



AUDIT AND ADVISORY SERVICES

Cash Management – Cashiering/Subcashiering Audit Project No. 12-583

June 28, 2012

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June 28, 2012

Delphine Regalia
Assistant Vice Chancellor & Controller
Controller's Office

Assistant Vice Chancellor & Controller Regalia:

We have completed our audit of Cash Management–Cashiering/Subcashiering per our annual audit plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Attached is our audit report including observations and management action plans. Thank you to Billing and Payment Services and other departmental staff for their cooperative efforts throughout our audit process.

Please destroy all copies of draft reports and related documents. Also, please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Vice Chancellor John Wilton
Director Joyce Sturm
Senior Vice President Sheryl Vacca
Associate Chancellor Linda Morris Williams

**University of California, Berkeley
Audit and Advisory Services
Cash Management-Cashiering/Subcashiering**

Table of Contents

OVERVIEW	2
Executive Summary	2
Audit Objective	3
Audit Scope	3
Audit Methodology	3
Background	3
Summary Conclusion	4
SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN ..	5
Unclaimed Wire Transfers	5
Unannounced Verifications of Human Subject Accounts	7
Timeliness of Deposits	8

OVERVIEW

Executive Summary

The purpose of the audit was to assess whether controls over currency, credit cards, checks, wire transfers, and human subject accounts are in place and functioning in accordance with UC Business and Finance Bulletin BUS-49, "Policy for Cash and Cash Equivalents Received" (BUS-49), and the UC Accounting Manual.

Billing and Payment Services (BPS) is the central campus department responsible for identifying and posting campus incoming wire transfers, establishing petty cash accounts and human subject accounts, and implementing policies to strengthen controls to determine whether cash and cash equivalent transactions are in compliance with UC policies. BPS is also responsible for overseeing credit card merchant accounts and is the liaison between UCOP, the merchant bank (First Data Merchant Services), credit card processors, vendors, and campus merchants. BPS has delegated authority to approve and establish accounts with the campus' merchant bank and internet and gateway providers on behalf of the University.

We had three observations resulting from our audit procedures related to incoming wire transfers, unannounced verifications of human subject accounts, and the timeliness of deposits. Our observations are presented, at a summary level, as follows:

- There was a total of 285 incoming wire transfers dated between February 7, 2007 and December 9, 2011 that were not matched and allocated to a department or fund and are considered unclaimed. The cumulative amount of these 285 unclaimed wire transfers was approximately \$4.6 million.
- For all five of the sampled human subject accounts examined, unannounced verification of human subject account funds were not performed on a periodic basis by campus departments. The fund balances for these five accounts totaled \$92,000. Additionally, petty cash verification letters were not sent by BPS to departments to validate active human subject accounts.
- For two of the sampled ten departments, incoming checks were deposited approximately one to three months after their receipt by the department.

Overall, aside from the observations above, our audit found that controls appear sufficient to assure cash and cash equivalents are accurately and timely deposited, deposits are accurately recorded to the general ledger, and cash and cash equivalents are properly safeguarded.

We have discussed these observations with BPS management as well as the relevant departments. We have obtained management action plans that we believe, if implemented, will address the observations we noted going forward.

Audit Objective

The purpose of the audit was to assess whether controls over cash receipts and bank deposits are in place and functioning appropriately and in accordance with BUS-49 and the UC Accounting Manual. Additionally, the purpose of the audit was to determine if cash receipts are deposited on a timely and accurate basis and if cash receipts are accurately recorded in the general ledger, as well as, to evaluate controls related to safeguarding cash and cash equivalents.

Audit Scope

Based on our risk assessment, the scope of the audit focused on fiscal year 2011-12 transactions related to currency, credit cards, checks, wire transfers, petty cash, and human subject accounts.

Audit Methodology

Detailed testing on deposit transactions was performed for a representative sample of ten campus departments based on their volume of deposits and the dollar amount for cash, checks, and credit card deposits, and/or wire transfer transactions as well as five campus departments with large petty cash funds or human subject accounts.

Additionally, interviews and/or walkthroughs were scheduled with these campus departments for purposes of gaining an understanding of the processes and controls related to the handling of currency, checks, credit cards, and wire transfers and the use, administration, and security of petty cash funds or human subject accounts.

Background

Billing and Payment Services

BPS is the central campus department responsible for the establishment of petty cash and human subject accounts, implementing policies to strengthen petty cash controls, and performing central campus reviews, such as, unannounced counts of department petty cash accounts to determine whether transactions are in compliance with policies. BPS also oversees all credit card merchant accounts and acts as the liaison between UCOP, the merchant bank, credit card processors, vendors, and campus merchants. It also has delegated authority to approve and establish accounts with the campus' merchant bank and with internet and gateway providers on behalf of the University. Additionally, BPS identifies and posts campus incoming electronic payments which include wire transfers.

To assist with campus departments' awareness of policy related to cash management activities and equip the departments with the knowledge and tools necessary to perform their daily cash management activities, BPS provides training in the areas of handling cash and cash equivalents, accepting payment by credit cards, and petty cash policies and procedures, as well as, guidance on the Campus Deposit System (CDS) and the Payment Card Industry requirements.

