
MANAGEMENT DIRECTIVE

310.27

Number

COMMONWEALTH OF PENNSYLVANIA GOVERNOR'S OFFICE

Subject:

Month-end Closing Processes

By Direction Of:


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Date:

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Month-end closing processes using the enterprise-wide, Systems Application Products (SAP) software include the closing of posting periods in the Funds Management module (FM), the Materials Management module (MM), the Controlling module (CO) and the Finance module (FI). This directive outlines the finance and finance-related roles and responsibilities, along with the policies necessary to employ and consistently apply best business practices when preparing to close, closing, and reconciling financial and budgetary accounts each month.

1. **PURPOSE.** To establish roles, responsibilities, and policies for monthly, pre-closing, closing, and post-closing reconciliation processes.
2. **SCOPE.** Applies to all departments, boards, and commissions, hereinafter referred to as agencies, under the Governor's jurisdiction that use SAP.
3. **DEFINITIONS.**
 - a. Month-end Pre-closing processes – Activities that must be done before the posting period can be closed for the month.
 - (1) Finance (FI) pre-closing activities include:
 - (a) Posting or clearing parked documents.
 - (b) Ensuring that all interfaced, electronic files and files with errors are corrected and posted.
 - (c) Posting all cost allocations for the posting period.
 - (d) Posting all accrual and deferral accounting entries for non-Cash Drawdown System (CDS) federal programs.

(e) Creating project settlement rules and final fixed asset settlement rules.

(2) Funds Management (FM) pre-closing activities include:

(a) Ensuring there are sufficient funds at the major object expenditure level for each appropriation and clearing negative balances before the posting period is closed.

(b) Returning budget for augmenting revenues that have been budgeted but will not be received within the fiscal year.

(c) Blocking of funds within an appropriation, if amounts are estimated to lapse within the posting period.

(3) Controlling (CO) pre-closing activities include posting manual cost allocations to reflect proper expenditures for the month.

(4) Materials Management (MM) pre-closing activities include:

(a) Posting inventory adjustments.

(b) Posting goods receipts and invoice receipts on hand.

(c) Performing Goods Receipt/Invoice Receipt (GR/IR) clearing account (#2100100) maintenance on purchase orders to ensure an accurate Goods Receipt/Invoice Receipt (GR/IR) account balance.

b. Month-end closing processes include activities necessary to complete monthly accounting entries to fairly present the Commonwealth's financial position and results of operations for the period.

(1) Closing activities include:

(a) Closing the posting period for the previous month in four (4) SAP modules, MM, CO, FI, and FM.

(b) Manual and automatic clearing of select, general ledger account line items.

(c) Posting and reversing accrual accounting entries.

(d) Posting reclassification and elimination entries to properly report internal activities and balance sheet accounts.

(e) Posting depreciation expenses.

(f) Settling capital expenses to assets under construction (AUC) accounts.

(g) Settling completed, capital projects in the AUC accounts to fixed assets.

(h) Posting automatic redistributions of costs.

(i) Posting FM encumbrances to FI general ledger (GL) accounts.

(j) Clearing cash balancing GL accounts upon receipt of the Treasury monthly warrant file.

(k) Reclassifying the GR/IR account and posting accrued expenses for all non-valuated purchase order line items.

c. Month-end Post-closing processes – Include activities necessary to validate the month-end closing steps, verify that all documents posted appropriately, and reconcile FI account balances and FM appropriation balances. Various reconciliations must be performed monthly to ensure the validity of general ledger (GL) account balances in FI and to verify appropriation balances in FM. Appropriations, COPA funds, revenues, federal receivables, advancement accounts, and the GR/IR account are reconciled monthly.

(1) FI reconciliations include:

(a) Reconciling the COPA fund cash and short term investment balances in SAP to the Treasury COPA fund account balance.

(b) Reconciling the asset sub-module account balances to the respective fixed asset GL account balances.

(c) Reconciling the Accounts Payable (AP) and Accounts Receivable (AR) subsidiary ledgers to the respective GL account balances.

(d) Reconciling the federal receivable account balances and related accrued federal revenue balances to federal revenue and expenditures by fund and internal order.

(e) Reconciling advancement account balances with bank balances and Treasury authorized account balances.

