# ACCOUNTING DEPARTMENT HEALTH CHECK

Start the process of optimizing your accounting department by assessing its proficiency in these core disciplines of a high-performing department.

8020 CONSULTING

## CORE DISCIPLINES

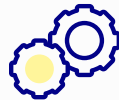**ACCOUNTING DEPARTMENT REPORTING CALENDAR**

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## ACCOUNTING DEPARTMENT REPORTING CALENDAR

The accounting department should maintain a master reporting calendar that highlights the month-end closing dates and deliverables. The calendar should be distributed to all employees in the organization. At a minimum, it should include dates for invoicing, accounts receivable/cash, accounts payable/invoices, checks/payments, expense report processing, payroll and release dates for deliverables and monthly reports. If applicable, it should also include due dates for any regulatory compliance deliverables. The calendar helps serve as an aid to make sure the organization's employees and stakeholders are properly aligned with the accounting department's work to ensure timely and accurate financial reporting.

## MONTH-END CLOSE PLANNING MEETING

Properly planning a month-end close is of the upmost importance to achieving timely and accurate financial reporting. Each month, the accounting department should conduct a pre-close meeting. Ideally, this should happen in the middle of the month, upon the conclusion of the previous month's close. The purpose of this meeting is to identify and resolve any issues encountered during the previous month's close as well as discuss any issues pertinent to the upcoming close. In the meeting, each staff member's assignments should be provided to them to ensure all personnel are aware of their assignments, due dates and expectations for deliverables. Any items that need to be added or removed from the month-end close tasklist should also be addressed and the tasklist subsequently updated. Alternatively, and depending on the size of the accounting department, month-end close planning meetings may be broken up into smaller groups of functional staff members to better tailor the subject matter for their individual roles (e.g., AR, AP, clerical or staff accountants).

## MONTH-END CLOSE TASKLIST

The month-end close tasklist is the department's primary tool to organize, manage, execute and monitor the progress of the close. Its primary purpose is to make sure no processes, journal entries, reconciliations or other steps are missed each month. Each task required as part of the close should be listed, and at a minimum, each task should have a description, due date, assignee and reviewer. Create space on the tasklist for both the assignee and reviewer to sign off, indicating that the task is complete and reviewed.

The tasklist should be tailored to the needs and requirements of the organization's close process and be ordered chronologically, as certain tasks are dependent on others. Items that can be added to the tasklist include, but are not limited to:

- Category
- Ordering of Tasks
- Importance of Each Task
- Effort/Time Required
- Workday
- GL Account Number
- Frequency (Monthly/Quarterly/Yearly)
- Dependencies
- Additional Notes Related to the Task

During month-end close, mini-meetings to discuss task progress and/or roadblocks may be required several times per week or daily, depending on the complexity of the work being performed.
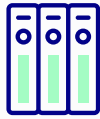
## MONTHLY REPORTS & OTHER DELIVERABLES

Each month's deliverables should be identified, created, checked for accuracy and distributed on time, according to the department's reporting calendar. The reports should be tailored to the audience to which they are distributed. All reports distributed to non-accounting/finance personnel should be scrubbed to ensure they are free of accounting jargon, notes and markings. Each report should be neat, clean and presentable with appropriate labeling and verbiage for its intended audience, including an executive summary and detail which supports the summary data.

Reports and examples can be divided up into several different categories and should be tailored as such:

1. Intradepartment (accounting/finance only)
2. Interdepartment (distributed to other company departments)
3. External (distributed to those outside of the organization)

## ACCOUNTING & REPORTING FILES

It is important that all files, reports, workpapers and other support be stored on a shared drive on the company's network or in a shared document management system. The files should be organized by year and by month. Unless the files contain sensitive information (e.g., payroll), all accounting personnel should have access to all information in real-time. It might also be prudent to password-protect important or sensitive workbooks, or even certain cells so that no important formulas are overwritten. The most important aspect of the file structure is that it stays logical and organized, enabling any user to easily research and find information with minimal effort. Files may also be organized into functional groups such as banking, month-end close, financial reporting, accounts receivable, accounts payable or any other criteria based on the organization's needs.

