

Baylor University
Account Balance Validation
Policies and Procedures

Policy Statement and Purpose

This policy provides guidance for the regular and systematic validation, through review and reconciliation processes, of financial statement accounts and activity. The document clarifies how, through a risk-based approach, periodic validation will be completed and documented, including the roles, responsibilities and tools important to this process. The policy applies to all Baylor University faculty and staff who have responsibility for the initiation or authorization of financial transactions.

This policy is an integral part of the University's internal control structure, which is designed to ensure the reliability and usability of internal and external financial results. A comprehensive internal control structure includes control processes that are both centrally and locally implemented and both preventative and detective in nature, concepts which are incorporated into this document.

Definitions

The following are definitions of key terms associated with the account reconciliation and review processes.

Balance Sheet Account Reconciliation: comparison of a balance sheet account balance to a sub-ledger, source system or third-party source document

General Ledger: contains all transactions and account balances for University activities. In many cases, general ledger activity originates in a sub-ledger or source system. In other cases, such as journal entries, transactions originate in the general ledger.

Reasonableness Test: in cases where it is impractical or impossible to reconcile an account, a reasonableness test will be used. Such tests compare actual results to expected results to determine the validity of balances and identify errors.

Reconciling Item: represents the difference between a general ledger account balance and a supporting balance (see Balance Sheet Account Reconciliation). Reconciling items should be explained, following the standards outlined in the procedures below.

Review: A financial review includes analysis and documentation of the reasonableness of account balances and activity. Revenue and expenses are reviewed for reasonableness using a risk-based approach to verify appropriate amounts, recording, and compliance with external requirements, including Federal cost compliance)

Risk-based: an approach which allows staff to focus most of their attention on the transactions and balances which pose the most significant level of risk. Risk levels are also used to determine the frequency of reconciliations or reviews.

Roll-forward: A type of reconciliation that rolls-forward (or carries-forward) balances from one period, typically fiscal year, to the next.

Source System: a system in which a transaction originates and feeds into the general ledger. Examples include US Department of Education financial aid systems and TouchNet payment systems.

Sub-ledger: a data source that contains transaction level data which feeds into the general ledger in summary form. Examples include Payroll and PPM.

Third-party Source Document: statements or other documentation coming from an external entity that can be used to reconcile general ledger account balances. Examples include investment account statements and actuarial valuation statements.

Roles

Following are the key University roles with responsibilities in the account reconciliation and review processes.

Accounting Operations: Perform reconciliations of centrally controlled balance sheet accounts. Monitors the reconciliation and review processes performed by other University units that have primary responsibility for reconciling accounts to ensure they are completed regularly, timely, consistently and all reconciling items are corrected in a timely manner. Establishes and updates institutional financial policies.

Business Officers: Perform high-level review and analysis of account activity relevant to their units. In addition, coordinates response to questions generated through Controller's Office reviews. Monthly sign-off for their unit

Financial Managers: Perform review of account activity relevant to their operating activities for accuracy and completeness. Performs reconciliations of assigned accounts and documents plans for identification and resolution of reconciling items.

HCM Specialists: Perform review of pay and labor distributions for accuracy and completeness. Coordinates with URAs for review of data related to grant accounts.

Payroll Office: Perform reconciliations and reviews of payroll-related accounts. Monitors the reconciliation and review processes performed by other University units that have primary responsibility for reconciling accounts to ensure they are completed regularly, timely, consistently and all reconciling items are corrected in a timely manner.

Principal Investigators: Oversight of and responsibility for initiation of transactions, including labor distributions, to assure allocability, allowability and reasonableness of charges for their projects. Reviews financial reports on a regular basis, in coordination with Financial Managers and URAs.

University Research Administrators (URAs): Reviews all financial data, including labor distributions, and information relevant to grant accounts for accuracy, allowability, allocability, and compliance with sponsor requirements. Investigates and corrects inaccuracies, discrepancies, or errors on a timely basis, in coordination with Principal Investigators and HCM Specialists.

