



April 5, 2019

Subject: Updating General Accounting Approval Procedures of Financial Documents

Purpose:

The Office of Controller Financial Reporting and General Accounting (General Accounting) reviews and approves financial documents to ensure the accuracy and completeness of the journal entry before posted to the financial statements. The purpose of this memo is to update our practice in our review of the financial documents based on a data-driven approach.

Background:

Historically, General Accounting has reviewed all financial documents that contain unrestricted accounts to prevent the misclassification of revenue and expenses to a KFS account and/or object code. The current work flow of the financial documents is created by the Initiator → Fiscal Officer(s) for review → Central Office for final approval.

Approach:

To assess the current approval process, we performed a detailed analysis on the various KFS financial documents (Appendix A). Appendix A displays fiscal year 2018, number of transactions and percentage rate for approved and disapproved financial documents. Based on each financial document inherent risk (risk of a misstatement in the financial statements due to error or omission) and control risk (factors that may cause a misstatement due to absence or lapse of controls), we determined a method to review documents for the assertion of the financial statements. See Appendix C:



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Conclusion:

An individual projection of the various KFS documents was conducted to determine what approach best suited it's use by the University. Based on the projections, it was determined

- 1) To change the routing workflow for the Internal Billing (IB), Service Billing (SB) and Salary Transfer documents to bypass the General Accounting group. These financial documents are used for the purpose of reallocating income and expense or correcting an entry where the fiscal officer of each KFS account has the opportunity to review each transaction for accurate bookkeeping prior to General Accounting receiving. General Accounting would not be adding any value with an additional approval once confirmed by the fiscal officer.

- 2) To create a threshold of \$150,000 for the review of Auxiliary Voucher – Adjustment (AVAD), Distribution of Income and Expense (DI) and General Error Corrections (GEC) document. These documents are frequently used on campus and has the ability to post adjusting entries to both the Income Statement and Balance Sheet causing a higher risk of misclassification of revenue and expenses. Appendix B demonstrates, at least 94% of the transactions processed in FY18 would fall below the proposed threshold of \$150,000 but will have minimal to no effect on the monetary value of the transactions reviewed and processed.

- 3) To create a modification within the Transfer of Fund document to validate the KFS account organization code to the appropriate transfer object code (as noted below). In addition, changing the routing workflow to bypass the General Accounting group for approval. With the decision of funding commitments made amongst the units prior to creating this document, General Accounting would not be adding any value with an additional approval.

<u>Transfer Object Codes</u> - to record funding for a specific purpose from one unit to another		
<u>Object Code</u>	<u>Object Code Name</u>	<u>Purpose</u>
9912	Nonmandatory Transfer across Fund Groups	Only for use to move funds between Unrestricted and Restricted Funds to include Agency Funds
9920	Nonmandatory Transfer Provost Support	These transfers must remain within Unrestricted Funds (Ledger 1, 2, and 3)
9924	Nonmandatory Transf between Div/College	These transfers must remain within Unrestricted Funds (Ledger 1, 2, and 3) and First 3 digits of Organization codes should be different
9926	Nonmandatory Transf within Div/College	These transfers must remain within Unrestricted Funds (Ledger 1, 2, and 3) and First 3 digits of Organization codes should be same
9931	Nonmandatory Transf Within Department	These transfers must remain within Unrestricted Funds (Ledger 1, 2, and 3)



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- 4) General Accounting will continue to review Auxiliary Voucher – Accrual (AVAE), Journal Voucher Central Admin (JV), and Journal Voucher – Balance Sheet (JVCO). AVAE documents allows the departments to post accrual entries to the general ledger. JV and JVCO documents perform tasks that cannot be done by any other financial document. These document have direct implications on the reporting and presentation of the financial statements. Continued review of these financial documents will reduce the potential impact of something not being right.

Furthermore, changing the routing or creating a threshold for the KFS financial documents will be beneficial to the campus, by expediting the routing process and eliminating a significant portion of financial documents routed to General Accounting to approve.

