

September 3, 2024

CHERYL ROSS
Controller/AVC Business & Financial Services
0951

**Subject: *Balance Sheet Account Management
Report 2024-02***

The final report for Balance Sheet Account Management, Report 2024-02, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Balance Sheet Account Management
Report No. 2024-02
September 2024

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Balance Sheet Account Management as part of the approved audit plan for Fiscal Year 2023-24. The objective of our review was to assess whether internal controls and business processes for managing balance sheet accounts provide reasonable assurance that operations are effective, result in accurate financial reporting, and are conducted in compliance with University policies.

Based on our review, we concluded that additional monitoring and oversight are needed for balance sheet accounts to provide reasonable assurance that operations are effective, result in accurate financial reporting, and are conducted in compliance with University policies.

Although some units actively reconcile balance sheet accounts, we identified several areas where balance sheet reconciliations were not being performed. General Ledger (GL) balance sheet accounts under the purview of other areas such as Student Financial Solutions (SFS), Enrollment Management, Financial Operations (FinOps) (Accounts Receivable), Sponsored Projects Finance (SPF) (Financial Control accounts), and Internal Controls and Accounting (ICA) (Payroll, Capital Assets, Subscription Leases, and Health Sciences Controller Accounts) were not being fully reconciled. Based on a limited analysis of a sample of the accounts in the selected areas, there appeared to be significant financial differences between balances in subledger and GL, which could represent a risk to the institution that these accounts are not accurate or complete. The lack of adequate reconciliations is a significant control deficiency, which increases the potential risk of misstatement in UCSD financial reports.

Some areas expressed that due to staff turnover or other priorities since the Financial Information System (FIS) implementation, they have not been able to dedicate resources to performing balance sheet reconciliations. As the new FIS, UC Common Chart of Accounts, and UCPATH were implemented, the historical processes for monitoring balance sheet accounts were discontinued and deprioritized to shift focus to continuity of operations, transactional support, and address system implementation issues. The discontinuation of historical balance sheet monitoring processes by ICA may also have contributed to departments not performing regular reconciliations for their accounts.

The ICA Financial Reporting Controls and Analysis (FRCA) team is also focusing efforts on identifying and confirming owners for balance sheet accounts. With the implementation of FIS, transition to a new chart of accounts, reorganization and staff turnover, the list of account owners has not been maintained and several departments are still in process of validating the accounts under their purview. FRCA has also initiated steps to identify accounts with no activity since FY2022, and is including these accounts in its follow up with the account owners to consider for inactivation. We also noted that there is currently no official balance sheet account monitoring and reconciliation policy in effect.

Management action plans to address findings are summarized below:

A. Balance Sheet Account Reconciliations and Monitoring

1. ICA will establish risk-based monitoring procedures to ensure that balance sheet reconciliations are performed and that account balances are materially accurate and complete. Monitoring procedures may prioritize ICA resources on balance sheet accounts

with higher risk (such as significant balances and fluctuations, lack of regular reconciliations, and aging of reconciling items).

B. Balance Sheet Account Owners

1. ICA will complete their efforts to identify and maintain a list of account owners for all balance sheet accounts.

C. Balance Sheet Account Inactivation

1. ICA education materials, training and outreach will include guidance on opportunities to consolidate and inactivate accounts, as appropriate.
2. ICA will continue to monitor accounts with no activity, and potential legacy accounts for follow up with account owners for evaluation and inactivation.

D. Balance Sheet Account Reconciliation Policy and Education

1. ICA will develop and formalize campus policy or guidance for the reconciliation of balance sheet accounts. The policy/guidance will clarify the responsibilities over balance sheet reconciliations, reconciliation items aging procedures, and ICA monitoring and escalation practices.
2. ICA will include balance sheet account reconciliations into the financial training program modules to educate account owners on their responsibilities for performing balance sheet account monitoring and reconciliations.

Observations and related management action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Balance Sheet Account Management as part of the approved audit plan for Fiscal Year (FY) 2023-24. This report summarizes the results of our review.

Balance sheet account reconciliations are a fundamental component of the UCSD Internal control framework in order to ensure the accuracy, validity, and transparency of financial statements. Reconciliations involve the comparison of an account's general ledger (GL) trial balance to University official records or subledgers, and are a key control process for identifying missing or incorrect transactions and/or classification errors.

