

**UNIVERSITY OF CALIFORNIA, DAVIS  
AUDIT & MANAGEMENT ADVISORY SERVICES**

**Cashiering  
Audit & Management Advisory Services Project # 17-57**

**June 2017**

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**MANAGEMENT SUMMARY**

**Background**

University of California Davis (UC Davis) accepts cash<sup>1</sup> for a variety of reasons including, but not limited to, fees for services provided, donations, sporting events, and fundraising activities. To guide UC campuses, the University of California Office of the President (UCOP) developed a high-level policy on handling and processing cash, along with roles and responsibilities related to the receipt, safeguarding, reporting and recordkeeping for all University cash. Each Campus Controller, assisted by the Cash Handling Coordinator, is responsible not only for ensuring compliance with the UCOP policy, but also developing local policies to take into account specific risks for their campus. The purpose of the policies is to ensure cash is adequately protected, accurately and timely processed, and properly recorded.

At UC Davis campus, during fiscal year (FY) 2016, 152 business units recorded approximately \$334 million in cash. Of that, 84 units were responsible for approximately \$2.7 million in coins and currency.

**Purpose and Scope**

As a supplemental project to the audit plan for FY2017, Audit and Management Advisory Services (AMAS) conducted a review of cash handling. The purpose of the review was to evaluate Accounting and Financial Services (A&FS) internal controls over cash handling, and their compliance with UCOP and UC Davis policies related to cash. The scope of our review focused solely on the responsibilities of A&FS, and excluded any controls and processes within the various business units that handle cash. Additionally, handling of cash once delivered to the Cashier's Office was excluded.

Our audit procedures included a review of UCOP and UC Davis policies related to cash, interviews with key personnel within A&FS involved with cash, and an examination of cash related data during fiscal year 2016.

**Conclusion**

Our audit found that A&FS is in compliance with various UCOP and UC Davis policies related to cash handling. Opportunity exists to strengthen the annual review of cash handling compliance within business units, and develop new monitoring controls related to cash handling training and monitoring of cash overages and shortages identified within the Cashier's Office. A&FS should also periodically evaluate existing policies and exceptions granted to ensure they are still appropriate, and align with current practices in the department. Finally, A&FS should designate an alternative approver for advance deposits and update the UC Davis policy on how to manage cash at locations outside of UC Davis premises.

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<sup>1</sup> In this audit report the term "cash" refers to coins, currency, and checks.

**I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**

**A. The annual review process to evaluate the campus' compliance with UCOP policy can be strengthened, formalized, and documented.**

UCOP BUS-49, *Policy for Cash and Cash Equivalents Received*, requires the Cash Handling Coordinator to perform an annual review of compliance with policy, and inform the Campus Controller of risks associated with each campus cash handling unit.

The Cash Handling Coordinator currently meets with the Campus Controller as needed to discuss specific concerns that have been raised, such as financial losses and thefts, or department(s) with continual non-compliance with cash handling policies. Informal meetings are also held to seek guidance or examine unique situations regarding cash handling matters. However, there is no formal documented process by which campus cash handling units are evaluated, including sharing of business risks with the Campus Controller.

**Recommendation**

- a. The Cash Handling Coordinator should develop an annual process to review and assess each cash handling unit's operations and compliance with the UCOP BUS-49 policy.

**Management Corrective Action**

1. By November 15, 2017, the Cash Handling Coordinator will develop an annual process to evaluate each cash handling unit's compliance with UCOP BUS-49 policy. The review will entail:
  - Identifying all units that regularly handle cash and cash equivalents based on the listing of departments approved to accept credit card payments;
  - Requesting each unit to submit policies and procedures, and a list of all employees performing cash handling duties;
  - Reviewing each unit's policies and procedures for compliance with cash handling policies and appropriate separation of duties;
  - Validating that employees with cash handling responsibilities have completed the required training;
  - Reviewing cash overages and shortages for business units identified by A&FS as high-risk for potential fraudulent activity and to ensure adequate controls exist to prevent fraud; and
  - Addressing any overall concerns or areas of improvement identified in internal controls or processes.

