

How to Reconcile Financial Activity



May 2005

Why Reconcile?



- To ensure only valid, authorized purchases are made
- To ensure proper recording
- To identify duplicate payments
- To ensure all funds received are deposited

Examples of Reconciliations

Comparing:

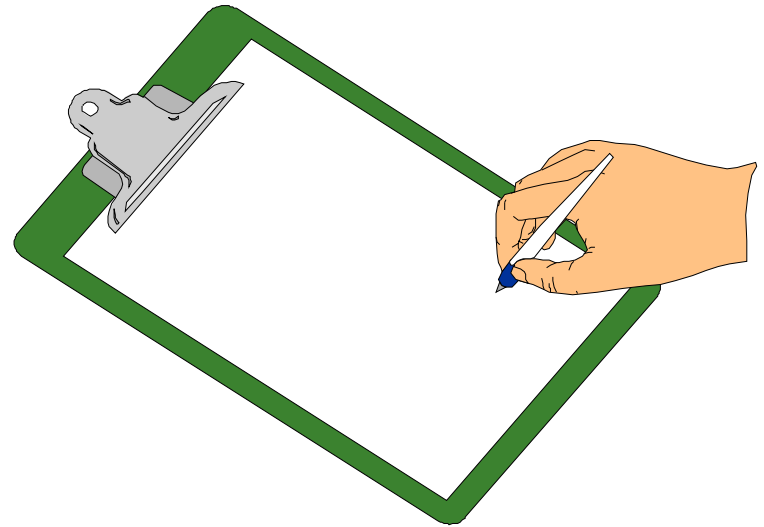
- Billing documents to billing summaries
- Funds collected to accounts receivable postings
- Collections to deposits
- Deposits to ledgers



Examples of Reconciliations

Comparing:

- Inventory changes to amounts purchased and sold
- Physical inventory counts to inventory records
- Payroll certification to payroll registers
- Departmental records of revenues, expenditures, and payroll to ledgers



INVENTORY

Is there a cost of not reconciling?

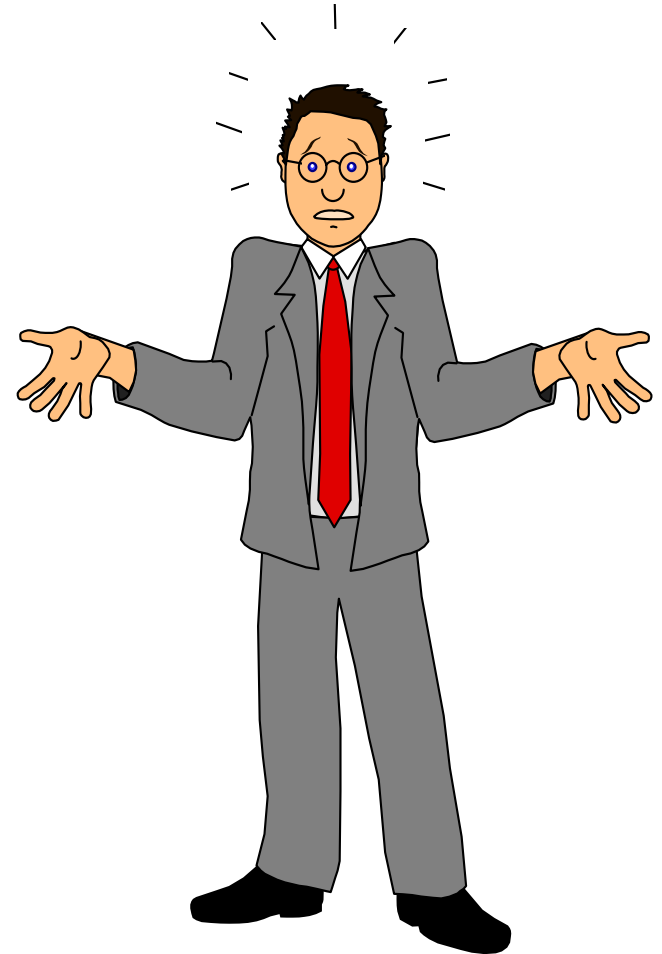
YES!!!

- Poor decisions may be made due to inaccurate financial statements
- Errors not identified timely are much more difficult and costly to correct
- Missing funds or thefts may go unnoticed and increase as time goes on

Who Should Perform Them?

