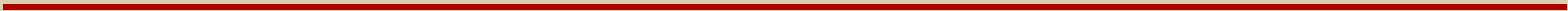
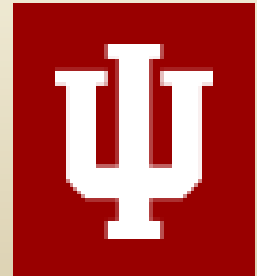




Account Reconciliations

A Risk Based Approach



- Policy requirement
 - **FIN-ACC-I-1:** Role of Fiscal Officer, Account Manager and Account Supervisor

Under duties & responsibilities of Fiscal Officer ... “that transactions are recorded and reported properly, that the account is reconciled on a monthly basis”

- To ensure appropriate use of University Funds
 - **FIN-ACC-I-330:** Inappropriate Use of University Funds

Judgment should be utilized by Fiscal Officers, Account Managers and Account Supervisors in determining if expenditures are appropriate, given the fund group and the mission of the university. Indiana University, being a state institution is in a sensitive situation of using state appropriations and student fees in an appropriate manner. Since many of the other fund groups are supported by these revenues as well, the issue of appropriateness applies to all accounts.

Why do we reconcile?

- Effective internal control over account management
 - Detect & correct errors in a timely manner
 - Segregation of duties
 - Fraud control
- To ensure propriety & accuracy in financial statements
 - Expense / income is booked to appropriate account
 - Activity is classified to appropriate object code
- Track / monitor budget status & encumbrances

Why do we reconcile?

- Policy non-compliance / Inappropriate use of University funds
- Documents/transactions that don't route
 - Examples: Cash Receipts, Scholarships/Fellowships, Fee Remissions, Payroll/Adjustment Vouchers
- Weak internal controls
 - Lack of segregation of duties
 - Lack of adequate audit trail / documentation
- Quality of transaction approvals
- “Out-of-the-Ordinary” transactions

What are your Risks?

- IUIE
 - Detailed transactions by account – excel format
 - Catalog -- Master Catalog -- Kualiti Financial -- General Ledger -- Datagroups -- Detail Transactions
 - Enter appropriate account number, fiscal period & fiscal year
 - Financial Balance Type Code = AC
 - Choose columns as needed/applicable
 - Monthly Operating Statement (MOS/MOD)
- Excel
 - Documentation of reconciling process
 - Effectively track errors/corrections
 - Period to period comparisons –easier to detect fluctuations, non-routine transactions, etc
- KFS (and other systems as applicable)
 - Research transactions, balances, approvals, document notes, etc

Tools

- Operating Accounts
 - *According to operating budgets, account guidelines, etc*
 - General Funds (10&19), Faculty Research (22), Institutes, Conference, Programs, etc (23), Restricted Funds (29), Special State App (27)
- Financial Aid
 - *Should only have financial aid expenses*
 - General funds (10&19), Restricted Scholarships (25), Restricted Fellowships (26), Unrestricted (24)
- Research (C&G)
 - *Expenses should only be associated with the proposed budget*
 - Accounts 40 through 59
- Contingencies
 - *Contingencies are usually set-aside, reserves, etc.*
 - *Generally only transfers out, no expenses*
 - General Funds (10&19), Non-restricted (23)
- Continuation
 - *Account should remain at zero – determine appropriate action/account to move expenses*
- Construction
 - *Construction related expenses & transfers – maintenance & repairs (92)*
 - Accounts 90 & 92

“Chunk” it down ...

- Pull detailed transactions from IUIE -sort by account number, sub account (if desired), object code, then transaction date
- Hide or delete unnecessary rows (ex: object codes 8000-Cash, 9041 Inv Pay-Tops, 9042 Inv Pay -DV, 9050-Accr Payroll, etc)
I eliminate these object code when running my detailed transactions report
- Add notes column to document the review
- Level of review - risk based assessment
 - Document type: Initiated (KSF eDocs, etc), System Generated (bi-weekly payroll accruals, ICR, etc), Central Admin feeds (RC assessments)
 - Budgeted? Expected/Known? Specific internal policies/procedures/guidelines (ex: documented prior approval) ?
 - Source document to reconcile to?
 - Reconciled independently, outside of the monthly reconciliation process?
 - Approval / documentation process & controls
- Reconcile period totals to MOS
 - Total income/expense –can breakdown to object code level as needed
 - Opportunity to review budget status, encumbrances, fluctuations