History/Timeline

In July 2007, UCSD implemented the Statement of Auditing Standards No. 112 (SAS 112, superseded by SAS 115), "Communicating Internal Control Related Matters Identified in an Audit" which established guidelines for classifying reportable internal control issues, and required that key controls existed, functioned effectively, and were documented. In June 2008, mandatory department key control documentation was created by the Controller's Office to document the review and follow-up activities in key control areas within a department. Control areas included balance sheet certifications for validation of general ledger detail transactions for reasonableness and accuracy. A web-based application, Control Tracker, was subsequently launched in February 2014 to document performance and certification of controls activities in compliance with SAS 112/115.

Historically, the General Accounting Office (GAO)¹ under Business and Financial Services (BFS) was responsible for providing oversight to ensure that accounting information was accurately classified, summarized and reported on behalf of UCSD. GAO provided central coordination and oversight for balance sheet accounts, but accounts owners resided in multiple departments as a function of the decentralized campus environment. As part of this role, GAO assumed responsibility for coordinating balance sheet reconciliations across campus and collected balance sheet certifications from the preparers and reviewers of the accounts on a quarterly basis.

Guidelines, presentations, templates, and tutorials were made available on Blink to provide education on performing balance sheet reconciliations. In addition, in around 2015/2016, an automated reconciliation tool named "T-Recs", hosted by Chesapeake System Solution, was implemented for select central offices (GAO, and Disbursements and Travel) to streamline the reconciliation process and improve overall efficiencies, accountability, and transparency. The plan was to eventually offer the tool campus-wide, but this was hindered by limited resources to support the expansion, and de-prioritized in anticipation of the launch of the new Oracle Financial Information System (FIS). FIS went live in July 2020, and T-Recs and Control Tracker (including use of the Key Controls Document) were deprecated upon conversion (or soon thereafter), and the GAO certifications process was discontinued.

¹ Business and Financial Services (BFS) unit has been reorganized over the years, and general accounting support was reorganized under the Internal Controls and Accounting (ICA) Division.

Current State

The Internal Controls and Accounting (ICA) Division's objectives are to manage the accuracy and integrity of the University's general ledger financial records, ensure proper usage of chart segments, collaborating and educating campus customers, and promoting internal control standards exemplified by an organizational culture of integrity and shared accountability. ICA has multiple teams, including the Financial Reporting Controls and Analysis (FRCA) team, to ensure reliability and timely preparation of financial statements, and implementation of policies and procedures in support of this objective. The team also supports BFS initiatives and specific topic-based projects, such as ledger reconciliation, variance analysis, and Oracle financial data and transaction validation. Additionally, FRCA performs regular procedures to strengthen oversight of various financial functions, including balance sheet account reconciliations, revenue review, and resource and cost transfer review.

In September 2023, an Oracle Account Reconciliation Cloud (ARCS) tool was piloted in one central office (Integrated Procure-to-Pay Solutions (IPPS)) to perform reconciliations for their balance sheet accounts. ARCS is included in the overall Oracle suite of applications but requires support from Information Technology Services (ITS) to build the tool to perform reconciliations for the different types of accounts. There are multiple ARCS projects for different categories of accounts (e.g. letter of credit, Accounts Receivable (AR)/GL accounts, etc.) on the Oracle FIS roadmap anticipated to be implemented by the third quarter of FY2024-25. In addition, the Financial Operations Division has been utilizing another reconciliation tool, FloQast, to perform bank reconciliations, and the tool may be expanded to reconcile other accounts under their purview.

As of March 2024, there were over 1,000 balance sheet accounts, with a net position of \$5.7B² for campus entities (Entity 1611C). ICA indicated that although historical reconciliation support tools have been deprecated, the responsibility to perform reconciliations by departments still remains in effect, and departments continue to be accountable for their internal controls, including review and reconciliation of departmental accounting records and documentation against financial system reports to verify for reasonableness, accuracy, and completeness. This responsibility was formalized in the UCSD Internal Controls Policy (Policy & Procedure Manual (PPM) 300-15), issued in February 2024, which states that "Department Administrators are responsible for ensuring that internal controls are established, properly documented, and maintained for activities within their jurisdiction and areas of responsibility."

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to assess whether internal controls and business processes for managing balance sheet accounts provide reasonable assurance that operations are effective, result in accurate financial reporting, and are conducted in compliance with University policies. In order to achieve our objective, we performed the following:

- Reviewed relevant policies and available guidance on balance sheet reconciliations;

² Includes net of \$(170M) for Health Physician Group (Entity 16143), and Population Health Svc Organization (Entity 16144).