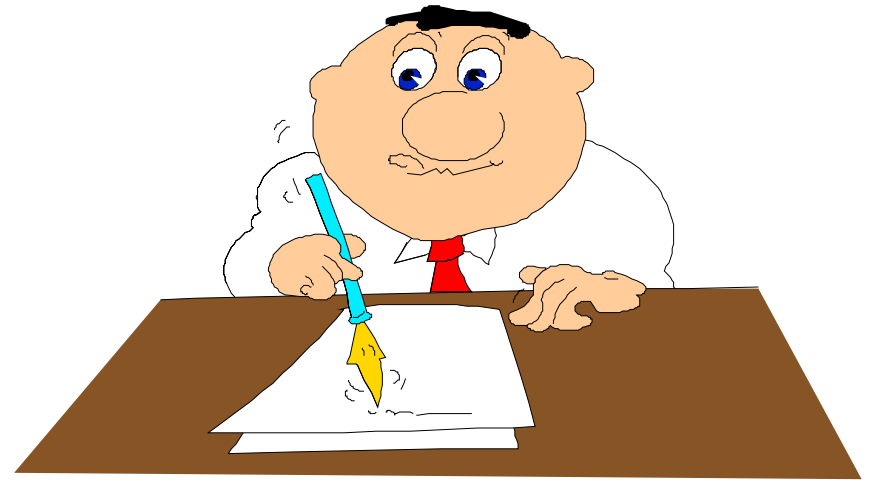
Anyone who does not have responsibility for:

- ❑ receiving goods
- ❑ collecting cash
- ❑ distributing pay warrants
- ❑ approving payroll or purchases



What about the Record Keeper?

The record keeper or individual who initiates or prepares documents for approval may perform the reconciliation as long as there is an independent review.



What is Adequate ?

At a minimum, a reconciliation should be sufficient to:

- ❑ Identify recording errors which have not been corrected;
- ❑ Identify uncleared or outstanding items;
- ❑ Identify unauthorized transactions;
- ❑ Identify commitments made for which the goods or invoices have not been received or the paperwork has not been submitted for payment;
- ❑ Reconcile to a cumulative balance such as cash, budget, or available balance.

Why Cumulative?

Unless a cumulative reconciliation is performed, only the accuracy of this month's transactions is being verified; prior error resolution is not being confirmed.



Steps to Reconciling

- Compare primary documents to the transactions recorded
- Identify outstanding items
- Identify posting errors and unauthorized transactions

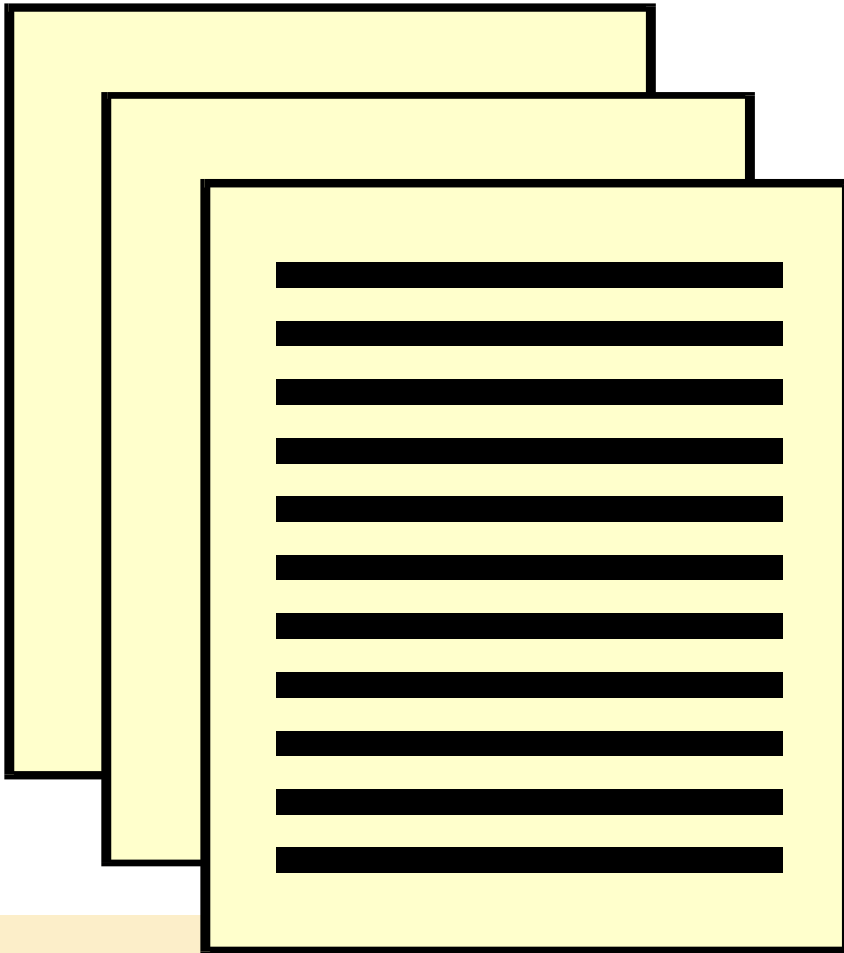


Steps to Reconciling

- Identify outstanding commitments
- Summarize results of reconciliation
- Sign and date reconciliation
- Have reconciliation reviewed, and reviewer approve reconciliation



What are the Primary Source Documents?



