Optimizing the financial close: Account Reconciliation automation

May 8th, 2018
Speakers

Ron Gothelf
Director
Financial Management
Ronald.Gothelf@us.gt.com

Kamron Miller
Managing Director
Technology Solutions
kamron.miller@us.gt.com

Omar Ahmed
Experienced Manager
Financial Management
Omar.Ahmed@us.gt.com
### Learning objectives

1. Recognize how the Account Reconciliation process aligns to the financial close process and the importance of reconciling on a frequent basis.

2. Integrate best practices into your Account Reconciliation processes.

3. Identify the leading automation tools available to support your Account Reconciliation process.

4. Recognize the common challenges that occur during the account reconciliation process and how automation can help overcome these challenges.
Agenda

1. Financial statement close
2. 8 step close process - framework
3. Account Reconciliation: Why reconcile?
4. Reconciliation process
5. Account Reconciliation best practices
6. Account Reconciliation tools
7. Enabling technology & platforms - overview
Financial Statement Close

Many organizations take too long and exert too much effort closing their books.

Close process optimization identifies financial inefficiencies and transforms them into value.

What is Financial Statement Close?
A process by which organizations produce their internal and external financial statements on a periodic basis. Includes profit and loss (P&L), balance sheet, and cash flows, as well as associated disclosures.

The optimal approach to Financial Statement Close projects tends to focus on accelerating timing, reducing cost, aligning resources, enhancing business insights, and improving quality and controls during companies' financial statement close processes.
# 8 step close process - framework

<table>
<thead>
<tr>
<th>Step</th>
<th>Key Activities</th>
<th>Areas of Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Close Sub-Ledgers</td>
<td>Finalize all Sub-Ledgers, reconcile and roll in GL</td>
<td>Interim close Activities reduce burden during close period, Remove non-core transactions from close period</td>
</tr>
<tr>
<td>2. General Ledger Close</td>
<td>Perform Reconciliations and Post Accruals</td>
<td>Allow for immaterial reconciliation to occur outside close period, Automate Accrual process, Limit accrual threshold</td>
</tr>
<tr>
<td>3. Validate Data</td>
<td>Conduct Data Assurance across all financial data sets</td>
<td>Structure multiple reviews of P&amp;L throughout R2R process to identify errors early, Prepare revenue early to allow more reviews of topline</td>
</tr>
<tr>
<td>4. Consolidation</td>
<td>Automate consolidated financial reporting</td>
<td>Use system features to automate the consolidation process, Recognize higher materiality thresholds at consolidated level</td>
</tr>
<tr>
<td>5. Internal Management Reporting</td>
<td>Deliver critical data to internal stakeholders for decision-making</td>
<td>Standardize reporting across departments and minimize customization, Minimize ad-hoc analysis and specialized reports and shift to month end</td>
</tr>
<tr>
<td>6. External Financial Reporting</td>
<td>Complete external reporting disclosures and financial information</td>
<td>Utilize economies of scale, Advance scheduling of review cycles prior to distribution</td>
</tr>
<tr>
<td>7. Filing</td>
<td>Deliver Edgar &amp; XBRL filings, Statutory filings, Tax, etc.</td>
<td>Ensure disclosure data is available from standard reporting, Automate tax provisioning tables from consolidation</td>
</tr>
<tr>
<td>8. Analysis</td>
<td>Analyze the outcome of steps 1 through 7 and adjust</td>
<td>Analyze and remove any redundant steps from the close process, Recognize additional process weaknesses</td>
</tr>
</tbody>
</table>
Polling question #1

How long is your close cycle?

A) 15 or more days
B) 10-14 days
C) 5-9 days
D) 1-4 days
Account Reconciliation
A key component of financial close

Many organizations don't have structured account reconciliation workflow

Companies fail to confirm the completion of current reconciliations and lack access to past reconciliation

What is Account Reconciliation?
Account Reconciliation is a key component of Financial Close given it is a critical control to help ensure Company's financial integrity.

Weaknesses and inefficiencies in the reconciliation process often lead to mistakes on the balance sheet and overall inaccuracies in the financial close.

By definition, it is an accounting process that uses two sets of records to ensure figures are accurate and in agreement. Reconciliation is the key process used to determine whether the money leaving an account matches the amount spent, ensuring the two values are balanced at the end of the recording period.
Why reconcile?

Quality Account Reconciliation is crucial for assessing the health of an organization and should be done on a frequent basis.

