

Purpose: The information provided in this guide will assist a departmental fund manager, or authorized designee, in properly reviewing departmental general ledger transactions.

Summary: Reviewing transactions appearing in the general ledger each month is a key control activity in a well-managed campus financial process. It helps provide assurance that each transaction is valid, appropriate, reasonable, funded, recorded accurately, supportable, and accounted for in the appropriate time period. Complying with these transaction control standards is critical to preparing financial statements that provide a fair picture of the campus' and University's financial position and performance to University benefactors, such as the state, federal government, donors, granting agencies, and lenders. Accordingly, timely review of departmental general ledger transactions each month is a critical financial control responsibility.

TOPICS

1. Review objectives
2. Ledger reports
3. Accountability
4. Review strategy considerations
5. Review approaches
6. Risk areas
7. Post-review procedure
8. Documentation
9. Common oversights made in reviewing ledger transactions
10. Forms used
11. Policy references
12. Where to get help

Appendix 1 – The seven financial control standards

Appendix 2 – Ledger reviewer proficiency

Appendix 3 – Assigning ledger review responsibility

Appendix 4 – Extramural funds transaction review

Appendix 5 – Reliance on ledger review as a control

Appendix 6 – Ledger review sampling approach

Form 1 – Ledger review documentation log

Form 2 – Ledger transaction sampling calculation worksheet

Form 3 – Sample general ledger transaction review and certification assignment memorandum

Topic	What to know
<p>1. Review objectives</p>	<p>In combination with other controls in a financial transaction process, monthly review of the general ledger is meant to provide a reasonable level of assurance that transactions comply with the following seven transaction control standards:</p> <ol style="list-style-type: none"> 1. <i>Appropriate</i> – directly related to achieving the mission of the University 2. <i>Valid</i> – allowed by policy, law, contractual agreement, and/or professional standards 3. <i>Reasonable</i> – fair amount paid for a good or service 4. <i>Funded</i> – sufficient funding exists to cover the transaction 5. <i>Accurately recorded</i> – Amount is consistent with value received, provided, or adjusted for; and is free from accounting coding or arithmetic error 6. <i>Supportable</i> - Amount and good or service received or provided, or justification for adjustment is consistent with supporting documentation, standard, situation, or practice 7. <i>Timely recorded</i> – transaction date is accurate <p>Different divisions or departments may choose to depend more or less on ledger transaction review as a key control depending on the relative strength of other process controls in place. Refer to Appendix 1 for more information about the seven standards.</p>
<p>2. Ledger reports</p>	<p>Here are some ways transactions appearing in the UCSC general ledger are presented for review purposes:</p> <ul style="list-style-type: none"> • Certified Business Objects reports • Custom-designed Business Objects reports • Web-based InfoView reports • Paper-based Financial Information System (FIS) reports <p>To perform a proper review, a ledger report must, at a minimum, include the following data:</p> <ul style="list-style-type: none"> • Reporting time period • Fund-Organization-Account-Program-Activity-Location (FOAPAL), with titles • Transaction date • Document code • Reference code • Transaction title/description • Budget amount • Expense (financial) amount • Lien (encumbrance) amount
<p>3. Accountability</p>	<p>The person, commonly referred to as a “fund manager” or “fund custodian,” receives delegated authority to expend funds from a particular organization code. A fund manager is accountable for reviewing ledger transactions, and certifying proper fund usage and accounting consistent with the seven control standards described in Topic 1.</p>

