



AUDIT AND ADVISORY SERVICES
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January 25, 2021

To: Distribution

Re: **Cash Management**
Audit Report No. 08-21-0002

We have completed an audit of campus compliance with cash management as part of the 2020-21 annual audit services plan. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Business and Financial Services, Department of Recreation, and Associated Students personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services

Jim Corkill, Associate Vice Chancellor/Controller, Business and Financial Services

Department of Recreation

Jeff Huskey, Director of Recreation

Associated Students

Marisela Marquez, Executive Director of Associated Students

cc: Chancellor Henry Yang
Margaret Klawunn, Vice Chancellor of Student Affairs
Chuck Haines, Assistant Chancellor for Finance and Resource Management
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC SANTA BARBARA

UCSB Audit and Advisory Services

Internal Audit Report

Cash Management

January 25, 2021

Performed by:

Antonio Mañas-Melendez, Associate Director

Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-21-0002

EXECUTIVE SUMMARY

OBJECTIVE

The purpose of the audit was to assess the adequacy of internal controls over cash handling for the Department of Recreation and Associated Students. The objectives of this audit included determining whether departments followed general cash handling principles, best practices, and University policies in the following critical areas:

- Adequacy of processes and procedures
- Separation of duties
- Physical security
- Reconciliation of accounts

CONCLUSION

Based on the results of the work performed within the scope of the audit, we found the Department of Recreation and Associated Students have implemented overall adequate internal controls over cash management processes, including separation of duties, physical security, and reconciliation of accounts. However, the results of our work found opportunities in both departments to improve the following cash management processes for full compliance with University policies and best practices:

- Tracking and monitoring background checks, training, and point of sale system access.
- Attesting to and verification of cash transactions.
- Maintaining a safe combination change log.
- Performing and documenting periodic surprise cash counts.

In addition, our work further identified opportunities for:

- The Department of Recreation to improve deposit and reconciliation verifications to attest to the accuracy of the count.
- Associated Students to ensure funds are transferred to and from all locations under dual custody and installation of a security system, which has been ordered.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

A. Department of Recreation

1. ADEQUACY OF PROCESSES AND PROCEDURES

OBSERVATION

Our review of cash handling processes and procedures found a need to improve tracking and monitoring of background checks, training, and individual point of sale (POS¹) system access.

We selected a sample of six cashiers during our tested audit period and reviewed support documentation for background checks, training, and individual system log-in/out reporting and found:

- Six cashiers did not receive a background check as is required by University Policy.
- Six cashiers received initial training. However, a training log should be developed to track initial and annual refresher training.
- One cashier logged into two locations in the POS system simultaneously.
- One cashier did not login under their credentials, but instead performed transactions under a previous cashier's account, due to the previous cashier not logging out of the system.

In order to minimize risk to the University, it is imperative to track and monitor background checks and training of individuals in critical cash handling positions to provide assurance that employees possess the qualifications and knowledge to perform cash handling duties.

2. SEPARATION OF DUTIES

OBSERVATION

Our work highlighted opportunities to improve cash counting attestations over cash transactions and verifications to attest² to the accuracy of the count on cash handling reports.

Our review was limited to front desk and equipment room daily cash transactions and deposits during January 6 to January 10, 2020 and a monthly reconciliation for January 2020. We found attestations on count sheets to be inconsistent and verifications were not always performed and documented. Specifically, we found:

- Daily count sheets consisted of 45% (204 of 458) of cashiers and supervisors' initials missing in the assigned time slots on the cash form attesting to transactions that occurred during their shift. Retraining cashiers could improve consistency in transaction reporting.
- Daily deposit slips were prepared and initiated by the Financial Assistant, however they were not verified by someone other than the preparer to attest to the accuracy of the count. Updating forms with verification signatures required could improve the separation

¹ Point of Sale (POS): System used to track transactions between Department of Recreation and customers.

² Attest: Provide evidence to confirm and verify accuracy of transactions.

of duty process.

- General ledger reconciliation for the month of January 2020 was prepared using a Microsoft Excel spreadsheet by the Financial Assistant and verified by the Director of Budget for accuracy, however, there was no support documentation to attest to the review.

3. PHYSICAL SECURITY

OBSERVATION

Our review of physical security measures found there is not a safe combination change log maintained. Due to Covid-19 pandemic, we were unable to test and observe processes.

The results of our interviews found assets are securely stored in a safe with access limited to need-to-know personnel, and cash registers are kept in a lockable, fire-resistant, and burglar proof safe overnight. In addition, deposits are transferred under dual custody to the Cashier's Office and a panic button is installed to alert the University of California, Santa Barbara Police Department in case of an emergency. However, a safe combination log is not maintained documenting the date and the reason for change when an employee leaves or at a minimum of once per year.

4. RECONCILIATION OF ACCOUNTS

OBSERVATION

Our review of daily deposits, a monthly general ledger reconciliation, and periodic surprise counts found verifications to attest to the accuracy of cash counts were not documented and surprise counts were not performed.

