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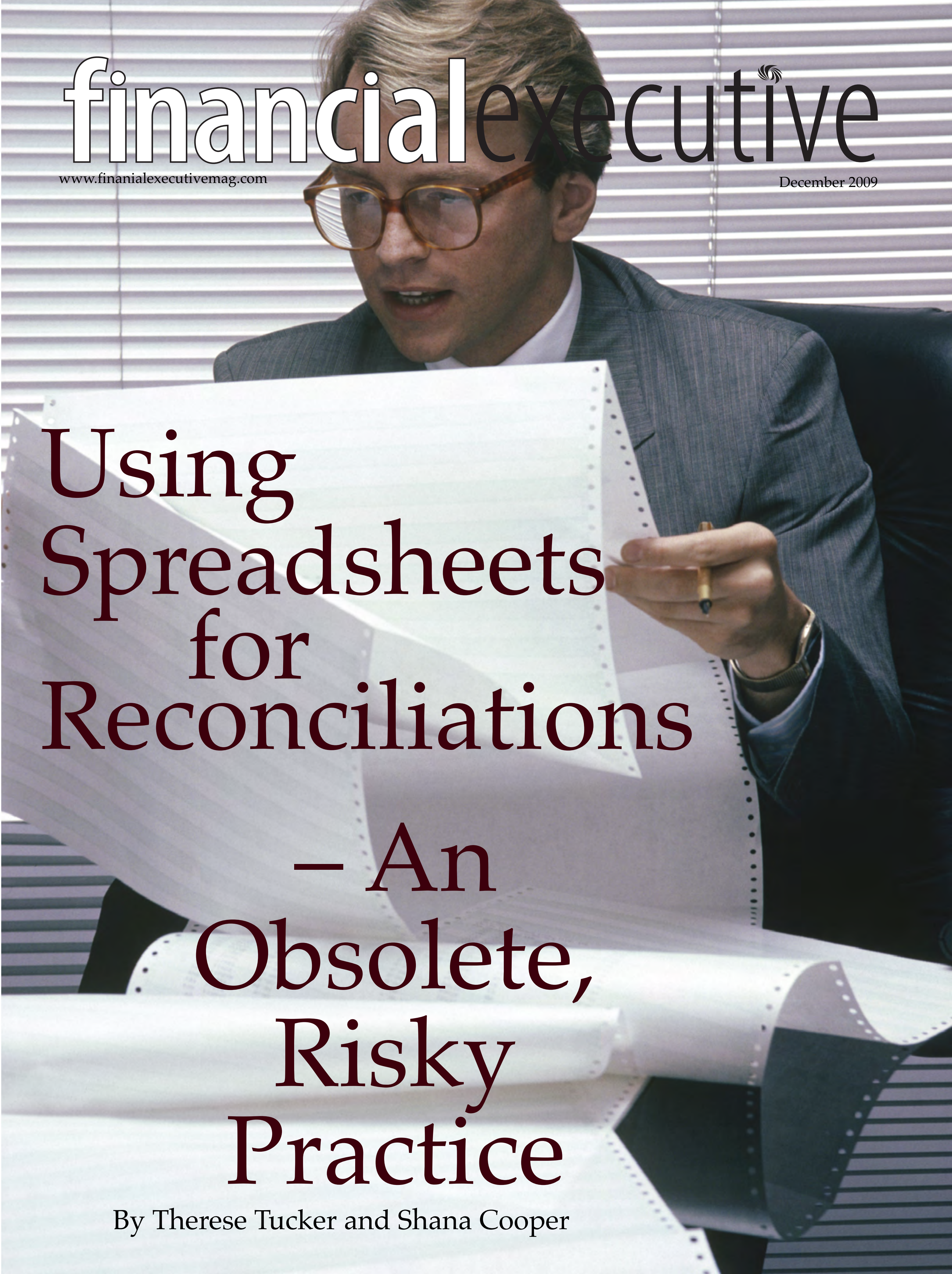

Using Spreadsheets for Reconciliations – An Obsolete, Risky Practice

By Therese Tucker and Shana Cooper

Account reconciliations are considered a critical key control for ensuring financial statement accuracy. However, they can only succeed if they are meeting their purpose: Assessing the validity, correctness or appropriateness of an account balance at a specific point in time, documented by relevant calculations, clear and complete explanations and copies of supporting documents.

