



## Internal Audit Report

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# MAIN CASHIER'S OFFICE

*Report No. SC-11-09*

January 2011

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January 24, 2011

TOM VANI  
Vice Chancellor - Business and Administrative Services

**Re: Internal Audit Report No. SC-11-09 - Main Cashier's Office**

Dear Tom,

Internal Audit & Advisory Services (IAS) has completed an audit of the Main Cashier's Office to determine the adequacy of management controls over cash transactions processed through the campus Main Cashier's Office (MCO) and compliance with applicable University policies and procedures. A copy of the report is attached.

In general, the MCO had effectively processing departmental deposits and student payments despite the turnover of an experienced MCO manager and supervisor in FY09 and FY10, which exposed the MCO to significant control weaknesses and non-compliance with numerous University of California (UC) policies and procedures.

Our review did not identify any material errors or irregularities as a result of this condition and the MCO has addressed and remediated many of the physical safety deficiencies identified in the process. However, there were several control deficiencies and compliance issues identified in the cash handling workflow that had not been remediated at the time of our review.

The Controller's Office has been responsive in acknowledging and addressing observations identified during the review and agreement was reached on all of the report's recommendations. Normal follow-up will be performed to verify completion of the agreement during the next quarter.

Sincerely,

A handwritten signature in blue ink that reads "Barry Long".

Barry Long, Director  
Internal Audit & Advisory Services

Attachment

Tom Vani  
January 24, 2011  
Page Two

Distribution:

Director Manss  
Manager Stone  
Senior Auditor Beahan

UCSC Audit Committee:

Executive Director Beaton  
Vice Chancellor Delaney  
Vice Chancellor Doyle  
Assistant Vice Chancellor Lew  
Vice Chancellor Margon  
Vice Chancellor McGinty  
Assistant Vice Chancellor Moreno  
Vice Chancellor Murphy  
Assistant Chancellor Sahni  
UCOP SVP Vacca

**MAIN CASHIER'S OFFICE**

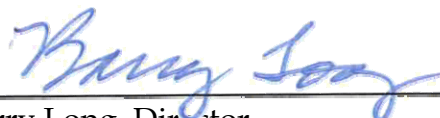
*Report No. SC-11-09*

**January 2010**

*Approved:*



Frank Beahan  
Auditor In-Charge



Barry Long, Director  
Internal Audit & Advisory Services

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## I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed a review to determine the adequacy of management controls over the accuracy, completeness, and timeliness of cash financial transactions as processed through the campus Main Cashier's Office (MCO) and compliance with applicable University policies and procedures.

In general, the MCO was effectively processing departmental deposits and student payments. However in FY09 and FY10, the turnover of an experienced MCO manager and supervisor exposed significant control weaknesses and non-compliance with numerous University of California (UC) policies and procedures. Despite this out of compliance condition under past MCO management, no material errors and irregularities have become apparent.

In our review, we observed that the MCO has addressed and remediated many of the physical safety deficiencies identified, however deficiencies in the cash handling workflow have yet to be remediated. We identified remaining control weaknesses and compliance issues as follows:

- A. *Student Business Services has not adequately monitored the internal control system in the Main Cashier's Office nor ensured its consistent compliance with UC policies.*
- B. *The Main Cashier's Office does not have well designed and adequately documented procedures.*
- C. *Student Business Services has not complied with all UC policies applicable to the hiring and vetting of cashiers. Campus Staff Human Resource procedures based on UC PPS Manual requirements for hiring critical positions, are less restrictive than BUS 49 and the UC Accounting Manual requirements for vetting cashiers.*
- D. *Cashiers can void a transaction in the Academic Information System (AIS) without contemporaneous involvement of a supervisor.*
- E. *The Main Cashier's Office was not providing a sufficient level of safeguarding over electronic images of scanned personal checks.*

MCO and Student Business Services (SBS) under the guidance of the Controller are in the process of developing and implementing improved procedures.

Our observations and related management corrective actions are described in greater detail in section III of this report. A summary of the SBS and Controllers initial listing of control weaknesses is described in Appendix A. Appendix B contains a listing of additional control areas tested in the audit.

## II. INTRODUCTION

### A. Purpose

The purpose of this audit was to determine the adequacy of management controls over the accuracy, completeness, and timeliness of cash financial transactions as processed through the campus Main Cashier Office (MCO) and compliance with applicable University compliance policies and procedures.

### B. Background

The MCO is located in Hahn Student Services. The MCO is a unit of Student Business Services (SBS) which reports to the Controller. The MCO staff consists of a manager, supervisor, three full time cashiers and two part time student cashiers. In Fiscal Year 2010, the MCO handled \$52,863,183 in cash and check deposits.

There are two primary sources of deposits. The MCO processes departmental revenue and accepts student payments. Approximately three years ago, UCSC began accepting student payments via Sallie Mae. Currently, 50% of student payments are received through Sallie Mae and the other half are processed by the MCO.

In 2008, the MCO lost the services of its manager who had been with the office more than 30 years. For approximately eighteen months, the MCO supervisor who also had considerable MCO experience and the staff carried on the operation of the office.

Under past management it appears that safeguards tended toward a more informal trust based system. While there were significant departures from UC policy, past practices appear to have been generally effective in processing transactions, depositing funds and recording receipt of funds. No evidence of asset loss or allegations of defalcation have come to light.

