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July 25, 2018

Dr. Lynnette Zelezny, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311-1022

Dear Dr. Zelezny:

Subject: Audit Report 18-34, *Cashiering*, California State University, Bakersfield

We have completed an audit of *Cashiering* as part of our 2018 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 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



CASHIERING

California State University, Bakersfield

Audit Report 18-34
June 21, 2018

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 major improvement.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for cashiering as of May 4, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, we found that California State University, Bakersfield (CSUB) needed to improve its administration of satellite cashiering locations in nearly all of the significant areas we reviewed. Many of our observations resulted from the lack of adequate staff available to provide oversight and training to satellite locations. We found that the campus did not have adequate policies and procedures in the areas of cash-handling, petty cash, change funds, and credit cards. Additionally, the campus did not have a process to ensure that all cashiers were trained and that all requirements for handling cash receipts were met. We also found that the campus authorization and oversight of cashiering locations and access to the cashiering system needed improvement. Also, we found that the campus athletics department and California State University Bakersfield-Antelope Valley Regional Center (CSUB-AV) did not always comply with campus and systemwide cash-handling requirements.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. POLICIES AND PROCEDURES

OBSERVATION

Campus policies and procedures for cash-handling, petty cash and change funds, and credit cards did not address all ICSUAM requirements and needed improvement.

We found that campus cash-handling policies and procedures did not address certain requirements in ICSUAM §6202.00, *Segregation of Cash Handling Duties*, and ICSUAM §6330.00, *Incoming Cash and Checks*. Specifically, they did not include:

- Procedures for processing voided transactions.
- Procedures to ensure that proper segregation of duties or mitigating controls are in place.
- Procedures to investigate and monitor shortages and overages, including threshold amounts.
- The requirement to transport deposits with a campus police escort when cash and cash equivalents accumulatively exceed \$5,000.

We also found that:

- Campus cash-handling policies and procedures did not align with the requirement in ICSUAM §6330.00, *Incoming Cash and Checks*, to transport deposits with a campus police escort when cash exceeds \$1,000.
- The campus did not have written policies and procedures for change funds, including one-time-use change funds, as required by ICSUAM §6320, *Petty Cash Funds and Change Funds*.
- Campus petty cash policies and procedures did not address unannounced and regularly scheduled audits and reconciliations, including the frequency of regularly scheduled audits and reconciliations, as required by ICSUAM §6320, *Petty Cash Funds and Change Funds*.
- Campus credit card policies and procedures did not address procedures for manually processing credit or debit cards, including the required elements for manual requests, as required by ICSUAM §6340, *Debit/Credit Card Payment Policy*.
- Cashiering locations did not have a back-up policy in case of the absence of key employees, as required by ICSUAM §6330.00, *Incoming Cash and Checks*.

Completed and comprehensive policies and procedures for cash-handling, petty cash and change funds, and credit cards 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. Update its policies and procedures for cash-handling, petty cash, and credit cards to align with systemwide requirements and address the requirements noted above.
- b. Establish policies and procedures for change funds, including one-time change funds.
- c. Ensure that cashiering locations establish a back-up policy in case of the absence of key employees.
- d. Communicate the updated and new policies and procedures to key personnel involved in cash-handling, petty cash and change funds, and credit card processes.

MANAGEMENT RESPONSE

The campus will update its policies and procedures related to cash-handling, petty cash, and credit cards to align with systemwide requirements and establish policies and procedures for change funds. Also, the campus will work with cashiering locations to establish a backup policy in case of the absence of key employees. These policies and procedures will be updated and implemented by December 21, 2018. Campus departments involved in cash-handling, petty cash and change funds, and credit card process will also be trained by December 21, 2018.

2. CASH-HANDLING TRAINING

OBSERVATION

The campus did not have a process to ensure that all cash-handling employees received cash-handling training upon employment and periodically thereafter, as required by ICSUAM §6200.00, *Campus Administration of Systemwide Cash Management Policy*.

We found that the campus cash-handling employees were required to sign the cash-handling policies upon employment and quarterly thereafter. However, this practice was not consistently applied to all cashiering locations, and the campus could not provide evidence that all employees signed the cash-handling policies.

Effective administration of cash-handling training helps to ensure compliance with systemwide and campus policies, increases awareness of internal controls, and reduces the campus exposure to loss, theft, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus establish a process to provide and monitor training for all employees with cash-handling responsibilities, and maintain training documentation.

MANAGEMENT RESPONSE

The campus will establish a process to provide and monitor cash-handling training, improve the documentation process, and conduct training for all cash-handling employees by December 21, 2018.

3. CAMPUS AUTHORIZATION

OBSERVATION

Campus authorization of cashiering locations needed improvement.

