**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: August 27, 2018

To: Asirra Suguitan, Director

 Student Business Services/Cashiers

Subject: Audit of Campus-wide Cash Handling Operations

Ref: R2018-06

We have completed our audit of Campus-wide Cash Handling Operations in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2018-06 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore

 Director

cc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2018-06

AUDIT OF CAMPUS-WIDE CASH HANDLING OPERATIONS

August 2018

Approved by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Niloufar Alian

Principal Auditor

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Rodolfo Jeturian

 Assistant Director

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Gregory Moore

Director

**UC RIVERSIDE**

**AUDIT OF CAMPUS-WIDE CASH HANDLING OPERATIONS**

**INTERNAL AUDIT REPORT R2018-06**

**August 2018**

1. **MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that the system of internal controls over the Campus-wide Cash Handling Operations, with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with applicable University policies and procedures.

However, we observed some areas noted below that need enhancement to strengthen internal controls and/or effect compliance with University Policy:

* Accounting Services (Observation III.A)
* School of Medicine (SOM) Business Operations (Observation III.B)
* Police (Observation III.C)
* Athletics (Observation III.D)
* ArtsBlock (Observation III.E)
* Psychology (Observation III.F)

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

1. **INTRODUCTION**
	1. **PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of selected Cash Handling Operations across Campus to evaluate its system of internal controls and compliance with applicable University policies and procedures.

Included in the review were the consideration and evaluation of significant processes and practices, specifically addressing the following components:

1. Management philosophy, operating style, and risk assessment practices;
2. Organizational structure, and delegations of authority and responsibility;
3. Positions of accountability for financial and programmatic results;
4. Process strengths (best practices), weaknesses, and mitigating or compensating controls; and
5. Information and communications systems, applications, databases, and electronic interfaces.
	1. **BACKGROUND**

The Main Cashier's Office (MCO) serves the campus needs for cashiering. When sending customers to the MCO to remit payment is not practical, then consideration is given to departments to operate a sub-cashiering station. However, departmental sub-cashiering stations add risk to the department, as collections may be misplaced, misused or missed. Proper controls must be in place to minimize such risks. Failure to adhere to established cashiering policies and procedures may result in removal of authority to operate a departmental sub-cashiering station.

The MCO and departmental sub-cashiering stations should comply with the UC Business and Finance Bulletin Policy for Cash and Cash Equivalents (BUS-49).

* 1. **SCOPE**

We reviewed supporting documentation for transactions that occurred during Fiscal Year (FY) 2017-2018 except for petty cash funds transactions (from FY 2015-2016 through FY 2017-2018) since most petty cash funds were loaned to the departments prior to FY 2017-2018.

The review included evaluating the adequacy and effectiveness of internal controls over cash receipts including cash/checks/credit cards and change/petty cash funds. The review was principally limited to the following areas:

1. **Preliminary Assessment –** Our preliminary assessment included an overview of the following areas:
* General Overview and Risk Assessment
* General Controls Environment
* Business Processes
* Information and Communication Systems
1. **Procedures:**

**Cash Handling**

1. We reviewed BUS-49 as well as any internal cash handling procedures.
2. We used data analytics to determine the highest amounts of cash receipts per school/department during FY 2017-2018.
3. We interviewed MCO personnel to obtain an understanding of the cash handling operations as well as issues and concerns.
4. We selected the following departments for testing:
* MCO
* Accounting Services
* SOM Business Operations
* Police
* Athletics
* DiningServices
* ArtsBlock
* Psychology
* Botanic Garden
1. We performed observation procedures and selected a judgmental sample of cash collection transactions for nine departments/divisions to determine compliance with BUS-49 provisions specifically if:
2. Segregation of duties are adequate.
3. Checks are stamped and logged in.
4. Cash and checks are adequately safeguarded.
5. Sealed bags are used.
6. Surprise cash counts are periodically conducted.
7. Collections are accurately recorded.
8. Collections are appropriately and timely deposited.
9. Deposits are reconciled to the General Ledger (GL).
10. The GL reconciles with the bank statements.
11. Controls over Petty Cash are adequate.
12. We conducted limited testing of controls over credit cards.
13. We conducted a campus-wide petty cash analysis to determine if disbursements were in accordance with the Petty Cash Disbursement Policy (C-173-61). We also reviewed internal controls to ensure surprise counts were conducted in accordance with Policy C-173-61. We selected the department with the highest amount of Petty Cash Fund balance for further testing. Our Petty Cash review scope was from FY 2015-2016 to FY 2017-2018.
	1. **INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations

Substantive audit procedures were performed from January to March, 2018. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**OBSERVATIONS, COMMENTS, AND CORRECTIVE ACTION PLANS**

**A.** **Accounting Services**

The UC Petty Cash Disbursement Policy C-173-61 states, “A surprise cash count of each petty cash fund, including a review of the documents on hand, must be performed annually, or more frequently if the accounting officer or the head of another campus department determines that this is necessary.” In addition, the Policy C-173-61 states, “A petty cash verification letter should be sent to departments when the accounting office is unable to perform a surprise cash count.”