Topic	What to know
	<ul style="list-style-type: none"> • A fund manager may delegate transaction review responsibilities to a qualified designee, such as a department manager or analyst • A delegation enables the designee to certify proper fund usage and accounting on behalf of the fund manager • Even with a delegation of review responsibility, the fund manager remains ultimately accountable for proper transaction funding and accounting <p>Refer to Appendix 2 for information about ledger reviewer proficiency requirements. Refer to Appendix 3 for information about assigning ledger review responsibility.</p>
<p>4. Review strategy considerations</p>	<p>Consider the following factors in developing a ledger review strategy:</p> <ol style="list-style-type: none"> 1. THE SEVEN TRANSACTION CONTROL STANDARDS: The extent to which other key controls in a financial process provide reasonable assurance of compliance with some or all of the seven control standards should influence the relative level of importance placed on the ledger review function.¹ Refer to Appendix 5 for more information about determining the level of reliance to place on ledger review as a key control. 2. TRANSACTION VOLUME AND COMPOSITION. Departments with a high volume of expenditures may want to focus ledger review efforts on high-value and high-risk transactions. 3. RISK OF A MATERIAL ERROR OR MISAPPROPRIATION. Review is required of all high-risk transactions, including those particularly susceptible to error, or to policy, regulatory, professional standard, or contractual non-compliance.² 4. EXTRAMURAL FUNDS. Every contract and grant transaction must be reviewed because of the high level of scrutiny to which they are subjected. Refer to Appendix 4 for more information.
<p>5. Review approaches</p>	<p>Successful ledger review depends on deploying an effective blend of approaches.</p> <ol style="list-style-type: none"> 1. LARGE-VALUE TRANSACTIONS: In units with large volumes of ledger transactions, review all transactions exceeding a minimum value in addition to reviewing a sampling of small-value transactions. Refer to Appendix 6 for more information about sampling. 2. UNUSUAL TRANSACTIONS: Review all transactions that appear unusual by virtue of amount, type of expense, seasonality, vendor, or payee. 3. HIGH RISK TRANSACTIONS: Review all transactions in certain account codes that are more likely to contain inappropriate or invalid transactions: <ul style="list-style-type: none"> • Contract and grant expenses • Travel and entertainment expense reimbursements • Relocation expense reimbursements • Honorarium payments • Consultant and contract services payments • Gifts

¹ Other key controls may include such activities as purchase authorization, order review and approval, goods and services receipt verification, and payment review and approval.

² Examples of high-risk transactions include entertainment, travel, relocation, contracts and grants-related, honoraria, consultant and contract services, non-employee gifts, and employee awards.

Topic	What to know
	<ul style="list-style-type: none"> • Non-cash awards to employees <p>4. FOAPAL-LEVEL BALANCE ANALYSIS: Examine the transactions in FOAPALS having the following attributes. Unusual differences may be an indicator of erroneous or invalid transactions</p> <ul style="list-style-type: none"> • Budget deficits • Discrepancies between total expense and prorated pool budget account code balance • Compare growth rates in balances with separate calculations based on non-financial factors, like enrollment or staffing level growth rates • Compare balances with previous periods or with the same period from previous years
<p>6. Risk areas</p>	<p>Be on the lookout for these things in reviewing ledger transactions.</p> <ul style="list-style-type: none"> • UNUSUAL TRANSACTION: Expenditures that appear to be out of line with the norm or payments made to an unknown or inappropriate vendor • DUPLICATE OR ERRONEOUS PAYMENTS: Transactions involving the same vendor and/or payment amount. • UNUSUAL FUND - ORGANIZATION - ACCOUNT - PROGRAM - ACTIVITY - LOCATION CODES (FOAPAL) COMBINATIONS: Transactions recorded to incorrect or inappropriate fund, organization, account, or activity code combinations. • INCOMPATIBLE PURCHASES: Purchases of goods or services that seem incompatible with the activities normally associated with an organization code.³ • RISKY TRANSACTIONS: High-risk payments, such as those involving contracts and grants, travel and entertainment, relocation, etc. • DEFICIT BALANCES: Unfunded transactions may indicate <ul style="list-style-type: none"> ○ A transaction is coded to the wrong FOAPAL ○ An incorrect or invalid lien ○ A missing budgetary entry ○ A budgetary issue requiring corrective action • ACCRUALS: For financial report preparation purposes, take into consideration any accrual entries for such things as accounts receivable or unpaid, unencumbered expenses.
<p>7. Post-review procedure</p>	<p>Follow these steps if you identify a questionable transaction.</p> <ol style="list-style-type: none"> 1. Investigate to determine if the transaction is proper. <ol style="list-style-type: none"> a. Examine the documentation supporting the transaction to evaluate its validity, accuracy, reasonableness, and appropriateness. b. As appropriate, confer with those involved in initiating and approving the transaction to gain an understanding of the transaction. 2. Depending on the results of the investigation, act accordingly.

³ For example, the purchase of garden maintenance supplies by a unit other than Physical Plant or the purchase of food or beverages on federal contracts which are usually prohibited.

