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August 3, 2017

Dr. Eduardo M. Ochoa, President
California State University, Monterey Bay
100 Campus Center, Administration Bldg.
Seaside, CA 93955-8001

Dear Dr. Ochoa:

Subject: Audit Report 17-39, *Cashiering*, California State University, Monterey 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,
Monterey Bay**

Audit Report 17-39
July 7, 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

We found the control environment for the areas reviewed to be in need of some 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 cashiering as of May 26, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that California State University, Monterey Bay (CSUMB) needed to improve its administration of satellite cashiering locations in most of the significant areas we reviewed. Several of our observations stemmed from the fact that the campus did not have an adequate process to identify and document the numerous cashiering locations on campus, including those locations that were accepting credit or debit cards. We also found that although the campus had cash-handling policies and procedures, it did not have a process to ensure that all cashiers were trained and 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, evidence was not always maintained showing that a second person reviewed the reconciliation of receipts to deposits and verified the deposit counts, and cash receipts received were not always reconciled to source documentation or deposits made.

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 of official cashiering locations used by the main cashier's office was incomplete, as we identified two locations that collected cash or cash equivalents that were not on the list.

In addition, we selected seven cashiering locations for detailed review and found that:

- The campus did not have a process or form to designate official cashiering locations. As a result, none of the seven locations had documentation designating them as official cashiering locations.
- None of the four locations that accepted credit or debit cards had evidence of authorization to accept these types of payments.

Appropriate authorization 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 two locations not included on the list of official cashiering locations should be added to the list, and if so, obtain proper approvals.
- b. Create a process to formally identify and document official cashiering locations, so that they can be evaluated for official designation and subsequently monitored.
- c. Complete and maintain authorization forms for locations that accept credit or debit payments.

MANAGEMENT RESPONSE

We concur. We have determined that the two locations identified above should not be added to the list because one was for auxiliary organization activity exclusively and the other was a subset of the student activities program that was already included. We will create and implement processes to formally identify and document authorized cashiering locations and locations that accept credit or debit payments by September 30, 2017.

2. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

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

- Five locations did not provide evidence that a second person reviewed the reconciliation of receipts to deposits within 30 days of the preceding month.
- Five locations did not deposit receipts to the main cashier's office at least weekly or whenever collections exceeded \$500.
- Five locations did not have two employees transport deposits, and two locations did not request a police escort for deposits that exceeded \$2,500, as required by systemwide policy.
- Four locations did not provide evidence that a second person verified the deposit counts.
- Two locations did not provide evidence that receipts were reconciled to source documents.
- Two locations either did not provide pre-numbered receipts for in-person payments or did not track mailed payments.
- One location either did not maintain proper segregation of duties or did not provide evidence that a second person reviewed the ticket inventory reconciliation. Specifically, the two cashiers at the location received and processed payments, approved the closing cash counts, managed the inventory of tickets, and prepared and reviewed deposits.
- One location did not endorse checks on the day they were received, as they did not have an endorsement stamp.
- One location did not provide evidence of the reconciliation between the inventory on-hand to donor gifts. In addition, the cash and cash equivalents, petty cash fund, and premium inventory were not properly secured.

We also found that the campus did not have a process to ensure that all cash-handling employees received cash-handling training upon employment and annually thereafter, as required by systemwide policy. As a result, the campus could not provide us with evidence showing that required initial and/or annual training had been completed by the employees handling cash or cash equivalents at any of the seven 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. 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 and inventory, segregation of duties, reconciliation of cash receipts to source documentation, deposits, inventory counts, and other areas identified above.
- b. Create a process to monitor training provided to cash-handling employees to ensure that training is provided in accordance with campus policy and documentation is maintained.

MANAGEMENT RESPONSE

We concur. We will provide training to all cash-handling employees and create a process to monitor training to ensure compliance with campus policy by November 30, 2017.

3. CREDIT CARD REFUND PROCESSING

OBSERVATION

Campus credit card refund practices needed improvement.

We found that the campus did not have documented policies and procedures regarding credit card refund processing. In addition, we reviewed credit card refund practices at three locations that had credit card refunds during the audit period, and we found that:

- One location did not retain documentation to support the refund.
- Two locations did not provide documentation showing that refunds were authorized by a supervisor or manager.

Maintaining written policies and procedures, adequate supporting documentation, and management approvals relating to the processing of credit card refunds decreases the risk of inappropriate and unapproved refunds.

RECOMMENDATION

We recommend that the campus:

- a. Develop written policies and procedures for the credit card refund process.
- b. Retain supporting documentation for credit card refunds.
- c. Document management approval for all credit card refunds.

MANAGEMENT RESPONSE

We concur. We will establish policies and procedures over credit card refunds, including approval and retention of supporting documentation, 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 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 CSUMB, cashiering transactions performed by university offices must be processed through the main cashier's office. University departments and auxiliaries responsible for collecting money must adhere to all applicable state and university policies and procedures. University department heads, managers, and cashiers are responsible for functions related to receipt and deposit management. Departments must obtain approval from the university accounting department to accept cash or cash equivalents.

SCOPE

We visited the CSUMB campus from May 2, 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 January 1, 2016, 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.
- Athletics department, World Theater, and Associated Students' ticket sales processes to ensure that ticket sales are properly accounted for and sold to the intended recipients at the established rates.
- Parking services sales processes to ensure that parking and live scan fees are properly accounted for and collected at the designated locations on campus.
- Reading center collection processes to ensure that service fees are properly accounted for and recorded to the appropriate account.
- Student activities and leadership development collection processes to ensure that student organization membership dues, fund-raising, and event fees are properly accounted for and allocated to the appropriate organization.
- KAZU radio station collection processes to ensure that membership dues and donations are properly accounted for and recorded to the appropriate member's 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*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- Government Code §13402 and §13403
- CSUMB *Satellite Cashiers – Handling of Payments Received*
- CSUMB *Petty Cash Procedures*

AUDIT TEAM

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