Reconciliations are performed to obtain assurance through an independent review and matching to alternate measures that account balances are properly stated; and by extension, that our financial reporting is properly stated - the activity recorded (and therefore the associated balances) conform to the five core financial statement assertions (and control objectives):

- **Existence or Occurrence** – The activity recorded actually took place or existed for the time period reported.
- **Completeness** – The activity reported is comprehensive and complete for the reporting period and account.
- **Valuation or Allocation** – The values assigned to the activities/transactions are properly allocated, assigned, and distributed across the different account types and/or time periods.
- **Rights & Obligations** – The organization has rights to or obligations for the activities/transactions in the period reported.
- **Presentation and Disclosure** – The activities and account balances are appropriately classified, reported and disclosed.
Reconciliation process

Account reconciliations are a process like any other financial reporting process and should be treated as such with formal consideration to their design, operation and control.

Roles/responsibilities – The two primary roles, that of the account reconciliation are preparer and the reviewer. These responsibilities should be clearly assigned and understood to ensure the timely and proper operation of the account reconciliation. The reconciler is essentially the “owner” of the account who understands the daily activities, operation and reporting of the account including all sources posting to the account.

Segregation of Duties – Like any control function, proper segregation of duties should be maintained to ensure the effectiveness of the review performed. Ideally for account reconciliations – the reconciler would be a person separate and independent from the person posting to the account.
Reconciliation process, cont'd

**Frequency** – The frequency of account reconciliations should at a minimum coincide with the reporting or closing frequency (i.e. monthly or quarterly) so that the reconciliations support the closing balances. Practically – the reconciliations may be performed more frequently; even daily or weekly to keep in step with a high volume of (transactional) posting activity and to identify any potential issues early on to have sufficient time to research and correct them before the reporting close.

**Scope** – The scope of account reconciliations is generally focused on all balance sheet accounts; however there may also be a need to include revenue and expense accounts. The scope should be set based on the needs, and past experience of reporting challenges at the organization. The scope should include those accounts with period to period changes or activity, but also consider the rationale for and reasonableness of unchanged or static account balances.
Reconciliation process, cont'd

**Deadlines** – Ideally the account reconciliations would be completed in the same reporting period before the books are closed and reporting completed to correct known errors prior to reporting. However, ever shrinking reporting deadlines with limited time and resources makes this impossible. The next best alternative is to complete the reconciliations and their review shortly after closing to allow adequate time for further follow-up and remediation prior to the next reporting closing. Reconciliation deadlines may also need to be staggered based on scheduling priorities and availability of information to ensure all accounts are addressed in a systematic fashion.

**Review** – As important as the reconciliation itself is the separate review and sign-off/approval of the reconciliation. This is especially critical where there might be potential segregation of duties weaknesses in the preparation of the reconciliation, and/or process and accounting complexities and/or significant judgments that would particularly benefit from another level of, or a deeper review.
Reconciliation process, cont'd

**Document Retention** – The reconciliations are an important part of ICFR and should be retained for the current reporting year until audit and sign-off on year-end reporting. Reconciliations should be retained in a network directory accessible to only those needing access and restricted from those that don’t. The reconciliations should be password protected from improper changes after their preparation and review, and backed-up to ensure they are available when needed. It would be helpful to retain the prior years’ reconciliations in addition to the current year as balance sheet accounts are the culmination of prior period activity, building over time.

**Monitoring** – It is important to monitor performance to ensure its proper operation. A checklist, or use of preparer confirmations and sign-off and/or other tracking means are necessary to ensure that all reconciliations are completed and reviewed on time. Central retention, such as saving reconciliations and support to a central network directory can also help with monitoring, by increasing visibility to the completed/saved reconciliations.
Polling question #2

What is the main issue driving delays in your Financial Close?

A) Organization changes
B) Report Standardization
C) System changes
D) Close and Reporting Failures
Account Reconciliation best practices

Account reconciliations should be complete
- No account should be left behind - ensure all appropriate accounts are being reconciled, including new and sensitive accounts
- An overall robust reconciliation policy must be defined to and adhered to company-wide
- Ensure that each reconciliation includes a thorough but succinct description of the account, procedures and/or instructions on how to complete the reconciliation (point of contacts, reports to run, source)
- Documentation supporting the account balance should be included with the reconciliation

Account reconciliations should be accurate
- The individual preparing and reviewing the account should have a basic understanding of what the account is used for and what should be used to support the balance. For example, cash accounts will most often need the general ledger and a bank statement in order to perform the reconciliation
- System checks set in place to ensure that the correct, most updated balances are being reconciled
- Ensure that the reconciliation actually supports the balance and is not just a copy of the GL or a roll-forward of the balance
- Watch for accounts that have unusual balances (i.e. an accrual with a dr balance or a receivable account with a cr balance)