In March 2010, a new manager started in the office and in June 2010, the MCO supervisor went on planned leave. The MCO did not have written procedures and had lost the services of its two most knowledgeable and experienced managers. The efficiency of operations and working relations within the office noticeably declined. SBS and the Controller's Office discovered significant departures from University Policy BUS 49, *Policy for Cash and Cash Equivalents Received*, in the operations of the MCO. Refer to Attachment A, which is the initial listing of control weaknesses composed by SBS and the Controller. In April 2010 several control weaknesses in physical safeguards were addressed. For example, equipment was purchased or

upgraded, locks and cabinets were repaired, keys and combinations were changed and placed under a system of dual custody control.

During the period June through November 2010, the operations of the MCO were inefficient resulting in inaccurate and untimely processing of the cash handling workflow, including significant errors and delays in processing deposits. More recently the Controller, SBS management, and General Accounting have become involved in assisting the MCO with its policies and procedures with the aim of reestablishing operations compliant with BUS 49. Staff Human Services (SHR) is also assisting SBS and MCO in maintaining appropriate communication and working relations within the office.

Process improvements are in development, staff training is scheduled, yet several of the deficiencies identified in June were still present in November 2010. For example, the end-of-day balancing procedures are still the focus of redesign efforts, and dual custody of assets is not consistent and routine behavior among MCO staff. Change management during this period of significant transition has been less than optimal.

**C. Scope**

The primary focus of our review was the cash handling workflow consisting of operations in the Main Cashier Office and Financial Affairs units processing data entry, accounting, recordkeeping, and reconciling of cash deposits. We used the UC Systemwide audit program as a basis for selected audit procedures conducted. Refer to Appendix A and B for a listing of audit work performed and results. The cash handling procedures in departments prior to submitting deposits to the MCO, also referred to as sub cashiering, was outside the scope of our review.

**D. Positives**

These have been challenging times in the Main Cashiers Office. There have been low points yet staff and management are to be complimented for their perseverance and commitment to their responsibilities. Those who process the output of the MCO in Data Entry and General Accounting are to be complimented for their extra efforts during this period of transition.



### III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

#### A. Monitoring of the Main Cashier's Office.

*Student Business Services (SBS) has not adequately monitored the internal control system in the Main Cashiers Office (MCO) nor ensured its consistent compliance with BUS 49 - Policy for Cash and Cash Equivalents Received.*

SBS should develop activities, metrics, and reporting to ensure consistent and continuous monitoring of MCO operations.

#### **Comments:**

The MCO reports to SBS who in turn reports to the Controller's Office. In this role, SBS has management oversight of MCO operations. In addition, the Director of SBS is also the designated Campus Cash Handling Coordinator, which includes additional compliance responsibilities per BUS 49.

In the spring of 2010, SBS discovered internal control weaknesses and significant departures from BUS 49 requirements. Attachment A lists the control and compliance issues found to exist under the prior management of the MCO. The standard operating procedures under past management appear to have been lax or informal in safeguarding assets while being generally effective in processing the cash handling workflow. The weaknesses in prior procedures and controls apparently existed for a considerable time before the recent discoveries. Written procedures under prior management reportedly did not exist. Subsequent to the discovery of control weaknesses, from June through November of 2010, the MCO inefficiently processed the cash handling workflow resulting in a high error rate and delays. These conditions may have never existed, or could have been identified and mitigated earlier, if SBS had adequately monitored the activity.

The COSO Enterprise Risk Management Framework states "internal control systems need to be monitored - a process that assess(es) the quality of the system's performance over time". Refer to Attachment D for further description of the COSO framework. SBS with the Controller should develop and maintain activities such as observation, checklists, thresholds and periodic surprise cash counts and inspections, along with performance metrics and reporting to monitor MCO performance and output.

A formal annual written risk assessment should become an element of the monitoring process. BUS 49 states that the Campus Cash Handling Coordinator is responsible for, "performing an annual review of compliance with this Bulletin and informing the Campus Controller of risks associated with each campus cash-handling unit. Campus and Laboratory Police or their designee(s) must assist in all related security issues."

**Agreements:**

1. Student Business Services with the Controller's Office assistance will closely monitor the remediation of existing internal control weaknesses and non-compliance with BUS 49 in the Main Cashier's Office. Remediation activities and full compliance with BUS 49 to be in effect by March 1, 2011.
2. Student Business Services with the Controller's Office assistance will develop a plan and schedule of activities, metrics, thresholds and reports to support ongoing monitoring of Main Cashier's Office operational controls and efficiencies by May 1, 2011.
3. The Director of Student Business Services (the designated Campus Cash Handling Coordinator) will prepare an annual written cash handling risk assessment per BUS 49. The first annual report will be presented to the Controller by May 1, 2011.

**B. Existence and Documentation of Procedures.**

*The Main Cashier's Office does not have well designed and adequately documented procedures.*

The SBS and MCO should develop and document well designed procedures over MCO activities and ensure documentation and training of staff and management is kept up-to-date.

**Comments:**

Central cash handling operations such as the MCO require well designed, clearly documented and consistently applied procedures. In addition, MCO staff and management must be trained in both UC and UCSC policies and procedures, and applicable governmental regulations.

