

Date: October 27, 2016

To: Kenneth Jessell, Senior Vice President and Chief Financial Officer
Cecilia Hamilton, Associate Vice President and Controller

From: Allen Vann, Chief Audit Executive



Subject: Review of Bank Account Reconciliations
Report No. 16/17-05

In January 2015 a Senior Accountant in the Controller's Office, responsible for reconciling the University's largest bank account, resigned abruptly. The Controller's Office began an exhaustive process of reviewing all prior reconciliations. Their review disclosed that for a number of years the employee prepared bank reconciliations, which deceptively gave the appearance that the book to bank balances were reconciled.

By the end of June of 2015 the Controller's Office review resulted in a journal entry reducing the cash book balance by nearly \$575,000 in order to reconcile to the actual bank balance. Neither the Controller's review nor our review disclosed any indication of a misappropriation of funds but rather that the employee did not have the necessary skill sets to perform the bank reconciliation and concealed her shortcomings through a pattern of deceit. Due to an apparent lack of communication, the responsible employee was almost immediately re-hired but has since been terminated by the University.

We reviewed the updated reconciliation process and procedures employed to ensure that they were performed properly. We also were able to satisfactorily reconcile the January 2016 bank account for all transactions, without exception.

Background

The University has several accounts in the same banking institution. The largest of these accounts is a Concentration Account in which all student tuition and housing payments and departmental deposits were posted. It is also where all outgoing wire payments and ACH debits from select vendors are issued. The Concentration Account also supports the other cash accounts using the bank's overnight sweep process, which transfers all the funds into or out of the other six bank accounts. The other bank accounts cover Student Financials disbursements, accounts payable disbursements, payroll disbursements, online revenue, merchant credit card deposits, and the Health Care Network.

Each bank account is reconciled monthly to verify that all transactions are accounted for properly. Currently a daily overnight sweep process invests the Concentration Account cash balance. The bank sweeps the cash balance, with the exception of \$100,000, to an investment account and on the following business day the sweep balance is re-deposited back to the Concentration Account.

The Concentration Account maintained an average monthly balance of over \$12 million during the fiscal year ended June 30, 2016. During the same period, the account had a total volume of over \$4 billion in both total deposits/credits and in withdrawals/debits (including daily sweeps for re-deposits and withdrawals), on 10,672 deposit transactions and 3,492 withdrawal transactions.

Findings

As previously described, in January 2015 the individual responsible for reconciling the University's Concentration Bank Account abruptly resigned. It was subsequently discovered that prior bank reconciliations were not being performed properly. The Controller's staff expended considerable effort in reconciling the bank account. We, in turn, reviewed the corrected reconciliation process and procedures to ensure that the reconciliations were performed properly.

These matters became known when in 2014 the Controller's Office began the process of re-assigning different employees to reconcile different accounts in an effort to cross-train employees and strengthen controls within the department. Prior to this, cash reconciliation responsibilities were assigned by bank account to individual employees in General Accounting. It was during this cross-training period that the employee responsible for the Concentration Account (a Senior Accountant) could not sufficiently train her co-worker. When the co-worker was tasked with re-performing the reconciliation for November 2014, she was not able to do so. When management requested the Senior Accountant to meet and discuss her process and provide supporting documentation for the reconciliations, the employee abruptly resigned.

The Senior Accountant had been with the University and the Controller's Office from October 1995 through her resignation in January 2015. She was interviewed by the Division of Human Resources' Employee & Labor Relations Department as part of her exit interview and by this Office as part of our review into the matter. In her resignation letter dated January 6, 2015, the employee stated that, "When I feel I can't approach my superiors with an error I've made or a concern because my opinion doesn't count or the response will be negative and everything is based on fear. This is not the work environment [for me]." The employee told us that she resigned because of the pressures she felt to complete the reconciliations in the short time frame provided. That she was simply overwhelmed. When questioned about reconciliations that did not appear to be properly performed, she denied any knowledge and reiterated that the reconciliations were extremely difficult and time-consuming to perform.

Due to an apparent lack of communication, she was subsequently rehired on a temporary basis by the FIU Foundation from March to May 2015, and then by the School of International and Public Affairs in June 2015 as a Program Assistant on a temporary basis. In June 2016, she was appointed to the position on a permanent basis. She was tasked with assisting with financial processes including reconciliations. Upon learning of this during this review process, management removed her access to the financial systems and subsequently she was terminated effective September 2016.

The Controller's staff reviewed the Senior Accountant's last completed reconciliation for the Concentration Account (October 2015) and discovered that reconciling items within the reconciliation were unsupported. They determined that the Senior Accountant had falsified deposits in transit amounts to balance the month's reconciliation. For example, the Senior Accountant's e-check deposits-in-transit total was \$121,456. However, the Controller's staff found that the actual deposits-in-transit was \$110,333. Likewise, the Senior Accountant listed credit card deposits-in-transit total of \$507,884 but the actual amount was \$144,950. We found that some of the items listed by the Senior Accountant as in-transit had: (a) cleared in the same month; (b) were different from the actual transaction amount; and/or (c) been created entirely. Supporting data had been falsified to coincide with the reconciling items. The supporting documents were limited to available hard copies as the Senior Accountant admitted that she had deleted the digital versions.