The following focuses on the inherent risks and issues with manually preparing account reconciliations, the benefits a company can expect from automating this process and a best-practices approach to implementation to ensure optimization and a significant return on investment.

Assessing the Company's Reconciliation Situation

Left in an uncontrolled, manual environment, reconciliations can cause difficulties for companies — from overtime and poor employee morale to large adjustments and material weaknesses. Even if done correctly, a spreadsheet-driven account reconciliation process is still manual and requires extensive labor hours and audit effort to complete and properly document.

The benefits of using specialized technology for all balance sheet account reconciliations far outweigh the costs. Yet just installing technology will not produce best practices. Proper training in all facets of the process is vital.

It is true that the more complex an organization — one with multiple and remote locations, foreign currencies and disparate source systems, for example — the greater the benefit of going beyond traditional accounting and finance systems and implementing account reconciliation technology. Yet, regardless of a company's size or requirement to comply with the Sarbanes-Oxley Act of 2002 or other regulations, finance, accounting and compliance executives will benefit from having greater visibility into their financial close process and enhanced control over the quality and completeness of their account reconciliations.

Many companies have already taken advantage of this relatively new technology, including organizations around the world that are subject to local statutory and international reporting requirements. However, a great number of organizations still have a strong reliance on paper and email as well as retyping information for account reconciliations, undermining the use of accounting staff. In addition, requesting, gathering and copying reconciliations wastes auditors' time that could be better spent testing internal controls.

The sidebar, *Challenges of a Manual Account Reconciliation Process*, to the right, lists some of the issues weakening internal control over these companies' general ledgers. By utilizing a mix of technology and process improvement, a company can redirect precious staffing resources to value-focused analytical activities while also enjoying cost reduction. Simple cost/benefit analyses can be developed around staff and manager time savings, reduced paper and storage needs and lower audit fees and travel costs.

Benefits of Automating Account Reconciliation

Streamlining and automating the account reconciliation process will help a company tackle this compliance-driven activity. Among the benefits:

- *Centralized visibility and control.* Management and executives have real-time dashboards and reports and can rely on improved accountability from specific account ownership.
- *Monitoring.* Balance changes, new accounts, delinquencies and other risk-associated events can be monitored proactively through email alerts.
- *Increased productivity and efficiency.* Standardized templates with pre-defined formats, including access to policies and procedures, allow reconcilers and managers to concentrate and communicate on content rather than form.
- *Reduced operational costs.* Just the cost savings from the elimination of paper, binders and storage associated with the account reconciliation process has encouraged companies to purchase this solution. Headcount reduction, information technology support and maintenance costs are other potential hard cost savings. Documented case studies prove quick and substantial returns on investment, in even as little as two months.
- *Reduced audit cost and risk.* Data presented in a consistent format as well as the direct accessibility of reconciliations empowers auditors to revise their audit approach and do so from their offices, reducing both personnel and travel costs. Complete and consistent reconciliations across the entire organization reduce the risk that unrecorded adjustments and material misstatements exist.

The Selection Process

Several technology vendors provide commercially available account reconciliation software. The total offerings tend to differ in scope, so it is important to incorporate the company's complete financial close process during the discovery phase and vendor selection process. Among the considerations:

Ease of use. Who designed the system? Is it a suite of modules or multiple applications?

Scalability. Is there a specific company size or industry that the vendor is targeting or can the software help improve financial controls for different organizations?

Easy data interfacing. Data available in other systems should not have to be retyped. Automated interfaces with enterprise resource planning systems and other data sources should be seamless.

SaaS platform. The option to deploy the software in a software-as-a-service environment reduces upfront costs.

Role-based work flow. A hierarchy of functions as well as the ability to create and assign teams to accounts enforces secure and streamlined process management.

Standardized reconciliation templates. The template should prompt the user for specific information for depending on the type of reconciliations.

Single repository for supporting documents. Does the software offer a single location for storing multiple version-controlled supporting documents with the reconciliation? This is critical to reinforce a verifiable reconciliation that can be audited.

Date- and time-stamped electronic certification. This allows the application to provide real-time updates of assigned responsibilities.

Data integrity. Ensure that numbers and documents can't change after certification.

