



Medical Center
Cashiering
Reconciliation Activities

Report No. I2014-207
July 18, 2014

Prepared By
Mike Shead, Senior Auditor
Reviewed and Approved By
Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

July 18, 2014

**BENT L. S. NIELSEN
ASSISTANT VICE CHANCELLOR/CONTROLLER
ACCOUNTING AND FISCAL SERVICES**

**RE: Medical Center Cashiering – Reconciliation Activities
Report No. I2014-207**

Internal Audit Services has completed a limited scope review of the activities relating to Medical Center cashiering and the internal controls 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.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
John Douglas, Manager, General Accounting, Accounting and Fiscal Services

I. MANAGEMENT SUMMARY

Internal Audit Services (IAS) conducted a limited scope review of Medical Center cashiering operations. The scope of this review was limited to certain activities of Medical Center Controller's Services and campus General Accounting that support the Medical Center's cashiering operations. A full scope audit of Medical Center cashiering operations is currently in process and will be finalized in fiscal year 2014-15. This report only addresses internal control issues raised during the review which require General Accounting management corrective action.

Certain internal controls related to the reconciliation of Medical Center depository accounts could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Timeliness of Bank Reconciliations – Bank reconciliations for Medical Center credit card and cash/check depository accounts are not always completed and reviewed in a timely manner. The details related to this issue are provided in Section V.1.

Completeness of Bank Reconciliations for Credit Card Transactions – A mathematical computation is made by General Accounting to determine monthly reconciling items resulting from timing differences. By itself, the computation does not adequately explain reconciling differences between bank deposits and general ledger postings. The individual transactions making up the reconciling difference need to be identified and investigated, as necessary. The details pertaining to this issue are provided in Section V.2.

II. BACKGROUND

Primary cashiering operations at the UC Irvine Medical Center are performed by the Main Cashier's Office (MCO). However, UC Irvine Medical Center Controller's Services and UC Irvine General Accounting also have key roles in the process. The MCO reports average daily remittances of approximately \$1.5 million, which are collected from sub-cashiering stations, clinicians, patients, and other entities located in, or associated with, the Medical Center and the School of

Medicine. Remittances are received in-person, electronically and through bank lock boxes. The principal function of the MCO is to prepare collected funds for bank deposit. The MCO also prepares journal entries and supporting documentation, so that deposits can be reviewed and posted to the general ledger.

Medical Center Controller's Services is responsible for reviewing the supporting documentation for each journal entry prepared by the MCO, and posting the journal entries to the general ledger. Furthermore, General Accounting is responsible for reconciling Medical Center deposits posted to the general ledger to bank statements provided by the depository bank.

III. PURPOSE, SCOPE AND OBJECTIVES

The scope of this review was limited to the activities of Controller's Services and General Accounting that support the Medical Center's cashiering operations. The review was designed to determine whether sufficient internal control measures are in place to detect inappropriate, non-compliant and/or fraudulent transactions.

The audit included the following objectives.

1. Verify the adequacy of internal controls in the review and posting of MCO-prepared, depository journal entries.
2. Verify the adequacy of internal controls in the reconciliation of UC Irvine Medical Center bank deposits.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Timeliness of Bank Reconciliations

Observation

A review was performed of the Medical Center bank reconciliations completed by General Accounting for the twelve months preceding April and May 2014. Bank reconciliations for credit cards and for cash and checks were reviewed separately.

The review disclosed that bank reconciliations for both credit card and cash/check depository accounts are not always completed and/or reviewed in a timely manner. The following observations were noted.

Reconciliation and Approval of Credit Card Transactions

- a. Reconciliations were not always prepared in a timely manner. In five of the twelve sampled months, reconciliations were completed more than 30 days after the end of the accounting month, including two that were over 120 days. Reconciliations for the other seven months were completed in a timely manner. It should be noted that reconciliations for the two most recent months (February and March 2014) were completed in a timely manner.
- b. Completed reconciliations were not always reviewed and approved by management in a timely manner. In seven of the twelve sampled months, reconciliations were approved more than 30 days after they were completed. Reconciliations for the other five months were reviewed and approved within 30 days after they were completed.

Reconciliation and Approval of Check and Cash Transactions

For the most part, reconciliations were prepared in a timely manner. However, completed reconciliations were not always reviewed and approved by management in a timely manner. In four of the twelve sampled months, completed reconciliations were approved more than 30 days after they were completed. For the other eight months, reconciliations were approved within

30 days of completion. It should be noted that reconciliations for the two most recent months (March and April 2014) were approved in a timely manner (within one day and four days of completion).

UC Irvine's key controls documentation requires that bank account reconciliations be prepared on a monthly basis.

A failure to complete bank reconciliations in a timely manner may hinder the timely detection and resolution of accounting errors or irregularities.

Management Action Plan

During the period under review, General Accounting had several staffing issues, which led to the delays in completing bank reconciliations. In the future, General Accounting will cross-train employees and fill open positions as soon as possible so that bank reconciliations can be completed and reviewed in a timely manner.

2. Completeness of Bank Reconciliations for Credit Card Transactions

Observation

In the examination of Medical Center bank reconciliations completed by General Accounting, methodologies for preparing the reconciliations were reviewed. Special attention was given to processes for verifying reconciling items, including those resulting from timing differences between bank deposit dates and general ledger posting dates.

The review disclosed that General Accounting uses a mathematical computation to determine monthly reconciling items resulting from timing differences. By itself, the computation does not adequately explain reconciling differences between bank deposits and general ledger postings.

- a. Each month, the cumulative amount of deposits posted to the general ledger is compared to the cumulative amount of deposits recorded on the bank statement.
- b. The mathematical difference between the two cumulative totals becomes the monthly reconciling item resulting from timing differences.

- c. General Accounting does not further analyze this amount to determine its composition.
- d. As a result, General Accounting cannot age individual transactions creating the timing difference; individual transactions that are stale-dated and/or require investigation are not identified.

Failure to identify and investigate individual transactions making up reconciling differences on bank reconciliations may hinder the timely detection and resolution of accounting irregularities.

Management Action Plan

Beginning on July 1, 2014, General Accounting will identify and investigate (as necessary) individual transactions making up reconciling differences on bank reconciliations.