Deficiencies in past MCO procedures and current operations have been identified and remediation is underway. Without well designed and consistently applied procedures the Cashier's Office is prone to control weaknesses and greater risk of loss. Without clearly documented procedures and employee training in those procedures it is difficult to manage and assess performance within the office. Current management under the direction of the Controller and SBS, with the assistance of General Accounting, SHR and ITS is in the process of establishing and documenting improved policies and procedures.

SBS and MCO should conclude the first phase of redesign of MCO cash handling workflow procedures and forms as soon as possible. Documentation of procedures and training of staff and management should continue and be maintained continuously. The second phase of process improvements, including further

improvements to AIS cashiering capabilities, should be concluded as soon as resources allow.

**Agreements:**

1. Student Business Services will conclude redesign of cashiering procedures, implement first phase improvements in the AIS system cashiering capabilities, and work with General Accounting to improve accounting for cashiering operations by March 1, 2011.
2. Student Business Services will oversee the composition of a well organized, clearly written Main Cashier's Office procedural manual by March 1, 2011.
3. Student Business Services will develop, maintain and monitor a training schedule for Cashier Office employees and SBS/MCO management designed to support compliance with office procedures, UC and campus policies, and applicable banking regulations by March 1, 2011.

**C. Vetting of Cashier's Positions**

*SBS has not complied with all UC policies applicable to the hiring and vetting of cashiers. Campus SHR procedures based on UC PPS Manual requirements for hiring critical positions, are less restrictive than BUS 49 and the UC Accounting Manual requirements for vetting cashiers.*

SBS should work with SHR to develop campus policies and procedures for vetting cashiers and departmental cash handlers.

**Comments:**

UC Policies addressing the hiring and vetting of cashiers have differing language regarding requirements and suggestions for the appropriate vetting of cashiers and cash handlers. See Attachment C for excerpts of the cited policies.

SHR hiring procedures for critical positions calls for a criminal check after the employee is hired and successful favorable outcome of the background check prior to the conclusion of the probationary period. BUS 49 is clear in holding each Business Officer responsible for a pre-employment background checks yet is less clear on how this is accomplished. Whereas the Accounting Manual requires a pre-employment criminal and credit check for cashiers.

SBS and SHR should review the UC policies and develop campus policies and procedures for the hiring of departmental cash handlers and MCO cashiers. Perhaps a tiered approach based on risk of loss would be appropriate. One outcome should be a change in SBS policies and procedures for hiring MCO cashiers and management in order to be compliant with all UC policies and to appropriately address risk.

UC insurance coverage for employee crime has a very high deductible. UCSC is effectively self-insured for a loss due to employee crime. Therefore the hiring process of MCO employees should include appropriate pre-employment vetting as a first line defense against loss.

**Agreements:**

1. Student Business Services will develop with Staff Human Resources, procedures for the recruitment of Main Cashier Office cashiers that comply with UC policies and document compliance by May 1, 2011.
2. Staff Human Resources will develop campus policies and procedures compliant with UC policies for positions with cash handling responsibilities by May 1, 2011.

**D. Control of Void Transactions**

*Cashiers can void a transaction in the AIS system without contemporaneous involvement of a supervisor.*

Student Business Services should disable cashier access to the void capability in AIS and implement procedures that require the involvement of a supervisor in voiding a transaction.

**Comments:**

BUS 49 Policy VIII.B.4 states:

Reductions of recorded cash accountability, e.g., voids and refunds, must be supported by all copies of the document involved, explained, and approved in writing by the cashier's supervisor at the time of occurrence where practical, but no later than the end of the day.

Currently when a cashier voids a transaction in AIS, it is done without supervisor involvement and approval. The cashier typically screen prints the voided transaction, writes an explanation, and initials the printout. The next day the Cashier Office Manager prints an AIS report with a summary of voids, reviews and signs the report. The manager uses discretion whether to refer to the cashiers supporting documentation or to make inquiries.

SBS is currently developing procedures for involving a supervisor in contemporaneous approval of void transactions. The solution will most likely involve a phased approach. In the first phase, SBS will at minimum implement same day review of void transactions by a supervisor. In addition, SBS will investigate the viability of disabling cashier access to the void button in AIS, requiring supervisor

approval in order for the transaction to proceed. In the second phase the AIS workflow capability may be used to route a pending void transaction to a supervisor for approval. SBS reports that the routing of workflow within AIS is likely to be several years away.

**Agreement:**

Student Business Services will develop procedures which involve a supervisor in contemporaneous approval of void transactions. In the first phase SBS will at minimum implement same day review of void transactions by a supervisor. In addition SBS will investigate the viability of disabling cashier access to the void button in AIS, requiring supervisor approval in order for the transaction to proceed. Implementation of phase one improvements will be completed by March 1, 2011.

**E. Control of Scanned Check Images**

*The Main Cashier's Office was not providing a sufficient level of safeguarding over electronic images of scanned personal checks.*

Student Business Services should provide a sufficient level of safeguarding over electric images of scanned personal checks.

