

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

**Student Affairs  
Cashiering – Memorial Union  
Project #11-07**

**June 2011**

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**MANAGEMENT SUMMARY**

As part of the FY 2011 audit program, Internal Audit Services (IAS) performed a risk based assessment of all campus units that deposit cash and cash equivalents<sup>1</sup> with the Main Cashier's Office. Based on predetermined risk factors applied to deposit elements such as; total cash deposited, total currency and coin deposited, total number of deposits made by the organization during the year, and the change of total cash deposited between fiscal years, we selected Memorial Union (MU) as the focus of our cash handling audit. The purpose of the audit was to determine if internal controls were in place and functioning properly to assess the adequacy of the MU's cash handling processes, and that these processes provided for compliance with the University of California's cash handling policies. Specific fieldwork objectives evaluated processes to ensure:

- Cash and personnel were properly safeguarded;
- A proper level of accountability was embedded within cash handling processes; and,
- An appropriate separation of duties existed within cash handling processes, so that one person did not control the entire process.

The MU business units selected in this review included the Division of Student Affairs' organizational unit "Memorial Union Auxiliary Services", but did not include the University of California, Davis (UC DAVIS) Bookstore, or the Associated Students of the University of California, Davis (ASUCD) Business Office. We reviewed the cash handling processes used by: 1) the MU Fiscal Office for student organizations, commissions and trademark revenue deposits, and 2) all sales activities of the MU Games Area. The scope of the audit included the current processes used in the handling of cash with an evaluation of five months of DaFIS deposit information recorded during FY 2011.

Total cash deposits for the MU in FY 2010 were \$1.4 million. The deposited cash was assigned to the following funding source types:

Funding Source	Dollar Amount	Percentage
Auxiliary	1,141,319	82%
Agency Accounts (Student Organizations)	185,178	13%
Self Supporting Activities (Trademark royalties)	74,076	5%
Student Fees	539	0%
<b>Totals</b>	<b>1,401,112</b>	<b>100%</b>

The majority of the MU's deposits (Auxiliary Funds) come from two revenue streams: The MU Games Area and Sodexo commissions. Sodexo commissions provided as checks were received in the amount of \$549k. The MU Games Area deposited \$431k in cash, of which \$399k was currency and coin.

<sup>1</sup> Cash within the context of this audit was inclusive of checks, currency and coin deposited directly with the campus cashiers office; cash equivalents as defined by BUS-49 is defined as money orders, travelers checks, cashier's checks, or certified checks.

We visited the MU to understand more about the operations of the units that handle cash to help define the areas that should be included in the fieldwork phase of the project. We determined that the MU Fiscal Office and MU Games Area are the two major areas that handle cash and are functionally separate. The Fiscal Office receives and deposits cash for numerous student organizations along with receiving commission and trademark revenue for deposits. The Games Area cash handling processes include monitored and metered activities and the use of a \$7,000 Change Fund.

Overall we found a well controlled environment within the Fiscal Office and the Games Area. Management and staff were knowledgeable about their duties and responsibilities and demonstrated enthusiasm for ensuring the appropriate controls were in place.

We did identify various policy related issues that fall into three major categories: Security, Accountability and Training. These issues should be addressed by MU to ensure that a proper level of control exists within their cash handling processes in order to reduce the risk of errors or defalcations.

Finally, in the process of conducting our audit we did identify campus-wide issues with conducting background checks on current and new employees being hired into critical positions. Staff employees who were hired prior to 2003 may not have background checks on file using the currently required LiveScan technology. The importance of having a background check using this technology is that it provides updates on any subsequent arrests or criminal convictions that may make an employee uninsurable. For student employees, hiring departments are opting out of conducting required background checks in some instances, and the Student Employment Center (SEC) is not facilitating policy compliance when they become aware of non-compliant departments.

More detailed information on all of our observations can be found in the body of this report.

## **OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**

### **A. Campus Staff Employee Background Checks**

**Evidence of background checks and inclusion for LiveScan reporting does not exist for some staff employees hired into critical positions prior to 2003.**

We found that employees hired into critical positions<sup>2</sup> prior to 2003, who have not promoted or repositioned, do not have evidence of background checks with Human Resources (HR) and are not part of LiveScan technology. UC Davis switched to using the LiveScan technology for our background check process<sup>3</sup> in 2003. In addition to the background checks, LiveScan provides automatic updates to HR on subsequent criminal arrests, and HR can then monitor for convictions. If convicted, a person in a critical position, such as those handling cash, must be reassigned if insurability cannot be maintained. Not all critical position employees are being evaluated and monitored with this technology.

#### **Recommendations**

UC Davis HR Management should develop a plan for a campus wide process to ensure all critical position employees are included in the LiveScan technology processes monitored by UC Davis HR.

