



Item: AC: I-4

## AUDIT AND COMPLIANCE COMMITTEE

Tuesday, November 14, 2017

**SUBJECT: REVIEW OF AUDITS: FAU 16/17-5, BANK ACCOUNT RECONCILIATIONS FOR JULY 1 THROUGH SEPTEMBER 30, 2016**

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### PROPOSED COMMITTEE ACTION

Information Only.

### BACKGROUND INFORMATION

Key objectives of this audit were to determine whether:

- All bank accounts were being reconciled on a monthly basis;
- Internal controls over the reconciliation process were adequate and effective;
- The bank account reconciliations were properly documented, prepared by independent personnel, and completed in a timely and accurate manner; and,
- Reconciling items were identified and cleared timely.

### IMPLEMENTATION PLAN/DATE

Management agreed to implement our three recommendations by December 31, 2017.

### FISCAL IMPLICATIONS

Not Applicable.

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**Supporting Documentation:**

Audit Report FAU 16/17-5

**Presented by:** Mr. Morley Barnett, Inspector General

**Phone:** 561-297-3682



Report No. FAU 16/17-5  
Report Issue Date: August 17, 2017

FLORIDA ATLANTIC  
UNIVERSITY™

*Office of Inspector General*

Audit Report: *Bank Account Reconciliations*  
For July 1 through September 30, 2016

Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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**REPORT ON THE AUDIT OF  
BANK ACCOUNT RECONCILIATIONS**


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MEMORANDUM

TO: Dr. John Kelly  
President

FROM: Morley Barnett   
Inspector General

DATE: August 17, 2017

SUBJ: AUDIT OF BANK ACCOUNT RECONCILIATIONS

In accordance with the University's Internal Audit Plan for fiscal year 2016/17, we have conducted an audit of the bank account reconciliation function at Florida Atlantic University for the quarter ended September 30, 2016. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made three recommendations to address our findings. We concur with the action plans of the auditee which have been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of our recommendations by management, as applicable.

Please call me if you have any questions.

cc: Vice Presidents  
Auditee  
FAU BOT Audit and Compliance Committee  
Inspector General, Florida Board of Governors  
Florida Auditor General

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## Executive Summary

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In accordance with the University's Internal Audit Plan for fiscal year 2016/17, we have conducted an audit of the bank account reconciliation function at Florida Atlantic University for the quarter ended September 30, 2016.

Our primary audit objectives were to determine whether:

- All bank accounts were being reconciled on a monthly basis;
- Internal controls over the reconciliation process were adequate and effective;
- The bank account reconciliations were properly documented, prepared and reviewed by independent personnel, and completed in a timely and accurate manner; and,
- Reconciling items were identified and cleared timely.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of bank account reconciliations and reconciling items in order to determine whether control procedures were operating effectively.

Based on our observations and tests performed, we are of the opinion that the university's bank account reconciliation operations were being conducted in general compliance with all applicable laws, rules and regulations, university policies and procedures, and sound business practices. However, we identified opportunities for improvement in the following areas:

- Identification and clearance of reconciling differences;
- Timely preparation of bank account reconciliations; and,
- Technical compliance with Section 280.17, *Requirements for public depositors; notice to public depositors and governmental units; loss of protection*, Florida Statutes.

The details of these findings, as well as the suggestions for corrective action, can be found in the Comments and Recommendations section of this report.



August 17, 2017

Dr. John Kelly  
President  
Florida Atlantic University  
Boca Raton, Florida

Dear President Kelly:

#### SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2016/17, we have conducted an audit of the bank account reconciliation function at Florida Atlantic University for the period July 1 through September 30, 2016.

Our primary audit objectives were to determine whether:

- All bank accounts were being reconciled on a monthly basis;
- Internal controls over the reconciliation process were adequate and effective;
- The bank account reconciliations were properly documented, prepared and reviewed by independent personnel, and completed in a timely and accurate manner; and,
- Reconciling items were identified and cleared timely.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of bank account reconciliations and reconciling items in order to determine whether control procedures were operating effectively.