Topic	What to know
	<ul style="list-style-type: none"> a. <i>Erroneous transaction</i> - initiate the process to correct the error.⁴ b. <i>Unfunded transaction</i> – review the budget to determine if a transfer of funds or transfer of expense is needed. c. <i>Invalid or inappropriate transaction</i> – confer with either the transaction initiator or an appropriate supervisor or manager to <ul style="list-style-type: none"> o Make a correction o Cancel the transaction o Obtain a reimbursement or refund o Refer the matter to a higher authority (e.g. suspected fraud or embezzlement) d. <i>Incorrect transaction recording date</i> – Especially applicable to the time around the June 30 fiscal year-end closing date or other period end financial reporting date.⁵ Process a journal entry to accrue the expense or revenue.
<p>8. Documentation</p>	<p>Upon successful completion of a monthly ledger review, the fund manager or designee, certifies the validity, accuracy, appropriateness, and timely recording of each transaction appearing in the ledger. This is documented in one of the following ways.</p> <p>1. Manually-Maintained Documentation</p> <ul style="list-style-type: none"> a. Signature and date maintained in a review log – Refer to Form 1 for a sample ledger review documentation log. b. Signature and date on paper ledger report reviewed. c. Email message from designee to fund manager indicating completion of transaction review. <p>2. System-Maintained Documentation</p> <p><i>InfoView System:</i> The ledger reviewer’s user identification and review date recorded by the system when a ledger report is accessed may constitute adequate documentation provided that a formal written agreement is obtained. In the agreement, the reviewer attests that the presence of his or her user identification and date stamp confirms the following.</p> <ul style="list-style-type: none"> • The review was conducted in a manner consistent with the approach adopted by the department. • Ledger transactions were reviewed for compliance with the seven transaction control standards. • Any questionable transactions identified have been or are in the process of being investigated and corrected as necessary. • Ledger transactions, with the exception of those identified as questionable, comply with the seven transaction control standards.
<p>9. Common oversights</p>	<p>Avoid these oversights in devising a ledger review strategy:</p> <ul style="list-style-type: none"> • Not being familiar with relevant policies

⁴ Corrections must be recorded in the ledger within 120 days of the transaction date of the originating transaction.

⁵ A good or service received by a campus department prior to June 30 of the current fiscal year must be recorded as an expense in the current fiscal year even if the related invoice is received or payment is made in the following fiscal year.

Topic	What to know
	<ul style="list-style-type: none"> • Having duties that conflict with reviewing the ledger, such as approving payments • Not having the authority to investigate and resolve issues resulting from a ledger review • Ineffectively using ledger transaction review as part of the overall process control strategy to ensure each transaction complies with the seven transaction control standards <p>Avoid these oversights in reviewing ledger transactions:</p> <ul style="list-style-type: none"> • Forgetting to review ledger in time to make any adjustments prior to the 120-day deadline • Forgetting to investigate transactions that appear unusual or in error • Forgetting to make a correction • Forgetting to report errors or suspicious transactions to the appropriate person • Forgetting to document the ledger review in your review log
10. Forms used	<ul style="list-style-type: none"> • <i>Ledger review documentation log</i> (Refer to Form 1) • <i>Ledger transaction sampling calculation worksheet</i> (Refer to Form 2) • <i>Sample general ledger transaction review and certification assignment memorandum</i> (Refer to Form 3)
11. Policy references	<p>This policy applies to this campus business process:</p> <ul style="list-style-type: none"> • <u>UC Accounting Manual A-000-4 University Accounting Program</u>
12. Where to get help	<p>Assistance is available for your general ledger review questions from the Campus Controller's Office.</p>

APPENDIX 1 – THE SEVEN FINANCIAL TRANSACTION CONTROL STANDARDS

Each campus financial transaction, which includes purchases, payments, cash receipts, and ledger adjustments, is expected to meet the following seven control standards:

1. *Appropriate* Directly related to achieving the mission of the University
2. *Valid* Allowed by policy, law, contractual agreement, and/or professional standard
3. *Reasonable* Fair amount is recorded as being paid, received, or adjusted for
4. *Funded* Sufficient funding exists to cover expenses or the results of an expenditure adjustment
5. *Accurately recorded* Amount is consistent with value received, provided, or adjusted for; and is free from accounting coding or arithmetic errors
6. *Supportable* Amount and good or service received or provided, or justification for adjustment is consistent with supporting documentation, standard, situation, or practice
7. *Timely recorded* Transaction date is accurate

The financial controls put into place at different stages of a financial transaction process are expected, when considered together, to provide reasonable assurance that each transaction meets the seven control standards. Each control may focus on verifying that one or more of the transaction control standards is being met. Well-managed units effectively balance operational efficiency with the strategic deployment of financial controls. Here are some examples of commonly deployed controls at different stages of a financial process⁶:

