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August 18, 2017

Dr. Leroy M. Morishita, President
California State University, East Bay
25800 Carlos Bee Boulevard
Hayward, CA 94542

Dear Dr. Morishita:

Subject: Audit Report 17-38, *Cashiering*, California State University, East Bay

We have completed an audit of *Cashiering* as part of our 2017 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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CASHIERING

**California State University,
East Bay**

Audit Report 17-38
July 10, 2017

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of campus operational, administrative, and financial controls related to the cashiering function; to evaluate adherence to the Integrated California State University Administrative Manual (ICSUAM) financial policies; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, controls evaluated were not adequate, appropriate, or effective to provide reasonable assurance that risks were being managed and objectives were met.

In general, we noted that California State University, East Bay (CSUEB) needed to improve its administration of satellite cashiering locations in nearly all of the significant areas we reviewed. Several of our observations resulted from the lack of an adequate structure for tracking and authorizing official cashiering locations. We also found that the campus did not have a process to ensure that all cashiers were trained and that all requirements for handling cash receipts were met. For instance, we noted that deposits were not always made in accordance with ICSUAM or campus requirements, segregation of duties regarding cash receipts was inadequate at most locations, and cash receipts received were not always reconciled to source documentation or deposits made. Additionally, the campus did not have comprehensive cash-handling policies, and control of user access to the cashiering system was inadequate.

We identified opportunities for improvement in some areas, such as clarification of current cash-handling policies and procedures to comply with systemwide requirements, documentation and oversight of change funds, and compliance with campus petty cash reimbursement procedures.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. AUTHORIZATION AND OVERSIGHT

OBSERVATION

Campus authorization and oversight of cashiering locations needed improvement.

We found that the list used by the cashier's office to document official cashiering locations was incomplete, as we identified five locations that collected cash or cash equivalents that were not on the list and one location on the list that no longer collected cash or cash equivalents. Additionally, the campus did not maintain a listing of departments with safes or vaults, and the form used by the campus to designate official cashiering locations was a bank endorsement stamp authorization form for locations that accepted checks.

Further, we selected nine cashiering locations for detailed review and found that:

- Four locations had not completed authorization forms designating them as official cashiering locations.
- One location with change funds and petty cash did not have signed contracts for the change fund and petty cash custodians or evidence that the petty cash custodian received proper training.
- One of the five locations that accepted credit cards did not have evidence of authorization to accept these type of payments.

Appropriate authorization and oversight of cashiering locations helps to ensure that the campus is aware of all areas handling cash or cash equivalents and that employees are properly trained and cognizant of related policies and procedures, and decreases campus exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Determine whether the five cashiering locations that were not on the cashier's office list should be added to the list, and if so, obtain proper approvals.
- b. Determine whether the cashiering locations that are on the cashier's office list are actively collecting cash or cash equivalents, and if not, remove them from the list.
- c. Evaluate the current process for identifying and authorizing cashiering locations, including those locations that have petty cash funds, change funds, locked money bags, safes or vaults, so that these locations can be evaluated to determine whether they should be designated as official cashiering locations and subsequently monitored.

- d. Complete and maintain change fund and petty cash contracts, and provide training to petty cash custodians.
- e. Complete and maintain authorization forms for official cashiering locations and locations authorized to accept credit card payments.

MANAGEMENT RESPONSE

We concur.

- a. We have reviewed all cashiering locations and updated the cashier's office list. We have obtained all appropriate approvals for satellite cashiering. Any locations not authorized have been deleted. The cashier's office listing will be provided to the Office of Audit and Advisory Services (OAAS) by July 28, 2017.
- b. We have begun to determine whether all cashiering locations on the cashier's office list are actively collecting cash or cash equivalents. There are several locations we are still in the process of verifying. Once all verifications are completed, we will provide an updated list to OAAS by October 31, 2017.
- c. We will review and document the current process for identifying and authorizing cashiering locations, including those locations that have petty cash funds, change funds, locked money bags, safes, or vaults. We will examine the locations to determine whether they should be designated as official cashiering locations and subsequently monitored. We have also ordered additional money lock bags. Evidence of completion will be provided to OAAS by October 31, 2017.
- d. We have developed change fund and petty cash contracts. We are in the process of providing training to petty cash custodians. Training will be completed and evidence provided to OAAS by October 31, 2017.
- e. We will develop and maintain an authorization form for official cashiering locations and locations authorized to accept credit card payments. We will provide the developed form by October 31, 2017.

2. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

Campus cashiering locations did not always comply with campus and systemwide cash-handling requirements.

We reviewed cash-handling practices at nine cashiering locations that deposited funds into accounts held by the campus or an auxiliary organization and found that:

- Six locations did not deposit receipts daily or within 48 hours.