**B. Opportunity exists to develop monitoring controls for overages or shortages identified by the Cashier's Office to timely identify patterns that may indicate a poor control environment or potential fraudulent activity.**

The Cashier’s Office is responsible for receiving and reviewing cash deposits and accompanying Kuali credit receipts (CR) prepared by business units. Upon receipt, a secondary cash count is performed for accuracy, and totals are compared to the CR. In accordance with UC Davis Policy 330-55, *Cashiering Controls*, if any overages and shortages were identified by the cashier and not reported on the CR, an adjustment would be documented on the CR and forwarded to both the CR preparer and A&FS’ Internal Control contact, by email.

While a report is available of all overages and shortages identified by the Cashier’s Office on a daily basis, a process is not currently in place to monitor the data for trends that may indicate a poor control environment to appropriately safeguard cash or potential fraudulent activity.

**Recommendation**

- a. The Cash Handling Coordinator should perform a monthly review of all overages and shortages identified by the Cashier’s Office, and all concerning activity should be further investigated.

**Management Corrective Action**

- 1. By August 15, 2017, the Cash Handling Coordinator will develop a monthly process for the Cashier’s Office to review all overages and shortages identified by the Office for trends that may suggest a poor control environment or possible fraudulent activity within a unit. All concerns will be further investigated by the Cash Handling Coordinator, and discussed with the unit’s fiscal officer and Campus Controller, as applicable.

**C. Exception(s) to the UCOP policy on cash handling should be adequately documented, reviewed, and periodically evaluated.**

UCOP BUS-49 policy allows each Campus Controller to establish criteria for granting variances to the procedures outlined in the policy when verifiable mitigating controls exist. The Campus Cash Handling Coordinator is responsible for approving such variances as warranted by local circumstances.

Based on our review, we identified two (2) exceptions to the UCOP policy:

#	UCOP Policy Requirements	UC Davis Practices
1	BUS-49, XIV.4 requires unannounced cash count and verification of change fund(s) for which cashiers and cash handling employees are accountable shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian.	Per UC Davis 330-46, Cashiering Change Fund, unannounced cash counts and verification of cash funds are not conducted; only a verification letter is sent by A&FS requesting the unit perform a cash count confirming the change fund amount.
2	BUS-49, XIV.4 requires unannounced cash count and verification of petty cash fund(s) for which cashiers and cash handling employees are accountable shall be performed on a periodic basis, at least quarterly, by someone other than the fund custodian.	Per UC Davis 330-45, Petty Cash Funds, surprise cash count of each petty cash fund are performed annually.

The two (2) exceptions in the above table are adequately documented within UC Davis policies that are approved by the Campus Controller. However, there is no process in place to annually review and evaluate the exceptions granted to the UCOP policy.

### **Recommendations**

- a. The Cash Handling Coordinator should develop processes to ensure all exceptions to UCOP BUS-49 policy are adequately documented, approved, and reviewed on an annual basis.

### **Management Corrective Actions**

1. By November 15, 2017, the Cash Handling Coordinator will develop a process to ensure all exceptions to BUS-49 are (i) documented and approved by the Campus Controller, and (ii) reviewed annually to determine if still applicable.

#### **D. Petty cash audit requirements outlined in UC Davis Policy 330-45, *Petty cash funds*, should be reevaluated.**

UC Davis Policy 330-45, *Petty Cash Funds*, requires A&FS to annually perform a surprise cash count and verification of each petty cash fund, including a review of the documents on hand. If a surprise count cannot be performed, a petty cash verification letter should be sent to the departments instead. In addition, UCOP BUS-49 policy requires the Cash Handling Coordinator to approve the audit procedures.