## MONTH-END CLOSE WORKPAPERS & SCHEDULES

Nearly all month-end close tasks should have a workpaper, report or schedule associated with them. To the greatest degree possible, workpapers should be automated, encompassing the use of formulas, tables and calculations based on underlying reporting data. This ensures accurate calculations and journal entries while also allowing for easier research into the work performed.

Workpapers should be easy to follow, such that another member of the accounting staff could reasonably perform the same work, with little to no outside help, and arrive at the same result. Workpapers should include proper labeling, titling, calculations and references to the source data. Workpapers should be careful not to overuse highlighting, colors, different fonts, pictures, graphs, tables and extraneous information that is not relevant. Ideally, a well-written workpaper or template should start with source data or a report and become progressively more summarized. The summary tab should either be a report, conclusion or result that can be reasonably understood by other accounting staff. Lastly, all workpapers should be "audit ready" in that they could be submitted to external or internal auditors with little to no editing required.

## ACCOUNT RECONCILIATIONS

Account reconciliations are an integral part of accurate financial reporting. The majority of balance sheet accounts should be reconciled on a monthly basis. Accounts with little to no activity, or those deemed to be less critical, can be reconciled quarterly. Reconciliations may be stored as separate files or in a consolidated Excel workbook. Some income statement accounts may also need to be reconciled either monthly or quarterly.

Each account should be individually assigned to staff and reviewed at its predetermined interval (e.g., monthly, quarterly, yearly) per the month-end close schedule. All reconciliations should be stored in the appropriate folder on the organization's shared drive.

Bank reconciliations should include the outstanding check list and accompanying bank statement. There should be no uncleared journal entries. There should be no electronic payments or deposits aged more than 2-3 business days on a bank reconciliation. Any checks outstanding for more than 90 days should be proactively reviewed monthly for escheat purposes. Bank accounts should be reconciled at minimum on a monthly basis. Certain high-volume bank accounts should be reconciled weekly or even daily, as needed. Some newer ERP systems have tools to automate the bank reconciliation process.

## REPORTS & SCHEDULES

In addition to regular balance sheet reconciliations, the accounting department should maintain certain schedules, reports and workpapers including, but not limited to:

- Flash Reporting
- Monthly Sales
- Internal Financials
- External Financials
- Monthly Reporting Package
- Cash Summary/Forecast
- Budget/Forecast
- Analytical Review/Flux Analysis
- SOX Compliance Documentation
- Schedule of Recurring Journal Entries
- Bank Account Listing – Should Include Bank Name, Account Number, Type, GL Account
- Accounts Receivable Aging
- Bad Debt Calculation/Reserve
- Prepaid Expenses
- Fixed Assets (Includes Roster, Depreciation Schedules, Additions, Disposals and a Summary/Rollforward Schedule)
- Intangible Assets
- Accounts Payable Aging
- Payroll/Gross Wage Reconciliation
- Lease Schedules
- Accruals
- Debt/Loan Amortization
- Commissions/Bonus Payable
- Other Asset and Liability Accounts

All schedules should show a clear tie-out to the GL and the system reports from which they originate. The schedules can exist as separate files or be combined into a master document.

## ACCOUNTING POLICIES & PROCEDURES

The accounting department should have formal, written policies related to financial reporting, internal controls, month-end closing, prepaid and capitalization threshold, revenue recognition standards (ASC 606), process workflows, payroll, expense reporting and any other procedures relevant to the organization.