- Three locations that sold goods or services either did not reconcile receipts to sales or did not reconcile the sales to inventory counts.
- Seven locations did not have two employees transport deposits, as required by systemwide policy.
- Three locations did not endorse checks on the day they were received, as they either did not have endorsement stamps or had endorsement stamps that were not working properly, and three locations did not secure their endorsement stamp in a locked drawer, safe, or vault.
- Six locations either did not provide prenumbered receipts for in-person payments or did not track mailed payments.
- One of the five locations that accepted credit card payments took them via fax, which is a violation of systemwide policy.
- Two locations did not adequately secure payments.
- All of the locations that had a safe did not maintain a log of individuals who had access to the safe and did not record when the combination was last changed.
- One location did not require supervisor approval for refunds or voids.
- Seven locations did not have adequate segregation of duties when accepting, reconciling, and depositing cash or cash equivalents, or when verifying deposit counts.
- Two locations did not keep inventory in a secure location.
- Two locations had unauthorized petty cash. Specifically, one location was using cash receipts as petty cash, and the other was using change fund as petty cash.
- Three unauthorized locations and one authorized location that collected cash and/or cash equivalents allowed employees who were not designated as cash handlers to accept payments.
- One location did not seal payments in a locked deposit bag.

We also found that the cashier's office did not have a process to ensure that all cash-handling employees received cash-handling training upon employment and annually thereafter, as required by campus policy. As a result, the campus could not provide us with evidence that required initial and/or annual training had been completed by the employees handling cash or cash equivalents at any of the nine cashiering locations we reviewed.

Appropriate oversight and administration of cash-handling locations ensures that employees are properly trained and cognizant of related policies and procedures and decreases campus exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Create a process to monitor training provided to cash-handling employees to ensure that training is provided in accordance with campus policy and training documentation is maintained.
- b. Provide guidance and training to all key personnel involved in cash-handling activities, including appropriate employees at all cashiering locations. This training should emphasize, but not be limited to, timely cash and check deposits, safeguarding of funds, segregation of duties, reconciliation of cash receipts to source documentation, deposits, inventory counts, and other areas identified above.

MANAGEMENT RESPONSE

We concur.

- a. We have created a training process to monitor training provided to cash-handling employees to ensure that training is provided in accordance with campus policy and training documentation is maintained. We have used the process and trained new cash-handling employees since June 2017. The training log will be provided to OAAS by July 28, 2017.
- b. We have created training for all key personnel involved in cash-handling activities. The training emphasizes timely cash and check deposits, safeguarding of funds, segregation of duties, reconciliation of cash receipts with source documentation, deposits, inventory counts, and other areas identified above. The lead cashier has trained the Hayward cashier's office, and back-up cashiers will be trained by August 1, 2017. Concord cashiers will be trained by the director of student financial services by August 31, 2017. Evidence of developed training and the training log will be provided to OAAS by October 31, 2017.

3. DELEGATION OF AUTHORITY

OBSERVATION

There was no written delegation from the campus chief financial officer (CFO) to the director of student financial services to designate and authorize official campus cash-collection points.

A proper delegation of authority provides assurance that cashiering locations are authorized in accordance with ICSUAM and campus policies.

RECOMMENDATION

We recommend that the campus obtain a written delegation of authority from the CFO to the individual responsible for designating and authorizing official campus cash-collection points.

MANAGEMENT RESPONSE

We concur. The campus has obtained a written delegation of authority from the CFO to the director of student financial services and university controller responsible for designating and authorizing official campus cash-collection points. The delegation of authority will be provided to OAAS by July 28, 2017.

4. SYSTEM ACCESS

OBSERVATION

Access to the cashiering system needed improvement.

We found that the campus did not have:

- Written policies and procedures for granting access to the cashiering system.
- An authorization form to document granting, modifying, or terminating access to the cashiering system.
- An access listing and documentation to demonstrate that the campus performed an annual review of access to the cashiering system.

Adequate control of user access to the cashiering system decreases campus exposure to loss from inappropriate acts.

RECOMMENDATION

We recommend that the campus:

- a. Develop policies and procedures for granting access to the cashiering system.
- b. Create and implement an authorization form to document the granting, modification, or termination of access to the cashiering system.
- c. Document the annual review of the access listing for the cashiering system.

MANAGEMENT RESPONSE

We concur.

- a. A policy has been developed, approved, and implemented for granting cashiering access. The developed policy will be provided to OAAS by July 28, 2017.
- b. A process has been defined and an authorization form created to document the granting, modification, or termination of access to the cashiering system. The form will be provided to OAAS by July 28, 2017.

- c. A policy of documenting the annual review of the access listing for the cashiering system has been completed, approved, and implemented. The policy will be provided to OAAS by July 28, 2017.

5. CASH-HANDLING POLICIES AND PROCEDURES

OBSERVATION

Campus cash-handling policies and procedures did not address all ICSUAM requirements.

Specifically, campus cash-handling procedures did not address:

- Cash collections and use and handling of change funds at off-site locations.
- Petty cash and credit card payments.

