



New Journal Voucher & Balance Sheet Documentation Requirements

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Today's Agenda

- Overview of SAS 112 Financial Close Controls Project
- Journal Documentation, Retention and Review
 - Examples of journals and appropriate documentation
 - FAS Office of Finance Review Process
 - Best Practices on preparation, documentation and review of journals
 - Refresher on journal naming and processing
- Balance Sheet Documentation
 - Examples of typical balances coming from departments, and appropriate documentation
 - Everything you need to know about accrual accounting but don't want to know
- Contacts and Resources
- Open Discussion/Questions



Purpose of SAS112

- To ensure effectiveness of internal controls that impact financial statements
- To establish a standard for determining seriousness of a control issue and classifying it into one of three categories:
 - Control deficiency
 - Significant deficiency
 - Material weakness
- To establish a requirement that the external auditor be required to report these internal control deficiencies **in writing** to the University Joint Committee on Inspection/Governing Board and Senior Management



SAS112 Financial Close Controls Project

- This project is University-wide
- Implementation required for year end closes
 - FAS implementation date effective 6/15/10
- Will be audited in FY11 by RMAS and PwC
- Key controls required:
 - **Journal documentation, retention, and review**
 - Quarterly reviews
 - **Balance Sheet documentation**
 - Period ending Closing Entry Checklist



Documentation Responsibilities

- Every journal must have backup documentation that:
 - Explains the reason for the entry
 - Examples: Insufficient balance in fund, incorrect object code used, funding for a workshop
 - Demonstrates how the amounts on the journal were calculated
 - Examples: Individual expense vs. lump sum, percentage of expense
 - Meets the “reperformance” standard
 - Could a co-worker, Department Administrator or someone from the FAS Office of Finance recreate the journal from your backup?
 - Could someone review the backup (an auditor, a new staff person) three years from now and understand what you did, how you arrived at the numbers, and why you did the journal?



Retention Responsibilities

- All journals (on-line or via ADI journal template), and the supporting documentation, must be maintained in a central place in the department/center for **three fiscal years**; ensuring access to Dept. Administrator, Financial staff, and an internal/external auditor.
- You may continue to retain copies of journals in other files*, but the 'File of Record' must be this central file containing all journals generated by the department.
- If the journal contains confidential salary information, you may put an edited copy of the journal in the central file, while a complete copy is kept in the Dept Administrator's files.

(*Other files may include: Sponsored grant file, Gift/Endowment fund file, Vendor file, Faculty file)



Review Responsibilities w/in the Department/Center

- Best practice:
 - Review and signoff of the journal by the Dept. Administrator (or equivalent) prior to submission to GL is strongly encouraged
- Required practice:
 - Journals that cross departments and result in a charge to another department should originate from the paying department (i.e., the one being debited) and include documentation that the Dept. Administrator is aware of the action. Review by the Dept. Administrator prior to entry is **required** in this case.



Common Journal Types

- Correct one or more chart segments
 - Tub, Org, Object, Fund, Activity, Sub, and/or Root
- Correct a payroll or financial aid expense
 - Object codes 0139-0157, 6010-6220 and 6410-6452
- Transfer of income or expenses within/outside of FAS
 - Using income or expense transfer object codes, or the 'natural' object code
- Internal Billing
 - Transactions that occur within or between tubs for internal sales or services



Common Journal Types – Suggested Documentation

- All types of journals require a copy of the HU Journal Entry Detail Report for on-line journals, or Completed ADI Journal Template as the “cover sheet”
- **Correct one or more chart segments**
 - Detail Listing Report showing original transaction(s)
- **Correct a payroll expense**
 - Confirmed Payroll Register (w/coding) and/or Detail Listing Report
 - Email correspondence (if applicable)
- **Transfer of income or expenses within/outside of FAS**
 - Email or other correspondence that explains reason for transfer
 - Detail Listing or other supporting documentation (as applicable)
 - Evidence of approval from the Dept. Admin of the unit being charged
- **Internal Billings**
 - Documentation from unit providing sales or service on how amount billed was determined



