Reconciliation of Financial Transactions

Full Reconciliation vs. Financial Assessment & Management (FAM)

There are different procedures for the reconciliation process that are used for management centers within Duke University (Company Code 0010).

- Business units and departments that belong to the Provost Area Management Center (PAMC) and the Central Administration Management Center (CAMC) fall under the GAP 200.012 Reconciliation of Financial Transactions outlined later in this section of the guide. This procedure requires a full monthly reconciliation of 100% of transactions that post to a department’s cost object in Duke’s general ledger. These postings are viewed and reconciled using a financial statement for the cost object.

- Business units and departments belonging to the School of Medicine Management Center (SOMMC) fall under the procedure known as FAM, which stands for Financial Assessment & Management. FAM involves assessing risk through completing the Internal Control Environment (ICE) document. The procedure provides management oversight and analytic procedures including specific FAM reports to validate a sample of transaction categories based on the ICE document. There is training provided by SOMMC specifically for those using the FAM procedure.

Health system related company codes use full reconciliation based on guidance from each organization’s Finance Office.

Regardless of the reconciliation model used, this guide will provide useful information about how to research and understand the various types of transaction documents that post to a cost object’s financial reports.

Importance of Financial Transaction Reconciliations

Reconciliation or validation of financial transactions is a key element of Duke’s internal controls and is fundamental to sound business practices. A verification of transactions against a cost object and G/L account, accompanied by any necessary corrections, ensures that the fundamental transactions that post to the ledger and result in financial reports are correct.
Performing a Full Reconciliation

The GAP 200.012 - Reconciliation of Financial Transactions details the requirements for a full reconciliation of all financial transactions. (Note: GAP details are located at http://finance.duke.edu under Accounting Processes & Procedures).

The reconciliation or verification procedure is done to ensure that 100% of transactions/charges to a cost object are appropriate and that the correct G/L account is used for the transaction. This is accomplished for each transaction by reviewing the SAP online document via drilling down from a report or by analyzing the charge using documentation.

GAP 200.012 requires that the business manager review the reconciliation. A business manager may delegate this review process, but the individual doing the review cannot be the same individual doing the reconciliation.

The following steps will assist in providing documentation for review and ensuring that all transactions are reviewed.

1. Run an actual line item report for the cost object to be reconciled
   (Recommendation: Either print the report or export to Excel in order to mark transactions and note corrections as the report is reviewed.)

2. Working down each line item of the report, verify each transaction is appropriate per the SAP document or paper documentation. Note any corrections needed. (Note: If using a printed report or Excel, mark or “check off” transactions as verified and note any corrections.)

3. For transactions where documentation is not available via paper backup or online in SAP, contact the department responsible for the transaction. Request that the department either send a copy of the backup or explain why the transaction (charge) was processed.

4. Process a Journal Voucher to make any necessary corrections*. Include documentation (header text, extra text, etc.) as required per GAP 200.020 - Journal Voucher or GAP 200.150 - Cost Transfers on Sponsored Projects, whichever is appropriate. *(Exception: Journal vouchers cannot be processed to 60xxxx and 61xxxx payroll-related G/L accounts. Submit the appropriate payroll form for corrections to 60xxxx G/L accounts).
Reconciliation (cont.)

Documentation
For most non-payroll transactions charged to a cost object, there should be some type of supporting documentation or "backup" which substantiates the charges.

The documentation or backup will make it much easier to verify that the transactions on the cost object are correct. The departmental business manager may wish to see this backup as part of the review process; this is at the discretion of the business manager.

Retention of the backup is at the discretion of the department with the exception of any original backup. Original backup documentation that is stored electronically in Duke@Work (corporate card receipts) or in SAP (invoices) does not need to also be maintained by the department, unless the funding source dictates that the paper copies must be kept. Original backup must be retained in an accessible location for 7 years.

The majority of this guide focuses on how to display or “look up” documentation in SAP. This includes understanding what information is available for each type of SAP on-line document.

Compensation Expenses (Payroll)
Corporate Payroll Services generates payroll charges (60xxxx G/L accounts). No documents are sent as backup for these entries. The charges on your financial statement represent the gross dollars paid to employees per cost object and G/L account based on the type of payroll (monthly or biweekly).
Payroll charges should be checked for reasonableness by comparing them to budgeted payroll or to the prior month's payroll charges. If the amount charged seems too high or low, contact the department payroll representative for assistance. Additionally, some department business managers have access to the Accounting View of Payroll (ZH223) or Payroll Activity Detail (ZH333) in SAP, which details the payroll charges to each cost object.

