

## UC MERCED AUDIT AND ADVISORY SERVICES

August 4, 2014

To: Michael Reese, Vice Chancellor for Business and Administrative Services

Subject: Audit of UC Merced's Cash Handling

Ref: Report No. M14A007: Control over Cash and Payments

Internal Audit has completed an audit related to UC Merced's handling of cash and payments. This audit was part of the Fiscal Year 2013 – 2014 audit plan. We will perform follow-up procedures in the future to review the status of management action.

We appreciate the help we received from Campus Cashiering and Accounting Services staff during this audit. If you should have any questions, please feel free to contact me.



Todd Kucker  
Internal Audit Director

### Attachment

cc: SVP Vacca  
Chancellor Leland  
Vice Chancellor Hoffman  
Interim Vice Chancellor Nies  
Assistant Vice Chancellor and Controller Riley  
Associate Vice Chancellor and Chief Information Officer Kovalchick  
Executive Director Deegan  
Director Groesbeck  
Director Nandkishore  
Manager Krogh

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

**Control over Cash and Payments  
Report No. M14A007**

**August 4, 2014**

Work Performed by:  
Todd Kucker, Internal Audit Director

## Management Summary

As part of the Fiscal Year 2013 – 2014 audit plan, we have completed an audit of UC Merced’s cash handling. Based upon the results of the work performed during the audit, we concluded that the campus system of internal controls related to cash handling is operating satisfactorily and generally in compliance with University policies and procedures.

We reviewed internal controls related to cash and payments and compliance with UC policy in the following areas:

- Campus Cashiering
- Accounting Services
- Campus Store
- Transportation and Parking Services
- Dining Services (including the dining carts)
- Summits Marketplace store
- Development Services
- Events
- Athletics and Recreation
- Student clubs and student-sponsored events

We noted the following positive observations.

- Campus Cashiering works closely with departments in order to train employees and monitor cash management operations.
- The Campus Cash Handling Coordinator has evaluated the various departments that handle cash and payments. She was aware of areas which need additional monitoring and has worked with departments to mitigate risks.
- Employees in departments that manage cash and payments were knowledgeable of cash handling policies and requirements.

During the audit, we identified the following areas for improvement, which are further discussed in the following report.

- Bank reconciliations should be completed in a timely manner
- Variances from policy should be reviewed by the Campus Cash Handling Coordinator
- Petty cash utilization should be reviewed
- Establish a plan for complying with PCI DSS 3.0
- Document changes to safe combinations
- Improve the safeguarding of cash at after-hours events

## **Purpose and Scope**

Internal Audit has completed an audit of UC Merced's cash handling, as a part of the Fiscal Year 2013 – 2014 audit plan. The purpose of the audit was to review control over cash and payments received by the University. The audit objectives were:

- To evaluate compliance with UC policies related to handling cash and payments;
- To evaluate cashiering processes, specifically addressing personnel management, training and support, and segregation of duties; and,
- To 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 the campus:

- Campus Store
- Transportation and Parking Services
- Dining Services (including the dining carts)
- Summits Marketplace store
- Development Services
- Events
- Athletics and Recreation
- Student clubs and student-sponsored events

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**

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.

The two main groups that oversee cash handling at UC Merced are Campus Cashiering and Accounting Services. Both departments are part of Business and Financial Services in the Business and Administrative Services division. The Director of Accounting Services has been delegated the role of the 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.

UC Merced utilizes a cashiering system called CASHNet to record deposits in the campus financial system. Various departments have purchased separate cashiering systems built for their type of operations (Dining, Campus Store, etc.) for which there is not an automatic interface with CASHNet. As a result, cashiers manually key summarized daily deposit information from these other systems into CASHNet to account for deposits.

During recent years, Payment Card Industry Data Security Standards (PCI DSS) have required more scrutiny over information security for systems used to process credit and debit card transactions. These standards continue to change as PCI Data Security Standards 3.0 will become effective during 2015.

## **Conclusion**

Based upon the work performed, we concluded that Campus Cashiering and Accounting Services have implemented an adequate system of controls. However, we noted that practices related to bank reconciliations need improvement. The following areas for improvement were identified:

- Bank reconciliations should be completed in a timely manner
- Variances from policy should be reviewed by the Campus Cash Handling Coordinator
- Petty cash utilization should be reviewed
- Establish a plan for complying with PCI DSS 3.0
- Document changes to safe combinations
- Improve the safeguarding of cash at after-hours events

## **Observations**

1. Bank reconciliations should be completed in a timely manner

The reconciliation of deposits recorded by the bank with transactions in the campus financial system is an important internal control. BUS-49 *Policy for Cash and Cash Equivalents Received* identifies the reconciliation of accounts as one of the basic internal control principles: “The campus is responsible for establishing procedures to ensure that:

- Cash and cash equivalents collected and reported as deposited are deposited to authorized University bank accounts in an accurate and timely manner.
- General ledger recordings/transactions are accurate.”