Procedures

Balance Sheet Accounts

Balance sheet accounts are generally reconciled to a sub-ledger, source system, or third-party source document.

- When possible, auto-reconciliation processes will be used to match general ledger transactions to original entry transactions contained in sub-ledgers or uploaded from source systems. For example, bank account transactions can be loaded from the bank and compared to G/L transactions. When this process is used, supporting documentation related to reconciling item identification and resolution should be uploaded to Oracle and attached to the reconciliation.
- When auto reconciliation is not available, a manual reconciliation should be performed using an approved template (Appendix B). In some cases, accounts will be reconciled by the central finance team, while units will be responsible for other (see Appendix A). Completed and approved reconciliations will be submitted to Financial Services and held in a central repository.
- Reconciliation frequency will be determined based on level of risk. Frequency could be monthly, quarterly, or annually.
- Completed reconciliations must be reviewed and approved by someone other than the preparer.
- All reconciling items must be identified and supported by documentation. A reconciling item aging schedule should be maintained indicating whether the item has been outstanding 30 days or less, 31-60 days, 61-90 days, or more than 90 days.
- For any reconciling item exceeding \$10,000 and outstanding more than 60 days, a resolution plan must be created and submitted to the Controller for review.
- All reconciling items more than 90 days old, regardless of size, must be included on a resolution plan and submitted to the Controller for review.

The following tools are available to facilitate reconciliations.

Auto-reconciliation tool (under review)

Reconciliation template

Revenue and Expense Accounts

Revenue and expense accounts are generally reviewed using two approaches. First, reasonableness tests are used to compare actual results to expected results. Second, selected transactions will be verified individually by examining supporting documentation.

- Revenue account reviews will be completed with the objective of determining the accuracy and completeness of revenue recording
 - in the proper period
 - at the proper amount
 - in the correct revenue account type

- Expense account reviews will be completed with the objective of determining that expenses are
 - Correctly charged
 - Allowable according to internal policies and external regulations
 - Allocated to the appropriate expense type
 - Approved and documented
- All reviews should be completed in a timely manner and corrections entered as quickly as possible to ensure accurate reporting and compliance with external regulations.
- Reviews should consider the level of risk inherent in the activity. Risk level should be evaluated based on size of transaction or account balance, the likelihood of error or inaccuracy, the level of controls in place to minimize risk, and the potential exposure due to unidentified errors.
- If inconsistent results are found in an account review, a more extensive verification process should be completed to identify the course of inconsistencies. This may involve transaction-level verifications as necessary.

The following tools are available to facilitate reviews.

Financial Management Data Portal – Monthly Financial Reports

- This Month Balances-Last Month Balances: Comparison of this month's activity/ balances vs last months including variance and percent variance
- This Month Balances-Same Month Last Year Balances: Comparison of this month's activity/ balances vs this month last year including variance and percent variance.
- Unusual Transactions - Credits in an expense account, Debits in a revenue account
- Outlier Transactions - transactions that are x% above or below the normal range of transactions
- Significant Transactions - transactions that exceed \$x threshold (varies by unit)
- Mismatch – Transaction descriptions that do not match the purpose of the account where the transaction was charged

Clearing Accounts

In many processes, General Ledger clearing accounts are used as a temporary holding account for transactions. It is particularly important to reconcile and clear these accounts regularly.

- Any uncleared balances should be reviewed immediately after completion of the process which generated the balance.
- A reconciliation to bring the balance to zero should be prepared and approved by someone other than the preparer.
- All reconciling items must be identified and supported by documentation. A reconciling item aging schedule should be maintained indicating whether the item has been outstanding 30 days or less, 31-60 days, 61-90 days, or more than 90 days.
- For any reconciling item exceeding \$10,000 and outstanding more than 60 days, a resolution plan must be created and submitted to the Controller for review.