(f) Reconciling non-augmenting revenue posted to SAP with revenue posted to the Department of Revenue's Revenue Accounting System (RAS).

(2) FM reconciliations include:

(a) Reconciling each fund (appropriation) balance in FM with Treasury's balance for the fund.

(b) Reconciling the budget amounts posted to Budget version 999 with the amounts budgeted to Budget Version 0.

(c) Reconciling estimated augmentations with actual augmentations to determine adjustments where necessary.

(3) MM reconciliations include:

(a) Reconciling inventory account balances with actual inventory on hand.

(b) Reconciling goods receipts and invoice receipts for purchase order line items.

d. Budgetary Accounting Records (FM Module) – Budgetary accounting records measure revenue and expenses on a cash basis. Budgetary transactions are posted from financial documents, procurement documents, budget documents, and earmarked fund documents. All transactions posting into the FM module must include: the SAP fund (appropriation), fund center, commitment item, and functional area. This is referred to as the Quadruple.

e. Financial Accounting Records (FI Module) – The financial accounting records measure revenues, expenditures/expenses, the associated payables/liabilities, and receivables/assets on an accrual basis of accounting. That is, expenditures/expenses are recognized when they are incurred and revenues are recognized when earned or susceptible to accrual. Accounting transactions are posted by general ledger account, fund, business area, and one or more of the following cost objects: cost center, internal order (grants), or work breakdown structure (WBS) element. The financial records are maintained to reflect the COPA funds, (e.g., Purchasing fund, State Racing fund, Tobacco fund) financial position, and results of operations.

f. Parked and Saved as Complete FI documents – Invoices, revenue documents, and journal entries that have been “Parked and Saved as Complete” but not posted in FI. These FI documents are posted in FM as Value Type 60 documents and they consume budget even though the document is not yet posted in FI or reflected in the GL account balance. Parked FI documents (not Parked and Saved as Complete documents) do not post in FM; and therefore, do not consume budget.

g. Interfaced documents (IDOCs) and Interface Errors-System-generated accounting documents that cannot be posted due to missing or invalid account assignment information.

h. Posting periods – Twelve monthly posting periods exist in the Material Management (MM) module (Procurement and Inventory), each period coinciding with a month of the state’s fiscal year. That is, posting period 1 is July 1-31 and period 12 is June 1-30. Only the current posting period is open for this group of activities.

There are 16 posting periods in the FI, CO, and FM modules. The first 12 posting periods represent the month of the state’s fiscal year, as defined herein for the MM module. Periods 13 through 16 are special accounting periods used only by the Office of the Budget Comptrollers and the Bureau of Financial Management (BFM) to close the accounting records at the end of the fiscal year. Period 13 is used to post reconciling adjustments before closing the fiscal year and carrying account balances forward. Period 14 is used to adjust only the financial accounting records to post accruals, deferrals, eliminations, and reclassifications, not posted on a monthly basis, to reflect each COPA fund’s financial position and results of operations on a generally accepted accounting principles (GAAP) basis consistent with Governmental Accounting Standards Board (GASB) Statement #34 and other accounting standards. Period 15 is used to post accounting adjustments resulting from the Commonwealth’s Comprehensive Annual Financial Report (CAFR) audit, and Period 16 is used to report single audit adjustments necessary to issue the Commonwealth’s Single Audit.

4. POLICIES.

a. Pre-closing steps.

(1) Parked and Saved as Complete FI documents shall be posted or deleted no later than the last business day of the month. Parked and Saved as Complete documents include all invoices, revenue documents, and journal entries. Note: Parked only FI documents can remain in parked status at the end of the reporting period.

(2) IDOC and interface errors shall be posted in the month received. All IDOC and interface files shall be posted in the current month and all corrections shall be posted no later than the 4th business day of the following month. Errors that cannot be corrected within this timeframe shall be reported to BFM and the agency Comptroller for resolution no later than the close of the current month.

(3) Cost allocations shall be posted in the month the expenses were incurred, whenever the data is available and the allocation is authorized. Manually processed cost allocations shall be processed by the last day of the month, if necessary to reflect the expense in the current posting period. Cost allocations posted in the current period, for costs originally incurred in a previous period, shall be posted with a document date equal to the service date or start date for the period of time in which the costs were incurred.