#### **Management Corrective Action**

HR will develop a plan that will identify those employees currently in critical positions and not part of the LiveScan technology, and then how the campus will work to ensure the identified employees complete a back ground check so the employees will be included in the LiveScan processes. The plan will be identified by 3/31/12.

### **B. Student Employees**

**Student employees hired into critical positions do not always undergo background checks.**

We found a condition where campus departments who post job opportunities for student employment through SEC do not always complete the required background check process for employment of the student into a critical position as required by University policy and guidelines. During the posting process of a new position, SEC will notify the

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<sup>2</sup> [PPSM 21.E. Appointment - Background Checks - Systemwide Guidelines on Designating Critical Positions](#) "Critical positions" are defined as positions that have or require: 1) Master key access to residence and other facilities; 2) Direct responsibility for the care, safety and security of human or animals; or the safety and security of personal and University property; 3) Direct access to or responsibility for cash, cash equivalents, or University property disbursements or receipts; 4) Direct access to or responsibility for controlled substances or hazardous materials; 5) Extensive authority for committing the financial resources of the University; 6) Responsibility for operating commercial vehicles, machinery or toxic systems that could cause accidental death, injury, or health problems; 7) A requirement for a professional license, certificate, or degree, the absence of which would expose the University to legal liability and/or adverse public reaction; 8) Direct access to and/or responsibility for information affecting national security; 9) Direct access to and/or responsibility for protected, personal, or other sensitive data.

<sup>3</sup> UC DAVIS Background Check Program Guidelines [http://www.hr.ucdavis.edu/salary/comp/background-check/background-check-program-guidelines/bc\\_prog\\_guide.pdf](http://www.hr.ucdavis.edu/salary/comp/background-check/background-check-program-guidelines/bc_prog_guide.pdf)

department that the position is a critical position and that a background check will be required. If the department declines to complete the background check, SEC will annotate the file but will not prompt the department any further of the need to do so.

### **Recommendations**

SEC should help facilitate compliance with the background policy for those departments who decline to complete background checks. SEC should work with HR to develop a communication procedure to determine if the non compliance with background check policies and procedures is confined to a few departments or is more widespread across campus. HR should then communicate with the departments that are not complying with the background check program.

### **Management Corrective Action**

SEC will develop a report from their internal jobs system that can be used by HR to identify departments that do not complete background checks. HR has agreed to communicate with the identified departments the need to complete the background check process. This interactive process between SEC and HR, with communications to non compliant departments, will be implemented by 1/31/12.

## **C. MU Related Controls**

### **Several controls and corresponding policy issues were identified within the cash handling processes of the MU.**

We found several control issues within the cash handling processes of the MU Fiscal Office (FO), and the MU Games Area (GA) which were also not compliant with University cash handling policies<sup>4</sup>. These conditions could be grouped into three major categories: Security, Accountability, and Training, with 11 of the 17 issues noted within the GA processes.

Specific observations and recommended observations are contained in the table starting on page 6 of this report.

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<sup>4</sup> PPM 330-55 Department Cashiering Operations and PPM 330-59 Department Cashiering Operations Physical Security was revised as of 4/15/11. These policy revisions condensed five previous policies into these two remaining policies resulting in more references to the BUS-49 Policy for Cash and Cash Equivalents Received. Fieldwork was performed using the former policies in existence during that time, but updated at report stage to reflect current policy references.

The proceeding observations reference the following policies:

- PPM 330-55 [Department Cashiering Operations](#)
- PPM 330-59 [Departmental Cashiering Operations Physical Security](#)
- BUS-49 [Policy for Cash and Cash Equivalents Received](#)

