It's month end, now comes the reconciliation crunch!

by Richard Byrom, RPC Data Ltd

Having implemented a variety of software accounting systems I have come to the conclusion that ledger reconciliations are extremely important and yet one of the most neglected aspects of running an ERP system. This article emphasizes the need to reconcile your ledgers on a regular basis so as to ensure improved control over financial information. With legacy systems users were allowed to get away with reconciling on a monthly basis. However, the advent of ERP and high volume transactional systems makes it necessary to perform reconciliations on a daily to weekly basis depending on the levels of transactions involved. I will also highlight some typical problems related to reconciliations that I have encountered whilst implementing Oracle Applications for a variety of clients, as well as methods used to resolve such issues.

What should be reconciled?

As a starting point each organisation should determine exactly what accounts and modules are to be reconciled and who will be responsible for each of these reconciliations. In my view there are three main areas that should be looked at:

- **Control Accounts**
These are the points at which each of the sub-ledgers interface to the general ledger. The complexity of this reconciliation will often depend on how these accounts have been set up to deal with varying types of information within the organisation.

- **Inter modular movement**
With Oracle Applications being a highly integrated system it is essential that movement in one module be reconciled to movement in other modules that it interfaces with. A typical example is Accounts Payable, the difference between the outstanding creditors balance from one month to another should be attributable to new invoices for the month, less any payments and credits for that month. The total payments for a particular month per Accounts Payable should agree to the total from cash management, whilst the movement on payments should be traced to the Bank Account in the General Ledger.

Once users gain a complete understanding of the movements in the system, then they can say that they have mastered the skills necessary to manage it. All too often, the system manages the users!

- **Intercompany accounts**
For companies using multi-org or multiple sets of books it is imperative that cross checks be performed to validate the transactions occurring between different organisations and entities.

What happens if we don't reconcile properly?

Reconciliations should be performed on a regular basis for the simple reason that prevention is better than cure. ERP systems have high volumes of transactions and if not correctly managed can often tend to run away with themselves, leaving users working excessive hours to correct the imbalances in the system. If reconciliations are not performed in good time problems often go unnoticed and are not dealt with appropriately.

Here are some typical reconciliation related problems that I have encountered in my years of implementing ERP systems – let's see if you recognise the same types of issues in your organisation:

- In one instance I instructed the client to reconcile their high activity accounts on a daily basis – which they did not do. Two weeks later they noticed the control accounts did not balance and after subsequent investigation we discovered there was a huge data corruption problem. The end result was that we had to go back to the backup from two weeks previous and redo all the work.

- Sub modules not being posted to the General Ledger – this is a common problem which can distort the view presented in the Financial Statements. This can be resolved by ensuring responsibilities for posting are appropriately assigned.

- Multiple months remaining open for a variety of modules – this is the worst type of situation to get into yet it seems to be the most common. On one particular site I found that the client had all Payables periods open for the entire year. This is a totally unacceptable

situation as it will only result in users posting transactions to the incorrect months. My view is that at the very maximum there should be two periods open at any one point in time.

- Repetitive errors not detected – in some instances a setup problem or a bug in the system may result in transactions being posted in error to the wrong accounts. If this is a repetitive type of error a massive problem may arise if not detected early. The solution to this is to constantly monitor and reconcile high volume accounts before problems get out of hand.

- Posting of non-standard journals to control accounts – this is also a common problem. In their efforts to make control accounts balance users often post non-standard journals to control accounts without taking the time and effort to resolve the error that caused the original difference. In an integrated system this does not work. Unfortunately there are some instances where no short cuts can be taken! In addition to this, applying the appropriate security rules should disable posting of non-standard journals to control accounts.

- In an open items system your problems do not disappear at the end of the year, they come back to haunt you next year if you don't deal with them. Here's another payables example. My client settles all their accounts within 30 days and at the time of year end they begin to wonder why their creditors listing is so high. The problem was as a result of duplicate invoices being entered in the system – which is possible if you amend the invoice number by adding a few digits. In this instance the original invoice was being paid whilst the duplicated invoices were left open in

the system. This problem would have easily been resolved through standard reconciliation procedures being implemented.

Why the problem with reconciliations?