During testing of bank reconciliations, we noted that the reconciliations were not completed in a timely manner. During 2013, three accountants (including the accountant who formerly completed the reconciliations) left Accounting Services. The department had difficulty hiring and training their replacements and, as a result, got behind in completing the reconciliations. Since recently returning to full staff, Accounting Services has gotten caught up with two accounts where reconciliations had fallen six months behind. Reconciliations for two other accounts are still many months behind.

As the reconciliations were not completed in a timely manner, there was a risk that reconciling items that were recorded in the bank were not identified and investigated in a timely manner.

We recommend that bank reconciliations be brought up to date. A standard for reviewing and clearing reconciling items (such as clearing items within thirty days) should be established.

### ***Management Response and Corrective Action***

*These observations were made at a time when the Accounting Services Department had just stabilized its staffing needs and was catching up on a significant level of backlogged work. During a time of extremely low staff levels, Accounting Services was forced to prioritize their work toward higher risk areas. As a result, because reconciliations were considered lower risk, they were placed on hold in favor of higher risk areas. BUS-49 places an emphasis on cash collections. Because of compensating controls in place, including automated controls between the depository institutions and the University’s financial systems, and the structure of the depository accounts (zero balance accounts that are swept daily to UCOP controlled bank accounts), the comparison of bank balances to book balances (e.g. reconciliation) was considered lower priority, low risk of financial misstatement and low risk of misappropriation of assets, an important criteria of the safeguarding of assets. It is a standard practice in the Accounting Services Department to perform and review all bank reconciliations timely. The reconciliations are completed by the Treasury Accountant and then the review is conducted by the Director of Accounting Services or the Supervising Accountant. Business Financial Services management agrees with the finding and was addressing the backlog of reconciliations at the time of this review. It is Accounting Services standard practice to resolve all reconciling items by month-end and going forward, with staffing levels considered adequate at the moment, will resume performing the review with all reconciling items to be resolved within 30 days of month-end.*

*Additionally, there were no material unreconciled differences or errors noted that required any adjustments to the Campus’ financial records. As we look to the future to implement administrative efficiencies and streamline our financial operations, we will be mindful of these recommendations.*

*Accounting Services will complete the back log of reconciliations and all reconciling items will be resolved within thirty days of month-end. This action plan will be completed by October 31, 2014.*

2. 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.

BUS-49 requires cashiers to maintain individual accountability over cash and payments. “The unit must provide a cash register drawer, a cash drawer insert or another secure cash receptacle to which only the cashier has access.” The Campus Store has accepted the risk related to having multiple cashiers working out the same cash drawer as they believe it would be too difficult to maintain individual accountability and as mitigating controls have been implemented to limit losses. BUS-49 delegates approval for exception to policy based on local circumstances to the Campus Cash Handling Coordinator.

We recommend that the Campus Cash Handling Coordinator utilize the annual reviews of compliance with BUS-49 *Policy for Cash and Cash Equivalents Received* to train cash handling units the need for review of changes in local operating procedures. Risks related to these changes should be evaluated and accepted or rejected by this employee.

***Management Response and Corrective Action***

*In conjunction with the periodic surprise change fund and petty cash fund audits throughout the year conducted by Accounting Services, the review will be extended to address potential non-compliance issues of Bus-49 Policy for Cash and Cash Equivalents. A checklist of items to review and discuss with the departmental change and petty cash fund custodians will be developed to provide training and help to determine any non-compliance issues, such as safe combination changes, cash collection procedures, etc., which could provide an opportunity to address these issues in a timely manner. This action plan will be completed by October 31, 2014.*

3. Petty cash utilization should be reviewed

During the review of petty cash, we noted funds where the custodian has not needed to replenish the accounts for many months. One important principle related to maintaining cash is to minimize the amount of cash on hand to the amount needed for ordinary business needs. One fund we noted was a \$3,000 fund established for the Campus Store Director to be used in rare instances when there was a very large return for cash. There has been very little activity with the fund since it was established in 2006.

We recommend that petty cash funds be evaluated with the level of activity to determine whether they might be reduced.

### ***Management Response and Corrective Action***

*Business Financial Services management agrees with the observation and Accounting Services will continue to adhere to the process to conduct formal change and petty cash fund audits to ensure that petty cash funds are needed. Under the current audit process, conducted periodically by Accounting Services, a series of questions are used to determine if the funds are appropriate and/or necessary for business operations. During the Bookstore's change and petty cash funds audit, conducted in May 2014, Accounting Services recommended that this particular petty cash fund be closed. The Campus Store Director agreed to close his fund if he is able to utilize a card solution to process large merchandise returns. Accounting Services has been working with US Bank to establish card programs as an alternative solution to providing campus departments with cash. We expect to implement these card programs by the fall of 2014, converting all petty cash funds to a card solution to meet the Campus departments' needs, providing better utilization and control over cash. More specifically, as a result of this conversion, we would close the Bookstore's petty cash fund. This action plan will be completed by December 31, 2014.*

#### 4. Establish a plan for complying with PCI DSS 3.0

Payment Card Industry Data Security Standard (PCI DSS) 3.0 will add additional requirements that become effective during 2015. One significant change from prior versions is the requirement to "Implement a methodology for penetration testing". A penetration test is an attack on a computer system with the intention of security weaknesses. It goes beyond merely scanning a system for open ports.

