



Monthly Financial Validation Process

Purpose Statement

This document 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.

Financial Services: 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 Financial Services reviews. Provides a 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.

Department Approvers: Review individual transactions initiated in their departments to determine appropriateness of the transaction and accuracy of accounting.

HCM Specialists: Perform review of compensation (salary and supplemental) for accuracy and completeness. Coordinates with URAs for review of compensation 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 C). In some cases, accounts will be reconciled by the central finance team, while units will be responsible for other accounts (see Appendix B). 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.

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 source of inconsistencies. This may involve transaction-level verifications as necessary.

The following tools are available in Financial Management Data Portal – Monthly Financial Reports to facilitate reviews.

- Actual vs GL Budget: Comparisons of month and YTD actuals to budgeted amounts for operating, non-operating, and all funds
- Two-Month Activity Comparison: Comparison of this month's activity/balances vs last month's or the same month last year; including variance and percent variance
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- 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)
- Intercompany Activity Review – facilitates review and analysis of intercompany transactions entered
- Payroll to General Ledger Compare – facilitates review of labor transactions by comparing payroll data to G/L data
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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 in Financial Management Data Portal – Monthly Financial Reports to facilitate reviews.

- Faculty Funds Reconciliation Report – Provides comparison of PPM to GL balances and transactions
- Deposit Clearing Reconciliation Report- Provides comparison of miscellaneous receipt, deposit, and other transactions in deposit clearing

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 will certify that the processes have been completed and acknowledge their responsibility for accuracy of the results (Appendix D). At fiscal year-end, a more extensive review will be completed and filed with Financial Services.

Accountability for sponsored programs is a shared responsibility between OVPR and academic divisions. Additional details regarding these shared responsibilities is included in Appendix E.

The Tiers of Responsibility matrix (Appendix A) provides additional detail to clarify levels of responsibility by role.

Appendix A. Tiers of Responsibility

Financial accountability is a shared responsibility among those who initiate transactions, review and approve transactions and validate results. These levels of responsibility can be divided into four tiers, as described below.

Level	Who	Role	What
Tier 1	Those responsible for submitting, reviewing and approving transactions	Financial Administrators; Revenue Accountants; Intercompany Accountant	This person reviews individual transactions as they occur, ensuring proper application of policies and procedures and proper accounting distributions. Includes requisitions, expenses, revenues, intercompany activity, and labor distributions
Tier 2	Those responsible for account reconciliations and detailed transaction reviews	Financial Managers, Financial Analysts	This person is often responsible for the finances of a department or division; performed critical reviews for unusual activities or errors; communicates with Tier 1 when errors are identified to reduce opportunity for future errors
Tier 3	Those with financial authority and responsibility for an entire unit	Business Officers	This person ensures that accountability structures are in place and functioning; verifies proper training of Tier 1 and Tier 2 individuals; performs high-level analysis and verification of Tier 2 reviews; completes variance analysis of revenues and expenses; questions and thinks critically about the validity of results in the unit
Tier 4	Those accountable for university financial results	Central Finance	Set and monitor proper internal control structures; provide resources and support to other tiers of responsibility; identify areas of high risk; regularly converse with Tier 3 to understand trends and variances in units; perform analysis at the financial statement level

Appendix B. 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/Deposit Clearing	Monthly	Reconciliation (Tier 2)	Unit Financial Managers	Cindy Ratliff	Template	Each entity which processes deposits will have primary responsibility for the related Cash Clearing account reconciliation
Student Receivables	Monthly	Reconciliation (Tier 4)	Financial Services			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Sponsored Project Receivables	Monthly	Reconciliation (Tier 4)	URAs/Post-Award	LaDonna Roberts		The assigned Financial Services consultant will review on a quarterly basis
Departmental Billings and Receivables	Quarterly	Reconciliation (Tier 2)	Unit Financial Managers	Dave Clendennen	Template	The assigned Financial Services consultant will review on a quarterly basis
Contributions Receivable	Quarterly	Reconciliation (Tier 4)	Gifts & Investments Accounting			Reconciling items will be referred to Development for follow-up and resolution
Allowance for Doubtful Accounts	Annual	Reconciliation (Tier 4)	Financial Services			
Prepaid Expenses	Quarterly	Reconciliation (Tier 4)	Financial Services			
Loans/Notes Receivable	Monthly	Reconciliation (Tier 4)	Financial Services			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Investments	Monthly	Reconciliation (Tier 4)	Gifts & Investments Accounting			Reconciling items will be referred to Investment Office for follow-up and resolution
Property & Equipment	Monthly	Reconciliation (Tier 4)	Debt & Capital Asset Accounting			
Accounts Payable	Monthly	Reconciliation (Tier 4)	Financial Services			The assigned Financial Services consultant will review on a quarterly basis
Accrued Liabilities	Monthly	Reconciliation (Tier 4)	Financial Services			
Benefit Liabilities	Monthly	Reconciliation (Tier 4)	HR Benefits Analyst			
Deferred Revenue – Student Fees	Quarterly	Reconciliation (Tier 4)	Financial Services			Reconciling items will be referred to Student Financial Services for follow-up and resolution

