Internal Audit Report

Sub-Cashier Cash Handling Controls

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UC SANTA CRUZ

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I.   EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of sub-cashier cash handling controls to determine their effectiveness, efficiency, and compliance with University policies and procedures.

In general, units reviewed that were engaged in cash handling activities had established effective controls and were in compliance with UC Business and Finance Bulletin (BUS-49). Campus cash handling units reviewed used a variety of approaches for collecting and depositing cash and cash equivalents. Most of those tested had established effective alternative cash handling control procedures to accommodate their practices (Refer to Appendix A – Summary of Work Performed and Results).

However, processing and posting deposits is a manual process that requires the use of a four-part paper form, key data entry, and account reconciliation. Opportunities were identified for improving efficiency and accuracy over deposits by implementing an electronic deposit form (system) which has already been substantially designed and built.

The following issues requiring management corrective action were identified during the review:

A.   Electronic Deposit System
Opportunities existed for increasing efficiency, realizing cost savings, and reducing error rates in the processing and posting of cash deposits.

B.   Student Organizations Receipts For Cash Transactions
Opportunities existed for strengthening controls over cash handling and improving compliance with university policy within student organization fund raising and other sales activities.

In addition, the cash control coordinator position within Financial Affairs, providing oversight, monitoring, and training over cash handling and internal control practices over campus sub-cashiering stations presently vacant, which weakens the campus control environment over cash handling practices designed to help prevent the conversion of cash or cash equivalents intended for university purposes to personal use.

Management agreed to all corrective actions to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III of this report.

II.   INTRODUCTION

Purpose

The purpose of this audit was to evaluate the adequacy of sub-cashier cash handling controls and to determine their effectiveness, efficiency, and compliance with University policies and procedures.

Background

UCSC does not have a specific definition or approval process for units to be designated as sub-cashiers. However, Financial Affairs has identified a list of 156 sub-cashiers who made deposits through the main cashier's office during 2011, which they generically refer to as sub-cashiering units. This is the same list that was provided to UCOP in 2011 in response to a UC Finance system-wide cashiering review.

Financial Affairs has a position designated as the campus cash control coordinator, reporting to the campus cashier coordinator, who provides the following controls:

- Reviews potentially problematic or unusual deposit forms identified by Data Entry,
- Answers questions and provides specific advice on process and policy to sub-cashier units,
- Acts as liaison between the Main Cashiers Office and sub-cashiers (addressing any process, staffing or other changes in Main Cashiers Office that impact sub-cashiers),
- Conducts surprise cash counts of sub-cashiers,
- Performs detailed reviews of cash handling practices in selected sub-cashiers,
- Holds classes and training,
- Develops on-line training to help assure compliance with UC Business and Finance Bulletin (BUS-49) watermark training requirements,
- Sends periodic emails to sub-cashiers reminding them about training and other requirements,

This position is presently vacant. We were informed by Financial Affairs that this position is expected to be filled in the next six months.

The guidelines for sub-cashier cash handling controls are outlined in BUS-49. The Bulletin 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.

According to BUS-49 a Sub-Cashiering Station is:

> *Campus operating unit from which collections are deposited to a Main Cashiering Station. These units typically perform cashier activities as a primary function and operate cash handling equipment.*

In addition, BUS-49 defines a Cash Handling Department as:

> *Campus operating unit that typically collects cash or cash equivalents to either a Main Cashiering Station of a Sub-cashiering station.*

BUS-49 requires annual training for "cash handling" employees by stating, *"Campuses will develop and deliver cash handling training to all employees who handle cash".* At UCSC, this responsibility has been delegated to the individual units managing employees who handle cash, as with other BUS 49 requirements. Financial Affairs provides cash handling guidance on the Financial Affairs website along with an online training video and an online quiz for units who do not have their own cash handling training programs. There is currently no centralized process to verify that training has been completed by individuals.