Fringe benefit charges (61xxxx) are a fixed percentage based on the gross payroll charges to the cost object and vary by employee type. For current fiscal year fringe benefit rates or the projected rates for future fiscal years, see the following website:

https://finance.duke.edu/research/monitoring/fringe.php

Payroll accruals are posted for the estimated biweekly payroll earned but not paid through the end of the fiscal month for 1xxxxxx cost centers. Accruals are based on the previous pay period's payroll expense. The reversal of the accruals occurs in the following fiscal month.

Grants & Contracts Distinctions

Facilities and Administrative Cost (previously called indirect cost)
The F&A costs represent the cost to a grant for that grant’s share of costs incurred in the general administration and operation of Duke University. The current negotiated F&A cost reimbursement rate can be found on the Financial Services web page at:

https://finance.duke.edu/research/monitoring/farates.php

F&A cost are charged to a grant on G/L account 694600.

For questions regarding F&A costs contact the Office of Sponsored Programs at 684-5442.

The charge to the grant is derived by multiplying the F&A cost reimbursement rate times the modified total direct costs that are charged to the grant during the month.
Reconciliation and Documents Guide

Reconciliation (cont.)

**Modified total direct costs** include all direct costs except the following:

- capital expense 66xxxx
- student aid expense 63xxxx
- patient care expense 694200, 696400
- amount of subcontract in excess of $25,000 697100
- interest expense 695100
- telephone expenses 698100, 698200, 698300
- non-salary cost sharing 696700, 696800
- inter/intra-fund transfers 80xxxx

**Cost Sharing**
Cost Sharing occurs when the sponsor will not reimburse expenses incurred on a project. These costs are covered by another funding source, usually departmental funds. The most common costs that are shared are salary and fringe benefits, equipment and F&A costs. GAP 200.140, Cost Sharing on Sponsored Projects provides more detail regarding cost sharing.

**Cost shared salaries** are compensation for effort expended on a project, which will not be reimbursed by the sponsor.

- The portion of the salary expense that is to be cost shared is recorded using G/L account 600300, training grants or G/L account 600400, sponsored research.
- Cost shared fringe benefits on salaries charged to 600300, 600400, 603300 and 603400 are recorded on the normal G/L account for fringe benefits (610000 or 610100).
- The portion of salaries and fringes that the sponsor will not reimburse is credited to G/L account 808000 on the grant and is charged to the departmental cost object that is sharing the cost also using 808000.

The Office of Sponsored Programs does the entry automatically. The amount credited to 808000 should equal the amount charged to 600300, 600400, 603300 and 603400 plus the related fringe benefits.

**Equipment and other cost sharing:** When equipment is cost shared, the initial cost is charged to the WBS element using the appropriate G/L account. Then an entry is done to credit the WBS element using G/L account 808100 and debit the departmental cost object that is sharing the cost also using G/L account 808100. Thus, the charge for the equipment in 66xxxx is offset by the credit to 808100. Other cost sharing is handled similarly, using G/L account 808200. The Office of Sponsored Programs does these entries automatically.
Responsibilities and Review

The business manager, person who has financial responsibility, or an individual to which this authority has been delegated, must verify all financial transactions on a timely basis (monthly or on an ongoing basis during the month). They must verify that the charges are accurate and charged to the appropriate account. Erroneous transactions noted during the verification process are to be corrected before the close of the next accounting period.

The business manager or owner of the cost object is ultimately responsible for ensuring that the verifications are completed. They must review the reconciliation and document their review. The business manager or owner may delegate the review process; however, they should ensure that the individual reviewing the reconciliation is not the same individual who is performing the verification.

Documentation that the verification and review have taken place can take several forms. Some documentation options are:

- Sign or initial the financial report (printed copy)
- Sign or initial the Financial Transaction Reconciliation Log (See GAP 200.012 at http://finance.duke.edu)
- Sign or initial a reconciliation cover sheet (department may create)
- Sign or initial a monthly log of reconciliations (department may create)

This signature certifies that the account was reconciled (verified) and reviewed for the accounting period. The documentation of the review must be maintained in an accessible location for current year plus 2 years.

The Duke University Internal Audit Department will verify that timely reconciliations are being performed as part of their audits of University and Health System departments.