Control Stage	Description	Example
1. Entity set-up review and approval *	Review and approval of the key set-up information about the person or entity receiving a payment or a bill	Review and approval of the address, phone number, and taxpayer ID number for a vendor set up in the Financial Information System (FIS).
2. Transaction initiation review and approval	Review and approval to initiate a transaction	Review and approval of a purchase, journal entry adjustment, travel advance, or billing request
3. Transaction processing approval	Review and approval of a transaction just prior to the execution of the transaction. ⁷	Review and approval of a purchase order, expense reimbursement form, journal entry adjustment, or student account adjustment
4. Asset receipt verification	Confirmation of receipt of a payment, good, or service	Issuance of a receipt to a student making a payment, or the approval of a receiving document in the Financial Information System
5. Asset disbursement verification *	Confirmation of the issuance of University asset	Recording in a cash register or receipt book of the issuance of a parking permit or an admission ticket
6. Ledger transaction review	Review and certification of financial transactions appearing in general ledger	Review and certification of departmental ledger transaction review
7. Reconciliation review and approval *	Review and approval of an analysis comparing a general ledger balance to a related balance amount provided by a third-party	Review and approval of a bank reconciliation or a reconciliation of a receivable balance appearing in the FIS to the aggregate balance maintained in the Academic Information System.

* This control stage is usually applicable only to a central campus office

Not all control stages are applicable to all campus business processes. In addition, divisions or departments may differ in level of reliance placed on controls at different stages of the process based on staffing levels and competencies, system controls, and/or operational considerations. Despite these differences, controls must be deployed in a manner that ensures each financial transaction complies with the seven transaction control standards.

⁶ For proper separation of duties purposes, the individual performing the control activity must be someone other than the person performing the input or processing of the information.

⁷ This may occur more than once in a process. For example, a purchase may involve review and approval of a purchase order and, later, of an invoice payment.

APPENDIX 1 – THE SEVEN FINANCIAL TRANSACTION CONTROL STANDARDS

The following table provides an example of how two different departments may implement different procurement and payment process control strategies that both enable compliance with the seven transaction control standards. You will notice that at many control stages, each department places a different level of reliance on the related control procedures. But overall, each strategy provides reasonable assurance of compliance with the seven transaction control standards. The strategies assume that adequate separation of duties exists among the individuals performing the control activities.

Control Stage	Strategy - Department #1	Strategy - Department #2
Transaction initiation review and approval - purchase authorization	Fund manager reviews a purchase request for reference books made by a staff member (with whom the fund manager is only casually familiar) for general appropriateness and authorizes, in writing or email, the purchase be made in CruzBuy.	Supervisor with no authority to expend funds reviews a purchase request of reference books made by a staff member (who reports to supervisor) for appropriateness and validity and requests that a purchase be made in CruzBuy.
Control standards verified so far in process (in bold type)	1. Appropriate (partial) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable 7. Timely recorded 4. Funded	1. Appropriate 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (partial) 7. Timely recorded 4. Funded
Transaction processing approval - CruzBuy order review and approval	Department manager with no authority to expend funds reviews CruzBuy order for validity, reasonableness (partial), and sufficient funding and approves the order	Fund manager reviews the CruzBuy order for reasonableness, and sufficient funding and approves the order
Control standards verified so far in process	1. Appropriate (partial) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (partial) 7. Timely recorded 4. Funded	1. Appropriate 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable 7. Timely recorded 4. Funded
Asset receipt verification - Goods services receipt verified	No one is responsible for ensuring receipt of goods	Staff member responsible for tracking receipt of goods sends an email to department manager indicating books have been received in good order
Control standards verified so far in process	1. Appropriate (partial) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (partial) 7. Timely recorded 4. Funded	1. Appropriate 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable 7. Timely recorded 4. Funded
Transaction processing approval - payment review and approval	The fund manager reviews the invoice for numeric and content accuracy and approves the payment	The fund manager reviews the invoice for appropriateness, reasonableness, accuracy and approves the payment
Control standards verified so far in process	1. Appropriate (partial) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (partial) 7. Timely recorded 4. Funded	1. Appropriate (twice) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (twice) 7. Timely recorded 4. Funded
Ledger transaction review	The fund manager or designee reviews the ledger transaction for appropriateness, reasonableness, and timely recording, in addition to reviewing the ledger in general for unidentified or unusual transactions	The fund manager or designee reviews the transaction for timely recording, in addition to reviewing the ledger in general for unidentified or unusual transactions
Control standards verified so far in process	1. Appropriate 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable 7. Timely recorded 4. Funded	1. Appropriate (twice) 5. Accurately recorded 2. Valid 6. Supportable 3. Reasonable (twice) 7. Timely recorded 4. Funded

