

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Suspense and Clearing Accounts
Audit and Management Advisory Services Project #17-13**

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MANAGEMENT SUMMARY

Background

A chart of accounts (Chart) is used to organize the finances of an entity and to segregate expenditures, revenues, assets and liabilities, in order to give interested parties a better understanding of the financial health of the entity. At UC Davis (UCD), each department establishes individual accounts, which together comprise the Chart. There are over 120,000 accounts for the Campus alone¹.

Departments are able to create some types of income and expense accounts without any outside review and approval, and no central unit has complete oversight and control of the entire Chart. Instead, Accounting and Financial Services (A&FS) shares responsibility for the Chart with academic and administrative units (departments). Departments can create and manage their accounts in a manner they believe best suits their business needs. This has resulted in a variety of practices in account set-up and content.

One accounting practice employed by multiple UCD departments is the establishment of clearing or suspense accounts. These accounts are temporary holding accounts used to record transactions that are subsequently reallocated to other accounts. When clearing and suspense accounts are not appropriately monitored and managed, there is an increased risk of erroneous financial results and fraudulent activity.

AMAS identified approximately 1082 clearing and suspense accounts within the UCD Campus chart of accounts as of January 19, 2017.²

Purpose and Scope

As part of planned audits for fiscal year (FY) 2017, Audit and Management Advisory Services (AMAS) performed a review of clearing and suspense accounts. The purpose of our review was to assess processes and internal controls over the management and reconciliation of clearing and suspense accounts. The scope of the project included revenue and expense accounts on the Campus and ANR Charts, and did not include UC Davis Health. Centralized balance sheet accounts and other accounts managed by A&FS were excluded from the review.

To perform our review, we analyzed Kuali Financial System (KFS) account data to compile a population of suspense and clearing accounts and surveyed over 100 staff members assigned as account Fiscal Officers³ on oversight practices. We also interviewed key personnel from UC Davis A&FS, examined KFS account transaction and balance data, and reviewed reports in Decision Support. Finally, we studied regulations, guidelines and policies, and reviewed the Fiscal Officer resources available on the A&FS website.

Our review covered clearing and suspense account activities during the period of July 2015 through January 2017.

¹ The Chart is divided as follows: Chart 3-Campus; Chart H-Medical Center; Chart S-Schools of Medicine and Nursing; and Chart L-Systemwide Agriculture and Natural Resources (ANR). Additionally, there are separate charts for capital projects as follows: Chart P-Campus, Schools of Medicine and Nursing; Chart M-Medical Center; and Chart N-ANR.

² We identified these accounts based upon the account name, purpose and/or indicators in the account number. This is likely not a complete list because there is not a consistent methodology used to identify accounts as clearing or suspense.

³The term Account Manager is often used to refer to this role. We will use the term Fiscal Officer, in keeping with Kuali terminology.

Conclusion:

A&FS should be commended for undertaking several initiatives to improve and standardize account management practices. A&FS has created new instructional resources for Fiscal Officers, started a review of the Chart, and is working to improve the training available for all KFS users. These measures should help standardize practices related to account set-up and use.

We did find opportunities to improve the identification of accounts used for suspense and clearing, the oversight of unused accounts, and the reassignment of Fiscal Officer duties when a staff member leaves.

I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**A. Identification of Clearing and Suspense Accounts**

It is not possible to identify the total population of departmental accounts being used as suspense and/or clearing accounts for oversight and monitoring purposes.

Clearing and suspense accounts are set up to temporarily hold transactions until the revenue or expense can be reallocated to the appropriate accounts. Traditionally, clearing accounts are used to hold transactions for later posting and to ensure information is recorded correctly and completely, while suspense accounts are used when there appears to be a problem with the transaction. UCD departments sometimes use the terms “clearing” and “suspense” interchangeably.

Many departments have accounts they use for clearing and suspense of both revenue and expense transactions. There is currently no KFS attribute or standard naming convention that allows these accounts to be readily identified in the general ledger. Thus, no dependable method exists to create a comprehensive list of these accounts for oversight and monitoring purposes, at either the department or central level. The ability of departments to manage their own chart of accounts, sometimes creating accounts without review and approval by A&FS, contributes to the inconsistencies in how the clearing and suspense accounts are identified.

The unique nature of these accounts requires that they be identified, reviewed and reconciled on a regular basis, as a low account balance and/or lack of activity does not necessarily equate to low risk.

Further, the *Administrative Responsibilities Handbook* requires financial transactions to contain sufficient detail for proper identification and classification and be readily retrievable for inquiry or reporting. To accomplish this, it must be possible to determine the accounts used to hold or clear transactions.

In a complex financial structure such as that of UC Davis, units rely on clarity and transparency to understand and monitor financial activity. Without knowing which accounts hold expenses and/or income that will later be cleared to other accounts, it is not possible to determine a clear picture of unit finances.

