Basic General Ledger Reconciliation Process

Per the *State Administrative and Accounting Manual* (SAAM) glossary, a reconciliation is the process of correlating one set of records with another set of records and/or a physical inventory count that involves identifying, explaining, and correcting differences.

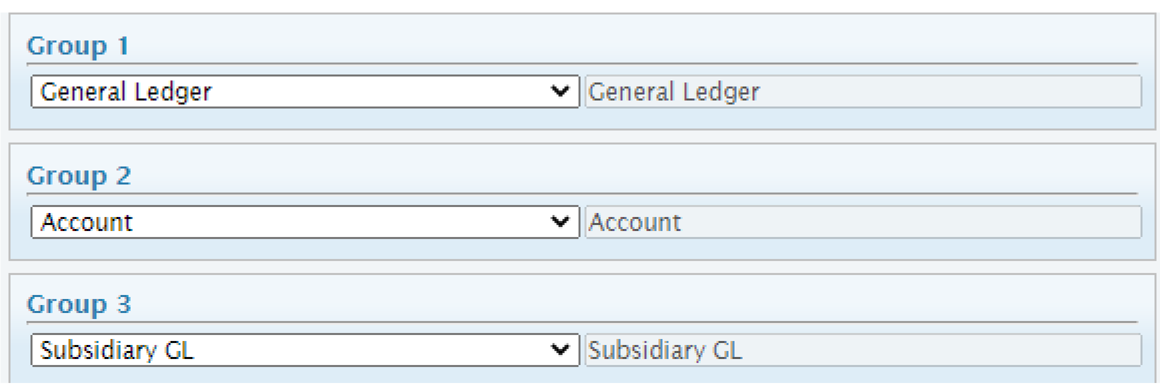
General Ledger (GL) reconciliations work by comparing GL account balances for balance sheet accounts to supporting sets of records and maintaining rolling schedules with beginning balance, additions, reductions, and ending balance for specific accounts.

This means when you complete a reconciliation:

1. You know what makes up the official (i.e., AFRS) balance of the GL.
2. You know what the GL balance <u>should be</u> based on supporting records (e.g., internal agency system, bank statement, etc.).
3. You have identified the differences between the official balance (#1) and what the balance should be (#2).
4. You have processed any correcting entries needed.
5. You have a plan for any future action that is required.

This document provides a high-level process for performing a GL reconciliation. However, each GL or type of GL may have unique characteristics, so understanding how each GL behaves will be beneficial to the reconciler. Start by reading the GL description in SAAM Subsection 75.40.20, read any agency policies related to this GL, and talk about your particular agency's usage of the GL with your supervisor or other knowledgeable co-worker.

1. **Obtain General Ledger Balances.** After the fiscal month (FM) closes, run the Enterprise Reporting (ER) Summary General Ledger (GL) report for the period you are reconciling, for all accounts/funds, but limited to the GL code(s) you are reconciling. Group the report by General Ledger and Account. If the GL code(s) you are reconciling use subsidiary GLs, add that as a third group as shown below. [Note: If your agency closes and reconciles at a lower level (i.e., Project, Program, or Organization), you will need to reconcile to that level and add it as a group here.]

   Open the report. The Ending Balances for each account are the balances you will be reconciling.

2. **Gather details and other information.** Determine what you are reconciling to, the source you will use to balance, and gather the necessary information. The most recent reconciliation should be part of the information gathered. In many cases, you will want to run a detail activity report (ER General Ledger Analysis Flexible or Web Intelligence – webi – query) for the

Accounts/GLs for the time period you are reconciling. Ideally, all accounts would be included in the detail, unless you are reconciling a specific account/GL such as 035 – State Payroll Revolving Account. Use pivot tables or Vlookups to reconcile each account/GL combination.

Below are some examples of GLs and the source to which they will be balanced:

GL Code and Title	Reconcile to
1110 – Cash in Bank 1130 – Petty Cash	Bank statement and/or count of cash drawer
1312 – Accounts Receivable 13xx – Other Receivable GLs	Subsidiary ledgers maintained in an electronic or manual (e.g., spreadsheet) system
1383 – Travel Advances	Reconcile by employee
14xx – Inventories	Physical count and/or internal inventory system
2XXX – Capital Assets and Depreciation GLs	Capital Asset Management System (CAMS or internal system) Facilities Portfolio Management Tool (FPMT)
51XX – Payable GLs	Accrued amounts
5194 – Liability for Canceled Warrants/Checks	Reconcile by payee
5x25/5x27 – Accrued Vacation/Sick Leave Payable	OFM’s year-end memo or internal leave system

If you are unsure about what you are reconciling to, discuss with your supervisor before proceeding.

3. **Reconcile the GL ending balance to the supporting documentation.** This involves comparing the GL balance to the information obtained from the other systems, supporting documentation, or third-party data such as bank statements. You will need to analyze the data to identify and investigate the differences using the detail reports from ER or webi as well as the previous reconciliation. The differences (referred to as reconciling items) may fall into several categories:
    - **Timing differences.** These are a common reason for discrepancies. For example, you made a bank deposit after hours on the last day of the month. This will show in your books for that month, but it will not show on the bank statement until the following month. Document timing differences and verify on the ensuing reconciliation that the amount(s) posted correctly. Likewise, on the current reconciliation, you should verify that timing differences noted on the previous reconciliation posted as expected.
    - **Errors**. While investigating differences, you may discover a posting error. For example, a transaction posted to the wrong account or the wrong GL. Any errors should be corrected by the reconciler or the person that initiated the error, per agency policy. Document the error and who will be making the correction as part of the reconciliation. Verify on the ensuing reconciliation that the correction posted as expected.
    - **Other**. There could be rounding issues, a bank fee, or miscellaneous transactions that need further investigation. Make a plan for correcting these items and monitor them until cleared.

RECONCILING versus MANAGING. *Certain GL accounts must be* ***managed*** *as well as being reconciled. The reconciliation process described in this document is verifying that the official AFRS balance plus/minus known reconciling items agrees with the balance in the supporting system or other supporting documentation. The* ***management*** *of each GL or GL category may be performed by the reconciler or by a separate staff or unit and is not specifically covered in this document.*

A common example of a GL account or category that requires managing is accounts receivable (A/R). Management of A/R entails activities such as aging outstanding balances and following up on any accounts that are past due by sending statements or dunning letters, per agency policy/procedure. An agency with little A/R activity may incorporate management into the reconciliation process, while an agency with a high A/R volume may have a separate unit performing the management activities. Each agency should decide whether the management activity is part of or separate from the reconciliation process.

4. **Document the reconciliation.** Ideally, the agency will have a standard way of documenting reconciliations to follow. In general, documentation should include reports showing beginning and ending balances, reconciling items identified in Step 3, transactions that make up the ending balance (if applicable), other supporting reports and queries, plan of action for any discrepancies or outstanding transactions. The documentation is important for multiple reasons:

   - It enables the reviewer to easily validate that the reconciliation was completed appropriately and to verify corrections are in process or have been made.
   - It will help with the ensuing reconciliation because it will show what reconciling items are expected to clear.
   - The documentation may help identify ongoing or recurring problems or areas in which staff need more training.
   - Clear documentation provides internal or external auditors confirmation that the reconciliations are completed and staff are competent.

5. **Forward the reconciliation to the assigned reviewer.** The reviewer should verify that the reconciliation is completed timely, that it ties to the official GL balances, and that transactions are clearing as expected. The reviewer should watch for patterns of ongoing or recurring problems over time and address them as appropriate. The reviewer should sign off when the review is complete.