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February 13, 2018

Mr. Framroze M. Virjee, President
California State University, Fullerton
800 North State College Boulevard
Fullerton, CA 92834-9480

Dear Mr. Virjee:

Subject: Audit Report 17-30, *Cashiering*, California State University, Fullerton

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,
Fullerton**

Audit Report 17-30
January 16, 2018

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of campus and auxiliary 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

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 financial, operational and administrative controls for the cashiering function as of November 17, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the campus and auxiliaries had established an appropriate framework for the administration of satellite cashiering locations and cash-handling departments, with oversight provided by campus and auxiliary main cashiering and accounting departments. We identified opportunities for improvement in authorization and oversight of satellite cashiering locations and petty cash and change funds, as well as compliance with systemwide, campus, and auxiliary 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 have proper delegations of authority (DOA) and did not ensure that all cash-handling employees received required initial and annual refresher training.

We found that the campus did not formally document a required DOA from the chief financial officer (CFO) 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*.

We also found the campus did not maintain documentation showing that all employees with cash-handling responsibilities at satellite locations had completed initial training, as well as additional individual cash training as needed, although it did appear that the training had been provided. The California State University, Fullerton *Cash Management Policy* requires each department to train new employees on proper cashiering procedures and states that at least once per year, all cash-handling employees should refresh their knowledge concerning cash policies and procedures.

Formal documentation of the required DOA ensures compliance with systemwide requirements, and appropriate oversight of cashiering locations ensures that employees are properly trained and cognizant of related policies and procedures.

RECOMMENDATION

We recommend that the campus:

- a. Obtain a written DOA from the CFO to the university controller for designating and authorizing cashiering locations or petty cash and change funds.
- b. Establish a process to monitor cash-handling training for all employees with cash-handling responsibilities, and maintain consistent documentation showing that they have completed the training.

MANAGEMENT RESPONSE

We concur.

- a. A written DOA from the CFO to the university controller for designating and authorizing cashiering locations and petty cash and change funds was executed in November 2017. A copy of the DOA will be provided by February 28, 2018.
- b. A process to monitor, track, and document cash-handling training for all employees with cash-handling responsibilities will be established. The anticipated completion date is June 16, 2018.

2. SYSTEM ACCESS AND BACKGROUND CHECKS

OBSERVATION

Approval of system access for new employees and removal of system access for terminated employees was not always documented, and background checks were not always performed for auxiliary employees with cash-handling responsibilities.

We reviewed six new employees and seven terminated employees at Auxiliary Services Corporation (ASC), and we found that:

- At one location, there was no documentation showing that one terminated employee's system access was properly removed.
- At another location, two employees who left the campus in May 2016 and January 2017 were still marked as active employees in the point-of-sale system.

Additionally, during our review of Associated Students, Incorporated (ASI), we found that ASI had not performed a background check of all employees with cash-handling responsibilities, although it had referenced the systemwide human resources coded memoranda on the background-check policy, and there was documentation listing current active users of the accounting system.

Further, ASI's form for establishing new-hire access to the system and other records related to background checks and removal of access for terminated employees had not been properly maintained. As such, in our review of ten ASI new employees and ten terminated employees, ASI could not provide us with:

- Documentation showing that ASI had performed background checks on new hires with cash-handling responsibilities.
- Documentation showing that new hires with cash-handling responsibilities had approved system access.
- Documentation showing that terminated employees with cash-handling responsibilities had their system access properly removed.

Maintaining proper approval and removal of user access to cashiering and/or accounting systems and performing background checks decreases exposure to loss from inappropriate access and potential disclosure of confidential data.

RECOMMENDATION

We recommend that:

- a. ASC and ASI maintain documentation showing proper approval and removal of user access to cashiering and accounting systems and remove user system access immediately from terminated employees.

- b. ASI perform background checks for employees with cash-handling responsibilities.

MANAGEMENT RESPONSE

We concur.

- a. ASC and ASI will review current processes to ensure documentation is maintained to show timely approval and removal of user access for both the cashiering and accounting systems.
- b. ASI will review current processes to ensure background checks are performed for all employees with cash-handling responsibilities.