We obtained an understanding of the activities associated with the bank account reconciliation function by reviewing written policies and procedures, interviewing key personnel, observing actual practices, and analyzing key internal controls. Our assessment of compliance with established policies and procedures was based on reviews of completed reconciliations and pertinent supporting documentation for samples of bank account reconciling items. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls and assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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## BACKGROUND

All cash needed to meet the operational requirements of the university is currently held in local bank accounts, with any excess cash being invested in the university's Special Purpose Investment Accounts (SPIAs) at the State Treasury. Currently, the university has a total of 15 bank accounts. *During the audit period*, a total of 12 accounts were reconciled periodically by Cash Management\* personnel, one account (FAU Federal Perkins Loan Fund) was reconciled monthly by General Accounting\* personnel, and one account (FAU College of Medicine Revenue Operations) was not being reconciled because it had a zero balance with no account activity. *Subsequent to the audit period*, the university opened a new account (FAU Student Health Services) at Bank of America.

As of 9/30/16, the combined cash balances of all 14 open bank accounts amounted to \$8,389,264.02 as follows:

<u>Bank Account Name</u>	<u>Bank</u>	<u>Corresponding Workday GL Cash-in-Bank Account</u>	<u>Bank Account Balance (9/30/16)</u>
FAU Main Depository	Bank of America	GL 10040 – Cash-in-Bank (Main Depository Bank Account)	\$181,999.08
FAU Reserve	Bank of America	GL 10040 – Cash-in-Bank (Reserve Bank Account)	\$480,779.03
FAU Accounts Payable	Bank of America	GL 10040 – Cash-in-Bank (Accounts Payable Bank Account)	\$0.00
FAU Payroll	Bank of America	GL 10040 – Cash-in-Bank (Payroll Bank Account)	\$0.00
FAU Student Refund	Bank of America	GL 10040 – Cash-in-Bank (Student Refund Bank Account)	\$0.00
FAU Federal Perkins Loan Fund	Bank of America	GL 10040 – Cash-in-Bank (Federal Perkins Loan Fund Bank Account)	\$453,283.12
FAU Federal ARRA Loan Program	Bank of America	GL 10040 – Cash-in-Bank (Federal ARRA Loan Program Bank Account)	\$3,072.18
FAU Federal Nurse Faculty Loan	Bank of America	GL 10040 – Cash-in-Bank (Federal Nurse Faculty Loan Bank Account)	\$86,938.58
FAU College of Nursing (CON) Memory & Wellness Center (MWC)	Bank of America	GL 10040 – Cash-in-Bank (CON MWC Bank Account)	\$98,466.30
FAU Self Insurance Program (SIP)	Bank of America	GL 10040 – Cash-in-Bank (SIP Bank Account)	\$739,301.40
FAU Jupiter	Bank of America	GL 10040 – Cash-in-Bank (Jupiter Bank Account)	\$309,151.35
FAU CON Community Health Center (CHC) Westgate	Bank of America	GL 10040 – Cash-in-Bank (CON CHC Westgate Bank Account)	\$5,589.91
FAU College of Medicine (COM) Revenue Operations	Bank of America	GL 10040 – Cash-in-Bank (COM Revenue Operations Bank Account)	\$0.00
FAU Regions	Regions Bank	GL 10040 – Cash-in-Bank (Regions Bank Account)	\$6,030,683.07

Total

\$8,389,264.02

\*Units of the Controller's Office.



Under the university's current banking arrangement, most monies paid to the university, including student tuition & fees, meal plan charges, housing fees, parking fees, miscellaneous revenues, appropriations from the State, and so on, are initially posted to the Main Depository bank account. On a daily basis, monies are transferred from the Main Depository account to the Reserve account to fund newly-issued obligations of the university for employee payroll, vendor payments, student refunds, and student financial aid disbursements. These checks and electronic funds transfers (EFTs) are drawn daily, as applicable, against the Accounts Payable, Payroll, and Student Refund bank accounts, and on an ongoing basis, these items will be presented for payment against the aforementioned bank accounts which have been established as *zero balance accounts* (ZBAs). As such, any debits (representing checks/EFTs presented for payment) to any of these three accounts on a given day will be offset at the end of the day by automated clearinghouse (ACH) credit transfers from the Reserve bank account. As a result, the aforementioned three bank accounts will always have *zero balances* at the end of each day.