Process – detailed transactions

Account Number	Sub Account Number	Financial Object Code	Financial Object Code Short Name	Fiscal Period Code	Doc Type Code	Financial Document Number	Transaction Ledger Entry Description	Transaction Ledger Entry Amount	Reference Document Number	Transaction Post Date	ACCOUNT TITLE Notes
xxxxxxx	----	1800	EXAMPLE	1	CR	XXXXXXXX	EXAMPLE	1,575.00		7/30/2015	verified to xxx / RPA on file?
								<u>1,575.00</u>			Agrees to MOS
xxxxxxx	----	2400	EXAMPLE	1	PAY	XXXXXXXX	EXAMPLE	3,566.50		7/15/2015	payroll reconciled independently
xxxxxxx	----	4580	SUPLMNTL PAY	1	PAY	XXXXXXXX	EXAMPLE	1,492.80		7/15/2015	↓
xxxxxxx	----	xxxx	EXAMPLE	1	DV	XXXXXXXX	EXAMPLE	1,507.60		7/8/2015	s/b acct# xx xxx xx GEC# xxxxxxxx to correct
xxxxxxx	----	xxxx	EXAMPLE	1	PCDO	XXXXXXXX	EXAMPLE	211.87		7/22/2015	documentation on file
xxxxxxx	----	xxxx	EXAMPLE	1	PREQ	XXXXXXXX	EXAMPLE	135.00	123456	7/11/2015	services/goods received? Doc on file?
xxxxxxx	----	xxxx	EXAMPLE	1	ID04	XXXXXXXX	EXAMPLE	250.00		7/28/2015	standard monthly entry (reasonable, expected, source doc ?)
xxxxxxx	----	6000	EXAMPLE	1	ACHD	XXXXXXXX	EXAMPLE	135.00		7/17/2015	documentation on file -notation of trip purpose?
								<u>7,298.77</u>			Agrees to MOS
xxxxxxx	----	1800	EXAMPLE	2	CR	XXXXXXXX	EXAMPLE	150.00		8/15/2015	
								<u>150.00</u>			Agrees to MOS
xxxxxxx	----	2400	EXAMPLE	2	PAY	XXXXXXXX	EXAMPLE	3,566.50		8/2/2015	payroll reconciled independently
xxxxxxx	----	4580	SUPLMNTL PAY	2	PAY	XXXXXXXX	EXAMPLE	375.00		8/2/2015	↓
xxxxxxx	----	xxxx	EXAMPLE	2	GEC	XXXXXXXX	EXAMPLE	(1,507.60)		7/15/2013	appropriate? Make note of why ... for example: account# correction, or object code correction
xxxxxxx	----	xxxx	EXAMPLE	2	PCDO	XXXXXXXX	EXAMPLE	458.00		7/15/2013	documentation on file
xxxxxxx	----	xxxx	EXAMPLE	2	PREQ	XXXXXXXX	EXAMPLE	135.00	123457	7/15/2013	services/goods received? Doc on file?
xxxxxxx	----	xxxx	EXAMPLE	2	ID04	XXXXXXXX	EXAMPLE	250.00		7/15/2013	standard monthly entry
xxxxxxx	----	6100	EXAMPLE	2	ACHD	XXXXXXXX	EXAMPLE	1,237.54		7/15/2013	documentation on file -notation of trip purpose?
								<u>4,514.44</u>			Agrees to MOS

Sample worksheet ...

COA	Account Number	Account Name	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16 1st close	Jun-16 Final	Notes
BL	xxxxxxx	Acct #1	R-OK	R-OK	R-OK											
BL	xxxxxxx	Acct #2	R-OK	R-OK	??											
BL	xxxxxxx	Acct #3	R-OK	R-OK	R-FIX											
BL	xxxxxxx	Acct #4	n/a	R-FIX/OK	R-OK											
BL	xxxxxxx	Acct #5	n/a	n/a	n/a											
<p>Tickmark legend</p> <p>R-OK Reviewed activity for propriety, no discrepancies/concerns noted</p> <p>R-FIX Reviewed activity for propriety, discrepancies/concerns noted -pending resolution, see recon worksheet for detail</p> <p>R-FIX/OK ** Note: change code to R-FIX/OK when resolved, retain notes in recon working doc</p> <p>n/a No activity</p> <p>?? Temporary -pending validation</p>																

- Provides summary documentation of reconciliation
- Assists in tracking problems / issues to ensure timely and appropriate resolution
- Provides tool for fiscal officer / management review

Process – Reconciliation tracking

- You can reduce/eliminate paper by avoiding duplicate or unnecessary printing
 - Documents readily available in the system
- What do you need to keep?
 - Departmental Requirements
 - Record Retention Requirements

<http://www.libraries.iub.edu/index.php?pageId=3147>

Paperless? ... not quite there yet ...