Effective Date: July 01, 2019

If you have any further questions, please contact Trina Tanner, Assistant Controller, Ext. 52633.



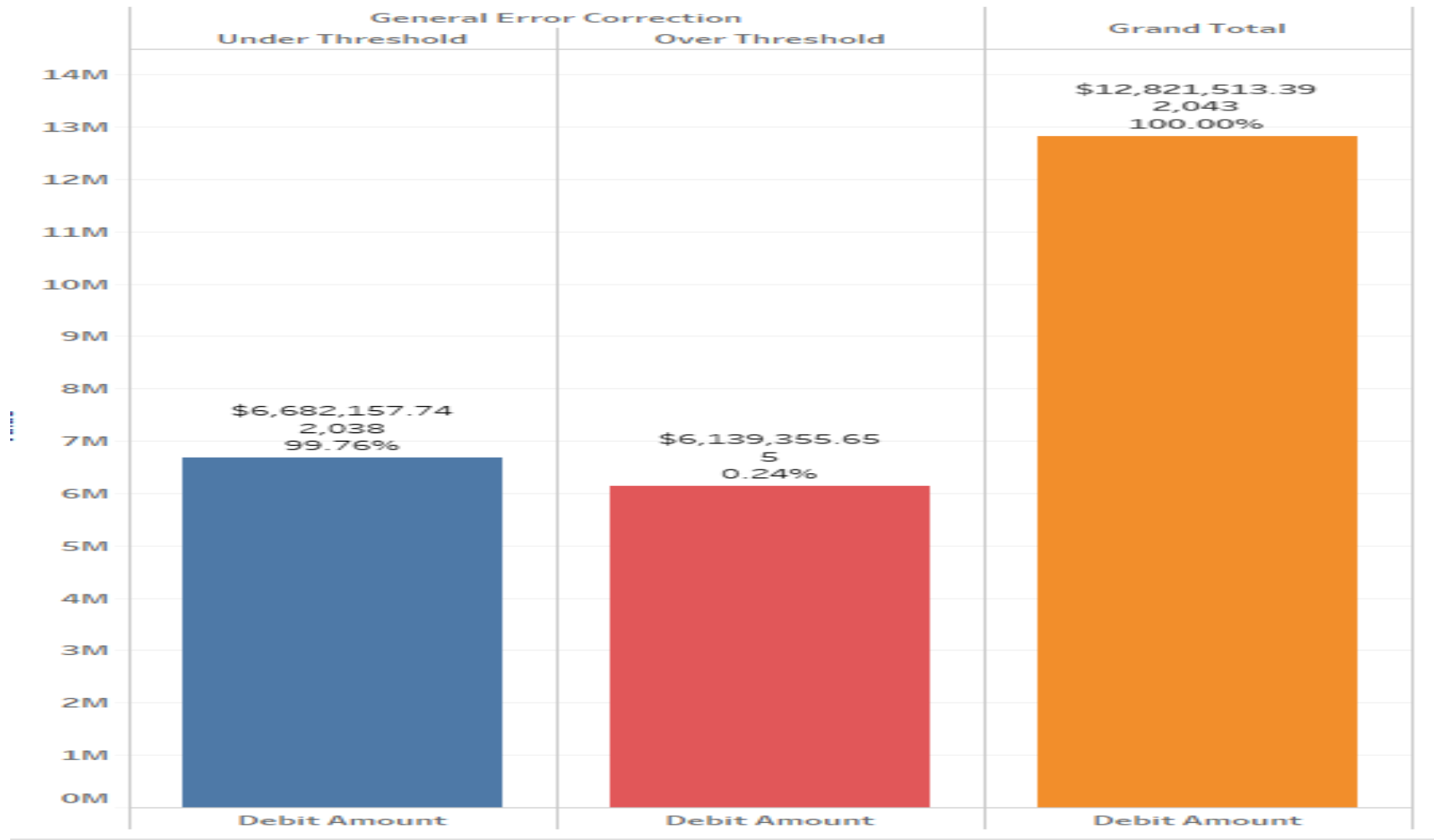
Appendix A

Percentage of Approved vs Disapproved

Document Type	Approval Type			
	% of Total Number of Record..		Number of Records	
	Approved	Disapproved	Approved	Disapproved
Auxiliary Voucher - Accrual	100.00%		139	
Auxiliary Voucher - Adjustment	99.53%	0.47%	6,186	29
Distribution of Income and Expense	99.50%	0.50%	1,000	5
General Error Correction	99.08%	0.92%	2,043	19
Internal Billing	97.21%	2.79%	696	20
Journal Voucher - Actual (Balance Sheet)	100.00%		2,209	
Journal Voucher - Current Budget	76.47%	23.53%	39	12
Journal Voucher Central Admin	98.80%	1.20%	247	3
Service Billing	99.38%	0.62%	4,167	26
Transfer of Funds	97.51%	2.49%	4,542	116



