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August 17, 2017

Dr. William A. Covino, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Covino:

Subject: Audit Report 17-22, *Cashiering*, California State University, Los Angeles

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,
Los Angeles**

Audit Report 17-22
July 25, 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, a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the campus had an appropriate framework for the administration of satellite and departmental cashiering locations, with oversight provided by the central cashier's office in student financial services (SFS). 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. 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 eight satellite cashiering locations that deposited funds into a campus account and found that:

- Four locations did not deposit receipts at least weekly or whenever collections exceeded \$500.
- Four locations did not use two employees to transport deposits under dual custody.
- One location did not restrict access to the safe combination by providing the information to only those individuals who required access as part of their job duties.
- One location that collected a refundable cash deposit fee had not been designated as an official cash-collection point and had not obtained approval to establish and collect the fee. The campus deposited the cash collected by department faculty into a recognized university account prior to the audit fieldwork and obtained approval to establish the deposit fee during the audit fieldwork. We noted that the collection site did not comply with cash-handling requirements, including training of staff involved in cash-handling activities and timely deposits of receipts.

Appropriate oversight and administration of satellite cashiering locations ensures that employees are properly trained and cognizant of related policies and procedures and reduces the campus exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Communicate campus cash-handling policies to personnel involved in cash-handling activities to reiterate key procedures, and ensure that personnel involved in cash-handling activities are properly trained and adequate oversight is provided to help ensure compliance. Training should cover, but not be limited to, timely deposits, safeguarding of funds, security, and segregation of duties.
- b. Determine whether the location that collected the refundable cash deposit should be an authorized satellite cashiering location, and if so, obtain and document proper approvals.

MANAGEMENT RESPONSE

- a. The campus will provide training of the updated cash-handling policies to the personnel involved in cash-handling activities by August 25, 2017.

- b. The campus determined that the location that collected the refundable cash deposit will not be an authorized satellite cashiering location. Effective August 25, 2017, students will conduct the transactions at the main cashiering location.

2. CHANGE FUNDS

OBSERVATION

The campus did not always document the approval of official change funds or conduct unannounced cash counts of these change funds, as required by campus and systemwide policy.

Specifically, we noted that:

- Three change funds were authorized after the audit was announced. Before this authorization, two of the three had not undergone unannounced cash counts, as required by campus and systemwide policy. These two change funds had been in existence for at least two years.
- The change-fund authorization for one location did not reflect the actual change-fund custodians, as there was an unauthorized individual acting as co-change-fund custodian along with the designated custodian.
- One change fund at a satellite cashiering location was unauthorized and not on the campus listing of approved change funds. Additionally, the campus had not performed unannounced cash counts of this change fund.

The proper designation and approval of campus change funds helps to ensure that proper internal controls and oversight are in place to reduce campus exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Ensure that change funds are properly authorized and documented, including the accurate designation of change-fund custodians.
- b. Ensure that all authorized campus change funds undergo unannounced cash counts.
- c. Determine whether the location with the unauthorized change fund should be added to the campus listing of approved change funds, and if so, obtain and document proper approvals.

MANAGEMENT RESPONSE

- a. The campus will reiterate change fund policies to relevant staff. The cashiering office will inform business financial services of changes in petty cash/change fund locations, the change fund form will be completed and retained for all authorized change funds, and the form will be updated to reflect the actual change fund custodians, by August 25, 2017.
- b. The campus will ensure that all campus change funds undergo unannounced cash counts by August 25, 2017.
- c. The campus closed the change fund and deposited the funds with the main cashiering office in May 2017.

3. CASH-HANDLING POLICIES AND PROCEDURES

OBSERVATION

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

Specifically, campus cash-handling procedures:

- Did not address California State University safe requirements included in ICSUAM §3102.04, *Physical Protection of Cash and Cash Equivalents*.
- Did not clearly address campus procedures for processing mailed remittances of department deposits.
- Referenced contradictory deposit requirements related to timely deposits.

Additionally, a form used by the campus central cashier's office in SFS references outdated cash-handling policies and procedures.

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:

- a. Update its cash-handling policies and procedures and forms used by SFS to align with systemwide requirements and to remove the inconsistencies noted above.
- b. Communicate the updated policies and procedures to key campus personnel involved in cash-handling processes.

MANAGEMENT RESPONSE

The cash-handling procedures and forms will be updated and communicated to key campus personnel involved in cash-handling processes by August 25, 2017.

4. PETTY CASH REIMBURSEMENTS

OBSERVATION

Petty cash reimbursements were not always in compliance with campus reimbursement limits.

We reviewed five petty cash replenishments, each including multiple petty-cash transactions, from two departments with authorized petty cash funds. We found that two petty cash replenishments had several individual petty cash reimbursements that exceeded the campus per-transaction reimbursement limit of \$50. All of these exceptions were associated with one department.

Compliance with campus petty-cash policies and procedures improves accountability and allows for appropriate administration of the funds.

RECOMMENDATION

We recommend that the campus communicate the campus petty-cash policies and procedures related to petty cash to appropriate faculty and staff and require compliance.

MANAGEMENT RESPONSE

Campus management will convey to appropriate campus personnel the campus petty-cash policies and procedures for their adherence and compliance by August 25, 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 chief financial officer (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 California State University, Los Angeles (Cal State LA), university funds are receipted at the main or central cashier's office in SFS. The campus CFO has designated the SFS director to institute internal controls and procedures for cash handling in accordance with ICSUAM. These include ensuring the physical security of cash and cash equivalents, recording receipts accurately, ensuring the reliability of financial data, and authorizing employees to handle incoming cash and cash equivalents, among other responsibilities. The SFS director authorized and approved satellite cashiering locations and departments on campus, including the Cal State LA auxiliary organizations that deposit through the campus central cashier's office. Individuals handling or processing university or auxiliary organization cash and cash equivalents must complete required training and adhere to university cash-handling policies and procedures.

SCOPE

We visited the Cal State LA campus from May 1, 2017, through May 26, 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 26, 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.

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 a sample of satellite and departmental cashiering locations and included a limited review of the campus main cashier. Our review did not include campus cash collection sites that receipt to University Auxiliary Services, Inc. or campus auxiliaries because an Auxiliary Organizations audit was performed by our office in 2016.

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*

- Government Code §13402 and §13403
- Cal State LA *Cash Handling Guidelines*
- Cal State LA *SFS Petty Cash Fund Procedure*
- Cal State LA *SFS Change Fund Procedure*
- Cal State LA *AP 601 Petty Cash Procedures*

AUDIT TEAM

Assistant Vice Chancellor and Deputy Chief Audit Officer: Janice Mirza
Audit Manager: Joanna McDonald
Senior Auditor: Marcos Chagollan