Our review identified 35 petty cash funds exist, with a total of \$32,133 in petty cash balances.<sup>2</sup> Audits for the petty cash funds have not been conducted due to resource constraints, and verification letters were only sent during fiscal years 2015, 2016 and are scheduled for 2017. In addition, there were no documented and approved audit procedures for the unannounced petty cash fund audits.

### **Recommendation**

- a. A&FS should review and evaluate the risks associated with the use of petty cash. Based on level of risk and available resources within A&FS, the frequency of petty cash audits and verification letters should be evaluated. In addition, A&FS should update UC Davis Policy 330-45 to reflect the new process that is determined.

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<sup>2</sup> All petty cash funds except for three (3) had balances of less than \$200 as required by UC Davis Policy 330-45. The remaining 3 funds had balances in excess of \$200, but these funds do not have cash on hand. Instead, receipt of purchases are required to be submitted and are reviewed by the Department and Accounts Payable prior to disbursement of funds, therefore resulting in low risk.

**Management Corrective Actions**

1. By February 15, 2018, A&FS will evaluate and determine the level of risk associated with petty cash funds, and take the following actions:
  - (i) If risk is considered to be low, UC Davis Policy 330-45 will be updated to no longer require A&FS to annually perform a surprise audit for petty cash funds, and instead use verification letters annually to certify petty cash fund balances.
  - (ii) If risk is considered to be high, A&FS will review and determine the appropriate frequency and staffing requirements in conducting the petty cash audits. Audit procedures will also be developed and documented. Additionally, A&FS will implement an annual control to review the replenishment patterns of petty cash funds to see if they are consistent and appropriate.
  - (iii) Update UC Davis Policy 330-45 to reflect the new process.

**E. Advance deposits are only reviewed by one employee; there is no alternative approver assigned.**

When cash is deposited directly to the bank, business units or the Cashier's Office<sup>3</sup> are responsible for preparing an advance deposit within Quali. The advance deposit records the amount of cash collected and the account information for where the cash should be recorded. A&FS is then responsible for reviewing and approving the advance deposits to ensure the supporting documentation and cash reflected in the bank account agree. Discrepancies are remediated with the unit, and adjustments are made if necessary. Once the advance deposit is approved, the cash is recorded within the general ledger.

Currently, only one person within A&FS is responsible for reviewing and approving all advance deposits. There is no employee assigned to serve as a designated back-up approver when the employee is out on vacation or leave.

**Recommendation**

- a. A&FS should delegate an alternative advance deposit approver when the primary approver is unavailable.

**Management Corrective Action**

1. By February 15, 2018, A&FS will train and assign a delegate to approve advance deposits when the primary approver is unavailable or unable to perform the review and approvals.

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<sup>3</sup> The Cashier's Office is responsible for preparing advance deposits related to wires and lockboxes, along with automated clearing houses (ACHs) for campus. The funds from these deposits include, but are not limited to, federal funds from contracts and grants, federal student loan funds, and student tuition and fees.

**F. UC Davis local policy 330-55, Departmental Cashiering Operations, should be updated to reflect requirements for when cash is managed at off-site locations.**

In recent years, cash is often collected and managed off-site at various UC Davis sponsored events such as sports-related fundraisers. Given the events are off-site, the unique circumstances may make it difficult or impractical to comply with existing cash handling policies. In addition, off-site locations may create new risks related to cash handling, and potentially increase the risk of cash loss or theft. While the Campus Controller and the Cash Handling Coordinator can approve certain exceptions to cash handling policies, there is no documented guidance on how cash should be managed at off-site locations.

**Recommendation**

- a. UC Davis PPM policy 330-55 should be updated to reflect how cash should be managed at off-site locations to mediate any risks of cash loss or theft.

**Management Corrective Action**

1. By November 15, 2017, A&FS, in collaboration with the Cash Handling Coordinator, will update UC Davis policy 330-55 to include the requirements of how to manage cash at off-site locations.

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