- Interviewed the ICA Associate Controller, Senior Director, and Accounting Manager to get an understanding of reconciliation monitoring processes and plans, and policy history;
- Obtained a list of account owners from FRCA for balance sheet accounts as of April 5, 2024;
- Reviewed balance sheet balances for campus entities (Entity 1600A, 1610B, and 1611C) as of March 2024 (Entity 1600A, 1610B, and 1611C), and June 2023, and June 2022 (Entity 1610B, and 1611C);
- Interviewed account owners for select accounts³ across the following campus units to get an understanding of balance sheet account reconciliation processes and oversight for these accounts:
 - ICA;
 - Integrated Procure-to-Pay Solutions (IPPS);
 - Financial Operations (FinOps);
 - Student Financial Solutions (SFS);
 - Housing, Dining, and Hospitality (HDH);
 - Enrollment Management;
 - The Preuss School (Preuss);
 - Sponsored Projects Finance (SPF) (for financial control intercampus accounts);
- Evaluated, at a high-level, reconciliations provided for select accounts for the following areas: IPPS, HDH, ICA (Accumulated Depreciation, Capital Leases, Green Foundation, Financial Control), FinOps (Bank accounts), and Preuss; and
- Selected a judgmental sample of accounts within SFS, Enrollment Management, Financial Controls, and FinOps that appear to be high risk accounts that have not been reconciled (based on general ledger balances, or other concerns expressed). Evaluated, at a high level and to the extent possible, the selected accounts to determine the variances from sub-ledger.

Reconciliation practices for UC San Diego Health (including the Medical Center, Physician Group, and Population Health), Sanford Consortium, and UCSD Foundation, were excluded from the scope of this review.

IV. CONCLUSION

Based on our review, we concluded that additional monitoring and oversight are needed for balance sheet accounts to provide reasonable assurance that operations are effective, result in accurate financial reporting, and are conducted in compliance with University policies.

Based on interviews and limited review of a sample of accounts, there were some areas that were performing reconciliations, including IPPS, HDH, Preuss, FinOps for bank accounts, and ICA (for capital assets depreciation, capital leases, and financial control accounts - with some exceptions). However, GL balance sheet accounts under the purview of other areas such as SFS, Enrollment Management, FinOps (Accounts Receivable), SPF (Financial Control accounts), and ICA (Payroll, Capital Assets, Subscription Leases, and HS Controller Accounts) were not being fully reconciled. Based on a limited analysis of a sample of the accounts in the above areas, there appeared to be significant financial

³ Balance sheet accounts with \$5M balance, and other accounts that appeared to relate to undistributed/clearing accounts with \$1M balance as of March 2024.

differences between balances in subledger and GL, which could represent a risk to the institution that these accounts are not accurate or complete. The lack of adequate reconciliations is a significant control deficiency with increases the potential risk of misstatement in UCSD financial reports.

Some areas expressed that due to staff turnover or other priorities since the FIS implementation, they have not been able to dedicate resources to performing balance sheet reconciliations. As the new FIS, UC Common Chart of Accounts, and UCPath were implemented, the historical processes for monitoring balance sheet accounts were discontinued and deprioritized to shift focus to continuity of operations, transactional support, and address system implementation issues. The discontinuation of historical balance sheet monitoring processes by ICA may also have contributed to departments not performing regular reconciliations for their accounts.

FRCA is focusing efforts on identifying and confirming owners for balance sheet accounts. With the implementation of FIS, transition to a new chart of accounts, reorganization and staff turnover, the list of account owners has not been maintained and several departments are still in process of validating the accounts under their purview. FRCA has also initiated steps to identify accounts with no activity since FY2022, and is including these accounts in its follow up with the account owners to consider for inactivation.

We noted that there was no official balance sheet account monitoring and reconciliation policy in effect. In August 2023, ICA hired an Accounting Manager in FRCA in support of their financial reporting quality assurance function. The Manager has initiated multiple actions in support of this role, including drafting a balance sheet reconciliation policy, although this policy has not yet been finalized as of the date of this report. In addition, financial monitoring over yearly variances (based on certain parameters) for trial balance accounts was started over the last few months, although the process may be subject to future refinement as FRCA assesses the feasibility of variance parameters and monitoring practices.