Account reconciliations should be completed in a timely manner to be actionable
- Complete reconciliations and review asap to allow adequate time for follow-up and remediation prior to the next closing
- Create due dates for the reconciliations and have executive management enforce these deadlines from the top down
- Have a workflow mechanism to track the status of each reconciliation
- Move up the high-risk account reconciliation deadline in the close cycle to identify any potential problems
- Unidentified differences are no exceptions to the reconciliation process - they must be investigated and cleared with appropriate approval to post the necessary adjustments while the accounting period is still open. If research is expected to take longer than a period, an action plan must be presented
Account Reconciliation best practices, cont'd

Account reconciliations should support the appropriate accounting principles

- Account reconciliations should follow, first and foremost, their local accounting principles then company policies
- Thirdly, ensure the reconciliations follow the principles such as full disclosure, historical cost, and matching
- Ensure the reconciliations are objective - that they identify material unidentified differences, there is consistency across the periods for comparative purposes, and that the transactions behind the general ledger balance are accurate
- Revisit thresholds and tolerances regularly with executive leadership and internal/external audit

The account reconciliation process should be constantly reviewed and improved

- Review the account reconciliation policy to confirm that it accurately reflects the company's position
- A monthly reconciliation log can be used to track reconciliations that are incomplete, unidentified or unclear. Users and their corresponding managers are responsible for noting issues and defining action plans to get these reconciliations resolved, typically within a 90 day limit
- Track the overall process routinely to identify improvements that help drive quality and timeliness. Review the reconciliation procedures and/or instructions to ensure they answer: What? When? Who? Why? How Much?
- Use standard templates for the various types of reconciliations for consistency and ease of reviewing for accuracy and completeness. It is common for a company to have templates for accruals, calculated accounts, amortization, prepaids, etc.
- The roles / responsibilities for all users should be clearly assigned and understood to ensure timely and proper reconciliations
- Proper segregation of duties should be maintained to ensure the effectiveness of the review performed
- The scope should be set based on the needs and past experience of reporting challenges at the organization. The scope should include accounts with periodic activity, but also consider the rationale for and reasonableness of static accounts
- The frequency of account reconciliations should at a minimum coincide with the reporting or closing frequency
- Maintain separate review and sign-off/approval of the reconciliation
- It is important to monitor performance to ensure its proper operation
- The reconciliations should be retained for the current reporting year until audit and sign-off on year-end reporting
Account Reconciliation best practices, cont'd

Tools, technology and automation are enablers to deliver accurate results

- Appropriate technology should provide a framework for ensuring quality, accuracy, completeness and provide a means to track assignments, due dates, and work completion
- Automation within processes should be considered in all applicable situations to easing the entire processes involved in the operationalization and daily running of a business
- Automation within accounts enables a check to detect and reduce the error-rate (some as severe as financial frauds in the business) and overall makes the entire process more reliable and faster in execution
- Financial automation is an essential solution, highly valuable to companies who are used to striving too hard for approvals and are looking forward to going paperless

Proper training increases understanding of responsibilities / policies, and overall reduces the error rate

- There are many effective training methodologies but it is important to align the strategies to the company’s people, process, and technology
- Real time dashboards allows each user to keep up with tasks, audit trails, certification, workflow, dependencies, etc.
- Invest in a one-stop-shop for account reconciliation (shared drives, SharePoint) that is updated regularly with hot topics, company training materials, FAQs, quick reference guides, points of contact
- Consider having superusers or regional ambassadors that are knowledgeable in the account reconciliation system/process and have an accounting background to speak on various accounts
- Cross-training mitigates risk and increases user participation
- Both on-boarding and off-boarding process need to be defined
Polling question #3

What is the primary challenge in your account reconciliation process?

A) Significant manual effort
B) Lack of detailed data for automated matching
C) Difficulty in identifying key accounts
D) No defined account reconciliation policy
Grant Thornton close improvement case study

Company Overview and Situation

The Company owns and operates over 5 million square feet of secure and compliant data centers throughout the U.S. and internationally. The Company launched their IPO in 2013, has grown and continues to grow through mergers and acquisitions. They provide flexible, scalable, solutions for the federal government, financial services and high tech industries. After experiencing great growth, the close process had not yet evolved sufficiently to efficiently support the business and reporting needs. In order to improve reporting, increase controls, reduce audit and accounting costs, and enable accelerating filing and financial reporting deadlines, the Company’s goal was to reduce the monthly close cycle time from 15 to 5 days.

