MEMORANDUM

TO: John B. States
Vice President, Financial Accounting and Reporting

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Vice President, Audit Services

DATE: August 20, 2018

SUBJECT: Balance Sheet Account Reconciliation Audit
Engagement Number 2018-011

Attached is the final audit report regarding the Balance Sheet Account Reconciliation Audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

c: Cheryl A. Sadro
R. Craig Ott
Kelly H. Dean

utmb Health

The University of Texas Medical Branch
Audit Services

Audit Report

Balance Sheet Account Reconciliation Audit

Engagement Number 2018-011

August 2018

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

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Background

The integrity of the data maintained in the institutional financial systems, including the accuracy of revenue and expenditure functional classification, is critical for university-wide reporting, including consolidated financial reporting and state and federal regulatory filings. Financial account reconciliations comparing accounting records in the PeopleSoft Financial Management System (FMS) to departmental documentation represent a key process to help ensure the financial data integrity.

Prior to fiscal year (FY) 2017, the balance sheet account reconciliation process was largely a manual process. Accounts were reconciled in Excel spreadsheets and placed in a folder on a shared UTMB network drive. Confirmation of the general ledger balances, tracking the status of reconciliations, and review of reconciling items was cumbersome and time consuming. In an effort to mitigate the risks associated with a manual process and improve staff efficiency, UTMB Health began exploring the use of technology. In September 2016, UTMB Health implemented the "BlackLine" reconciliation software suite, including the Reconciliation Manager and Transaction Matching tool. Several major objectives identified for the initial implementation included establishing a reconciliation repository, automating key data management, electronic certification, using auto-certification through rules and risk based approach leveraging the use of digital labor, and enhancing monitoring and oversight.

The BlackLine Reconciliation Manager is being used by Finance for accumulating balance sheet account reconciliations, monitoring, and oversight.

The BlackLine Transaction Matching tool is being used to automate the matching process by Revenue Cycle Operations to assist with reconciling the EPIC Physician Billing and Hospital Billing Cash Clearing Accounts to the PeopleSoft general ledger. Finance anticipates expanding the use of this tool to other accounts within the limits of the contracted volumes.

This risk-based audit was added to Audit Services fiscal year (FY) 2018 plan as part of project hours allocated to Institutional Support.

Audit Objectives

The primary objective of this audit is to assess the efficiency and effectiveness of the processes in place for balance sheet account reconciliations.

Scope of Work and Methodology

The audit scope covered current balance sheet account reconciliation processes performed by General Accounting (2 areas), Clinical Accounting, Grants and Contracts, Asset Management, Auxiliary Services, and Revenue Cycle Operations (RCO). Additionally, our audit assessed oversight and monitoring activities for these areas. Testing focused on the assessment of

> *"Balance sheet accounts* are one of two types of general ledger accounts. (Income statement accounts make up the other type.) Balance sheet accounts are used to sort and store transactions involving assets, liabilities, and owner's or stockholders' equity. Examples of a corporation's balance sheet accounts include Cash, Accounts Receivable, Investments, Buildings, Equipment, Accumulated Depreciation, Notes Payable, Accounts Payable, Payroll Taxes Payable, Paid-in Capital, Retained Earnings, etc."
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expected processes and procedures to assist in mitigation of identified risks.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

Audit Results
Balance Sheet Account Reconciliation Assignments
Audit Services analyzed the number of balance sheet accounts assigned to preparers and approvers, noting there are 23 preparers and 13 approvers assigned with reconciliation activities. Through interviews and a review of reconciliations assigned to eight preparers and seven approvers for the areas included in our scope, it appears their respective accounts are equitably disbursed among personnel, and/or there was sufficient justification for the number of reconciliations certain individuals complete.

Although all accounts are assigned a preparer and approver, a BlackLine rule permits accounts to be "auto-certified" if they have a zero balance and no activity for that month. Of the 554 accounts listed on the March 2018 certification log, we noted 143 (26%) accounts were auto-certified, and of these 143 accounts, 22 accounts (15%) were labeled as "inactive". Inactive accounts are disabled by General Accounting and transactions cannot be posted to these accounts. Distinguishing between auto-certified and employee-prepared reconciliations would provide greater transparency in the reporting of reconciliation activity.

> **Recommendation 2018-011-01-PL:**
> The Vice President of Financial Accounting and Reporting should review the current reporting metrics for account reconciliation and certification volume to ensure it accurately reflects monthly activity.
>
> **Management's Response:**
> We concur with the recommendation. While the reconciliation process is in transition from a manual process to a more automated process we appreciate the feedback from Audit Services to help identify opportunities to continue to improve the process.
>
> The Controller's Office will modify reporting to distinguish between accounts that are auto-certified vs employee-prepared and accounts which are active and inactive.
>
> The Controller's Office will also evaluate the process for importing accounts to Blackline and make changes as possible to exclude inactive accounts.
>
> **Implementation Date:**
> The new reporting will be updated and the review of inactive accounts will be implemented by August 31, 2018.

