

May 2, 2016

DEBBIE RICO
Associate Controller
Business and Financial Services
0951

**Subject: Cashiering Services
 Report 2016-02**

The final report for Cashiering Services Report 2016-02, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Larry Angel
 Judith Bruner
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Cashiering Services
Report No. 2016-02
May 2016

FINAL REPORT

Performed By:

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Approved By:

David Meier, Director

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ATTACHMENT A – Process Flow Chart

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Central Cashiering as part of the approved audit plan for Fiscal Year 2015-16, in part based on the inherent risks associated with cash handling and corresponding financial accounting. The objective of our review was to assess the Cashier's Office compliance with Policy, and General Accounting's performance of bank reconciliations. The scope of the review included internal controls for cash handling, recordkeeping, authorizations, asset custody, reconciliations, and monitoring of cash and cash equivalents.

We concluded that cash handling and revenue reconciliation procedures in the Cashier's Office and General Accounting, were generally adequate to ensure that revenue is received and deposited in accordance with UC and campus policy and good business practices. We also noted that the *Annual Survey of Cashiering Activity* report provided for a rigorous assessment of compliance with specific Policy requirements. However, we did note one area where cash management processes did not fully comply with University Policy. During our review we observed that the cashiers in the Cashier's Office reconciled their own session balances to the cash received without a concurrent secondary review.

Management Action Plan

The Manager will ensure that a concurrent secondary review of the session reconciliation is implemented.

Observations and related management corrective actions are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Central Cashiering as part of the approved audit plan for Fiscal Year 2015-16, in part based on the inherent risks associated with cash handling and corresponding financial accounting. Cash and cash equivalents are, by definition, liquid assets and are subject to loss or conversion in the absence of strong internal controls. In conjunction with this review, we reviewed General Accounting's performance of bank reconciliations. This report summarizes the results of our review.

University of California (UC) Business and Finance Bulletin 49 (BUS 49): *Policy for Cash and Cash Equivalents Received* provides UC requirements for handling and processing cash collections. It addresses general cash controls such as, separation of duties, physical security and account reconciliation, and guidance for processing manual and electronic transactions. Elements of this policy are applicable to main and sub-cashiering units that receive University payments. Policy requirements are reinforced in local campus guidelines titled *Internal Control Practices – Cash*.

The Central Cashier's Office (Cashier's Office) is responsible for the receipt and accurate deposit of individual, organizational and departmental monies. They also provide reimbursement of petty cash under \$50 and the exchange of currency and coin. Per Policy, the Chancellor is responsible for all campus cash handling activities, and has delegated the responsibility for coordinating cash handling operations to the Campus Cash Handling Coordinator (Coordinator) ¹.

The Coordinator's responsibilities include oversight for all cashiering and sub-cashiering activities across the general campus, Scripps Institution of Oceanography, and all UCSD Healthcare locations². The Coordinator also provides cash handling training to the campus via regularly scheduled classroom sessions, department sessions on a special request basis, and with an on-line training module, offered in coordination with the UC Learning Center. Oversight also includes conducting an annual survey of campus cashiering activity, periodic reviews of cashiering and sub-cashiering stations' operations for compliance with University policy, and tracking and reporting of campus cashiering activity. The Cashier's Office Manager (Manager) provides additional support to the Coordinator for the oversight of sub-cashiering activities.

Cash transactions are recorded in the Integrated Student Information System (ISIS). Cash deposits made by departments, students and third parties are uploaded to the UCSD's Integrated Financial Information System (IFIS) clearing account via daily batch uploads from ISIS. Business and Financial Services General Accounting Division (General Accounting) is responsible for ensuring that the corresponding deposit data from the main depository bank account is entered in to the IFIS ledgers. General Accounting also performs the monthly bank account and clearing account reconciliations to ensure that IFIS and ISIS ledgers for cash deposits balance. Additionally, other reconciling items such as third party payments and wires are also entered into IFIS via journal vouchers.

¹ The Campus Associate Controller is the designated Cash Handling Coordinator.