OBSERVATIONS

Based on a list provided by MCO, 37 campus departments and auxiliary service enterprises presently maintain Petty Cash/Change funds totaling $128,831. Based on our review, we determined that Accounting Services sent petty cash verification letters to the departments maintaining Petty Cash Funds (PCF) to request to submit their annual Petty Cash Certifications. However, based on our conversation with Accounting, the annual surprise cash counts of petty cash funds in various departments were not performed by Accounting in accordance with the Policy C173-61 in FY 2017-2018.

**Management Response (Corrective Action Plans)**

Accounting Office Management agrees a small number of physical audits should be conducted each year; however, the total dollar amount of petty cash funds outside of the MCO’s or units that the MCO reviews, the risk seems to be small and mitigated by the department FAO’s attestation.

**Expected Implementation Date**

The action plan is not required since Accounting Services Department accepted the risk.

**B. School of Medicine Business Operations**

Based on the provisions stated in Policy BUS-49, “Bank deposits must be made on a timely basis and supported with appropriate documentation. Current day collections of Main Cashiering Stations must be deposited the same day, or at a minimum on the following business day. Collections at Sub-cashiering Stations and Departments shall be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed $500.”

OBSERVATIONS

We selected a judgmental sample of ten cash collection transactions during FY 2017-2018 and observed that all ten cash collection transactions totaling $1,354,374 were not deposited timely. It took SOM an average of 27 days to forward these collections to the MCO for deposit.

**Management Response (Corrective Action Plans)**

Based on our discussion with SOM, the check dates do not always reflect the received dates. However, in order to verify the timeliness of future deposits, they will order a “received” date stamp that will be stamped on the checks as they are received/logged. In addition, the department upload copies of the envelopes showing the postmark.

SOM stated that “We did have an issue with a new Veterans Affairs (VA) contract last year. The checks that were being sent were significantly lower than the invoiced amounts and a couple of these checks were held in our locked safe while a decision to accept or return the payment(s) was made by our Director of Finance and contracts department. This issue has since been resolved.”

**Expected Implementation Date**

 Implemented.

**C. Police**

Based on the provisions stated in Policy BUS-49, “Mail Distributor - opens mail and endorses checks.” In addition, Policy BUS-49 states that “Ledger Reviewer reconciles departmental accounting records to accounting office records.” The policy also states that “An unannounced cash count and verification of change and petty cash funds for which cashiers and cash handling employees are accountable shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian.”

OBSERVATIONS

We selected a judgmental sample of ten cash collection transactions during FY 2017-2018 and observed the following:

* Checks were not stamped and/or logged timely upon receipt.
* Monthly reconciliation between the GL and supporting documentation were not performed consistently.
* Surprise cash counts were not conducted periodically.
* Two of ten deposits were not done timely.

**Management Response (Corrective Action Plans)**

* The Police Department ordered a date stamp and started stamping 2/1/2018. Also, they started a check log on 7/2/2018. In addition, the department upload copies of the envelopes showing the postmark.
* The reconciliation process will be done every month. Each month, the Police Department will share the log via SharePoint and/or granting the shared services inquiry access the eCCR and related backup.
* Effective 1/30/2018, the Police Department started conducting quarterly surprise cash counts.
* Timely deposits have been done since January 31, 2018.

**Expected Implementation Date**

Implemented.

**D. Athletics**

Based on the provisions stated in Policy BUS-49, “Bank deposits must be made on a timely basis and supported with appropriate documentation. Current day collections of Main Cashiering Stations must be deposited the same day, or at a minimum on the following business day. Collections at Sub-cashiering Stations and Departments shall be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed $500.” In addition, Policy BUS-49 states that “Ledger Reviewer reconciles departmental accounting records to accounting office records.” This policy also states that “An unannounced cash count and verification of change and petty cash funds for which cashiers and cash handling employees are accountable shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian.”

