

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**Accounting & Financial Services
Cashiering
Project #13-02**

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MANAGEMENT SUMMARY

As part of the Internal Audit Services (IAS) audit plan for fiscal year (FY) 2013, IAS conducted a review of the cashiering activities for University of California, Davis (UCD). The purpose of our review was to identify UCD units that handle cash¹ and assess the level of understanding of, and compliance with, internal controls over cash handling activities. We also evaluated opportunities to move towards a cashless environment.

Past audits and investigations in the cash handling area have disclosed a lack of understanding and failure to implement appropriate internal controls. Maintenance of accountability for cash and separation of duties, both key internal controls over cash handling activities, were often found to be missing or inadequate. Without appropriate internal controls in place there is an increased risk of errors and fraudulent activity within cash handling activities.

In order to determine the scope of our review, we identified all of the UCD business units that handled cash during FY 2012 based upon information contained in the Campus Cashiering System. We then selected a sample of 13 business units that handle large amounts of coins and currency for completion of a detailed questionnaire and interview.² We also sent out 88 surveys to business units that handle lesser amounts of coins and currency. The questionnaire and survey covered cash handling policies related to: general accountability and separation of duties; cash collections; cash deposits; physical security; card merchants, petty cash and change funds. We also included a section in the questionnaire and survey addressing the business unit's potential to move toward a cashless environment.

Overall, our review encompassed approximately \$44 million (11%) of the approximately \$387 million in cash recorded in the Campus Cashiering System during FY 2012³. Approximately \$5 million of the \$387 million was coins and currency. A portion of cash collection activity for every school, college and division was included within the scope of our review, with the exception of Graduate Studies which handled less than \$200 in coins and currency during FY 2012. We also included the Associated Students, the Bookstore and Agriculture and Natural Resources-UC Cooperative Extension activity in our review because they deposit large amounts of cash directly to UCD bank accounts.

Based upon our interviews, questionnaires and survey responses, we had the following significant observations:

¹ For purposes of this audit report, the term "cash" refers to coins, currency and checks.

² Coins and currency are the most susceptible to misappropriation, so business units handling coins and currency were the focus of our review.

³ Because the Health System began using the Campus Cashiering System during April 2012, only one quarter (approximately \$89 million) of coins, currency and checks are included in the \$387 million total. The sample of Health System cash handling units selected for an interview or survey was determined independently of the Campus cash handling units based upon the quarterly data.

- Internal controls designed to maintain accountability for cash were not in place for approximately one-third of respondents.
- Internal controls designed to ensure separation of incompatible cashiering related duties were not present for approximately one-third of respondents.
- Cash received in the mail was not being processed in dual custody for approximately one-quarter of the respondents.
- Deposits were not prepared with two people present or in view of a camera for approximately one-quarter of the respondents.
- Background checks were not consistently performed for all cash handling employees in approximately one-half of the respondent units.

The cause of the failure to maintain appropriate internal controls over cash handling appears to be due to several factors. First, annual cash handling training was not being completed as required for approximately one-half of the respondents. The training had not been promoted by the Campus Cash Handling Coordinator and enrollment was not monitored. Secondly, employees with cash handling responsibilities were not familiar with related policies and procedures or were confused by policy requirements that were unclear or inconsistent. Finally, some business units indicated that they did not have sufficient personnel to ensure a proper separation of duties and or dual control over cash.

With respect to the question of moving towards a cashless environment, we explored a number of options with the business units such as directing all payments through the Main Cashiers' Office, accepting only credit and debit cards, and future use of pre-loaded internal identification cards (similar to the One Card currently in use at UC Berkeley). The purpose of eliminating cash in the business units would be to reduce the risks associated with handling cash and the costs of maintaining internal controls over cash. Some units felt that the inability to accept cash would adversely affect their customers and their ability to conduct business, such that the cost of eliminating cash would outweigh the benefits. Other business units thought the elimination of cash was possible. What became clear in the discussion regarding a cashless environment is that there is no "one size fits all" solution.

