Challenges & Best Practices in Managing the Account Reconciliation Process

Presenters:
Donna Dean, CPA
Experis Finance – Director, Finance & Accounting
Susan Parcells, CPA
BlackLine Systems – Director Finance Transformation and Product Expert

General Information

• Share the webinar
• Ask a question
• Votes (polling questions)
• Rate (before you leave)
• Attachments (you can download today’s materials)
Earning CPE Credit

- To receive 1.0 CPE credit for this Webinar, participants must:
  - Attend the Webinar for at least 50 minutes on individual computers (one person per computer)
  - Answer polling questions asked throughout the Webinar

Meet Our Presenters

**Donna Dean**, CPA - Director – Finance & Accounting
Experis Finance

**Susan Parcells**, CPA - Director Finance Transformation and Product Expert
BlackLine Systems
Agenda

- Why perform reconciliations?
- Attributes of an effective reconciliation process
- Warning signs of reconciliation process issues
- Common root causes of reconciliation issues
- Account reconciliation process improvement framework
- Getting to leading practices
- Technology and process automation options
- Automation using BlackLine
- Recap

Polling Question #1

Which of the following are features of your company’s reconciliation process?

A. Timely reconciliation on a scheduled basis
B. Clearance of all reconciling items within agreed timeframes
C. Segregation of duties and responsibilities (including authorization)
D. Centralized control, tracking and reporting with strong management oversight
E. Formalized reconciliation policy and procedures
Why Perform Account Reconciliations?

• Assures reliable and accurate financial statements
  – Avoids significant write-offs/management surprises
• Provides accurate management reporting for decision-making
  – Investors - Vendors
  – Customers - Regulators
• Critical tool for understanding balance sheet and business conditions
• Helps to detect fraudulent activity
• Regulatory compliance
  – SOX - FDICIA
  – MAR

Reconciliations are a critical internal control.

Balance Sheet Account Reconciliation Attributes of an Effective Reconciliation Process

- Formalized Reconciliation Policy and Procedures
- Centralized Control, Tracking and Reporting
- Segregation of Duties and Responsibilities
- Prioritization based on the risk profile of account activity
- Timely Clearing of Reconciling and Aged Items
- Management oversight / commitment / authorization

Effective Reconciliation Process

Benefits of an Effective Reconciliation Process

- Improved accuracy/completeness of financial systems
- Investor/customer/vendor confidence
- Reduced external audit scrutiny/fees
- Improved accuracy of information for decision making
- Avoids financial information embarrassment/penalties
- Improves fraud detection measures
### Balance Sheet Account Reconciliation

#### Warning Signs of Process Issues

**Typical warning signs:**
- Significant "old" unreconciled values
- Inconsistent/no supporting documentation for reconciliations
- No detailed follow-up action plans
- No (risk-based) account prioritization
- Manually intensive process, low automation
- Account knowledge retained by specific individuals

#### Common Root Causes of Process Issues

**Analysis of the issues identifies the underlying root causes:**

| Issues                              | Poor prioritization of account activity | Inadequate management oversight/commitment | Lack of formalized reconciliation policy | Inadequate account prioritization | Poor segregation of duties and unclear responsibilities | Lack of adequate training | Lack of centralized control | Lack of appropriate tracking and reporting | Lack of formalized policy and process
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant &quot;old&quot; unreconciled values</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No detailed follow-up action plans</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No (risk-based) account prioritization</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manually intensive process, low automation</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account knowledge retained by specific individuals</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Polling Question #2

Benefits of an effective account reconciliation process include all of the following EXCEPT:

A. More efficient external audit process
B. Avoidance of financial misstatements
C. Prevention of fraud
D. Improved accuracy of data for decision making
Balance Sheet Account Reconciliation
Remediation Methodology

1. Understand Transaction Flow
2. Detail Outstanding Transactions
3. Research Outstanding Items
4. Prepare Correcting Entries
5. Document Control Weaknesses

Timely preparation:
- Clear comments, explanations and documents
- Record required adjustments
- Improve processes that create recurring problems

Balance Sheet Account Reconciliation
Risk-Based Account Prioritization

Focus on accounts that could contain a significant or material misstatement

Quantitative characteristics:
- Volume of transactions
- Dollar balance of account
- Normal account balance

Qualitative characteristics:
- Complexity of transactions
- Complexity and subjectivity of accounting rules
- Degree of regulatory oversight
- Internal controls over transaction processing
- Level of automation/manual intervention

Key target areas:
- Payroll
- Inventory
- Bank accounts
- Receivables
- Payables
- Taxes
Balance Sheet Account Reconciliation
Process Improvement Initiatives

ACCOUNT RATIONALIZATION
Rationalize the number of accounts by identifying and eliminating accounts no longer required.