Fixing Errors

Take the extra time upfront – to save you time in the future

Analyze errors to determine how they occurred ...

- Internal control gap / failure?
- Weak documentation / audit trail?
- Approval effectiveness?
- Training issue?

Resulting in ongoing efficiency through error reduction

A step beyond ...

- IUIE Reports

- Detail transactions:

https://uisapp2.iu.edu/ie-prd/iuie.do?use=Gt&tech_nm=GL_DETAIL_GV&ro_status=PROD&ro_ver_nbr=10&iePath=<MASTERFOLDER>/20120117095109381249/20120117103938585446/20120117140611133110/GL_DETAIL_GV/

- Monthly Operating Statement (MOS):

https://uisapp2.iu.edu/ie-prd/Url.do?tech_nm=IE_FIS_GL_RVAM&orig_tech_nm=null&ro_status=PROD&ro_ver_nbr=2&cnt=1&iePath=zyxLookup_IE_FIS_GL_RVAM&ro_typ_cd=URL&ro_lbl_nm=Financial%20Account%20View&ro_alt_status=PROD&ro_run_privs=T

- FMS – ID Billing Contacts

<https://fms.iu.edu/operations/id-billing-contacts/>

- FMS December Newsletter (Critical Data at Indiana University)

<https://fms.iu.edu/training/fms-newsletter>

- Carol Ball, Business Process Specialist, Budgetary Administration Operations

If you have questions, feel free to contact me at: 812-856-2426 or cjball@iu.edu

Other useful links ...

Account Reconciliation –A Risk Based Approach

PowerPoint notes pages

Page 2: Why Do We Reconcile?

Account reconciliation is a policy requirement, most directly addressed in FIN-ACC-I-1

Although other policies may touch on reconciling, these are two primary policies that address account reconciling.

Account reconciliation is a risk mitigation tool, with an indirect benefit of ensuring appropriate use of University Funds (FIN-ACC-I-330)

Page 3: Why Do We Reconcile?

Detective vs. Preventative controls

-Preventative controls occur throughout the transaction ... system access limitations, routing, required documentation, etc

-Detective controls are designed to work in conjunction with and to validate the effectiveness of preventative controls –reconciliation is a strong detective control

Segregation of Duties

-same person should not initiate, approve & reconcile ... in cases where not possible, second review of reconciling is important

Fraud control

-Look for unusual transactions, significant budget variances, unexpected expenses, fluctuations in expenses

Propriety & Accuracy in Financial Statements

-all accounts ultimately roll up to University-wide financial reporting, it is each unit's responsibility to ensure their accounts are accurate to ensure that Indiana University financial reporting is accurate

Track / monitor budget status & encumbrances

-generally done in other format, but a good opportunity for quick secondary budget & encumbrance review, as you are reconciling your detailed transactions to MOS

Page 4: What are your Risks?

Risks are often the “flip-side” of why we reconcile ... the goal of establishing internal controls is to mitigate risk

Documents/transactions that don't route for approval present a higher risk ... these transactions should be looked at more closely when reconciling to ensure accuracy & appropriateness

Quality of transaction approvals ... is the documentation strong/clear enough to provide the “story” of the transaction to ensure that the approver review is meaningful & adds value?

Notes inserted with documentation & transaction routing are beneficial through the routing/approval process, as well as to provide a good audit trail of the activity.

Be cautious of proper Data Security ... Do not enter critical data into notes or attachments!!

What risks do you have in your department? Each area has their own nuances & challenges ... it's important to take a fresh look periodically to see if there have been changes that might affect your processes/procedures & risks ... adjust controls as needed. Don't simply reconcile month after month, ticking off transactions as documented ... think about what is behind the transaction ... think about the risks involved ... think about the controls/processes surrounding the transactions ...

Page 5: Tools

These are the primary tools that I use ...

There are multiple acceptable methods of reconciling ... the goal of this presentation is to address the “key points, thought processes, documentation” ... the reconciliation process that you choose needs to meet the goals of your own organization. The process documented in this presentation is what we have found to be an efficient, effective process that addresses account reconciliation on a risk based level to comply with policy & sound internal controls

Key points:

- it must be done (policy & sound internal controls)
- it should be documented, for both accountability & proper management oversight, as well as to demonstrate compliance with policy

We should always look for ways to add value to the overall management of the organization through this process (ties into management oversight) ... reconciling can identify training needs, process/controls weaknesses, trends/budget fluctuations, etc ...