Financial Control Standards

- Appropriate** - Directly related to achieving the mission of the University
- Valid** - Allowed by policy, law, contractual agreement, and/or professional standards
- Reasonable** - Fair amount paid for a good or service (applies to purchases and payments)
- Funded** - Sufficient funding exists to cover expenses or the results of an expenditure adjustment
- Accurately recorded** - Amount is consistent with value received, provided, or adjusted for; and is free from accounting coding or arithmetic error
- Supportable** - Amount and good or service received or provided, or justification for adjustment is consistent with supporting documentation, standard, situation, or practice
- Timely recorded** - Transaction date is accurate

APPENDIX 2 – LEDGER REVIEWER PROFICIENCY

The ledger reviewer, whether the fund custodian or his or her official designee, is not necessarily expected to be an expert in all areas of the law, policy or contractual terms applicable to a particular transaction. There are usually other individuals possessing this knowledge that are involved at a different stage of the transaction control process. Accordingly, the ledger reviewer is expected to possess a level of knowledge and competence matching the level of reliance placed on the ledger review control function by department or divisional management. In general, an effective ledger reviewer possesses the following attributes:

- **NO CONFLICTING DUTIES.** The ledger reviewer may not be involved in performing conflicting financial duties, such as also approving the processing of transactions being reviewed. For example, a ledger reviewer should not also be responsible for approving invoice or direct payments unless there are compensating controls in place elsewhere in the process.
- **KNOW THE BUSINESS.** A ledger reviewer must possess a basic familiarity with the activities of the unit so that the reviewer is capable of identifying unusual transactions.
- **UNDERSTAND THE FINANCIAL PROCESS.** A ledger reviewer must have a basic understanding the financial process, particularly the controls in place at different stages of the process. Depending on the level of importance and focus placed on the ledger review control function, the reviewer may be expected to have a working knowledge of relevant UC and campus business policies, regulations, and/or contractual requirements.
- **ANALYTICAL SKILLS.** A ledger reviewer must be able to analyze a transaction in a systematic way and to evaluate the propriety of a transaction.
- **APPROPRIATE AUTHORITY.** A ledger reviewer must have the authority and support from the fund manager, and departmental and/or divisional management to investigate questionable transactions and, as needed, bring unresolved issues to the attention of the appropriate levels of management for resolution.

APPENDIX 3 – ASSIGNING LEDGER REVIEW RESPONSIBILITY

A fund manager may officially assign the responsibility, but not the accountability, for reviewing and certifying general ledger transactions to another qualified person. This assignment must be made in writing by the fund manager to the designee (“ledger reviewer”). Each assignment must include, at a minimum, the following provisions:

1. GENERAL REVIEW INFORMATION

- a. The organization code(s) to which the assignment applies
- b. As applicable, the ledger review strategy and/or one or more specific approaches to be used in reviewing general ledger transactions

2. FUND MANAGER ACKNOWLEDGEMENT

- a. The fund manager acknowledges that the ledger reviewer possesses the skills and knowledge necessary to proficiently perform the function
- b. The fund manager gives the ledger reviewer the authority to certify the review on his or her behalf
- c. The fund manager will provide the support necessary for the ledger reviewer to successfully fulfill his or her responsibility
- d. The fund manager retains ultimate accountability for providing reasonable assurance that the transactions appearing in the general ledger meet the seven transaction control standards

3. FUND REVIEWER EXPECTATIONS

- a. Timely general ledger review and certification
- b. Providing reasonable assurance that the seven transaction control standards have been met for each transaction reviewed
- c. Bringing to the attention of the appropriate parties unresolvable issues arising from the review

A sample general ledger review assignment letter is available to assist a fund manager in making an official assignment of ledger review and certification duties. Refer to Form 3 for the sample assignment letter.

APPENDIX 4 – EXTRAMURAL FUNDS TRANSACTION REVIEW

Extramural Funds represent grants, donations, or contracts from sources (private, state, federal, etc.) outside the university. The award's principal investigator (PI) is ultimately accountable for the reasonableness and validity of all costs charged to a sponsored award. Transactions involving extramural funds are frequently subjected to a high level of audit scrutiny from external, state and federal agency auditors.

- The ledger reviewer must ensure that charges and credits comply with any applicable external regulations or terms and conditions of the appropriate agreements.
- Accurate reporting and/or invoicing of agencies is dependent on having accurate general ledger amounts.