Bank accounts other than those discussed above have been established to support specific business purposes such as the repayment of Federal loans made to students and faculty; financial operations of auxiliary enterprises/programs; and, facility financing requirements. *Subsequent to the audit period*, College of Nursing personnel assumed responsibility for the monthly reconciliations of the CON MWC (Memory and Wellness Center) and CHC (Community Health Center) Westgate bank accounts which had been previously reconciled by Cash Management. During the month of November 2016, transaction activity was initiated for the COM Revenue Operations bank account, and General Accounting was temporarily assigned the responsibility of reconciling this account. College of Medicine personnel subsequently assumed permanent responsibility for the monthly reconciliation of the account. Finally, a new bank account (FAU Student Health Services) was opened during the month of March 2017, and is currently being reconciled monthly by personnel from the Division of Student Affairs.

To minimize the risk of unauthorized check disbursements, the university has subscribed to a payee positive pay system offered by Bank of America. Under this program, the Controller's Office - via the Office of Information Technology (OIT) - submits an electronic file of any newly-issued checks to Bank of America on a daily basis. Only those checks listed on this daily positive pay file are authorized to be paid by the bank which matches the payee, check number, and dollar amount to the item presented for payment, with any exceptions being subject to the verbal, written, or electronic approval of authorized personnel of the Controller's Office. Currently, 12 of 14 of the university's Bank of America accounts are participants in the payee positive pay system for checks.

Established policy requires reconciliations be completed monthly on all university bank accounts. If an unidentified reconciling item appears consistently and in the same amount for at least six months on a reconciliation, it may be written-off with the approval of both the Associate Controller and the Assistant Vice President for Financial Affairs/University Controller, with the concurrence of the Associate Vice President of Financial Affairs.

*Currently*, personnel from the Cash Management and General Accounting units of the Controller's Office, as well as the Colleges of Nursing and Medicine, and the Division of Student Affairs, are involved in the reconciliation processes for one or more bank accounts. The primary relevant information technology (IT) applications used by these departmental employees - *as applicable* - are the Workday Finance, Banner Finance/AR, TouchNet, Bank of America (BOA) CashPro online banking, Special Purpose Investment Account (SPIA), and ECSI (Federal



Perkins loan servicer) systems.

## COMMENTS AND RECOMMENDATIONS

### Current Findings and Recommendations

#### Timely Identification and Clearance of Reconciling Differences

Effective internal control procedures require designated university personnel to prepare and approve monthly reconciliations of bank account balances to the corresponding General Ledger (GL) cash balances to provide assurance that recorded money collections and disbursements are in agreement with bank records, and to permit the timely detection and correction of any unrecorded, erroneous, or unauthorized transactions.

Compliance testing of available reconciliations for the 14 local bank accounts performed for September 2016 indicated unexplained reconciling differences between the adjusted GL cash and bank account balances for three accounts as follows:

<u>Bank Acct. Name</u>	<u>Reconciliation</u>	<u>Adjusted GL Cash Balance</u>	<u>Adjusted Bank Balance</u>	<u>Unexplained Reconciling Difference</u>
CON CHC Westgate	Month-Ended 9/30/16	\$8,046.24	\$5,589.91	\$2,456.33
FAU Jupiter	Quarter-Ended 9/30/16	\$287,362.11	\$296,865.04	(\$9,502.93)
Payroll	Month-Ended 9/30/16	(\$100,690.22)	(\$135,751.20)	\$35,060.98

Based on a review of available records, we noted that as of June 2017, the unexplained reconciling differences for the CON CHC Westgate, FAU Jupiter, and Payroll bank accounts were \$2,471.33, (\$9,502.93), and (\$12,306.40) respectively. Notwithstanding the fact that College of Nursing personnel are currently responsible for the reconciliation of the CHC Westgate bank account, and Housing Department personnel are involved in initiating Workday journal entries necessary for the effective reconciliation of the FAU Jupiter bank account by Cash Management, the Controller's Office should take the lead in working collaboratively with these departments to address the aforementioned differences.

#### Recommendation No. 1

We recommend management performs the necessary coordinated follow-up to identify and clear the indicated unexplained reconciling differences. Management should consider taking appropriate administrative action – consistent with established policies and procedures – to address differences which appear unlikely to be explained and resolved in the normal course of operations.

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### **Management's Response**

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Management reconciles 14 bank accounts each month over a 12 month period, resulting in 168 bank reconciliations throughout the fiscal year. Of those 168 bank reconciliations, 165 were reconciled with no unidentified differences.

University policy for handling a bank reconciliation write-off dictates that if an unidentified reconciling item appears consistently, in the same amount for six months it MAY be written off

with the approval of both the Associate Controller and the Assistant Vice President for Financial Affairs/University Controller. It is not a requirement to write off these amounts, merely the option is available at such a date.