(4) Non-CDS federal accrual and deferral entries for the posting period shall be posted on or before the 4th business day of the following month, before the posting period is closed.

(5) All agency Goods Receipt/Invoice Receipt (GR/IR) account balances shall be reviewed and account maintenance steps performed at least weekly. Goods receipts and invoice receipts shall be entered into SAP upon receipt.

(6) Agency personnel responsible for capital project definitions and work breakdown structures (WBS) shall enter project settlement rules into the SAP system no later than the last day of the month. All settlement rules shall be maintained on a monthly basis to ensure proper settlement of capital asset expenses to the AUC general ledger account.

(7) Agency personnel responsible for fixed assets acquired through capital projects shall enter all fixed asset settlement rules into the SAP system by the last day of the month. All settlement rules shall be maintained on a monthly basis to ensure proper settlement of AUC assets to final, fixed asset general ledger accounts.

(8) Agency fixed asset additions, deletions, transfers, retirements and expenditure reclassification entries shall be posted monthly by the last business day of the month. Quarterly confirmations shall also be performed and submitted to the Office of Budget, BFM, to ensure an accurate fixed asset balance.

(9) Accounts Receivable Lockbox files shall be received no later than the 3rd business day of the month, and posted in the period in which the receipts were collected in the depository account.

(10) Agencies shall post funds blocks monthly to identify amounts to be lapsed for the period, if amounts are known.

(11) Appropriation balances shall be monitored regularly and negative balances cleared on or before the last business day of the month, whenever possible.

b. Closing steps.

(1) The month-end closing steps shall be executed and completed on or before the 5th business day of the following month.

(2) Automated cycle runs scheduled to run by the Office of Integrated Enterprise Systems (IES) or BFM shall be posted by the 4th business day of the following month as part of the closing process.

(3) Accounting system users shall be notified that the posting period is closed and reports are available for the month by the 10th business day of each month.

(4) Month-end closing programs shall be scheduled to run after the last day of the month at the direction of BFM.

(5) The Business Warehouse and R/3 balances shall be in balance before the Status of Appropriation files are prepared.

(6) The Status of Appropriation report files shall be generated no later than the 10th business day of the month.

(7) Bureau of Management Information Systems (BMIS) shall post the monthly Status of Appropriations report on the Office of Budget website no later than the 10th business day of the month.

(8) All posting periods shall remain closed after the monthly closing process is complete and the period is closed. Accounting adjustments required after the period is closed shall be made in the open, current period. Closed periods shall be re-opened only upon written request to and approval by BFM.

(9) Posting periods 13 through 16 will be open only for authorized accounting system user IDs. BFM shall review and approve all SAP posting period authorizations for this purpose before the IES security staff may grant authorization.

c. Post closing steps.

(1) The SAP to Treasury fund reconciliation, FM module, shall be completed monthly, including correcting entries, by the last day of the following month. The Unreceipted/Unpaid document listing shall also be reviewed for items more than 30 days old, so aging documents can be researched and appropriately adjusted in the accounting records.

(2) The SAP to Treasury COPA Fund cash and short-term investments reconciliation, FI module, shall be completed monthly by the last day of the following month.

(3) The SAP to RAS non-augmenting revenue reconciliation shall be completed monthly, beginning in FY2005, with all adjusting entries to correct reconciling differences by the last day of the following month.

(4) Federal receivable balances, and related federal revenue accounts, shall be reconciled monthly by the last day of the following month. The reconciliation is required regardless of fund or ledger, for all CDS and non-CDS grants.

(5) All advancement account balances shall be reconciled monthly to the bank and authorized balance by the last day of the following month.

(6) The GR/IR account shall be reviewed for open items on purchase orders on at least a weekly basis and by the last day of the month. Open items that are more than 30 days old shall be resolved in the system by the last day of the following month.

(7) Month-end closing transactions shall be validated by BFM by the 10th business day of the month.

(8) Customer receivable account balances shall be aged and evaluated within program guidelines to determine collectibility and need for dunning letters to properly manage the accounts.

(9) Cash clearing accounts shall be cleared on a monthly basis, as of the State Treasurer's warrant date. Line items more than 30 days old should be reviewed and steps taken to resolve.