STANDARDIZATION
Establish and apply standard definition of “reconciled” and the methodology to be used to attain it and – where feasible – deploy a standard reconciliation template.

SEGREGATION
Ensure reconciliations are prepared for each relevant account, avoiding the grouping of accounts, particularly where this would involve netting.

PRIORITIZATION
Prioritize timing of reconciliations on risk criteria and reconcile high-risk, priority accounts early (before period close, if possible).

PROCESS OWNERSHIP
Ensure the process is centrally coordinated. Ensure clear ownership of each account and implement quality control reviews by a central team.

PROCESS MONITORING
Improve information management and workflow (standard forms, formal approvals, supporting documentation, action plan documentation, regular MI reporting).

TRAINING
Train staff in policy and procedure. Rotate reconciliations between staff to ensure knowledge base is process driven rather than staff driven. Introduce peer reviews.

AUTOMATION
Automate processes wherever possible. Technology introduces system controls leading to efficiencies in the close process and improved audit transparency.

Polling Question #3
Which of the following is NOT an indicator of a high risk account?

A. Complexity and subjectivity of accounting rules applicable to the account
B. Inexperienced preparer responsible for reconciling the account
C. High degree of regulatory oversight affecting the account
D. High volume of transactions posted to the account each month
Balance Sheet Account Reconciliation Technology and Process Automation Considerations

Technology can shorten the reconciliation cycle and improve controls

<table>
<thead>
<tr>
<th></th>
<th>MS Excel</th>
<th>MS Access</th>
<th>In-house Processes</th>
<th>Specialized Reconciliation Software</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Use Excel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use Access</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MS Excel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MS Access</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-house</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialized</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconciliation</td>
<td>Software</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Frequently used in accounting and</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Technology Options and Features</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Functions with consistently formatted data fields</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>File size is almost unlimited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of fields used for efficient analyzing or matching of transaction data are unlimited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Results can be displayed as a MS Access report or exported back to MS Excel for reporting or inclusion in other files</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deploy in-house processes supported by IT programming and operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Address manual reconciliations that are too large or complex to be performed efficiently</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Provide a high degree of autonomy and flexibility for the user</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Database design using predefined templates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Easily accessible supporting documents and company policies and procedures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Readily available reports to see the status of all reconciliations.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Data Security and Integrity**
- Linking input cells, data validation
- Input/Output Controls
  - Cross checks, balancing, conditional formatting
- Segregation of Duties
  - Define duties, roles and responsibilities
- Backup and Archival
  - Regular backup on secured server
- Development Controls
  - Control development, testing and approval
- Documentation Controls
  - Documentation of use and application
- Access Controls
  - Define and restrict user access, rights and privileges
- Change Controls
  - Defined process for system changes
- Version Controls
  - Use of naming conventions
Challenges and Best Practices in Managing the Account Reconciliation Process

BlackLine Process

- Automating interfacing between data sources & BlackLine's modules
- ERP integration
- Prior month's JEs, RECs, and flux
- Close task assignments

BlackLine Systems

- Accountants & preparers
- Approvers & reviewers
- Accounting manager, director of accounting, controller, CFO
- Internal & external auditors

Experis | Thursday, September 27, 2012
Challenges and Best Practices in Managing the Account Reconciliation Process

Ideal Automated Platform

- Real-time monitoring and reporting
- Controlled process
- Data integrity and integration

SSAE 16 + ISAE 3402

Internationally recognized auditing standards developed by the AICPA and IAASB – Third-party opinions on control effectiveness
ROI & Cutting Costs

- Auto-certification
- Increased staff productivity
- Reduced paper, printing, storage, overhead, auditor fees
- Improved process management
- Faster close

