

UT Southwestern

Medical Center

**The University of Texas Southwestern Medical Center
Cash Management Audit
Internal Audit Report 17:09**

March 6, 2017

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Executive Summary

Background

The University of Texas Southwestern Medical Center (UT Southwestern) Cash Management Office (Cash Management) is responsible for: general cashier operations, including depositing of funds received in its office to the bank; recording transactions into the general ledger; and investment of funds. The Cash Management team includes seven employees, an assistant director, manager, supervisor, accountant and three accounting clerks. Cash Management uses an online banking system, CashPro, to process ACH and wire payments, as well as to transfer funds between bank accounts.

General cashier operations within Cash Management includes the responsibility for transactions received at the cash window, petty cash management, ATM management, and the preparation of certain cash related general ledger reconciliations. In addition to funds received by Cash Management, the department also posts transactions for funds received into the lock boxes, student tuition payments and other sources. Funds that cannot be properly matched for posting to the general ledger account in PeopleSoft, which are primarily checks received through the mail, are posted to a suspense account until they can be researched and moved to the appropriate general ledger account.

UT Southwestern maintains eight ATM machines across the campus, and the Cash Management team is responsible for overseeing the cash canisters, bill rejects and disputes for each machine. Funds received and posted by Cash Management (primarily checks and wires) are received either in UT Southwestern lockboxes, in the Aston Clinics, in the mail, Auxiliary Enterprise locations (parking, stores, postal, printing, etc.), or in person at the Cash window.

In fiscal year 2016, UT Southwestern received approximately \$2.7 billion in cash and cash equivalents. This amount included \$1.5 billion in patient care receipts via credit card transactions or lockbox payments sent securely directly to the bank and processed by the Health System. In addition, \$1.1 billion was collected via ACH, wire, credit cards, and various other lockboxes. These funds are posted to PeopleSoft accounts by the Cash Management team. The remaining \$99 million of receipts is cash or checks sent to UT Southwestern and delivered to Cash Management for processing and posting.

Please refer to Appendix B for the breakdown of total receipts processed by Cash Management and the volume and dollars of the transactions.

Scope and Objectives

This audit was risk based and scheduled as a part of our Fiscal Year 2017 Audit Plan. The audit focused primarily on the Cash Management Office's functions, including the various funds handling processes between Cash Management department and other departments. The audit scope period was January 1, 2016 through October 31, 2016. Audit procedures included interviews with the Cash Management team members and others; review of policies and procedures and other documentation; analysis and testing of cash receipt related processes and review of cash drawer closing, safe security procedures, outgoing wires, petty cash management, review of account reconciliations; and review and analysis of related suspense accounts.

Executive Summary

The primary objectives of the audit were to assess the adequacy and effectiveness of controls over the cash management processes. Specifically, to assess and provide reasonable assurance that the following objectives are being met:

- Assets are appropriately safeguarded
- Cash and cash equivalents are timely and accurately deposited and posted
- All items posted into the suspense accounts are resolved in a timely manner
- Appropriate segregation of duties exist for cash functions
- System access is appropriate

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Conclusion

Cash Management processes and internal controls need to be strengthened to ensure funds are properly safeguarded and to decrease risk for misappropriation of funds. Specifically, an increase in oversight and monitoring of Cash Management functions would be beneficial to ensure controls are effective for timely deposits, complete and timely recording of receipts in accordance with institutional and UT system policies, and the proper access administration, including appropriate segregation of duties for cash transactions, within the Cash Pro system. In addition, opportunities for improving cash account reconciliations were identified.

In March 2017, the Cash Management team will be relocating to the North Campus with the Accounting Operations team. This will provide for additional oversight and increase opportunities for streamlining functions, and provide for cross training and segregation of duties opportunities. This move was planned during FY 2016.

The table below summarizes the observations and the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (3)	Medium (3)	Low (0)	Total (6)
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There were no priority issues identified in the audit. Key improvement opportunities risk-ranked as high and medium are summarized below.

- **Perform Adequate Reconciliations to Ensure Completeness of Financial Records** – Detailed account reconciliations for some accounts are not prepared based on supporting documentation, and suspense account activity is not consistently researched and cleared in a timely manner.

