

Office of the  
Internal Auditor

# ENGAGEMENT REPORT

## August 2024

Reconciliations



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## Executive Summary

### Background

The Financial Services division is responsible for recording financial transactions and preparing financial statements. To ensure the accuracy and completeness of these transactions, the division performs account reconciliations. This process typically involves comparing two sets of financial records to ensure they match.

In late 2023, in a control self-assessment, the Financial Services division rated the balance sheet account reconciliation control as “ineffective.” The following observations were noted:

- Some reconciliations lacked evidence of review.
- Certain reconciling items did not match supporting documentation, or the documentation was not readily available.
- Some reconciliations were prepared and reviewed by the same individual.

Despite determining that the reconciling items were immaterial and that all reported financial results and regulatory filings are subject to multiple levels of review and approval, the business agreed on the need to standardize the reconciliation process. Consequently, it was decided that Internal Audit would be engaged to assist with this process.

### Objective and Scope

This engagement aimed to assess and enhance the effectiveness and efficiency of Citizens’ account reconciliation processes and practices. Our advisory engagement focused on identifying opportunities for improvement in the following areas:

- Proposed templates and procedures for account reconciliations
- Creation of an inventory of account reconciliations tagged to financial statement line items
- Prioritization of account reconciliations in the inventory based on risk
- Workpaper management software’s possible role in the reconciliation process

### Advisory Results

Internal Audit’s assessment of the current reconciliation process identified several opportunities for enhancement:

Current State	Proposed Enhancements
There are no overarching guidelines and procedures for the account reconciliation process.	Create comprehensive guidelines that outline baseline procedures, review levels, and account groupings.
There is a reliance on individual knowledge, and reconciliations are performed based on memory and worker knowledge.	Develop detailed instructions for each reconciliation to ensure consistency and business continuity.
There is no inventory of all account reconciliations completed.	Create a comprehensive inventory and risk-rank reconciliations and use this to determine reconciliation frequency.



## Executive Summary

Implementation of the following proposed enhancements will significantly improve the impact, efficiency, and effectiveness of the account reconciliation process:

1. **Create overarching reconciliation guidelines** – A set of guidelines and baseline procedures will benefit Financial Services by standardizing the process and promoting consistency. These guidelines should:
  - Define overarching goals (e.g., financial integrity, accurate reporting, strong internal controls). This will significantly benefit Financial Services by standardizing the process and promoting consistency across the organization's account reconciliations.
  - Require detailed procedures and standardized templates.
  - Provide guidance on risk ranking and classification. These factors include, but are not limited to, account complexity, transaction volume, and dollar values.
  - Address materiality at account and financial statement levels. The materiality guidance should be adaptable to different accounts based on risk ranking and reconciliation inventory classification.
  - Set standards for timeliness, frequency, documentation, and segregation of duties.
2. **Create reconciliation procedures** - Given the complex nature of some accounts and transactions that occur, detailed procedures will:
  - Ensure systematic and consistent reconciliations and provide clear guidance on how to complete reconciliations for a specific account or financial statement line item. In creating these procedures, the most complex account reconciliations should be prioritized.
  - Facilitate comparison across periods. Comparing reconciliations from month to month or quarter to quarter will provide valuable insight that builds on previously completed work.
  - Enable smooth audits and inspections. This will allow the auditor/reviewer the ability to repeat the reconciliation and reach their own conclusions with fewer questions and interruptions for the business.
  - Include step-by-step instructions, source information, and guidelines for handling discrepancies. This includes which sources to use, why those sources are used, what to look for within those sources and how to document the source information within the reconciliation. If any assumptions or judgments are made during the reconciliation, these should be detailed. Also, the procedures should include examples of common discrepancies and guidelines for resolving or escalating them.
  - Incorporate sign-off sections for preparers and reviewers. This will indicate that appropriate segregation of duties is done consistently and documented.
  - As part of this Advisory, Internal Audit worked directly with accounting staff to develop an account reconciliation procedure. This procedure serves as an example of account reconciliation procedures to be created by management.
3. **Establish a reconciliations inventory** - An account reconciliation inventory will:



## Executive Summary

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- Provide a holistic view of all reconciliations. A spreadsheet that contains each account reconciliation as a row with corresponding columns that provide details regarding each reconciliation can help prioritize and manage account reconciliations.
- Include risk ratings, frequencies, assigned personnel, and materiality thresholds. This holistic view of account reconciliations with applicable risk rankings will help prioritize resources and reduce the risk of material misstatement.
- The inventory will also increase accountability and transparency by clarifying who is responsible for preparing and reviewing each reconciliation
- As part of this Advisory, Internal Audit provided management with an example account reconciliation inventory for reference.

Finally, this exercise will allow management to fully utilize future work paper management software capabilities, which can be configured to track reconciliations completed in the correct cadence according to the above guidelines (monthly or quarterly, for example).

We thank management and staff for their cooperation and professional courtesy throughout this engagement.



## Distribution

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The Honorable Ashley Moody, Attorney General  
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