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August 18, 2017

Dr. Joseph I. Castro, President
California State University, Fresno
5241 North Maple Avenue
Fresno, CA 93740

Dear Dr. Castro:

Subject: Audit Report 17-23, *Cashiering*, California State University, Fresno

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,
Fresno**

Audit Report 17-23
July 12, 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.

Overall, we noted that the campus had an established framework for the administration of satellite cashiering locations, with oversight provided by the campus main cashier in accounting services. We identified opportunities for improvement in some areas, such as authorization and oversight of satellite cashiering locations and petty cash and change funds, and compliance with systemwide and campus cash-handling procedures.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. AUTHORIZATION AND OVERSIGHT

OBSERVATION

The campus did not always identify or document the approval of satellite cashiering locations and cashiers.

We compared the campus list of satellite locations to a report of campus locations making deposits, and we identified two locations making deposits that were not authorized or included in the list of satellite locations. Additionally, we conducted a detailed review of six cashiering locations, and we found that:

- The authorization form on file at one location was not signed and approved by the assistant controller.
- One location did not have completed authorization forms for student assistants who also served as cashiers and had not notified accounting services of the students' roles.
- The authorization form at another location where student assistants served as cashiers was not signed and approved by the university controller.

The proper approval and oversight of satellite cashiering locations 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. Evaluate the current process for identifying satellite cashiering locations, including locations using student cashiers, to ensure that these locations are properly authorized and documented, and maintain a complete list of campus satellite cashiering locations.
- b. Determine whether the locations noted above that made deposits should be authorized as satellite cashiering locations, and if so, obtain and document proper approvals for the locations and include them in the list of satellite locations.
- c. Determine whether student assistants who also serve as cashiers should be authorized cashiers, and if so, obtain and document proper approval.

MANAGEMENT RESPONSE

We concur.

- a. The campus will evaluate our current process for identifying satellite cashiering locations, including those locations using student cashiers, and will update and maintain a complete list of campus satellite cashiering locations by October 15, 2017.
- b. The campus will evaluate each satellite cashiering location to determine whether the location should be allowed to accept deposits or not. Additionally, the campus will obtain and document required approvals for all locations and include them in an updated list of satellite locations by October 15, 2017.
- c. The campus will establish criteria for determining when student assistants can serve as cashiers. The campus will obtain and document the proper approval of these student assistants by October 15, 2017.

2. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

We reviewed cash-handling practices at six satellite cashiering locations that deposited funds into a campus account and found that:

- One location did not use two employees to transport deposits to the main cashier. In addition, other satellite cashiering locations did not transport deposits under dual custody, according to the main cashier.
- One location did not restrictively endorse checks on the day of receipt and did not safeguard checks in a safe or vault or other lockable receptacle.
- The combinations for six of 21 safes or vaults had not been updated annually, as required by campus policy. One location had a safe or vault that was not identified by accounting services and was not monitored on the list of safes or vaults and other lockable receptacles.

Appropriate oversight and administration of satellite cashiering locations ensures that employees are properly trained and cognizant of related policies and procedures and reduces 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, ensure that personnel involved in cash-handling activities are properly trained, and provide adequate oversight to maintain compliance with cash-handling policies. Training should emphasize, but not be limited to, safeguarding deposits during transport, check endorsement, and safe or vault access.

- b. Evaluate the current process for identifying and monitoring safes or vaults and other lockable receptacles used by satellite cashiering locations to ensure that access is updated as required by campus policy and that accounting services' list of safes and vaults and other lockable receptacles is complete.

MANAGEMENT RESPONSE

We concur.

- a. The campus will communicate its cash-handling policies to key personnel involved, will reiterate key procedures, will ensure that personnel involved are properly trained, and will develop an enhanced protocol for oversight in maintaining compliance with cash-handling policies. Training will include safeguarding deposits during transport, check endorsement, and safe or vault access, among other relevant topics. Communications will be completed for this by November 15, 2017.
- b. The campus will evaluate its process for identifying and monitoring safes, vaults, and other lockable receptacles used by satellite cashiering locations, ensure that access is updated as required by campus policy, and that accounting services' list of safes and vaults and other lockable receptacles is complete, by October 15, 2017.

3. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Oversight and administration of petty cash and change funds needed improvement.

We reviewed petty cash and change funds at six satellite cashiering locations and found that:

- One location had an unauthorized change fund of \$800 and was not included in the accounting services list of change funds. Additionally, the campus had not performed unannounced cash counts of this fund.
- One location had a petty cash fund that had not been used in over a year, but the fund had not been closed and the cash had not been returned to accounting services.

Additionally, we noted that petty cash funds and replenishments were disbursed as checks payable to the approved petty cash custodian, which meant that the custodian had to travel off campus to his or her personal bank to cash the check, then transport the cash and coin back to the office.

Appropriate authorization, oversight and disbursement of petty cash and change funds can ensure that proper internal controls are in place to reduce the campus exposure to risk related to loss, theft, misappropriation of funds and the safety of custodians.

RECOMMENDATION

We recommend that the campus:

- a. Determine whether the location with the unauthorized change fund should be added to the campus list of change funds, and if so, obtain and document proper authorization.
- b. Determine whether the unused petty cash fund is still needed or should be closed and returned to accounting services, and if so, complete the proper documentation.
- c. Evaluate the petty cash disbursement process and determine changes necessary to reduce risk related to loss. If any changes are made to petty cash procedures, they should be communicated to key personnel and custodians.

MANAGEMENT RESPONSE

We concur.

- a. The campus will determine whether the unauthorized change fund should be added to the campus list of change funds, and if so, will obtain and document proper authorization, or the fund will be closed by September 1, 2017.
- b. The campus will determine whether this petty cash fund is needed, and if so, will complete proper documentation, or the fund will be closed by September 1, 2017.
- c. The campus will review its current petty cash disbursement process, and if changes are required, any updated procedural changes will be communicated to key personnel by November 15, 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 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, Fresno (Fresno State), the campus chief financial officer designated to the university controller the oversight and responsibility for cash-handling activities. This includes collecting and safeguarding cash and cash equivalents, authorizing satellite cashiering locations and official campus bank accounts, administering petty cash and change funds, and ensuring that related internal controls are in place.

The campus primarily collects and processes payments at the main cashier's office in the accounting services department. Authorized cash collection sites throughout the campus also accept payment for a number of services and activities, including student fees, career fairs, recitals, and summer camps or workshops. Each collection site prepares a deposit form and transports its collections to the main cashier's office, which records the deposit to the campus accounting system (CashNet) and records the funds to the general ledger account. All cashiers and custodians of petty cash and change funds must complete annual training and adhere to campus policies.

SCOPE

We visited the Fresno State campus from May 1, 2017, through June 2, 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 June 2, 2017.

Specifically, we reviewed and tested:

- Cash management administration and organization, including clear lines of authority and responsibility, and current and complete campus cash management policies and procedures.
- Processes to determine if satellite cashiering locations have been properly authorized and 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/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 campus main cashiering. Our review did not include campus cash collections sites that receipt to the Fresno Association, Inc. or other campus auxiliaries, which were included in an audit of auxiliary organizations performed by our office in October 2014.

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*
- Human Resources Coded Memoranda HR2015-08 *Background Check Policy*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- Government Code §13402 and §13403
- *Fresno State Cash Handling Procedures*
- *Fresno State Petty Cash Procedures and Regulations*

AUDIT TEAM

Assistant Vice Chancellor and Deputy Chief Audit Officer: Janice Mirza

Audit Manager: Joanna McDonald

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