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Rochester Institute of Technology

General Ledger Account Reconciliations – Why They're Important

You may have noticed that Controller's Office staff regularly talks about the importance of reconciling general ledger accounts. We've prepared this information to help you understand why reconciliations are important to your department and to RIT.

Let's start off by defining the term "reconciliation" *from an accounting perspective*.

 ➢ A reconciliation refers to the process of comparing departmental records of anticipated financial transactions for the period to actual transaction detail recorded in the Oracle applications. Typical transactions include copies of invoice payment forms, travel expense reports, petty cash forms, deposits slips, salary changes processed on EAFs, invoices sent to customers billing them for services, items purchased for inventory, etc.

Since data entry errors or other types of mistakes may occur when information is entered into the Oracle applications from various sources, it's important to find them and make corrections each month. Waiting until the end of the fiscal year to research issues is not a good idea since there may not be enough time to resolve discrepancies and process correcting journal entries.

While reconciliations are an important part of keeping track of department or project budgets, they are also a critical internal control designed to ensure that RIT's external financial statements are accurate and complete. **Financial statements** describe in financial terms certain attributes of RIT that accurately represent the activities of the University during the fiscal year. Financial statements are comprised of three main sections: 1) balance sheet; 2) income statement; and, 3) statement of cash flows. For our purposes, we are concerned with the first two statements only.

Balance Sheet
Many departments are responsible to monitor activity on **balance sheet accounts**. The balance sheet, which is also called a "consolidated statement of financial position", is defined as a statement of financial position that shows where RIT stands in financial terms at a specific date – it provides a good financial snapshot of the organization. It's important to remember that unlike department operating accounts, assets and liability account balances carry over into the next fiscal year.

The balance sheet consists of a listing of RIT's assets, liabilities and net assets of RIT at a point in time. Since accounts that departments are responsible may be either assets and/or liabilities, we have provided examples of both:

 ➢ *Assets* are resources that are owned by RIT and are expected to benefit future operations, most often in the form of future cash flows. They may have definite physical form such as buildings, machinery, equipment, or inventory of merchandise. Other assets exist in the form of valuable legal claims or rights such as amounts due from customers (e.g. accounts receivable), patents rights or investments.

> *Liabilities* are debts that represent negative future cash flows including accounts payable (goods and service purchased on credit), notes payable (a written promise to pay), other accrued expenses (including wages, interest, taxes).

Because of the impact on RIT's external financial statements produced as of June 30th each year, the Controller's Office requires all departments to submit complete balance sheet account reconciliations periodically throughout the fiscal year. The frequency is dependent upon the account balance. However, all balance sheet accounts must be reconciled as of March 31st and June 30th each year. To ensure the accuracy and completeness of the information, Accounting staff review all reconciliations submitted by departments and then works with them to resolve discrepancies. We also require a "certification" signed by the person who prepared the information and as well as the employee's manager.

If you have been asked by Accounting to provide an account reconciliation and you have questions about the process, please contact Andrea Napoli, Manager of Accounting at ext. 5-2911 (e-mail: alnatg@rit.edu).

Income Statement

The **income statement** or statement of activities depicts revenues and expenses for a specific period of time; in RIT's case, the fiscal year.

> **Revenues** are transactions that have resulted in positive cash flows into the Institute, or that are expected to do so in the near future. RIT's main source of revenue is tuition dollars but we also receive income from gifts, grants and contracts, sales and services provided by auxiliary operations, etc.

> **Expenses** represent decreases in RIT's assets that result in negative cash flows. RIT's largest expense is employee compensation (including salaries and benefits). Many departments at RIT track expenses on their operating account and compare this information each month to their budget. They routinely "reconcile" their accounts using reports available in the Oracle General ledger. Other departments (mainly auxiliary operations such as Dining Services and Housing Operations) are responsible to track both revenues and expenses. These departments may use other systems to track information each day which they ultimately reconcile to the information in the Oracle applications.

While departments are not required to submit reconciliations of their department and/or project revenue and expense activity, these accounts are monitored throughout the year by various department including the Office of Budget and Financial Planning (RIT operating and capital accounts), Sponsored Programs Accounting (RIT grants and contracts), NTID Financial Planning and Budgeting (NTID operating accounts), etc.

Account reconciliations are an important component of RIT's internal control strategy designed to reduce risk and ensure the quality of our external financial statements. If you need assistance in preparing reconciliations for your department and/or project, please contact one of our Sr. Staff Accountants/Training Specialists: Gary Maccarone at ext. 5-2237 (e-mail: gpmatg@rit.edu) or Lorraine McEvoy at ext. 52375 (e-mail: lmmatg@rit.edu).