HU Journal Entry Detail Report

- Can be run immediately after submitting journal to the General Ledger or after the journal has posted
- Easier to read than screenshot of journal and does not truncate any of the information
- Includes DFF (Descriptive Flex Field) information
- Able to save as .pdf and send as attachment or save on local disk drive



HU Journal Entry Detail Report

Harvard University

HU Journal Entry Detail Report

Date: 06-JUN-2010 13:14:29

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Journal ID: 2427006 Journal: FCOR FINL SN Correct TF salary 14-MAY-10

Period:	MAY-10	Effective Date:	14-MAY-10
Category:	Adjustment	Source:	Manual
Balance Type:	Actual	Budget:	
Reference Date:		Control Total:	1,250.00
Description:	Per R. Daley, correct TF salary coding from 000780 to 507xxx-610xxx		
Reference:			
Clearing Company:			
Created By:	Nasson, Stephanie V.		
Created By Email Addr:	nasson@fas.harvard.edu		
Conversion Currency:	USD	Date: 14-MAY-10	Type: User
Status Posting:	Posted		Rate: 1
Reverse Date:	Funds: N/A	Approval: N/A	
	Period:	Method: Switch Dr/Cr	Status: Not Reversed

Line	Account	Debit (USD)	Credit (USD)	Description/DFFs	UOM/Units
1	370.31xxx.6140.507xxx.610xxx.0000.00000	1,250.00		Per R. Daley, correct TF salary coding from 000780 to 507xxx 8067xxx.Lee,Sara.	
2	370.31xxx.6140.000780.600200.0000.00000		1,250.00	Per R. Daley, correct TF salary coding from 000780 to 507xxx 8067xxx.Lee, Sara.	
		1,250.00	1,250.00		



ADI Journal Voucher Template

- Available on the FAS Office of Finance website
- Has been modified to allow you to print a copy easily for your documentation package
- Facilitates movement of income/expense between tubs or orgs
- Updated periodically, check FAS Office of Finance website for most current version



Journal Voucher Best Practices – The “Dos”

- **Do** have a review and approval process for all journals
- **Do** use the Naming Conventions
 - Batch Name: TUB ORG # Preparer’s Initials Desc Date
 - Line description field
 - FAS & Dept Name, Billing Contact Name, Phone Number, description of transaction, date of sale or services
 - Required for Internal Billings
 - Strongly Recommended for Transfers
 - Sponsored Cost Transfers on Federally sponsored awards
 - CT^TUB^ORG #^Preparer’s Initials^Desc^Date (or Date Range) of original transaction
 - See http://vpf-web.harvard.edu/osp/quick_links/policies/#costtransfer for more information on cost transfer rules



Change to Naming Convention

- Previously, the naming convention for Journal Vouchers was:

<i>TUB</i>	<i>ORG</i>	<i>Initials</i>	<i>Description</i>	<i>Date</i>
FCOR	ECON	SN	Transfer expenses	19-MAY-2010

- In order to ensure transparency across the University, we are changing the naming convention to:

<i>TUB</i>	<i>ORG</i>	<i>Initials</i>	<i>Description</i>	<i>Date</i>
FCOR	31890	SN	Transfer expenses	19-MAY-2010

- For multi-org depts, use the mega org number (Example: M3189)
- By following this model, it will allow you or others to easily search on and find posted journals in the General Ledger.