- Expenditure Package (requisition, invoices, doc. of receipt)
- Deposit Back-up Forms with receipt
- Payroll Certification and Payroll Registers
- Actual cash, property, or inventory on hand

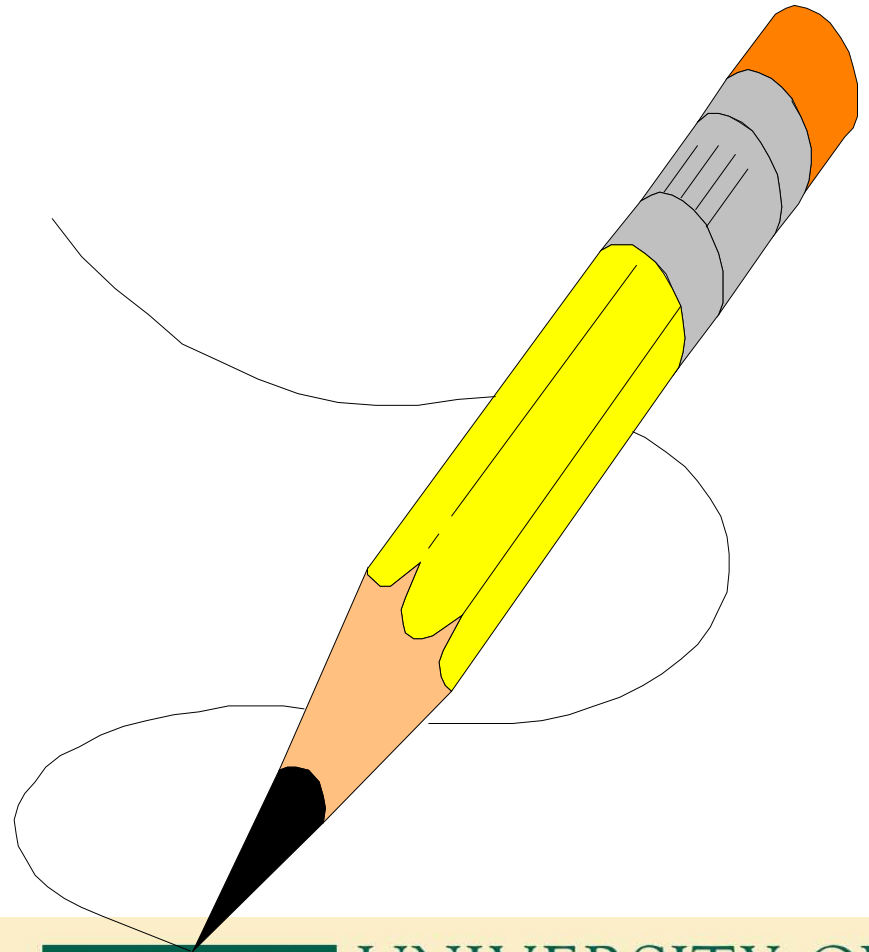
What are Outstanding Items?

- A deposit made to the Cashier's Office which has not been recorded
- A travel voucher, invoice, or request for reimbursement which has not been processed or recorded
- A payroll or expenditure transfer form that was submitted but has not been processed