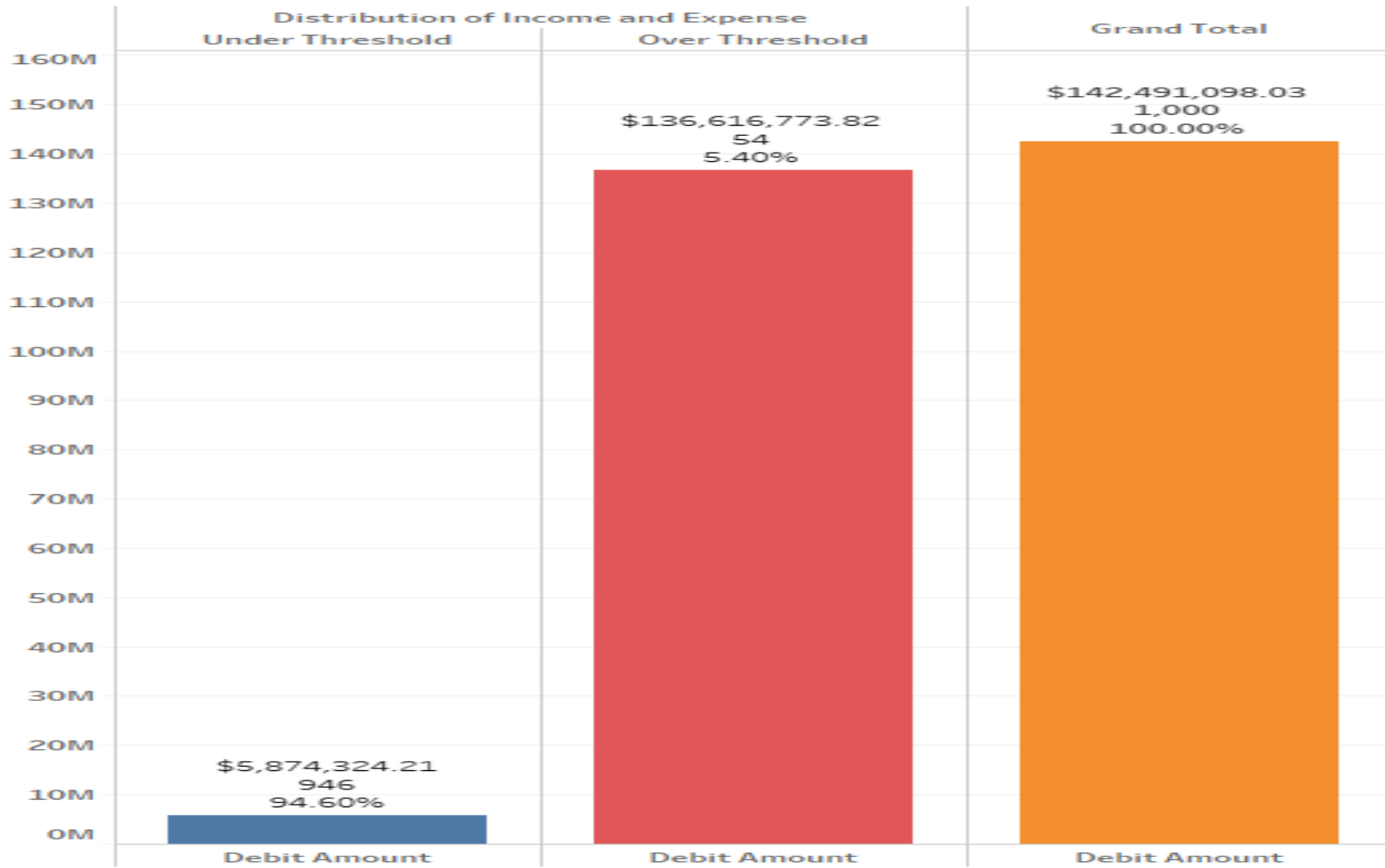
Appendix B

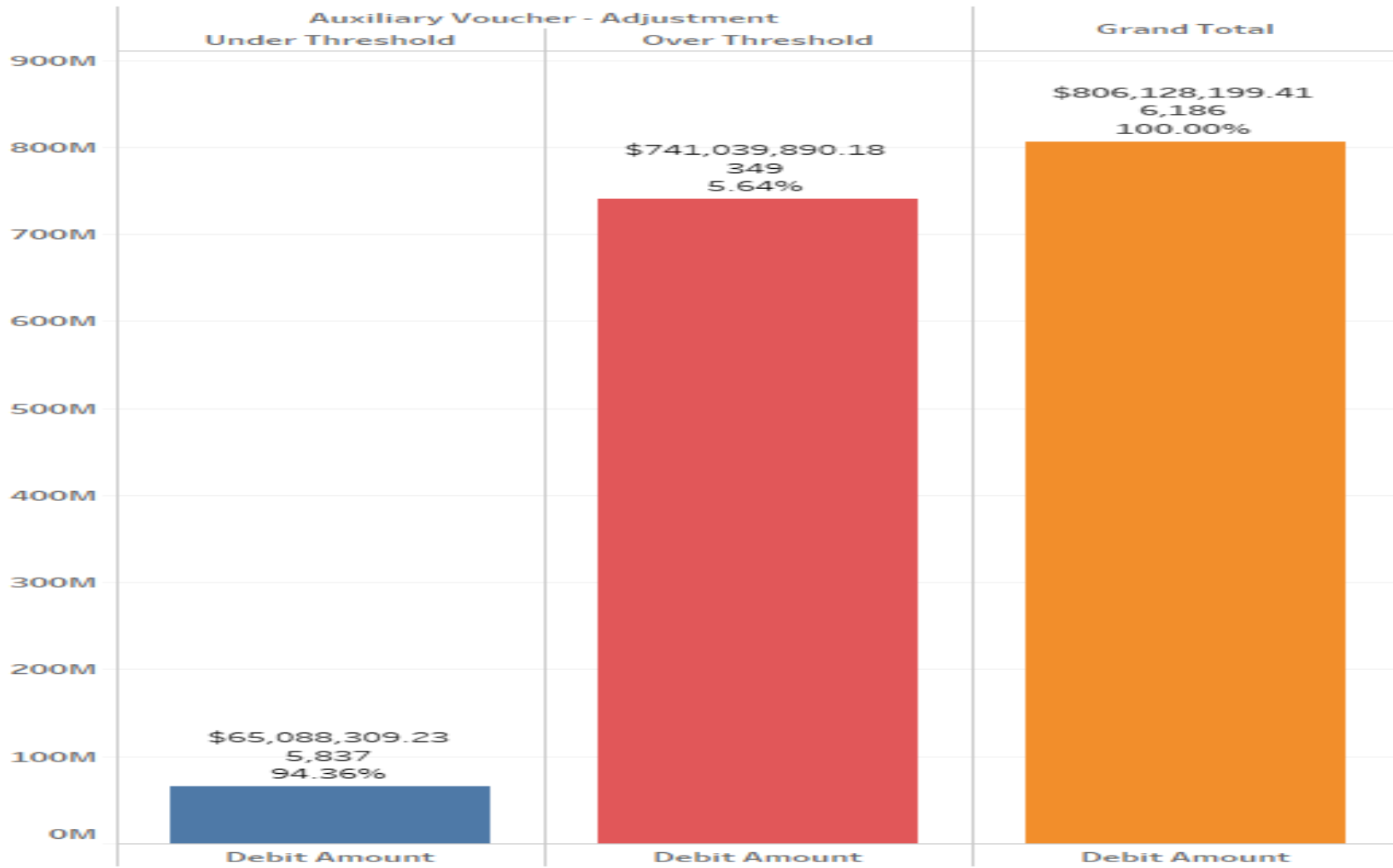




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Appendix C

<u>Financial Document Type</u>	<u>Descriptions</u>	<u>Inherent Risk</u>	<u>Control Risk w/o General Accounting Review</u>	<u>Recommended Review by General Accounting</u>
AVAD	Used to post adjusting entries to the General Ledger that is not reversed	High -Transactions have direct implication to the reporting of the financial statements and the risk is high if the amount is significant.	Med - Each Fiscal Officer has the ability to review each transaction and perform account reconciliations.	General Accounting reviews and approves documents over \$150,000 to ensure accurateness
AVAE	Used to post accrual entries to the General Ledger that must be reversed	High -Transactions involve estimates that require management judgement.	High - Each Fiscal Officer has the ability to review each transactions but these are transactions involving estimates.	General Accounting reviews and approves all required backup documentation to ensure accurateness
DI	Used to reallocate income or expenses	High -Transactions have direct implication to the reporting of the financial statements and the risk is high if the amount is significant.	Med - Each Fiscal Officer has the ability to review each transaction and perform account reconciliations.	General Accounting reviews and approves documents over \$150,000 to ensure accurateness
