

RIVERSIDE: AUDIT & ADVISORY SERVICES

June 23, 2011

To: Bobbi McCracken
Associate Vice Chancellor, Financial Services

Subject: Balance Sheet Accounts and Bank Reconciliations

Ref: R2011-20

We have completed our audit of Balance Sheet Accounts and Bank Reconciliations in accordance with the UC Riverside Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2011-20 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

Attachment

Xc: Audit Committee Members
Assistant Dean Quinn

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2011-20
BALANCE SHEET ACCOUNTS AND
BANK RECONCILIATIONS

JUNE 2011

Approved By:

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**UC RIVERSIDE
BALANCE SHEET ACCOUNTS AND
BANK RECONCILIATIONS
INTERNAL AUDIT REPORT R2011-20
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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the limited review, it is our opinion that, overall, the Accounting Office's system of internal controls over balance sheet accounts and bank account reconciliations is operating satisfactorily and is generally in compliance with University policies and procedures.

Positive observations include:

- Reconciliations of balance sheet and bank accounts managed by the Accounting Office were generally completed timely.
- Campus departments responsible for management and reconciliation of selected balance sheet accounts generally performed the reconciliations adequately and timely.
- The Ledger Reconciliation & Storage System (LRSS) provides the tools to assist campus departments in reconciling their balance sheet accounts and certifying to their reliability.

We observed an area that needs to be enhanced to strengthen internal controls and/or effect compliance with University policy:

- Limited reconciliation procedures are performed in the reconciliation of Accounts 117005, Partial Fee Remission (PFR)-Fall, and 117016, Graduate Student Health Insurance Premium (GSHIP)-Deferment Fall. Instead of reconciling the month-end general ledger balances against the individual student accounts in the Banner Financial Aid System (Banner), monthly quarterly payroll charges posted in the accounts were reconciled to the total awards in Banner. (Observation III.A.2)

These are explained in greater detail in Section III of this report.

II. INTRODUCTION**A. PURPOSE**

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed a limited review of the general accounting procedures related to balance sheet accounts and bank account reconciliations to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations and adequacy of certain internal controls.

The specific audit objectives are to:

1. Review bank and balance sheet account reconciliations for completeness, accuracy, and timeliness.
2. Assess the adequacy of procedures for the research and resolution of exceptions or reconciling items.
3. Obtain explanations and determine propriety and reasonableness of unresolved and aged exceptions/reconciling items.
4. Evaluate compliance with certain University policies and procedures.

B. BACKGROUND

The General Accounting Section of the Accounting Office prepares the bank account reconciliations. The Treasurer of the Regents maintains central control over all University cash. Since all campus cash receipts are deposited in the Treasurer's depository accounts and most disbursements are reimbursed by the Treasurer as expenditures are made, zero balances are maintained in the bank accounts at month end.

Balance sheet accounts (BSA) are either managed by the Accounting Office or campus departments depending on the BSA purpose. The campus department managing the BSA likewise performs the reconciliation.

C. SCOPE

The review included the following procedures:

- Selected seven bank accounts and reviewed the bank reconciliations for 9/30/2010.
- Reviewed the selected seven bank reconciliations for 12/31/2010 to determine resolution of any reconciling items appearing in the 9/30/2010 reconciliations.
- Judgmentally selected 21 balance sheet accounts (10 asset and 11 liability) and obtained the 9/30/2010 reconciliations of 19 BSAs from the responsible Accounting Office and campus department employees. Two selected BSAs maintained by the Campus Payroll Office did not require reconciliations.
- Reviewed the 19 BSA reconciliations for 12/31/2010 to determine resolution of any reconciling items appearing in the 9/30/2010 reconciliations.
- Reviewed the justifications for balance sheet liability accounts with debit balances and verified the action, if any, to be taken by the responsible departments.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations

Our substantive audit procedures were performed in November 2010 to January 2011 (not inclusive). Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

A. Balance Sheet Accounts

1. Summary

A total of 21 balance sheet accounts (10 asset and 11 liability accounts) were selected and reviewed. The Accounting Office is responsible for managing and reconciling 12 BSAs and the remaining 9 BSAs are managed and reconciled by various campus departments.

Of the 21 balance sheet accounts (BSA) reviewed, 12 were reconciled with campus systems or records maintained by the responsible employees and seven reconciled using the Ledger Reconciliation Storage System (LRSS). Two other BSAs maintained by the Campus Payroll Office did not require reconciliations, instead a test of reasonableness is performed by the Director of Payroll.

Our observations are discussed below. Our observations pertaining to shortages and overages recorded in BSA 116400 which is managed by the University Extension (UNEX) will be included in our report on audit R2011-05, UNEX General and Financial Management.

2. Accounts 117005 and 117016

Limited reconciliation procedures are performed in the reconciliation of Accounts 117005, Partial Fee Remission (PFR)-Fall, and 117016, Graduate Student Health Insurance Premium (GSHIP)-Deferment Fall. Instead of reconciling the month-end general ledger balances against the individual student accounts in the Banner Financial Aid System (Banner), monthly quarterly payroll charges posted in the accounts were reconciled to the total awards in Banner.

COMMENTS

Separate GSHIP and PFR accounts are maintained for fall, winter, and spring quarters. These accounts are managed by the Graduate Division (GD). As of 9/30/2010, liability Accounts 117005 and 117016 had debit balances of \$4,677,827 and \$830,353, respectively. By 12/31/2010, the accounts had debit balances of \$1,737,275 and \$305,087, respectively.