Furthermore, as a best practice, it is important to have duel access to the safe.

OBSERVATIONS

We selected a judgmental sample of ten cash collection transactions during FY 2017-2018 and observed the following:

* Reconciliation procedures between the GL and actual supporting documentation were not conducted for all ten collections to ensure that all cash collections were recorded appropriately.
* Surprise cash counts by department were not conducted periodically.
* Seven of ten collections were not deposited timely.
* Only one individual had access to the safe

**Management Response (Corrective Action Plans)**

* In April 2018, the Senior Director of Business Operations integrated a review of all cash deposits into the monthly ledger reconciliation process. The Cash Collection Reports (CCR) and supporting documentation are reconciled against the transaction posted to the ledger. If any discrepancies are found, the Senior Director of Business Operations or Chief Financial and Administrative Officer (CFAO) in the absence of the Senior Director of Business Operations, reviews on a monthly basis.
* Effective March 2, 2018, Athletics began to conduct surprise cash counts of the cash funds inside the Athletics Ticket Office safety box. Surprise Cash Counts will be completed by the Senior Director of Business Operations or CFAO in the absence of the Senior Director of Business Operations review on a monthly basis.
* Athletics took the initiative to create a step by step instructional guide for use by authorized Athletics staff members as a reference to complete a deposit in the absence of the department’s primary preparer.
* Effective March 20, 2018, dual access to the safes was implemented.

**Expected Implementation Date**

Implemented.

* 1. **ArtsBlock**

Based on the provisions stated in Policy BUS-49, “Bank deposits must be made on a timely basis and supported with appropriate documentation. Current day collections of Main Cashiering Stations must be deposited the same day, or at a minimum on the following business day. Collections at Sub-cashiering Stations and Departments shall be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed $500.”

Policy BUS-49 also states that, “The Operating Rules of the National Automated Clearinghouse Association (NACHA) govern ACH transactions. ACH transactions are payment instructions to either debit or credit a deposit account at a participating depository financial institution. An ACH transaction is a batch-processed, value-dated electronic funds transfer between originating (ODFI) and receiving (RDFI) depository financial institutions. ACH payments can either be credits, originated by the accountholder sending funds (payer), or debits, originated by the accountholder receiving funds (payee). ACH transactions are sent in batches to ACH operators for processing one or two business days before settlement dates.” In addition, BUS-49 states, “An unannounced cash count and verification of change and petty cash funds for which cashiers and cash handling employees are accountable shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian.”

OBSERVATIONS

We selected a judgmental sample of ten cash collection transactions during FY 2017-2018 and observed the following:

* Six of ten cash collections were not deposited timely.
* There were shortages and overages when credit cards were used since the credit card settlements were not done timely.
* Periodic surprise cash counts by department were not performed.

**Management Response (Corrective Action Plans)**

* Nine of the ten exceptions occurred during a time when Artsblock was without a Financial Administrative Officer (FAO). The staff who normally handles deposits took on several other financial responsibilities in order to help the department. When it was learned that she had fallen behind, she was counseled and a schedule was implemented so that deposits are presently done on a regular basis.
* There were problems receiving the correct report from the Main Cashier’s Office in the settlement of credit card payments. Artsblock communicated this issue to the MCO and has been resolved.

**Expected Implementation Date**

Implemented.

* 1. **Psychology**

According to Petty Cash Disbursement Policy C-173-61, “The accounting office is

responsible for reviewing receipt documents provided in support of requests for reimbursement of petty cash expenditures, and for reimbursing the fund custodian.”

OBSERVATIONS

The Psychology Department uses petty cash funds to pay human subjects for various researches. During FY 2015-2016, Psychology had a $6,000 PCF balance. This amount increased to $10,000 in October 2016.

We selected a judgmental sample of three departments (Psychology, Housing and UNEX) and reviewed all replenishments from June 2015 (Department Funded Date) to December 2017. We observed that Psychology had replenished $8,800 on Petty Cash Funds on August 1, 2016, which exceeded the Petty Cash Fund balance of $6,000.

**Management Response (Corrective Action Plans)**

Based on our discussion with the Psychology Department, this happened because the Principal Investigator (PI) had to loan money to the petty cash account to pay the research subjects. As a result, the Campus Cash Handling Coordinator approved and increased the Petty Cash Fund Balance to $10,000 to cover all expenses related to the research subjects.

**Expected Implementation Date**

Implemented