Ledger Controls

Office of University Audit
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Prelude

- Please feel free to raise questions as we present the material.
- We will also be available after this presentation to answer questions.
- We would be happy to arrange a separate meeting with you and your department!

- Refer to the SUBSIDIARY LEDGER INTERNAL CONTROLS DEFINITIONS & EXPECTATIONS handout…
Key Points – Page 1

Presentation’s main point:
It is critical that all departments implement a timely ledger controls process.

• There are limited preventative or “front-end” controls, due to:
  • the manual nature of the University’s financial systems, and
  • the decentralized University environment

Key Points – Page 1 (cont.)

• Therefore, controls at the “back-end”, (i.e., at the departmental level), are critical for fiscal management and stewardship.

• The purpose of this document is to assist you in ensuring your department is effectively reconciling and reviewing its ledgers in a method consistent with University expectations, by:
  • Defining key internal control terminology
  • Recommending ledger management controls
  • Providing written guidance

Key Points – Page 2

• University management expects these three distinct controls to be in place at each department:
  1) Financial Analysis
  2) Ledger Review
  3) Ledger Reconciliation

• These controls are designed to work together to achieve an effective internal control environment.
Key Points – Page 3

NOTEWORTHY TERMS:

• Internal Controls:

• Segregation of Duties:

• Supporting Documentation:

Key Points – Page 4

• Inadequate ledger reconciliation and review:
  • Contributes to going over budget
  • Creates opportunity for errors, misuse and fraud to occur and
    not be detected in a timely manner
  • Has been cited as a “root cause” in numerous misappropriation
    of assets investigations

• These guidelines are from an “all-inclusive”, (all ledger), prospective.

• This document does not supersede guidance provided by ORPA, ORACS and CLASP for Sub-Ledger 5 internal control requirements.

Key Points – Page 5

• Ledger reconciliation:
  • Matching individual line item transactions on the
    monthly ledgers to supporting documentation
  • Includes Revenue, Expense (including Payroll) sub codes
  • Includes reviewing transactions for appropriateness and reasonableness

• The ideal practice: 100% reconciliation
  • All ledgers and all transactions monthly
Key Points – Page 5 (cont.)

- Additional requirements for a “minimum” process include:
  - **Analysis**: cost-benefit and risk-based assessments
  - **Formally Documented**: outlines process details
  - **Approved**: by the department chair who acknowledges the risks
  - **Monitored**: by senior level departmental staff to ensure the process is working as designed and is effective

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Key Points – Page 6

- Ledger review is a 2-step process:
  1. Review and inspect the adequacy and completeness of the reconciliation
  2. Review of the detailed ledger transactions
- The minimum requirements for ledger review:
  - Performed by a staff member who has first-hand knowledge of the department’s business and financial matters
  - Performed by someone other than the person preparing the ledger reconciliation

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Key Points – Page 6 (Cont.)

- The minimum requirements for ledger review (Cont.):
  - A cursory review of all transactions listed on the monthly ledgers
  - For Sub-Ledger 5 accounts, the PI should perform the ledger review
- The ideal practice adds re-performance testing.
Key Points – Page 7

• Financial Analysis is the process of performing an overall assessment of a ledger account or entire department.
  • Generally performed by the department head, or department head’s delegate
• Evidence refers to the process by which a department documents the completion of ledger reconciliation and review activities.
  • Sign-off sheets are highly recommended
  • Initialing and dating also provides excellent evidence

Key Points – Page 8

• Appendix A provides a self-analysis worksheet for determining if your department is meeting the expected ledger control activities.

Key Points – Page 9

• Appendix B provides examples of notable and acceptable ledger control activities being performed by various University departments.
In Summary

Presentation’s main point:
It is critical that all departments implement a timely ledger control process.

- However, we do not apply a “one size fits all” methodology.
- The ledger controls document provides a flexible framework for improving or implementing ledger control activities in your department.

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