

Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

May 7, 2019

Dr. Robert S. Nelsen, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Nelsen:

Subject: Audit Report 19-47, *Cashiering*, California State University, Sacramento

We have completed an audit of *Cashiering* as part of our 2019 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

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus



The California State University
Audit and Advisory Services

CASHIERING

**California State University,
Sacramento**

Audit Report 19-47
April 10, 2019

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to the cashiering function and to ensure compliance with relevant federal and state regulations; Trustee policy; Office of the Chancellor (CO) 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 March 1, 2019, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, we found that California State University, Sacramento (Sacramento State) needed to improve its administration of cashiering locations in nearly all of the significant areas we reviewed. We found that the campus did not have current and comprehensive cash-handling policies and procedures that aligned with systemwide requirements and included an annual documented review of compliance with campus operating procedures for cash management activities. Additionally, the campus did not have adequate controls over the main cashiering system that would help decrease campus exposure to loss from inappropriate acts. We also found that the campus did not have an adequate structure in place to track and authorize official cashiering locations, and although the campus had some procedures that addressed training of cash-handling employees, it did not have a process to ensure that initial and refresher training was performed and documented. Further, the locations we reviewed 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 and credit cards did not address all Integrated California State University Administrative Manual (ICSUAM) requirements and needed improvement.

We found that campus cash-handling policies and procedures did not address certain requirements of ICSUAM §6200.00, *Campus Administration of Systemwide Cash Management Policy*, ICSUAM §6330.00, *Incoming Cash and Checks*, and ICSUAM §6340, *Debit/Credit Card Payment Policy*. Specifically, they did not include:

- Procedures to perform an annual documented review of compliance with campus operating procedures for cash management activities.
- The requirement to transport deposits with a campus police escort or armored car when cash exceeds \$1,000 or cash and cash equivalents accumulatively exceed \$5,000.
- Procedures for verifying, processing, and documenting departmental deposits conjointly.
- Procedures for documenting and investigating departmental overages and shortages.
- Procedures for processing and approving voided transactions and for manually processing credit or debit cards, including the required elements for manual requests.

We also found that:

- Campus cash-handling and petty cash policies and procedures were outdated, as they included superseded ICSUAM references and previous position titles and location names.
- The University Foundation did not have written cash-handling policies, including policies addressing funds collected by campus departments.
- Campus policies did not address procedures for credit or debit card acceptance for campus events.

Current and comprehensive policies and procedures for cash handling 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 debit and credit cards to align with systemwide requirements and address the requirements noted above.
- b. Establish policies and procedures for cash receipting at the University Foundation.
- c. Establish policies and procedures for credit or debit card acceptance for campus events.
- d. Communicate updated and new policies and procedures to key personnel involved in cash-handling, petty cash, and debit and credit card processes.

MANAGEMENT RESPONSE

We concur.

- a. The campus will update its policies and procedures for cash handling, petty cash, and debit and credit cards to align with systemwide requirements and address the requirements noted above.
- b. The campus will establish policies and procedures for cash receipting at the University Foundation.
- c. The campus will establish policies and procedures for credit or debit card acceptance for campus events.
- d. The campus will communicate updated and new policies and procedures to key personnel involved in cash-handling, petty cash, and debit and credit card processes.

Estimated completion date: October 2019

2. SYSTEM ACCESS

OBSERVATION

Administration of the bursar's office cashiering system and the College of Continuing Education (CCE) event and non-credit registration systems needed improvement.

In our review, we found that one individual in the bursar's office who handled cash and cash equivalents could also authorize system access and make other changes to the bursar's office cashiering system (CashNet).

We also found that:

- Certain CashNet user accounts were not assigned to an individual. Rather, cashiers used generic accounts to process departmental cash receipts and to void transactions.
- Certain individuals who were either terminated or no longer needed access to CashNet still had active accounts.
- Complete annual reviews of user-access listings for CashNet and CCE's event and non-credit registration systems were not performed.
- Written policies and procedures had not been developed or documented for the overall administration of CashNet or for CCE's systems. Such procedures should include, but not be limited to, the definition and assignment of user access-roles, permissions, and provisioning and deprovisioning of system access.

Adequate control of user access to the cashiering system and CCE event and non-credit systems decreases campus exposure to loss from inappropriate acts and better protects data.

RECOMMENDATION

We recommend that the campus:

- a. Review and adequately segregate duties and responsibilities at the bursar's office related to the administration and use of the cashiering system.
- b. Deactivate generic accounts and use individual accounts to process transactions.
- c. Deactivate accounts for individuals who were terminated or otherwise no longer need access.
- d. Perform and document the annual review of access to the bursar's office cashiering system and the CCE event and non-credit systems.
- e. Develop and document policies and procedures for administration of the CashNet system and CCE's systems.