We reviewed five consecutive deposits during January 6 to January 10, 2020 and found daily reconciliations are performed by cross balancing funds collected against the POS system totals. Deposits are prepared and signed by a professional staff member. However, deposit slips are not verified for accuracy by someone other than the preparer.

We compared the January 2020 General Ledger (GL) deposits to the monthly reconciliation report and found totals matched. The Financial Assistant records and reconciles deposits using a Microsoft Excel spreadsheet maintained on a shared network drive accessible to all staff employees. The Director of Budget reviews the spreadsheet and reconciles to the GL on a monthly basis. However, there is no evidence of the review and the spreadsheet should be limited to key personnel.

Additionally, we found that periodic surprise counts are not performed to ensure the accuracy and compliance with cash controls. Evidence of surprise count results should be supported by documentation.

RECOMMENDATION

We recommend the Department of Recreation improve cash handling processes and procedures to incorporate the following best practices by:

- Performing background checks for all cashiers and tracking them.
- Monitoring initial and annual refresher cash handling training.
- Using individual credentials to access the point of sale system (POS).
- Requiring all verification signatures documented in cash counting attestations.
- Verifying the accuracy of daily deposit slips and limiting access to reconciled spreadsheets.
- Documenting the verification of monthly General Ledger reconciliations.
- Maintaining a safe combination log, including date and reason for change, when an employee leaves or at least annually.
- Performing and documenting periodic surprise cash counts by a supervisor, or someone other than the custodian to ensure accuracy and compliance with cash controls including but not limited to date and time, detailed reconciliation counts, discrepancy noted (if any), and signature of custodian and supervisor.

MANAGEMENT RESPONSE

Department of Recreation will improve cash handling processes and procedures to incorporate the following best practices by:

- Performing background checks for all cashiers and tracking them.
- Monitoring initial and annual refresher cash handling training.
- Using individual credentials to access the point of sale system (POS).
- Requiring all verification signatures documented in cash counting attestations.
- Verifying the accuracy of daily deposit slips and limiting access to reconciled spreadsheets.
- Documenting the verification of monthly General Ledger reconciliations.
- Maintaining a safe combination log, including date and reason for change, when an employee leaves or at least annually.
- Performing and documenting periodic surprise cash counts by a supervisor, or someone other than the custodian to ensure accuracy and compliance with cash controls including but not limited to date and time, detailed reconciliation counts, discrepancy noted (if any), and signature of custodian and supervisor.

Audit and Advisory Services will follow up on the status of this issue by April 30, 2021.

B. Associated Students

1. ADEQUACY OF PROCESSES AND PROCEDURES

OBSERVATION

Our review of processes and procedures over cash handling found a need to improve tracking and monitoring of background checks, training, and individual POS³ system access.

Our work was limited to the ticket office and the bike shop cash handling activity. We selected a sample of six cashiers and reviewed support documentation for background checks, training, and individual system log-in/out reporting and found:

³ Point of Sale (POS): System used to track transactions between Associated Students and customers.

- One of the six cashiers background checks were not processed.
- Three of the six cashiers cash control training was not documented.
- There is a cashier transactions summary report, however Associated Students was unable to locate the POS system individual log-in/off report.

Tracking and monitoring background checks and training of individuals in critical cash handling positions minimizes risk to the University and provides assurance that employees possess the qualifications and knowledge to perform cash handling duties.

2. SEPARATION OF DUTIES

OBSERVATION

Our work highlighted opportunities to improve cash counting attestations over cash transactions and verifications to attest to the accuracy of the count on cash handling reports.

We reviewed daily ticket office and bike shop cash transactions performed during January 6 to January 10, 2020 and weekly deposits and monthly reconciliations for the month of January 2020. We found deposits are prepared by a cash manager and accuracy is reviewed and attested to by a cash coordinator. Reconciliations included initials of the preparer and reviewer to attest to the accuracy of the count.

However, our review of daily cash transactions found 9% (six of 70) of cashiers' and/or supervisors' initials attesting to transactions performed and recorded on daily cash handling reports were inconsistent.

3. PHYSICAL SECURITY

OBSERVATION

Our review of physical security measures found funds from the ticket office to the bike shop are not transferred under dual custody, a safe combination change log is not maintained, and an alarm system and security cameras have not been installed in the AS Cashier Office. We were unable to perform a physical observation due to Covid-19.

We were informed deposits are protected by an armored transport while in transit to an outside banking institution and assets are properly stored in a cash safe that requires two keys for access and the bottom lock is limited to key career personnel. A second safe for event drops outside the ticket office is accessed by a combination.

4. RECONCILIATION OF ACCOUNTS

OBSERVATION

Our review of weekly deposits, a monthly general ledger reconciliation, and periodic surprise cash counts found an opportunity to improve surprise cash count documentation.

We reviewed weekly deposits and a reconciliation for the month of January and found reconciliations are performed by cross balancing deposits against the financial system totals. Deposits are prepared and signed by a cash manager and verified by a cash coordinator and

transported by an armored transport service weekly to an outside banking institution. We compared the bank statement to the POS system report and found total deposits matched.