Policies and Procedures
Detailed policies and procedures provide guidance to help ensure consistent completion of account reconciliations. Audit Services review of policies and procedures and BlackLine guidance utilized by the seven areas reviewed identified inconsistencies between the

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documented requirements for account reconciliations and current processes.

Recommendation 2018-011-02-RM:
The Vice President of Financial Accounting and Reporting should establish a routine process to ensure all departmental areas review their account reconciliation procedures and current processes to ensure alignment with expected internal controls activities. All updated policies should be reviewed with appropriate individuals.

Management's Response:
We concur with the recommendation.

The Controller's Office will review and update the existing balance sheet account reconciliation policies and procedures including the requirement that departmental areas review their account reconciliation procedures and processes to ensure alignment with expected internal controls activities.

The updated materials will be communicated to individuals who have balance sheet account reconciliation responsibilities and training will be provided.

Implementation Date:
The review and update of policies and procedures will be completed by November 30, 2018. Communication and training will be completed prior to completion of the November 2018 reconciliations which will be due no later than December 31, 2018.

Training and Communication
Audit Services interviews with the eight preparers and seven approvers indicated all received BlackLine training from VACO (BlackLine Service Partner) and can access modules within the "*BlackLine University*" learning portal for reference as needed. Additional training at the departmental level focuses on gaining an understanding of assigned accounts and hands-on training on properly preparing and/or approving reconciliations. Audit Services noted as a good practice, one department rotates their reconciliations among the staff as a way to cross train them and they also review each other's journal entries.

Although the individuals interviewed completed required training and appear to possess sufficient skill sets, one approver articulated a lack of understanding of the account reconciled. Additionally, two of the eight preparers and five of the seven approvers did not have an identified back-up who could complete their monthly reconciliations assignments if they were unavailable due to vacation, illness, etc.

Recommendation 2018-011-03-RM:
The Vice President of Financial Accounting and Reporting should establish a process to ensure individuals assigned reconciliation activities have the appropriate back-up and have a sufficient understanding of the accounts being reconciled.

Management's Response:
We concur with the recommendation.

The Controller's Office will communicate and require preparing and certifying areas to submit an official listing of primary and secondary personnel responsible for reconciliations of their respective accounts.

The Controller's Office will review and update the existing balance sheet account reconciliation policies and procedures including the need to have backup preparers and approvers. Training will be provided to underscore the importance of the reconciliation process and expectation that individuals have an appropriate understanding of the accounts they are reconciling.

Implementation Date:
An official list of primary and secondary personnel responsible for reconciling and approving their respective accounts will be compiled by August 31, 2018. Training with respective areas will start in November 2018 after the policies and procedures have been updated and will be completed prior to completion of the November 2018 reconciliations.

BlackLine Utilization
The design of BlackLine Transaction Matching rules allows for the systematic loading of Epic and PeopleSoft data for the purpose of auditing/transaction matching and clearing of the Revenue Cycle accounts. For all other balance sheet accounts, the use of BlackLine Reconciliation Manager is limited to serving as a repository for reconciliation documentation and certifying completed reconciliations. As a result, with the exception of the RCO clearing accounts, reconciliations are completed outside BlackLine and then uploaded for certification.

Recommendation 2018-011-04-RH:
The Vice President of Financial Accounting and Reporting should review BlackLine's capabilities in an effort to expand the use of the tool for reconciliation activities.

Management's Response:
We concur with the recommendation.

The Office of the Vice President of Financial Accounting and Reporting identified several major objectives when the BlackLine reconciliation suite was initially implemented. Some of these goals were accomplished using the BlackLine Reconciliation Manager to include a reconciliation repository that identified responsible parties; a tool for automatically loading the general ledger balances to provide assurance reconciliations were being conducted for true ledger balances; an electronic mechanism for certifying balance sheet reconciliations through positive confirmation; efficiency gains through the use of auto-certification using a rules and risk based approach to leverage the use of digital labor, and enhance tracking the status of reconciliations. The use of the BlackLine Transaction Matching tool was limited to the Revenue Cycle Operations Cash Clearing Accounts because of the large volume of transactions processed for these accounts. We are currently developing test files for matching transactions in the Chase Credit Card ZBA account. We are in the process of evaluating other opportunities to expand the use

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of BlackLine Transaction Matching and rules and risk based certifications. We anticipate further expansion will be an on-going process and may require us to modify our contract with BlackLine to accommodate a larger number of transactions.

