

Reconciliation and Review of Financial Transactions

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I. Purpose

To inform all University of Kentucky departments of the responsibilities, policies, and procedures related to the reconciliation of monthly ledgers. Verification of financial transactions ensures the accuracy and integrity of financial reporting records and protects University assets, serving as a key element of the University's system of internal controls. Refer to [E-1-3 Fiscal Roles and Responsibilities](#) and [E-1-4 Internal Control](#) for additional details.

II. Definitions

- *Allocable expense*: a cost incurred that is for the benefit of a cost object and directly related to its purpose
- *Allowable expense*: a necessary, reasonable, and appropriate purchase of goods or services permitted by university policy to be paid from a specific cost object
- *Approver*: individual authorized to review and approve work of the responsible person or reconciler
- *Cost object*: a 10 or 12-digit number within the University's accounting system used to record revenue, expense, balance sheet data, and/or other productivity measures for an organizational unit or project. In SAP, funds, costs centers, funds centers, WBS elements, and internal orders are all cost objects.
- *Ledger*: the official university record of all financial transactions. Ledgers may list transactions for any SAP cost object.
- *Reasonable expense*: a payment that is not extreme or excessive and reflects a prudent decision to incur the cost on behalf of University business
- *Reconciliation*: a process that compares two sets of records to make sure they agree, and identifies and resolves differences. For the purpose of this policy, the comparison is between the [supporting documentation](#) maintained by the department and SAP system information.
- *Reconciler*: individual designated to keep documentation and compare it to the report of transactions generated from SAP or BW
- *Responsible person*: individual identified as responsible for managing the funds in this cost object
- *Supporting documentation*: records such as payroll documents, procurement card receipts, purchase orders, DAV's, travel vouchers, cash transmittals, and journal vouchers (JVs) that are the source of accounting transactions; may be paper or electronic.

III. Responsibilities (Also see [E-1-3 Fiscal Roles and Responsibilities](#))

- A. Department [responsible person](#) or designee
1. Reconcile ledgers for all cost objects on a monthly basis.
 2. Correct errors on a timely basis.

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3. Perform variance analysis to compare actual operations to budgeted amounts.
 4. Review reconciliations with appropriate management personnel and obtain approval.
- B. University Financial Services
1. Post documents such as DAV's, travel vouchers, cash transmittals, and JVs in a timely manner to provide accurate monthly data in SAP.
 2. Accounting and Financial Reporting Services will provide assistance to departments regarding fund or cost/funds center reconciliations.
 3. Research Financial Services will provide assistance to departments regarding grant reconciliations.
- C. Area Fiscal Officer
1. The Budget Offices will post budget related documents in a timely manner.
 2. The Budget Offices will provide assistance to departments regarding budget reconciliations.

IV. Policy

- A. The [responsible person](#) or designee will reconcile all [cost objects](#) on a monthly basis
- B. All transactions will be reconciled to the [supporting documentation](#)
- C. The department must maintain appropriate separation of duties as defined in Business Procedure [E-1-4 Internal Controls](#), Section IV-E. Note that in a small office where separation of duties is difficult, it is imperative that the supervisor review and approve all activity.
- D. Any discrepancies or errors must be corrected as soon as possible and always within 90 days with the exception of those occurring in June. Those must be corrected prior to fiscal year-end close by the date specified in the schedule published annually by Accounting and Financial Reporting Services. See the cost transfer policy for additional information on errors occurring on grant WBS elements.

V. Procedures

- A. Below are general guidelines for the reconciliation process. Each unit must have written procedures that document processes specific to the unit. Also, see [E-1-3 Fiscal Roles and Responsibilities Section V](#).

Once the fiscal period has closed, the [reconciler](#) should:

1. **GENERATE** the necessary system (SAP or BW) reports for the cost object being reconciled.
2. **GATHER** any supporting documentation for the month.
3. **VERIFY** that the current month's beginning balance agrees with the prior month's ending balance and that the prior month's discrepancies have been corrected.

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4. **COMPARE** [supporting documentation](#) to system generated (BW or SAP) line item reports ensuring all transactions are [allowable](#), [reasonable](#), [allocable](#), accurate, and approved for the cost object. Review both actual line items and budget line items (i.e. budget transfers and revisions) during the reconciliation process.
 5. **CHECK** labor distribution reports to ensure all personnel charges are [allowable](#), [reasonable](#), [allocable](#), accurate, and approved for the cost object charged.
 6. **CLEAR** any discrepancies found during the reconciliation process by preparing the required JV's or payroll corrections immediately. For those discrepancies that require action outside your department, contact the appropriate office or individual to have the discrepancy corrected immediately. Contact information for an individual posting document is in SAP in the document header.
 - a. If the [reconciler](#) finds discrepancies, list them and prepare the correcting entries. Correct payroll postings in the HR module of SAP. Prepare a JV for all other corrections to actual amounts and submit to the appropriate department within University Financial Services for posting.
 - 1) Research Financial Services posts all grant related JVs (WBS Element 304xxxxxxx).
 - 2) Hospital Accounting posts all hospital-only JVs (cost centers 105xxxxxxx, 106xxxxxxx and 107xxxxxxx).
 - 3) Accounting and Financial Reporting Services posts all other JVs.
 7. **REVIEW** encumbrances to ensure all encumbrances are [allowable](#), [reasonable](#), [allocable](#), accurate, and approved for the cost object.
 8. **CONFIRM** budget availability in summary ledger reports to ensure funds exist to cover all line items posted and to ensure cost object is not overspent. Contact the appropriate budget officer for your unit for assistance with any budget related issues.
 9. **CERTIFY** the reconciliation for the month by having *both* the [reconciler](#) and the [approver](#) sign as appropriate.
- B. Records retention
Keep reconciliation records per [University Records Program](#) or Sponsor Record Retention Policies, whichever is longer, in either hardcopy or electronic format.