As of June 30, 2015, the campus and its assessor will need to perform external and internal penetration testing at least annually to remain compliant with PCI DSS. During prior versions, penetration testing was just identified as a best practice.

At UC Merced, PCI compliance is managed by an Accounting Services employee who serves as the campus Credit Card/Internet Payment Gateway Coordinator. These additional PCI DSS requirements will need the collaboration between Accounting, IT, and the campus Information Security Officer.

We recommend that Accounting Services work closely with IT to put together a written plan for the steps necessary to comply with PCI DSS 3.0.

### ***Management Response and Corrective Action***

*UCOP has engaged the services of a new PCI compliance vendor (Coalfire). Coalfire has been tasked with completing a needs assessment for each campus. At this time the initial scans have been completed for UCM. Coalfire recommends the following structure for PCI compliance and needs assessment review.*

*The Campus should create a team between IT Staff and campus Banking/Treasury, which at UCM resides in Accounting Services. This group should work together to identify all assets, including the IT Administrator Workstation, Manager Workstation, Point-of-sale locations, back*



*office workstations, firewall, and webservers that have cash transactions processing through them. Once identified, each location, process, system should have data flow diagram created which identifies all systems, networks, and locations that process a card transaction. This should include any third party services or equipment, and specifically call out where card data is stored. The data flow diagram should include key networking equipment, the numbered networks in place, the key payment technologies that are used and live, and the rules governing the traffic between the networks.*

*Accounting Services would like to be assigned a dedicated team of IT Staff to assist in the execution of the upcoming PCI DSS 3.0 requirements needed to maintain campus PCI Compliance. The support of IT is required in order to implement the required changes previously defined and to be in compliance. This will help to ensure the written plan that is developed by IT and Accounting remains on track from inception to completion. In addition, it is essential that the Campus Credit Card/Internet Payment Gateway Coordinator and a member(s) of IT Staff attend PCI related trainings to remain apprised of all PCI regulation changes and gain working knowledge of what is required at the campus level to remain compliant. This action plan will be implemented beginning October 2014. Completion of the initial review will be completed by May 2015. The developed ongoing procedures for compliance being finalized and in place will be dependent on the compliance vendor Coalfire and coordination with UCM IT.*

#### 5. Document changes to safe combinations

BUS-49 Policy IX.11 related to physical security over cash and cash equivalents reads: “A safe’s combination must be changed whenever a person who knows the combination leaves the employ of a cash handling unit. In addition, the combination must be changed at least once a year. Documentation must be maintained showing the date and the reason for the combination changes.”

During the audit, we reviewed the safes maintained by various cash handling units. While all employees interviewed were aware of the requirements to change the safe combinations, some departments did not maintain documentation showing the date and reason for the combination changes as they believed they could obtain the necessary information from the campus locksmith department who was involved with all combination changes.

We recommend that the Campus Cash Handling Coordinator work with cash handling units to properly maintain information related to safe combination changes.

#### ***Management Response and Corrective Action***

*The Campus Cash Handling Coordinator is going to develop a safe combination change form that is to be completed by each department and signed by the campus Lock and Access Department when a safe combination change is performed. As part of this process, a signed copy would be provided to the requesting department and then forwarded to Accounting Services to retain. This would provide campus departments with supporting documentation of all safe combination changes, and also enable the Campus Cash Handling Coordinator to remain informed. This action plan will be completed by October 31, 2014.*

## 6. Improve the safeguarding of cash at after-hours events

During the audit, we interviewed employees from the various cash handling units to identify risks and concerns related to cash handling. One concern related to handling cash at weekend or after hour events. For example, there have been weekend events where speakers are brought in by student clubs where payments are received. These payments are ultimately used to pay back the campus student government for speaker costs. As the main cashiering station is closed during these timeframes, the reconciled cash payments are maintained by one person until they can be deposited with Campus Cashiering. Similar concerns were noted during discussions with Development and Athletics during their after-hours events. As UC Merced continues to grow, the number of these events will continue to increase. We recommend establishing procedures for protecting payments received during special events.

### ***Management Response and Corrective Action***

*Cash collected during weekend events should always be transported and reconciled in dual custody and secured after each event. To ensure monies collected from weekend events are protected from misappropriation or theft, a review will be conducted to determine a location for a depository drop box or a secure departmental location open during the weekends such as Campus Police where the deposits could be held. The depository requirements would still require a deposit transmittal be submitted with the monies to ensure Campus Cashiering applies the monies to the appropriate FAU's. Procedures for safeguarding payments from these events will be established by November 30, 2014.*