Executive Summary

- **Comply with UTS - Policy 166 Requirements for Timely Deposits** – Checks received into the Cash Management office are not always deposited within one business day in accordance with UTS-166 “*Cash Management and Cash Handling Policy*” requirements. On average, receipts are deposited four business days after receipt.
- **Establish Separation of Key Functions and System Access Governance Procedures within the CashPro Application** – Users have access in the CashPro application to perform key financial transaction functions that are not properly segregated, such as creation and approval of payments. In addition, governance over security access in the application can be improved.
- **Improve Controls to Ensure all Receipts are Recorded Accurately and Completely** - Controls for incoming receipts received through the mail or from Accounting can be improved. Specifically, cash and checks are not recorded, totaled and tracked to final posting within the financial systems.
- **Governance and Monitoring of Cash Management Function** – Limited reporting is in place to monitor cash management functions within the Institution. This function is decentralized across the Institution resulting in inconsistent compliance with policies.
- **Ensure Appropriate Safeguarding of Cash in Safe** – Controls to physically protect cash and other assets held within the safe should be enhanced to prevent loss of assets.

Management has implemented, or is in the process of implementing, corrective action plans. Management responses are presented in the Detailed Observations and Action Plans Matrix section of this report.

We would like to take the opportunity to thank the Cash Management Office and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

Valla F. Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

Executive Summary

Audit Team:

Melinda Lokey, Director of Internal Audit
Jeff Kromer, Director, IT & Specialty Audits
Lori Muncy, Senior Internal Auditor
Elias Dib, Senior Internal Auditor
Gabriel Samuel, IT Internal Auditor

cc: Glen Bailey, Assistant Director, Accounting
Arnim E. Dontes, Executive Vice President for Business Affairs
Sharon Leary, Assistant Vice President Accounting & Fiscal Services
Michael Serber, Vice President for Financial Affairs