Implementation Date:
A review and update of our implementation plan will be completed by October 31, 2018.

UTMB Health currently possesses 60 BlackLine licenses which are assigned to specific individuals who prepare and approve reconciliations. One individual who was reflected as the preparer in BlackLine articulated that six of the nine reconciliations to which they are assigned are completed by a different individual, and then provided to them for uploading and sign off as the preparer in BlackLine. This practice does not make it clear who actually prepared the reconciliations in the institution's official business record.

Recommendation 2018-011-05-RM:
The Vice President of Financial Accounting and Reporting should ensure all departmental areas review their current preparers and approvers to ensure they are accurately identified in BlackLine.

Management's Response:
We concur with this recommendation.

The Controller's Office will survey the respective areas performing reconciliations to identify any gaps in licenses and will add licenses as needed to appropriately identify preparers and approvers within the BlackLine Reconciliation Manager.

Implementation Date:
A review will be completed by August 31, 2018. Licenses will be added as necessary to coincide with training.

Account Reconciliation Process Testing
Audit Services judgmentally selected nine general accounts and the two RCO clearing accounts from the October 2017 and March 2018 BlackLine certification logs to assess the efficiency and effectiveness of established reconciliation processes.

Timely Completion and Approval
Audit Services testing indicated all eleven reconciliations were documented as completed and approved timely within BlackLine Reconciliation Manager.

Segregation of Duties
Through interviews, one of the approvers articulated that they prepare and approve reconciliations, as needed. This practice does not provide adequate segregation of duties for the reconciliation process.

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Recommendation 2018-011-06-RM:
The Vice President of Financial Accounting and Reporting should ensure appropriate controls are established to ensure appropriate segregation of duties and that users assigned reconciliation responsibilities do not have approver responsibilities for the same accounts.

Management's Response:
We concur with this recommendation.

Proper segregation of duties and use of backup preparers and approvers will be included in new policies and procedures. We will also explore if the roles in BlackLine can be configured to prevent a user from certifying a reconciliation they prepared.

Implementation Date:
Training will be provided prior to completion of the November 2018 reconciliations.

Compliance with Reconciliation Certification Standards
In a conscious effort to improve controls surrounding balance sheet reconciliations, preparers and approvers attest to eight standards during the certification process. These standards, developed by Financial Accounting and Reporting leadership, primarily focus on documenting, researching, and clearing reconciling items. Audit Services testing indicated only three of the eleven accounts (27%) selected for review were fully compliant with the established guidelines. Detailed results of the testing were shared with management as part of the audit exit conference.

Additionally, during our interviews with key Financial Accounting and Reporting personnel, they indicated the standards related to handling reconciling items outstanding greater than 60 days are in the process of being updated to provide further guidance related to adjustments.

Recommendation 2018-011-07-RM:
The Vice President of Financial Accounting and Reporting should ensure all departmental areas have the appropriate oversight and monitoring to verify that reconciling items are reviewed for adequate and timely resolution, and that the established guidelines are being followed.

Management's Response:
We concur with the recommendation.

The Controller's Office will review and update the existing balance sheet account reconciliation policies and procedures including the requirement that all departmental areas have the appropriate oversight and monitoring to verify that reconciling items are reviewed for adequate and timely resolution.

Implementation Date:
Review and update of policies and procedures will be completed by November 30, 2018. Communication and training will be provided prior to completion of the November 2018 reconciliations.

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Cash Clearing Reconciliation Project
In September 2017, the Financial Accounting and Reporting department and Revenue Cycle Operations launched a project to utilize BlackLine Transaction Matching and other methodologies to identify all outstanding cash clearing items at the transaction level from Epic and PeopleSoft and then take appropriate action to clear them. While this project is still ongoing, Audit Services review of the project charter and status reports for the FY 2018 first, second and third quarters indicated progress towards achieving project goals and milestones to-date appear to be on track.

Conclusion
Audit Services review of the balance sheet account reconciliations indicated opportunities to strengthen the processes related to policies and procedures, cross-training, BlackLine documentation, and supervisory oversight and monitoring to ensure compliance with established guidance.

We greatly appreciate the assistance provided by General Accounting, Clinical Accounting, Grants & Contracts, Auxiliary Institutional, Asset Management, Revenue Cycle Operations, and other staff and hope that the information presented in our report is beneficial.

Kimberly K. Hagara, CPA, CIA, CISA, CRMA
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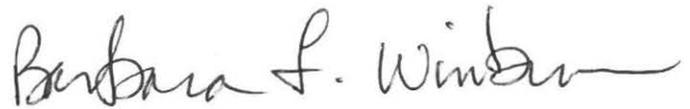
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