MANAGEMENT RESPONSE

We concur.

- a. The campus will review and adequately segregate duties and responsibilities at the bursar's office related to the administration and use of the cashiering system. Estimated completion date is October 2019.
- b. The campus has deactivated generic accounts and established individual accounts to process transactions moving forward.

- c. The campus has deactivated accounts for individuals who were terminated or otherwise no longer need access.
- d. The campus will perform and document the annual review of access to the bursar’s office cashiering system and the CCE event and non-credit systems. Estimated completion date is October 2019.
- e. The campus will develop and document policies and procedures for administration of the CashNet system and CCE’s systems. Estimated completion date is October 2019.

3. 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 the bursar’s office and two authorized locations, including the Hornet Club and the College of Continuing Education (CCE). We found that:

- All three locations did not maintain a listing showing authorized employees who had access to safe combinations and/or keys, including his/her date assigned.
- Two locations did not follow California State University (CSU) requirements for transporting cash that exceeded \$1,000 or cash and cash equivalents that accumulatively exceeded \$5,000 with a campus police escort or armored car.
- One location did not provide pre-numbered receipts for in-person payments in sequential order, did not log mailed payments, did not perform a documented reconciliation from receipts to the amounts being deposited, and did not deposit receipts to the main cashier within the time frame specified in the campus policy. Also, this location did not follow CSU requirements for transporting cash with a campus police escort or armored car and did not adequately secure funds and change safe combinations after turnover in personnel who had safe access.
- One location did not update the Department Credit Card Authorization Form when there was a change in sponsor as required by campus policy and did not appropriately document the approval and the reason for voided transactions.

We also found that the bursar’s office did not have a safe that met the systemwide physical security standard requirement required in ICSUAM §6330.00, *Incoming Cash and Checks*.

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 at all authorized locations. This training should emphasize all the areas identified above.
- b. Evaluate the current safe in the bursar’s office and determine whether a new safe that meets the systemwide physical security standard requirement is needed. Document the evaluation.
- c. Document the approval and reason for voided transactions at the location noted above.

MANAGEMENT RESPONSE

We concur.

- a. The campus will provide guidance and training to all key personnel involved in cash-handling activities at all authorized locations. This training will emphasize all the areas identified above. Estimated completion date is October 2019.
- b. The campus has completed a documented evaluation to determine whether the current safe in the bursar’s office meets the systemwide physical security standard requirement.
- c. The campus will document the approval and reason for voided transactions at the location noted above. Estimated completion date is October 2019.

4. ADMINISTRATION AND OVERSIGHT

OBSERVATION

Campus administration and oversight of cashiering locations needed improvement.

We found that the list used by the bursar’s office to document official cashiering locations was incomplete. We identified 13 locations that collected cash or cash equivalents that were not on the bursar’s list and found that the authorization forms used to designate official cashiering locations were not maintained.

We reviewed cash-handling practices at four of these unauthorized cash-handling locations and found that:

- None of the locations provided pre-numbered receipts for in-person payments, logged in mailed payments, or performed and documented a reconciliation from receipts to the amounts being deposited. We also found that the locations did not have adequate segregation of duties when accepting, reconciling, and depositing cash or cash equivalents or when verifying deposit counts.

- Two locations did not obtain proper approval for fees that were charged at the location.
- Two locations did not deposit receipts to the main cashier within specified time frames in the campus policy.
- One location did not follow CSU requirements for transporting cash with a campus police escort or armored car.

We also found various issues in three locations that included, but were not limited to, not restrictively endorsing checks immediately upon receipt, accepting cash in a drop box without adequate security controls in place, and depositing funds in incorrect accounts.

Appropriate authorization and monitoring 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. Determine whether the 13 cashiering locations that are not on the bursar's office list should be added to the list, and if so, obtain proper approvals and provide appropriate guidance and training to all key personnel involved in cash-handling activities at approved locations.
- b. Evaluate the current process for identifying and authorizing cashiering locations so that the locations can be evaluated to determine whether they should be designated as official cashiering locations and subsequently monitored; and document the evaluation and update the bursar's office list of official cashiering locations.
- c. Maintain authorization forms designating official cashiering locations.

MANAGEMENT RESPONSE

We concur.

- a. The campus will determine whether the 13 cashiering locations that are not on the bursar's office list should be added to the list, and if so, obtain proper approvals and provide appropriate guidance and training to all key personnel involved in cash-handling activities at approved locations.
- b. The campus will evaluate the current process for identifying and authorizing cashiering locations so that the locations can be evaluated to determine whether they should be designated as official cashiering locations and subsequently monitored; document the evaluation; and update the bursar's office list of official cashiering locations.

c. The campus will maintain authorization forms designating official cashiering locations.