The anticipated date of completion is June 16, 2018.

3. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

We reviewed cash-handling practices at the main cashiering location on campus and four satellite cashiering locations that deposited funds into a campus account, and we found that:

- At one location, there was no log to track mailed check payments.
- At two locations, cash receipts were not always deposited at least weekly or whenever collections exceeded \$500, as required by ICSUAM §3102.11, *Deposits and Transfers to the Bank*. Specifically, one location had a \$23,230 check dated December 20, 2016, a \$3,556 check dated January 5, 2017, and three checks totaling \$46,013 dated January 6, 2017, that were not deposited until January 23, 2017. Another location had a \$360 check dated October 20, 2016, and a \$52,522 check dated December 16, 2016, that were not deposited until January 3, 2017.

We also reviewed cash-handling practices at ASC’s main cashiering location and two satellite cashiering locations that deposited funds into the ASC account, and we found that:

- At one location, the key was left inserted in the cash register drawer, and the safe was unlocked during business hours.
- At another location, there was no documentation showing that customers picked up and signed for their will-call tickets and that ownership of the tickets had been transferred. We also noted that customers could pick up not only the day-of-performance tickets but also their tickets for the entire season. In addition, there was no log listing the individuals with safe access and the dates the combination was changed. It appeared that the safe combination was changed every six months.

- At two locations, cash receipts were not always timely deposited whenever collections exceeded \$250, as required by *ASC Cash/Check Handling Policy/Procedure*. Specifically, one location had a \$500 check dated December 21, 2016, that was not deposited until January 11, 2017, and another \$5,410 check dated July 28, 2017, that was not deposited until August 11, 2017. At another location, a \$50 check dated January 17, 2017, was not deposited until February 1, 2017.

In addition, we reviewed cash-handling practices at ASI's main cashiering location and three satellite cashiering locations that deposited funds into the ASI account, and we found that:

- At one location, deposits were not always transported to the ASI main office in dual custody. Further, the safe combination was not changed after turnover of the interim director, who had access to the safe.
- At one location, there was no log to track mailed-in check payments.
- At two locations, cash receipts were not timely deposited. Specifically, one location had a \$3,659 check dated December 13, 2016, that was not deposited until January 4, 2017. At another location, a \$50,877 check dated July 14, 2017, was not deposited until July 24, 2017.

Compliance with systemwide, campus, and auxiliary cash-handling requirements related to security, timely deposit, and dual transportation of cash and cash equivalents helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, ASC, and ASI communicate cash-handling policies to personnel involved in cash-handling activities to reiterate key procedures including timely cash and check deposits, safeguarding of funds, mailed payment logs, safe combination updates, and other areas identified above.

MANAGEMENT RESPONSE

We concur. The campus, ASC, and ASI will re-communicate cash-handling policies and procedures to the campus with emphasis on key procedures including timely cash and check deposits, safeguarding of funds, mailed payment logs, and safe combination updates.

This will be completed by June 16, 2018.

4. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Petty cash and change funds were not always administered according to campus and auxiliary policies and procedures.

Change funds are generally used at locations where sales transactions are made involving cash. They should balance to the amount originally issued and should not be used for expenditures or petty cash reimbursements. During our site visit to campus satellite cashiering locations, we found that:

- At two locations, it appeared that there was confusion about the purpose of the approved change fund. Specifically, a \$200 change fund was assigned at one location, but the custodian indicated that the fund was mainly used to refund customers paying with money orders for amounts higher than what was due. At another location, \$600 from a \$1,500 change fund was used to refund customers who overpaid at parking permit dispensers.
- At one location, an approved change fund of \$2,000 for special events was no longer in use as of July 2017 and had not been closed.

We also reviewed five ASC petty cash and five change funds, and we found that:

- Independent counts had not been consistently performed. Specifically, for one change fund of \$120, there was no documentation for the independent count performed in 2016. We also found a previously identified \$5 overage that had not been deposited.
- There appeared to be no petty cash reimbursements for one petty cash fund of \$300 since the fund was established in 2012. At the time of the audit, this fund was still active.
- For one petty cash fund of \$200, expenses totaling \$85 incurred between February 2015 and September 2015 were not submitted for replenishment until April 2016.

