

# **UT Southwestern** Medical Center

## **Change in Management – Assistant Director, Cash Management**

**Internal Audit Report 18:09.02**

**October 12, 2018**

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## Executive Summary

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### **Background**

The University of Texas Southwestern Medical Center (UT Southwestern) Cash Management Office (Cash Management) is led by the Assistant Director, Cash Management who is responsible for key operations including: 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, accounting clerk 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 include the responsibility for transactions received at the cash window, petty cash management, ATM management, and the preparation of certain cash related 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 in PeopleSoft, which are primarily checks received through the mail and wires, are posted to a suspense account until they can be researched and moved to the appropriate account.

On August 1, 2018, without providing any prior notice, the assistant director left UT Southwestern after a twenty-year tenure. At the time of his departure, the Manager, Cash Management was out of the office on FMLA and returned in late August. In early September, a temporary resource was brought in to oversee operations while a search for a permanent replacement was conducted. This audit was performed as a result of this change in management.

In FY2017, a Cash Management audit was performed which identified the following areas of opportunity: 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.

### **Scope and Objectives**

The Office of Internal Audit has completed its Change in Management – Assistant Director of Cash Management audit. The Change in Management audit is a recurring audit in the fiscal year 2018 Audit Plan. The focus of this audit was to review key Cash Management risk areas, processes and controls and review practices in place to address Cash management issues identified in previous audit reports.

The audit scope period included activities of Cash Management from September 2017 to August 2018. Audit procedures included review of key risk areas based on results from previous review, review of bank account reconciliations, review of wire supporting documentation, other substantive testing, and data analytics.

## Executive Summary

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Overall objectives for the review include determining the adequacy and effectiveness of process, oversight, and monitoring controls in cash management processes to ensure:

- § Funds received and disbursed are appropriately safeguarded and recorded timely
- § Proper support and approvals for wire transfers
- § Appropriate system user access
- § Adequate segregation of duties
- § Compliance with policies and procedures and regulations
- § Appropriate PCI compliance practices

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**

Overall, processes are in place to manage the cash management function for the Medical Center. However, the departure of the Assistant Director, Cash Management highlighted opportunities to improve procedure documentation to ensure consistency in operations when turnover occurs to meet customer expectations as well as the strategic objectives of the department. Opportunities exist to ensure timely review and resolution of items in the suspense accounts as well as improve daily cash reconciliations to include incoming wire transfers. Timely resolution of items in the suspense accounts was also included in the FY2017 audit report and continues to require attention to address. Timely reconciliation of incoming wire transfers is needed to accurately state cash position and facilitate timely reporting of amounts received to other departments.

## Executive Summary

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Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (1)	Low (0)	Total (1)
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There were no priority issues identified in the audit. The key improvement opportunity risk-ranked as medium is summarized below.

- # **Perform Timely Reconciliations to Ensure Completeness of Financial Records** – Incoming wires in the demand account were not included in the daily reconciliations performed by the Cash Management staff due to the change in management. The suspense account contained items over 120 days old that had not been resolved. Delays in tracking and recording financial transactions in a timely manner can result in errors in daily cash position reporting, delays in timely reporting of amounts received to other departments and financial misstatement.

Management has plans to address the issues identified in the report and in some cases have already implemented corrective actions. These responses, along with additional details for the key improvement opportunities listed above are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to take the opportunity to thank the department 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

**Audit Team:**

Elias Dib, Senior Internal Auditor  
 Gabriel Samuel, Senior IT Internal Auditor  
 Robin Irvin, Manager, Internal Audit  
 Melinda Lokey, Director, Internal Audit

## Executive Summary

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cc: Shashea L. Adams-Guess, Assistant Vice President, Planning & Advancement Services  
Amanda Billings, Vice President, Development and Alumni Relations  
Arnim E. Dontes, Executive Vice President for Business Affairs  
Sharon Leary, Assistant Vice President, Accounting and Fiscal Services  
John Schmidt, Director, Fiscal Reporting and Accounting Operations  
Michael Serber, Vice President, Finance and Institutional Chief Financial Officer

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p><b>Risk Rating: Medium</b> 🟡</p> <p><b>1. Perform Timely Reconciliations to Ensure Completeness of Financial Records</b></p> <p>Due to the change in management, incoming wires in the demand account were not included in the daily reconciliations performed by the Cash Management staff. Delay in tracking and recording wire transactions in a timely manner can result in errors in daily cash position reporting, delays in timely reporting of amounts received to other departments and financial misstatement.</p> <p>In addition, as of October 2nd 2018, the Cash Management suspense account totaled \$2.1M and contained \$1M (50% of total) in individual items aged greater than six months old. The suspense accounts are used to hold deposit amounts received that could not be posted to a specific account due to lack of specific supporting information. Items in the suspense account should be analyzed and resolved within 30 days per departmental policy. When there is lack of follow up, the group is unable to determine the appropriate invoice or contract against which to apply the funds, resulting in delayed recording.</p> <p>Untimely resolution of items in the suspense account can result in financial misstatement as well as delays in departmental notifications.</p>	<ol style="list-style-type: none"> <li>1. Update procedures for tracking daily wire transactions to ensure timely and complete recording to the general ledger.</li> <li>2. Develop monitoring procedures to ensure daily tracking of wires is occurring as intended.</li> <li>3. Research suspense items according to a set schedule (i.e., within 30 days and resolve within 90 days) to ensure deposits are posted timely to their correct location.</li> <li>4. Develop escalation procedures to department leaders to obtain timely responses to open suspense inquiries.</li> <li>5. Provide education to key department finance personnel on necessary chart of account information to be provided with vendor payments to facilitate timely and accurate posting.</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>1. Daily cash recording and reconciliation procedures were updated on September 4, 2018 to include incoming wire transactions.</li> <li>2. Daily reconciliation procedures were updated on September 4, 2018 to include review of incoming wire transfers.</li> <li>3. A&amp;FS will continue to research all funds received in the suspense account and send out notifications to departments requesting the information within 30 days from receipt. If the information is not provided to accounting to resolve the suspense item within 90 days but the payment has been confirmed as intended for UTSW, the funds will be booked to a miscellaneous income account with applicable supporting documentation available for future reference.</li> <li>4. Escalation procedures will be developed to notify department leadership of funds received but not posted due to incomplete information.</li> <li>5. As chart of account updates are received from department personnel, we will follow up to discuss procedures available make sure that information is included with the vendor's payment going forward.</li> </ol>

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		<p><b><u>Action Plan Owners:</u></b> Director, Fiscal Reporting and Accounting Operations, Office of Accounting</p> <p><b><u>Target Completion Dates:</u></b></p> <ol style="list-style-type: none"> <li>1. Completed</li> <li>2. Completed</li> <li>3. November 30, 2018</li> <li>4. November 30, 2018</li> <li>5. November 30, 2018</li> </ol>



## 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:

<b>Risk Definition-</b> The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	<b>Degree of Risk and Priority of Action</b>	
	<b>Priority</b>	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.
	<b>High</b>	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.
	<b>Medium</b>	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 the risk to a more desirable level.
	<b>Low</b>	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 notes 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.