Our observations are discussed further in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Balance Sheet Reconciliations and Monitoring
	Balance Sheet account reconciliations were not being performed regularly and consistently across campus, and ICA had not formalized procedures to monitor that reconciliations were being performed for high risk or material accounts.
	Risk Statement/Effect
	Lack of balance sheet account reconciliations can lead to errors and inconsistencies in financial statements which can have serious consequences including inaccurate financial reporting, regulatory penalties, ill-informed financial decisions, and delayed identification of fraudulent activity.

Management Action Plan

A.1	ICA will establish risk-based monitoring procedures to ensure that balance sheet reconciliations are performed and that account balances are materially accurate and complete. Monitoring procedures may prioritize ICA resources on balance sheet accounts with higher risk (such as significant balances and fluctuations, lack of regular reconciliations, and aging of reconciling items).
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A. Balance Sheet Account Reconciliations and Monitoring – Detailed Discussion

Balance Sheet reconciliations are an important control to validate the accuracy of financial reporting, and support compliance with accounting requirements. Any differences between accounting records and balance sheet balances (i.e. reconciling items) need to be evaluated and resolved timely to ensure the accuracy of financial statements.

Reconciliations

Based on interviews, several areas were not regularly performing balance sheet accounts, as summarized below:

- Student Financial Solutions (SFS): SFS monitors for integration errors associated with regularly occurring data file uploads from the Integrated Student Information System (ISIS) to Oracle FIS (general ledger). However, SFS does not have a process for reconciling the overall account balances posted in the Oracle general ledger to the balances in the ISIS subledger. SFS acknowledged that their GL balance sheet account balances may not agree to balances in the ISIS subledger due to manual journals posted directly to the GL or financial activity posted through other interfaces outside of ISIS. Therefore, some GL balances could be overstated in the GL (for example, student refunds).

SFS was still working with ICA to identify which specific balance sheet accounts should fall under their purview. We understand that SFS did have a process to regularly reconcile their balance sheet accounts before Oracle FIS implementation, but those processes were discontinued due to competing priorities after go-live, and turnover of staff responsible for performing the reconciliations. However, they now have plans to restructure within the unit to designate staff to perform reconciliations, and their initial efforts will be to evaluate higher risk accounts that could be subject to errant activity (e.g. student refunds, clearing accounts, etc.).

SFS was identified as the preliminary account owner for nine accounts that exceeded \$5 million as of March 31, 2024. We performed limited analysis for one of these accounts, SFS Student Tuition and Fees account (120005, Registration Fees Rec-Winter), and noted there appeared to be a difference of \$1.4M between the sub-ledger (ISIS aging report, \$9.6M) and the GL balance (\$8.2M) as of May 2, 2024, that needs to be evaluated further to determine if any corrections need to be processed.

- **Enrollment Management (Financial Aid):** Although Financial Aid performs reconciliations for financial aid programs such as Cal Grant by comparing funding by student in the current financial aid system, Pro Student Aid Management (ProSAM), to data received from the funding agency, they acknowledged that reconciliations at the balance sheet level have not been performed. During our audit, Financial Aid began evaluating the Cal Grant balance sheet accounts and was in the initial stages of developing a process to regularly reconcile the balance sheet accounts. They did note balance sheet account balances that appeared to relate to the conversion of financial data from the legacy financial system to Oracle FIS need to be evaluated further, and were also working on tracing electronic fund transfers received from financial aid program agencies to the relevant GL accounts.
- **Accounts Receivable (FinOps), including Letter of Credit (LOC):** While FinOps regularly monitors AR aging at the sub-ledger level, a reconciliation was not being completed at the GL balance sheet level. A high-level comparison of the AR Aging balances to the GL balances under FinOps' purview as of March 2024 identified significant differences, as summarized in the table below:

Balance Sheet Account	Total AR Aging (Sub-Ledger) as of March 2024	GL Balance (1611C) as of March 2024	Difference	Difference % of GL Balance
121213 A/R All FED Letter of Credit	\$ 28,253,397	\$ 95,049,313	\$ 66,795,916	70%
121233 A/R Federal Grants Billed	\$ 78,949,724	\$ 102,514,145	\$ 23,564,420	23%
127300 Other Educational Activities Receivables	\$ 34,164,142	\$ 53,257,148	\$ 19,093,006	36%
129020 Other Receivables	\$ 1,745,638	\$ 40,673,944	\$ 38,928,306	96%
129043 Accounts Receivables - Trade	\$ 25,281,629	\$ (23,183,787)	\$ (48,465,416)	209%

- **Financial Control Intercampus Billing Accounts (102112 and 102113):** Intercampus financial transactions are recorded in financial control accounts and represent the movement of financial resources between UC campuses and the Office of the President (UCOP). Since each campus has its own independent financial system and general ledger, the financial control account is used to record amounts due to/from other campuses and UCOP. The financial control accounts accommodate all types of financial transactions, including transfers of fund balances, transfers of income or expenditures, and transfers of asset and liability balances. UCSD has a financial control account for each of the UC campuses, with the most significant balance with UCOP (\$1.4B as of June 2023).