(10) All e-block invoices shall be cleared within seven (7) business days of receipt of the Treasury monthly warrant file.

(11) Reconciling adjustments shall be posted in the current, open period. Posting periods shall not be reopened for this purpose unless approved in advance and in writing by BFM.

(12) A lapse file shall be prepared by the 25th of the month and sent to the State Treasurer for processing.

5. PRE-CLOSING RESPONSIBILITIES.

a. BFM shall:

(1) Maintain the opening and closing of all posting periods and funds in the SAP system. Each posting period will be opened in advance for payroll processing and Treasury warrants that are posted in advance.

(2) Notify Agencies, Comptrollers, IES, and BMIS of the expected month-end closing date.

(3) Coordinate the scheduling of month-end closing jobs with IES and create program variants for each program to be executed to close the posting period.

(4) Develop and distribute month-end closing instructions.

b. BMIS shall:

(1) Report IDOC and interface errors to agencies or the respective Comptrollers on a daily basis.

(2) Coordinate the correction of IDOC and interface errors with Comptrollers, agencies, and the Bureau of Financial Management (BFM).

(3) Notify comptroller offices and BFM of IDOC errors that remain outstanding at the end of the month.

(4) Complete the correction of all IDOC and interface errors, received within the month, no later than the 4th workday of the following month.

(5) Ensure all IDOCS and interface files received for processing within the month are processed in the month in which they are received.

(6) Ensure IES and BFM are aware of any interface files not received for the month closed.

c. Bureau of Commonwealth Payroll Operations (BCPO) shall:

(1) Notify agency comptrollers weekly and at the close of each month of instances where payroll-posting errors were corrected, or not yet corrected, by BCPO.

(2) Reconcile payroll restricted receipt funds on a weekly basis.

(3) Reconcile the payroll documents to the finance (accounting) documents by pay date and GL account to ensure the modules are in sync.

d. IES shall:

(1) Schedule all daily, weekly, and monthly programs needed to support the monthly closing process. Monthly closing programs shall be scheduled to run on or before the 5th business day of the following month.

(2) Update the monthly, custom Z tables in support of the monthly, SAP fund reconciliation and related payroll reconciliation when data is available.

(3) Ensure the payroll, bank clearing program has been executed and posted for all payrolls posted within the period.

(4) Post 3rd party remittance vendor invoices in the posting period in which the related payrolls are posted.

(5) Provide advance notification to BFM of all master data changes, system design changes, functionality changes, and production fixes to enable the business owner to assess the impact, if any, on the monthly closing processes, as well as other business processes.

(6) Ensure all IDOCS and interface files, received for processing within the month, are processed in the month in which they are received.

(7) Ensure BFM is made aware of any interface files not received and processed for the month closed.

(8) Ensure the reconciliation of data in the Business Warehouse cubes with the R/3 system data before the official notification is sent to SAP users to announce the close of the posting period and availability of reports.

e. Agency Comptroller shall:

(1) Post or delete all Parked and Saved as Complete FI documents in order to include them in the correct posting period. This is important if the FI documents are Parked and Saved as Complete because the documents are consuming budget in FM, and will not carry forward to the next fiscal year when the current fiscal year is closed.

(2) Post all cost allocations in the period in which the expenses were incurred, whenever possible. Note: Exceptions will be necessary in instances when the data is not available to allocate costs in the same period. Examples include monthly and/or quarterly after-the-fact interagency billings.

(3) Coordinate IDOC and interface error corrections with agency fiscal offices and BMIS to ensure error corrections within the first 4 business days of the following month.

(4) Monitor GR/IR account balances in GL account 2100100 for open items more than 30 days old and direct agencies to adhere to the policies and procedures in this directive, which provide for weekly and monthly transactions on a regular basis to review and resolve open items that are more than 30 days old.

(5) Post all non-CDS federal grant receivables, payables, and adjusting entries for the posting period on or before the 4th business day of the following month, before the posting period is closed.

(6) Assist agencies in monitoring appropriation balances at the major object level; that is, Commitment item 6100000, 6300000, 6400000, etc., to ensure sufficient funds to cover commitments and expenditures posted to the SAP fund.