Cash Management works diligently and effectively to identify and resolve unexplained reconciling items. This occurs over the course of many months and sometimes even fiscal years. It is not best practice to haphazardly write amounts off just because the six month time frame has been reached.

In fact, for the Payroll Bank account, the balance of unexplained reconciling differences dropped from \$35,060.98 to \$12,306.40 from the period under audit of Sept 30, 2016 to fiscal year end at June 30, 2017.

**Action Plan:**

Management will continue to diligently investigate unreconciled items in accordance with University Policy.

**Implementation Date:**

December 31, 2017.

**Responsible Auditee:**

Jessica Cohen, Assistant Vice President – Financial Affairs & University Controller.

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**Timeliness of Completion of Bank Account Reconciliations**

Established practice and written policy require the university's bank accounts be reconciled monthly in order to promptly identify, investigate, and resolve any irregular or unexplained reconciling items. Reconciliations are deemed to have been completed timely when performed within approximately 30 days after month-end as documented via manual or electronic sign-off and dating by the separate preparer and reviewer.

Our review of available periodic reconciliations of the university's 14 bank accounts performed for the three months of the audit period, indicated the following exceptions relating to timeliness of reconciliations completed by Cash Management:

- The FAU (BOA) Jupiter and FAU Regions bank accounts – neither of which were participants in a payee positive pay system for checks – were being reconciled quarterly instead of monthly; and,
- The July 2016 monthly reconciliation of the Accounts Payable bank account; the August 2016 monthly reconciliation of the Reserve bank account; and, the September 2016 monthly reconciliations of the Reserve and Student Refund bank accounts were not completed timely. These reconciliations were performed 34 to 36 days after month-end.

It should be noted that Capstone On-Campus Management – the third-party property manager of FAU’s student housing facilities – was authorized to expend funds from the FAU Jupiter bank account for property maintenance at the Jupiter campus student dormitories, and performed its own monthly reconciliation of the account which was submitted to Cash Management for review. However, the reconciliation (performed as of month-end) was limited to a comparison of the bank account balance to Capstone’s corresponding cash account balance – according to its internal records – for monies that had been deposited to (credits), and expended from (debits) the bank account.

Recommendation No. 2

To facilitate timely detection of any errors or irregularities, we recommend management ensure all bank accounts are reconciled on a monthly basis within approximately 30 days of month-end. Proper documentation of the reconciliations would necessarily include manual or electronic sign-off by the separate preparer and reviewer.

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**Management’s Response**

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This recommendation need to be put in context as management takes exception to this finding. Policy states that the bank account will be reconciled within approximately 30 days. Management believes that 34-36 days is within reason to be considered approximately 30 days.

There are 14 bank accounts to be reconciled every month. Of those 14, in July, 13 were completed within 30 days. In August, 13 were completed within 30 days. In September 12, were completed within 30 days. Management is diligent in maintaining compliance with its policy and would expect that reasonableness be used during the audit process.

Cash Management is a department of four people. If one person is out sick, and/or another out on vacation, 4-6 days is a reasonable amount of time for the reconciliation to be completed.

Additionally, the FAU Bank of America Jupiter account is reconciled every month by Capstone. A full book to bank reconciliation is performed by a CPA with all necessary backup included. FAU reviews this reconciliation package every month. June 2017 was the last month that this account had funds transferred to it, and the account will be closed in FY18 once the final activity is unwound.

The FAU Regions account is unique from all other FAU bank accounts. There is no activity other than interest and fees which are recorded by the bank. The principal amount that was deposited at the inception of this account in 2010 has not, nor will it ever, change.

**Action Plan:**

Management will continue to reconcile all bank accounts within approximately 30 days as stated in policy.

**Implementation Date:**

December 31, 2017.



**Responsible Auditee:**

Jessica Cohen, Assistant Vice President – Financial Affairs & University Controller.