Recommendation

1. A&FS should develop and implement a methodology that ensures clearing and suspense accounts are readily identifiable in Kuali.
2. A&FS should consider the need to develop additional guidelines specifically for the oversight and monitoring of clearing and suspense accounts at the department level that take into account the unique risks of these accounts.

Management Corrective Action

- a. A&FS will explore methods to ensure non-Central Office balance sheet clearing and suspense accounts are consistently identifiable in Quali, and will begin implementation of the chosen method by **February 15, 2018**.
- b. A&FS will review and update guidelines for the handling of clearing and suspense accounts, and revise those guidelines by **February 15, 2018**. Revisions will be communicated via the A&FS list-serve by **February 15, 2018**.

B. Unused Accounts**A substantial number of unnecessary clearing and suspense accounts are still active.**

As part of our survey, we asked Fiscal Officers to report whether each of the clearing and suspense accounts they managed were still needed. Of the accounts reported to be unnecessary, over 30% of them were still active as of the survey date. The balances in these accounts ranged from revenue of over \$20,000 to approximately \$16,500 in expenses, although the majority (75%) were at zero. Some of the accounts had no activity for several years, with the last transaction extending as far back as 2003.

Unnecessary accounts appear to be remaining open for two primary reasons:

- Fiscal Officers are responsible to review activity in their accounts monthly using the Analytical Ledger Review (DS 403) report. The default settings for this report exclude any accounts with no activity in the report period. Thus, it is possible for an unused account to remain active for some time before the Fiscal Officer recognizes it is not being used.
- Although departments can create accounts without outside review, it is necessary for a Fiscal Officer to submit a request to A&FS to expire an account. The additional step serves as a disincentive for the Fiscal Officer to inactivate unused accounts as soon as they are no longer necessary.

The Fiscal Officer's duty is to oversee all financial/budgetary aspects of the accounts that they have been assigned. As part of this responsibility, they are required to monitor accounts and report on all financial resources received and used. Promptly expiring those accounts that are no longer necessary is an integral part of their responsibility.

Unused but active accounts with balances can be an attractive target for employee fraud, especially if the unit lacks sufficient separation of duties or there is collusion between employees. Additionally, the existence of unused active accounts increases the difficulty of managing the Chart and the risk of coding errors.

Recommendations

1. A&FS should establish a process to ensure unnecessary accounts are cleared out and expired promptly.

Management Corrective Action

- a. By **February 15, 2018**, A&FS will develop a procedure for the KFS Help Desk to issue a quarterly or semiannual reminder to Fiscal Officers on unused accounts. The Help Desk will remind Fiscal Officers of the need to review all of their assigned accounts, including those with no transactions, and expire those accounts that are no longer needed.
- b. To help the Fiscal Officers with unused accounts, the communication from the Help Desk will include instructions on how to run a report that identifies accounts with no recent transactions by **February 15, 2018**.

C. Assignment of Fiscal Officers

Accounts can have Fiscal Officers assigned who are no longer with the unit or have left UC Davis.

In our sample of clearing and suspense accounts, we found one active account whose Fiscal Officer is no longer a UC Davis employee and eleven other accounts whose Fiscal Officers had moved to another unit at UC Davis. These twelve accounts represent only 3% of the active accounts for which we received survey responses. However, even this percentage, when extrapolated to the entire General Ledger, would represent thousands of accounts that lack a valid Fiscal Officer.

When a Fiscal Officer leaves the department, it is possible for that person's delegates to continue monitoring and approving transactions on the assigned accounts. That ability prevents a gap in the processing of transactions, but also decreases the urgency of assigning a new Fiscal Officer. To assign a new Fiscal Officer, the unit is required to complete and route a request. This manual process can be overlooked for accounts with little or no activity.

UC Davis policy delegates to heads of organizational units the authority to approve departmental transactions. The department heads in return can re-delegate that authority to the Fiscal Officer. The delegate is required to be someone who has active involvement with the activity being conducted along with other qualifications. Someone who has left the unit does not meet this requirement. Policy also requires that the department head promptly cancel the delegation to any individual who no longer has authorization in that department.

The Fiscal Officer is responsible for properly processing all transactions in the account; ensuring transactions conform to requirements, and providing accurate reports. Any account without an active Fiscal Officer may not receive adequate oversight, which increases the risk of incorrect or inappropriate transactions and financial reporting.

Recommendations

1. A&FS should establish a process to ensure all accounts have assigned Fiscal Officers who are currently active within the associated department.

Management Corrective Action

- a. A&FS will perform an analysis of Fiscal Officer approvals to determine the prevalence of Fiscal Officers approving for other departments by **February 15, 2018**.
- b. By **February 15, 2018**, A&FS will use the results and act appropriately to ensure documents are approved by knowledgeable staff.