In addition, we reviewed five ASI petty cash funds, and found that:

- ASI did not have a form to establish, update, or close petty cash funds. Also, there was no training provided to new petty cash custodians.
- Independent annual counts were not performed at all five locations. For 2016 and 2017, there was no documentation showing who performed the independent count, when the count was performed, and what denominations were counted.
- In two instances, petty cash fund replenishments were not timely performed. Specifically, one petty cash fund had expenses totaling \$409 incurred between June 2016 and March 2017 that were not submitted to the ASI main office until October 2017. Another petty cash fund had expenses totaling \$56 incurred between July 2016 and May 2017 that were not submitted for replenishment until October 2017.

Appropriate authorization, independent count, and replenishment of petty cash and change funds and adequate training of cash-handling employees can help to ensure that internal controls are in place to reduce the campus exposure to risk related to loss and misappropriation of funds and the safety of cash custodians.

RECOMMENDATION

We recommend that:

- a. The campus, ASI, and ASC determine whether the unused petty cash or change funds are still needed, and if so, complete the proper documentation. If not, the funds should be closed and returned to accounting services.
- b. ASI and ASC reiterate to petty cash custodians the requirement for timely submission of replenishments.
- c. ASI and ASC consistently conduct periodic and independent counts of petty cash and change funds.
- d. ASI create a form to document establishment, updates, or closing of petty cash funds.
- e. ASI provide training to new petty cash custodians.

MANAGEMENT RESPONSE

We concur.

- a. The campus, ASI, and ASC will review all petty cash and change funds noted in the report for appropriateness.
- b. ASI and ASC will reiterate the requirement for timely submission of replenishment to all petty cash custodians.
- c. ASI and ASC will review current processes to ensure that periodic and independent counts of petty cash and change funds are conducted on a consistent basis.
- d. ASI will formally document the establishment, update, or closing of petty cash funds.
- e. ASI will implement a process to ensure that all new petty cash custodians are trained.

This will be completed by June 16, 2018.

5. ESCHEATMENT

OBSERVATION

ASI did not always timely escheat long-outstanding checks to the state, as required by the Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511.

The state requires a three-year dormancy for general property checks before unclaimed property is remitted to the state. As such, outstanding checks related to general property

between fiscal years ending 2011 through 2013 should have been remitted between June 1 and June 15, 2017, for the reporting period of fiscal year ending 2016.

Although ASI remitted long-outstanding items to the state for fiscal years 2016 and 2017, it appeared that some long-outstanding items were not escheated. We found that:

- The agency bank reconciliation for student organization accounts for September 2017 had ten unclaimed checks dated from August 2012 to May 2013, totaling \$7,376.
- The ASI bank reconciliation for September 2017 had four unclaimed checks dated from September 2012 to May 2013, totaling \$5,575.
- The Student Union bank reconciliation for September 2017 had five unclaimed checks dated from October 2012 to June 2013, totaling \$563.
- Instructionally related activities bank reconciliation for September 2017 had one unclaimed check dated March 2013, for \$350.

Timely administration of unclaimed property helps to ensure regulatory compliance and reduces the likelihood of fines.

RECOMMENDATION

We recommend that ASI timely and properly escheat long-outstanding checks to the state.

MANAGEMENT RESPONSE

We concur. ASI will implement a process to ensure long-outstanding checks are properly escheated to the state in a timely manner.

This will be completed by June 16, 2018.

6. EXCEPTION HANDLING

OBSERVATION

ASC and ASI refund approvals were not always documented, and ASI cash shortages and overages were not always investigated.

During our review of ASC refunds, we found that:

- At one location, a student assistant was able to process refunds without managerial review. According to the cashier's manual, all returns need manager approval. However, it appeared that there were no compensating controls when limited staffing did not allow for compliance with this requirement. For example, refunds made by the satellite location were not reviewed by the main campus.