In this audit report we are making recommendations regarding actions that can be taken at a Campus-wide level to address issues noted during our review. These recommendations include ensuring all cash handling personnel receive the required annual training, and revising UCD cashiering related policies to ensure their accuracy, clarity and consistency with University of California Office of the President (UCOP) Business and Finance Bulletin BUS-49 (BUS-49), *Policy for Cash and Cash Equivalents Received*. We are also recommending that the Campus Cashier Coordinator work with business units that believe they do not have adequate staffing to effect proper internal controls over cash handling in order to develop appropriate solutions, such as advising on the consolidation of cashiering operations with another business unit or the elimination of cash.

A separate letter is being sent to each Dean and Vice Chancellor that will include the following:

- Summary of the key findings of the Cashiering audit.
- List of each business unit in their area of responsibility accepting cash.
- Specific description of any business unit in their area of responsibility with a consistent pattern of, and/or significant non-compliance with, cashiering policies.
- Description of opportunities to pursue a cashless environment.

The letter will recommend that the audit observations be disseminated to the cash handling business units in the respective schools, colleges or divisions along with a request for self-assessment and correction. Additionally, we will request a formal management corrective action for any business unit with a consistent pattern of, and/or significant non-compliance with, cashiering policies. Finally, we will request that the Deans and Vice Chancellors work with their cash handling units to more thoroughly pursue the opportunity for a cashless environment.

I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Cash Handling Control Activities

Basic internal controls are not consistently incorporated into departmental cash handling practices.

In order to obtain an understanding of the cash handling practices that exist at UC Davis we conducted in depth interviews with 13 business units after they completed a detailed questionnaire, and sent surveys⁴ to another 88 business units. UCD locations in Davis, Sacramento and off-site Agriculture and Natural Resource Division (ANR) facilities were included. We received a total of 80 responses⁵ to our surveys.

Based upon a compilation of the interview, questionnaire and survey results, we found that basic internal controls are not consistently present in cash handling practices to the extent necessary to minimize the risk of cash handling errors or theft.

- There was a lack of understanding of the need to establish individual accountability for cash which resulted in documented transfers of accountability not being performed when cash was passed from one employee to another. Maintaining appropriate records of transfers of accountability allows UCD to hold cash handling employees responsible for fulfilling their duties, as cash is traceable to specific cash handlers. Approximately one-third of the respondents indicated they did not have practices in place to ensure individual accountability throughout the cash handling process.
- An appropriate separation of cash handling and other incompatible duties such as distribution of payroll checks, collection of accounts receivable and general ledger review was not consistently maintained. Separation of incompatible duties prevents one individual from both perpetrating and concealing an error or irregularity. Approximately one-third of respondents were non-compliant in this area.
- Mail containing cash payments was not opened under dual control or in view of a camera for approximately one-quarter of the respondents. Ensuring that the opening of mail is witnessed by two individuals reduces the risk that cash will be misappropriated prior to being recorded in UCD accounting records.

⁴ The survey consisted of ten questions, one regarding respondent demographics and nine that addressed specific aspects of the business unit cash handling practices.

⁵ Seven of the 21 business units that did not respond had a valid reason for not completing the surveys. IAS will address the non-response of the remaining business unit in the report to the appropriate Dean or Vice Chancellor.

- Deposits were not prepared under dual custody or in view of a camera for approximately one-quarter of the respondents. Providing for witnessed deposit preparation reduces the risk that funds set for deposit will be misappropriated.
- Transportation of deposits containing coins and currency was performed by a single UCD employee for approximately three-quarters of respondents.⁶ When it is more efficient and cost effective for employees to transport deposits to the Main Cashier instead of using an armored courier, having two individuals present helps ensure the safety of the employees and the deposit.
- Approximately one-quarter of the respondents were not properly maintaining the combination to safes used to store cash. These units did not change the safe combination annually and/or did not store the safe combination away from the safe. Regularly changing and securing the safe combination helps prevent unauthorized individuals from accessing the safe.
- Background checks were not performed on all cash handling employees in approximately one-quarter of the respondent business units. Some business units appeared to distinguish between employees formally designated as cashiers and those who handle cash as one aspect of their overall job duties when determining those who need a background check. Background checks are required for all cash handling employees as they help determine if the employee is insurable.
- BUS-49 states “The Campus Cash Handling Coordinator is responsible for performing an annual review of compliance with this Bulletin and informing the Campus Controller of risks associated with each cash handling unit.” These reviews are not currently being conducted.