GEC	Used to correct inappropriate or incorrect accounting data	High -Transactions have direct implication to the reporting of the financial statements and the risk is high if the amount is significant.	Med - Each Fiscal Officer has the ability to review each transaction and perform account reconciliations.	General Accounting reviews and approves documents over \$150,000 to ensure accurateness
IB	A transactional document used to bill for goods or services	Low - Internal transactions that offset each other within department but has no impact in the financial statements on the fund level	Low - Fiscal Officers for both transacting departments would review and approve	General Accounting performs no review and approval
SB	Similar to the Internal Billing form but does not route for approval. Use of this document is restricted to specified users and only authorized income accounts maybe entered.	Low - Internal transactions that offset each other within department but has no impact in the financial statements on the fund level	Med - Routine monthly transactions; originated by authorized users and approved KFS accounts;	General Accounting performs no review and approve. Will require service providers to provide adequate documentations.
JV	Used to perform accounting tasks that cannot be done by any of the other financial transaction documents. Can also be used to correct errors that may occur in the system which inadvertently put the G/L out of balance	High - Central Admin has "Super-User" access to approve transactions without the approval of the fiscal officer.	N/A - Transactions originated by Central Admin, approved by Central Admin	General Accounting reviews and approves all required backup documentation to ensure accurateness
JVCO	Used to perform the same as the JV but must have a debit and credit	High - Central Admin has "Super-User" access to approve transactions without the approval of the fiscal officer.	N/A - Transactions originated by Central Admin, approved by Central Admin	General Accounting reviews and approves all required backup documentation to ensure accurateness
TF	Funds withdrawn from one account and transferred into a different account	Med - Internal transactions that offset each other within department but could have an impact in the financial statements on the fund level.	Low - Fiscal Officers for both transacting departments would review and approve	General Accounting performs no review and approval, but implement KFS enhancement to restrict transfer object code per guidance.