

UC MERCED AUDIT AND ADVISORY SERVICES

July 27, 2018

To: Veronica Mendez – Chief Financial and Administrative Officer

Subject: Cash Management Controls Audit

Ref: Audit Report No. M18A005

Internal Audit has completed an audit of UC Merced's handling of cash and payments, which was part of the Fiscal Year 2017 – 2018 Audit Plan.

We appreciate the help we received from the Campus Cash Coordinator and from staff in Treasury and Disbursements during this audit. If you have any questions, please feel free to contact me.



Todd Kucker
Director of Internal Audit

Attachment

cc Senior Vice President and Chief Compliance and Audit Officer Bustamante
Chancellor Leland
Associate Chancellor and Senior Advisor Putney
Chief Facilities and Campus Operations Officer McLeod
Chief of Police Her
Assistant Vice Chancellor and Controller Riley
Assistant Controller Groesbeck
Director Riedeman

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

Cash Management Controls
Report No. M18A005

July 27, 2018

Work completed by:
Brandi Masasso – Internal Auditor

Management Summary

Internal Audit has completed an audit of UC Merced's management of cash and payments as part of the Fiscal Year 2017 – 2018 audit plan, in part based on the inherent risks associated with cash handling and corresponding financial accounting. Cash and cash equivalents are, by definition, liquid assets and are subject to loss or conversion in the absence of strong internal controls.

Based upon the audit testing, we concluded that central oversight for cash handling activities appeared adequate to promote compliance with University policy and to minimize the risks inherent to cash handling activities. However, we noted opportunities for improvement which are discussed in the report below under the following headings:

- Variances from policy should be reviewed by the Campus Cash Handling Coordinator
- Establish accountability for video surveillance security systems

Purpose, Scope and Objectives

As part of the Fiscal Year 2017-2018 audit plan, Internal Audit completed an audit of UC Merced's cash management. The purpose of the audit was to review controls over cash and payments received by the University. The review was designed to determine whether sufficient internal control measures are in place to prevent or detect inappropriate, non-compliant and/or fraudulent transactions, while ensuring efficient and effective operations.

The audit objectives were to:

- Evaluate compliance with UC policies related to cash handling and payments;
- Evaluate cashiering processes, specifically addressing personnel management, training and support, and segregation of duties; and,
- Evaluate the accuracy and integrity of financial reporting processes.

The scope of the audit included the Main Cashiering station and the following departments that manage cash and payments at campus:

- Athletics and Recreation
- Campus Store
- Dining Center
- External Relations (formerly Development Services)
- Student clubs and student sponsored events
- Transportation and Parking Services

The audit also evaluated cash controls managed by Treasury and Disbursements. This included the department's role in coordinating compliance with Payment Card Industry Data Security Standards (PCI DSS), monthly bank reconciliations, and completing periodic surprise cash counts of departments that handle cash (including petty cash).

Testing was completed to evaluate the following areas related to cash handling:

- General control environment
- Business processes
- Information and communication systems
- Policy compliance
- Operational effectiveness and efficiency
- Financial reconciliations and reporting
- Petty cash procedures

Background

Theft of cash and payments is a significant fraud risk at universities. Every two years, the Association of Certified Fraud Examiners (ACFE) compiles fraud investigation results and publishes the resulting trends in a biennial *Report to the Nations on Occupational Fraud and Abuse*. The 2018 report included data from 86 fraud investigations which occurred in the Education industry. The following table shows the frequency of fraud investigations related to cash and payments. Other common frauds in higher education included corruption (conflicts of interest), theft of noncash items, and billing schemes.

Manner in which fraud was perpetrated:	% of Investigations
Skimming and cash larceny (stolen payments intended for university)	33%
Stealing cash on hand	19%
Check and payment tampering	6%
Percentage of fraud investigations related to cash and payments	58%

With the inherent risks related to cash and payments, it is important for UC Merced to set up effective internal controls over cash. BFB BUS-49 *Policy for Cash and Cash Equivalents Received* is the UC policy that provides a framework for cash handling. The UC Accounting Manual also outlines requirements related to petty cash, reconciliations, and other details.

Per University policy for handling cash and cash equivalents, the Chancellor is responsible for all campus cash handling activities, and responsibility for coordinating all cash handling operations on the campus has been delegated to the Campus Cash Handling Coordinator (BUS 49). Effective December 2009, the Assistant Controller was designated Campus Cash Handling Coordinator. Per BUS-49 *Policy for Cash and Cash Equivalents Received*, the Campus Cash Handling Coordinator is responsible for:

- Maintaining a liaison with the Campus Controller concerning cash handling matters
- Categorizing cash handling units and individuals performing functions related to cash handling accounting
- Establishing local procedures in accordance with BUS-49 *Policy for Cash and Cash Equivalents Received*

- Approving variances from UC policy as warranted by local circumstances
- Reviewing and approving all proposed new or modified cash handling related applications, cash recording equipment, or methods of transporting cash
- Performing an annual review of compliance with BUS-49 *Policy for Cash and Cash Equivalents Received* and informing the Campus Controller of risks associated with each campus cash handling unit

The main groups that oversee cash handling at UC Merced are Campus Cashiering and Treasury and Disbursements. Both groups are part of Financial and Accounting Services in the Business and Financial Services division and have a very active role in the oversight of cashiering and sub-cashiering activities in support of the Campus Cash Handling Coordinator.

Additionally, the Treasury and Disbursements department has a very active role in the oversight of the Payment Card Industry Data Security Standards (PCI DSS). These standards continue to change as PCI DSS 3.2 went into effect during 2018.

CASHNet is the cashiering system used by UC Merced. CASHNet is an externally developed web-based payment processing system commonly used by institutions of higher learning.

Conclusion

Based upon our audit testing, we concluded that central oversight for cash handling activities appeared adequate to promote compliance with University policy and to minimize the risks inherent to cash handling activities. However, we noted opportunities for improvement in the following areas:

- Variances from policy should be reviewed by the Campus Cash Handling Coordinator
- Establish accountability for video surveillance security systems

Observations and Recommendations

1. Variances from policy should be reviewed by the Campus Cash Handling Coordinator

During the review of the different cash handling areas, we noted circumstances that should be reviewed to determine whether the risks could be accepted by the Campus Cash Handling Coordinator. BUS-49 delegates the approval of exceptions to the cash policy to this employee.

It was identified during the review of the Dining Center that background checks are not being performed on all student employees with cashiering duties. BUS-49 *Policy for Cash and Cash Equivalents Received* requires performance of background checks for designated positions, such as those with direct access to/control over cash, checks, and credit cards. This includes employees in cashiering and sub-cashiering operations.

During the audit, a Dining Center supervisor stated that the cost to perform background checks on all student employees with cashiering duties was too expensive and not sustainable to the center. Dining is one of the largest employer of student employees at UC Merced and the

number of students with cashiering duties will continue to increase with the expansion of dining options.

The background check can be considered as a preemptive measure to review the integrity of potential employees. Failure to complete background checks may increase the risk of loss or misappropriation of funds by inappropriate activity.

UC policy requires that background checks be completed for employees who handle cash and cash equivalents. The costs and benefits of completing background checks for student employees with cashiering duties should be reviewed. The Campus Cash Handling Coordinator should require that the background checks be completed or should verify that adequate mitigating controls are in place to prevent the theft of cash by Dining's student cashiers.

Management Corrective Actions

The Campus Cash Handling Coordinator will notify Dining Services management that background checks are required for all employees who handle cash. She will confirm that all background checks have been completed for all of Dining's student cashiers.

This action plan will be completed by August 31, 2018.

2. Establish accountability for video surveillance security systems

During the review of the different cash handling areas, we noted that video surveillance cameras were not working properly in three of eight cash handling locations. The cameras for the Main Cashiering station and the Transportation and Parking Services sub-cashiering station appeared to have been nonoperational for several months. The Dining Center cameras appeared to have obstructed views of the cashiering stations.

The primary purpose of utilizing security cameras is to deter crime and to assist law enforcement in enhancing the safety and security of members of the University community and University property. Video surveillance systems not operating properly or obsolete hinders the ability to monitor activity appropriately and investigate and deter criminal activities.

From discussions during the audit, it appears that ownership and responsibility for many security cameras have not consistently assigned. When cameras need to be repaired or updated, it is difficult to determine which department is responsible for incurring the costs. As a result, cameras are not being fixed in a timely manner. While we noted three cashiering locations where cameras were not functioning effectively, it sounds like the lack of accountability for cameras has resulted in many cameras campus-wide that are in need of repair or updating. With the ongoing campus expansion, the number of cameras on campus will continue to increase.

To help mitigate these security risks, we recommend that accountability for the cameras be assigned to the campus police. The campus police should document and initiate a plan describing how it intends to mitigate the security weaknesses, including establishing roles and

accountability for project implementation, developing performance measures for assessing progress, and identifying necessary funding. This will require identifying one-time funding to review and fix current cameras and sustainable long-term funding to maintain the increasing number of cameras.

Management Corrective Actions

To ensure that current surveillance cameras are operational, Campus Police have implemented a bi-weekly surveillance monitoring program to identify any operational issues. Dispatchers are now responsible for reviewing that cameras are functional and for notifying management when cameras need to be repaired. This process was established before this report was issued.

During quarterly cash counts, Treasury and Disbursements will ensure and document that each unit has tested or confirmed that the surveillance cameras in cash handling areas are in working order.

This management corrective action will be completed September 30, 2018.

The Campus Police will review the current inventory of cameras to determine the costs necessary to repair and update current cameras on campus. They will work with the Budget Office to obtain the necessary one-time funding for these repairs. They will also work with the Budget Office to obtain the needed ongoing funding to maintain the increasing number of cameras on campus.

The plan for getting the current cameras functional and establishing a sustainable plan for the future will be set up by December 31, 2018.