Relevant University Policies

BUS-49

BUS-49 establishes the University's policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting, and recordkeeping for all University cash and cash equivalents. Its purpose is to ensure that these University assets are protected, accurately and timely processed, and properly reported.

UC Accounting Manual, Section C-173, Cash Controls

UC Accounting Manual Section C-173 details internal control procedures and the requirements for the separation of duties of individuals who are authorized to handle University funds. Other Accounting Manual chapters are referenced in sections of C-173 related to procedures, such as, depositing cash and recording cash deposits, petty cash disbursements, and delegating signature authority regarding initiating, processing, and reviewing business transactions.

Summary Conclusion

We had three observations resulting from our audit procedures related to incoming wires, unannounced verifications of human subject accounts, and the timeliness of deposits. Our observations are presented, at a summary level, as follows:

- There was a total of 285 incoming wire transfers dated between February 7, 2007 and December 9, 2011 that were not matched and allocated to a department or fund and are considered unclaimed. The cumulative amount of these 285 unclaimed wire transfers was approximately \$4.6 million.
- For all five of the sampled human subject accounts examined, unannounced verification of human subject account funds were not performed on a periodic basis by campus departments. The fund balances for these five accounts totaled \$92,000. Additionally, petty cash verification letters were not sent by BPS to departments to validate active human subject accounts.
- For two of the sampled ten departments, incoming checks were deposited approximately one to three months after their receipt by the department.

Overall, aside from the observations above, our audit found that controls appear sufficient to assure cash and cash equivalents are accurately and timely deposited, deposits are accurately recorded to the general ledger, and cash and cash equivalents are properly safeguarded.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Unclaimed Wire Transfers

Observation

BPS is responsible for identifying and posting daily incoming wire transfers. Departments expecting funds by wire transfer must submit a claim form to BPS in order to receive credit to the appropriate general ledger account. The claim form includes information, such as, the name of organization or individual sending funds, and the amount of the wire. To mitigate undue risk of untimely recording of the funds to the general ledger account, the claim form should be submitted prior to the outside organization or individual sending the funds.

According to BUS-49, "Policy for Handling Cash and Cash Equivalents", incoming wire transfers must be recorded to the appropriate general ledger account within two working days of its receipt and all unidentified deposits will be posted to a specific "cash received undistributed" account.

BPS tracks wire transfers that have not been matched to a department or unit on spreadsheets that are posted on a campus bSpace site. These spreadsheets are available to departments and units who can use them to identify incoming funds that can be claimed. We understand that most incoming wires are eventually matched and recorded to the appropriate department or unit.

As of December 9, 2011, we observed a total of 285 incoming wire transfers dating back to February 7, 2007 that were not matched and allocated to a department or fund and are considered unclaimed. The cumulative amount of these 285 unclaimed wire transfers was approximately \$4.6 million. The following is a breakdown of these unclaimed wire transfers:

Age	Count	Amount	% of \$ Total
<5 years and >2 years	64	\$ 257,309	5.5%
<2 yrs. and >1 yr.	30	\$ 211,756	4.6%
<1 yr. and >3 months	77	\$ 1,399,674	30.2%
<3 months (Current)	114	\$ 2,772,091	59.7%
Total	285	\$ 4,640,830	100.0%

Unclaimed wire transfers represent resources belonging to a department or unit that are not being applied or a potential liability if an incoming wire was sent to the campus in error and should have been returned.

Management Response and Action Plan

Electronic payments include wire transfers and incoming remittances processed via the Automated Clearing House (ACH). BPS is responsible for identifying and posting electronic payments, however, there are four key departments also involved in the process of reviewing and claiming electronic payments: Extramural Funds Accounting (Contracts and Grants), University Relations Gift Administration, Financial Aid and Scholarships, and UC Berkeley Extension. Due to the complexities added with each of these units recording electronic payments independent of BPS, unclaimed items are recorded to a "cash received undistributed" suspense account on a monthly

basis after bank reconciliation is completed to confirm outstanding items. In response to the observation noted, by July 31, 2012, BPS will document this current process and obtain a variance from the Controller to policy BUS-49 Policy XI.4 which outlines a two day time frame for recording.

Electronic payment processing relies significantly on campus departments to identify items belonging to their unit. Each month the campus receives incoming electronic payments where the intended departmental recipient cannot be identified as belonging to one of the four key units or lacks sufficient information to be tied to a campus department by BPS. The primary reason for this inability is due to the limited information transmitted from the sender and/or processing banks. If information as to the intended recipient is not provided from the source, then it is necessary for the recipient to self-identify. To further provide context to the extent of unidentified payments, only 76 of the 1761 payments (0.90% of the dollars) received from October through December 2011 were unclaimed as of February 2012.

