UCIRVINE | INTERNAL AUDIT SERVICES

UC Irvine Central Cashiering

Internal Audit Report No. I2016-103

February 18, 2016

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UNIVERSITY OF CALIFORNIA, IRVINE

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February 18, 2016

DIANNE BEAN
MANAGER
CASHIERING & PAYMENT CARD SERVICES

Re: Central Cashiering Audit
         Audit No. I2016-103

Internal Audit Services has completed the review of the campus Central Cashiering Office 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
     Linda Sizemore, Director, Financial Services

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) reviewed business operations and financial activities within the campus Central Cashier Office (CCO) and within particular sub-cashier and department depositors. Certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Cash Management – Formal cashier training is not currently provided to new or continuing cash handling employees. Furthermore, periodic, independent cash verifications and compliance reviews of cash-handling departments and sub-cashiers are not performed. Additionally, CCO change funds are not verified annually by the UCI Accounting Office, or designate. These issues are discussed in section V.1.

Collection and Receipting Processes –Concerns were noted with CCO procedures for processing voided transactions. This observation is discussed in section V.2.

Physical Security – Concerns were noted with safeguards for CCO employees and University funds. This observation is discussed in section V.3.

II.   BACKGROUND

The CCO receives funds (cash and checks) from cash-handling departments and sub-cashiers, including the School of Medicine (SOM). These departments and sub-cashiers are located on-campus, off-campus, and at the UC Irvine Medical Center in Orange. The CCO also receives payments from students and non-students for various charges. The principal function of the CCO is to prepare all of these collections for bank deposit. In addition, the CCO is responsible for cashing checks for petty cash funds, filling change orders, and issuing invoices for returned checks.

Currently, the CCO utilizes the Campus Online Deposit (COD) and Online Payment Application Link (OPAL) systems to facilitate collections from departments and sub-cashiers. The COD system allows a depositor to submit an

"on-line" deposit advice that includes the accounting distribution. The OPAL system works with COD to post "on-line" deposits to the campus general ledger and update various accounts receivable systems. However, plans are in place to phase out the OPAL/COD systems in the near future and replace them with a third-party vendor software application.

The CCO is currently staffed by a .50 full time equivalent (FTE) employee, a career cashier, an Operations Supervisor, an Assistant Credit Card Coordinator, and the Manager, Cashiering & Payment Card Services. The manager reports to the Director, Financial Services, who reports to the Assistant Vice Chancellor/ Controller, Accounting and Fiscal Services.

III.   PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess cashiering operations of the CCO and certain sub-cashier and department depositors. 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. Compliance with University and campus policies and procedures were also evaluated. The scope of the audit focused on FY 2014-15 key operations of the CCO.

The following audit objectives were included in the review:

1. Cash Management: Verify that proper accountability, separation of duties and transfer of accountability is maintained over change funds and funds for deposit; verify that change funds are periodically reconciled in joint custody; verify that security measures over change funds and funds for deposit comply with UC/UCI policies and good business practice;

2. Physical Security: Verify that security measures to protect employees, cash/equivalents and other assets are in compliance with UC/UCI policies and good business practice;

3. Collection & Receipting Processes: Verify that all CCO cash/equivalent collections (and, as necessary, all departmental and sub-cashier cash/equivalent collections) are accounted for on a daily basis, and are fully,

properly, and accurately documented in supporting documentation; verify that reductions/adjustments of recorded cash accountability are fully explained and adequately supported with timely written approval; verify that sub-cashiers are continuously monitored by the CCO for timely delivery of collected cash/equivalents; verify that all CCO procedures conform with applicable UC/UCI policies and good business practice;

4. <u>Deposit Preparation, Review, and Accounting Processes</u>: Verify that proper accountability, separation of responsibilities and transfer of accountability is maintained over funds for deposit as the deposit is prepared, reviewed and transferred; verify that deposits are complete, accurate and timely; verify that funds for deposit are reconciled daily to CCO recorded deposits; verify that deposit confirmations are reconciled to deposit tickets in a timely manner; verify that deposit accounting processes ensure that accounting distributions are complete, accurate, and properly approved for each cash/equivalent deposit; verify that accounting adjustments are properly documented and approved; verify that all CCO procedures pertaining to deposit preparation, review, and accounting processes conform with applicable UC/UCI policies and good business practice;

5. <u>Returned Check Processes</u>: Verify that a proper separation of duties is maintained among the processes of notification/delivery of returned checks, custody of returned checks, contacting/invoicing debtors, receiving/processing debtor repayments, performing collection efforts on delinquent debts, and processing/approving debt write-offs. Verify that proper accountability and physical security measures are maintained over returned checks; and

6. <u>Sub-cashier/Department Collection and Deposit Processes</u>: Verify, through analytical procedures, the deposit trends of CCO sub-cashiers and departments. On a sample basis, verify the collections and deposit processes of certain sub-cashiers and departments, based on the materiality of their deposit amounts and/or unusual deposit trends. Verify that sub-cashiers' and departments' processes are compliant with applicable UC/UCI policies and good business practice.