In January 2015, the Controller's Office staff started a methodical process of re-performing the prior monthly reconciliations to identify differences, the origin of the difference, and investigate for the possibility of misappropriation. To-date reconciliations have been completed as far back as June 2008. Other reconciliations dating back to June 2005 were being performed as the accounts were in fact not being properly reconciled and adjustments have been identified dating as far back as June 2005. However, seeing that the reconciling differences had been consistent, the Controller's Office determined to cease performing further reconciliations.

On June 30, 2015, a journal entry was booked in the University's general ledger for \$574,631 charged against *Other Costs and Losses* and a credit to the Concentration Cash account to account for the unidentified difference. It should be noted that even though the bank cash balance was less than that reflected on the books, due to the high average daily balance there was little or no risk of an overdraft.

At the time of the incident, the reconciliation process was mostly manual, tedious, and extremely time-consuming. It also included online revenue transactions that increased the volume of line items/transactions significantly. For example, the January 2016 reconciliation would have increased by over 57,000 line items if all online student payments via e-checks and credit cards for tuition and housing were included. These transactions are now being accounted for in a separate bank account. In addition, the review process in place at the time did not identify the reconciliation discrepancies since the process consisted of only reviewing the supporting documentation provided and not

the details within the support, which had been adjusted by the Senior Accountant to match those in the reconciliation.

The current reconciliation process takes an average of three weeks for employees to complete and it continues to be a very labor-intensive process, albeit with additional generated reports. The process begins with accumulating various reports from different sources, as follows:

- Queries from the PantherSoft System:
 - General Ledger (GL) which shows all journal entries posted to the Concentration Account for the month;
 - Student Financials report showing all the student and department deposit and accounting details; and
 - Voucher report that provides detail payments by Accounts Payable.
- The current month's bank statement and access to the following month's activity.
- The deposit logs from both MMC and BBC and from the Office of Research and Economic Development (ORED).
- Report of returned checks and wire transfers.
- Wire log showing all the wires issued during the month.

In addition, the reconciliations are performed by rotating employees and reviewed by the Accounting Manager. When reviewing the reconciliation the Accounting Manager confirms that the deposits-in-transit cleared and reviews the supporting documentation for the reconciling items. The Accounting Manager also verifies the GL activity and bank balance to the comparison sheet prepared. In addition, the Accounting Manager traces a random selection of deposits and journal entries back to the GL. This selection is not documented in the reconciliation document. In addition, we noted that the Accounting Manager used the preparer's self-generated reports, which are subject to manipulation. The process could be strengthened by the Accounting Manager confirming the totals independently.

In order to determine whether the Concentration Account reconciliations were now proper, accurate, and following the current reconciliation procedures, we selected the month of January 2016 to review. The review consisted of re-performing the steps outlined in the reconciliation procedures and obtaining the related supporting data.

Using the General Ledger, the student financials report, and the bank report, a comparison sheet was created with over 8,100 lines of transactions. We then matched each bank transaction to the PantherSoft transactions. Each line item was identified as prior month, current month, or a reconciling item, as follows:

- transactions that match within the month in both the bank and GL
- transactions that are in and out of the GL or the bank within the month
- transactions that were related to the prior period
- current month deposits in transit transactions
- transactions identified as reconciling items

As a result of re-performing the reconciliation, we were able to satisfactorily reconcile the January 2016 Concentration Account bank statement and account for all transactions, without exception. Remaining reconciling items from the re-performance of prior year reconciliations were subsequently adjusted in March 2016 and totaled \$1,060.

Recommendations

The Office of Controllers should:	
1.1	Continue exploring ways to automate the reconciliation process, where possible.
1.2	Formally document the review procedures while providing evidence of the review processes performed monthly.
1.3	Ensure the reviewer independently runs the Trial Balance to verify the report balances used in the reconciliation.

Management Response/Action Plan:

- 1.1 The Controller's staff will continue to explore options to automate the reconciliation process.

In October the Virtual Deposit feature with Bank of America was implemented. This is new functionality that assigns a reference number from PeopleSoft to deposit items that previously were blank in the bank file. The reference number in the bank file can then be matched to the source data from PeopleSoft. This has reduced the number of items that require manual matching.

The University is also in the process of implementing the Cash Management Module PeopleSoft. The Cash Management module will automatically match data in bank files with data in PeopleSoft files. Once live, this module will automate the matching of the majority of the detail items. This module is targeted to go live before the end of this fiscal year.

Implementation date: June 20, 2017

- 1.2 The Office of the Controller will formally document the procedures performed to review the account reconciliation. In addition, the reviewer will provide evidence of such review by applying notations on the reconciliation during the review process.

Implementation date: January 1, 2017

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- 1.3 The reviewer independently runs the trial balances to verify the information. This was put into place with the May 2016 reconciliations.

Implementation date: Immediately