Balance Sheet Ledger Account Reconciliations and Certification

This document provides detailed information regarding the expectations and guidelines associated with the reconciliation of the university’s balance sheet ledger accounts.

University policy requires that balance sheet ledger accounts be reconciled on a monthly basis. See requirements at Balance Sheet Ledger Account Reconciliation & Certification (1101 PR.04).

Purpose of Balance Sheet Ledger Account Reconciliation

The purpose of a balance sheet ledger account reconciliation is to verify the accuracy, completeness and validity of accounts included on Yale University’s Statement of Financial Position (a.k.a. balance sheet) at a given point in time. Full details are in the Procedure linked above.

The difference between asset and liability balances recorded in the general ledger and other sources of financial data are reconciling items. Reconciling items may be caused by timing differences, general ledger errors (e.g., manual journal entries, sub-ledgers errors) or errors in the other sources of financial data (e.g., bank errors).

A balance sheet ledger account reconciliation is a key control over financial reporting at Yale.

Reconciliation Responsibilities

Units are responsible for ensuring that balance sheet ledger accounts for which they are accountable for are reconciled monthly and in a timely manner. See Procedure 1101 PR.04 Section 2. Monthly reconciliations should be completed within 10 days of month-end close.

The Controller’s Office maintains record of balance sheet ledger account reconciliation responsibilities for compliance monitoring. Certain ledger accounts are the responsibility of one department/team. Other ledger accounts are the responsibility of various departments/teams based upon the Planning Units and/or Cost Centers with balances. Account reconciliation responsibilities may be with teams in central university units (ex: Controller’s Office, Shared Services, Procurement) or with department business offices (at the Planning Unit or Department level).

Principles of Balance Sheet Ledger Account Reconciliation

On a monthly basis, units are responsible for reconciling and reviewing asset and liability balances. The balance to be reconciled is as of the month end date and as such, considers beginning balance plus/minus activity. If, due to the nature of the account, a unit believes that an account reconciliation frequency other than monthly is appropriate, an exception must be requested from the Controller’s Office, at controllers.office@yale.edu.

Certain ledger accounts are the responsibility of one department/team. Other ledger accounts are the responsibility of multiple departments/teams based upon the Planning Units and/or Cost Centers; and in some cases, based upon Program. In these instances, the reconciliation should consider other segment values of the Chart of Accounts, such as Cost Center and/or Program. Each department/team is individually responsible for reconciling its respective balance. This is consistent with the requirement for review of assets and liabilities found in the monthly Financial Review Checklist.

The reconciliation process involves verifying that ledger account balances in the general ledger as of the month end date are:

- complete and accurate
- account activity is reasonable
reconciling items are properly documented and resolved
unusual activity is identified
aged reconciling items are monitored
account balances are supported with appropriate documentation

A balance sheet ledger account reconciliation:

- Provides the general ledger account balance
- Shows any reconciling items to get to an adjusted general ledger account balance
- Provides the balance of the sub-ledger or supporting detail
- Shows any reconciling items to get to an adjusted sub-ledger balance
- Documents all variances – known and unknown – more detail below

Please note that the “Detailed Transactions – Yale” report, “Financial Transactions – Yale” report, and other similar reports showing ledger detail do not constitute appropriate sub-ledgers or supporting detail.

**Preparation of Balance Sheet Ledger Account Reconciliation**

The recommended approach to the preparation of a balance sheet ledger account reconciliation is as follows:

1. Set-up reconciliation spreadsheet. See template which may be utilized.
   a. Complete COA information on Tab 1
   b. Identify financial period covered by the reconciliation
   c. Complete Tab 1 with supporting detail amounts and description
   d. Complete Tab 3 to document the account purpose/background, describe the mechanics of entries, identify the sources of input, as well as the timing and analysis of recording activity, and provide additional references, as necessary
   e. Identify the preparer and approver and dates. Signatures are deemed best practice and may be electronic.
   f. Tab 2 is provided for additional detail/space, as necessary
   g. Attach the reconciliation. Please note that the responsible owners in the Controller’s Office are currently exempt from this requirement since a repository has been created where these reconciliations may be saved.