(7) Post all vendor invoices and accounting adjustments into the SAP system in a timely manner to reflect revenues and expenses in the proper accounting period.

f. Agencies shall:

(1) Enter goods receipts into the system in the same month that goods and services are received, whenever possible. Goods received in one month and posted in the next month should be posted with a document date equal to the actual receipt date.

(2) Monitor and maintain the Goods Receipt/Invoice Receipt (GR/IR) clearing account using transaction MR11 to clear line items requiring a clearing document on a weekly and monthly basis. This will ensure that unmatched goods receipts and/or invoice receipts that are more than 30 days old are reviewed and resolved to accurately report the status of open items on purchase orders.

(3) Ensure that all goods or services received in the current or prior fiscal years are posted in the SAP system. Goods receipts shall not be posted in advance of the actual receipt date.

(4) Maintain inventory balances and make inventory adjustments, as needed, to reflect changes in inventory values by the last business day of the month.

(5) Enter all purchase documents and earmarked funds into SAP upon receipt of a legally-binding obligation or Memorandum of Understanding (MOU) to reserve funding.

(6) Post asset reclassification entries, transfers, deletions and retirements, and any new acquisitions not posted as an asset through the purchasing process by the close of business on the last business day of the month.

(7) Review and post/update WBS element (capital project) settlement rules by the close of business on the last day of each month to ensure proper settlement of capital expenses to Assets Under Construction (AUC) in the financial records.

(8) Review and post/update Assets Under Construction (AUC) settlement rules to provide the rules necessary to settle AUC accounts to final, fixed assets by the last business day in the month.

(9) Enter all customer invoices, and vendor invoices for agencies using transaction FB60 in field offices, upon receipt to ensure invoices are entered into SAP daily, and whenever possible, before the last business day of the month.

(10) Notify BFM of all master data changes required to support the daily processes; e.g., cost allocation rules and monthly closing process.

(11) Post budget returns for estimated augmentations that will not be collected in the current fiscal year.

(12) Post funds blocks for each appropriation that should be lapsed within the posting period.

6. CLOSING RESPONSIBILITIES.

a. BFM shall:

(1) Maintain posting periods and funds in the SAP system and approve posting period authorizations. Each posting period will be closed within the first 5 business days of the next month. Funds will be closed in accordance with *Management Directive 310.3, Encumbering and Lapsing of Appropriations*.

(2) Verify that all files are posted and errors corrected in the month to be closed.

(3) Execute the month-end closing steps in SAP, and work with the Office of Administration, Integrated Enterprise System (IES) to schedule the month-end closing programs.

(4) Notify IES to send a broadcast message to all SAP users when the closing process is complete and Business Warehouse report data is static for the posting period (month) closed.

(5) Validate and provide FM and FI data files to the Auditor General for departmental and comprehensive annual financial report audits.

b. BMIS shall:

(1) Generate the Monthly, Status of Appropriations and post the report to the Office of the Budget website.

(2) Notify comptrollers and BFM of:

(a) Any scheduled interface files not received for the month.

(b) All IDOC and interface error corrections that could not be posted before the month was closed.

c. IES shall:

(1) Verify that all month-end, scheduled jobs ran successfully and notify BFM of any document errors requiring further action.

(2) Perform the monthly steps necessary to clear the non-SAP invoices payable account, as well as, delete the block and clear SAP invoices in e-block status within 5 days of receiving the Treasury warrant file.

(3) Run all cash clearing programs for the month before the posting period is closed.

(4) Notify all SAP users when the monthly closing procedures are completed by BFM and reports are available for the closed month.

(5) Provide support for the month-end closing process.

(6) Ensure all accounts receivable lockbox receipts files are posted for the month by the 4th business day of the following month.

(7) Generate the monthly lapse/expiration file for Treasury by the 25th of each month.

7. POST-CLOSING RESPONSIBILITIES.

a. BFM shall:

(1) Validate the month-end closing steps to verify the completeness and accuracy of all month-end closing processing steps.

(2) Review and approve the Status of Appropriations Report for web distribution by the 10th business day of the following month.

(3) Compare and reconcile all COPA fund cash and short-term investment balances with the State Treasury balances by the last day of the following month.

(4) Compare and reconcile the AP and AR subsidiary ledgers to the respective reconciliation GL account balances in SAP.

(5) Compare and reconcile the Asset Ledger with the General Ledger in SAP.

