State of Vermont
Department of Finance and Management

Financial Process:	**Ledger Review**	**Issue Date: Number:**	**October 2006 BP-05.01**
Topic:	**Internal Control - Best Practices**	**Revision Date:**	**May 2007**
Applicable To:	**All State Agencies, Departments, and Offices**	**Page:**	**1 of 3**

Objective

Departments are responsible for developing techniques and procedures for reviewing ledgers to ensure all financial transactions are appropriate, accurately described, and properly recorded. Ledger review is one component of a prudent financial management strategy that provides oversight of all department funds and provides management with information about the status of budgets under their control.

Risks

- Undetected errors, irregularities, or misclassifications
- Improper or unauthorized transactions
- Overspent budgets
- Inaccurate financial statements

Definition

The term “ledger” refers to summary records and reports where financial transactions are recorded and posted from details included in subsidiary records. Examples of available VISION reports and queries include:

- **Budget Status** report (GLS8020)
- **Budget Ledger Balances** queries
- **Trial Balance** report (GLS7012)
- **VT_Account_ Exp** queries
- **VT_Cash_Receipt_Journal** query
- **Voucher Status** report (VTAP003)

➢ For more information on available reports & queries and how to run them, refer to the VISION Reporting Manual.

Best Practices Include

- The employee(s) responsible for reviewing ledgers should be familiar with the financial activities of the department but should not have responsibilities for processing the day-to-day transactions of the department.

  [Separation of Duties]

- Ledgers should be reviewed on a monthly basis; the passage of time makes it increasingly difficult to detect and act upon questionable transactions.

  [Monitoring]

- The responsible employee should sign or initial the ledger reports to indicate their review and approval; any corrective actions should be noted for follow-up in the subsequent month's reports.

  [Approval and Documentation]

- Generally, ledger review is a broader and less detailed process than the steps involved in financial reconciliations. The reviewer should be looking for questionable activity that may be erroneous, invalid, or inappropriate. The reviewer should be on the alert for:
  - Unusual Transactions
    - Expense or revenue amounts (*or sources*) that appear to be out of line with expectations (i.e. budgets, historical trends), transactions with unknown or questionable vendors, an unusually high (or low) volume of transactions, etc.
  - Duplicate or Erroneous Transactions
    - Transactions involving the same vendor, invoice, and /or payment amount.
  - Incorrect Chart of Account Classifications
    - Questionable activity or balances in the chart of accounts (e.g. fund, DeptID, account, etc.) that are inconsistent with the department's financial activities.
  - Reasonableness
    - Experienced reviewers will likely be able to spot transactions or balances that appear unreasonable.

  [Monitoring and Verification]

- The level and effectiveness of existing controls in place over a financial process influences the extent of ledger review that is necessary:
  - Strong front-end internal controls may enable a department to reduce (*but not eliminate*) its reliance on the ledger review process.
  - Conversely, weak controls will result in the department relying more heavily on a thorough ledger review process to detect erroneous and inappropriate transactions.

  [Monitoring]

- In smaller organizations with limited segregation of duties and controls, ledger review by the appointing authority or a senior manager is a critical financial control.
  [Separation of Duties]

- In developing a ledger review strategy, consideration should be given to the following tactics:
  - Materiality Based on Dollar Amount
    - Use of a certain dollar threshold to determine which transactions, or account balances, are of significance and require review. A small sampling of transactions involving smaller amounts may also be reviewed, as well as any transactions that appear unusual.
  - Deviations from Anticipated or Past Expenditure Patterns
    - Analysis of expenditures (or revenues) by account code (*or other logical grouping*) based on a percentage of total expenditures compared to budgeted or historical percentages.
  - High Risk Transactions
    - Focus review on certain chart of account codes (or specific vendors) that may be more likely to contain inappropriate or erroneous transactions.

  [Monitoring]

VISION Related Best Practices

- The primary objective of the **Month End Closing Instructions for Actuals Ledger** document is timely and accurate financial reports. Adherence to these instructions will facilitate a more productive ledger review process as any system identified incomplete or erroneous transactions will be corrected prior to month-end reporting.
  [Reporting]

- Refer to **VISION Procedure #7: General Ledger Transfers** for specific instructions on processing transfers in VISION.
  [Reporting]

Notices

- These best practices are intended to support the internal control framework as presented in the **Internal Control Standards: A Guide for Managers**.
- In consideration of these best practices, the objective should be on adherence and not on rationalizing ways and means for circumvention.
- Nothing in this document shall limit or supersede any applicable Federal or State laws, statutes, bulletins, or regulations.