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October 24, 2017

Dr. Jeffrey D. Armstrong, President
California Polytechnic State University, San Luis Obispo
1 Grand Avenue
San Luis Obispo, CA 93407

Dear Dr. Armstrong:

Subject: Audit Report 17-25, *Cashiering*, California Polytechnic State University, San Luis Obispo

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 Polytechnic State University,
San Luis Obispo**

Audit Report 17-25
September 21, 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 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

We found the control environment for some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for the cashiering function as of August 11, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the campus had an established framework for the administration of satellite cashiering locations, with oversight provided by the university cashier's office in fiscal services. However, we found that the authorization of satellite cashiering locations and designated cashiers was not complete or timely documented, all designated cashiers were not identified and tracked, and required training was not monitored or consistently documented. In addition, we identified opportunities for improvement related to compliance with systemwide and campus cash-handling requirements when transporting deposits and the use of safes; the administration of petty cash funds; and clarification of campus cash-handling policies and procedures to address all ICSUAM requirements.

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 document the authorization of satellite cashiering locations, track staff and students serving as satellite cashiers, or monitor training.

We reviewed cash-handling practices at the university cashier's office and four satellite cashiering locations, and we found that:

- All of the satellite cashiering locations were approved just after the audit was announced in the form of a single memo conferring blanket approval. In addition, the supporting satellite authorization forms that accompanied the memo did not contain essential information such as the names of designated cashiers, the approving department head's name and title, and the signature and date of the approving chief financial officer or controller.
- Satellite cashiering locations have staff and student assistants designated as satellite cashiers based on each location's operations and business needs. However, the campus did not have a process to identify and track all individuals designated to perform cash-handling functions.
- The campus did not monitor cash-handling training to ensure completion. Although satellite cashiering locations are responsible for providing required cash-handling training to their staff, they did not consistently document records of completed training.

We also found that the campus did not formally document a required delegation of authority (DOA) from the chief financial officer to the university controller to authorize the establishment of satellite cashiering locations or petty cash and change funds, in accordance with ICSUAM §3000, *General Accounting*.

Timely and complete documentation of authorized satellite cashiering locations and designated cashiers, along with training that is properly overseen and monitored, helps to ensure that internal controls are in place. In addition, formal documentation of the required DOA ensures compliance with systemwide requirements.

RECOMMENDATION

We recommend that the campus:

- a. Ensure that all satellite locations are properly authorized and documented at the time they are established, and update the satellite authorization form to include essential information, including, but not limited to, the designated cashier's name, the approving department head's name and title, and the signature and date of the approving chief financial officer or controller.

- b. Establish a process to identify and track designated cashiers at satellite locations.
- c. Establish a process to monitor cash-handling training for all designated cashiers and obtain consistent documentation acknowledging that they have completed the training.
- d. Document the necessary DOA and establish a process to ensure that it is updated when staffing changes occur.

MANAGEMENT RESPONSE

We concur. The university cashier's office (UCO) will ensure that all satellite locations are properly authorized and documented at the time they are established and update the satellite authorization form to include essential information. Also, the UCO will establish a process to identify, train, and track designated cashiers at satellite locations. Lastly, a DOA will be established and maintained. This will be completed by January 19, 2018.

2. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

We reviewed cash-handling practices at the university cashier's office and four satellite cashiering locations that deposited funds into a campus account and found that:

- Two locations did not transport deposits to their depositing location using two employees. Specifically, one location transported deposits to the university cashier's office, and the other took deposits to the university police department, but neither transported their deposits under dual custody.
- Safes used at two locations were not identified in the safe log maintained by the university cashier's office. We also found that both locations had not updated their safe combination at least annually, as required by campus policies, and the university cashier's office safe log did not monitor the dates of combination changes.

Compliance with cash-handling requirements related to transporting deposits and securing cash and cash equivalents helps to reduce 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 and safe or vault access.

- b. Evaluate the current process for identifying and monitoring safes used by satellite cashiering locations to ensure that the university cashier's office safe log is complete.
- c. Ensure that safe combinations are updated at least annually, as required by campus policy.