(6) Provide standard guidance for the reconciliation processes and procedures listed below:

(a) SAP fund.

(b) Non-augmenting revenue.

(c) Grants receivable.

- (d) Advancement accounts.
- (e) Assets under construction accounts.
- (f) Fixed asset reconciliation accounts.

(7) Prescribe the balance sheet review and analysis required of Comptrollers and Agencies on a monthly basis.

b. BMIS shall:

(1) Generate the Monthly Status of Appropriations files and work with BFM to validate and post the status to the Office of the Budget website.

(2) Ensure that IES and BFM are aware of any scheduled interface files not processed for the month closed, and notify BFM of IDOC errors that remain outstanding for more than 20 days.

c. BCPO shall:

(1) Reconcile the payroll restricted receipt account balances by reporting group (SAP fund) on a weekly basis and post all adjusting entries by the last day of the following month.

(2) Reconcile all payroll and travel receivables and advancement accounts to the bank balance and authorized Treasury balance by the last day of the following month.

(3) Reconcile the payroll documents to the related finance documents for each payroll run to ensure the amounts posted to FI and HR-Payroll are in agreement by fund and general ledger.

(4) Reconcile all payroll restricted receipt funds with Treasury and enter adjusting entries to correct SAP. File SAP fund exception reports with BFM for all payroll restricted receipt accounts, and document adjusting entries by the last day of the following month.

(5) Reconcile the payroll non-augmenting revenue discrepancies between SAP and the Revenue accounting system by revenue class, COPA fund and document line item by the last day of the following month.

(6) Reconcile the payroll bank clearing accounts with the payroll documents and bank warrant file documents for the month by the last day of the following month.

d. IES shall:

(1) Notify all SAP users when the monthly closing procedures are completed by BFM and reports are available for the closed month.

(2) Reconcile R/3 and Business Warehouse data to ensure accurate reporting for the posting period.

e. Agency Comptroller shall:

(1) Reconcile all SAP funds with Treasury and enter adjusting entries to correct SAP and/or Treasury by the last day of the following month.

(2) File SAP fund reconciliation exception reports, complete with all documented adjusting entries, with BFM by the last day of the following month.

(3) Reconcile all advancement account balances with the bank balance and authorized Treasury account balance for in-scope accounts, and post correcting entries by the last day of the following month to correct errors.

(4) Reconcile all federal grants, regardless of fund ledger, with the corresponding grants receivable general ledger account balances by the last day of the following month.

(5) Reconcile non-augmenting revenue discrepancies between SAP and Treasury by COPA fund, GL account, revenue class, and document line item by the last day of the following month.

(6) Review the aging of accounts receivables in SAP for agency receivable accounts and report balances outstanding more than 60 days to the respective agency manager for dunning letter and collection or resolution.

(7) Review and age the open items that remain outstanding in each agency's GR/IR account balance by the last day of the following month.

(8) All items that remain open for more than 60 days shall be referred to the agency's Director of Administration or Procurement for appropriate follow up.

(9) Validate the amounts posted to SAP funds and general ledger accounts during the month, i.e., FI encumbrances, GR/IR reclassification and reversal, non-valuated goods receipt accruals and reversals, depreciation expense, assets under construction/project settlements, and fixed asset settlements.

(10) Post FI journal entries to eliminate internal activity, such as transfers and reimbursements between funds by the last day of the following month. Note: Interagency billings and reimbursements should be handled as cost allocations to minimize the need for internal activity eliminations.

(11) The SAP-FM to Treasury fund reconciliation shall be completed monthly, including correcting entries, by the last day of the following month. The Unreceipted/Unpaid document listing shall also be reviewed for items more than 30 days old, so aging documents can be researched and appropriately adjusted in the current, fiscal period.

e. Agencies shall:

(1) Age and evaluate the customer accounts receivable balances on agency systems and in SAP, when account balances are more than 45 to 60 days past due, to determine collectability and action due to properly manage the accounts.

(2) Review and correct any WBS element settlement errors for the previous month by the last day of the current month.

(3) Verify the accuracy of fixed asset settlements and initiate error corrections before the last business day of the next month.

(4) Reconcile all advancement account balances with the bank balance and Treasury authorized balance for out-of-scope accounts.