

**Reconciliation and Review of Financial Transactions****Reconciliation and Review of Financial Transactions****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. This policy requires that monthly reconciliations are performed in a timely manner to ensure financial information accurately reflects actual activity. A timely and consistent review of account activity allows the unit to know the balances of its accounts at all times and provides information to meet reporting requirements. A proper reconciliation will ensure that unauthorized changes have not occurred to transactions during the processing. Refer to [E-1-3 Fiscal Roles and Responsibilities](#) and [E-1-4 Internal Control](#) for additional information.

**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(s) authorized to review and approve work of the responsible person(s) or reconciler(s).
- *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.
- *Discrepancy*: A lack of agreement or balance. A difference or disagreement especially between things that should be the same amount.
- *Encumbrance*: A commitment to spend money for a particular purpose at some point in the future.
- *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 of comparing transactions and activity to supporting documentation. Additionally, it involves identifying and resolving any discrepancies. It is a critical internal control to ensure a department's financial accuracy and the University's financial integrity.
- *Reconciler(s)*: Individual(s) responsible for maintaining documentation and comparing it to the report of transactions generated from SAP, Tableau or Axiom for UK HealthCare.
- *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, PRDs, travel vouchers, cash transmittals, and journal

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vouchers (JVs) that are the source of accounting transactions; may be paper (e.g., hardcopies of receipts or invoices) or electronic (e.g., PDFs).

**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, including verifying that prior months' errors and discrepancies have either been corrected or are in the process of being corrected in accordance with the timeframe outlined in section IV. below.
  - 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 PRDs, 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. Post budget related documents in a timely manner.
  - 2. Provide assistance to departments regarding budget reconciliations.

**IV. Policy**

Monthly reconciliations and management reviews are a key fiscal management control that ensures transactions are accurate, allowable and complete. The reconciliation process is essential to your unit's and the University's internal controls and integrity. Proper and timely reconciliation prevents and detects fraud and improves the accuracy of financial information. All financial activity must be monitored to ensure that all revenues earned/collected are credited to the correct account and to ensure that expenditures have a business purpose, are for the correct amount, are allowable, properly approved, and charged to the correct cost object.

- 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. Units must not wait until fiscal year-end to process correcting journal vouchers. See [E-50-3 Cost Transfer Policy](#) for additional information on errors occurring on grant WBS elements.

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- 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(s) should:

1. **GENERATE** the necessary system (SAP, Tableau or Axiom for UK HealthCare) reports for the cost object being reconciled.
  2. **GATHER** all 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.
  4. **COMPARE** [supporting documentation](#) to system generated (SAP, Tableau or Axiom for UK HealthCare) 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 to ensure overspending does not occur and forecasts are accurate.
  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 JVs 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\(s\)](#) 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 business officer for your unit for assistance with any budget related issues.
  9. **CERTIFY** the reconciliation for the month by having *both* the reconciler(s) and the [approver\(s\)](#) sign as appropriate.
- B. Records retention  
Keep reconciliation records per [University Records Retention and Destruction](#)

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[Program](#) or Sponsor Record Retention Policies, whichever is longer, in either hardcopy or electronic format.