Other less prevalent instances of non-compliance with required internal controls included accepting checks not made payable to the UC Regents, failing to restrictively endorse checks upon receipt, not making deposits within the timeframes required by policy, and issues with security of locations where cash is handled.

Once interviews and surveys were analyzed, we determined that noncompliance with required internal controls stemmed from the following:

1. UCD local policies were not always consistent with UCOP policies, or were not clear as to what was required. (See Appendix A)
2. The course entitled Cashier Training established for all cash handling staff has not been taken by approximately one-half of the respondents. A majority of interviewed participants who were specifically asked about participation in the Robbery and Prevention (Emergency) Training course indicated they had not completed that training either.

⁶ Only ANR and the business units who received the detailed questionnaire were asked about transportation of deposits.

3. Respondents suggested that a lack of staff precludes required separation of duties and dual custody processes.

Recommendations

1. UCD policies must be revised to be consistent with UCOP BUS-49 (no less restrictive), and add clarification where needed so users can understand what is required. Though IAS has detailed the policy issues and provided recommendations for changes to policies as they are currently written (see Appendix A), consideration should be given to simply referring to BUS-49 unless UCD policies are more restrictive.
2. The existing Cashier Training and Robbery and Prevention Training courses must be promoted to all UCD cash handlers, and participation in the training must be monitored. This task appears to fit within the responsibilities of the Campus Cash Handling Coordinator.⁷
3. The Campus Cash Handling Coordinator should make contact with responsible financial officers in each school, college or division, assess the state of their cash handling operation on an annual basis, and inform the Campus Controller of risks associated with each cash handling unit. The Campus Cash Handling Coordinator should work with business units that do not have adequate staffing to effect proper internal controls over cash handling to develop appropriate solutions, such as consolidation of cashiering operations with another business unit or the elimination of cash. (See Appendix B)

Management Corrective Actions

- 1a. Local UC Davis cash handling policy language that is redundant with BUS-49 will be either updated or eliminated and be replaced with a reference to BUS-49 by June 15, 2013.
- 1b. Local UCDHS cash handling policies that are redundant with BUS-49 will be either updated or eliminated and be replaced with a reference to BUS-49 by June 15, 2013.
2. Individuals who are required to participate in Cashier Training and Robbery and Prevention Training will be identified and submitted to the Human Resources for inclusion in the Learning Management System (LMS). Use of LMS will enable automated reminders of the training requirements to be sent and will facilitate monitoring of compliance with the training requirements. Identification of required training participants and issuance of training requirement notices will be completed by June 15, 2013.

⁷ BUS-49 states that the Campus Cashier Coordinator is responsible for performing an annual review of compliance with BUS-49 and informing the Campus Controller of risks associated with each campus cash-handling unit.

3. The Cash Handling Coordinator will hold a joint meeting with financial officers from each cash handling unit. In that meeting, policy requirements for cash handling (including training) will be addressed. Opportunities to reduce or eliminate cash within the cash handling units will also be discussed. Finally, the Cash Handling Coordinator will inform meeting participants that she is available to provide assistance or training regarding cash handling within their business units. This meeting will be held by September 15, 2013.