<b>Observations</b>				<b>Recommendation</b>	<b>Corrective Action</b>
#	FO	GA	FO= Fiscal Office GA= Games Area		
C. 1	√	√	<p>Security</p> <p>PPM 330-59 III.A:</p> <ol style="list-style-type: none"> <li>1. Employment history shall be verified prior to formal offer.</li> <li>2. All prospective employees shall be fingerprinted and a background check for criminal convictions shall be conducted by the UC Davis Police Department to ensure insurability.</li> <li>3. Continuing insurability is a condition for retaining cash handling responsibilities.</li> </ol> <p>We found the following:</p> <ol style="list-style-type: none"> <li>1) MU's standard practice is to perform reference checks prior to the employment offer, but we found the evidence of a completed reference check is not retained in personnel files.</li> <li>2) Student employees who handle cash in the GA do not undergo background checks.</li> <li>3) Some employees hired prior to 2003 do not have evidence of a completed background check with the department or UC Davis Human Resources.</li> </ol>	<ol style="list-style-type: none"> <li>1) MU should retain evidence of completed reference checks within the personnel file.</li> <li>2) The GA should require background checks for all students who are 18 years or older. This would allow the ability to receive notification if the student has entered into a criminal proceeding.</li> <li>3) All employees hired before 2003 that handle cash should undergo a current background check to ensure they are part of the LiveScan technology.</li> </ol>	<ol style="list-style-type: none"> <li>1) MU will begin retaining evidence of the completed background checks immediately. IAS will validate by 10/31/11.</li> <li>2) MU will ensure background checks have been performed for all student employees older than 18 and working in a critical position by 3/31/12.</li> <li>3) MU will ensure all employees currently in critical positions and not part of the current LiveScan technology will complete a background check by 3/13/12.</li> </ol>
C. 2	√	√	<p>Security</p> <p>BUS-49 Policy IX.17: Sub-Cashiering Stations and Cash Handling Departments will transport cash and cash equivalents to a Main Cashiering Station using the following methods: If the deposit is in excess of \$2,500, employees should be escorted by a Campus Security or Police Officer.</p>	<p>The FO and the GA should ensure a police escort for those deposits that exceed \$2,500 in cash or cash equivalents.</p>	<p>For those deposits greater than \$2,500, the GA and FO will include their deposit with the Bookstore deposits that already utilize a Police Escort. This will be completed by 1/31/12.</p>

<b>Observations</b>			<b>Recommendation</b>	<b>Corrective Action</b>	
#	FO	GA	FO= Fiscal Office GA= Games Area		
			We reviewed five months of deposit activity for both the FO and GA and found a majority of the deposits made for the GA, and a couple of deposits of the FO, exceeded the threshold requiring a police escort. Neither functional unit used a police escort for these deposits.		
C. 3	√	√	<p>BUS-49 Policy IX.II: 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.</p> <p>We found the safes located in the GA and the FO had not been changed according to this provision.</p>	The GA and the FO should have the combination changed at least annually, or when circumstances require it according policy.	The MU will change the FO and GA combinations at least once a year, or as often as required by policy. This will be implemented by 1/31/12.
C.4		√	<p>PPM 330-55 VI. B: Accumulated collections at sub cashiering stations shall be deposited at the Main Cashier's Office at least weekly or whenever collections exceed \$500.</p> <p>We reviewed five months of deposit activity and found the GA typically did not deposit timely. Deposits were regularly held on average 4 days before depositing with the Cashier's Office. We learned a frequent cause was due to an internal procedure that involved holding the deposit until the original cashier corrected a source document to meet an A&amp;FS Internal Controls and Accountability (IC&amp;A) requirement.</p>	The GA should develop a procedure to create a secondary source document that can be submitted to IC&A that will alleviate the need to hold the deposit until the cashier returns. The original source document and a copy of the secondary document should be retained for audit purposes, and the new procedure should receive IC&A approval if needed.	MU has developed a new procedure that will eliminate the need to hold a deposit for a correction to the deposit paperwork which should aid with the timeliness of deposits. IAS will validate the timeliness of deposits by 10/31/11.

<b>Observations</b>			<b>Recommendation</b>	<b>Corrective Action</b>	
#	FO	GA	FO= Fiscal Office GA= Games Area		
C.5	<u>Security</u>	√	<p>PPM 330-59 III.B.4: Cashiering stations must be opened for business and closed at the end of working hours in the presence of a second person to observe the general area.</p> <p>We found for the first shift of the day, there typically was not a second person present to help observe the area while the cashier prepared the register for the morning's activity.</p>	<p>During this opening hour, a second employee who is already performing duties in an adjacent area should be requested to observe the area while the cashier sets up their station.</p>	<p>The GA will include within its opening procedures the requirement for a second person to be present during the first cashier's set up of the day. This will be implemented by 1/31/12.</p>
C.6	<u>Accountability</u>	√	<p>PPM 330-55 III.A.1: All transfers of cash accountability shall be documented on a Cashiering Station Cash Accountability Transfer Receipt. Each transfer should be documented by type of cash (i.e., currency, checks, and other forms of payments). Also, the Records Retention Manual requires cash collection documents be retained for 2 years.</p> <p>1) We found the FO processes for handling and depositing cash for the Student Organizations did not include proper transfer of accountability controls. A cash count and documented transfer of monies is not performed when the deposit monies are first transferred from the processor who received and performed the initial count of cash to the processor who creates the deposit. Subsequently the processor who created the deposit did not seal the deposit bag prior to handing to a third person who delivers deposit to the cashier's office.</p> <p>2) We found the GA does not retain the Shift Change Cash Count sheets that equate to the University's Cashiering Station Cash Accountability Transfer Receipt, unless there is an overage or shortage noted on the form.</p>	<p>1) (a) The principle of dual custody should be followed whenever cash is transferred between two persons by counting, documenting and signing a transfer of accountability slip. We recommend a transfer of accountability be performed between the initial processor and the processor responsible for preparing the deposit. (b) Once the deposit is prepared the deposit bag should be sealed before providing to the third person who delivers it to the cashier's station.</p> <p>2) The GA should retain all Shift Change Cash Count Sheets with other deposit support for at least 2 years.</p>	<p>1) (a) The FO has implemented a new procedure to perform and capture an appropriate transfer of accountability. IAS has validated the action and this issue will be considered addressed by management for follow up purposes.</p> <p>1) (b) The FO has indicated they have already implemented the use of locked deposit bags. This will be validated by IAS by 10/31/11.</p> <p>2) The GA will begin retaining Shift Cash Count Sheets with other deposit support by 10/31/11.</p>