LEDGER TRANSACTION REVIEW

In addition to the basic ledger review requirements described in this guide, a reviewer of transactions involving extramural funds should be particularly aware of the following:

- All transactions charged to an extramural fund must be for expenses directly related to achieving the purpose of that sponsored award.
 - Each transaction must be authorized by the PI or a designee who has first-hand knowledge of the sponsored award project or program.
- Certain types of expenditures are prohibited from being charged to extramural funds unless explicitly allowed in the sponsored award, including those charged to the following account codes:

Account Code	Description
009430	Fines and penalties
001280, U0128_	Donations and contributions
001210, U0121_	Advertising (Unallowable)
001250, U0125_	Entertainment and social activities (Unallowable)
001340	Costs of legal proceedings

- Large fluctuations in expenditure balances appearing in the general ledger may be indicative of numerous, significant, and/or untimely error corrections.
 - Large fluctuations are usually subject to audit scrutiny by the federal agency auditors.

LEDGER TRANSACTION CORRECTION

- Transfers of expenses, or cost transfers, should be kept to an absolute minimum.
 - Frequent transfers of expenses are usually indicative of a flawed procurement or payment procedure.
 - A divisional or departmental research accountant is expected to review approve each transfers of expense for validity, appropriateness, and accuracy.
 - Cost transfers must be within 120 days of the *original* transaction date
- Processing a transfer of expense in the Financial Information System requires the use of a specialized rule code, XDCG - "Contract and Grants and Special State Appropriations."

ASSISTANCE

Assistance in addressing sponsored award issues is available from the following sources

- Extramural Funds Accounting Office for assistance with award financial compliance requirements, including cost accounting, and financial reporting matters.
- Office of Sponsored Projects for assistance with other award compliance conditions.

APPENDIX 5 – RELIANCE ON LEDGER REVIEW AS A KEY CONTROL

The following table is intended to illustrate how different departments may place more reliance on controls at different stages of the procurement-payment-ledger review process to achieve reasonable assurance of compliance with the seven transaction control standards:

Control Stage	Control Examples	Business Environment #1	Business Environment #2	Business Environment #3	Business Environment #4	Business Environment #5
Transaction initiation review and approval	Review and approval a request to purchase of a good or service	Strong	Weak	Moderate	Moderate	Weak
Transaction review and approval (Order)	Order for good is entered into CruzPay or FIS and approved	Weak	Weak	Strong	Weak	Moderate
Asset receipt verification	Confirmation of receipt of good or service	Moderate	Moderate	Weak	Weak	Weak
Transaction processing approval (Payment)	Review and approval to pay a vendor invoice	Moderate	Strong	Weak	Moderate	Moderate
Ledger transaction review	Review and certification of departmental ledger review	Moderate	Moderate	Strong	Strong	Strong

Control strength levels

- Weak:** Low-level of reliance placed on controls to ensure compliance with the seven control standards. Characterized by the control functions being performed by a minimally qualified staff member, lack of separation of duties, and/or brief or limited scope transaction review.
- Moderate** Moderate-level of reliance placed on controls to ensure compliance with the seven control standards. Characterized by the control functions being performed by a qualified staff member, adequate separation of duties, and a perfunctory transaction review.
- Strong** High-level of reliance placed on controls to ensure compliance with the seven control standards. Characterized by the control functions being performed by a highly qualified staff member, adequate separation of duties; and a detailed, thorough transaction review.

APPENDIX 6 – LEDGER REVIEW SAMPLING APPROACH

For departments with a high volume of low-value, low-risk (LVLR) transactions willing to accept a small amount of risk, the ledger review process may be streamlined by reviewing all high-risk transactions and a sampling of LVLR transactions. High-risk transactions include the following:

1. Contract and grant expenses
2. Travel expenses
3. Entertainment, and business meeting and student event meals and refreshment expenses
4. Honorarium payments
5. Consultant and contract services
6. Relocation expenses
7. Non-employee gift expenses
8. Employee non-cash award expenses
9. Inventorial equipment purchases
10. Cash receipts
11. Other types of transactions determined to be high-risk by the division or department head
12. Individual high-value transactions not included above that exceed a maximum threshold value determined by the division or department head, but not more than \$1,000 under any circumstance

Transactions not of the types described above are LVLR. A division or department head choosing to use a sampling approach in reviewing LVLR ledger transactions must be aware of and accept that there are risks associated with not reviewing all ledger transactions, which include the following:

1. **INAPPROPRIATE OR INVALID TRANSACTIONS.** An inappropriate or invalid transaction may escape detection if it is not in the population of transactions selected for review.
2. **ERRORS IN TRANSACTIONS NOT INCLUDED IN REVIEW.** Errors in amount or accounting coding may go undetected.
3. **TRANSACTION POPULATION SAMPLE SELECTION BIAS.** Not reviewing a representative sample of transactions each month may result in errors in certain types of LVLR transactions going undetected.