- All reconciling items more than 90 days old, regardless of size, must be included on a resolution plan and submitted to the Controller for review.

The following tools are available to facilitate reviews.

Auto-reconciliation tool (under review)

Reconciliation template

Accountability

The central finance team and Business Officer Council hold shared responsibility for completion of these account validation processes and the accuracy of general ledger account balances. Each month the Business Officer for each entity and the appropriate Financial Services liaison (Accounting Operations, Payroll, Gift & Investment Accounting) will certify that the processes have been completed and acknowledge their responsibility for accuracy of the results (Appendix C). At fiscal year-end, a more extensive review will be completed and filed with Financial Services.

Appendix A. Validation & Reconciliation Schedule

<i>Account Type</i>	<i>Frequency</i>	<i>Validation Type</i>	<i>Primary Responsibility</i>	<i>Financial Services Liaison</i>	<i>Tools Available</i>	<i>Notes</i>
Cash	Monthly	Reconciliation	Treasury			
Cash Clearing	Monthly	Reconciliation	Unit Financial Managers	Cindy Ratliff		Each entity which processes deposits will have primary responsibility for the related Cash Clearing account reconciliation
Student Receivables	Monthly	Reconciliation	Accounting Operations			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Sponsored Project Receivables	Monthly	Reconciliation	URAs/Unit Financial Managers	LaDonna Roberts		The assigned Accounting Operations consultant will review on a quarterly basis
Departmental Billings and Receivables	Quarterly	Reconciliation	Unit Financial Managers	Bobbie Doyle		The assigned Accounting Operations consultant will review on a quarterly basis
Contributions Receivable	Quarterly	Reconciliation	Gifts & Investments Accounting			Reconciling items will be referred to Development for follow-up and resolution
Allowance for Doubtful Accounts	Annual	Reconciliation	Accounting Operations			
Prepaid Expenses	Quarterly	Reconciliation	Accounting Operations			
Loans/Notes Receivable	Monthly	Reconciliation	Accounting Operations			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Investments	Monthly	Reconciliation	Gifts & Investments Accounting			Reconciling items will be referred to Investment Office for follow-up and resolution
Property & Equipment	Monthly	Reconciliation	Debt & Capital Asset Accounting			
Accounts Payable	Monthly	Reconciliation	Accounting Operations		Auto-Reconciliation (<i>under review</i>)	The assigned Accounting Operations consultant will review on a quarterly basis
Accrued Liabilities	Monthly	Reconciliation	Accounting Operations			
Benefit Liabilities	Monthly	Reconciliation	HR Benefits Analyst		Auto-Reconciliation (<i>under review</i>)	
Deferred Revenue – Student Fees	Quarterly	Reconciliation	Accounting Operations			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Deferred Revenue – Gifts & Grants	Quarterly	Reconciliation	URAs/Unit Financial Managers	LaDonna Roberts/ Tom Lindsey		The assigned Accounting Operations consultant will review on a quarterly basis
Other Liabilities	Quarterly	Reconciliation	Accounting Operations			