We found that the list used by the cashier's office to document official cashiering locations, including locations with a safe, was incomplete. We also found that the authorization forms used to designate official cashiering locations and locations with petty cash, change funds, and credit card payments were not always completed and maintained.

Additionally, the campus used three different versions of the authorization form. These forms referenced outdated cash-handling policies and procedures and did not align with campus and systemwide cash-handling requirements.

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. It also decreases campus exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Evaluate the current process for identifying and authorizing cashiering locations, including those locations that have safes, so that the locations can be evaluated to determine whether they should be designated as official cashiering locations and subsequently monitored and update the list.
- b. Complete and maintain authorization forms designating official cashiering locations and locations with petty cash, change funds, and credit card payments.
- c. Update and standardize authorization forms to align with campus and systemwide requirements.

MANAGEMENT RESPONSE

The campus will update and standardize the cashiering location forms, formally authorize or reauthorize all approved locations, and improve the system for maintaining the authorized cashiering location list. Annually, a memo will be sent to the campus community regarding the procedure for authorization of cashiering locations. These processes will be completed by December 21, 2018.

4. CAMPUS OVERSIGHT

OBSERVATION

Campus oversight of cashiering locations needed improvement.

We reviewed cash-handling practices at four college departments: music and theater, university counselor training clinic, liberal studies, and nursing. We found that all of these departments needed improvements in the following areas:

- Segregation of duties when accepting, reconciling, and depositing cash or cash equivalents.
- Providing cash receipts, such as pre-numbered receipts for in-person payments; endorsing checks on the day they were received; reconciling cash receipts to sales; and allowing only those employees who are designated as cash handlers to accept payments.
- Securing and making timely deposits, including maintaining and updating a log of individuals who have access to safes; depositing cash receipts within five business days or when collections exceed \$500; transporting deposits with a police escort or armored car service when cash exceeds \$1,000 or when cash and cash equivalents accumulatively exceed \$5,000; and transporting deposits in a lockable bag as required by the campus policy.
- Securing payments, such as restricting accessibility to funds and fund records to only authorized employees, administratively controlling funds, and adequately safeguarding payments.

Appropriate oversight of cash-handling locations helps to ensure that employees follow established policies and procedures and reduces campus exposure to loss, theft, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus provide guidance and training to all key personnel involved in cash-handling activities at all cashiering locations. This training should emphasize, but not be limited to, segregation of duties, cash receipts processes, timely cash and check deposits, safeguarding of funds, and other areas identified above.

MANAGEMENT RESPONSE

The campus will provide guidance and training to all key personnel involved in cash-handling activities at all cashiering locations. This training will emphasize, but not be limited to, segregation of duties, cash receipts processes, timely cash and check deposits, safeguarding of funds, and other areas identified above. The guidance and training will be completed by December 21, 2018.

5. ATHLETICS TICKET SALES

OBSERVATION

Athletics did not always comply with campus and systemwide cash-handling requirements.

We reviewed cash-handling practices at the Athletics Ticketing Office (ATO), and we found that:

- Detailed written procedures did not exist in many areas, including advanced ticket sales, issuance of complimentary tickets, donated season tickets, opening and close-out of electronic payment systems or cash boxes, event-day ticket sales, ticket sales reconciliations, and ticket inventory counts.
- Segregation of duties was inadequate, as one employee received payments for ticket sales and prepared and made deposits. Also, other employees were able to receive payments, record cash receipts, and authorize refunds/voids.
- Tickets, including advanced, event-day, complimentary, and donated season tickets, were not tracked.
- Independent reconciliations of cash receipts to ticket sales and ticket inventory counts were not performed.
- Multiple student workers shared a cash box at athletic events, and opening and closing cash counts were not performed. Also, cash-handling training was not provided to student workers.
- The identification of the recipient was not always verified for complimentary tickets at athletics events, as required by the CSUB Department of Intercollegiate Athletics *Policy Manual*.
- Checks were not always endorsed on the day that they were received, as the ATO did not have an endorsement stamp.
- Unique user IDs and passwords were not used for the electronic payment system to localize transaction accountability to specific employees.
- More than four employees had access to the safe combination, which is prohibited by campus policy.
- Employees who were not designated as cash handlers were allowed to accept payments.
- Deposits were not transported in a lockable bag.

We also reviewed cash-handling practices at the Athletics Business Office (ABO), and we found that:

- Segregation of duties was inadequate, as one person received payments and prepared and made deposits.
- Pre-numbered receipts were not always provided for in-person payments.
- Receipts were not deposited within five business days or when collections exceeded \$500.
- Deposits were not transported in a lockable bag or with a police escort or armored car service when cash exceeded \$1,000 or when cash and cash equivalents accumulatively exceeded \$5,000.