Appendix A
Recommended Updates to UCD Cash Handling Policies

	UCOP Policy (BUS-49)	Local Policy	Recommendations
1.	<u>Defining Employees Who Handle Cash</u>		
	<p>BUS-49, Section III includes definitions of a “Main Cashiering Station”, “Sub-cashiering Station” and “Cash Handling Department”. It does not distinguish between the types of cash handling employees.</p>	<p>PPM 330-55, <i>Departmental Cashiering Operations</i>, Section II also describes the three types of units that handle cash. However, it goes on to define a “cashiering employee” as, “any employee engaged in a cash-handling function at a major cashiering or sub-cashiering station”. There is no definition for an employee who handles cash as part of a “Cash Handling Department”. This has led to confusion regarding the applicability of UCD cash handling policies by business units that do not meet the definition of a cashiering station.</p> <p>There are also sections of the UCD PPM that appear to specifically limit the applicability of cash handling policies to cashiering employees as defined above (e.g., reference checks), though BUS-49 makes it clear these policies apply to all employees handling cash.</p>	<p>a. Add a definition for “cash handlers” outside of the cashiering stations to PPM 330-55. Alternatively, eliminate the definition of a “cashiering employee”.</p> <p>b. Revise the UCD PPM as necessary to make it clear that policies apply to all individuals handling cash versus only employees at formally designated cashiering stations.</p>
2.	<u>Defining Cash</u>		
	<p>BUS-49, Section III also defines “cash” (coins and currency) and “cash equivalents”. There are separate definitions for each. The distinction between cash and cash equivalents becomes important when looking at the requirements for physical security in Section IX, as dollar thresholds for some requirements apply only to coins and currency.</p>	<p>PPM 330-55, Section II contains a definition of “cash” that is all encompassing, in that it includes coins, currency, checks and e-commerce.</p> <p>The different definition of cash between BUS-49 and UCD policy has created confusion when UCD personnel have been attempting to apply BUS-49 to UCD operations. This is especially problematic with respect to the physical security policies.</p>	<p>a. Redefine “cash” in PPM 330-55 so it is the same as BUS-49. Alternatively, provide an explanation of how to apply provisions of BUS-49 where it distinguishes between cash and cash equivalents.</p>

<p>3.</p>	<p><u>Pre-Employment Screening</u> BUS-49, Section IV.1, says, "Campus administrators who have management responsibility for cash handling must assure that each individual who has or will have access to cash resources (including temporary, casual and student employees) has been appropriately vetted before access is granted. Background checks, demonstrated reliability in previous settings and evidence of cash-handling training are important factors in establishing an individual's qualifications."</p>	<p>PPM 330-59, <i>Departmental Cashiering Operations Physical Security</i>, Section III.A only requires verification of employment history for prospective cashiering employees versus all cash handling employees. This has led to some business units who do not meet the definition of a main or sub-cashiering station not performing reference checks.</p>	<p>a. Change PPM 330-59 so it is clear employment verifications should be performed for all employees handling cash.</p>
<p>4.</p>	<p><u>Training</u> BUS-49, Section IX.15, states, "Campuses will develop and deliver cash handling training to all employees who handle cash." The training must take place when a new cash handling employee starts, and once a year for all cash handling employees.</p>	<p>PPM 330-59, Section III.A.4 states, "Cash handling training shall be provided to new employees upon hire and at least once per year thereafter." Some business units did not interpret this policy to require annual training for "all" cash handling employees and thus did not provide the training.</p>	<p>a. Modify PPM 330-59 to mirror Section IX.15 of BUS-49 so it is clear all cash handling employees must receive training.</p>
<p>5.</p>	<p><u>Processing of Remittances Received By Mail</u> Section VIII.A.1.3, states, "Mailed remittances shall be verified and processed by two employees."</p>	<p>PPM 330-55, Section III.B. 4 and UCD Health System (UCDHS) Cashiering Policy & Procedure (CPP), Section VI.E.1.a state "Mail remittances shall not be verified and processed by the same employee." The intent of the above policy is to ensure that mailed remittances are opened and recorded in the presence of two employees (or in view of a camera) to ensure dual custody. Some departments are interpreting this policy to mean one employee must open the mail and another employee record payment received, and are thus not maintaining dual custody.</p>	<p>a. Modify PPM 330-55 so the requirement for dual custody when opening and recording mailed remittances is clear. b. Work with UCDHS to modify CPP, Section VI.E.1.a regarding processing of mail containing cash payments.</p>