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: High ●</p> <p>1. Perform Adequate Reconciliations to Ensure Completeness of Financial Records</p> <p>Cash Management staff do not perform detailed account reconciliations for some accounts, and suspense account activity is not researched and cleared in a timely manner.</p> <ul style="list-style-type: none"> The reconciliations prepared by the Cash Management group are limited to activity downloads from PeopleSoft, rather than comparisons to supporting documents. Suspense accounts contained individual items aged from 30 days to more than six months old. Suspense accounts are used to hold amounts received that could not be posted to a specific account or sub-ledger due to lack of specific supporting information. The primary driver of the total balance is pending instructions from Sponsored Programs Administration (SPA) for posting to the appropriate sub-ledger. Outstanding balances for the month of June were 600K for items over 60 days. In August 2016, in conjunction with year-end processing, most all of the items in the suspense accounts were cleared. Outstanding reconciling items within reconciliations older than 90 days were noted in multiple accounts. <p>Without adequate preparation, errors and inappropriate activities may go undetected.</p>	<ol style="list-style-type: none"> Update procedures for account reconciliations to ensure adequate supporting documentation is included. Work with SPA to develop procedures to clear suspense items in an efficient and timely manner. Document written procedures for the clearing of suspense account activity. Establish metrics for review and resolution of transactions posted to the suspense accounts, including escalation of reporting as needed to assist in the clearing of balances. Resolve and clear stale dated reconciling items for the accounts listed. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> Management will add clarifying language requiring all appropriate documentation to be attached with reconciliations in the procedures, and will move all reconciliations to the Accounting Operations division. Management will continue to work with SPA and escalate issues up the chain of command to ensure timely resolution. Management will update the procedures on the clearing of suspense activity to include remitting funds back to payers after 85 days to ensure no old items are held in the suspense account. The AVP will review and approve established metrics. Management has reviewed the accounts listed and found there are some immaterial older transactions. Some items have been written off and others will be addressed before the completion date. <p><u>Action Plan Owners:</u></p> <p>Assistant Director, Accounting Assistant VP Accounting</p> <p><u>Target Completion Dates:</u></p> <p>May 31, 2017</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: High ●</p> <p>2. Comply With UTS-Policy 166 Requirements for Timely Deposits</p> <p>Checks received into Cash Management are not always deposited in a timely manner.</p> <ul style="list-style-type: none"> A review of deposits from April – October 2016, totaling \$13M, identified an average deposit lag of four business days after the money was received. The November 2016 Demand Operating Cash account reconciliation contained a \$2.3 million reconciling item for checks posted to the general ledger from October 27th – 31st, which were not deposited in the bank until several days later, on November 9th. Checks were held for more than one business day in a paper suspense file not secured in the safe, before they were deposited in the bank. During a count on January 9, 2017, 29 checks totaling \$440K were on hold for research. <p>UTS - 166 “Cash Management and Cash Handling Policy” requires payments over \$500 be deposited into the bank within one business day.</p> <p>Delays in the deposit of funds may increase the risk of misappropriation of assets.</p>	<ol style="list-style-type: none"> Deposit receipts into the bank in a timely manner in accordance with UTS – Policy 166 “Cash Management and Cash Handling Policy”. Deposit checks held in the paper suspense file into the bank and ensure proper accounting for the funds. Update procedures to ensure all personnel receiving checks prepare daily deposit batch reports, including date of receipt. Batch reports should be used for balancing all of the various incoming checks. Implement routine reporting to leaders describing delays in checks received by Cash Management. Escalate to higher levels of management if checks are not turned in timely. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> New armored car service began on February 22, which will ensure deposits are made in accordance with UTS – Policy 166 “Cash Management and Cash Handling Policy”. To reduce the overall number of checks received into the Cash Management office and faster receipt of funds into our bank account, we are coordinating with our Customer Service team to contact the payors mailing payments via check to convert to ACH. All checks will be deposited in accordance to the UT System Policy. UT System is updating their policy to be in line with State of Texas Education code, 51.003, which allows 7 days to deposit. The un-deposited checks were maintained in a locked room that contains cameras. Management will update procedures to ensure that daily batch reports are prepared with receipt date and tracked to final posting within the financial systems. Metrics are prepared and will be shared with the AVP. The AVP will assist with obtaining information needed for proper posting by communicating with department heads and EVPs as needed.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		<p><u>Action Plan Owners:</u> Assistant Director, Accounting Assistant VP Accounting</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. Completed 2. April 30, 2017 3. Completed 4. March 31, 2017 5. March 31, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: High ●</p> <p>3. Establish Separation of Key Functions and System Access Governance Procedures within the CashPro Application</p> <p>Users have access in the CashPro application to perform key financial transaction functions that are not properly segregated, such as creation and approval of payments. Key opportunities include:</p> <ul style="list-style-type: none"> • Improve governance within the application to ensure users cannot create and approve their own financial transactions. The application administrator, who creates users in the application, has access to enter and approve financial transactions, and can also approve his own payments. This user self-approved nine wire transactions from January to October 2016 and sample testing did not indicate any irregularities. • Two additional users also have the ability to create payments, approve payments, and approve their own payments. One of these users self-approved 125 wire transactions from January to October 2016 and sample testing did not indicate any irregularities. 	<ol style="list-style-type: none"> 1. Remove the ability for users to self-approve transactions and consider moving the CashPro administration function to an independent function within AF&S. 2. Implement a standardized form for requesting access to the application, including specification of the roles and activities the prospective user is authorized to have in the application, and provision for user management approval. Consider coordinating with Information Resources to develop this form in the Service Now system. 3. Deactivate terminated users still active in the application immediately and establish a procedure to track terminated users for prompt deactivation. 4. Implement a monitoring procedure to identify users not logging into the system for 90 days and deactivate their accounts if not needed. Consider continued access or deactivation for the 22 dormant accounts noted. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Management will remove the ability for users to self-approve transactions. To improve the Segregation of Duties, the CashPro administration function will be moved to the Manager of Accounting Administration who has no payment authority. 2. A paper form has been implemented and is in the queue to be added to the UTSW Service Now system. 3. Management will use the UTSW termination process to check for any employee who needs to be deactivated. 4. Management will address the 22 dormant accounts and then will monitor monthly and deactivate as needed. <p><u>Action Plan Owners:</u></p> <p>Assistant Director, Accounting Assistant VP Accounting</p> <p><u>Target Completion Dates:</u></p> <p>Completed</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> • Access requests are accepted by informal email with no specified access level, thus access is granted based on administrator's judgement. Access may not be aligned or appropriate for user responsibilities and may not have management approval. • Procedures for monitoring terminated users or dormant accounts in the application are not in place. Testing revealed 10 terminated users not deactivated in the application, and there were 22 users that had not accessed the system and may no longer require access. 		

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>4. Improve Controls to Ensure all Receipts are Recorded Accurately and Completely</p> <p>Controls for incoming receipts received via mail by the department are not adequate for ensuring all funds are accounted for before deposit and recording. Cash and checks are not recorded and totaled upon receipt into the Cash Management Office and tracked to final posting within the financial systems. In addition, completed Transmittal Forms provided by Accounting with checks are not compared to final posting within the various financial systems.</p> <p>The lack of tracking and balancing controls increases the risk of inaccurate reporting and misappropriation of funds.</p>	<ol style="list-style-type: none"> Record, total and track all cash and checks received via mail on a transmittal form. Track all Accounting Transmittal Forms to final posting within the financial systems. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> Cash Management will prepare a transmittal for all checks received into Cash Management. Cash Management will track all items on Accounting Transmittal Forms to final posting and include these forms with daily balancing support. <p><u>Action Plan Owners:</u></p> <p>Assistant Director, Accounting Manager, Accounting</p> <p><u>Target Completion Dates:</u></p> <p>Cash Management division will be moving in March 2017 to Bass and most services associated with cash are being eliminated.</p> <p>Completed</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>5. Establish Governance and Monitoring of Cash Management Function</p> <p>Limited reporting is in place to monitor cash management functions within the Institution.</p> <p>This function is decentralized across the Institution, resulting in inconsistent compliance with policies. The team identifies non-compliance with Cash Manual procedures (primarily delays in submitting checks to Cash Management for deposit and use of restrictive endorsement stamps) and will informally provide feedback to the departments. Developing reporting to highlight these delays will help to increase compliance with the policies.</p> <p>Internally, daily cash reports are prepared but are not reviewed by leaders within the Accounting department. More frequent reporting will help to monitor operations; this may include, in addition to the standard cash reporting, other elements, such as deposits within one business day of receipt and items in suspense.</p>	<ol style="list-style-type: none"> 1. Develop reporting to monitor compliance with the cash management manual operations across the institution, including timely deposits and use of restrictive endorsements. 2. Enhance existing Cash Management reporting to include more frequent reporting of cash activities. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. We will determine what reporting can be accomplished through the ERP systems, since manual monitoring is not realistic due to the number of daily transactions. 2. We will work with departments to improve compliance, such as issuing reminders on timely deposits and use of restrictive endorsements. 3. We will evaluate system reports available and will determine which reports will be reviewed on a regular basis <p><u>Action Plan Owners:</u></p> <p>Assistant Director, Accounting Manager, Accounting Assistant VP Accounting</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2017</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>6. Ensure Appropriate Safeguarding of Cash in Safe</p> <p>There are inadequate controls to physically protect cash and assets within Cash Management. A review of the safe contents on January 9, 2016 identified total cash of approximately \$57,000. A review of the safe procedures noted the following:</p> <ul style="list-style-type: none"> • A log does not exist to describe the contents and daily activity for the safe. • Daily balancing of the safe is not in place; rather, safe contents are counted on a bi-weekly basis. • During our cash count on January 9, 2017, the safe was unlocked, and anyone in the cashier's office could open the safe. • Overages and shortages are not tracked. 	<p>Establish adequate safeguarding controls to protect University funds. Require at a minimum:</p> <ol style="list-style-type: none"> a. Locking the safe after every use b. Maintaining a log for all safe contents and daily activities. c. Tracking and documenting daily safe overages and shortages. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> a. Cash Management division will be moving in March 2017 to Bass and most services associated with cash are being eliminated. Management will update procedures for the new processes by implementing best business practices for safe handling. It will include ensuring the security of the funds without affecting the need for quick access within a secured area. b. Management will properly dispose of any non-Cash Management Office items in the safe. A log will be implemented and monitored. c. Best business practices will be reviewed to determine the most efficient and cost effective manner of managing the safe and its contents, and tracking overages and shortages. <p><u>Action Plan Owners:</u></p> <p>Supervisor, Accounting Manager, Accounting</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2017</p>

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

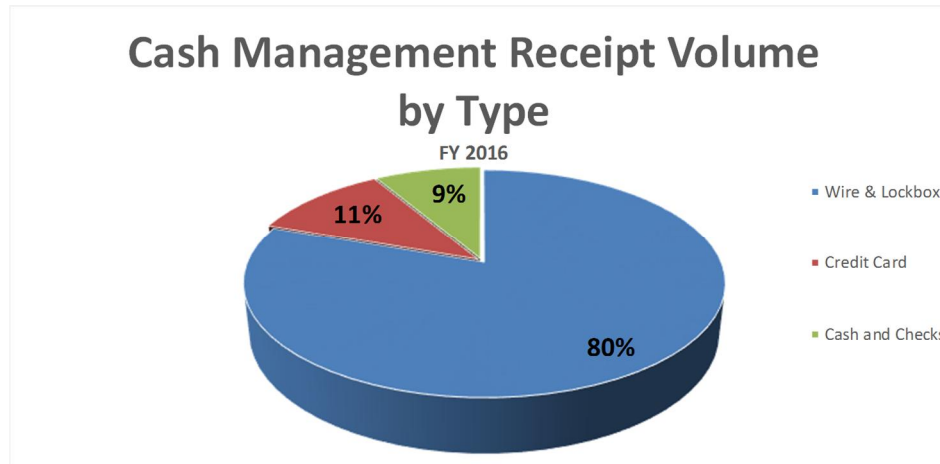
Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Priority	An issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by internal audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by internal audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action is needed by management in order to address the noted concern and reduce risk to a more desirable level.
	Low	A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

Appendix B – Additional Cash Receipt Details

The following chart provides the total of receipts received into the Cash Management department for FY 2016. Wire and lockbox total 80% and includes both wire transfers and incoming EFT/ACH transactions.



The following chart provides a snapshot of the 75,000 transactions processed by the Cash Management office for FY 2016. Wire and lockbox total a combined 63%.