Period	Total Count	Count Unclaimed	% of # Unclaimed	Total Amount	Amount Unclaimed	% of \$ Unclaimed
Oct-11	575	19	3.30%	\$46,046,669	\$248,931	0.54%
Nov-11	508	20	3.94%	\$47,657,456	\$326,893	0.69%
Dec-11	678	37	5.46%	\$48,871,411	\$702,940	1.44%
TOTALS	1761	76	4.32%	\$142,575,536	\$1,278,764	0.90%

To help in the identification process, BPS created a bSpace website tool to publish the details of all unidentified electronic payments to campus business officers. In late 2010, several email broadcasts were sent to campus units informing financial administrators of this new notification tool. Members of the secure bSpace site can view unclaimed electronic payment details at any time. The bSpace application sends an email notification each time unidentified payment details are updated. Currently, 237 campus users have access to this information. In response to the observation noted, by July 31, 2012, BPS will re-communicate the availability of this tool to the campus business officers.

Throughout fiscal year 2010-11, a comprehensive review of unclaimed electronic payments in the "cash received undistributed" suspense account was conducted. To allow sufficient time for departments to research and claim funds belonging to them, details of payments from 2007 to present were posted to the bSpace site. A re-distribution of unclaimed items to the Chancellor's Fund will be completed by July 31, 2012 for unclaimed electronic payments received prior to June 2008. Going forward, a re-distribution to the Chancellor's Fund will be performed annually for items older than four years; allowing sufficient time for electronic payment initiators to identify funds sent to the campus in error and request a return.

Unannounced Verifications of Human Subject Accounts

Observation

We observed that unannounced cash counts and verification of human subject accounts were not performed on a periodic basis as required by BUS-49 for all five of our sampled campus departments. Additionally, a petty cash verification letter was not sent by BPS to these departments to validate active human subject accounts.

Consequently, we noted that one of the sampled human subject accounts was no longer active and the grant had been terminated in 2010. The department had not communicated this to BPS nor had the original \$12,000 been reimbursed to the University.

During the audit, the department reimbursed \$12,000 to BPS for the original funds received from the University for its human subject account.

In absence of petty cash verifications, there is a potential risk of loss, undetected theft, or the inability to account for petty cash transactions due to improper or unsupported disbursements or replenishments.

According to BUS-49, unannounced cash count and verification of petty cash and human subject funds shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian. Additionally, Accounting Manual, C-173-61, "Cash: Petty Cash Disbursements", states that a petty cash verification letter should be sent to departments when surprise counts are unable to be performed.

Management Response and Action Plan

It is the goal of the Controller's Office to minimize the number of petty cash accounts across campus. To that end, BPS will:

1. Establish a policy that all new research activities initiated after July 1, 2013 will pay research participants with either a Visa-branded virtual or plastic pre-loaded debit card, or with cash on an approved exception basis. The debit card program has been well received by three campus departments to date, with several others expressing interest. Researchers using petty cash as of June 30, 2013 will be allowed to continue with that payment method until the research activity is completed. Once fully implemented, the method to pay research participants will no longer be supported by petty cash.
2. Partner with colleagues in Purchasing to conduct a review for the need for small-dollar-purchase petty cash accounts as a result of the spring 2012 rollout of the BearBuy procure-to-pay solution. Petty cash accounts deemed unnecessary will be closed.

Along with the above efforts, the following initiative will be incorporated to address audit observations:

Beginning July 2012, a quarterly communication will be sent via email to all petty cash custodians and departmental contacts as a reminder of the unannounced cash count and verification policy requirements outlined in the Accounting Manual Policy C-173-61 and BUS-49 Policy XIV.4.

Departments will be instructed to contact BPS if they are unable to perform a surprise cash count. Upon notification, BPS will send a petty cash verification letter to the petty cash custodian.

Timeliness of Deposits

Observation

We noted incoming checks were not always deposited timely by the sampled departments and a required review of the supporting deposit documentation to ensure its accuracy and completeness was not always evidenced. Below are examples of these observations.

- For one of the sampled departments, for two of five deposits examined, we found four checks totaling \$53,500 that were deposited approximately one to two months after their receipt by the department. Additionally, for these two deposits, there was no evidence of a review of the CDS deposit or supporting documentation.
- For another sampled department, we found that three of five deposits had 33 checks totaling \$44,555 that were deposited approximately one to three months after their receipt by the department. Also, for all five sampled deposits, there was no evidence of a review of the CDS deposit or supporting documentation.

BUS-49 requires that deposits are made at least weekly or whenever collections exceed \$500. This policy assists in ensuring that deposit transactions are made and reviewed on a timely basis, department fund balances are appropriately reported, checks do not become stale dated, and donors do not perceive that departments are unappreciative or not in need of funds due to checks being deposited untimely.

Management Response and Action Plan

BPS actively engages in conversation with campus departments to educate them of the policy requirements for preparing and submitting deposits timely when non-compliance is observed. In response to these specific observations, starting July 2012, BPS will send an annual email announcement to all CDS deposit preparers as a reminder of policy requirements for timely deposit preparation as outlined in BUS-49 Policy XB.