**Comments:**

Past practice in the MCO was to retain images of scanned checks on a server in the office. In July of 2010 a batch with \$194,000 scanned checks originally processed in June 2009 was resubmitted in error to the bank. Unfortunately the bank accepted the batch and processed the payments for a second time. As of December 2010 the corrections are still in process. The event was not a loss of personal data yet it clearly highlighted the risk of retaining images of checks.

When the UCOP Treasurer banking consultant was on campus he opined that UCSC did not need to retain any scanned check images after they had been transmitted to the bank. SBS and MCO have deleted many files containing scanned check images and are exploring their operational needs to support the transmission of scanned checks to the bank and for research.

**Agreement:**

Student Business Services and Main Cashier's Office with Information Technology Services assistance will review operational requirements for retention of scanned check images, eliminate unnecessary stored images and develop procedures and training to ensure consistent, appropriate retention of scanned check images by March 1, 2011.

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**Appendix A: The Controller and Student Business Services Listing of Control Deficiencies (July 2010)**

PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>1. PHYSICAL SECURITY</b>				
<b>A. Office Doors</b>	Access controls to the Cashier's Office (CO) might have been compromised due to sharing of pass codes and the lack of control over keys to secured offices and storage areas.	Omni lock access codes were reset for all staff. Locks to secured areas have been rekeyed and keys secured.	Cashier Office Mgr and staff report locks rekeyed and keys have been reissued. Additional keys are secured in dual control lockbox.	No further testing.
	Cashier's Office supervisors did not know how to change Omnilock codes resulting in the sharing of access codes.	Cashier's Office supervisors have received training on how to change lock access codes.	CO employees report they have individual Omnilock codes.	No further testing.
<b>B. Vault</b>	Opening and accessing the vault could be performed by one person.	The vault combination subset has been changed for all staff Dual access requirements have been communicated to staff.	Auditor observed two individuals of team A and team B consistently input vault code.	UCOP may recommend more complex vault code.
	A cash drawer compartment in the vault was broken and left unrepaired resulting in the use of an unacceptable workaround procedure.	The broken cash drawer in the vault was repaired to enable locking and proper usage.	Auditor observed all vault internal locks and keypad appear to be functioning properly.	No further testing.
	The vault's interior secondary compartment for securing rolled coin was not used; coin was left outside of the vault.	Interior secondary vault is now used to secure rolled coin.	Auditor observed all coin, currency and checks appeared to be stored inside vault.	No further testing.
	Two employees, one from Team A and Team B are to be present while vault open.	CO reports implementing rigorous dual custody practices.	During auditor observation it appeared that dual custody practices were not routine behavior.	In progress. See B. Existence and Documentation of Procedures.

PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>C. Video Surveillance</b>	The video surveillance system has not been updated to enhance its capabilities: Cameras are not positioned optimally within the office. Recording time is limited to about 4 days.	Vendors are being solicited for cost estimates to provide improved surveillance equipment and to reposition cameras to improve coverage.	CO has new video recorder with 21+ days recording capacity. CO has additional video monitor for viewing CO entrance.	UCOP may recommend one year retention of videos. UCOP may recommend remodeling or camera/display relocation to provide cashiers with line of sight of CO door.
<b>2. EQUIPMENT</b>				
<b>A. Currency Counter</b>	The internal control and reporting features of the currency counter were not being used properly.	New currency counting machines with improved control and reporting capabilities are being installed. Access to machine controls is now under dual control under supervisor observation. Controls features will be fully utilized, including daily resets and the production of duplicate receipts which will be attached to cash reports and used for verification by the reviewer of daily cash reports.	Auditor observed currency counting machines used by individual cashiers to balance drawers. A currency counting machine under dual control is used to compose deposit and balance the days activity. Receipts or subtotals are attached to cash bundles during balancing.	No further testing.

PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>B. Coin Counter</b>	The internal control and reporting features of the coin counter were not being used properly.	Access to machine controls is now under dual control under supervisor observation. Controls features will be fully utilized, including daily resets and the production of duplicate receipts which will be attached to cash reports and used for verification by the reviewer of daily cash reports. Second coin machine is being upgraded to enable securing of coin bags and receipt printing.	Auditor observed coin counting machines used under dual control. Auditor observed printing of receipts, daily summary report and daily reset.	No further testing.
<b>3. CASH HANDLING PROCESS CONTROLS</b>				
<b>A. Vault Cash Balance</b>	Amount of currency and coin retained in vault varied from day to day making it difficult to reconcile end-of-day receipts.	The vault cash balance is maintained at \$26,000 – all cash in excess of this amount is deposited to the bank.	Auditor observed CO difficulty in end of day balancing.	In progress. See B. Existence and Documentation of Procedures.
<b>B. Vault Teller Function</b>	The vault teller function involving the recording cash deposits and withdrawals from the vault was not being properly performed.	Vault teller duties have been assigned to the senior housing cashier and senior cashier with duties being performed under dual control with a supervisor.	Auditor observed Vault Teller role assigned to temporary employee. Duties appeared to be appropriately performed. Auditor observed on several occasions that the cashiers in the second custodian role of dual custody would leave the vault while open.	In progress. See B. Existence and Documentation of Procedures.



PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>C. Cashier Beginning Drawer Balance</b>	The window cashiers began the day with cash drawer amounts that varied from day to day.	A standard beginning-of-the-day cash drawer opening balance will be established for each cashier. This practice will be implemented by September 2010.	Auditor observed implementation of \$500 beginning drawer balance.	No further testing.
<b>D. Departmental Deposits</b>	Use of the AIS cash register function to account for departmental deposits complicated the accounting and reconciliation process; the AIS was not configured to handle this function effectively.	The use of cash register validation has been eliminated resulting in a simplified and improved procedure to account for cash deposits made by campus departments.	Jun through Nov the output of processing departmental or sub-cashier deposits was problematic and had a high error rate. Auditor observed sub-cashier deposit processing did not appear to be well organized or routine.	In progress. See B. Existence and Documentation of Procedures.
<b>E. Sundry Service Fee Payments</b>	The handling of payments due for sundry student-related services, such as obtaining transcripts, was inefficient and difficult to account for properly.	The process for handling sundry departmental charges assessed for services, such as obtaining transcripts, has been changed so that charges are billed to students. Eliminates the need for payment to be made to a cashier. The Cashier's Office staff no longer need to prepare Miscellaneous receipt forms.	CO pursuing elimination of miscellaneous deposits. In the future all payments will be applied to AIS.	No further testing.
<b>F. End of Day Balancing</b>	Cash collections from different cashiers would sometimes be commingled making it difficult and time-consuming to reconcile end-of-the-day deposits and investigate reconciling items.	The way in which cash handling data is accounted for ensures individual accountability is maintained at all times.	Jun through Nov the end of the day balancing and composition of deposits was problematic and had a high error rate. Auditor observed the end of day on several occasions and the procedures did not appear to be well organized or routine.	In progress. See B. Existence and Documentation of Procedures.

PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>F. Bank Deposit Preparation</b>	Mistakes were consistently being made in preparing daily bank deposit, many of which went undetected (related to 4.b.)	The preparation of cash deposits requires two staff members' participation. The counting of currency and coin counting requires two staff members' participation.	Auditor observed consistent dual custody during deposit preparation.	In progress. See B. Existence and Documentation of Procedures.
<b>H. Procedures Documentation</b>	Procedures governing the proper handling of and transfer of cash were not adequately documented.	Documentation of key cash handling procedures is about 50% complete.	CO procedures prior to FY2011 were not documented. CO current procedure documentation. is a work in progress as of November, 2010.	In progress. See B. Existence and Documentation of Procedures.
<b>4. ACCOUNTING</b>				
<b>A. Daily Vault Check-Out Reporting</b>	The worksheet used each day to compile cash collection information and prepare entries for posting to the general ledger was not functioning properly.	The daily cash deposit report worksheet used by the San Diego campus has been tested and is being implemented to improve the integrity and accuracy of the end-of-the-day balancing of cash transfers between each cashier and the vault.	Jun through Nov the output of CO had high error rate consisting of inaccurate or delayed entries to FIS or deposits to the bank.	In progress. See B. Existence and Documentation of Procedures.
<b>B. Daily Cash Balancing Reporting (Cashiers Check-Out Sheet)</b>	The worksheet used each day to compile cash collected by each cashier was not effective in enabling the daily cash balancing process.	The daily cash report worksheet used by the San Diego campus has been tested and is being implemented to improve the integrity and accuracy of the accounting and bank deposit process.	Jun through Nov the output of CO had high error rate consisting of inaccurate or delayed entries to FIS or deposits to the bank.	In progress. See B. Existence and Documentation of Procedures.
<b>C. AIS Cash Receipts Processing</b>	The AIS cashing module was not configured to effectively maintain individual accountability among cashiers.	Modifications have been made to the AIS cashing application configuration to improve accounting of cash receipts and ensure better individual accountability over cash handling. Further	CO staff will be trained in phase 1 of improved AIS functionality. SBS reports that further process improvements are in the planning stage.	In progress. See B. Existence and Documentation of Procedures.

		process improvements are in the planning stage.		
<b>PROCESS /FUNCTION</b>	<b>RISK IDENTIFIED</b>	<b>IMPROVEMENT ACTION(S)</b>	<b>AUDIT TESTING</b>	<b>RESULTS</b>
<b>D. Vault Ticket (To Vault)</b>	Non-sequentially numbered vault tickets were used to record cash transfers between cashiers and the vault, making it difficult to effectively maintain accountability and enable verification.	The TV (To Vault)Form is being modified to add sequential numbering to improve the verification process.	Dec 1st new TV forms are not in use. SBS reports that there will be new multipart forms in separate colors for cash and checks. To be implemented by the end of Dec.	In progress. See B. Existence and Documentation of Procedures.
	There was no common procedure for handling and processing TV forms.	A standard procedure for handling and processing TV forms has been implemented.	Auditor did observe the existing TV form utilized in each handoff of cash or check bundle..	In progress. See B. Existence and Documentation of Procedures.
<b>E. Batch header Ticket</b>	Non-sequentially numbered, single-copy batch header tickets were used to account for check batches ready for entry into AIS, making it difficult to effectively maintain accountability and enable verification.	The Batch Header Ticket Form is being redesigned with a multicopy format allowing for retaining a copy that will be used for verification and form (sequence) control purposes.	Dec 1st new batch forms for sub-cashiering forms are not in use. CO is developing methods to segregate transaction types for end of day balancing.	In progress. See B. Existence and Documentation of Procedures.
	Departmental deposits and student (AIS) payments were commingled on a single batch header ticket making it difficult to identify and correct errors.	Departmental receipts are batched and processed separately from student (AIS) payments.	CO has developed an Excel spreadsheet used to establish accountability and track the processing of sub-cashiering forms.	In progress. See B. Existence and Documentation of Procedures.
<b>F. Recordkeeping</b>	Scanned checks were filed in a disorganized and insecure way in the vault.	A secured compartment in the vault has been designated as storage space for scanned checks. A new filing system has been implemented.	Auditor observed well marked check bundles in vault compartment. The compartment is open. It is not a secured cabinet in the vault.	In progress. See B. Existence and Documentation of Procedures.
	Scanned checks were not being disposed after the six-week retention period.	Procedure has been implemented to ensure scanned checks are disposed after six weeks.	Auditor observed organized bundles of scanned checks in bottom of vault. Auditor date check of bundles indicated	No further testing.

