MAIN AND SATELLITE CASHIERING

CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 10-21
May 18, 2010

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ABBREVIATIONS

CFSC: Child and Family Studies Center
CSU: California State University
FY: Fiscal Year
GC: Government Code
FISMA: Financial Integrity and State Manager’s Accountability Act
OUA: Office of the University Auditor
SAM: State Administrative Manual
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last two quarters of 2009, the Board of Trustees, at its January 2010 meeting, directed that Main and Satellite Cashiering be reviewed. The Office of the University Auditor had previously reviewed main and satellite cashiering activities in the biennial Financial Integrity and State Manager’s Accountability (FISMA) audits, the last of which was performed on campus in 2008.

We visited the California State University, Northridge campus from January 25, 2010, through February 12, 2010, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on main and satellite cashiering activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls of main and satellite cashiering activities in effect as of February 12, 2010, taken as a whole, were sufficient to meet the objectives stated below in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

SATELLITE CASHIERING [5]

Cashiering procedures and controls needed improvement at one of the four satellite cashiering areas visited.
INTRODUCTION

BACKGROUND

Main and satellite cashiering audits involve the assessment of the adequacy of the systems of internal accounting and administrative control surrounding cash receipts, cash handling, change funds, and purchase funds at the main and satellite cashiering facilities.

The main cashier at each campus handles the majority of cash transactions for the campus. Responsibilities for the main cashier include, but are not limited to, collection of registration and other student fees using mainly cash, credit cards, debit cards, cashier’s checks, money orders, and personal checks. Other common transactions at the main cashier’s office include the collection of payments for parking permits, petty cash reimbursements, disbursements of employee checks, and all other types of payment service needs, as well as deposits, recordkeeping, and the safeguarding of cash.

Satellite cashiering includes the collection of cash at various campus and offsite locations other than the main cashier. Examples of these locations include athletics, public safety, parking and transportation, student unions, student health centers, housing, reprographics, libraries, and the performing arts, among others. These locations are most commonly known as change funds and petty cash funds, although at these locations various cash receipts may be accepted for the sale of tickets and merchandise, as well as for the collection of various fees. Typical responsibilities at these locations include collections, mostly in the form of checks, credit cards, and debit cards, but cash is also used.

Historically, main and satellite cashiering audits were performed by the California State University (CSU) Office of the University Auditor (OUA) as part of cyclical audits, based on the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983 passed by the California Legislature, and as detailed in Government Code (GC) Sections 13400 through 13407. FISMA audits were biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors) as required by GC Section 1236.

Beginning in calendar year 2010, the OUA audit risk assessment methodology changed, based on a fiscal year (FY) 2009/2010 systemwide risk assessment. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas in each campus. As a result of this change in risk assessment, FISMA audits were reevaluated and specific components were identified as having greater risk than others; one of those being main and satellite cashiering, because it involved liquid assets and focused on cash management and the related responsibilities and safeguards. Senior management at the CSU campuses and the CSU systemwide Office of Risk Management recommended cash as a high-risk area for audit. The main and satellite cashiering audits were developed internally to address the known and anticipated cash-related risks at the CSU campuses.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the main and satellite cashiering activity and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the audit objective, specific goals included determining whether:

- Accountability for cash items is established at the earliest possible time after receipt and maintained to prevent misappropriation of funds.
- Procedures exist to ensure that all collections are deposited in an approved depository or otherwise adequately safeguarded, and correctly recorded in the accounting records.
- The campus is attempting to collect all receipts pursuant to state/federal laws and regulations.
- Cash receipts business processes, policies, and procedures are well defined, adequately documented, and reflect appropriate internal controls.
- Data security and access controls for computer systems used in the cash receipts process are in place.
- Cashiering locations are provided appropriate physical security.
- Segregation of duties in cash receipt activities is established and sufficiently maintained.
INTRODUCTION

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment B, Audit Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that main and satellite cashiering includes review of business unit cashiering procedures, cash receipts processes, change and purchase funds, and the overall accountability for cash. Proposed audit scope would include review of Trustee policy, systemwide directives, state regulations, and campus policies and procedures for controlling cash receipts; accountability for cash; safeguarding of cash; timely deposits; and accurate recordkeeping.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. The audit review focused on procedures in effect from January 25, 2010 through February 12, 2010. In instances wherein it was necessary to review annualized data, FY 2009/10 was the period reviewed.

A preliminary risk-assessment of campus main and satellite cashiering operations was used to select those areas or activities with highest risk for our audit testing. This assessment was based upon a systematic process using management’s feedback and professional judgments on probable adverse conditions and other pertinent information including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- Procedures for receipting and storing cash.
- Segregation of duties involving cash receipting.
- Establishment and maintenance of accountability for cash items.
- Safeguarding of cash receipts from loss or misuse.
- Accurate and timely recordkeeping of cash receipts to the general ledger.
- The administration and reconciliation of bank accounts used for cash receipts.
- Periodic campus performance of cash counts.
- Proper establishment and administration of change and purchase funds.
- Data security and access restrictions to cashiering and accounting systems.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SATELLITE CASHIERING

Cashiering procedures and controls needed improvement at one of the four satellite cashiering areas visited.

Based on our selection criteria, we reviewed cashiering controls at the Student Health Center, parking and transportation, housing, and the Child and Family Studies Center (CFSC) and found control weaknesses only at the CFSC.