Scope

We reviewed sub-cashier cash handling controls and compliance with the BUS-49 Policy for cash and cash equivalents received. We reviewed the list of 156 sub-cashier like units identified by Financial Affairs. We interviewed staff in Financial Affairs, General Accounting, Cashiers Office, Student Business Services and Data Entry Services who are involved directly or indirectly with the current sub-cashier deposit and deposit reconciliation process. We reviewed audit reports from other campuses related to cash handling and internal review reports from the cash control speacialist.

We ran a SQL report of all deposits made through the Main Cashier's Office in fiscal year 2013. From this report, we selected specific deposits for detailed review based on dollar amount and units identified in central office interviews to provide broad coverage of the entire campus. We did not review central offices such as Extra Mural Funds or Financial Aid because all interviews indicated they had effective internal controls and it was determined that reviewing smaller units with broad campus representation would best portray the overall cash handling environment.

We specifically reviewed cash handling procedures, practices and specific deposits from individual units within the following 10 Departments/Divisions/Offices:

- Arts Division
- Dining Services
- School of Engineering
- University Extension
- Educational Partnership Center
- Information and Technology Services (ITS)
- University Police
- SOAR/Student Media/Cultural Arts and Diversity (SOMeCA)
- Summer Session

- Humanities Division

We also asked these units to complete an internal control questionnaire designed to determine whether or not units were aware and were following requirements outlined in BUS-49. We also reviewed a sample of deposit reconciliation processes in detail.

Refer to Appendix A: *Summary of Work Performed and Results* for further detail on the scope.

III.   OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

A.	Electronic Deposit Form System

Opportunities existed for increasing efficiency, realizing cost savings, and reducing error rates in the processing and posting of cash deposits.

Risk Statement/Effect

By implementing an electronic deposit form, the campus could save over $13,000 annually in data entry costs. In addition, the Main Cashiers Office and units preparing deposits would realize increased efficiency, lower error rates, and a reduction in time conducting reconciliations between journal postings and accounts.

Agreement (Refer to Appendix C – Full Agreement Detail from Financial Affairs on Agreement A.1)

A.1	Financial Affairs will re-evaluate the feasibility of developing, implementing, and maintaining an electronic deposit form as part of a comprehensive review of all strategic Financial Affairs web-related projects.	Implementation Date
		December 31, 2014
		Responsible Manager
		Campus Controller

A.   Electronic Deposit Form System - Detailed Discussion

The current process on campus for depositing cash is manual and involves the use of a four-part manual NCR form that is routed and re-routed between the Main Cashier's Office, the unit making the deposit, General Accounting, and Data Entry Services. Refer to Appendix B.1 - Existing Deposit Procedure and Appendix B.2 - Proposed Electronic Form Process, outlining the current process and the process if automated. The current process is labor and paper intensive, requires multiple touch points and is subject to data entry errors among others.

Because of the high potential for errors, there is an increase in the need for units to reconcile their deposits. When errors are detected manual journal entries are required to correct postings. Financial Affairs and cash handling units we spoke with agreed that the implementation of an automated system including an electronic deposit form with an interface to the campus Financial Information System (FIS) would streamline the process and reduce the number of journal entry posting errors. Dining Services indicated their interest in becoming a test unit for a rollout of the automated system.

Financial Affairs had actually developed an electronic deposit form, but did not complete testing or build an interface with FIS, which were the remaining steps needed to implement the system. Financial Affairs informed us that the people who were working on the electronic form are no longer employed in the division and the person who has inherited this project is unable to work on it due to competing priorities. Further complications include the loss of some of the code developed for the electronic

deposit form. In addition, it was observed that the code used to develop this electronic deposit form may cease to be supported by Microsoft, so new code may need to be written anyway.

Despite these impediments, the preliminary work to engineer and define the form's basic functionality has been completed. The primary challenge remaining to implement an electronic deposit form appears to be in building and testing an FIS interface. We were informed that the campus resource within FIS who would be engaged in this project has been sequestered by the UC PATH project.