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Deferred Revenue – Gifts & Grants	Quarterly	Reconciliation (Tier 4)	Post-Award/Financial Services	LaDonna Roberts/ Tom Lindsey		The assigned Financial Services consultant will review on a quarterly basis
Other Liabilities	Quarterly	Reconciliation (Tier 4)	Financial Services			
Debt & Related Balances	Quarterly	Reconciliation (Tier 4)	Debt & Capital Asset Accounting			
Net Assets	Quarterly	Reconciliation (Tier 4)	Financial Services			
Clearing Accounts – Payroll Processes	As needed	Reconciliation (Tier 4)	Payroll Services	Kristin Henry		Reconciled after each payroll run
Clearing Accounts – Other processes	As needed	Reconciliation (Tier 4)	Financial Services			
PPM to G/L – Sponsored Projects	Monthly	Reconciliation (Tier 4)	Research – Post Award	LaDonna Roberts		
PPM to G/L – Capital Projects	Monthly	Reconciliation (Tier 4)	Capital Asset Accounting			
PPM to G/L – Faculty Funds	Monthly	Reconciliation (Tier 2)	Unit Financial Managers	LaDonna Roberts	Template	
Tuition & Fee Revenue	Monthly	Reasonableness Review (Tier 4)	Financial Services			Reconciling items will be referred to Student Financial Services for follow-up and resolution
Designated Fees	Monthly	Reasonableness Review (Tier 2)	Unit Financial Managers	TBD	Financial Management Data Portal – Monthly Financial Reports	The assigned Financial Services consultant will review on a quarterly basis
Room & Board Revenue	Monthly	Reasonableness Review (Tier 4)	Financial Services		Financial Management Data Portal – Monthly Financial Reports	
Grant Revenue	Monthly	Reasonableness Review (Tier 4)	Post-Award/Financial Services	LaDonna Roberts	Financial Management Data Portal – Monthly Financial Reports	The assigned Financial Services consultant will review on a quarterly basis

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Gift Revenue	Monthly	Reasonableness Review (Tier 4)	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 (Tier 3)	Business Officers	TBD	Financial Management Data Portal – Monthly Financial Reports	The assigned Financial Services consultant will review on a quarterly basis
Other Central Revenue	Monthly	Reasonableness Review (Tier 4)	Financial Services		Financial Management Data Portal – Monthly Financial Reports	
Payroll Expense – Sponsored Projects	Monthly	Reasonableness Review (Tier 4)	Post-Award/Financial Services	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 (Tier 3)	Business Officers		Financial Management Data Portal – Monthly Financial Reports	Payroll Services office will also review on a monthly basis
Operating Expense	Monthly	Reasonableness Review (Tier 3)	Business Officers	Financial Services	Financial Management Data Portal – Monthly Financial Reports	The assigned Financial Services consultant will review on a quarterly basis
Transfers	Monthly	Reconciliation (Tier 4) Reasonableness Review (Tier 3)	Financial Services Business Officers		Financial Management Data Portal – Monthly Financial Reports	

Appendix D. Monthly Validation Acknowledgement

Please review the following questions related to the monthly validation process. Answer each question to the best of your current knowledge and provide details to explain any adverse responses. Areas that may appear problematic should be discussed with the Financial Services. Due by 25th of the following month.

	Yes	No
Month-End Review		
Have Tier 1 and Tier 2 reviews been completed according to the schedule?	<input type="checkbox"/>	<input type="checkbox"/>
Have you spot checked Tier 2 reconciliations and reviews for completeness and accuracy?	<input type="checkbox"/>	<input type="checkbox"/>
Have any reconciling items or discrepancies been resolved or appropriate resolution plans adopted?	<input type="checkbox"/>	<input type="checkbox"/>
Have revenue reasonableness reviews, across all funding sources, been completed?	<input type="checkbox"/>	<input type="checkbox"/>
Have expense reasonableness reviews, across all funding sources, been completed?	<input type="checkbox"/>	<input type="checkbox"/>
Compared to the prior month and the same month in the previous year, are financial results reasonable? Have you investigated any significant differences or unusual patterns?	<input type="checkbox"/>	<input type="checkbox"/>
Do you believe that expenditures have been properly classified at the major program level (Instruction, Research, Public Service, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>
On-Going Assessment		
Have any Tier 1 responsibility concerns been discussed with the appropriate individual(s)?	<input type="checkbox"/>	<input type="checkbox"/>
Are Tier 1 individuals aware of and following current University policies and procedures and any external regulations?	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>
Are you aware of any violation of University policies and procedures that may contribute to a fraudulent situation?	<input type="checkbox"/>	<input type="checkbox"/>
Do you believe that the employees in your area of responsibility are aware of the Ethics Point reporting process?	<input type="checkbox"/>	<input type="checkbox"/>

Prepared by: _____
 Business Officer

College or Division: _____

Month end: _____ Date Prepared: _____