PROCESS /FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>5. STAFF TRAINING</b>				
<b>A. Equipment Usage</b>	Staff members were not familiar with the proper usage of machinery used to count currency and coin.	Training has been provided to staff by the coin counter machine and currency counting machine vendors on how to properly and effectively deploy the control features of the machines.	Auditor observed appropriate usage of coin and currency counters.	No further testing.
<b>B. Asset Handling Dual Control Requirements</b>	Staff members were not aware of the importance of maintaining dual control when transferring cash from one location to another.	Dual control requirements have been communicated to each staff member.	Auditor observed that dual custody did not appear to be routine. Auditor observed several instances of employees needing reminders in order to maintain dual custody.	In progress. See B. Existence and Documentation of Procedures.

**Appendix B: Additional Audit Testing Results**

PROCESS/ FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>1. PHYSICAL SECURITY</b>				
<b>Controls</b>	Safeguarding of personnel and assets required by BUS 49.		Auditor observed CO physical security safeguards	Generally CO appears compliant with BUS 49 physical requirements.
<b>Vault</b>	Cash stored in non compliant cabinets.	CO empties dropbox, minivault, and cashier drawers into vault end of day.	Auditor observed CO cash handling workflow.	No further testing.
<b>Alarm System</b>	Alarm system is operational and effective.	Police report recent (false) alarm response indicating alarm system is operational.	Interview with Campus Police.	No further testing.
<b>2. EQUIPMENT</b>				
<b>Controls</b>	Equipment should be used effectively		Auditor observed CO equipment usage	CO equipment usage appears effective.
<b>3. CASH HANDLING PROCESS CONTROLS</b>				
<b>Controls</b>	Appropriate cash handling required by BUS 49		Auditor observed CO cash handling process controls	In progress. See B. Existence and Documentation of Procedures.
<b>Cash handling workflow procedures</b>	Well designed and consistently applied procedures required to safeguard assets.	Workflow procedures in process of redesign.	Auditor observation and transaction testing indicate high error rate and delays.	In progress. See B. Existence and Documentation of Procedures.
<b>Written procedures</b>	Clearly documented procedures required for efficient and effective operations.	Workflow procedures in process of redesign.	Past CO procedures not documented. Current procedure documentation a work in progress.	In progress. See B. Existence and Documentation of Procedures.
<b>Maintaining dual control</b>	Dual asset control required when appropriate per BUS 49.	Dual custody not routine behavior	Auditor observations	In progress. See B. Existence and Documentation of Procedures.

PROCESS/ FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>4. ACCOUNTING</b>				
<b>CO Controls</b>	Accurate and timely recording required by BUS 49.	Accounting procedures in process of redesign.	Auditor observed CO cash handling process controls	In progress. See B. Existence and Documentation of Procedures.
<b>Data Entry Controls</b>	Accurate and timely recording required by BUS 49.		Auditor observed Data Entry process controls	Data Entry Controls appear to be effective
<b>General Accounting (GA) Controls</b>	Accurate and timely recording required by BUS 49.		Auditor observed General Accounting process controls	General Accounting Controls appear to be effective
<b>GA Bank Account Reconciliation</b>	Accurate, timely, and appropriately reviewed reconciliation required by BUS 49.	GA reconciles GL entries to Bank Statements.	Auditor tested reconciliation processes and found evidence of appropriate review of reconciliation.	General Accounting Controls over bank reconciliation appear appropriate
<b>GA GL entries</b>	Accurate and timely GL entries required by BUS 49.	GA authors GL entries to cash accounts.	Auditor traced entries and found evidence of supervisor approval.	General Accounting Controls appear to be effective
<b>GA Segregation of Duties</b>	BUS 49 requires segregation of duties between bank reconciliation and GL entries.	GA has two staff members who both reconcile and JV to GL. As compensating control supervisors review each GA JV entry to GL.	Auditor traced entries and found evidence of supervisor approval.	GA mitigation of segregation of duties control weakness appears appropriate.
<b>GA and Student Business Services Recordkeeping</b>	Appropriate retention of records required by BUS 49.	GA and SBS store data/documentation of cash handling workflow.	Auditor observed and inquired of recordkeeping procedures.	Record retention appears appropriate.
<b>GA reconciles Bank Accounts Authorized by UCOP Treasurer</b>	BUS 49 requires bank accounts are authorized by UCOP Treasurer.		UCOP Treasurer provided list of authorized bank accounts.	Bank accounts used in depositing funds have been authorized by UCOP.