It was determined that an electronic deposit form would save over $13,000 annually in Data Entry salary costs (excluding benefits). The Main Cashiers Office and units preparing deposits would realize increased efficiency, lower error rates, less need to reconcile deposits to the ledgers and savings in the cost to buy paper and store paper NCR forms. While these do represent real savings they are more difficult to quantify.

Financial Affairs agreed to evaluate the feasibility of developing, implementing, and maintaining an electronic deposit form, and provided details on planned steps and existing barriers to conducting such an evaluation prior to December 2014. Refer to Appendix C - Full Agreement Detail from Financial Affairs on Agreement A.1.

B.	Student Organizations Receipts For Cash Transactions

Opportunities existed for strengthening controls over cash handling and improving compliance with university policy within student organization fund raising and other sales activities.

Risk Statement/Effect

Without a means to account for individual sales transactions the possibility that funds received during fund raising activities and other sales events could be misappropriated and/or tickets or items diverted for personal use without knowledge or approval of the SOAR/Student Media/Cultural Arts and Diversity (SOMeCA) is increased.

Agreements

B.1	SOMeCA will update procedures, training and communication to student organizations to clearly state that when pre-numbered tickets are sold the ticket numbers should be recorded and used to balance the deposit.	Implementation Date
		February 28, 2014
		Responsible Manager
		SOMeCA Director
B.2	SOMeCA will update procedures and communicate to student organizations that all documentation supporting deposits made by student organizations must be submitted to SOAR, who will act as office of record.	Implementation Date
		February 28, 2014
		Responsible Manager
		SOMeCA Director
B.3	SOMeCA has requested a variance to BUS-49 from the campus cash control specialist for small dollar food item sales by student organizations. If granted SOMeCA will take steps to assure that all sales include dual custody and other conditions specified in the exception.	Implementation Date
		January 31, 2014
		Responsible Manager
		SOMeCA Director

B.	Student Organizations Receipts For Cash Transactions - Detailed Discussion

Several of the sub-cashiering units we reviewed were student organizations, who often engage in fund raising events and sales to generate revenue for various student events. Student organizations who are aware of and follow cash handling control requirements identified in BUS-49, are in a better position to ensure these funds are properly safeguarded and are available to be used for the intended purposes.

Pre-numbered tickets

In one transaction reviewed, a student organization sold tickets that were used to purchase food from other student organizations. Although the tickets were pre-numbered and could have been used to control and reconcile the amount of sales, the starting and ending ticket numbers were not recorded. BUS-49 requires the use of pre-numbed receipts (or tickets) when cash handling equipment is not used. The sales for this event were over $6,000.

When we informed SOMeCA of this situation, they immediately recognized that the ticket numbers should have been recorded to control, reconcile, and account for total sales. They stated that it was simply an oversight. SOMeCA had not instructed their student cashiers to view the campus training video on cash handling, which could have helped to provide awareness of the control implications of this process.

Maintaining deposit records

In addition to missing ticket numbers, it was also noted that individual student organizations were physically maintaining the deposit form and supporting documentation. Since the student management of these organizations changes frequently, and are not present during summer or other academic breaks, it may not be practical to expect them to fulfill office of record responsibilities and also stay current with the requirements of BUS-49.

SOMeCA concurred that oversight and control over cash handling practices could be improved if they become the office of record for the deposit records, and SOMeCA indicated that they would make sure the ticket numbers were recorded and used as a control for future events of this nature.

Applicability of receipts for small dollar sales

In another transaction reviewed, small dollar food items were being sold where no receipts, tickets or cash handling equipment was being used. In this case, students completed a deposit log with hand written notes to indicate the items sold and money collected. This log form included space for the person collecting funds and the authorized representative to sign the form, but these signatures were not included on one form reviewed. We reminded SOMeCA that dual custody was a fundamental control when handling cash, and they assured us that the student organizations customarily had dual custody with two or more students at each table where the items were sold. Without signatures on the log form, it was not possible to verify dual custody.