2. Gather documentation to support ending balance sheet ledger account balance. Examples of supporting documentation include, but are not limited to:
   a. Bank statements
   b. Executed legal documents
   c. Journal entries
   d. Sub-ledger system reports
   e. Approved emails
   f. Supplier invoices

3. Reconcile supporting documentation to the balance sheet ledger account balance:
a. Document reasons for any variances between supporting documentation and the balance sheet ledger account balance. These variances are called reconciling items and can be considered either known variances and/or unknown variances. It is important that the reconciliation clearly identifies the variances as known or unknown. Refer to the template for suggested format and guidance.

b. Attach adequate documentation to support the reconciling items.

c. Document the expected resolution date for each reconciling item.

4. Resolve current period and prior period reconciling items:

a. Resolve current period reconciling items. Resolution may include recording or correcting transactions in a sub-ledger system, Workday, or a bank account. The resolution will depend on the reason for the variance. Communication and collaboration between departments may be necessary to resolve the reconciling items.

b. Update the status of prior period reconciling items.

c. Follow-up on aged, unresolved reconciling items as needed.

5. Correct balance sheet ledger account activity errors discovered:

a. Communicate balance sheet ledger account activity error discovered to the unit responsible for recording the activity.

b. Coordinate the correction of balance sheet ledger account activity errors with the unit responsible for the activity.

c. Timely correction is important. Efforts should be made not to have corrections cross into a new fiscal year.

6. Review the reconciliation and route for approval:

a. Verify that reconciliation spreadsheet is complete (see Step 1).

b. Verify that all supporting documentation for ending balance and reconciliation items are attached, as necessary (see Step 2 and Step 3).

c. Sign and date the reconciliation as preparer.

d. Route the reconciliation to the approver.

7. Final Approval - Approver signs and dates the reconciliation.

Reconciling Items and/or Variances

An essential element of the ledger account reconciliation process is the identification and resolution of variances. Variances must be quantified, aged, investigated and explained, with correcting transactions/entries recorded in the sub-ledger, general ledger, bank account, etc. It is important to make every effort possible to not have corrections cross into a new fiscal year. Variances that can be supported with backup, that result from timing differences, general ledger errors, sub-ledger errors, or errors in other sources of financial data, etc. are known variances. Typically, these types of reconciling items will be resolved within 90 days of the month end date for which the reconciliation is performed. Variances that are either unsupported and/or cannot be resolved in a timely manner may be considered unknown. For unknown variances that remain outstanding for over 90 days that cannot be resolved please consult with the Controller’s Office.

The reconciliation should be maintained by the unit in accordance with Policy 1105: Retention of University Financial Records.
Units are responsible for maintaining department-specific reconciliation procedures and it is recommended that the units review these procedures on an annual basis for accuracy and validity.

**Account Certification**

On a quarterly basis, the Controller’s Office will require ledger account balance certification in accordance with the Balance Sheet Ledger Account Reconciliation & Certification Procedure (1101 PR.04). This Workday business process will be initiated by Financial Systems & Solutions (FSS) once the period has been closed, and the balance sheet is considered final. However, it is important that the ledger account reconciliation process, as described above, is begun in a timely manner so that you are well-prepared when the Workday notification for account certification has arrived in your inbox.

The purpose of the account certification process is to verify that account owners have reviewed reconciliations for all asset and liability ledger account balances under their authority, and, that to the best of their knowledge, they are able to certify that the ledger balances, are in all material respects, complete, accurate, and supported by appropriate documentation, in accordance with university ledger account reconciliation guidelines. In addition, if differences have been identified through the reconciliation process, the account owners acknowledge that they are properly reported as a reconciling item or adjustment on the reconciliation, and that any unknown variance reported in the certification will be investigated further with the objective of being resolved in a timely manner.