Auto-certified low-risk accounts. A rules-driven process can automatically certify the reconciliation if certain criteria are met.

Extensive dashboards and reporting. Online views with drill-down capability speed flagging of potential problems or discrepancies and target a manager's specific needs. A smart notification service can encourage responsiveness.

International capabilities. Have multi-currency capabilities been proven, and are cultural settings for multi-lingual and date/time conversions seamless?

Training program. Is the vendor willing to spend time with the customer? How many CPAs are on staff? Some vendors even offer training classes led by CPAs that are approved for CPE credits.

Business and IT staff involved in the project should attend product demonstrations and be interactive with the vendor to ensure a full understanding of security, technology and functionality.

Those evaluating an automated account reconciliation solution should not only consider a product's features and functionality. They should also think long term. The probability of a healthy relationship with a software vendor is best determined from the experiences of its customers. Reference calls and/or visits should focus on lessons learned during implementation, product use, support availability and the vendor's desire to listen to its customers' needs and ideas when prioritizing product development.

Challenges of a Manual Account Reconciliation Process:

- Error-prone and labor-intensive
- Inadequate managerial visibility
- Lack of security
- Workflow inefficiencies
- Manual aging of unbooked adjustments
- Plugs and roll-forwards
- Late balance changes
- Lost, incorrect or overwritten supporting documentation
- Lack of clear account ownership
- Inconsistent policies/procedures
- Difficulty identifying and mitigating risk

Implementing the System

Besides evaluating the return on investment, implementation success throughout the organization can be facilitated in several ways. First, by executive support — obtaining a sponsor for the project who will continue supporting it beyond initial implementation. Good communication will keep affected parties current. A staggered rollout might be considered if a company has multiple shared-services locations or a decentralized accounting function.

In addition, continuing education can establish a train-the-trainer approach to create power users for internal knowledge sharing. And, when utilizing any new system, changes to current processes are inevitable. Determine the scope of how much to change now and what the future plans are. This includes understanding application configuration and data import options.

To facilitate a successful implementation and launch of an account reconciliation solution, proper project planning and coordination are very important. Company personnel resources will be needed to gather data and set up data imports, the latter of which will most likely require IT involvement. The amount of resources varies depending on the size of the organization, needs of users and requirements.

The first step in the project should be an implementation kick-off call where all aspects of the process are discussed. The top manager also should schedule periodic calls to touch base with and facilitate communication between parties. Data collection, information import and validation are critical steps that the client should feel comfortable with before undertaking them.

This means that the client should gather a comprehensive understanding of what is needed from their team, along with speaking with current clients of the vendor to validate the ease of the implementation process. Ongoing staff training and customer support are critical maintenance components to the success of the implementation.

Training

The best account reconciliation solution can be installed, but without training users could have a frustrating experience. It's important to understand all of the training options available. There are multiple options available to properly train all users. As referred to earlier, creating power users within the organization enforces a readily available knowledge base. Among other training alternatives are online, onsite and customized training.

Training should be an ongoing, dynamic and interactive process for both accountants and managers. It is critical to provide this continuing education environment for both current and new users. Often, such classes can be counted toward an accountant's continuing professional education credits.

Maintenance

Planning for the proper maintenance of an account reconciliation system is key to its survival and success. Following the implementation, it's important to manage the following activities:

System management. Identify who will be responsible for user and account administration and maintaining interfaces.

Software maintenance and upgrades. Determine how to receive communications for future software enhancements, so as to evaluate the benefits of new features and functionality.

Business user support and enhancement requests. Be familiar with the methods of contacting the support call center to ensure quick communication of product issues. Understand how to pass on enhancement requests.

Changes in business operations. Know how to determine the impact of acquisitions, divestitures and centralization/decentralization of accounting operations on who should be using the system.

Process optimization. Put into place a system to continually assess the effectiveness of the new system. This could involve attending the software vendor's user conference to share ideas with other clients, learn about future product direction and recommend enhancements.

Given the risks and errors inherent in a manual approach, utilizing spreadsheets for reconciliations ought to become an obsolete practice very quickly. An automated account reconciliation system is intended to trade out a manual process of updating a jumble of spreadsheets for a streamlined, controlled environment.

The smart combination of this technology and kept in-check process improvements will lead to a faster, more controlled close, while also producing greater confidence in financial results.

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