Both initiating and reciprocating locations are responsible for reconciling activities posted to these accounts and actively collaborating with the offsetting locations to ensure that these activities net to zero on a consolidated basis. An ICA team reconciles UCSD's accounts monthly to the corresponding financial control accounts of the other campuses, tracks outstanding items for

resolution, and makes additional efforts to resolve outstanding items for fiscal close. At fiscal close, a journal is posted for any unreconciled items for each campus.

During our review, we were made aware of two Financial Control accounts that were not being reconciled by ICA and were primarily under the purview of SPF: 102112 Intercampus Unbilled and 102113 Intercampus Clearing. Based on follow up with SPF, we understand that these two accounts were created during the Oracle FIS implementation to account for intercampus sponsored project and subaward activities. At some point after Oracle was implemented, the Campus Budget Office determined that this activity should not be accounted for under these two financial control accounts, and the accounts were replaced by two AR accounts effective July 1, 2022: 129044 (A/R Intercampus Grants Unbilled) and 129045 (A/R Intercampus Grants Billed). SPF acknowledged that they have not had a dedicated staff to reconcile the accounts, and they have now initiated the reconciliation of these two accounts to help clear the balances in these accounts.

As of March 2024, there was (\$24.3M) in account 102112, and \$6.6M in account 102113.

- Payroll Accounts (ICA): The ICA Director for Payroll Accounting and Controls has identified six balance sheet accounts that are actively used to post payroll liability, and initiated reconciliation processes for this fiscal year by identifying variances between the subledger (Distribution of Payroll Expense Report (DOPE)), and GL. In addition, ICA has performed a root cause analysis on several discrepancies and have identified issues that are anticipated to be corrected by fiscal close (for example, certain payroll posting to incorrect accounts or incorrect accounting periods, incorrect manual composite benefit rate journals, etc.). However, remaining reconciling items based on variances between the GL and subledger still required further research, which is expected to be time consuming due to the lack of a unique identifier that can be used to tie GL transactions to the subledger. ICA has submitted a request with Information Technology Services to add a unique identifier to these transactions, which would help the reconciliation process be more accurate and efficient. For February 2024, ICA identified a preliminary total variance of \$552K for that month's activity in the six accounts, but variances at individual account level were as high as \$1.95M.

ICA also plans on reconciling prior years since inception (May 2020) and will leverage baseline processes, standard reconciliation templates, and reports, from the current fiscal year reconciliations.

- Capital Assets (ICA): We were informed that there is currently no reporting from the new Oracle Fixed Assets (FA) module (implemented July 2023), and therefore it has not been possible to perform reconciliations between the subledger (FA module), and GL balances to date this fiscal year. ICA did share the last reconciliation from January 2023 for selected capital asset accounts, which identified some unreconciled variances in two accounts that needed further investigation (although these variances represented under 1% of the overall balance in those accounts). However, there were other accounts (including software, construction, equipment in process accounts, and Special Collections) for which a reconciliation was not provided as of the date of the report. Capital assets include construction projects, equipment (including fabrications), software inventory, library and special collections. These account balances may not fluctuate as often over the year, but represent significant balances, and therefore should be reconciled regularly,

particularly in light of the new Fixed Asset module. It is anticipated that reporting will be available from the FA module and UCOP, which should allow reconciliations to be performed by fiscal close.

- Subscription Leases (ICA): We noted that two subscription liability accounts (264030-noncurrent portion, and 226430-current portion) with June 2023 GL balances of \$16M and \$7.5M, respectively, have not been reconciled. ICA indicated that they recently started posting journals for these accounts and have not reconciled them yet but plan to reconcile at fiscal close. These relate to Governmental Accounting Standards Board (GASB) 96, Subscription-Based Information Technology Arrangements, and ICA indicated that UCOP also monitors these accounts, so there is a lower risk that these balances are misstated.
- Health Sciences Controllers Office: These accounts are still under review to determine the appropriate owner. The accounts were recently transitioned under ICA, and reconciliation procedures are being evaluated.

