



A Systematic Approach to Managing Manual Journal Entries

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The Financial Executive's World

The controller's office is no longer expected to simply deliver timely and accurate financial statements every month. Today's controller manages projects to improve efficiency and automate redundant tasks while working with both a smaller accounting staff and budget.

Due to workforce reductions, today's corporate accounting departments tend to be less experienced and overworked. Accounting departments are at a greater risk of overlooking mistakes, from simple error to high-level pressure to create or ignore fraudulent journal entries. In the past, seasoned employees made up the majority of the department, but their time is now diverted to training new hires, overseeing special projects and solving the "crisis du jour."

Controllers are challenged to properly allocate limited resources and prioritize staff time to the most-needed areas, thus potentially leaving portions of the general ledger exposed and subject to missed accounting errors or even instances of undetected fraud.

Manual Journal Entries

Eliminating manual journal entries is ideal, because controllers understand that these are the most likely source of accounting errors. Regrettably, not only do manual journal entries exist, they may exist with such frequency that the volume is a significant percentage of the general ledger. Further, manual journal entries are the ultimate management override and risk.

Internal controls should be in place requiring supervisor review and approval of all manual journal entries before the transaction is entered into the general ledger. However, time constraints, coupled with staffing limitations, may push manual journal entry review to post close—if it even happens at all. The accounting supervisor is often stretched so thin, the review is little more than a rubber stamp. The controller is left hoping for the best, but more often than not, the controller learns the hard way.

What was initially perceived as a variance-to-budget due to operational missteps is actually a manual journal entry posted to the wrong general ledger account or for the wrong amount. Discovery of such inaccuracy may not come until after the operational manager and his team are engaged to explain variances. With egg on their face, the mistake has then wasted the time of the financial staff and those who produce earnings through production or sales.

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Manual journal entries may slow the close process while staff accountants research an unusual manual entry, recorded weeks earlier during the month. Another scenario, a close is delayed while the consolidations group attempts to understand why intercompany accounts do not clear and find error in a miscoded manual journal entry. The worst-case scenario is fraud. Manual journal entries could be recorded to increase revenue or reduce costs to bring an operational manager and the team, including his financial partner, to budget and achieve performance-measure targets.

Consequences of Errors

The controller's credibility is on the line and eroded with every mistake that goes undetected and/or exposed at an inopportune time. Limited and inexperienced staffs along with conflicting priorities generally push the review of manual journal entries to the bottom of the list again and again.

Instead of achieving the required reduction in SG&A costs, auditing expenditures increase when undetected errors are found in an external audit. Unearned employee bonuses are paid. Operational productivity is impacted. Financial statements are misstated. These consequences can be dire and may be avoided through continuous transaction monitoring where large amounts of transactions are brought down to a manageable number.

The Solution

Establish systematic and continuous approach to identify, and resolve, suspicious and erroneous manual journal entries:

- Employ a consistent process to resolve all "suspicious" manual journal entries
- Manage by exception looking for the problems only
- Timely visibility of/into problems enabling proactive resolution
- Identify the source and/or root cause of each exception
- Document "audit trail" of problem issues
- Identify the source and/or root cause of each exception
- Assign/track "investigation"

Attributes of the technology enabled program:

- Continuous
- Consistent
- Objective
- Independent from accounting staff
- Comprehensive/complete 100% coverage; IOW look at all manual journal entries

Software features:

- Suspicious journal entry management