It may not be practical for students to issue hand-written pre-numbered receipts for every sale of items that are only a few dollars each, particularly as long as dual custody and other compensating controls were maintained and documented. While BUS-49 requires individual receipts be issued when cash is collected, there is a provision within BUS 49 which allows for an exceptions with local approval in the case where other controls are in place. SOMeCA has indicated that they have made a request to the campus cash control coordinator for an exception to the receipt requirement for these small dollar sales cases.

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APPENDIX A - Summary of Work Performed and Results

PRELIMINARY SURVEY	
Work Performed	**Results**
1. Interviewed Financial Services, FAR, Data Entry, Main Cashiers Office, and General Accounting staff involved in sub-cashier processes and reconciliation.	Obtained a list of sub-cashiers/cash handling units where concerns or problems with deposits had been noted. Discussed the value of including or not including specific sub-cashiering units in this review. The current cash handling and deposit process is manual. An electronic deposit form (system) has been developed but not implemented. (Refer to Observation III. A - Electronic Deposit Form, and Appendix B.1 - Existing Deposit Procedure and Appendix B.2 - Proposed Electronic Form Process.)
2. Interviewed Data Entry staff regarding concerns about specific deposits.	Data Entry provided four deposit forms completed by Dining Services with significant cash overages. Upon further review, it was determined the overages were caused by tour groups with pre-printed checks for more people than were in the group. The overage was really a refund amount and Dining stated they would create a unique FOAPAL to be used as a holding account if and when an electronic deposit form is implemented and procedures are re-written for the new form.
3. Developed an internal control questionnaire based on key requirements and BUS-49.	ICQ was completed for use with units selected for testing.
4. Completed risk assessment matrix.	Risks and controls were evaluated and an audit program developed to provide reasonable assurance that relevant risks were addressed in the field work and testing phase of the audit.

EVALUATE SPECIFIC SUB-CASHIERS	
Work Performed	**Results**
1. Developed a list of specific sub-cashiers on which to review specific deposits from interviews with central office staff.	Units identified for review included Dining, Summer Session, SOMeCA, TAPS and UNEX. These units were included in a detailed review.
2. Obtained specific deposits from Data Entry that have known problems and reviewed for internal controls and compliance with BUS-49.	Four specific deposits were provided and included in detailed testing.
3. Reviewed scanned deposit forms from the Main Cashiers Office.	No additional deposits were identified for review.
4. Determined if units were engaged in accounts receivable activities and test judgment sample as appropriate.	No significant receivables systems were identified.
5. Determined if units were receiving grant checks directly and test judgment sample as appropriate.	No grant payments were identified for testing.
6. Identified deposits that have corrections or other indications that errors were made and test judgment sample as appropriate.	Dining Service's deposits were corrected, but corrections were made to bring them into compliance with internal operating procedures as the initial deposit form was completed incorrectly to document over payment by tour groups, as noted above.

DETAILED TESTING	
Work Performed	**Results**
1.　Interviewed managers and staff from the 10 sub-cashier units selected for review, as needed, to understand processes and controls.	While all cash handling units share some characteristics in that they were all making deposits, many units have unique procedures and challenges requiring the unit to process transactions differently than that of a traditional sub-cashiering station. An example of these non-traditional types included: • Student organizations who sold raffle tickets and small dollar food items for fund raising purposes, • ITS received periodic checks for cell phone antennas on campus • Dining received overpayment for tour groups with less people than expected, and used this process to complete the deposit transaction, • SOE received payments for memberships in cooperative research center programs. One specific example that demonstrates how unique some sub-cashiers are is the Arts Division annual student print sale. This sale resulted in over $29,000 in revenue in fiscal year 2013. The Arts Division used a manual process whereby each work of art was numbered and listed in binders. Cash registers were used to exchange money with customers, but were not used to generate transaction numbers and the amounts to be paid were hand written from the information in the binders. The transaction numbers were effectively used as the control. The controls appeared to work well for this type of event that only occurs two days of the year. One minor issue noted was that if there was a cash overage or shortage of greater than $10 it may not be reflected on the deposit form. Arts Division indicated they would issue a letter of discrepancy to General Accounting as required by campus policy if they were more than $10 over or short.