Internal control documentation should be maintained on an ongoing basis and updated as needed. Documentation should identify custody, authorization, reconciliation and approval functions for each owner and the steps for each accounting process. Internal control documentation should also address the risk of fraud. It is helpful to use an Excel-based matrix format in addition to written narratives to identify the processes. This should be maintained continuously since processes and owners frequently change. All documentation should be stored on a shared drive and/or a printed copy should be retained in the physical office.

It is a good idea to incorporate an accounting department manual. The manual should contain "how to" procedures related to day-to-day activities, monthly close activities, financial reporting requirements, internal control documentation, audit requirements and procedures (internal/external), regulatory compliance information (if applicable), ERP documentation, journal entry approval processes and other documentation or information pertinent to the smooth operation of the accounting department. This ensures sufficient cross-training of employees on tasks to provide adequate backup in case of employee absence.

## PROCESS WORKFLOWS

The accounting department should have well-developed, documented workflows and/or processes related to cash, accounts receivable and accounts payable (including payroll). There should also be considerations related to the receipt or issue of checks and electronic payments. Does the organization have a lockbox, or does it receive checks manually? Does the company accept electronic payments through its bank or a third-party platform?

The accounting department should also have a well-defined and documented journal entry review process. All journal entries should be approved prior to posting in the GL. The review should be conducted by a manager or another member of the department. All journal entries should be accompanied by a workpaper or other sufficient documentation, stored on the department's shared drive. Newer ERP systems allow documentation to be stored directly in the system, eliminating the need for additional support files.

After posting, the journal entry should be validated, and the balance reconciled to the expected result in the affected accounts. Conduct a reasonableness check. Does the entry make sense? Does the data in the report make sense, and how does it compare to prior month?

## IT & POST-CLOSE CONSIDERATIONS

Balance sheet accounts should be closed in sequential order, starting with cash. Once an account is closed, all postings to relevant GL accounts for the period should be restricted. Many modern ERP systems have access controls that allow this functionality. Prior to locking down the period, it is important to check for the following:

- Are there any open tasks remaining on the month-end close checklist?
- Are there any unreviewed tasks remaining on the month-end close checklist?
- Are there created/unposted/saved journal entries in the ERP that need to be posted or voided?
- Are all prior periods closed?
- Are all accounts reconciled?
- Have the financial statements been reviewed and approved for release?

Lastly, it may be time to review the organization's chart of accounts and/or ERP system as a whole. The chart of accounts should be designed to easily record, track, manage and analyze company financial data. The ERP system should meet the company's needs and be able to improve the financial reporting process.

## BUSINESS INTERRUPTION CONSIDERATIONS

The accounting department is unique to an organization in that it is highly dependent on other departments to function efficiently and properly. Additionally, the accounting department is inherently complex in that many dependencies exist between its own members, each of whom is required to do their parts correctly to achieve a desired result. If any one area breaks down, the entire department can lose efficiency and fall behind in its work.

While having good systems, processes and procedures are integral to an accounting department's operation, it is equally important to identify contingencies for any type of business interruption due to internal or external factors. It critical that the department have formal, written and documented plans in place to mitigate the risks of any business interruption, planned or unplanned.

Interruptions include, but are not limited to:

- Power Outages
- Internet Outages
- Server Outages
- Systems Outages
- Earthquake, Fire, Hurricane, Natural Disaster or Other Acts of God
- Terrorism/Sabotage

While many of these events are rare, it is important to plan properly for these contingencies. A formal disaster recovery plan should be written and maintained by the accounting department. This document should highlight procedures and processes to keep the business running should there be an extended period of time where some or all of the core systems or services normally available to the organization are unavailable.

# Bring in *Third-Party Perspective*

We hope this health check offers insight into the strategic process of optimizing an accounting department. If you need expert assistance and a third-party perspective in your optimization efforts, an 8020 Consultant can help. With a team of nearly 100 professionals headquartered in Los Angeles and capable of working remotely to serve companies across Southern California, we can quickly assess and respond to your unique requirements and mandates.

Contact us today to support your accounting department optimization efforts—**we can help**.

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