



Automating Transaction Reconciliation Processes

04.12.06

Introduction

- **Where is our deposit?**
- **Why do we have to hire more people?**
- **Why does it take six weeks to close our books?**
- **Why do we have so much idle cash?**
- **Why do we spend so much time being audited?**

If you cannot seem to find acceptable answers to these or similar questions, you should consider automating your transaction reconciliation processes to better manage your cash flow. Organizations supporting multiple depositing locations have typically relied on manual processes to reconcile deposit reports for individual locations against monthly bank statements. Running this type of manual reconciliation process can take up to sixty days, during which time companies are exposed to risk, including error, theft and/or fraud. Additionally, in a manual environment, employees spend the majority of their time matching items that correspond exactly, leaving precious little time available to researching the costly exceptions.

Automating your accounting and treasury lifecycle can significantly reduce your exposure to risk, provided you select a system that fits your business processes and then implement it successfully.

How do you find the right automated transaction reconciliation system? Trintech discussed that very question with managers and directors from the accounting and treasury departments of four nationally recognized companies: Hallmark Cards, Inc., Verizon Wireless, Valero Energy Corporation, and Ameren Corporation.

The conclusion of the discussion determined that when evaluating an automated system for transaction deposit verification, reconciliation and exception resolution, you should look for one that can:

- automate as much of the reconciliation process as possible
- accommodate the volume and diversity of your transactional data
- provide full general ledger integration capabilities
- interface with your other business applications
- tighten controls and codify business rules to improve auditability and compliance
- automate ACH processes
- expedite exception resolution to eliminate losses
- complete the accounting and treasury lifecycle
- be easily implemented with a minimal amount of training

Automating Transaction Reconciliation Processes

An organization can quickly realize the benefits of an automated transaction reconciliation system when that system automates as much of the daily, monthly and periodic reconciliation data as possible, including non-exact matches. Most companies have a wide variety of data to reconcile, including deposit variances, late deposits, bank fees and non-sufficient funds items. If the reconciliation system cannot effectively automate the various types of data matching, users are forced to spend their time examining deposit statements and spreadsheets. This manual examination of data significantly reduces the benefits of automation and increases the cost of ownership.

Brian Eskijian, Shared Services General Accounting Manager for Hallmark Cards, implemented an automated transaction reconciliation system, after which his department moved quickly from a manual, labor-intensive monthly reconciliation process to daily deposit verification and reconciliation. Hallmark Cards noticed immediate benefits in the area of loss prevention. Previously, they were exposed to losses due to the 30-to 45-day lag in reporting. With the automated system, they were able to track and monitor their funds on a daily basis. The success led the company to implement an automated solution for ACH, disbursements and credit cards.

"The software has helped us perform our reconciliation activities more efficiently," said Eskijian. "We have realized cost savings as a result of the efficiencies gained in staff productivity. We've been able to take on more responsibilities with our existing headcount."

Handling Current and Future Transaction Volumes

Scalability can be defined in terms of both the volume and the diversity of data that a system can process. A robust, scalable transaction reconciliation system will efficiently handle your current and future data processing volumes, as well as multiple types of reconciliations such as credit cards, disbursements, and non-sufficient funds.

An organization's aggressive growth strategy adds complexity to back office operations. A system that smoothly integrates accounting, reconciliation and cash management activities enables you to quickly experience benefits associated with growth, and contribute to increasing the market value of your company.

Bill Andersen, Associate Director Treasury Planning for Verizon Wireless, led the selection process for an automated transaction reconciliation system. His primary business challenge was to consolidate business practices for multiple locations after the merger that created Verizon Wireless. Store locations were performing the same reconciliation functions, verifying store deposits and credit card transactions, but in different ways. Andersen required a system that would streamline processes and effect best practices day-to-day.

"Standardization of operations across all sites was a key objective," said Andersen. "Automating processes was not enough. We wanted process improvement."

Integrating with the General Ledger

Companies need to provide accurate information to their general ledger system. An automated transaction reconciliation solution should take data such as bank fees, overages/shortages and non-sufficient funds and load it to the correct cash and expense accounts creating a dual-sided entry. If the process of feeding the general ledger is not automated using a proven interface, you could encounter major problems.

Manual entries are subject to error. Additionally, manual entries are subject to increased testing from internal and external auditors to ensure correct control processes are in place and confirmed. If you are not posting accurately to the general ledger, it will take a significant amount of time to correct the errors. And, you'll create an out of balance situation between the general ledger and your bank accounts, slowing down period-end close.

Hallmark automatically books adjustments stemming from daily reconciliation processes to their general ledger for a timely period-end close.

"The general ledger extract feature enables us to timely post all of our exceptions in a summarized format," said Eskijian. "This helps us match the adjustment with the period and streamline our month-end closing period."

Adapting to Your Business Rules

The ability to completely incorporate the business rules of your organization down to the individual deposit location is crucial. For example, most multi-location store chains have varying daily deposit amounts. Without the ability to incorporate variances down to the store level, the same tolerance limits would have to be set for all stores. This would create two negative results: additional manual reconciliation would be necessary, and store managers would have greater determination of the corporate standard for acceptable deposit variances, which increases susceptibility to theft/fraud. Additionally, if the implementation of a new system requires the altering of current business rules, users may be forced to learn a new system and a new way of doing business.

You want an automated reconciliation system that fits your business rules. This includes the ability to adjust permissions and set reconciliation limits per user. The goal is to have continuous control over the system, while maintaining flexibility for business changes. All of your essential account reconciliation and month-end processes should be contained in a single controlled and automated environment. There should be no need for manipulation of data in spreadsheets. A closed enterprise system architecture will support the establishment, maintenance and assessment of internal compliance structures by providing key controls in the areas of documentation, access controls, business controls and data and records management. A system of this sort will support audit, accountability and reporting requirements such as the Sarbanes-Oxley Act.