Based on a limited analysis of a sample of the accounts in the above areas, there appeared to be significant financial differences between balances in subledger and GL, which could represent a risk to the institution that these accounts are not accurate or complete. The lack of adequate reconciliations is a significant control deficiency with increases the potential risk of material misstatement in UCSD financial reports. However, our analysis of these accounts was high-level, and additional evaluation is needed to determine the reconciliation approach, identify appropriate sources of sub-ledger data for each GL account, identify discrepancies for further evaluation, and process corrections as appropriate.

Reconciling Items - Aging

Although there were some areas that did perform balance sheet reconciliations regularly, we did note old reconciling items in some balance sheet accounts. For example, bank accounts reconciled by FinOps for February 2024 had several reconciling items dating back to FY2023 or prior. Evaluation of the reconciliation with Financial Control-UCOP (account 102110) for June 2023, identified total reconciling items of \$17.5M (1% of the total balance) for FY2021 (\$4.4M), FY2022 (\$9.2M), and FY2023 (\$4M). ICA performs periodic reviews as time allows of these reconciling items based on materiality, and would consider a balance write-off for aged items based on leadership guidance and approval.

Although older reconciling items were being tracked for resolution, the longer the item is outstanding, the less likely it is that the item will be resolved. Evaluating for aging and write-off for reconciling items should be considered as part of ICA monitoring practices over balance sheet accounts, including documentation in policy or guidance as needed.

B.	Balance Sheet Account Owners
A validated list of account owners for all balance sheet accounts was underway at the time of our review, but had not been finalized.	
Risk Statement/Effect	
Lack of a complete updated list of account owners can create confusion over accountability and oversight over the balance sheet accounts, and create challenges for monitoring follow-up.	

Management Action Plan	
B.1	ICA will complete their efforts to identify and maintain a list of account owners for all balance sheet accounts.

B. Balance Sheet Account Owners – Detailed Discussion
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Identifying and maintaining a list of balance sheet account owners is critical to clarify responsibility for ensuring that balance sheet accounts are reconciled on a regular basis, to ensure proper accountability, and to provide a point of contact for follow up on account oversight issues as appropriate.

As of March 2024, there were over 1,000 balance sheet accounts. At the time of our review, FRCA was in process of identifying the balance sheet account owners. An initial list of owners was identified and follow up was underway with the owners to confirm the accounts. Only certain employees included in that initial list have confirmed that they are the appropriate point of contact for the accounts. Several areas continue to evaluate and validate the accounts under their purview, which also highlights that these accounts have not been reconciled regularly, increasing the risk of the validity and accuracy of financial balances.

FRCA continues to follow up with account owners and update the account owners list, and indicated that it may take several weeks or months to finalize. As a result, FRCA has been unable to fully implement an effective monitoring process for ensuring that the account balances are being reconciled, and that the balances are complete and accurate.

C.	Balance Sheet Account Inactivation
We identified opportunity for inactivation or consolidation of legacy accounts or accounts without any activity over the last few years, to reduce the numbers of accounts requiring review and reconciliation.	
Risk Statement/Effect	
Lack of timely clean up and inactivation of balance sheet accounts increases the risk that aging balances are not actively researched and reconciled, and could result in new charges inappropriately posting to these accounts.	
Management Action Plans	
C.1	ICA education materials, training and outreach will include guidance on opportunities to consolidate and inactivate accounts, as appropriate.
C.2	ICA will continue to monitor accounts with no activity, and potential legacy accounts for follow up with account owners for evaluation and inactivation.

C. Balance Sheet Account Inactivation – Detailed Discussion

Regularly reviewing accounts for inactivation helps to improve the manageability for oversight of these accounts, and reduces the risk that charges may inadvertently be charged to these accounts.

Based on a report shared by FRCA⁴ from March 2024, 416 of the over 1,000 balance sheet accounts had no activity since July 1, 2021, and 315 had a \$0 balance⁵. FRCA has been highlighting these accounts as they perform outreach with account owners, to consider for inactivation of these accounts are appropriate. The remaining 101 accounts with no activity had an overall net balance of (\$6.8M)⁵ in the GL, and could potentially include some legacy accounts that need to be evaluated further and deactivated as appropriate. During interviews, some account owners indicated that their legacy accounts with balances need to be researched further, transferred or written off as appropriate, and considered for closure.

