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November 2, 2018

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Blvd.
Long Beach, CA 90840

Dear Dr. Conoley:

Subject: Audit Report 18-52, *Cashiering*, California State University, Long Beach

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 the 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

**California State University,
Long Beach**

Audit Report 18-52
October 5, 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 August 24, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that California State University, Long Beach (CSULB) had an appropriate framework for the administration of cash-handling locations. However, in our review, we identified opportunities for improvement in areas such as the processing and retention of credit card payment information, creation of change funds, performance of background checks, administration and oversight of unauthorized cash-handling locations, and campus cashiering policies.

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

We reviewed cash-handling practices at five authorized locations, including the Carpenter Performing Arts Center, College of Continuing and Professional Education, community clinic for counseling and education services, main cashier's office, and physical therapy department. We found that:

- One location accepted full credit card account information via fax.
- One location retained full credit card information for re-occurring client payments, which was prohibited by campus policy.
- One location did not change the safe combination when an employee separated or at least semi-annually as required per campus policy; additionally, this location did not maintain documentation of the date when the combination was last changed.
- Two of the three Petty Cash/Change Fund Custodian Authorization Request forms we reviewed had insufficient evidence to substantiate that the forms were approved by the appropriate accounting administrator, as the forms were not signed/approved by the accounting department.
- Two of the 10 cash-handling employees we reviewed had not undergone a background check, as required.

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. Communicate cash-handling requirements to key 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, credit card payments and other areas identified above.
- b. Require the approval/signature of the appropriate accounting administrator on all Petty Cash/Change Fund Custodian Authorization Request forms.
- c. Remind key personnel to perform background checks as required by systemwide policy.

MANAGEMENT RESPONSE

We concur.

- a. We will communicate cash-handling requirements to key personnel involved in cash-handling activities. We will 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 will emphasize, but not be limited to, credit card payments and other areas identified above. This will be completed by January 21, 2019.
- b. We will require the approval/signature of the appropriate accounting administrator on all Petty Cash/Change Fund Custodian Authorization Request forms. This will be completed by December 21, 2018.
- c. We will remind key personnel to perform background checks as required by systemwide policy. This will be completed by December 21, 2018.

2. ADMINISTRATION AND OVERSIGHT

OBSERVATION

Campus administration and oversight of cash-handling locations needed improvement.

In our review, we identified 13 locations that collected cash and/or cash equivalents that had not been approved or authorized to engage in these activities by campus administrators, as required by systemwide policy. Four of these 13 locations had created either a change fund or petty cash fund that was not properly authorized and, therefore, not periodically audited. We reviewed cash-handling practices at two of these unauthorized cash-handling locations and found that:

- Deposits were not always timely.
- Deposits were not transported with a police escort when required.
- Checks were not endorsed on the day they were received.
- One location did not adequately safeguard payments.
- One location had inadequate segregation of duties when accepting, reconciling, and depositing cash and cash equivalents. Specifically, we found that one individual was responsible for all of these incompatible duties and there were no mitigating controls in place, such as a secondary reviews or verifications.

Additionally, we found that three authorized cash-handling locations created change funds that were not properly approved and, therefore, periodically audited as required by the campus and systemwide policy.

Appropriate administration and oversight 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 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:

- a. Evaluate the 13 cash-handling locations identified above to determine whether they should be authorized as cash-handling locations, and if so, obtain proper approvals as required and provide training to key cash-handling personnel.
- b. Remind key personnel that only authorized cash-handling locations can accept and process cash and cash equivalents.
- c. Determine whether the three authorized cash-handling locations noted above should have a change fund, and if so, ensure that the change fund is properly created and audited in accordance with campus requirements.

MANAGEMENT RESPONSE

We concur.

- a. We will evaluate the 13 cash-handling locations identified above to determine whether they should be authorized as cash-handling locations, and if so, obtain proper approvals as required and provide training to key cash-handling personnel.
- b. We will remind all departments of the *Campus Cash Handling* policy.
- c. We will determine whether the three authorized cash-handling locations noted above should have a change fund, and if so, ensure that the change fund is properly created and audited in accordance with campus requirements.

This will be completed by January 21, 2019.

3. POLICIES AND PROCEDURES

OBSERVATION

Campus policies and procedures for cash-handling and petty cash and change funds needed to be updated to align with systemwide requirements and reflect current practices.

Specifically, we found that:

- The campus *Cash-Handling Policy* did not include procedures for designating/approving cash-handling locations, including the campus administrator responsible for authorization,

as required by ICSUAM §6200.00, *Campus Administration of Systemwide Cash Management Policy*. Additionally, we found that the *Cash-Handling Policy* did not clearly indicate that only approved locations were authorized to administer cash and cash equivalents in accordance with ICSUAM §6330.00, *Cash and Checks Handling*.

- The periodic cash count and verification frequency schedule in the campus *Policy for Petty Cash and Change Funds* did not align with systemwide requirements in ICSUAM §6320.00, *Petty Cash Funds and Change Funds*. As a result, we found that although the campus performed petty cash and change fund counts and verifications in accordance with the established schedule, the performance of these cash counts did not align with minimum systemwide cash count frequencies.
- The campus *Petty Cash and Change Fund Authorization Form and Petty Cash Procedures* needed to be updated to align with current campus practices. Specifically, these procedures indicated that petty cash and change funds were authorized by the general accounting manager; however, in practice, these funds were approved by the university controller or manager of legal accounting.

Complete and comprehensive policies and procedures for cash-handling and petty cash and change funds 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 and petty cash and change funds to align with campus and systemwide requirements as noted above.
- b. Communicate the updated policies and procedures to key personnel involved in cash-handling and petty cash and change funds.

MANAGEMENT RESPONSE

We concur.

- a. We will update our cash-handling and petty cash and change fund policies to align with the specific campus and systemwide requirements for a satellite cashiering or cash-handling department operations as noted above, as well as update our form for authorizing these locations.
- b. We will communicate all updates to our policies and procedures to all key personnel involved in cash handling and petty cash and change funds.

This will be completed by December 21, 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 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 CSULB, cashiering transactions performed by university offices must be processed through the main cashier's office. University departments and auxiliaries that handle cash and cash equivalents, with the exception of the Forty-Niner Shops and Associated Students Inc., 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. The department of student financial services maintains a listing of approved cash-handling locations that are designated as main or satellite cashiers.

SCOPE

We visited the CSULB campus from July 23, 2018, through August 24, 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 August 24, 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 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*
- Government Code §13402 and §13403
- CSULB *Cash-Handling Policy*

- CSULB *Policy for Accepting Payment (Credit) Card and eCommerce Payments*
- CSULB *Policy for Petty Cash and Change Fund*
- CSULB *Petty Cash and Change Fund Authorization Form and Petty Cash Procedures*

AUDIT TEAM

Audit Manager: Cindy Merida
Internal Auditor: Leslie Rodriguez