<b>Observations</b>			<b>Recommendation</b>	<b>Corrective Action</b>	
#	FO	GA	FO= Fiscal Office GA= Games Area		
C.7		√	<p>BUS-49 Policy IV IX.12: Each cashier must be provided with a separate lockable compartment in the safe to which only that cashier has access.</p> <p>Due to the number of cashiers and tills that must be made in advance, we found that occasionally two cashiers must access the same safe drawer to obtain their individual tills. These tills are either in a canvas bag or in a prepared till box, neither of which are secured through any locking mechanism.</p>	<p>We recommend that on these occasions, the individual tills should be locked within bags accessible only by the assigned cashier. This could stand as a compensating control that may allow for an exception to policy. GA should seek an exception to policy or provide a separate lockable compartment for each cashier within the safe.</p>	<p>MU will provide each cashier with their own lockable compartment within the safe. This new process will be implemented by 1/31/12.</p>
C.8		√	<p>PPM 330-55 III.A: Individual accountability for cash shall be maintained throughout all cashiering operations.</p> <p>BUS-49 Policy IV IIIA.2.1: The unit must provide a cash register drawer, a cash drawer insert or another secure cash receptacle to which only the cashier has access.</p> <p>1) We found on occasion two cashiers process cash and sales activities on the same shift using the same cash register drawer.</p> <p>2) We also found an internal process where the 2<sup>nd</sup> cashier, who has already reconciled their shift cash count, relieves the 3<sup>rd</sup> cashier (presently on duty), so the 3<sup>rd</sup> cashier can verify the shift reconciliation of the 2<sup>nd</sup> cashier. This means that two people have now accessed the register drawer assigned to the 3<sup>rd</sup> cashier during this verification process.</p>	<p>1) A second cash register should be installed to allow 2 cashiers to work together simultaneously to process sales activities.</p> <p>2) The process of the 3<sup>rd</sup> cashier verifying the 2<sup>nd</sup> cashiers shift reconciliation is a good control in itself. If a security camera was positioned such that it could clearly record the register activity, this could provide a compensating control that may allow an exception to the policy requirement for this brief period (approx 10 minutes) of time. The GA should work with the University Cashier to request an exception to this policy requirement if the security camera is relied on.</p>	<p>1) MU will install a second cash register to be used when two cashiers are working the same shift. This will be implemented by 1/31/12.</p> <p>2) The overhead camera will be positioned to record the actions of the 2<sup>nd</sup> cashier for the brief time needed for shift change. An exception to policy will be sought from the Campus Cashier, but if not approved a new procedure will be developed to correct the non compliant situation by 1/31/12.</p>

<b>Observations</b>			<b>Recommendation</b>	<b>Corrective Action</b>
#	FO	GA	FO= Fiscal Office GA= Games Area	
C.9		√	<p>Accountability</p> <p>PPM 330-55 VI.C. Deposits will be prepared with more than one person present or in the area that is equipped with an electronic surveillance system.</p> <p>We found the GA deposits prepared with only one person present and no surveillance system in the area.</p>	<p>Prepare the deposit with a second person present or establish an overhead camera in the deposit preparation area.</p> <p>MU will install an overhead camera within the GA back office where the deposits are prepared. This action will be completed by 1/31/12.</p>
C.10	√	√	<p>Training</p> <p>PPM 330-59 III.A.4: Cash handling training shall be provided to new employees upon hire and at least once per year thereafter.</p> <p>We found only the new hires were required to take cash handling training.</p>	<p>Ensure all staff who handle cash complete the cash handling training provided by the Cashier's Office on an annual basis. For those cashiers in the Games Area, ensure they also annually complete the emergency training offered.</p> <p>MU will ensure all employees who handle cash will receive the required annual training. The GA employees will also receive the emergency training offered. This will be implemented by 1/31/12.</p>