In addition, Enrollment Management indicated that they were looking to consolidate multiple balance sheet accounts for the same funding (e.g. Cal Grant) into one account to streamline the reconciliation process. There could be similar opportunity for consolidating and reducing the number of accounts across other campus departments.

D.	Balance Sheet Account Reconciliation Policy and Education
A policy for the reconciliation of balance sheet accounts has not been established. In addition, we noted opportunities for improvement by providing published education materials and training offerings in support of performing balance sheet reconciliations.	
Risk Statement/Effect	
The lack of a balance sheet reconciliation policy could result account owners not fully understanding their responsibilities for balance sheet account reconciliations, which ultimately could contribute to inaccurate financial reporting, failure to identify material weaknesses, and the inability to identify and correct errors timely.	
Management Action Plans	
D.1	ICA will develop and formalize campus policy or guidance for the reconciliation of balance sheet accounts. The policy/guidance will clarify the responsibilities over balance sheet reconciliations, reconciliation items aging procedures, and ICA monitoring and escalation practices.
D.2	ICA will include balance sheet account reconciliations into the financial training program modules to educate account owners on their responsibilities for performing balance sheet account monitoring and reconciliations.

⁴ Report developed by Business Intelligence and Reporting Team

⁵ For UCSD Entity Level 1600A

D. Balance Sheet Account Reconciliation Policy and Education – Detailed Discussion

Policies

A best practice for all organizations is to develop a balance sheet policy to ensure accurate financial reporting, improve internal controls, reduce audit risk, protection of assets, and enhanced accountability. A formal written policy and other published reconciliation materials would help clarify responsibility over reconciliations, educate departments on the procedures to follow for performing reconciliations, facilitate consistent reconciliation practices, and help enforce compliance by preparers and reviewers.

We noted that there is currently no official balance sheet account reconciliation policy. We did identify some policies that addressed the need for regular monthly reconciliations of bank accounts, including UCOP Accounting Manual, C-173, Cash: Cash Controls; and Business and Financial Bulletin, BFB-49, Policy on Cash and Cash Equivalents. In addition, we were informed that UCOP was in process of rescinding old policies and issuing new policies in light of the adoption of the new UC Common Chart of Accounts (CCOA) by all UC campuses. This included draft UCOP policies on Financial Accounting: Reconciliation, for reconciliation of financial data submitted monthly to UCOP that facilitate the creation of annual financial statements, but these policies are currently not in effect. In February 2024, UCSD published PPM 300-15, Internal Controls Policy, which includes general internal control principles for review and reconciliation, although this policy did not address balance sheet account reconciliations specifically.

During our review, ICA provided a draft Balance Sheet reconciliation policy dated 2013, which was never formally implemented. FRCA has been developing another draft policy to reflect current systems and terminology, but monitoring processes are still being finalized. This draft policy defines the campus requirement for departments to perform monthly balance sheet account reconciliations, and for ICA to monitor balance sheet account balances to provide assurance of accurate financial reporting. This draft policy further indicates that ICA monitoring includes maintaining a list of account owners, and following up monthly with reconciliation reviewers for fluctuations in account balances (based on defined parameters).

In November 2023, FRCA initiated trial balance financial monitoring procedures by identifying yearly variances (for each month of over \$20M and 25% change), following up with account owners for explanations, and evaluating for reasonableness. The analysis is in progress and subject to future refinement as the process matures. We understand that escalation processes are to be determined and potentially formalized in policy.

Education

Historically, GAO offered training classes to department points of contact, and materials and presentations on the Blink site to provide guidance on balance sheet reconciliation responsibilities and processes. While it appears that Blink pages have been updated in recent years as a result of adoption of new financial systems, there does not appear to be guidance/materials published, or any other training/support, to educate balance sheet account owners on how to perform reconciliations, which could help ensure that reconciliations are being performed appropriately.

For example, during interviews with SFS on planned reconciliation processes, we noted that they could benefit from additional guidance on best practices for reconciling GL account balances to the sub-ledger (for example, utilizing available AR aging reports), rather than limiting reconciliations to primarily check for integration discrepancies from sub-ledger uploads. Reference materials on how to perform balance sheet reconciliations can serve as a reference for account owners in decentralized units so that reconciliations are performed correctly.