DETAILED TESTING (continued)	
Work Performed	**Results**
a. Obtained written procedures or an understanding of cash handling processes within units tested.	The written procedures for larger sub-cashiers reviewed were adequate. Some sub-cashiers who receive sporadic payments did not have written procedures, but due to infrequent deposits and knowledgeable staff it did not appear they were needed.
2. Tested judgment samples of 20 deposits from a list of all deposits for fiscal year 2013 for effective internal controls and compliance with BUS-49. All 10 sub-cashiers identified with central office staff were included in the sample.	Internal controls and compliance with cash handling policy were generally effective, except for the case noted in section III. B. - Student Organizations Receipts For Cash Transactions.
b. Obtained supporting documentation for deposits tested.	Supporting documentation was obtained from the units who made the deposits. We did not note any issues with supporting documentation.
c. Identified and reviewed any computer equipment used to perform cash handling functions within the units tested.	The only unit tested with a point of sale system was Dining Services. No specific issues were noted. PCI compliance is being concurrently addressed in internal audit SC-14-05 – PCI Compliance.
d. Determined if cash registers used were in compliance with university requirements.	The only sub-cashier reviewed using a cash register was the Arts Division, for the student print sale. The information used to balance the deposits came from the numbered artwork and not from the registers, so no compliance issues were identified.
e. Obtain completed ICQ from all sub-cashier's selected for detailed review.	ICQ's were obtained and reviewed for all units selected for detailed testing. No specific issues were identified in the ICQ's.

EVALUATE POTENIAL EFFICIENCY AND COST SAVINGS OF ELECTRONIC DEPOSIT FORM	
Work Performed	**Results**
1. Computed potential cost savings of using an electronic vs. paper deposit form.	It was determined that an electronic deposit form would save over $13,000 annually in Data Entry costs. The Main Cashiers Office and units preparing deposits would realize increased efficiency, lower error rates, less need to reconcile deposits to the ledgers and savings in the cost to buy paper and store paper NCR forms. While these do represent real savings they are more difficult to quantify.
2. Analyzed and flowcharted deposit form process flow with touch points under the existing (manual) process and proposed electronic proposed process.	Manual deposit process and proposed electronic deposit form process are documented in Appendix B.1 - Existing Deposit Procedure and Appendix B.2 - Proposed Electronic Form Process
3. Determined if any units engaged in accounts receivable activities could use AIS to gain efficiency and improve internal controls.	No specific opportunities to use AIS for billing purposes were identified.

APPENDIX B.1 - Existing Deposit Procedure

B.1 - Flow chart of existing deposit procedure and proposed electronic form process. Note that the existing process is manually intensive and involves numerous process steps.