IV.   CONCLUSION

Many internal controls within the CCO appear to be functioning satisfactorily. However, concerns were noted in the areas of cash management, collection and receipting processes, and physical security. Audit results for the review of sub-cashier processes will be reported in a separate audit report.

Observation details were discussed with management, who formulated action plans to address the noted issues. These details are presented below.

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Management

a. Cashier Training, Fund Verification, and Compliance Reviews

Background

UC policy requires each campus to develop and deliver cash handling training to all employees who handle cash. In addition, UC policy requires periodic (at least quarterly) unannounced cash counts and verifications of change funds. Results of the cash counts are to be reported to the Accounting Office.

Observation

Formal cashier training is not currently provided to new or continuing cash handling employees at the campus. In addition, periodic, independent cash verifications and compliance reviews of departments and sub-cashiers, similar to those conducted annually at the UC Irvine Medical Center, are not performed.

Cashier training, cash verifications, and compliance reviews assist in deterring cash handling improprieties and financial loss.

Management Action Plan

The CCO will initiate a formal cashier training program to include all departments and sub-cashiers (located on-campus, off-campus, and at the UC Irvine Medical Center campus). The training program will be in place and fully operational by July 1, 2016.

Since the number of change and petty cash funds on campus have been reduced, the CCO will perform a risk assessment by May 31, 2016, and implement a process to perform periodic, independent cash verifications and compliance reviews by July 1, 2016.

Based on the risk assessment, a program to independently review the cash handling and related operations of departments and sub-cashiers at least once per fiscal year will be in place and fully operational by July 1, 2016.

b. Annual Verification of Change Funds

Background

A change fund is maintained by the CCO to facilitate cashiering operations. The change fund is used to make change for departments, sub-cashiers, and other customers, as necessary.

Observation

A review of CCO change fund processes disclosed that the change fund has not been verified annually by Accounting & Fiscal Services (or designate) for several years. In these years, the CCO has self-reported its change fund balances.

UC Accounting policy requires that a surprise cash count of each change fund be performed annually or more frequently, as determined by the responsible accounting officer. Failure to conduct an independent and timely verification of the CCO's change fund may hinder the detection of cash handling irregularities and result in financial loss.

Management Action Plan

While change funds are always verified in dual custody and signed off by the cashiering employees conducting the count, there has not recently been surprise cash counts performed by Accounting & Fiscal Services employees outside of the unit.

The CCO will coordinate with Accounting & Fiscal Services management to ensure surprise cash counts are performed periodically and documented for audit purposes starting in February 2016.

2. **Collection and Receipting Processes – Voided Transactions**

Observation

A review of processes for CCO voided transactions disclosed several concerns, as follows.

1. The OPAL system requires that voided transactions be approved as part of the daily balancing process. As a result, on a daily basis the CCO lead cashier approves all voided transactions in the OPAL system. However, voided receipts are not always approved in writing by the lead cashier as required by CCO and UC policies;

2. The CCO lead cashier also performs cashiering duties. When the lead cashier must void a transaction, she occasionally approves her own voids;

3. When voided receipts are initialed by the preparer and approver, the initials are not dated. As a result, the timeliness of a void's preparation and approval cannot be determined.

UC/UCI policies require that reductions of recorded cash accountability (e.g., voids and refunds) be supported by all copies of the document involved, explained, and approved in writing by the employee's supervisor at the time of occurrence where practical, but no later than the end of the (business) day.

Failure to obtain adequate documentation and timely approval for voided transactions may hinder the detection of cash handling irregularities and result in financial loss.

Management Action Plan

Voided transactions are approved by the Lead Cashier on the day of the void and reviewed the following day by an additional employee. The voids are compiled with the daily cash receipts by date.

Beginning immediately, all voids will be consistently initialed and dated by the Lead Cashier approving the void. Should the Lead Cashier need to process his/her own void, a second Lead employee will initial/date and do the approval. If that is not possible due to a staffing shortage, an explanation will be documented by the Lead and on the following morning initialed and dated for approval by the employee compiling the daily cash receipts.

3. Physical Security - Safeguards for University Employees and Funds

Background

UC Irvine cash-handling units and other customers may deliver their funds for deposit directly to the CCO. University policy prescribes approved methods by which funds for deposit may be transported. This policy applies to cash handling units and to faculty, staff and students (i.e., University employees) who may transport University cash/equivalents.

Observation

A review of deposit processes disclosed that some depositors transport funds for deposit to the CCO without escort or use of an armored carrier service, which is contrary to UC policy.

Failure to follow University policy increases the risk for harm to University employees.

Management Action Plan

Accounting & Fiscal Services has encouraged departments to use the "buddy" system when delivering deposits to the Central Cashier. However, it has not always been possible for departments to accomplish this task, due to lack of staff. While it is the responsibility of each department and sub-cashier

manager to implement safeguards and other internal control measures to adequately protect their employees, the CCO will continue to encourage departments to use the buddy system and include it in our training.