

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT SERVICES**

**Financial & Administrative Services and Medical Center
Bank Account Reconciliation Audit
Project #12-028**

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Fieldwork Performed by:

Maximilian Geier, Senior Consultant (Protiviti)

Reviewed by:

Tom Poon, Associate Director

Approved by:

Rick Catalano, Director

**Bank Account Reconciliation Audit
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MANAGEMENT SUMMARY

The bank account reconciliation process is conducted by the Cash and Controls office (CCO) at the Campus and the Cash Accounting Office (CAO) within the Medical Center. Each department resides under the supervision of the respective Campus and Medical Center Controller. The Campus and Medical Center bank account reconciliation processes are handled under different supervisory chains that have different bank accounts, and function largely independent of one another. Bank account reconciliation is a critical accounting process that is conducted monthly to ensure that all bank accounts transactions have been accurately recorded in the General Ledgers (GLs) and serves as a safeguard against defalcation and fraud. Bank accounts record a variety of expenses involving payroll, vendor payments and receipt of funds from credit card payments, and tuition and fee collections for the University of California San Francisco (UCSF) currently utilizes 21 bank accounts representing approximately \$21.75 million in average daily balances.

The purpose of this review was to assess whether bank accounts are reconciled in compliance with applicable policies; account activity is properly recorded in the GLs; account reconciliations are performed timely and accurately; reconciling items are handled properly and timely; and user access to IT systems and signing authority on bank accounts are appropriately restricted.

Audit Services has determined that the bank account reconciliation processes are properly designed with appropriate internal controls to mitigate critical process risks. We identified no material errors with the reconciliations tested, nor did we identify significant control deficiencies. However, we did identify several areas for process improvement, and instances where controls did not operate as designed. In spite of these findings, mitigating controls and procedures were in place to reduce the overall risk posed by these operational weaknesses. Specifically, we noted that improvements could be made to the Campus reconciliation process to reduce the overall completion time and strengthen separations of duties by removing the CAO Manager as a signer for a bank account. As for the Medical Center, improvements could be made to strengthen check remittance received by the CAO by requiring deposits be processed by two staff members for better accountability and establishing procedures to set appropriate criteria for hand delivery of check deposits to the bank. Further, both reconciliation processes are labor intensive and more automated solutions should be explored to reduce efforts required to complete monthly reconciliation.

For additional details on the observations identified, please refer to the detailed report below.

I. BACKGROUND

As part of the fiscal year 2012 audit plan, Audit Services conducted a review of the bank reconciliation system at the Main Campus and Medical Center.

Of the 21 bank accounts in use by UCSF, 12 are managed by the Controller's Office for Main Campus operations, and 9 are managed by the Controller's Office for the Medical Center's operation. The total daily transaction volume (ignoring direction of cash flow) is approximately \$21.75 million. Transactions posted during the month for each account can range from a few to several thousand. The most active accounts are the depository and payables accounts, followed by payroll and student financial aid.

The bank reconciliation process is conducted by the Cash and Controls Office (CCO) at the Campus Controller's Office and the Cash Accounting Office (CAO) within the Controller's Office at the Medical Center. Bank account reconciliation is a critical accounting process that is conducted monthly to confirm that all bank accounts transactions have been accurately reflected in the General Ledgers (GLs) and as a safeguard against defalcation and fraud. Bank accounts record a variety of expenses involving payroll, vendor payments and receipt of funds from credit card payments, and tuition and fee collections.

UCSF is unique in that it does not have a main cashiering station or office. Instead, University administration utilizes a decentralized model which places the depository activities at the department level and uses drop-safes, armored transport and lockbox services. As a result, all cash is handled by the departments and are directly deposited with the bank through armor car services or mailed to a lockbox location under the control of the bank. For calendar year 2011, the University incurred approximately \$1.22 million in fees for armored transport, lockbox services, and wire/Automated Clearing House (ACH) transfer services where 70% of the fees are for lockbox services. The Campus accounts for 32% of total fees, while the Medical center accounts for the remaining 68%. On average, the University expends approximately \$102,000 each month for aggregate cashiering type fees.