Applied Expertise

- Developed an understanding of the existing close activities
- Captured the duration, timing and dependencies of existing close activities
- Facilitated workshops enabling the discovery and discussion of improvement ideas
- Prioritized improvement ideas
- Identified dependencies between improvement ideas and determined capacity to deploy improvement ideas
- Identified responsibility for deploying improvement ideas
- Developed a realistic plan to reduce the close cycle

Benefits and Values Achieved

- Prioritized projects and roadmap to reduce the close cycle
- Streamlined the close processes
- Had internal stakeholder and customer buy-in to successfully realize the value of the efforts
- Caused the changes in the process to be adopted and sustained
<table>
<thead>
<tr>
<th>Large hospitality, gaming and entertainment organization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company Overview and Situation</strong></td>
</tr>
<tr>
<td>• Public $4.7B hospitably, gaming, and entertainment company</td>
</tr>
<tr>
<td>•Owns and operates 40 plus locations around the globe under brands including well known hospitality and gaming brands.</td>
</tr>
<tr>
<td>• Over the years had grown significantly through acquisition and had numerous finance and accounting systems with various level of capabilities and sophistication</td>
</tr>
<tr>
<td>•As part of the organization’s plan to upgrade to modern accounting and finance systems, Grant Thornton was selected to help implement a replacement for the existing account reconciliation solution</td>
</tr>
<tr>
<td><strong>Applied Expertise</strong></td>
</tr>
<tr>
<td>• Utilized a robust project management structure and project delivery processes to organize resources across multiple locations</td>
</tr>
<tr>
<td>• Provided the functional and technical expertise to complete the full lifecycle implementation the account reconciliation solution; this included direct integration to the recently implemented, Cloud-based ERP-GL as well as integration with various sub-ledger systems and processes</td>
</tr>
<tr>
<td>• Leveraged rigorous change management concepts to ensure adoption of new processes and systems at individual properties</td>
</tr>
<tr>
<td><strong>Benefits and Values Achieved</strong></td>
</tr>
<tr>
<td>• Provided end-users with consistent navigation, look and feel, and dashboarding to that of other Cloud-based accounting and finance solutions</td>
</tr>
<tr>
<td>• Enabled direct integration including drill-through to the recently implemented, Cloud-based ERP-GL</td>
</tr>
<tr>
<td>• Facilitated more robust controls for as-was reporting related to historical reconciliations (e.g. preparer and reviewer that actually performed reconciliations for a given period instead of current preparers and reviewers assigned to reconciliation)</td>
</tr>
</tbody>
</table>
Polling question #4

How far along are you with automation of your close?

A. Basic
B. Developing
C. Established
D. Advanced
Account Reconciliation tools

Account reconciliation tools facilitate the management and performance of reconciliations including the enforcement of accounting standards, policies, and procedures. These tools focus on activities related to reconciling general ledger accounts and documenting account balances to ensure accuracy and posting of adjustments where necessary.

Their features vary across solutions from simple stand-alone databases to retain account reconciliation documentation to integrated end-to-end solutions managing the entire process where journal entries can be initiated and posted to the accounting ledger and linked to supporting data and reconciliations performed with monitoring and status reports to measure progress to completion, and summarize adjustments across accounts.
### Enabling technology & platforms - overview

Technologies and platforms to enable modern and future Close, Consolidate, and Report processes.

<table>
<thead>
<tr>
<th>Value Driver</th>
<th>Operational Finance</th>
<th>Financial Statement Close and Report</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1 Process Group</strong></td>
<td>SAP, Oracle, IBM</td>
<td>Master Data Management, Close, Consolidate, Report</td>
</tr>
<tr>
<td><strong>Level 2 Process</strong></td>
<td>informatica, Reltio, riversand, StiboSystems, TIBCO, Fiserv, Infor, OneStream, Talentia, Prevero, Hostanalytics, Anaplan, Prophix, Microgen, Tidemark, Tableau, Qlik, Runbook, Chesapeake, Blackline, Adaptable Insights, Tagetik, Trintech, Longview Solutions</td>
<td></td>
</tr>
</tbody>
</table>
Oracle Account Reconciliation Cloud Service (ARCS)