Complete cash-handling policies and procedures improve understanding and accountability of funds and enhance compliance with systemwide requirements, which reduces the campus exposure to risk related to loss, theft, or misappropriation.

RECOMMENDATION

We recommend that the campus update its cash-handling policies and procedures to include cash collections and use and handling of change funds at off-site locations, petty cash, and credit card payments.

MANAGEMENT RESPONSE

We concur. We will update the campus cash-handling policies and procedures with cash collections and use and handling of change funds at off-site locations, petty cash, and credit card payments. We will provide the updated policies and procedures by October 31, 2017.

GENERAL INFORMATION

BACKGROUND

Cashiering audits involve the assessment of internal accounting and administrative controls surrounding the cash and cash-equivalent management process from receipt of funds to deposit and reconciliation at the main and satellite cashiering facilities. Cash and cash equivalents are, by definition, liquid assets that may be subject to loss or misappropriation in the absence of a strong internal controls system.

The main or central cashier's office at each campus handles the majority of cash transactions for the university. It serves as the main point of collection for registration and other student fees paid with cash and cash equivalents, such as credit and debit cards, cashier's and personal checks, and money orders. The main cashier's office also performs other common transactions, including collection of payment for parking permits, petty cash reimbursement, disbursement of employee checks, and all other types of payment service needs, as well as deposits, recordkeeping, and the safeguarding of cash.

Satellite cashiering locations comprise all areas besides the main cashier that collect cash and cash equivalents. Examples of these locations may include athletics, public safety, parking and transportation, the student union, the student health center, housing, reprographics, libraries, and academic departments. Cash, checks, and credit cards may be accepted at these locations as payment for various items and fees, such as tickets and merchandise, application and supplies fees, donations, and registrations. Change and petty cash funds may also be held at these locations for small-dollar purchases or services.

The administration of cash-management activities is governed by ICSUAM §3000 and §6000. The campus CFO or his/her delegate is responsible for implementing cash-management policies consistent with ICSUAM requirements and designating or authorizing official campus cash and cash-equivalent collection points. ICSUAM requires that cash and cash equivalents be accepted only at official or designated locations.

At CSUEB, departments outside of the main or central cashier's office may engage in cash and cash-equivalent processing if there is a valid business need. The student financial services department within the division of administration and finance is responsible for the oversight of cash management activities and ensures compliance with systemwide and campus procedures. All individuals handling or processing university or auxiliary organization cash and cash equivalents must adhere to the campus cash management policy and CSUEB business process guide. Every department or administrative area that accepts cash and cash equivalents on behalf of the university must complete an authorization form that is signed by cashier designees and department heads and approved by the director of student financial services.

SCOPE

We visited the CSUEB campus from April 17, 2017, through May 19, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether

administrative and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2015, through May 19, 2017.

Specifically, we reviewed and tested:

- Cash management administration and organization, including clear lines of authority and responsibility, and the maintenance of campus cash management policies and procedures.
- Processes to determine whether satellite cashiering locations have been properly authorized and employees have been trained in cash-management policies and procedures.
- Processes to ensure that segregation of duties is adequate, accountability is maintained, and safeguarding is adequate for cash and cash equivalents.
- Accurate and timely recordkeeping of cash receipts to the general ledger.
- Timely deposits and documentation of cash and cash-equivalent transfers.
- Proper establishment and administration of change funds and petty cash, including the performance of periodic unannounced cash counts.
- Access restriction to the campus cashiering system.
- Recreation and Wellness Center collection processes to ensure that membership and personal training fees are properly accounted for and recorded to the appropriate member's account.
- University Box Office ticket and concession sales processes to ensure that tickets are properly accounted for and sold to the intended recipients at the established rate.
- Processes at communicative sciences and disorders, university police, the Arroyo Literary Review, commercial vendor services, The Pioneer, teacher education, and the Concord campus collection processes to ensure that fees and donations are properly accounted for and recorded to the appropriate account.

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.

Our testing and methodology, which was designed to provide a review of key administrative and financial controls, included walkthroughs and detailed testing on a limited number of transactions. Our review was limited to gaining reasonable assurance that essential elements of the campus cashiering program were in place and did not examine all aspects of the program. Specifically, our review focused on satellite or departmental cashiering locations and did not include the main cashier.

CRITERIA

Our audit was based upon standards as set forth in California State University Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- ICSUAM §3000, *General Accounting*
- ICSUAM §6000, *Financing, Treasury, and Risk Management*
- ICSUAM §8060, *Access Control*
- Government Code §13402 and §13403
- CSUEB *Cash Management Business Process Guide*
- CSUEB *Satellite Cashiering Business Process Guide*
- CSUEB *Change Fund Business Process Guide*

AUDIT TEAM

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Audit Manager: Caroline Lee
Internal Auditor: Laura Vazquez