Estimated completion date: October 2019

5. CASH-HANDLING TRAINING

OBSERVATION

Campus training of cash-handling employees needed improvement.

We found that the campus provided refresher training in instances where there was a change in personnel or change in procedure. However, 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*. Also, documentation showing that all cash-handling employees completed initial and refresher training was not maintained.

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

We concur. The campus will establish a process to provide and monitor training for all employees with cash-handling responsibilities and maintain training documentation.

Estimated completion date: October 2019

6. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Oversight and administration of petty cash and change funds needed improvement.

We reviewed petty cash and change funds and found that:

- Bursar's office employees issued petty cash expenditure refunds from their change funds and subsequently had their change funds replenished with petty cash funds.

- There was an unauthorized petty cash fund in one of the departments we reviewed. Independent counts of the fund were not performed, expenditures were not always in compliance with campus policy, and receipts were not always maintained.
- None of the four petty cash funds and nine change funds we reviewed had evidence of independent counts being performed as required by campus policy and procedures.
- One location had a change fund that had not been used, but the fund had not been returned to the bursar's office.

Additionally, campus policy stated that auditing services would perform a periodic operational audit of the petty cash funds that would identify compliance with internal controls/regulations and verification of the monthly, quarterly, and annual audits. However, there was no evidence that these periodic operational audits were performed.

Appropriate oversight and administration of petty cash and change funds can ensure that proper internal controls are in place to reduce the campus exposure to risk related to loss, theft, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Implement a process in the bursar's office to ensure that cashier's change funds are not used to reimburse petty cash expenditures.
- b. Determine whether the location with the unauthorized petty cash fund should be added to the campus list of change funds, and if so, obtain and document proper authorization.
- c. Perform and document independent petty cash and change fund counts with the frequency noted in campus policy and procedures.
- d. Determine whether the unused change fund is still needed or should be closed and returned to the bursar's office, and if so, complete the proper documentation.
- e. Determine whether auditing services should be performing a periodic operational audit of petty cash funds and update the campus policy for petty cash funds as needed.

MANAGEMENT RESPONSE

We concur.

- a. The campus will implement a process in the bursar's office to ensure that cashier's change funds are not used to reimburse petty cash expenditures. Estimated completion date is October 2019.
- b. The campus will determine whether the location with the unauthorized petty cash fund should be added to the campus list of petty cash funds, and if so, obtain and document

- proper authorization. The fund has been removed from the location and is being held by the bursar's office in the meantime. Estimated completion date is July 2019.
- c. The campus will perform and document independent petty cash and change fund counts with the frequency noted in campus policy and procedures. Estimated completion date is October 2019.
 - d. The campus has determined that the unused change fund is no longer needed. It has been closed and returned to the bursar's office.
 - e. The campus will determine whether auditing services should be performing a periodic operational audit of petty cash funds and update the campus policy for petty cash funds as needed. Estimated completion date is October 2019.

7. OFF-CAMPUS BANK ACCOUNTS

OBSERVATION

Off-campus bank accounts for some honor societies were not approved.

We found that two honor societies deposited membership dues in off-campus bank accounts. However, approval to use these off-campus campus bank accounts, rather than the campus club account for the dues, was not obtained.

Diligent oversight and enforcement of campus policies over cash ensures the effectiveness of established controls and reduces campus exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus review the two honor societies identified above and determine the appropriate course of action for the deposit of membership dues.

MANAGEMENT RESPONSE

We concur. The campus will review the two honor societies identified above and determine the appropriate course of action for the deposit of membership dues.

Estimated completion date: October 2019

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 Sacramento State, 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 bursar's office to accept cash or cash equivalents. We reviewed seven cash-handling locations, including the bursar's office, CCE, College of Business Administration, department of theatre and dance, geology department, Hornet Club, and new student orientation department. These locations collected funds for various activities, including CCE course fees, costume rentals, donations, events, orientation fees, and tuition.

SCOPE

We visited the Sacramento State campus from January 28, 2019, through March 1, 2019. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from January 1, 2017, through March 1, 2019.

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 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.
- Access controls for the cashiering systems.

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 operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the cashiering function. Our review was limited to gaining reasonable assurance that essential elements of the cashiering function were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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 §8000, *Information Security*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- Government Code §13402 and §13403
- *Sacramento State Cash Management Policy*
- *Sacramento State Procedures for Cash Management Policy*
- *Sacramento State Procedures for Establishment of Petty Cash Purchase Funds*
- *Sacramento State Student Organization Handbook*

AUDIT TEAM

Assistant Vice Chancellor: Michelle Schlack
Senior Auditor: Samer Harb