Oracle Account Reconciliation Cloud is a purpose-built solution in the Cloud designed to manage the global reconciliation process. It provides real-time visibility into the performance of reconciliations, ensuring that all reconciliations prepared are properly qualified. It also helps companies streamline and optimize performance by automating certain reconciliation tasks, including high volume transactional reconciliations. Finally, it allows organizations to comprehensively address Security and Risk such as missing or lost reconciliations un-reconciled accounts that are material, and many types of sensitive data across many people with need for secure access. Account Reconciliation Cloud includes its robust integration engine, Data Management, as well as two modules:

• Reconciliation Compliance – manage period-end reconciliation processes for Balance Sheet, P&L Variance Analysis, Consolidation, local GAAP; ensure compliance requirements

• Transaction Matching – automate performance of matching high volume, labor intensive transactions across one or more datasets
Overview

A comprehensive account reconciliation tool providing accountants with an intuitive interface focused on standardization. The tool helps eliminate manual intensive activities and streamlines the account reconciliation processes by providing more visibility into the month-end close activities. BlackLine enforces standardization across the reconciliation process to improve quality and accuracy of financial data resulting in accountants focused more on analysis, risk mitigation and exception handling. Some of the BlackLine popular modules include:

- **Financial Close Management**
- **Reconciliation Management**
- **Inter-Company Hub**
- **BlackLine Insights**
Overview – Cadency Tool

Trintech’s Cadency is a comprehensive tool for finance teams to help eliminate a manual tasks critical to the Record to Report process.

Cadency’s Close Action Plan Router (APR) prevents the inaccuracies in the financial statements that are all-too-often caused by a disconnected, multi system close process by providing automated workflows for these tasks that would ordinarily require extra, potentially manual, decision-making steps.

With this solution, all close actions that occur in the ERP or other external systems automatically update in the Close Manager in real-time.
Polling question #5

Which of the following Account Reconciliation tools would be of interest to you?

A) Oracle (ARCS)
B) BlackLine
C) Trintech
D) Unsure
Questions?
Speakers

Ron Gothelf
Director
Financial Management
Ronald.Gothelf@us.gt.com

Kamron Miller
Managing Director
Technology Solutions
kamron.miller@us.gt.com

Omar Ahmed
Experienced Manager
Financial Management
Omar.Ahmed@us.gt.com
Disclaimer

- This Grant Thornton LLP presentation is not a comprehensive analysis of the subject matters covered and may include proposed guidance that is subject to change before it is issued in final form. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this presentation. The views and interpretations expressed in the presentation are those of the presenters and the presentation is not intended to provide accounting or other advice or guidance with respect to the matters covered.

For additional information on matters covered in this presentation, contact your Grant Thornton LLP adviser.
Disclaimer

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the U.S. Internal Revenue Service, we inform you that any U.S. federal tax advice contained in this PowerPoint is not intended or written to be used, and cannot be used, for the purpose of (a) avoiding penalties under the U.S. Internal Revenue Code or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.

The foregoing slides and any materials accompanying them are educational materials prepared by Grant Thornton LLP and are not intended as advice directed at any particular party or to a client-specific fact pattern. The information contained in this presentation provides background information about certain legal and accounting issues and should not be regarded as rendering legal or accounting advice to any person or entity. As such, the information is not privileged and does not create an attorney-client relationship or accountant-client relationship with you. You should not act, or refrain from acting, based upon any information so provided. In addition, the information contained in this presentation is not specific to any particular case or situation and may not reflect the most current legal developments, verdicts or settlements.

You may contact us or an independent tax advisor to discuss the potential application of these issues to your particular situation. In the event that you have questions about and want to seek legal or professional advice concerning your particular situation in light of the matters discussed in the presentation, please contact us so that we can discuss the necessary steps to form a professional-client relationship if that is warranted. Nothing herein shall be construed as imposing a limitation on any person from disclosing the tax treatment or tax structure of any matter addressed herein.

© 2017 Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd. All rights reserved. Printed in the U.S. This material is the work of Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd.
Thank you for attending

To retrieve your CPE certificate

• Respond to the online evaluation form. Please note, you may need to disable pop-up blocking software to complete this evaluation.

• Print your CPE certificate and retain for your records. Participants are responsible to maintain CPE completion records.

• Those receiving CPE will also receive the certificate at the email address used to register for the webcast.

• We are unable to grant CPE credit in cases where technical difficulties preclude eligibility. CPE program sponsorship guidelines prohibit us from issuing credit to those not verified by the technology to have satisfied the minimum requirements in monitoring response and viewing time.

If you experience any technical difficulties, please contact 877.398.9939 or email GTWebcast@centurylink.com
Thank you for attending

Visit us online.
For questions regarding your CPE certificate, contact
CPEEvents@us.gt.com