legal counsel consulted
- Law enforcement referral considered
- Board notification required

Date escalated: _____

In addition to quantitative materiality thresholds, qualitative risk indicators shall require investigation regardless of dollar amount. Repeated immaterial variances or unusual transaction characteristics shall be treated as potential fraud risk indicators.

Approved by: Simone Jackson

Title: Treasurer

Date: February 26, 2026