These risks can be managed, but not eliminated, by doing the following

1. Reduce reliance on the ledger transaction review function by ensuring controls at other stages of the financial process are thorough and functioning effectively towards providing reasonable assurance of compliance with the seven transaction controls
2. Avoid sampling bias by ensuring that the monthly sample of LVLR transactions is truly representative of a typical month's department or division's financial transactions. All types of LVLR transactions should be reviewed at one time or another over the course of several months.
3. Review and update, as necessary, the sampling approach and/or size, particularly if there is growth or are changes in the department or program.
4. Establish a conservative transaction review threshold level that is within the department's loss tolerance

A worksheet is available to assist a department or division in determining an appropriate number of LVLR transactions to review each month. Refer to Form 2 for the sampling worksheet, which includes a sample completed worksheet.

FORM 1 – LEDGER REVIEW DOCUMENTATION LOG

CERTIFICATION: Transactions appearing in the general ledger for the following organization and fund codes have been reviewed and, to the best of my knowledge, determined by me to be appropriate, valid, reasonable, funded, adequately supported, and recorded accurately and timely, except as might be noted, for the reporting period indicated.

Organization Code	Fund Code (leave blank if all)	Organization Name

Reporting Period	Reviewer Certification Signature	Review Date	Remarks
Jul xxxx			
Aug xxxx			
Sep xxxx			
Oct xxxx			
Nov xxxx			
Dec xxxx			
Jan yyyy			
Feb yyyy			
Mar yyyy			
Apr yyyy			
May yyyy			
Jun yyyy			

FORM 2 – LEDGER TRANSACTION SAMPLING CALCULATION WORKSHEET

Refer to the next page for instructions on how to complete this worksheet.

1. FOAPAL from which the ledger review sample is to be calculated:

Organization _____ Fund (if applicable) _____

2. Enter the average total monthly expenditure amount , including salaries and benefits		
3. Enter the average monthly dollar amount of the following expense categories subject to mandatory review:		
a. Salary & benefits		
b. High-risk expenses - review required		
i. Travel		
ii. Entertainment event, business meeting and student event meal & refreshments		
iii. Inventorial equipment		
iv. Honorarium payments		
v. Consultant and contract services		
vi. Relocation		
vii. Non-employee gifts		
viii. Employee non-cash awards		
b. Total high-risk expenses. Add lines 3.b.i through 3.b.viii		
c. Other expense items exceeding tolerable threshold of \$ _____		
d. Total amount of mandatory review transactions. Add lines 3b and 3c.		
4. Low-value, low risk (LVLR) transactions. Subtract amount on line 3d from line 1		
5. Enter the average monthly number of LVLR transactions		
6. Enter the average value of a LVLR transaction. Divide amount on line 3 by line 4		
7. Enter the departmental tolerable monthly risk amount threshold		
8. Multiply amount on line 1 by 2%		
9. Enter the lesser of line 7 or line 8		
10. Divide line 5 by line 9. Exclude the decimal portion of the result. This is the number of randomly selected LVLR transactions that do <i>not</i> have to be reviewed each month		
11. Subtract line 10 from line 5. This is the number of randomly selected LVLR transactions that are to be reviewed each month		

RETAIN COMPLETED WORKSHEET FOR AUDIT AND REFERENCE PURPOSES

INSTRUCTIONS FOR COMPLETING THE WORKSHEET

This calculation should be performed periodically to ensure the ledger review sample size remains appropriate.

- Line 1 Provide the organization code and, optionally, the fund code of the population of ledger transactions for which the sample is to be calculated.
- Line 2 Provide the average total monthly dollar expenditure amount. In calculating an average, it is recommended that 3-6 months be selected that will result in fair representation of monthly unit expenditures.
- Line 3 For each category of expense, provide the average monthly expenditure dollar amount. For line 3c. determine the average monthly total amount of the expenditures that must be reviewed because they exceed the campus tolerable threshold amount of \$1,000. Campus units may apply a lower threshold amount.
- Line 4 Subtract total average monthly amount of mandatory review transactions from total average monthly expenses to determine the total average monthly dollar amount low-value, low risk (LVLR) transactions. This is the population from which the sampling approach will be applied.
- Line 5 Provide the average monthly number of LVLR transactions appearing on the ledger.
- Line 6 Divide the average monthly LVLR amount by the average monthly number of transactions to arrive at the average value of a LVLR transaction.
- Line 7 Provide the monthly risk (error) amount that the department is willing to accept. A relatively small amount represents a relatively small departmental tolerance for financial risk. The minimum value may be zero.
- Line 8 Multiply the average total monthly departmental expenses by 2% to arrive at the campus maximum allowable monthly risk amount.
- Line 9 Identify the lesser of the departmental or campus risk tolerance threshold as the risk amount to be applied in determining the ledger review transaction sample.
- Line 10 Divide the risk tolerance threshold amount by the average value of a LVLR transaction, discarding the fractional portion of the result.
- Line 11 Subtract the result of line 10 from the average number of LVLR transactions to arrive at the number of randomly selected LVLR ledger transactions that are to be reviewed each month.