In identifying why reconciliations are a common point of weakness in organisations I have established the following reasons for reconciliation problems:

Inadequate training / inexperienced users

Training should not be done on a generic system but rather on some form of prototype which closely models that of the system that is being used. Unique and key reports pertinent to reconciling should be identified and understood by all users within the organisation. In all my years of consulting I have never seen a training course run on how to perform system reconciliations and I believe it is time that such courses be designed. Certainly, whenever I am involved in training I try to ensure that the users get the 'big picture' and can understand how to perform reconciliations for the module being taught.

Lack of understanding of the system architecture

Too often the architecture of the system is determined by the implementation partners with very little input from the users themselves. The end result is an inadequate system setup which can significantly complicate the reconciliation procedure.

I have also found that users do not often comprehend the underlying accounting entries that are created when they process a transaction. Aliases, distribution sets and memo lines are all useful, however, they do limit the user's ability to understand the associated accounting entries that are being created with the transactions that they are using.

Trying to use old procedures for a new system

Typically what tends to happen after implementing new systems is that users expect there to be less work. However, in most cases the volume of transactions is much higher. Often, users think they can reconcile in the same manner as before but they should be reminded that a new system will definitely require new procedures.

An interesting application of this phenomenon is where I was involved in building an interface between a loans management system and Oracle Receivables. Prior to this interface being built summary journals were being posted into the General Ledger. After the interface was built high volumes of transactions began to flow through Receivables on a daily basis. The users were not prepared for such high volumes of transactions and struggled to reconcile the movement between these interfacing systems. This was primarily due to the fact that the client's existing staff compliment was not geared to handle such voluminous levels of transactions flowing through the system. This emphasizes the need to adopt different procedures and acquire the relevant skills when a new system is implemented.

Bad Management

This, in my belief, is the main reason why the above three problems occur. Managers can blame the clerks all they want for not performing reconciliations but at the end of the day it comes back to the person signing that reconciliation. Once it has been agreed what reconciliations are to be performed within an organisation, management should ensure that they review and sign the reconciliations. If a user is struggling to prepare a reconciliation it is then up to the manager to ensure that the user obtains the necessary skills to perform their job or that someone who can do the work replaces them.

How should we reconcile?

Oracle Applications has many standard system features as well as additional tools that can assist users in the reconciliation process. The good thing about Oracle's product offerings is that you can build in any level of complexity you require. In deciding how you should reconcile I believe there are three steps you need to take:

Step One: Establish your out of system procedures

The standards that are to be adopted and used within your organisation should be laid down and documented. These standards should be adopted via meetings and workshops which involve users at all levels. It is important to get users out of working in 'silos' – they must understand that working with an integrated system means that whatever they do in one module is bound to impact another. An awareness should be generated that there is still a need to think despite the fact that your job is more automated now. It always amazes me how logic leaves us when the system takes over!

Each user should be given a set of key performance indicators (KPI's) that they have to adhere to and one of these areas should relate to reconciliations. Once these standards and procedures have been agreed on they should be enforced by management.

Step Two: Ensure all the standard functionality provided by the system is understood and used

Oracle Applications has several standard reports within each module that can be generated to provide users with information pertinent to reconciliation. With the advent of 11i, I have noticed several new reports and also that existing reports have more parameters. The drill down capability within Oracle, which provides two-way drilling capability, is also highly useful when analysing movement between the modules. From within General Ledger, users can drill down to the source transaction. At sub-ledger level users can identify a particular transaction and drill to the General Ledger accounting entries.

The reporting options and drill down functionality should be highlighted to users in training and henceforth be used on a regular basis.

Step Three: Make use of additional tools if necessary

Oracle Applications Desktop Integrator (ADI) is particularly useful for extracting data into spreadsheets to assist in the reconciliation process. Oracle Discoverer, a Relational Online Analytical Processing (ROLAP) tool can be used to extract information at table level from the database where Oracle Reports are not found to be sufficient.

Oracle Workflow can be used both as a documentation tool and online to assist users in following the reconciliation process.

Oracle Alert can be used to monitor the database activity and provide exception reports – this option is really for organisations that want to get technically sophisticated with their reconciliations.

Conclusion

The reconciliation process within an organisation is extremely important in identifying problem areas and rectifying them on a timely basis. It is essential from the point of view that it gives users a detailed understanding of what is happening in the system. The frequency with which the reconciliations are being performed is changing from monthly to daily - this is also being pushed by Oracle who are spreading the gospel of 'Daily Business Close'. Managers should rise to the occasion and ensure that adequate procedures are in place to facilitate the reconciliation procedure as well as ensure that they are making use of all the tools at their disposal.

About the Author

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