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October 12, 2018

Dr. Lisa A. Rossbacher, President
Humboldt State University
1 Harpst Street
Arcata, CA 95521

Dear Dr. Rossbacher:

Subject: Audit Report 18-50, *Cashiering*, Humboldt State University

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



The California State University
Audit and Advisory Services

CASHIERING

Humboldt State University

Audit Report 18-50
September 7, 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 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 cashiering as of July 20, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that the campus had an appropriate framework for the administration and oversight of cashiering locations. We found that the campus recently updated cash-handling procedures to reflect changes in systemwide policy and provided training to authorized cash-handling employees. However, we identified opportunities for improvement in some areas, such as timeliness of deposits, segregation of cash-handling duties, police escorts, and petty cash fund policies and procedures.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

We reviewed cash-handling practices at seven locations, including the main cashier's office, athletics, the College of Extended Education and Global Engagement, housing, the marine laboratory, parking and commuter services, and the Student Recreation Center. We found that:

- Three locations did not always deposit receipts within five business days as required. For two of these locations, management had decided to deposit receipts on a bimonthly basis due to the low volume of activity and/or the seasonal nature of the operations; however, these management decisions had not been formally documented and approved.
- Two locations did not maintain documentation to explain cash shortages. Specifically, for five shortages totaling \$168, there was no documentation to show that the amounts were reviewed and investigated.
- One location did not use two employees to transport cash deposits over \$300 as required by campus procedures. During our review, the campus updated the cash-handling procedures to remove this requirement, as it was more restrictive than systemwide policy.
- One location that sold merchandise did not reconcile inventory records to sales.
- One location did not have adequate segregation of duties when accepting, reconciling, and depositing cash and cash equivalents or when verifying deposit counts. Specifically, we found that one individual was responsible for all of these incompatible duties and there were no mitigating controls in place, such as secondary reviews or verifications.
- One location allowed employees who were not designated as authorized cash handlers to accept cash and cash equivalents and use an unauthorized cash box for these funds.
- One unauthorized department collected cash payments for parking citations on behalf of the parking department; however, the individuals collecting these payments were not authorized as cash handlers to conduct these activities.
- One location did not use a police escort for coin laundry cash deposits that exceeded \$1,000. This location had recently updated its cash-collection process, which resulted in larger cash deposit amounts that required police escort.

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

RECOMMENDATION

We recommend that the campus:

- a. Provide guidance and training to all key personnel involved in cash-handling activities for the areas identified above. This training should emphasize timely deposits, documentation of cash shortages, reconciliation of inventory records to sales, segregation of duties, and other areas identified above.
- b. Determine whether the two locations identified above will make bimonthly deposits; if so, document the justification for this determination and obtain appropriate approvals.
- c. Develop a process for the two locations identified above to document and explain cash shortages.
- d. Establish a process for the location identified above to reconcile inventory records to merchandise sales.
- e. Implement proper segregation of duties, or mitigating controls, for the location identified above.
- f. Evaluate the unauthorized cash-handling employees and cash box for the location identified above and determine whether these individuals should be authorized. If so, provide and document cash-handling training as needed.
- g. Evaluate the unauthorized cash-handling department collecting parking citation fees identified above and determine whether this department should be an authorized cash-handling location. If so, ensure that all campus requirements, such as training and authorization, are completed.
- h. Evaluate the current process for the coin laundry deposits identified above, and require police escort when needed.

MANAGEMENT RESPONSE

We concur.

- a. The campus will provide guidance and training to all key personnel involved in cash-handling activities for the areas identified above. This training will emphasize timely deposits, documentation of cash shortages, reconciliation of inventory records to sales, segregation of duties, and other areas identified above. This will be completed by January 1, 2019.
- b. The campus will determine whether the two locations identified above will make bimonthly deposits; if so, the campus will document the justification for this determination and obtain appropriate approvals. This will be completed by January 1, 2019.

- c. The campus will develop a process for the two cashiering locations identified above to document and explain cash shortages. This will be completed by January 1, 2019.
- d. The campus will establish a process for the location identified above to reconcile inventory records to merchandise sales. This will be completed by January 1, 2019.
- e. The campus will implement proper segregation of duties, or mitigating controls, for the location identified above. This will be completed by January 1, 2019.
- f. The campus will evaluate the unauthorized cash-handling employees and cash box for the location identified above and determine whether these individuals should be authorized. If so, the campus will provide and document cash-handling training as needed. This will be completed by January 1, 2019.
- g. The University Police Department has discontinued the practice of collecting parking citation fees. All payments for parking citations are required to be made at the main cashier's office or online. Corrective action has been completed.
- h. The campus has updated the coin laundry deposit procedures and requires a police escort whenever cash is in excess of \$1,000. The housing office will pick up coins more frequently at the various locations to avoid excess cash. Corrective action has been completed.

2. POLICIES AND PROCEDURES

OBSERVATION

Campus and University Center (UC) cash policies and procedures needed improvement.

We found that:

- The campus *Petty Cash and Change Fund Procedures* needed to be updated to reflect current practices. Specifically, the procedures indicated that petty cash funds could not be used to pay for travel and meals. However, we found that in practice, the campus allowed these expenses to be paid via petty cash in accordance with systemwide requirements. In our review, we found several petty cash disbursements associated with meals and travel. The campus updated the *Petty Cash and Change Fund Procedures* during our review to reflect current practices.
- The UC *Accounting Procedures* did not include procedures for processing canceled transactions for the Student Recreation Center, and there was no current process in place for management to review these transactions.

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

RECOMMENDATION

We recommend that the campus and the UC:

- a. Establish policies and procedures to process and monitor canceled transactions.
- b. Communicate these updated policies and procedures to key personnel.

MANAGEMENT RESPONSE

We concur. The UC has implemented new policies and procedures to process and monitor canceled translations. The new policies and procedures have been communicated to key personnel. Corrective action has been completed.

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 and departmental cashiering locations comprise all areas besides the main cashier that collect cash and cash equivalents. Satellite cashiering locations typically perform cashiering as a primary function and deposit funds with the main cashier or directly to an approved depository bank account, while departmental cashiering locations perform minimal cashiering activities and deposit funds with the main cashier. Examples of these types of cashiering locations may include, but are not limited to, 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 Humboldt State University (HSU), the controller of financial services, with assistance from the student financial services manager, is responsible for the oversight of cash-handling locations and cash-handling policies and procedures. All campus departments and auxiliary organizations, with the exception of the UC, are subject to campus cash-handling policies and procedures and must obtain approval from the office of student financial services to accept cash or cash equivalents. We reviewed seven cash-handling locations, including athletics, parking and commuter services, housing, the College of Extended Education and Global Engagement, the marine laboratory, the main cashier's office, and the Student Recreation Center, which is overseen by the UC. These locations collected funds for various activities, including game ticket sales, parking meters, coin laundries, program fees, tours and merchandise, tuition, and gym memberships.

SCOPE

We visited the HSU campus from June 4, 2018, through July 20, 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 June 1, 2016, through July 20, 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 cashiering system.

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 included the main cashier, satellite, and departmental cashiering locations.

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:

- Government Code §13402 and §13403
- ICSUAM §3000, *General Accounting*
- ICSUAM §6000, *Financing, Treasury, and Risk Management*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *HSU Cash Handling Procedures*
- *HSU Cash Collection Point Procedure Manual*
- *HSU Petty Cash and Change Fund Procedures*
- *UC Accounting Procedures*

AUDIT TEAM

Audit Manager: Cindy Merida
Senior Auditor: Angie Guillen