Return on investment is one of the most important indicators of value

### MeadWestVaco Corporation
ROI: 495%  Payback: 2 Months

### Cox Communications
ROI: 227%  Payback: 6 Months

### Education Management Corporation
ROI: 138%  Payback: 10 Months

---

### ACME Fireworks Reconciliation Checklist
Challenges and Best Practices in Managing the Account Reconciliation Process

### March 2011

**ACME Fireworks Close Schedule**

#### Key Deliberates

<table>
<thead>
<tr>
<th>Date (Day - Th)</th>
<th>Department</th>
<th>Entity</th>
<th>Timing</th>
<th>Activity</th>
<th>Responsible</th>
<th>Frequency</th>
<th>Initials</th>
<th>Completed Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Corporate Admin</td>
<td>US</td>
<td>Pre-Close</td>
<td>Blackline</td>
<td>User 6</td>
<td>Monthly</td>
<td>XYZ</td>
<td>3/15/12</td>
</tr>
<tr>
<td>15</td>
<td>Corporate Admin</td>
<td>US</td>
<td>Pre-Close</td>
<td>Blackline</td>
<td>User 6</td>
<td>Monthly</td>
<td>XYZ</td>
<td>3/15/12</td>
</tr>
<tr>
<td>20</td>
<td>Payroll</td>
<td>US</td>
<td>Pre-Close</td>
<td>Standard</td>
<td>User 6</td>
<td>Monthly</td>
<td>P2B</td>
<td>3/20/12</td>
</tr>
<tr>
<td>21</td>
<td>Desktop and SQL server</td>
<td>US</td>
<td>Pre-Close</td>
<td>SQL server</td>
<td>User 6</td>
<td>Monthly</td>
<td>P2B</td>
<td>3/21/12</td>
</tr>
<tr>
<td>22</td>
<td>Corporate Admin</td>
<td>US</td>
<td>Pre-Close</td>
<td>Blackline</td>
<td>User 6</td>
<td>Monthly</td>
<td>CS1</td>
<td>3/22/12</td>
</tr>
<tr>
<td>29</td>
<td>Desktop and SQL server</td>
<td>US</td>
<td>Pre-Close</td>
<td>SQL server</td>
<td>User 6</td>
<td>Monthly</td>
<td>P2B</td>
<td>3/29/12</td>
</tr>
<tr>
<td>30</td>
<td>Corporate Admin</td>
<td>US</td>
<td>Pre-Close</td>
<td>Blackline</td>
<td>User 6</td>
<td>Monthly</td>
<td>SC</td>
<td>3/30/12</td>
</tr>
</tbody>
</table>

---

**Challenges and Best Practices in Managing the Account Reconciliation Process**

- **Account Certification Status**
  - **Status**: Not Prepared, Prepared, Agreed, Routed
  - **No. of Accounts**: 91, 9, 8, 19
  - **Percentage**: 4.69, 2.09, 0.86, 7.30
  - **Balance**: 370,283.25

- **Task Certification Status**
  - **Status**: Not Prepared, Prepared, Agreed, Routed
  - **No. of Tasks**: 34, 13, 0, 259
  - **Percentage**: 11.9, 4.35, 0.00, 94.65
  - **Total**: 388

---

Experis | Thursday, September 27, 2012
Balance Sheet Integrity
Account Reconciliation – Recap

Today we have:

- Reviewed the basics of account reconciliation and why differences arise
- Considered your individual account reconciliation processes and compared them to effective processes
- Considered the warning signs of a poor reconciliation process and the areas of weakness they may indicate
- Started to consider steps toward leading practices
- Taken a high-speed tour through the process improvement steps that will lead to account reconciliation process optimization appropriate for any business
- Learned about the BlackLine automation technology
For more information:

**Donna Dean, CPA**  
Director – Finance & Accounting  
Experis Finance  
donna.dean@experis.com

**Susan Parcells, CPA**  
Director – Finance Transformation and Product Expert  
BlackLine Systems  
susan.parcells@blackline.com

Experis™ Finance is a leader in innovative professional services that help companies create competitive advantage, custom tailoring our project solutions and professional resourcing services to fit our clients’ needs in risk advisory, tax and finance & accounting.
More information

For more information, please visit

www.experis.us