MANAGEMENT RESPONSE

We concur. The UCO will communicate, train, and audit personnel involved in cash-handling activities regarding the campus cash-handling policies. The UCO will identify and monitor safes at satellite cashiering locations to ensure proper oversight and that safe combinations are updated at least annually. This will be completed by January 19, 2018.

3. PETTY CASH FUNDS

OBSERVATION

Administration of petty cash funds needed improvement related to documentation of authorization, safeguarding, and oversight.

We reviewed nine petty cash funds throughout the campus and found that:

- Three funds were used by unauthorized staff in the custodian's absence.
- One fund was not properly safeguarded. We noted that the custodian stored the fund in a locked desk drawer but left the desk key under the computer keyboard overnight.
- One fund had an overage of \$10.50. According to the fund custodian, the fund generally is not used, and the overage may have been caused by comingling petty cash with personal funds.
- Seven petty cash fund authorization forms were not signed to indicate approval by the university controller or cashier's office.

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

RECOMMENDATION

We recommend that the campus:

- a. Communicate petty cash policies to authorized custodians to reiterate key procedures, ensure that petty cash custodians are properly trained, and provide adequate oversight to

maintain compliance with petty cash policies. Training should emphasize, but not be limited to, custodian responsibilities and safeguarding of funds.

- b. Determine whether the petty cash fund with the overage is still needed. If not, close and return the fund to the university cashier’s office and maintain records to document the activity.
- c. Review petty cash fund authorization forms for all funds to ensure that they are complete and signed by the university controller or cashier’s office to indicate approval.

MANAGEMENT RESPONSE

We concur. The UCO will communicate petty cash policies to authorized custodians and train them to reiterate key procedures. The petty cash fund with the overage has been closed. Also, the UCO will review petty cash fund authorization forms for all funds to ensure that they are complete. This will be completed by January 19, 2018.

4. 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:

- Training requirements for cash-handling employees per ICSUAM §3101.02, *Campus Administration of Systemwide Cash Management Policy*.
- Procedures for establishing and authorizing satellite cashiering locations per ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*.
- CSU safe requirements per ICSUAM §3102.04, *Physical Protection of Cash and Cash Equivalents*.
- Debit or credit card payment processing guidelines per ICSUAM §3102.05, *Debit/Credit Card Payment Policy*.

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

RECOMMENDATION

We recommend that the campus:

- a. Review and update its cash-handling policies and procedures to align with systemwide requirements.

- b. Communicate the updated policies and procedures to campus personnel involved in cash-handling processes.

MANAGEMENT RESPONSE

We concur. The cash-handling policies and procedures will be updated to reflect systemwide requirements and will be communicated with personnel involved in cash handling. This will be completed by January 19, 2018.

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 Polytechnic State University, San Luis Obispo (Cal Poly San Luis Obispo), the campus chief financial officer delegated oversight and responsibility of cash-handling activities to the university controller. 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 university cashier's office, which is part of the fiscal services department in the administration and finance division. Authorized satellite cashiering units throughout the campus also accept payment for a number of services and activities, including student fees, parking permits and citations, PolyCard (campus multi-purpose identification and purchase card) replacements, and health services. Each satellite cashiering unit prepares a deposit form accompanied by supporting records for transport to the university cashier's office by staff or armored courier service. Central cashiering validates and records the deposit to the campus accounting system, CashNet, and then to the appropriate general ledger account. All cashiers and custodians of petty cash and change funds must complete training and adhere to campus policies.

SCOPE

We visited Cal Poly San Luis Obispo from July 10, 2017, through August 11, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2015, through August 11, 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 operational, 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 cashiering locations and included a review of campus main cashiering. Our review did not include campus cash collections sites that receipt to the Cal Poly Corporation, Inc. or other campus auxiliaries, which were included in an audit of auxiliary organizations performed by our office in December 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 HR2016-08 *Background Check Policy*
- Government Code §13402 and §13403
- Cal Poly San Luis Obispo *Cash Handling Procedures*
- Cal Poly San Luis Obispo *Petty Cash and Change Fund Procedures*
- Cal Poly San Luis Obispo *Deposits and Transfers to the Bank*
- Cal Poly San Luis Obispo *Recording Deposits to the General Ledger*

AUDIT TEAM

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Audit Manager: Joanna McDonald
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