Each ledger account (or ledger account/cost center/program combination) will be assigned one Reconciliation Preparer and one Reconciliation Approver (Note: these are not roles in Workday, but rather individual, manual assignments). The inventory list is used to generate account balance certification sets, which serve as the basis of the Workday certification business process. As needed, the Controller’s Office will consult with Lead Administrators for individual assignments. Units should communicate changes in reconciliation owners (preparer and approver) to General Accounting, Controller’s Office in a timely manner. General Accounting will process these changes on behalf of units in Workday. The approximate timing for the steps associated with account certification is as follows:

- Account certifications will be kicked off at the time of completion of the month-end close for the quarters; and at the time of the completion of the net balance update following the journal entry deadline for self-support schools for fiscal year-end.
- Account certification approvals must be completed and submitted within 20 days of kick-off for both the quarters and fiscal year-end.

For asset and liability ledger account balances as of June 30, 2019, the account certification business process will be implemented in a phased approach based upon certain quantitative and/or qualitative risk factors. It is expected that the account certification business process will be fully implemented for all balance sheet ledger accounts determined to be in-scope by the Controller’s Office as of December 31, 2019, and on a going-forward basis. For detailed instructions, see WD Guide – Account Certification.

**Monitoring**

The Controller’s Office may conduct independent reviews of balance sheet ledger account reconciliations. It is expected that reconciliations will be completed and provided to the Controller’s Office upon request.

**Definitions**

- **Account Balance (on the Balance Sheet):** An account balance in the general ledger which represents an asset, liability, or net asset at a point in time.
- **Account Balance Certification:** The workday business process whereby the account owners verify that they have reviewed account balance reconciliations under their authority and acknowledge that certain
conditions have been met. Refer to the Balance Sheet Ledger Account Reconciliation & Certification Procedure (1101 PR.04) for further details.

- **Asset:** An asset is a resource owned by the university with substantial future economic value. The university’s assets include, but are not limited to:
  - Cash
  - Accounts receivable
  - Contributions receivable
  - Investments
  - Prepaid expenses
  - Inventory
  - Land, Building and Equipment

- **Chart of Accounts (COA):** COA is a set of segments used to classify and record financial transactions in meaningful ways. The segments provide structure for reporting and monitoring financial activity. See the COA website for details.

- **Cost Center:** A cost center identifies financial responsibility and management for officially acknowledged business units (departments, sections, etc.). See the COA website for details.

- **General Ledger:** The final repository of all financial transactions and balances (i.e., assets, liabilities, net balance, revenue, and expenses). The general ledger is used to create the financial statements. Workday is the system that houses the general ledger.

- **Ledger Account:** A ledger account is the natural account that makes up the financial statements in Workday. See the COA website for details. See also “Account Balance” above.

- **Ledger Account Balance Reconciliation:** A balance sheet ledger account reconciliation is the comparison of an asset or liability balance in the general ledger to another source of financial data, such as a statement, a sub-ledger, or another system.

- **Liabilities:** A liability is an obligation owed by the university, the settlement of which results in an outflow of resources. The university’s liabilities include, but are not limited to:
  - Accounts payable
  - Accrued expenses
  - Advances
  - Accrued pension and post-retirement benefit obligations
  - Bonds and notes payable

- **Net Assets:** The residual assets after deducting liabilities. In other words, net assets equal assets less liabilities.

- **Program:** The program identifies ongoing functional activities at the level of detail required to regularly answer questions and provide reports to Deans, Chairs and Directors. See the COA website for details.

- **Reconciling Item:** The variance between asset and liability balances recorded in the general ledger and other sources of financial data are reconciling items. Reconciling items may be caused by timing differences, general ledger errors, sub-ledger errors, or errors in other sources of financial data.
(bank errors). If the reconciling item can be supported, it is considered a known variance. If the reconciling item cannot be supported, it is considered an unknown variance.

- **Roll-forward:** Activity analysis that simply rolls transactions from one month to the next. While serving as a good analytical tool, it is not an acceptable substitute for a properly performed account reconciliation.

- **Statement of Financial Position:** The university’s statement of financial position, also known as a balance sheet, is a financial statement that reports the balance of the university’s assets, liabilities, and net assets at a point in time.