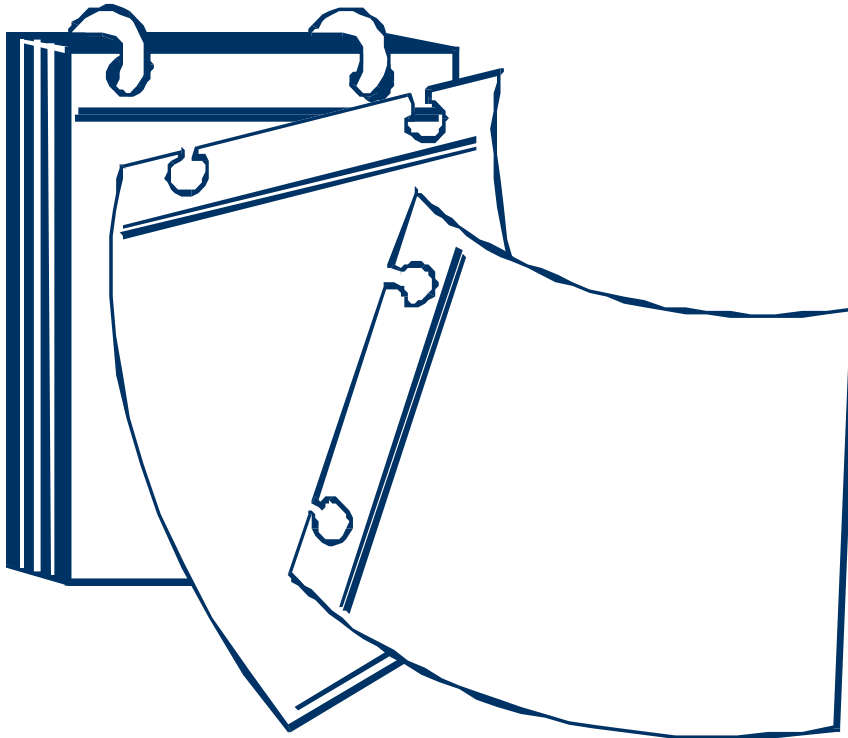


How to Document these Items

- At a minimum:
 - The date the item was submitted
 - A description of the transaction
 - The amount of the transaction



Additional Requirements



Transactions which have been outstanding for more than 60 days should have an explanation of what is being done to resolve the problem.

Posting Errors & Unauthorized Transactions

Includes:

- Duplicate vendor payments
- Posting of transactions twice
- Posting transactions to the wrong account
- Vendor or amount of payment is incorrect
- No support for the transaction in departmental files



How to Document these Items

At a minimum:

- Date recorded
- Transaction number
- Vendor (if applicable)
- Description of transaction
- Any action taken to resolve problem



Why Do We Care About Commitments?

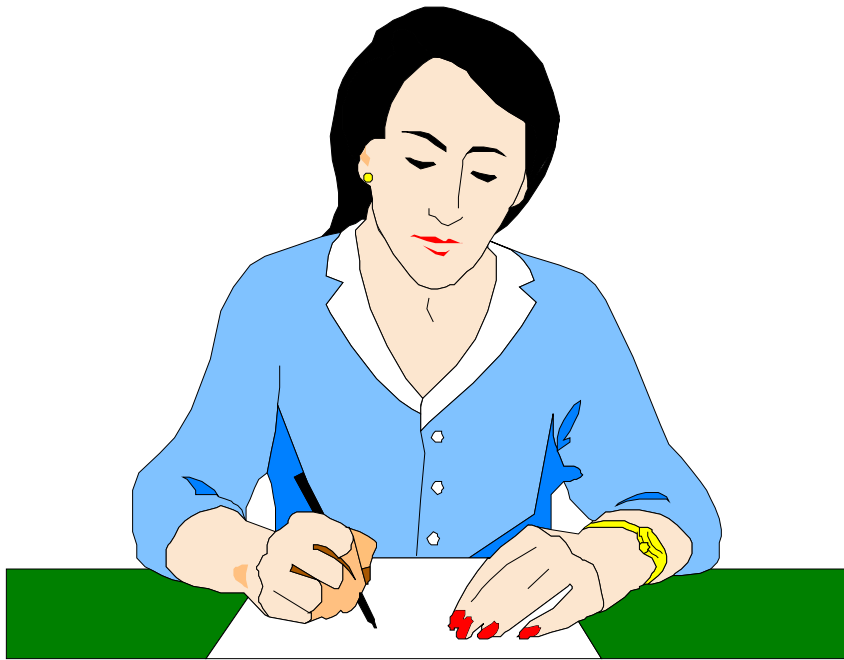


Since reconciliations are used as a tool to monitor financial activities and the availability of funds, it is important that outstanding commitments be included in this process.

What Are Commitments?

- Expenditures that have been authorized, approved, or promised, but the goods or service have not been received or the invoice sent
- Approved travel which has not occurred or traveler has not submitted a reimbursement request
- Payroll expenditures committed but not expended

Documenting Commitments



They should be documented like other recorded transactions:

- ❑ Date incurred, anticipated to occur, or approved
- ❑ Vendor or traveler
- ❑ Description
- ❑ Amount

What are the Reviewer's Duties?

- Be independent of the record keeping and reconciliation functions
- Agree the balance per the ledger and internal records to the reconciliation
- Review outstanding items, commitments, and errors or unauthorized transactions for reasonableness, timely resolution, and adequate documentation

Reviewer's Duties...

- Scan ledgers and internal reports for unusual transactions
- Follow-up on unusual or untimely items with Preparer
- Sign and date the reconciliation indicating review and approval



Need Help.....

Call (813) 974-2705

Office of University Audit & Compliance
The time is always right to do the right thing.
--- Martin Luther King, Jr.