The reconciliation between the financial statement and bank statement is prepared and reviewed by two independent Associated Students administration authorized staff on a monthly basis.

A periodic surprise cash count is performed to provide assurance cash controls are in place, however documentation to attest to the count needs to be formalized.

RECOMMENDATION

We recommend the Associated Students improve cash handling processes and procedures to incorporate the following best practices by:

- Performing background checks for all cashiers and tracking them.
- Monitoring initial and annual refresher cash handling training.
- Using individual credentials to access the point of sale system (POS).
- Attesting to daily cash transactions and verifying to the accuracy of cash counts performed.
- Maintaining a safe combination log, including date and reason for change, when an employee leaves or at least annually.
- Transporting funds from one location to another is performed under dual custody.

MANAGEMENT RESPONSE

Associated Students will improve cash handling processes and procedures by incorporating the following best practices:

- **Background Checks:** Associated Students currently conducts background checks on all new hires and will continue to do so for all staff hired into cash handling positions, and will document these consistently.
- **Training:** With previously vacant supervisory positions filled, the documentation and monitoring of cash handling training has been improved and will continue to be completed. Refresher training will be documented for returning staff.
- **Credentials:** Connected with training and expanded supervision, the communicated importance and practice of using individual access credentials has been improved and will continue to be practiced, however we did not have a report that showed the login and logout details. Our Point of Sale (POS) vendor will be contacted to see whether the system captures this information and if a login/ logout report can be produced per cashier.
- **Cash Counts Verifications:** This is another area where full staffing has helped and will continue to ensure consistent attestations.
- **Maintaining a Safe Combination log:** With respect to changing safe combinations, replacing the safe with one that has a digital lock that can be easily changed with admin credentials, will be needed.

- **Transporting Funds:** Regarding dual custody, campus CSO's provided it for TO event operations/events. Dual custody with Bike Shop funds will be maintained through scheduling as a job responsibility for a designated cashier in morning and evening.

Since the campus closed in March 2020, the AS Ticket Office has been open 3 hours a week only to receive deposits for Associated Students and Registered Campus Organizations. The AS Bike Shop is closed and there are no cashiering responsibilities being performed. The AS Ticket Office will not return to more normal operations until Fall of 2021. Because the AS Ticket Office is performing minimal duties, the AS Ticket Office will prepare to institute changes and create new documentation procedures, but do not anticipate actual implementation of the new procedures until the campus reopens and AS services are approved to resume operations. At that time, the Ticket Office will intend to conduct extensive training and retraining for all staff to ensure staff follow proper procedures after an approximately 18-month gap in service.

Due to the fact that the campus is delivering remote instruction and the campus is closed, and staffing and operations for the AS Ticket Office and Cashiering functions is extremely limited, the date of December 1, 2021 might be representative of management's full implementation of the recommendations.

Audit and Advisory Services will follow up on the status of this issue by December 1, 2021.

GENERAL INFORMATION

BACKGROUND⁴

The University of California (UC) maintains financial policies that comply with state and federal law, and that incorporate recognized best practices for prudent oversight of the University's financial assets. UC Policy 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 important University assets are protected, accurately and timely processed, and properly reported.

The University has established certain basic internal control principles applying to collecting and accounting for cash and cash equivalents.

A. ACCOUNTABILITY

The campus is responsible for establishing procedures for cash and cash equivalents under that campus's control that identify:

- Which individuals receive cash and cash equivalents and for what purpose.
- Where cash or cash equivalents are at all times.
- What transpired from the beginning to the conclusion of a cash handling process.

Each individual who receives or has custody of University cash and cash equivalents must be held responsible for cash and cash equivalents under his or her control.

⁴ UC BUS-49, *Policy for Cash and Cash Equivalents Received* (UC Policy BUS 49).

B. SEPARATION OF DUTIES

The Business Unit head is responsible for establishing procedures that ensure that no single individual is responsible for collection, handling, depositing and accounting for cash received by that unit. At least two qualified individuals must be assigned to carry out key duties of the cash handling process.

C. PHYSICAL SECURITY AND DATA TRANSMISSION SECURITY

The Business Unit head is responsible for establishing procedures that ensure that at all times:

- Individuals who handle cash and cash equivalents are protected from physical harm.
- Cash and cash equivalents in the custody of the unit are protected from loss.
- Technology resources involved in processing cash and cash equivalents (i.e., hardware and confidential personal information) are protected from loss, corruption, or compromise to confidentiality.

D. RECONCILIATION OF ACCOUNTS

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.

SCOPE

The limited scope of our work included an overview of the cash handling process and procedures identified in UC Policy BUS 49.

Specifically, we:

- Reviewed UC and University of California Santa Barbara (UCSB) policies, state and federal regulations and other guidance concerning cash handling and cash equivalents.
- Conducted interviews with Department of Recreation and Associated Students personnel to obtain a better understanding of the process and internal controls in place for handling cash.
- Conducted detailed testing of a sample of cash handling reports and for compliance with the UC Policy BUS-49, in the following areas:
 - Adequacy of processes and procedures
 - Separation of duties
 - Physical security
 - Reconciliations

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor