

The logo for UCIrvine, featuring the text "UCIRVINE" in a large, black, serif font. The letters "U", "C", and "I" are significantly larger than the other letters, and the "R" and "V" are also larger than the "I" and "N".

UCIRVINE

The logo for Internal Audit Services, featuring the text "INTERNAL AUDIT SERVICES" in a black, serif font, arranged in two lines. A vertical line is positioned to the left of the text.

INTERNAL
AUDIT SERVICES

Verano Place - Cyber Cafe

Internal Audit Report No. I2015-503

April 12, 2016

Prepared By

Mike Shead, Senior Auditor

Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

April 12, 2016

**BEVERLY CHANEY
DIRECTOR
VERANO PLACE HOUSING**

**RE: Verano Place – Cyber Cafe Limited Scope Audit
No. I2016-503**

Internal Audit Services has completed a limited scope review of Verano Place – Cyber Cafe and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Lisa Cornish, Executive Director of Student Housing

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) completed a limited scope review of Verano Place – Cyber Café. The review included cash management, collection, and depositing processes. Based on the audit work completed, certain internal controls could be improved to ensure compliance with University policies and/or best business practices. The following concerns were noted.

Cash Management – The Café’s change fund wasn’t reconciled and deposited at the Central Cashier Office (CCO) when cashiering operations ended. Subsequently, a verification of the change fund disclosed that funds on hand exceeded the \$250.00 authorized amount by \$78.75. This observation is discussed in section V.1.

Cash Collection Processes – FY 2014-15 Cyber Café cashiering transactions could not be verified by cashier, date/time, or by sequential order; cash collections could not be validated. Accountability was weakened by cashiering practices. Additionally, void/refund and “no ring” transactions lacked adequate supporting documentation, and/or approval. Further details related to these issues are provided in section V.2.

Deposit Processes – Over several fiscal years, Cyber Café cash collections were not deposited in a timely manner. In FY 2013-14, only one deposit was made for the entire fiscal year. Furthermore, internal control measures were inadequate to prevent/detect the untimely deposits. This observation is discussed in section V.3.

II. BACKGROUND

Verano Place is one of ten student housing communities on the UC Irvine campus. A majority of the residents are graduate students. However, Verano Place also provides housing to undergraduate students over the age of 25, or with a family.

For many years, the Cyber Café operated as an on-site facility at Verano Place that offered computer, printer/copier and fax services to residents and the surrounding community. The Café also sold snacks, ice cream, cold drinks, and coffee, and provided other services. The Café operated seven days a week, and was staffed

with part-time student cashiers and a student cashiering manager. While in operation, the Café accounted for almost all of Verano Place's currency deposits to the CCO; deposits reached \$24,780.36 in FY 2009-10. However, in subsequent years deposits declined sharply; only \$5,141.97 was deposited in FY 2014-15. The Cyber Café was closed in 2015.

III. PURPOSE, SCOPE, AND OBJECTIVES

The limited scope audit focused on Cyber Café cash management, collection, and deposit processes. A five-year trend analysis of Verano Place currency deposits to the CCO was analyzed. FY 2014-2015 Cyber Café operations were also reviewed in detail. The primary purpose of the audit was to assess whether internal controls in place over Cyber Café cashiering operations were sufficient to prevent or detect inappropriate and/or fraudulent transactions, while ensuring compliance with applicable UC/UCI policies and best business practices.

The following audit objectives were included.

1. Cash Management – Verify the change fund utilized in Cyber Café operations.
2. Cash Collection Processes – Verify that accountability, a proper separation of duties, and adequate physical security measures were maintained in cashiering operations. Verify that cash collection processes were compliant with UC/UCI policies and/or best business practices.
3. Deposit Processes – Verify that deposits were made in a timely manner and adequately supported by cashiering records. Verify that a proper separation of duties and accountability were maintained in depositing processes. Verify that internal controls were adequate to prevent or detect untimely or missing deposits. Verify that depositing processes were compliant with University policies and/or best business practices.

IV. CONCLUSION

Several Cyber Café cashiering and depositing practices were non-compliant with University policies and/or best business practices. Internal controls in Cyber Café cashiering operations were generally inadequate and prevented an independent verification of collections. Specific concerns were identified in the areas of cash management, cash collection, and depositing processes.

Observation details, presented below, were discussed with management. Since Cyber Café has ceased operations, with the exception of reconciling and closing out the change fund, no further follow-up (or management corrective action) is necessary.

V. OBSERVATIONS

1. Cash Management

Observation

A meeting with management and verification of the Cyber Café change funds disclosed the following concerns.

1. After many years of operation, the Cyber Café was closed and change fund custodian transferred to Student Housing Administration and no longer handles Verano Place cash. However, the change fund wasn't ever reconciled and deposited at the CCO when cashiering operations ended.
2. A verification of the change fund disclosed that actual funds on hand exceeded the \$250.00 authorized amount by \$78.75. Verano Place management could not account for or explain the difference.

University policy requires that a verification of change funds be performed on a periodic basis, at least quarterly, by someone other than the fund custodian. In addition, University change funds should be reconciled and deposited with the CCO when they are no longer needed.

Verano Place management stated that they will reconcile and close the change fund and deposit the funds at the CCO. IAS will perform a follow-up review before fiscal year-end to ensure the change fund has been properly handled.

2. Cash Collection Processes

Background

University policies require that accountability, a proper separation of duties, and adequate physical security be present in cash handling practices. In addition, cash/equivalent collections are to be reconciled and recorded fully, accurately, and in a timely manner.

Observation

A detailed review of FY 2014-15 Cyber Café cashiering and cash handling practices disclosed the following concerns.

1. **Inadequate/Inadequately Maintained Cashiering Equipment**

- The cash register used in daily Cyber Café operations was incapable of producing an internal cash register tape. Only summary “X” and “Z” tapes could be produced to clear the cash register and/or assist student cashiers in reconciling their cash balances. As a result, individual cash register ring numbers (i.e., receipt numbers) could not be ascertained from available supporting documentation. A sequential ordering of ring numbers could not be verified;
- The cash register was never set up properly to record the date/time of cashiering transactions. As a result, specific dates and times of sales transactions could not be determined. In addition, the cash register was incapable of providing a unique, protective identifier (log-on ID, password, etc.) to link each cash register ring to a particular student cashier. As a result, accountability for each cashiering transaction could not be verified from cash register documentation.

2. Inadequate Training in Cash Handling Processes

On their first day, Cyber Café student cashiers received a few hours of in-person training from the student cashiering manager. Afterwards, student cashiers referred to a Cyber Café operations manual for guidance. A former student cashier and a former student cashiering manager both indicated that they had not been informed about, and were never trained in UC/UCI cash handling policies.

3. Improper Cash Handling Practices

- The cash register used in daily Cyber Café operations was able to produce customer receipts. However, Cyber Café student cashiers were instructed to disable this function to conserve “expensive” cash register tape. As a result, customers were not provided with receipts for their purchases unless they asked for them.
- On cashiering days with two shifts, first and second shift cashiers used the same cash drawer and change funds. Additionally, the verification of change funds and cash collections was never performed in dual custody. As a result, accountability over cash collections and change funds was compromised;
- Numerous voids and refunds were documented in Cyber Café “Z” summary tapes. However, student cashiers were never required to provide explanations or supporting documentation for the voids/refunds. In addition, voids and refunds did not receive same-day, written approval by a cashiering supervisor, as required by UC policy. Unapproved voids/refunds can be used to divert cash collections;
- “No-ring” sales transactions were also a frequent occurrence in Cyber Café cashiering operations, as evidenced by the “Z” summary tapes. However, student cashiers were never required to provide explanations for “no-ring” sales. Frequent “no-ring” sales transactions can be a contributing factor in the diversion of cash collections.

Improper and/or inadequate cashiering and cash handling practices increase the likelihood of irregularities and financial loss.

3. Depositing Processes

Background

UC Policy requires that cash/equivalent collections be deposited at a designated main cashiering station at least weekly or whenever collections exceed \$500.

Observation

Cyber Café cash collections were deposited weekly in FY 2011-12 and prior years. However in FY 2012-13 and subsequent years, timely deposits of cash collections ceased to occur, as follows:

- FY 2012-13 – four deposits for the fiscal year;
- FY 2013-14 - one deposit for the fiscal year;
- FY 2014-15 - three deposits for the fiscal year.

A review of depositing processes revealed the following concerns.

- 1. Inadequate Training in Depositing Processes** – The Verano Place business manager responsible for picking up and depositing Cyber Café’s cash collections in FY 2011-12 and subsequent years did not receive adequate training in depositing practices. Training was limited to on-the-job instruction by the business manager’s supervisor. UC/UCI cash handling policies were not included in the training process. The business manager disclosed that he was unaware of the University’s requirement for weekly, or more frequent deposits, and other important control measures;
- 2. Insufficient Coordination of Cashiering and Depositing Processes** – The business manager had little interaction with the Cyber Café student cashiers other than to pick up the cash for deposit. Because deposit pick-ups were made sporadically and in an untimely manner, daily cash collections stored in the Cyber Café would often build up for several months. When the cash collections were finally picked up, the cash was never counted and transferred to the business manager in joint custody. Furthermore, the amount of cash transferred was not documented; only the business manager knew the amount of cash that was picked up.

In addition, the business manager could never be sure that the cash he picked up for deposit represented all of the cash that had been collected daily by the student cashiers. Throughout the fiscal year, there were many scheduled days of operation during which the Cyber Café was closed due to an unavailability of student cashiers. However, the business manager was seldom informed about, and was often unaware of these closures. Consequently, as he prepared deposits for cash that had been collected several months earlier, the business manager could not easily determine whether missing cashiering records and cash collections resulted from Cyber Café closures, or from some other reason;

- 3. Inadequate Resources/Oversight of Depositing Processes** – Due to budget constraints, in the three fiscal years between July 2012 and June 2015 the business manager was required to assume additional responsibilities for Arroyo Vista business operations. The business manager disclosed that, with his Arroyo Vista and Verano Place responsibilities, he was no longer able to make timely deposits for the Cyber Café.

However, the untimeliness of Cyber Café deposits was not detected and corrected by either Student Housing Administration or Verano Place management. As a result, a three-year “pattern” emerged of large, infrequent Cyber Café deposits followed by large gaps of time between deposits.

Inadequate internal controls over depositing processes coupled with non-compliance of University cash handling policies significantly increased the risk for inappropriate and/or fraudulent diversions of cash collected from cashiering activities.