Further, this location's point-of-sale system appeared to have limited ability to query historical sales transactions, including refunds. For example, although we requested sales transactions for a ten-month period, we were only able to obtain transaction data for two months, September and October 2017.

- At another ASC satellite location, we reviewed five refunds totaling \$247, and although it appeared that they were approved by the office manager, there was no documentation to show this approval process.

During our review of ASI cash adjustments:

- We reviewed five refunds at one location totaling \$661, and we found that although these refunds could only be performed by managers, there was no documentation showing that they were appropriate and properly approved.
- We also reviewed six shortages and overages totaling \$1,778, and we found that there was no documentation to show that they were properly reviewed and investigated when necessary.

Proper administration and oversight of sales transaction adjustments, such as refunds, voids, and overages, can help to reduce the risk related to unauthorized transactions, loss, and misappropriation of funds.

RECOMMENDATION

We recommend that:

- a. ASC and ASI ensure that refunds and voids are properly approved and documented.
- b. ASI investigate cash shortages and overages.

MANAGEMENT RESPONSE

We concur.

- a. ASC and ASI will implement a procedure to ensure that refunds and voids are properly approved and documented.
- b. ASI will implement a procedure to ensure proper review of cash shortages and overages.

This will be completed by June 16, 2018.

7. POLICIES AND PROCEDURES

OBSERVATION

ASI and ASC cash-handling policies and procedures needed improvement.

We noted that both ASI and ASC had established cash-handling policies and procedures; however, they did not address:

- ASC's review of items in suspense or holding accounts, follow-up and collection of returned items, and monthly reconciliation of bank accounts, including review of outstanding reconciling items.
- ASI's timeliness of deposits, transfer of deposits from satellite locations to the main cashier's office, review and approval of refunds and voids, and monitoring of shortages and overages.

Comprehensive cash-handling policies and procedures can help to improve understanding and accountability of funds, which reduces the exposure to risk related to loss, theft, or misappropriation.

RECOMMENDATION

We recommend that ASC and ASI update their cash-handling policies and procedures to include the processes addressed above.

MANAGEMENT RESPONSE

We concur. ASC and ASI will update their cash-handling policies and procedures to include the processes noted above.

This will be completed by June 16, 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 State University, Fullerton (CSU Fullerton), the campus CFO or his/her delegate is responsible for designating and authorizing official campus cash collection points. Further, the university controller and/or director of student financial services has 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 cashiering station, which is part of the accounting services and financial reporting department in the administration and finance division. Authorized satellite cashiering stations and cash-handling departments throughout the campus also accept payment for a number of services and activities, including student fees, among others. Each satellite cashiering station or cash-handling department prepares a deposit form accompanied by supporting records for transport to the main cashiering station by armored courier service or by employees in dual custody. Accounting services and financial reporting 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 CSU Fullerton from October 16, 2017, through November 17, 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 November 17, 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 whether 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.
- Background check and system access for employees with cash-handling responsibilities.
- Processes to ensure that tickets are properly accounted for and sold to intended recipients at the established rates.
- Review of cash receipt and sale transaction adjustments such as refunds, voids, returns, and shortages/overages.
- Review of monthly bank statements, including reconciling items such as returned items and escheatment of long-outstanding items.

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 cashiering locations or cash-handling departments, and included a review of campus and auxiliary main cashiering.

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:

- Code of Civil Procedures §1510 and §1511
- ICSUAM §3000, *General Accounting*
- ICSUAM §6000, *Financing, Treasury, and Risk Management*
- ICSUAM §8060, *Access Control*
- Human Resources Coded Memoranda HR2016-08 *Background Check Policy*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- Government Code §13402 and §13403
- *CSU Fullerton Cash Management Policy*
- *CSU Fullerton Petty Cash and Change Funds Guidelines*
- *ASC Cash/Check Handling Policy/Procedure*
- *ASC Change Fund*
- *ASC Petty Cash Policy and Procedures*
- *ASC Titan Shop Cashier's Manual*
- *ASI Cash Handling – By Department*
- *ASI Cash Handling – General Procedures*

AUDIT TEAM

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Audit Manager: Joanna McDonald
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