6.	<p><u>Securing Cash Drawers</u></p> <p>BUS-49 is silent regarding control over spare keys to cash drawers during daily operations, though Section IX.12 does require dual control over duplicate keys to cashier compartments in a safe.</p>	<p>UCD PPM is silent regarding dual control over spare keys allowing access to cash drawers both during daily operations and when cash drawers are stored in safe compartments.</p> <p>UCDHS CPP, Section III.A.6 says that supervisors will hold the spare key for the cash boxes. The CPP does not require dual control for the spare keys, and it does not specifically address spare keys to safe compartments.</p> <p>Supervisors in some business units were found to have access to spare keys for cash drawers without maintaining dual control. If an error or defalcation were to occur, accountability could not be definitively established as long as both the cash handling employee and their supervisor had individual access to the funds.</p>	<p>a. Modify PPM 330-59 so that it is clear spare keys to cash drawers and safe compartments where cashier drawers are stored must be maintained under dual control at all times</p> <p>b. Work with UCDHS to change CPP Section III.A.6 to require that spare keys for cash drawers and safe compartments be maintained under dual control at all times.</p>
7.	<p><u>Preparation of Deposits</u></p>		
	<p>BUS-49, Section XA.2 requires, "The validation and preparation of cash deposits must not be visible <i>outside of the deposit handling area.</i>"</p>	<p>UCDHS CPP, Section III.A.4 requires that the counting of cash collections not be visible <i>to customers or others outside of the clinic.</i></p>	<p>a. Work with UCDHS to modify CPP, Section III.A.4 regarding the location of deposit preparation to be consistent with BUS-49.</p>
8.	<p><u>Timing of Deposits</u></p>		
	<p>BUS-49, Section XB.2 indicates that collections at sub-cashiering and departments must be deposited at least weekly or whenever collections exceed \$500.</p>	<p>PPM 350-55, Section V1.B applies the requirement to deposit once a week or when collections exceed \$500 only to sub-cashiering stations.</p>	<p>a. Modify PPM 350-55, Section V1.B to indicate the deposit requirements apply to sub-cashiering stations and cash handling departments.</p>

<p>9.</p>	<p><u>Transportation of Deposits</u></p> <p>BUS-49, Section IX.17, states “Sub-Cashiering Stations and Cash Handling Departments will transport cash and cash equivalents to a Main Cashiering Station using the following methods:</p> <ul style="list-style-type: none"> • By secure armored car service. • By employees, in dual custody, transporting (walking or driving) the deposit to the Main Cashiering Station. If the deposit is in excess of \$2,500, employees should be escorted by a Campus Security or Police Officer. • For endorsed checks and cash equivalents only, deposits may be put into the Campus Interoffice mail and sent to the Main Cashiering Station. The depositing location should make copies of all checks and cash equivalents put into the Interoffice Mail in case the deposit is lost and needs to be reconstructed.” 	<p>There are several issues with UCD policies regarding transportation of deposits.</p> <ul style="list-style-type: none"> • UCD PPM related to transportation of deposits are less restrictive than those contained in BUS-49. ✓ PPM 330-55 VI.D.1 states, “Deposits shall be adequately safeguarded while in transit. The UCD Police Department shall be requested to escort coin and currency deposits in excess of \$2,500 and all special event deposits.” ✓ PPM 330-55, Section VI.E.1.b.3 says, “Deposits with coin and currency must be either delivered in person, in dual custody, or by armored transport or dropped in the Main Cashier’s Office night drop with appropriate security bags.” <p>Under BUS-49 these policies should apply to all deposits, not just those containing coins and currency.</p> <ul style="list-style-type: none"> • The portion of PPM 330-55, Section VI.E.1.b.3 that says, “or dropped in the Main Cashier’s Office night drop with appropriate security bags” is not clear. It can lead the reader to erroneously believe that delivery of a deposit to the night drop does not require dual control. 	<p>a. Modify UCD PPM as follows:</p> <ol style="list-style-type: none"> 1. Clarify that deposit transportation requirements set forth in BUS-49 are applicable to all deposits, not just those containing coins and currency. 2. Clarify that use of the Main Cashier night drop box does not make dual custody optional. 3. Specifically state that checks must be endorsed prior to being placed in inter-office mail. <p>b. Work with UCDHS to ensure that CPP, Section IX.A is modified so that deposits containing coins and currency are not transported by the mail courier.</p>
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		<ul style="list-style-type: none"> • UCD PPM 330-55 (Sections V.A.2 and V.E.1) do not state that checks must be endorsed prior to being placed in inter-office mail. • Several UCDHS clinic locations are placing deposits containing coins and currency in the inter-office mail. UCDHS cash handling policies allow for deposits to be sent via courier. Some clinic personnel have interpreted “courier” in the UCDHS CPP, Section IX.A to mean inter-office mail. 	
10.	<u>Deposit Verification</u>		
	BUS-49, Section XA.5, requires that a receipt or its electronic equivalent be forwarded by the main cashier to the sub-cashiering station or cash handling unit no later than the next business day.	<p>UCDHS CPP, Section X.A calls for a receipt to be sent within two to three days after the deposit is received in the UCDHS Cashier’s Office.</p> <p>While UCDHS has modified their practices to be consistent with BUS-49, the policy has not been updated.</p>	a. Work with UCDHS to modify CPP, Section X.A regarding deposit receipts to be consistent with BUS-49 and actual practices.
11.	<u>Changes Due to Kualii Implementation</u>		
	Not Applicable	<p>PPM 330-55, Section VI.E.1.d, calls for the top portion of the CR document along with supporting detail to be sent to Internal Controls. This is no longer a UCD practice.</p> <p>PPM 330-35, Section V.E.3, says that merchants (departments accepting debit and credit cards) are responsible for recording credit card activity on the general ledger. This is no longer applicable, as the settlements are automated in Kualii.</p>	a. Update PPM 330-55 and 330-35 to reflect actual practices for: <ol style="list-style-type: none"> 1. CR documents, and 2. Recording of credit card settlements by merchants.