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Debt & Related Balances	Quarterly		Debt & Capital Asset Accounting			
Net Assets	Quarterly	Reconciliation	Accounting Operations			
Clearing Accounts – Payroll Processes	As needed	Reconciliation	Payroll Services	Kristin Henry		Reconciled after each payroll run
Clearing Accounts – Other processes	As needed	Reconciliation	Accounting Operations			
PPM to G/L – Sponsored Projects	Monthly	Reconciliation	Research – Post Award	LaDonna Roberts		
PPM to G/L – Capital Projects	Monthly	Reconciliation	Capital Asset Accounting			
PPM to G/L – Faculty Funds	Monthly	Reconciliation	Unit Financial Managers	Benjamin Stevens		
Tuition & Fee Revenue	Monthly	Reasonableness Review	Accounting Operations			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Designated Fees	Monthly	Reasonableness Review	Unit Financial Managers	Zach Maldonado	Financial Management Data Portal – Monthly Financial Reports	The assigned Accounting Operations consultant will review on a quarterly basis
Room & Board Revenue	Monthly	Reasonableness Review	Accounting Operations		Financial Management Data Portal – Monthly Financial Reports	
Grant Revenue	Monthly	Reasonableness Review	URAs/Unit Financial Managers	LaDonna Roberts	Financial Management Data Portal – Monthly Financial Reports	The assigned Accounting Operations consultant will review on a quarterly basis
Gift Revenue	Monthly	Reasonableness Review	Gifts & Investments Accounting		Financial Management Data Portal – Monthly Financial Reports	Reconciling items will be referred to Development for follow-up and resolution
Other Departmental Revenue	Monthly	Reasonableness Review	Unit Financial Managers	Zach Maldonado	Financial Management Data Portal – Monthly Financial Reports	The assigned Accounting Operations consultant will review on a quarterly basis

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Other Central Revenue	Monthly	Reasonableness Review	Accounting Operations		Financial Management Data Portal – Monthly Financial Reports	
Labor Costs	Each payroll	Reconciliation	HCMs	Kevin Vance	Financial Management Data Portal – Monthly Financial Reports	
Payroll Expense – Sponsored Projects	Monthly	Reasonableness Review	URAs/Unit Financial Managers	Kevin Vance	Financial Management Data Portal – Monthly Financial Reports	Payroll Services office will also review on a monthly basis
Payroll Expense - Other	Monthly	Reasonableness Review	Payroll Services		Financial Management Data Portal – Monthly Financial Reports	
Operating Expense	Monthly	Reasonableness Review	Unit Financial Managers	Accounting Operations	Financial Management Data Portal – Monthly Financial Reports	The assigned Accounting Operations consultant will review on a quarterly basis
Transfers	Monthly	Reconciliation Reasonableness Review	Accounting Operations Unit Financial Managers		Financial Management Data Portal – Monthly Financial Reports	

Appendix B. Reconciliation Template

General Ledger Control Account or Clearing Account
 Reconciliation Template

Entity/Department Prepared by
 Control Account Reviewed by
 Month of

Date	Description	Source Journal Transactions	General Ledger Transactions	Running Balance
	Beginning Balance (prior month ending balance)			-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
				-
	Ending Balance			-

Appendix C. Monthly Validation Acknowledgement

Please review the following questions related to the monthly validation process. Answer each question to the best of your current knowledge. Areas that may appear problematic should be discussed with the Controller.

Each asset, liability, revenue and expense account should be reviewed monthly according to the Account Balance Validation Policy and Procedures.

	Yes	No
Have month end balances been reviewed according to the policy?		
Have any reconciling items or discrepancies been resolved or appropriate resolution plans adopted?		
Have all bills for goods or services sold for the month been recorded? Have you reviewed the A/R aging report? Are past due receivables collectible?		
Are the departmental revenue account balances, across all funding sources, reasonable?		
Are the departmental expense account balances, across all funding sources, reasonable?		
Is the supporting documentation for all receipts and expenditures retained and readily available to support all transactions? Is the documentation stored and retained in a format where it is readily available for audit purposes?		
Compared to the same month in the previous year, is the financial information approximately the same? Have you resolved any significant differences or unusual patterns?		
Do you believe that expenditures have been properly classified at the major program level (Instruction, Research, Public Service, etc.)?		
Do you believe that expenditures have been properly recorded based on current University policies and procedures and any external regulations?		
Have you reviewed labor costing for faculty and staff for accuracy and appropriateness?		
Are you aware of any violation of University policies and procedures that may contribute to a fraudulent situation?		
Do you believe that the employees in your area of responsibility are aware of the Ethics Point reporting process?		

Prepared by: _____
 Business Officer

College or Division: _____

Month end: _____ Date Prepared: _____