

**UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES**

**ACCOUNT RECONCILIATION
PERIODIC REVIEW OF LEDGERS
Report No. 2012-102**

January 12, 2012

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January 12, 2012

**RICHARD A. ANDREWS
UNIVERSITY CONTROLLER/ASSISTANT VICE CHANCELLOR
ACCOUNTING AND FISCAL SERVICES**

**RE: Account Reconciliations
Report No. 2012-102**

Internal Audit Services has completed the review of Account Reconciliation – Periodic Review of Ledgers and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Isabelle Liu, Director – General Accounting and Internal Controls

ACCOUNT RECONCILIATION – PERIODIC REVIEW OF LEDGERS
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I. BACKGROUND

In accordance with the fiscal year 2011-12 audit plan, Internal Audit Services (IAS) reviewed the adequacy of internal controls and policy compliance for General Ledger (GL) account reconciliation practices within the University of California, Irvine (UCI) campus.

It is the policy of the University that each department maintains procedures that monitor and verify the appropriations, expenditures, encumbrances, and current unexpended balance for each subaccount, in order to reconcile balances to the monthly GL. Income accounts should also be monitored to verify that deposits have been correctly recorded.

II. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the review was to survey a sample of UCI departments to determine whether they are complying with University policies and procedures for monthly GL account reconciliations and also ascertain if there is an adequate system of internal controls over the related processes. IAS sampled monthly GL account reconciliations for 40 department/units from fiscal year 2009-10 to present.

Based on IAS's risk assessment of the account reconciliation process, the following objectives were established:

1. Determine whether departments are complying with GL reconciliation procedures;
2. Ascertain whether an adequate system of internal controls exists over the processes related GL account reconciliations.

III. CONCLUSION

Based upon our review of the GL expenditure account reconciliation processes for 40 departments/units, it appears that related policies and procedures are functioning as intended for the majority of the units reviewed. In addition, IAS reviewed balance sheet accounts under General Accounting and Payroll responsibilities and they appear to be adequately reconciled on a monthly basis. However, some business risks and controls concerns were identified related to specific units and/or specific accounts/funds. These details are presented below.

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IV. OBSERVATIONS

Ledger Reconciliation

Background

University policy states that each manager, who is directly responsible for the financial affairs of a school, department/unit, or office, is required to monitor and verify transactions in order to reconcile balances monthly to the GL. This procedural requirement ensures the appropriateness and accuracy of all financial transactions recorded in the ledger. In addition, the unit has the obligation of maintaining signed documentation of this review to ensure that they adhere to internal control procedures.

Observation

IAS reviewed a sample of accounts/funds for 40 departments/units to determine if the ledgers are adequately reconciled in a timely manner. The following is a summary of the observations:

- Some ledger reconciliations were not performed or were not completed in a timely manner. IAS noted that some accounts/funds were not reconciled or departments/units were not reconciling ledgers until six to eight months after expenses are posted;
- Several ledger reconciliations were not documented with signatures/initials as well as dates of the review to substantiate that reconciliations were performed;
- Supporting documentation for some expenses reviewed were not maintained and on file so it was uncertain if a reconciliation was actually performed.

Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to perform reconciliations in a timely manner may result in inaccuracies or fraud and/or undetected errors.

V. ACTION TAKEN

IAS discussed the observations with the department(s)/unit(s) management, who formulated action plans to address the issues noted. IAS will follow-up with management in approximately six months to ensure the control issues noted have been properly addressed. In addition, IAS will consider performing a review of additional departments/units in the future.