Unit	Main Cashiers Office	Data Entry Office	General Accounting Office
White Form Prepared White/ Blue/Pink/Yellow forms. Sent to Main Cashier	**White Form** Date stamped and sent to Data Entry Office	**White Form** Entered into FIS Banner and sent to General Accounting	**White Form** Retained in General Accounting
Blue Form Sent to Main Cashier	**Blue Form** Processed with White form and sent back to Unit as receipt		
			White and Pink forms reconciled
Pink Form Sent to General Accounting	**Pink Form** Sent to Main Cashier in error	**Pink Form** Entered into an Excel/ASCII spreadsheet	**Pink Form** Either retained in General Accounting or forwarded to Key Entry
		Forwarded to Data Entry	
		Returned to General Accounting	
			Pink May be sent to GA or GA may have to make Calls to locate the Pink Form
Yellow Form Retained in unit and reconciled to monthly ledger		*Note: Data Entry spends ~1 hour per batch per person (x 3 employees) keying deposit forms and 1-2 hours per batch per person calling units about errors on forms.*	*Notes: Units may claim they never received pink if the cashier fills out deposit form for deposit when GA asks for it.*
Submits Blue and White paper forms with deposit to **Main Cashiers** sends Pink paper form to **Data Entry.** • Reconciles deposits (revenue) to monthly ledger to assure all deposits have been made and keyed correctly	• Counts money • Reviews form for errors and makes corrections as needed • Date stamps and signs forms • Scans form and verifies scanned file integrity • Enters amount of deposit into log used to balance at end of day	• Receives Pink paper form • reviews form for errors and makes corrections (calling units about errors as needed) • logs into Excel/ASCII • If problems are noted the Pink form may be returned to the sub-cashier coordinator for investigation before going to General Accounting	• If either the White or Pink form does not arrive within a month General Accounting they contract to person who completed the deposit form • If there is a mismatch it is common that the unit did not send the pink directly to key entry • It is very rare for the pink to arrive without the white from the cashiers

APPENDIX B.2 - Proposed Electronic Form Process

B.2 - Flow chart of proposed deposit procedure and proposed electronic form process

Unit	Main Cashiers Office	General Accounting Office
Electronic Form Completes web-based form	**Electronic Form** Approves on-line	**Electronic Form** Has access to electronic form

• Form will have rules to assure deposits balance and FOAPAL information is valid • Staff who are granted access to this form can be screened to assure they do not have other job duties such as ledger reconciliation so that appropriate separation of duties is maintained	• Counts money and verifies that deposit amount matches web-based deposit form • Reviews electronic form for errors and rejects if incorrect • **Approves form on-line** • Form posts to FIS Banner • Electronic notifications provided to unit, GA and any offices that need to be aware of deposits. Daily deposit reports will allow Cashiers Office to balance	

Note: Unit ledger reconciliation needs are limited to verifying no expected deposits are missing. Electronic notification may fill this need if actively monitored by units.	*Note: Posting delays, data entry errors and error corrections by Cashiers Office and Data Entry are eliminated.*	

APPENDIX C – Full Response from Financial Affairs on Agreement A.1

Subsequent to the draft report issuance on December 20, 2013, Financial Affairs provided the following detail on the planned steps and existing barriers to executing the agreement.

"Upon filling the Student Business Services Cash Handling Coordinator and the Financial Affairs' Website Manager positions, both of which are expected to occur by June 2014, Financial Affairs will begin reevaluating the feasibility of developing, implementing, and maintaining an electronic deposit form. This will be part of a comprehensive review of all strategic, Financial Affairs web-related projects.

Financial Affairs' initial attempt to design and develop an interactive, web-based cash deposit form uncovered limitations and flaws with the underlying Microsoft InfoPath forms technology. Microsoft has acknowledged these flaws and has indicated that, because of the difficulty maintaining the InfoPath product, it expects to discontinue it. This decision will affect all Financial Affairs' web-based, interactive forms, including the Entertainment Reporting Form. Fortunately, because the current paper cash deposit form continues to support the process satisfactorily, deploying an electronic form, although beneficial, is not time-sensitive.

Further complicating the matter, the staffing resources of the Enterprise Financial Systems Office, which would play a key role in the reevaluation and form development process, are currently overextended working on a large number of competing, higher-priority UC projects, including UCPath and UC Procurement 200. The President recently informed the Chancellors that each location is expected to make a top-priority the quick and successful implementation of UCPath.

Barring further complications which, given the present circumstances are highly likely to arise; Financial Affairs expects to provide a status update of this reevaluation process by December 2014. "