Compliance with systemwide and campus cash-handling requirements helps reduce campus exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus work with the ATO and ABO to:

- a. Develop detailed written procedures addressing advanced ticket sales, issuance of complimentary tickets, donated season tickets, opening and close-out of electronic payment systems or cash boxes, event-day ticket sales, ticket sales reconciliations, ticket inventory counts, and other areas as necessary.
- b. Implement proper segregation of duties, or mitigating controls.
- c. Develop a process to track tickets, including advanced, event-day, complimentary, and donated season tickets, and to perform independent reconciliations of cash receipts to ticket sales and ticket inventory counts.
- d. Provide cash-handling training to event-day student workers.
- e. Localize accountability when multiple employees operate the same electronic system or cash box.
- f. Provide an endorsement stamp to the ATO, and determine which employees should have access to the safe and handle cash receipts.
- g. Provide guidance and training to all key personnel involved in cash-handling activities in the athletics department. This training should emphasize, but not be limited to, segregation of duties, cash receipts processes, reconciliation of cash receipts to source documentation, timely cash and check deposits, safeguarding of funds, and other areas identified above.

MANAGEMENT RESPONSE

In May 2018, the main cashiering office provided the ATO with an endorsement stamp. The campus will work with the ATO and ABO to address all items noted above by December 21, 2018.

6. ANTELOPE VALLEY CAMPUS**OBSERVATION**

Administration of cash deposits and petty cash needed improvement at CSUB-AV. CSUB-AV is a satellite campus located in Lancaster, approximately 90 miles from the main campus.

We found that:

- Deposits were taken to a nearby bank by one employee.
- Petty cash expenditures were not always allowable. Specifically, we reviewed five petty cash expenditures and found that four were not allowable under the campus *Petty Cash Voucher Form Procedures and Hospitality Policy*.

Securing deposits and providing appropriate oversight of petty cash funds reduces campus exposure to risk related to loss, theft, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus work with CSUB-AV to ensure that:

- a. CSUB-AV cash deposits are adequately secured when taken to the bank.
- b. CSUB-AV petty cash custodians are aware of unallowed petty cash expenditures as defined in the campus *Petty Cash Voucher Form Procedures and Hospitality Policy*.

MANAGEMENT RESPONSE

In June 2018, the CSUB-AV campus began transporting the deposit to the bank in a lockable bag. In May 2018, via email, the CSUB-AV petty cash custodians were provided with the *Petty Cash Voucher Form Procedures and Hospitality Policy*. Additional security measures are being reviewed and will be implemented by December 21, 2018.

7. SYSTEM ACCESS**OBSERVATION**

Access to the cashiering system needed improvement.

We found that the campus did not have:

- Written policies and procedures for provisioning approved changes to the system access, terminating access rights, and annually reviewing access to the cashiering system.
- Documentation to demonstrate that the campus performed an annual review of access to the cashiering system.

We also reviewed two locations with cashiering system access and found that two employees did not have signed cashiering system access forms.

Adequate control of user access to the cashiering system decreases campus exposure to loss from inappropriate acts.

RECOMMENDATION

We recommend that the campus:

- a. Develop written policies and procedures for provisioning approved changes, terminating access rights, and annually reviewing access to the cashiering system.
- b. Document the annual review of access to the cashiering system.
- c. Implement a process to ensure that authorization forms are completed for all employees who have access to the cashiering system and complete authorization forms for the two employees noted above.

MANAGEMENT RESPONSE

Written policies and procedures, documentation of the annual review, and implementation of a process to ensure that authorization forms are completed for all employees with access to the cashiering system will be completed by December 21, 2018. The two employees noted in the recommendation will complete an authorization form by July 31, 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 satellite campuses, 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 CSUB, 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 office of student financial services to accept cash or cash equivalents. CSUB-AV, located in Lancaster, offers undergraduate, graduate, and online degrees and accepts tuition and student fees.

SCOPE

We visited the CSUB campus from April 2, 2018, through May 4, 2018 and CSUB-AV on April 5, 2018. 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, 2016, through February 16, 2018.

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.
- The granting and removal of access privileges to the CashNet system.
- Background checks for employees with cash-handling responsibilities.
- Athletics department and Music and Theatre department ticket sales processes to ensure that ticket sales are properly accounted for and collected at the designated locations on campus.
- Processes at colleges on the main campus and CSUB-AV to ensure that fees and donations are properly accounted for and recorded to the appropriate 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*
- ICSUAM §8060, *Access Control*
- Government Code §13402 and §13403
- CSUB *Background Check Procedure*
- CSUB *Hospitality Policy*
- CSUB *Petty Cash Voucher Form Procedures*
- CSUB *Satellite Cashiering Cash Handling Guidelines*
- CSUB *Department of Intercollegiate Athletics Policy Manual*

AUDIT TEAM

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