II. AUDIT PURPOSE AND SCOPE

The purpose of the audit was to evaluate the effectiveness of internal controls and procedures respective to the bank account reconciliations. The objectives of the review were to ensure:

- Compliance with existing University policies and departmental procedures;
- Cash activity is properly recorded to the GL;
- Account reconciliations are performed timely and accurately, and reviewed independently; and
- IT user access and bank account signing authority is properly restricted and/or governed.

To complete the review, we interviewed personnel and reviewed documentation from the bank account reconciliation process. The following procedures were performed:

- Obtained an understanding of the bank reconciliation process and documented the results in flowchart and narrative format;
- Obtained a listing of all active bank accounts, their average daily balances, and authorized signers;
- Reviewed existing procedures against BUS-49 and Accounting Manual C-173 and determined whether policy non-compliance was evidenced;
- For accounts which require manual posting of journal entries, obtained bank detail and matched activity to the GL on a test basis;
- Obtained a judgmental selection of bank account reconciliations and determined whether they were prepared timely, reviewed by an independent person, accurately reflected GL and bank balances, and contained proper explanation for reconciling items;
- Obtained a listing of account signers and wire/ACH initiators/approvers and determined whether these individuals were appropriate, and whether the same individuals were involved with bank account reconciliations (segregation of duties);
- Obtained IT system reports of users with the ability to post journal entries to the GL to determine whether these individuals were appropriate, and whether the same individuals were involved with bank account reconciliations (segregation of duties);
- Interviewed process owners to determine where the most time consuming and manual elements of the overall process existed, and identified opportunities to automate such functions.

Both the Campus and Medical Center bank account reconciliation processes were in scope for this audit. Sample reconciliations were tested for a period of three months (December 2011 to February 2012). Following the identification of testing exceptions, additional samples were taken from September - November 2011, for the Campus. Processes such as accounts payable and departmental cash handling are out of scope for this review. As a sampling approach was utilized for this review, and therefore the work completed is not intended, nor can it be relied upon, to identify all errors or irregularities. This review was not intended to uncover potential control weaknesses which may be present at the departmental level or in areas outside of the bank reconciliation process.

III. CONCLUSION

Audit Services has determined that the bank account reconciliation processes are properly designed with appropriate internal controls to mitigate critical risks. We identified no material errors with the reconciliations tested, nor did we identify significant control deficiencies.

However, we did identify several areas for process improvement, and instances where controls did not operate as designed. In spite of these findings, mitigating controls and procedures were in place to reduce the overall risk posed by these operational weaknesses. Specifically, we noted that improvements could be made to the Campus reconciliation process to reduce the overall completion time and strengthen separations of duties by removing the CAO Manager as a signer for a bank account. As for the Medical Center, improvements could be made to strengthen check remittance received by the CAO by requiring deposits be processed by two staff members for better accountability and establishing procedures to set appropriate criteria for hand delivery of check deposits to the bank. Further, both reconciliation processes are labor intensive and more automated solutions should be explored to reduce efforts required to complete monthly reconciliation.

Details on our observations, including Management Corrective Actions can be found in Attachment A.