Sample Completed Worksheet

1. FOAPAL from which the ledger review sample is to be calculated:

Organization 660301 Fund (if applicable) _____

2. Enter the average total monthly expenditure amount , including salaries and benefits	16,684	
3. Enter the average monthly dollar amount of the following expense categories subject to mandatory review:		
a. Salary & benefits	15,768	
b. High-risk expenses – review required		
i. Travel	135	
ii. Entertainment event, business meeting and student event meal & refreshments	32	
iii. Inventorial equipment	0	
iv. Honorarium payments	0	
v. Consultant and contract services	0	
vi. Relocation	0	
vii. Non-employee gifts	0	
viii. Employee non-cash awards	0	
b. Total high-risk expenses. Add lines 3.b.i through 3.b.viii	167	
c. Other expense items exceeding tolerable threshold of \$ <u>250</u>	46	
d. Total amount of mandatory review transactions. Add lines 3a through 3c.	15,981	
4. Low-value, low risk (LVLR) transactions. Subtract amount on line 3d from line 1	703	
5. Enter the average monthly number of LVLR transactions		10
6. Enter the average value of a LVLR transaction. Divide amount on line 3 by line 4	75	
7. Enter the departmental tolerable monthly risk amount threshold	250	
8. Multiply amount on line 1 by 2%	334	
9. Enter the lesser of line 7 or line 8	250	
10. Divide line 9 by line 6. Exclude the decimal portion of the result. This is the number of randomly selected LVLR transactions that do <i>not</i> have to be reviewed each month		3
11. Subtract line 10 from line 5. This is the number of randomly selected LVLR transactions that are to be reviewed each month		7

RETAIN COMPLETED WORKSHEET FOR AUDIT AND REFERENCE PURPOSES

FORM 3 – SAMPLE GENERAL LEDGER TRANSACTION REVIEW AND CERTIFICATION ASSIGNMENT MEMORANDUM

[Departmental or Divisional Letterhead]

[Effective Date]

[Insert Name of Ledger Review Designee]

[Insert Position Title]

I am hereby authorizing you to review general ledger transactions for organization codes xxxxx, yyyy, and zzzz, and to certify the ledger review on my behalf.

In performing the monthly review of ledger transactions, I expect you to assume responsibility for the following:

1. Timely general ledger review and certification, which includes maintaining a record of your reviews for audit purposes.
2. Complying with any specific divisional or departmental ledger review requirements.
3. In the context of other controls in place in a financial process, providing reasonable assurance that each transaction reviewed complies with campus financial transaction control standards.
4. Bringing to the attention of me or other appropriate parties unresolved issues arising from the review.

[INCLUSION OF THE FOLLOWING SECTION IS OPTIONAL]In addition to complying with all specific divisional and department ledger review requirements, I expect you to be particularly attentive to reviewing ledger transactions for compliance with the following attributes:

1. Appropriateness
2. Validity
3. Reasonableness
4. Sufficient funding
5. Accurate recording
6. Adequate supporting documentation
7. Timely recording

In assigning this responsibility to you, I acknowledge the following:

1. You possess the skills and knowledge necessary to proficiently perform this responsibility.
2. I am giving you the authority to certify the ledger review on my behalf.
3. I will provide you with the support necessary to successfully fulfill the responsibility.
4. I retain ultimately accountability for providing reasonable assurance that the transactions appearing in the general ledger comply with campus transaction control standards

This assignment is to remain in effect until it is replaced by a revised assignment letter, upon either one of us assuming a different job position that changes the nature of our working relationship, or upon either one of us terminating University employment. Please retain this original copy in your permanent records for audit and reference purposes.

Sincerely,

[Signature of Fund Manager]

[Title of Fund Manager]

cc: Ledger Review Coordinator, Accounting Office