PROCESS/ FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>5. STAFF TRAINING</b>				
<b>Cash handling workflow</b>	Procedures should be well designed, consistent, clearly documented and staff training in policy and procedures should be ongoing.	Staff training is in process.	Auditor observed need for procedure redesign, documentation and CO and SBS training.	In progress. See B. Existence and Documentation of Procedures.
<b>Policy compliance</b>	CO Management and staff need ongoing training in UC, UCSC, banking industry, and other applicable policies.	SBS and CO management and CO staff training is in process.	Auditor observed need for CO and SBS policy compliance training.	In progress. See B. Existence and Documentation of Procedures.
<b>Maintaining dual control</b>	Staff members were not aware of the importance of maintaining dual control when transferring cash from one location to another.	Dual control requirements have been communicated to each staff member.	Auditor observed that dual custody did not appear to be routine behavior.	In progress. See B. Existence and Documentation of Procedures.
<b>Security and Emergency</b>	Staff members need to have ongoing training. Campus Police recently provided robbery preparedness training.	Security and emergency preparedness need to be included in written procedures and ongoing training.	Written procedures and training schedule are works in progress.	In progress. See B. Existence and Documentation of Procedures..
<b>Check scanning process</b>	Staff members need to have ongoing training.	Staff training is in process.	Written procedures and training schedule are works in progress.	In progress. See B. Existence and Documentation of Procedures.
<b>6. INFORMATION SYSTEMS</b>				
<b>AIS system access controls</b>	Access to AIS cashiering transactions to be restricted per BUS 49.		Auditor observed user access controls and inquired of SBS system analysts.	AIS access controls appear appropriate.
<b>AIS system access controls</b>	Cashiers to have unique identifier.		Auditor observed use of unique system identifier.	AIS access controls appear appropriate.
<b>AIS void transaction controls</b>	Cashiers can void a transaction without Supervisor approval as	Cashiers document voids and CO Manager reviews voids after the fact.	Auditor reviewed process and void transactions. Current post review process not adequate	In progress. See D. Control of Void Transactions



	required by BUS 49.		control.	
PROCESS/ FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>6. INFORMATION SYSTEMS (continued)</b>				
<b>CO Check Scanning System</b>	CO retention of scanned images increases potential for loss or misuse of information.	CO mistakenly resubmitted prior scanned check batch to bank. Since images retained has been reduced.	Auditor observed system still has stored scanned images.	In progress. See E Control of Scanned Check Images
<b>CO Spreadsheets</b>	CO relies on spreadsheets for workflow and accounting controls.	Spreadsheets are subject to change and may contain undetected errors.	Auditor observed that during June to Nov high error count, spreadsheet error was often cited as cause.	In progress. See B. Existence and Documentation of procedures.
<b>7. GENERAL CONTROLS ENVIRONMENT</b>				
<b>A.. Management Operating Style and Organizational Structure</b>	Prior management did not have a formal approach to internal controls.	Current management is identifying needed improvements.	Auditor observations and interviews.	In progress. See A. Monitoring over MCO.
<b>B. Communications</b>	Given status of CO operations and relations with/among staff it is apparent that appropriate control monitoring and communications were not in effect.	With discovery of inadequate controls Controller, SBS and CO have stepped up monitoring and communication.	Appropriate communication, performance monitoring and feedback must be routine. It is too early to tell if appropriate communication is in effect.	In progress. See A. Monitoring over MCO.
<b>C. Previous Audits and Review</b>	Review previously identified control issues.	Previous audits and investigations reviewed.	Auditor observations and interviews indicated compliance with prior audit recommendations.	No further testing
<b>C. External Influences and Relationships</b>	Stakeholders expect appropriate controls in CO.			In progress. See A Monitoring over MCO.
<b>D. Employee Competence</b>	There is a higher risk of loss with MCO employees without appropriate experience and training.		Auditor observations and interviews.	In progress. See B. Existence and Documentation of procedures.



PROCESS/ FUNCTION	RISK IDENTIFIED	IMPROVEMENT ACTION(S)	AUDIT TESTING	RESULTS
<b>8. SUBCASHIERING</b>				
<b>A. Segregation of duties</b>	Lack of segregation of duties.	During UCOP visit. Lack of segregation of duties noted at Health Center and Conferences and Events.	Auditor discussed with SBS.	SBS to follow-up with departmental cash handlers and department management.
<b>B. Timely deposits</b>	Untimely deposits increases the risk of loss and error.	Auditor observed evidence of untimely departmental deposits.	Auditor discussed with SBS.	SBS to continue to monitor.

