**LMCIT Bond Coverage**

**Checklist for Performing Monthly Independent Reviews**

Members of the League of Minnesota Cities Insurance Trust (LMCIT) can purchase optional bond coverage for fidelity and faithful performance risks. For more information, see Section VI.A, *Bond coverage,* of the [LMCIT Property, Crime, Bond, and Petrofund Coverage Guide](https://www.lmc.org/resources/lmcit-property-crime-bond-and-petrofund-coverage-guide/).

**Underwriting Requirements for LMCIT Bond Coverage**

The minimum limit of bond coverage that is available is $50,000 per occurrence but limits up to $3 million can be obtained. Members are required to meet certain underwriting criteria if limits in excess of $50,000 are needed. Members will need to verify with LMCIT that either:

1. An annual outside audit is being performed; or
2. Monthly independent reviews of bank statements, cancelled checks, and cash receipts are being performed.

**Checklists for Performing Monthly Independent Reviews**

The checklists found on the following pages can be used by members that elect to go with the second, less-formal option of conducting a monthly independent review of 1) bank statements, 2) cancelled checks, and 3) cash receipts as a way to meet the new underwriting requirement. It will also help members prevent and detect fraudulent activity and lessen the likelihood of claims (both to the individual member and to the LMCIT membership as a whole).

These checklists are not meant to be all inclusive. They only include the minimum questions you should ask as part of your organization’s best practices to prevent and detect fraudulent activity. We encourage you to ask even more questions if necessary.

The checklists are also not meant to be used as an application to secure higher bond limits; rather, they are only intended for your own internal use. **There is no need to submit the checklists to LMCIT.** On your renewal application, however, you will need to verify whether you meet the underwriting requirements by simply answering a question about your auditing activities (i.e., either you perform an annual outside audit or you conduct a monthly independent review of the items noted above).

*LMCIT worked with Eide Bailly to develop the checklists on the following pages. If you have any questions or need further assistance, contact your LMCIT underwriter at (651) 281-1200.*

1. **Monthly Independent Review of Bank Statements**

An employee, council member or 3rd party without the authorization to initiate or execute bank transactions should conduct this review.

|  |  |  |  |
| --- | --- | --- | --- |
| **Focus on:** | **Ask these questions:** | **Yes** | **No** |
| **Transfers***Compare transfers reported on bank statements to transfers recorded in the accounting records.* | Are there transfers to unknown accounts? |  |  |
| Are there any larger, even dollar amounts (e.g., $8,000.00)? |  |  |
| Are there transfers to accounts that are different than accounts recorded in the accounting record? |  |  |
| Are there any omitted transfers from the accounting records? |  |  |
| **ACH Transactions***Compare automated clearing house transactions (ACHs) reported on bank statements to ACHs recorded in the accounting records.* | Are there any ACHs to unknown vendors/payees? |  |  |
| Are there any larger, even dollar amounts (e.g., $8,000.00)? |  |  |
| Are there ACHs to vendors/payee that are different than the vendors/payees recorded in the accounting records? |  |  |
| Are there any omitted ACHs from the accounting records? |  |  |
| **Withdrawals***Compare withdrawals reported on bank statements to withdrawals recorded in the accounting records. Review should include withdrawals by ATMs and withdrawals made at the bank.* | Are there any withdrawals omitted from the accounting records? |  |  |
| Are there any withdrawals made without supporting documentation, such as invoices or receipts? |  |  |
| **Other Debits***Compare miscellaneous/other debits reported on bank statements to transactions recorded in the accounting records.* | Are there any debits omitted from the accounting records? |  |  |
| Are there debits that lack supporting documentation, such as invoices or receipts? |  |  |
| **Check Numbers***Compare check numbers clearing the bank account to the check register.*  | Are there check numbers clearing the bank account not reflected within the check register? |  |  |
| Are there check numbers clearing the bank account that are voided within the accounting? |  |  |

1. **Monthly Independent Review of Cancelled Checks**

An employee, council member or 3rd party without access to the organization’s checks or signature authority, should conduct the review. The independent reviewer should compare cancelled checks clearing the bank account to the check register.

|  |  |  |  |
| --- | --- | --- | --- |
| **Focus on:** | **Ask these questions:** | **Yes** | **No** |
| **Payees** | Are there any payees that are different on the cancelled checks than recorded in the accounting records? |  |  |
| **Amounts** | Are there any amounts that are different on the cancelled checks than recorded in the accounting records? |  |  |
| **Signatures** | Are there any unauthorized or forged signatures? |  |  |
| **Endorsements** | Are there questionable handwritten endorsements or endorsements that do not appear to relate to the payee listed on the front of the check? |  |  |

1. **Monthly Independent Review of Cash Receipts**

An employee, council member or 3rd party without access to the physical cash receipts or Point-Of-Sales (POS) System, should perform the review. Compare cash receipts and deposits to sales invoices and POS reports. Review deposited items (i.e., checks deposited into the bank account) to customer payments posted within the accounting software.

|  |  |  |  |
| --- | --- | --- | --- |
| **Focus on:** | **Ask these questions:** | **Yes** | **No** |
| **Cash Flow Decline** | Is there any suspicious decline in cash flow? |  |  |
| **Gross Profit Margins** | Is there any suspicious lower-than-expected gross profit margins? |  |  |
| **Receivables** | Are there any discrepancies between the dollar amount of cash and checks received, according to the sales report, to the actual cash and checks deposited per the bank deposit ticket? |  |  |
| **Payor Discrepancies** | Do the checks from payors appear to be different than the customer accounts in which the payments were posted? |  |  |
| **POS Reports** | If a POS system is used, do the POS reports show frequent or large no-sales, voids, or discounts? |  |  |