Nature of the Accounts

Graduate students appointed as Teaching Assistants, Associates In, Teaching Fellows, or Graduate Student Researchers, at 25% time or more for the full academic quarter receive payment of their GSHIP and PFR (payment of the education and registration fees) called awards. The academic departments are responsible for informing the GD of the students who hold qualifying appointments and are entitled to these awards. The GD is responsible for awarding the appropriate amounts to the students and the awards are input in Banner. Then the awards are posted by the GD in the student's account in the Student Information System (SIS) and offset the student's GSHIP and educational/tuition fees. The total awards posted in SIS are charged to the appropriate BSA as debits, called unexpended balances.

The funding sources for these awards are the funds (e.g., 19900, Federal grants) from which the students are paid their appointments as reflected in their Payroll/Personnel System (PPS) employee records. During the monthly payroll process, the students' payroll funding sources are charged for the GSHIP and PFR awards and the corresponding totals are posted to the appropriate BSA as credits. When all GSHIP and PFR awards for the quarter had been processed through payroll, the BSA should have a zero balance.

Reconciliation Process

On a quarterly basis, the GD reconciles the awards posted in Banner to the total GSHIP/PFR awards charged to the funding sources during the payroll process. As funding sources are charged, the unexpended balances decrease and at the end of the term, the BSA should have a zero balance. The hiring departments are responsible for verifying the charges to the appropriate payroll source.

In the Fall 2010 PFR reconciliation of Account 117005, the awards charged to the funding sources during the three-month payroll processes totaled \$4,589,415. This was reconciled to the Banner Fall 2010 total of \$4,600,264 with reconciling items totaling \$14,282 and an unidentified discrepancy of \$3,434. By 3/31/2011, all awards should have been processed in payroll and Account 117005 should have a zero balance, but a debit balance of \$186,185 remained in the account.

Similarly, in the Fall 2010 GSHIP reconciliation of Account 117016, the awards charged to the funding sources during the three-month payroll period totaled \$820,266. This was reconciled to the Banner

Fall 2010 total of \$822,659 with reconciling items totaling \$2,393. By 3/31/2011, all awards should have been processed in payroll and Account 117016 should have a zero balance, but a debit balance of \$27,821 remained in the account.

Debit balances of the two accounts for 3/31/2011 and the three prior fiscal years for both accounts are presented below:

Date	Account 117005	Account 117016
3/31/2011	186,185	27,821
6/30/2010	186,651	27,821
6/30/2009	187,233	27,941
6/30/2008	188,247	28,342

The almost identical debit balances remaining during the last three fiscal years and as of 3/31/2011 indicate that such amounts remain unaccounted and unresolved.

Conclusion

Generally, the details that support the balance in the summary account are contained in a subsidiary ledger. For the Fall GSHIP and PFR, the balance sheet accounts 117005 and 117016 serve as the summary and the Banner system provide the details. Generally, reconciliations are performed between the general ledger balance (BSA) and the subsidiary ledgers (Banner). For Fall 2010, only the awards charged during the payroll process (selected transactions from the general ledgers) were reconciled to the Banner accounts. While the Fall 2010 quarter PFR and GSHIP awards appeared to have been reconciled by the GD, the remaining debit balances in the balance sheet accounts should be researched and resolved. The Accounting Office has indicated that debit amounts from prior years' PFR and GSHIP accounts remain outstanding in the BSAs. Similarly, we identified other PFR and GSHIP accounts with unaccounted and unresolved balances, as follows:

Date	Account 117006	Account 117007	Account 117017	Account 117017
12/31/2010		(11,346)		737
9/30/2010	62,963	(11,346)	4,349	737
6/30/2010	62,963	(14,196)	3,746	737

- Account 117006 PFR-Winter
- Account 117007 PFR-Spring
- Account 117017 GSHIP-Deferment Winter
- Account 117018 GSHIP-Deferment Spring

RECOMMENDATIONS

The reconciliation of the balance sheet accounts for PFR and GSHIP for each quarter should be performed between the month-end BSA balance and the Banner accounts. The unaccounted debit/credit balances in the PFR and GSHIP accounts should be researched and resolved.

MANAGEMENT RESPONSE (Graduate Division)

The Graduate Division and Accounting have been fully aware that a deficit has been carried forward on these balance sheet accounts for some time now. A number of years ago the campus realized that the remissions programs were not running properly. There were a variety of factors affecting this program. For example, when the federal government changed when a social security number would be issued to international students (after 9/11) we were missing the one element that could be matched between PPS and SIS. Unbeknownst to us the program was failing to charge the PPS accounts. Once we were aware of the issue audits were performed to correct the balance sheet accounts. We lacked the data and tools to go back more than 4 years so a campus decision was made to conclude the retroactive audits but to go forward auditing each academic quarter. The deficit was being carried forward until the campus could identify a source of funds. It has been decided that the funding will come from the cohort funds set aside for graduate student support. The Office of Resource Planning and Budget will appropriate cohort funds to eliminate the deficits before the final closing of the 2011 budget year. All parties are in agreement that this is the most appropriate manner in which to retire this deficit.

B. Bank Reconciliations

Seven bank account reconciliations for 9/30/2010 were reviewed and a sample of debits/withdrawals/transfers and credits/deposits were traced from the general ledger to the bank statement and vice versa. Reconciling items from the 9/30/2010 reconciliations were traced to the 12/31/2010 reconciliations and no significant (>\$500) reconciling items were still outstanding as of 12/31/2010. The bank accounts reviewed were as follows:

- 110050 – Campus Bank Account
- 110060 – Credit Card Depository
- 110154 – Student Information System (SIS) Controlled Disbursements

- 110155 – Vendor Controlled Disbursements
- 110157 – SIS Electronic Fund Transfer (EFT) Funding Disbursements
- 110158 – Accounts Payable EFT Funding Disbursements
- 110165 – Payroll Control Disbursements

All seven bank account reconciliations were prepared within the next month and reviewed/approved by the responsible employees.