**Appendix C: Excerpts of UC Policies Regarding Hiring of Cash Handlers & Cashiers****UC PPS MANUAL Section 21. Appointment - October 2, 2009****E. BACKGROUND CHECKS**

*To ensure that individuals are selected who possess the qualifications to perform the duties of the position most effectively and who are best able to serve the University's interests, the University requires job-related background information on final candidates for critical positions and employees who are promoted, reclassified, or transferred into critical positions. Background checks may include but will not necessarily be limited to confirmation of an individual's identity, review of an individual's criminal conviction record, if any, or verification of any license, certificate, or degree required for appointment. The Chancellor shall designate certain positions as critical in accordance with guidelines established by the Office of the President.*

*Appointment to or continued employment in a critical position is contingent upon successful completion of a background check. Except for fingerprinting, a background check is completed prior to appointing a person to a critical position. A background check that includes fingerprinting may be completed after appointment, and the results shall be used to assess the employee's suitability for continued University employment.*

*Employment and educational reference checks normally are conducted for all positions including critical positions.*

**UC Business and Finance Bulletin BUS-49 - September 8, 2008****IV. ROLES AND RESPONSIBILITIES**

**Policy IV.1:** *Campus administrators who have management responsibility for cash handling must assure that each individual who has or will have access to cash resources (including temporary, casual and student employees) has been appropriately vetted before access is granted. Background checks, demonstrated reliability in previous settings and evidence of cash-handling training are important factors in establishing an individual's qualifications. Each employee who handles and processes cash and cash equivalents must be bonded under the University self-insurance program upon assumption of cash-handling responsibilities. The University carries fidelity bonds (with high deductibles) to protect against losses associated with defalcation. These bonds provide coverage for all University employees effective as of the employee's hire date. There is no requirement to notify the bonding company when an individual's employment begins or ends.*

*The campus must perform background checks prior to employing cashiers, cash handlers and individuals in other critical positions. Each Business Officer is*

responsible for arranging the appropriate background and employment checks to include:

- Verification of employment history
- Completion of criminal background check including fingerprinting
- Other procedures as necessary given the circumstances (e.g., credit checks).

The hiring unit must seek an explanation for any reported felonies, misdemeanors, or judgments that were due to fraud related to cash, stocks, bonds or any other financial transactions before hiring or upon learning such information. Any individual with cash handling responsibilities must continuously maintain bondable status. If an employee with cash handling responsibilities is convicted of a crime, that conviction must be reported to the campus police department. If a cash handling employee loses the ability to be bonded, his or her cash handling responsibilities must be terminated.

### **UC Accounting Manual C-173 Section III Bank Account Controls – June 30, 2005**

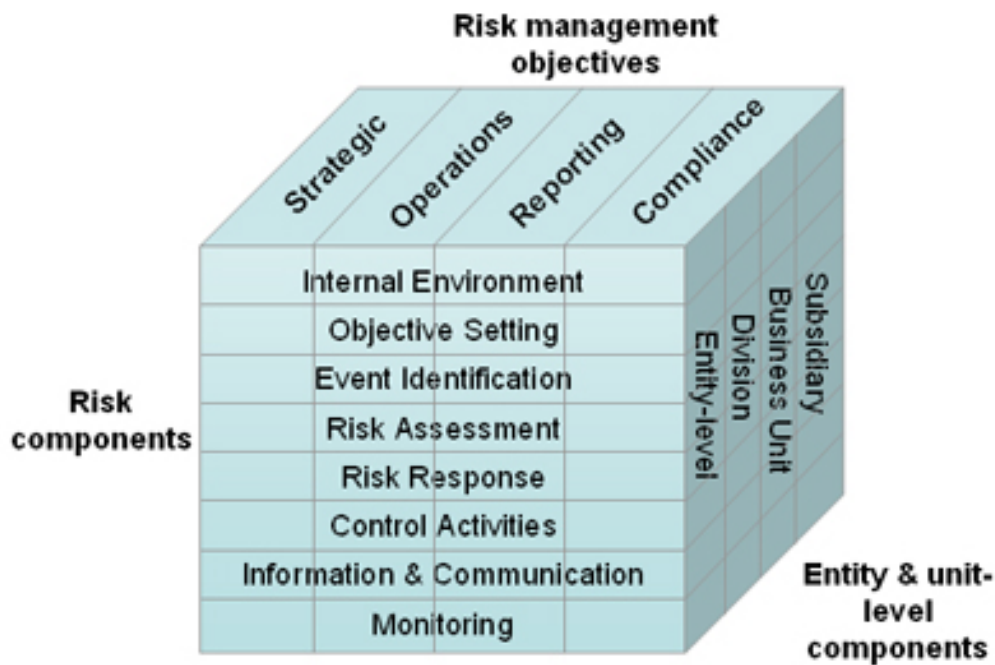
#### **E. PERSONNEL**

The University carries fidelity bonds that protect it from losses associated with defalcations. These bonds provide coverage for all University employees, effective as of the employee's hire date; there is no requirement to notify the bonding company when an individual's employment begins or ends.

In addition, background checks are required for cashiers. This includes a state felony review, a misdemeanor records review in a designated county, and a national credit review, which must be performed prior to employment. Any felonies, misdemeanors, or judgments that resulted in a fraud related to cash, stocks, bonds, or any other financial transaction should be addressed immediately. Business and Finance Bulletin BUS-49, Cashiering Responsibilities and Guidelines, provides further details regarding background checks.

**Appendix D: The COSO Enterprise Risk Management Framework**

The COSO Enterprise Risk Management Framework states “internal control systems need to be monitored – a process that assess(es) the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.”



**The COSO Enterprise Risk Management Framework**