We found that the CFSC:

- Did not maintain current cashiering policies. The cash receipts policy was last updated in 2005.
- Did not restrictively endorse checks upon receipt. Instead, checks were endorsed when preparing the weekly deposit.
- Did not properly segregate duties and responsibilities related to CFSC cashiering and accounts receivable. Specifically, the administrative assistant received and processed payments, posted receipts, performed collection activities, prepared deposits for transfer to main cashiering, delivered deposits to main cashiering, and reconciled receipts posted.
- Required improved administration of accounts receivable. Specifically, accounts receivable controls did not include monthly accounts receivable reconciliations of subsidiary receivables records to cash receipts. In addition, a sequence of three collection letters had not been sent in 30-day intervals for the three outstanding balances.

State Administrative Manual (SAM) §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

SAM §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: maintaining books of original entry, receiving and depositing remittances, inputting receipts information, and reconciling input to output.

SAM §20050 states, in part, that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

SAM §7901 states that the accuracy of an agency’s accounting records may be proved partially by making certain reconciliations and verifications.
SAM §7920 states that each agency is responsible to complete any reconciliation necessary to safeguard state assets and ensure reliable financial data.

State University Administrative Manual §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later.

The manager of academic resources for the College of Health and Human Development stated that the deficient segregation of duties findings were due to lack of staffing. She added that there was only one part-time employee responsible for the administrative duties for CFSC. She further stated that this administrative assistant was not aware that checks must be endorsed daily. The manager also stated that oversight led to the outdated policies and failure to perform reconciliations.

Outdated policies and procedures increases the risk of misunderstandings related to the performance of duties and functions, may no longer be applicable or appropriate, and may result in inconsistent treatment and handling of issues. Inadequate control over cash receipts and sensitive information, coupled with inadequate segregation of duties, increases campus exposure to loss and liability from inappropriate acts. Failure to complete reconciliations increases the risk that errors and irregularities will not be detected and compromises accountability.

**Recommendation 1**

We recommend that the campus:

a. Update cash receipts policies to reflect current practices.

b. Reinforce established procedures to ensure that checks are endorsed no later than the end of the working day.

c. Review cashiering duties at CFSC and take appropriate action to either segregate duties or establish mitigating controls.

d. Strengthen procedures to monitor and follow up on tuition receivables.
Campus Response

We concur. The campus will:

a. Update cash receipts policies to reflect current practices.

b. Reinforce established procedures to ensure that checks are endorsed no later than the end of the working day.

c. Review cashiering duties at CFSC and take appropriate action to segregate duties.

d. Require that CFSC’s tuition receivables be administered by the campus accounts receivable department, a unit within financial services of the administration and finance division. This change in responsibility will also promote segregation of duties.

Expected completion date: August 31, 2010
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Jolene Koester</td>
<td>President</td>
</tr>
<tr>
<td>Monica Cuthbert</td>
<td>Assistant Director, Student Health Center</td>
</tr>
<tr>
<td>Claire Davis</td>
<td>Associate Director of Residential Life and Conference Administration</td>
</tr>
<tr>
<td>Alfredo Fernandez</td>
<td>Captain, Department of Police Services</td>
</tr>
<tr>
<td>Ana Gutierrez</td>
<td>Administrative Support Coordinator, Department of Police Services</td>
</tr>
<tr>
<td>May Ligh</td>
<td>Manager, University Cash Services</td>
</tr>
<tr>
<td>Howard Lutwak</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Denise Martin-Thomas</td>
<td>Administrative Assistant, Child and Family Studies Center</td>
</tr>
<tr>
<td>Tom McCarron</td>
<td>Vice President, Administration and Finance/Chief Financial Officer</td>
</tr>
<tr>
<td>Tim Trevan</td>
<td>Director of Residential Life and Conference Administration</td>
</tr>
<tr>
<td>Renate E. Wigfall</td>
<td>Dean/Manager of Academic Resources, College of Health and Human Development</td>
</tr>
</tbody>
</table>
June 29, 2010

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report Number 10-21,
Main and Satellite Cashiering at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your email of June 4, 2010.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN’s systems of internal control.

Sincerely,

[Signature]

Tom McCarron
Vice President Administration and Finance and CFO

TM: mh

Enclosures

CC: Jolene Koester, President
    Howard Lutwak, Director, Internal Audit
SATETELITE CASHIERING

Recommendation 1

We recommend that the campus:

a. Update cash receipts policies to reflect current practices.

b. Reinforce established procedures to ensure that checks are endorsed no later than the end of the working day.

c. Review cashiering duties at CFSC and take appropriate action to either segregate duties or establish mitigating controls.

d. Strengthen procedures to monitor and follow up on tuition receivables.

Campus Response

We concur. The campus will

a. Update cash receipts policies to reflect current practices.

b. Reinforce established procedures to ensure that checks are endorsed no later than the end of the working day.

c. Review cashiering duties at CFSC and take appropriate action to segregate duties.

d. Require that CFSC’s tuition receivables be administered by the campus Accounts Receivable department, a unit within Financial Services of the Administration and Finance Division. This change in responsibility will also promote segregation of duties.

Expected completion date: August 31, 2010
July 6, 2010

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 10-21 on Main and Satellite Cashiering,
         California State University, Northridge

In response to your memorandum of July 6, 2010, I accept the response as
submitted with the draft final report on Main and Satellite Cashiering,
California State University, Northridge.

CBR/amd