Journal Voucher Best Practices – The “Dos” continued

- **Do** use DFF fields
 - Required for payroll and financial aid journals
 - Recommended for adjustments, and also for transfers using natural object codes
- **Do** use “from” and “to” information on the segments of the coding you are changing in adjustment journals (and transfer journals using the natural object codes)
- **Do** use Transaction Line Description info from original transaction in adjustment journals (and transfers using natural object codes)



Line Description Conventions

- For **Internal Billing** journals, the following information is required in all descriptions: Tub, Billing unit contact person's name and phone, description of transaction, date of sale or services provided
 - Example: FAS-IT S Jones 5-8500, Adobe Pro desktop license, 5/10/10
 - This will provide the department being charged sufficient information to understand what is being charged and who to call to discuss the charge
- Strongly suggest you use the same convention for transfer journals:
 - Example: Economics S Jones 5-8500, transfer \$5,000 from Economics to Government to help fund Widgets conference on 6/5/10



Journal Voucher Best Practices – The “Don’ts”

- **Don’t** use Fringe Bypass!
- **Don’t** reverse a journal done by someone else!
- **Don’t** change the object code on a payroll or financial aid transaction!
- **Don’t** change the object code on an internal billing or transfer generated by someone else!
- **Don’t** try to journal transactions processed by Central Admin or the FAS Office of Finance for things like endowment distributions, AEA on gifts or endowments, interest income, gifts themselves, etc., without talking to the appropriate person in the FAS Office of Finance first.



Journal Review

FAS Office of Finance Responsibility

- Journals – General Report
 - Run at each month-end close, and each year end close period
 - FAS Office of Finance will review the journal details for any journal greater than \$100K in total debits
 - Object code use
 - Policy compliance
 - Adequate description that makes sense given the debits and credits
 - Activity and A-21 implication
 - Timeliness
 - Compliance with journal conventions
- Copies of supporting documentation *may be* requested from department
- Copies of Journals-General Report, evidence of review and date reviewed, requested documentation, and correspondence regarding journals will be kept for three years in the FAS Office of Finance



Balance Sheet Documentation

- SAS 112 Initiative calls for all schools to prepare documentation for all Balance Sheet object code balances over \$1M on a quarterly basis
- The FAS has opted for a \$500K threshold for the quarterly documentation
- This requirement does not apply to Fixed Assets, Investments, or Debt accounts, which are the responsibility of Central departments



Typical Balance Sheet Codes used by FAS Depts

- At year end the FAS requires documentation of **all** balances (no threshold) in **certain** Balance Sheet object codes.
- **Typical** Balance Sheet object codes requiring documentation from departments:
 - Cash Accounts (except for Petty Cash) (usually 0011 or 0014)
 - Accounts Receivable Accruals (0130)
 - Advances (M050)
 - Prepaid Expenses (M054)
 - Accounts Payable Accruals (2191)
 - Deposits (M248)
 - Deferred Revenue (M260)
- Some departments have other Balance Sheet object codes unique to their situation (for example, Inventory). Please consult with Maureen Rekrut re: the need for documentation if you have other Balance Sheet balances.



Typical Balance Sheet Documentation

- See Balance Sheet Documentation Matrix
 - On FAS Office of Finance website, under Year End Close & Accruals
 - <http://www.fas.harvard.edu/~finance/accounting/yearend-close-accruals.html>
- Most common: AP Accruals
 - Excel workbook from Michael Jackson will serve as documentation; nothing further needed unless asked
- In most other cases, an Excel or Word document listing details about each transaction that makes up the balance will be adequate.
 - No need to submit copies of web vouchers, invoices, etc. unless asked
 - Details would include the who, the what, the when, the time period covered (if applicable) and the dollar amount.



University Accrual and Deferral Rules

- Recording accruals and deferrals at year end converts the University's financial records from "Cash Basis" to "Accrual Basis" (which is required for financial statement preparation under Generally Accepted Accounting Principles "GAAP")
- Applies to transactions with **external parties only**; you cannot accrue a receivable, payable or deferral for any internal activity with another Harvard unit
- University threshold: Must record all receivables, payables, and deferred revenue of more than \$5,000 **each**
- You **may** record any **external** receivable, payable or deferred revenue, if you feel that it better states your department's financial situation and/or is material to your operation
- Note: Special rules apply to accruals and deferrals on Sponsored funds.