² AMAS' review of cash handling activities at UCSD Healthcare cashiering and sub-cashiering stations were reported in AMAS reports 2013-27 and 2014-14.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to assess the Cashier's Office compliance with Policy, and General Accounting's performance of bank reconciliations. The scope of the review included internal controls for cash handling, recordkeeping, authorizations, asset custody, reconciliations, and monitoring of cash and cash equivalents. In order to achieve our objective, we performed the following:

- Reviewed University Policy and the UC Accounting Manual;
- Reviewed the *Annual Survey of Cashiering Activity* report as of November 2015;
- Interviewed the following:
 - Selected management and staff with cash handling responsibilities,
 - General Accounting staff,
 - Office of Post Award Financial Services staff,
 - Enterprise Academic Information Systems staff;
- Observed and mapped transaction processing (See Attachment A);
- Reviewed and evaluated the cash handling training activities provided by the Coordinator and the Manager;
- Reviewed and evaluated the status of central oversight for bank account reconciliations;
- Reviewed and evaluated petty cash records and procedures;
- Evaluated the Cashier's Office processes for compliance with BUS 49; and
- Performed the following detailed testing:
 - Verified the change and petty cash funds for the Cashiers Office³,
 - Performed surprise cash counts at the Cashier's Office counters,
 - Reconciled cash counts to ISIS transactions and other records of items affecting cash balances,
 - On a sample basis, reviewed bank account reconciliations for timeliness, accuracy, and completeness, ensuring that reconciling items on the bank statement (deposits in transit, outstanding checks) were investigated and resolved,
 - Validated the accuracy and completeness of the reconciliation process,
 - Traced the book balances as shown on the reconciliation to the general ledger,
 - Traced bank balances as shown on the reconciliation to the bank statements; and
 - Reviewed bank account reconciliation for evidence of supervisory review and approval.

Our review did not include assessment of campus sub-cashiering activities.

IV. CONCLUSION

Based on our review, we concluded that cash handling and revenue reconciliation procedures in the Cashier's Office and General Accounting, were generally adequate to ensure that revenue is received and deposited in accordance with UC and campus policy and good business practices. We also noted that the *Annual Survey of Cashiering Activity* report provided for a rigorous assessment of compliance

³ The Central Cashier's office is assigned a \$57,000 change fund and \$3,000 petty cash fund.

with specific Policy requirements.

During our review of reconciliations of the clearing and bank accounts, for the period July 1, 2015 to January 31, 2016, we noted that ledger entries and bank reconciliations were up to date and complete, were approved by someone other than the preparer, and were reviewed timely. Reconciling items were generally cleared in accordance with the UC Accounting manual.

We did note one area related to cash handling where improvement was needed. This item is addressed in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Compliance with Policy
Cash management processes did not fully comply with University Policy.	
Risk Statement/Effect	
Cash control weaknesses increase the risk of misappropriation or theft.	
Management Action Plan	
A.1	The Manager will ensure that a concurrent secondary review of the session reconciliation is implemented.

A. Compliance with Policy – Detailed Discussion

University policy establishes procedures for handling and processing cash and cash equivalents and defines University staff roles and responsibilities related to receipt, safeguarding, reporting, and recordkeeping for cash transactions. The policy covers four basic internal control principles that apply to collecting and accounting for cash: accountability, separation of duties, physical security and data transmission security, and reconciliation of accounts. When fully implemented, the required procedures provide the internal controls needed to establish individual accountability and security for cash.

During our review, we observed the Central Cashier’s Office close out procedures and noted that the independent count of daily receipts by a second employee occurred after the cashier’s cash drawer reconciliation process. The cashier ran a session balance report, sending all the unprocessed checks to the remittance processor, including a calculator tape of the total checks. She then counted the money in her drawer and ran a calculator tape. Next, she removed and counted the starting balance for her drawer (\$1000), and ran a separate tape for that amount. She counted the balance of her cash again and reconciled the count to the ISIS session balance. If the amounts did not balance, she recounted her cash drawer. If the balance was not resolved by recounting, the Manager would make an over/short entry in ISIS to balance the session. The cashier then transferred the cash, and cash register receipts to the vault, where the vault custodian recounted the funds in the presence of the cashier. As

a result, we determined that the cashiers in the Cashier's Office reconciled their own session balances to the cash received without concurrent secondary review. Although the Cashier's office had several compensating controls in place to mitigate fraudulent activities, the controls were considered detective (surveillance cameras, account reconciliations) rather than preventative, such as separation of duties.

Local campus guidance for *Cashiering Services: Critical Cash Control Procedures* states that reconciling cash to receipts should be done at a supervisory level. Specifically:

Reconciliation-- Performed at a supervisory level or by department's accounting office:

- *Compare funds collected to the accounts receivable postings.*
- *Compare collections to deposits.*
- *Compare a surprise count of the asset inventory to the appropriate records.*
- *Compare departmental records of revenue (sales) to the general ledger.*

Policy (section II.B) on separation of duties requires that departments are responsible for implementing procedures that ensure that no single employee is responsible for collection, handling, depositing and accounting for cash received by the department. Appropriate separation of duties prevents employees from concealing errors or irregularities.

**Cashiering Services
AMAS Project 2016-02
Attachment A**