Page 6: “Chunk” it down ...

Each unit has its own challenges ... one of our major challenges is centralized processing for a sizable number of units, with different needs & levels of services (we have over 1400 accounts to review/reconcile each month)

If you face the challenge of a large number of accounts ... grouping “like” accounts adds efficiency, can eliminate “overwhelming” task of reconciling a large number of accounts, keeps focus on particular transaction activity (for example: financial aid ... limited to financial aid type expenses ... easy to spot errors/discrepancies if other activity)

Page 7: Process –detailed transactions

A typical reconciling workbook would have the first tab as the summary of all accounts, then one tab per account. You may have more than one workbook, as needed – it depends on your units needs, types of accounts ...

For example: may need separate tracking for grants, may have multiple units to reconcile for (one workbook per unit)

“Chunk it down” within each account ... for example:

1. Payroll – more appropriate to be reconciled separately utilizing the labor audit reports ... therefore account reconciling can be a quick review of payroll totals/fluctuations, then a notation of “payroll reconciled independently” – draw a line down through those transactions, or merge cells for the notation to apply to a group of rows. However, this only applies if you reconcile payroll independently ... as payroll is high risk & must be reconciled in some manner.

2. PCDO – may be reconciled separately, depending on who does the reconciliation ... if so, this is a good second set of eyes to ensure accuracy/appropriateness ... reconcile to the source documents, required to retain for record retention.

3. Financial aid –should have a separate process to reconcile activity to source documents – if so, then a quicker review during the monthly reconciliation is appropriate, looking for expected transactions

Keep asking yourself ... where are the risks in my unit?

GECs / Unusual transactions / Fluctuations to prior activity & budget –take a deeper look to source docs, approvals, reasonableness, etc

Page 8: Sample worksheet ...

Highlight rows with transactions that need to be corrected –add appropriate notes in the note column to “tell the story” ... why the correction is needed, Document #'s to fix (I generally use red/bold font for error notes to make the error correction stand out) -the first thing I do when reconciling is to look at prior periods for outstanding errors – then validate to see if correction was processed

When a correction has been validated in a subsequent period, then un-highlight the row ... but leave the red/bold comments & “story” of the error to provide a good audit trail of both the error & the subsequent correction.

Reconcile income & expense period totals to the MOS to ensure you’ve properly included all the transactions in your detailed transactions IUIE query.

Make notations in the notes column regarding the steps/action you took to reconcile.

Examples of Notes:

- Payroll reconciled independently
- Standard Monthly Entry (telephone charges, rent, IT services charge, etc)
- Verified to source documentation on file (dependent on what IU record retention requires &/or your own department requirements)

- Reasonable (ID postage, copy machine charges, etc) –depending on how your department manages these functions (logs, source docs, etc)

What notations are helpful to your department? For example, travel expenses may be helpful to have trip purpose documented with notes for later reference needs during the year, or even in subsequent years

Page 9: Process – Reconciliation tracking

This should be the first tab in your workbook ...

5 simple tickmarks (see sample for actual legend descriptions)

R-OK	all transactions have been reviewed/validated and your income/expense totals match the MOS
R-FIX	(highlight this cell) – error/discrepancy was noted & is pending resolution –keeping it highlighted until fixed will keep you alert that a correction is pending
R-FIX/OK	(bold font this tickmark) – there was an error at one time, but it has been corrected/resolved ... as your notes are retained in the account worksheet tab, you’ve provided an appropriate audit trail of the error & correction
n/a	no activity during that fiscal period
??	(highlight this cell –different color than R-FIX) –this is a temporary tickmark, pending validation ... once resolved, you would change this tickmark as appropriate to either R-OK or R-FIX

Page 11: A Step Beyond ...

Don’t fix the same errors month after month ... figure out the cause of the errors (especially repetitive errors) & work to fix the cause. This will make your ongoing reconciling process more efficient & your records cleaner.

Page 12: Other useful links ...

Also on the CATS page with this presentation, you will find an excel spreadsheet / template

Tab 1 –Recon Summary

Tabs 2-4 -Individual account tabs (I name my tabs with the account number)

Tab 5 –Acct template (I only use this tab to create a new formatted tab, as needed for additional account tabs)

Tab 6 –IUIE Notes –instructions/notes for how I pull the detailed transaction report