Valero Energy implemented an automated reconciliation solution to improve reconciliation, reduce exposure to fraud and trim bank fees. The company reconciles fuel delivery receipts, grocery vendor invoices, credit cards and money orders. As a result of having the automated system in place, Valero Energy has automated field notification of exception reports, improved staff efficiency, reduced bank accounts and bank fees, and reduced bank balances, providing more funds for investment. They also have improved internal controls to better comply with Sarbanes-Oxley requirements.

"Since implementing an automated end-to-end reconciliation system, we have seen significant financial savings," said Lear. "Staff productivity is great, and new efficiencies have allowed us to add projects without increasing staff."

Ameren Corporation achieved solid daily productivity after implementing their reconciliation system. Additionally, the company improved period-end balancing, and improved auditability with Sarbanes-Oxley through detailed system reports.

"We are able to balance our bank accounts monthly at a much lower cost than in the past," said Larry Millburg, Managing Supervisor, Performance Management for Ameren. "Best of all, Sarbanes-Oxley isn't a cause of stress for us any longer. Our reconciliation system puts us in front of the curve."

Automating ACH Processes

There are three areas of concern for companies that wish to automate their ACH processes.

- First, is the ACH system anticipatory? If an ACH system is not truly anticipatory, then you could possibly lose millions of dollars in earning potential from idle balances. Additionally, you'll still need to manually review your accounts at the end of each period.
- Second, does the ACH system require the use of the concentration bank's software? If an ACH system requires the bank's software, you're looking at an additional cost of ownership. There can also be implementation delays, if the reconciliation system vendor is not flexible with its data output.
- Third, does the reconciliation system vendor have actual production sites? Without actual production sites, any company using an unproven ACH system is putting their cast at risk. Sweeps could be too small, too large, intermittent, or worse, moved to the wrong account.

You'll want to consider a system that creates files in NACHA standard format, and uses the software that you use to poll your banks and upload the file of ACH sweeps.

"We wanted a system that would enable us to keep track of our funds and help us avoid overdrafts to our depository accounts," said Eskijian. "Having the ability to transfer available funds into higher-yielding concentration accounts maximizes the use of our cash."

Expediting Exception Resolution

Once you have automated the majority of your reconciliation processes, you can expect to gain productivity in the areas of exception resolution and management reporting.

When examining an automated transaction reconciliation system, evaluate how it manages the research of exceptions and communication to field locations and banks. The ability to communicate quickly via email, fax or pager directly from the reconciliation system is crucial to the timely and accurate resolution of exceptions.

Strong reporting tools must be a part of a reconciliation system's capabilities. The system should have the flexibility to create a variety of reports from standard templates, as well as the ability to create custom reports. Be sure to examine sample reports as part of your evaluation process, including those that track missing or late deposits and outstanding items. These reports enable you to see into your daily cash position and alert you to any discrepancies, which might indicate serious problems.

Quick Implementation - Easy to Learn, Easy to Use

By selecting an intuitive transaction reconciliation system, as well as one that supports and integrates your staff's current processes, you will minimize the training and implementation period. Users will be more excited about using a system in which they have confidence.

Don't forget to consider existing user knowledge. Do they have experience with an automated or homegrown system? You'll want a reconciliation vendor that will customize training sessions based on the experience of your staff.

Verizon Wireless first evaluated how many sites and departments would be involved in the implementation process. They then developed a plan to implement one site/department at a time. A phased implementation maintained enterprise stability.

"We had to address different requirements at each site of operations. This included evaluating everything from hardware, to staff experience, and site policies and procedures," said Andersen. "Our phased rollout allowed us to accommodate the differences at each site. The work up-front was well worth the effort."

Whether you are implementing for the first time or upgrading to a new release, the ability to use the software quickly and easily is of paramount importance.

"Getting our users at Hallmark Cards up-to-speed with the newest release was crucial to maintaining our high level of reconciliation productivity," said Eskijian.

Completing the Accounting Lifecycle

Though Item matching is central to the reconciliation lifecycle, it is only one process. It's important that you look for an end-to-end solution that facilitates full-cycle accounting processes from the time data is loaded, through the matching process, to the time the data is uploaded to the general ledger. One of the key indicators to whether an automated transaction reconciliation solution is sufficient is the accuracy and timeliness of the integrated bank-to-book module.

The system should securely store your bank and ledger balances, allow transactions to be posted to the expense account of your choosing, and use your fiscal calendar in calculations. Without an end-to-end "closed" solution, a company cannot effectively close the loop on the automation cycle, and it may fail to realize the full business benefits for which it is striving. Many systems can perform some level of data matching, but they don't provide fully reconciled accounts at the end of a period. If at any time you open a system to manual processes, you open it up to human error, and increase the likelihood of theft/fraud – all risks you want to avoid.

Conclusion

Selecting a proven transaction reconciliation system is important to the success of your business. It's imperative that you ask:

- how many other companies use the vendor's accounting and treasury lifecycle management products
- for references and site visits to companies using the vendor's products/services
- for examples of implementations automating multiple reconciliations...beyond simply bank deposits
- about implementation and training schedules, and what type of end-user support is provided
- about the vendor's company history and experience in your industry, the depth and breadth of their customer base and the level of expertise of their implementation and support staff

The right transaction reconciliation enterprise system gives you more control over your accounting and treasury lifecycle. It will easily automate your daily, monthly, and periodic reconciliation and account balancing processes to help your organization tighten controls, reduce risk, cut costs, leverage cash and make more informed business decisions.