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*Technical Compliance with Section 280.17, Florida Statutes*

Pursuant to Section 280.17, *Requirements for public depositors; notice to public depositors and governmental units; loss of protection*, Florida Statutes, the university is required to annually prepare, sign, and file a *Public Depositor Annual Report to the Chief Financial Officer* - for the period ended September 30th – with the Florida Department of Financial Services no later than November 30th. This report provides details of all the university’s open public deposit accounts as of September 30th, including the federal employer identification number (FEIN) of the qualified public depository (financial institution at which the deposit account is maintained); the name on the deposit account record; the FEIN on the deposit account record; the account number and type; and, the actual account balance on deposit. In addition, at the time of filing, the university is required to confirm that it has a current properly completed *Public Deposit Identification and Acknowledgment Form* on file for each of its public deposit accounts. This form is mandatory for filing a claim with the *Chief Financial Officer* in the event of default or insolvency of the qualified public depository.

Notwithstanding the requirements indicated above, Section 280.17, Florida Statutes, does state that the protection from loss provided in Section 280.18, *Protection of public depositors; liability of the state*, Florida Statutes, remains effective if a public depositor fails to present the form prescribed by the Chief Financial Officer for identification of public deposit accounts and the Chief Financial Officer determines that the defaulting or insolvent depository had classified, reported, and collateralized the account as a public deposit account. According to Controller’s Office management, the university has received confirmation from Bank of America and Regions Bank that FAU’s public deposit accounts are collateralized pursuant to Chapter 280, *Security for Public Deposits*, Florida Statutes, and, as such, there is no risk of loss to the university in the event of their default or insolvency.

Our review of the university’s most recent *Public Depositor Annual Report to the Chief Financial Officer* (for the period ended 9/30/16), as well as relevant supporting documentation, indicated that the report had been prepared, signed, and submitted timely to the Florida Department of Financial Services - Division of Treasury – Bureau of Collateral Management. However, at the time of its filing on 11/28/16, the university did not have a current properly prepared and signed *Public Deposit Identification and Acknowledgment Form* on file as required for three of its 14 bank accounts – the FAU College of Nursing (CON) CHC Westgate, the FAU College of Medicine (COM) Revenue Operations, and the FAU Jupiter. As of 9/30/16, these three accounts had a combined balance of \$314,741.26. The requisite forms for these accounts were not prepared and signed by the university and bank representatives until 11/30/16 and 3/22/17 respectively.

In addition, we determined that the 9/30/16 balances listed for two bank accounts on the aforementioned annual report were incorrect. The balance of the FAU CON CHC Westgate account was listed at \$0.00 instead of \$5,589.91 while the balance of the FAU COM Revenue Operations account was listed at \$5,589.91 instead of \$0.

### Recommendation No. 3

We recommend management exercises due care to ensure future filings of the *Public Depositor Annual Report to the Chief Financial Officer* technically comply with all statutory requirements, including but not limited to, maintenance of current properly completed *Public Deposit Identification and Acknowledgment Forms* for its deposit accounts, and accurate reporting of account balances.

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### **Management's Response**

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Management exercises due diligence by ensuring that all 14 of the University's bank accounts are collateralized as a public deposit accounts. This ensures that the University is compliant with state statute Chapter 280 and that there is absolutely no risk of loss to the University in the event of its default or insolvency regardless of whether a Public Deposit Acknowledgment form maintained in the University records or not.

Management ensured that the all 14 Public Deposit Acknowledgement Form for all 14 bank accounts were filed by the end of the fiscal year.

#### **Action Plan:**

Management will continue to ensure that all new bank accounts are collateralized as public deposit accounts. Management will ensure all Public Deposit Acknowledgement Forms for new accounts are completed at the time the account is open. Management does not currently anticipate opening any new accounts for FY18.

#### **Implementation Date:**

December 31, 2017.

#### **Responsible Auditee:**

Jessica Cohen, Assistant Vice President – Financial Affairs & University Controller.

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#### **Prior Audit Recommendations**

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three years, our office has not conducted any audits related to the bank account reconciliation function. Accordingly, a follow-up on prior audit findings is not applicable.

## CONCLUSION

Based on the results of the testwork performed, we are of the opinion that the university's bank account reconciliation operations were being conducted in general compliance with all applicable laws, rules and regulations, policies and procedures, and sound business practices. Notwithstanding this assessment, we have made several recommendations to strengthen the existing control environment pertaining to the bank account reconciliation process, and improve statutory compliance relating to the maintenance of university monies at public depositories.

We wish to thank the staff of the Controller's Office for their kind cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE  
Inspector General

Audit Performed By: Mike Hewett, CIA, CGAP, CBA, CFSA  
Allaire Vroman