Attachment A
Summary of Observations & Management Corrective Action

Observations	Criteria & Risk	Management Corrective Action	
		Main Campus	Medical Center
<p>A. Segregation of duties should be strengthened for one account.</p> <p>Due to oversight, the CAO Manager is listed as an authorized signer on one bank account (account with ending numbers of 7062) and also performs the secondary review of the GL account reconciliation.</p>	<p>The same individual should not have the ability to authorize transactions and also perform account reconciliations and review activities.</p> <p>Without proper segregation of duties, one person could both create fraudulent transactions, and conceal them within the accounting records.</p>	<p>The Controller's Office has completed the request to remove the CAO Manager as an authorized signer on bank account ending 7062. The request will be approved and submitted to UCOP for processing by July 31, 2012.</p> <p>Beginning with fiscal year 2013, Management will perform periodically a detailed segregation of duties review to verify that conflicting duties are not performed by the same person.</p>	<p>Not applicable</p>
<p>B. Bank account reconciliations are not completed prior to the start of the next reporting cycle.</p> <p>The current Campus bank reconciliation process establishes a timeline of 45 days for preparation of the reconciliation and 15 days for supervisory approval and review. This process creates an overlap between the reconciliation period and the subsequent open period which could increase the number of reconciling items and opportunities for fraudulent activity.</p>	<p>As a leading practice, account reconciliations should be completed prior to the next period close. Allowing 60 days to pass before finalizing reconciliations could lead to unidentified material variances in the financial statements.</p>	<p>By December 15, 2012, the Controller's Office will evaluate the feasibility of reducing the cycle time for account reconciliation. Research should include a review of the overall process, common sources and resolution for reconciling items, methods to automate currently manual processes, and potential costs/savings of a shorter reconciliation cycle.</p>	<p>Not Applicable</p>

Observations	Criteria & Risk	Management Corrective Action	
		Main Campus	Medical Center
<p>C. Check deposits are occasionally hand carried directly to the bank by the Cash Supervisor.</p> <p>Large dollar checks are deposited into the bank account immediately if received near month-end to maximize interest earnings. For two of 16 sample deposits processed by the CAO, the check was hand carried to the bank by the Cash Supervisor.</p>	<p>In order to reduce the risk of cash and check handling, the University has established drop-safe and armored transport services. The normal procedure for handling cash and check deposits is to complete a deposit slip and place the funds in a drop-safe. The risk of hand carrying cash and checks directly to the bank include susceptibility of robbery, asset defalcation, loss of the instrument and injuries to employees.</p>	<p>Not Applicable</p>	<p>The MC Controller's Office will continue to make deposits through the established drop safe procedures. Deposits may be made directly to the bank only as approved by the Medical Center Controller or Cash Supervisor. This would typically be done to expedite the deposit of large deposits (greater than \$500,000) for month end cut off. This has been the Medical Center practice and has now been documented as an established procedure.</p>
<p>D. Mailed check remittances received by the CAO are not processed in dual custody.</p> <p>CAO currently only requires one person to process the receipt and deposit of checks received in the CAO. Although the majority of depository activity is handled through bank-controlled lockboxes, approximately 40 checks are processed through the CAO each month.</p>	<p>BUS-49 policy VIII.A.1.3 states that mailed remittances should be processed by two employees. Risk of asset defalcation exists when the receipt and deposit of funds is under single custody.</p>	<p>Not Applicable</p>	<p>Effective June 1, 2012, the MC Accounting Office will have the deposits for all mailed remittances verified and processed by two staff. This will be indicated with each processor initialing the deposit of the remittances.</p>

Observations	Criteria & Risk	Management Corrective Action	
		Main Campus	Medical Center
<p>E. Specific accounts within the reconciliation process require a highly manual and time consuming matching procedure to be performed.</p> <p>For certain accounts, an accountant manually matches each line of activity for the period under reconciliation. The Campus agrees pending journal entries in PeopleSoft to the bank download while the Medical Center, similarly, agrees departmental activities to bank activities prior to creation of journal entries to the GL.</p>	<p>As a leading practice, highly manual and time consuming procedures should be replaced by systematic automation to the extent it is possible and cost effective. The manual nature and level of effort required to match such activity exposes the process to inherent risks of human error and lengthens the time for completing the reconciliation cycle.</p>	<p>By September 30, 2012, Controller's Office will evaluate and implement more efficient means including automation to reduce manual efforts for account matching activities.</p>	<p>By September 30, 2012, the MC Controller's Office will work with Audit Services to investigate opportunities to automate the matching of journal entries to departmental activity reports.</p>