Appendix B
Considerations for Reducing or Eliminating Cash

As part of our surveys and interviews we asked participants if it would be possible for their business unit to transition to a cashless environment. We presented participants with the alternatives to accepting cash shown below and also solicited additional suggestions for eliminating cash.

- Require customers to pay at the Cashier's Office and return to the business unit with a receipt to obtain their goods or services.
- Allow customers the option of making payments to the Cashier's Office via the internet; then bring their receipt to the business unit to obtain the goods or services.
- Restrict forms of payment to a combination of credit and debit cards and/or checks. (If checks were accepted, they would need to be processed using an electronic check reader so paper checks were not present in the department.⁸)
- Use an identification/debit card for students, faculty and staff such as the "One Card" currently in place at UC Berkeley as a replacement for cash.

Based on interviews and survey comments for operating units that interact with the public there was a general consensus that customers or clients must continue to have the opportunity to pay with cash. However, even within these business units there is an opportunity to reduce the risks inherent in handling cash by eliminating coins and currency but continuing to accept checks. The checks would need to be processed via an electronic check reader so that paper checks would not be handled by the department after the initial payment was accepted. The check readers themselves are relatively inexpensive⁹, though there would be an initial cost to set-up the interface with the bank and the cashiering system. There would also be a transactional fee, but it appears it would be less than the fees for accepting credit or debit cards. This type of technology is already in place in some areas of UCDHS.

Another opportunity for eliminating cash exists in departments where payments received are relatively insignificant and the need to allow customers to pay with cash is not paramount to being able to provide the good or service. IAS compared an estimated monthly cost to process cash payments of approximately \$600¹⁰ to the fees associated with accepting debit and credit cards (4.56% of transaction amount). We found that for a department with monthly cash activity of approximately \$13,000 or less, the monthly credit card fees were actually less than the cost of the personnel necessary to handle cash. It was a common misconception of departments interviewed and

⁸ Control procedures for processing cash receipts are very similar whether coins and currency, checks, or a combination of these are present. The key difference is that deposits containing only checks can be placed in the courier versus being transported to a cashiering station in dual custody or by armored car. To realize a significant reduction of risk and or a decrease in costs associated with payment processing, coins, currency and paper checks must be eliminated from the business unit.

⁹ An internet search using "Bing" showed an average machine cost of approximately \$200 to \$500.

¹⁰ We used the average hourly rate of an Administrative Assistant II (\$19) and an estimated 31 hours per month for preparation and delivery of cash deposits to the Main Cashier's Office to derive our estimated total cost. The actual cost may be more or less depending upon the deposit mix and distance to the Main Cashier's Office.

surveyed that accepting credit and debit cards is cost prohibitive. Elimination of cash in these departments would result in a reduction of risk and a cost savings.

Yet another opportunity to reduce risk and eliminate the cost of handling cash exists in the elimination of collecting key deposits in business units where this is the only reason for having cash. There are currently 22 business units on campus that have key deposits, with key deposits appearing to be the only cash activity for 11 of those units. Individual key deposits range anywhere from approximately \$5 to \$25 and may not provide any real incentive to return keys to the department. According to PPM 360-50, Key/Access Card Control, collection of key deposits by departments is optional.

Finally, some of the business units interviewed or surveyed expressed support for implementation of an identification/debit card similar to UC Berkeley's one card.