What Qualifies to Be Accrued or Deferred?

- Only services or goods received (or delivered) by 6/30 or prior can be accrued.
 - You cannot under ANY circumstances accrue a payable for something you have yet to receive, be it goods or services.
 - An expense or income that you had planned on in your budget that has yet to occur is **not** eligible to be accrued.
- All services and goods received (or delivered) by 6/30 or prior greater than \$5K **must** be accrued.
 - Conversely to the situation noted above, if you have incurred a cost, you must accrue it – even if you had not budgeted for it and you will exceed your budget, or put a fund in deficit.



Don't Forget Your Receivables!

- Departments are usually very good at accounting for their Accounts Payable accruals. It's not often that a large expense hits a department in the subsequent fiscal year that they forgot to accrue.
- However, we often see money coming in to departments that relates to prior year activity. Examples:
 - Reimbursements from outside organizations for expenses incurred, usually travel related
 - Income for events organized and run by a department
 - Recovery of staff, faculty or graduate student payroll
 - Services rendered by a service department to external parties



Ok – But What On Earth is a Prepaid Expense?

- Prepaid Expense seems to be the hardest concept to grasp, because the expense is often only partially prepaid
- Examples:
 - a) A deposit of \$100K on a piece of equipment to be delivered in September 2010
 - b) A membership to an organization for 1/1/10-12/31/10 that cost \$10,000
 - c) A maintenance agreement on equipment or software that runs from 4/1/10-3/31/12 that cost \$40,000
- Example (a) is easy – \$100K is the prepaid expense
- Example (b) – prepaid is $\$10,000 \times \frac{6 \text{ (months)}}{12 \text{ (months)}}$
- Example (c) – prepaid is $\$40,000 \times \frac{21 \text{ (months)}}{24 \text{ (months)}}$



Deferred Revenue

- Deferred Revenue is the opposite of a Prepaid Expense – it's money you've received *from* someone, but you've yet to deliver the service, or the money is meant to cover a certain time frame
- Examples:
 - a) Center for Brain Science receives a deposit of \$10,000 on 5/15/10 from MIT for the use of an MRI machine over time. At 6/30/10, they have only used 4 hours of the machine, at a rate of \$200/hour.
 - b) The Semitic Museum runs a workshop in Israel that costs \$2,000 from each participant. They receive the \$2,000 from 10 workshop participants by 6/30. The workshop is scheduled for June 15 – July 14.
 - c) GSAS rents out a dorm to an external organization for July 15 – August 15. They receive a check for \$15,000 on May 10.
- Example (a) – deferred revenue is $\$10,000 - (4 \times \$200) = \$9,200$
- Example (b) – deferred revenue is $(\$2,000 \times 10) \times 50\% = \$10,000$
- Example (c) – deferred revenue is \$15,000



Resources – Instructions and Tip Sheets

- FAS Office of Finance Website, Internal Billing and Journal Transfer section:
 - <http://www.fas.harvard.edu/~finance/accounting/billing-transfers.html>
 - Has the following documents:
 - FAS Journal Voucher Preparation Instructions
 - Journal Documentation Grid Tip Sheet
 - Journal Entry Best Practices Tip Sheet
 - Guide to Transfer Object Codes
 - ADI Journal Voucher Template
 - University Internal Transfer Policy
 - University Internal Billing Policy
 - University Internal Billing Guide
- FAS Research Administration Services Website for information on cost transfers on sponsored funding:
 - <http://www.fas.harvard.edu/~research/>



Resources - Contacts

- Lead Implementation Manager
 - Maureen Rekrut, Manager of Accounting Policy and Analysis
 - 6-0590, mrekrut@fas.harvard.edu

- Accounting Operations:
 - Michael Jackson, Director
 - 5-1526, mjackson@fas.harvard.edu
 - Josh Dunn
 - 5-7652, dunn@fas.harvard.edu
 - Gina Armstrong
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- ASAP Training:
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