October 27, 2014

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Subject:  Medical Center Cashiering Controls
Audit & Management Advisory Services Project 2014-14

The final audit report for Medical Center Cashiering Controls, Audit Report 2014-14, is attached. We want to thank all Health System personnel for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken 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. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please destroy them at this time.

David Meier
Director
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Attachment

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Medical Center Cashiering Controls
October 2014

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Project Number: 2014-14
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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of selected Medical Center main and sub-cashiering operations. 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 including segregation of duties, physical security and account reconciliation in addition to providing guidance for processing manual and electronic transactions. Elements of this policy are applicable to main and sub-cashiering units that receive University payments. BUS-49 control requirements are reinforced in local campus guidelines titled Internal Control Practices – Cash.

Medical Center Main Cashier’s Office Operations

The UC San Diego Medical Centers in Hillcrest and La Jolla (Thornton Hospital) operate two Main Cashier’s Offices. Both functions are managed by the Health System Payroll and Cashiering Services Manager, who reports directly to the Medical Center Controller.

During FY 2013-14, the Hillcrest Main Cashier’s Office received deposits from 14 sub-cashiering units regularly, and was staffed with two Cashiers who processed deposits and posted deposit information on a Cashier Daily Report (CDR), and compared the daily lockbox deposits to entries in the CDR to ensure that all entries had been posted. The Thornton Hospital Main Cashier’s Office received regular deposits from 12 sub-cashiering units, and was staffed with one Cashier who processed deposits and posted deposit information on a CDR, in addition to completing assigned payroll duties.

The entrance to each of the Cashier’s Offices remained locked throughout the day, and multiple security cameras were installed at each location. With the exception of the Outpatient Pharmacies, Medical Center departments with sub-cashiering activity brought cash, checks and credit card settlements to the Main Cashier’s Office for processing. The Outpatient Pharmacies prepared deposits on site, and took them to the Main Cashier’s Office for transport to the bank by an armored courier service.

Three separate bank accounts have been established for the Medical Center, Hemodialysis, and the Outpatient Pharmacies. Finance personnel reconciled bank account lock box deposits and credit card transactions to cash documents and the general ledger, and also reconciled credit card charges for the 48 credit card accounts linked to hospital Fund 63000A.

Food and Nutrition Services (FANS) Operations

Food and Nutrition Services (FANS) manages a number of high volume sub-cashiering activities including the Thornton Hospital cafeteria (the Cove), the Thornton Hospital...
Barista, the East Campus Office Building (ECOB) Café, the Hillcrest cafeteria (the Arbor Café), and the Hillcrest Barista. In addition to the retail activity in the Cafés and Baristas, FANS manages vending machines at both locations. We noted that FANS cash collections (excluding checks and credit cards) typically accounted for more than 80% of the daily deposits received by the Main Cashier’s Offices. Vending revenues alone were generally between $3,000 and $4,500 per week.

FANS utilized the Micros point of sale system in all locations with the exception of the Baristas. Cashiers worked varying schedules. Hillcrest FANS employed a Cashiering Coordinator who prepared and verified deposits. He worked in a locked Cashier’s Office where the drop safe was located. Thornton Hospital FANS did not employ a dedicated Cashiering Coordinator. However, Managers and Supervisors assisted with deposit preparation and verification activities. Due to differences in FANS facilities at Thornton Hospital, the drop safe was located in a locked room where several administrators worked.

To help minimize the number of cash transactions, FANS offered a declining balance account (EATS) for employees. Employees deposited funds to their individual account, and used an EATS debit card instead of cash or credit card to pay for meals or other items. FANS management was working to increase the number of personnel who use the EATS system.

II. Audit Objective, Scope, and Procedures

The objective of our review was to determine whether Medical Center cash handling controls provided reasonable assurance that deposits were completed timely, safeguarded, and reconciled to bank accounts as required by University policy. The scope of this project was focused primarily on Main Cashier’s Office and Finance cash management operations. However, based on the results of the project risk assessment, FANS cash handling procedures were also evaluated.

We completed the following audit procedure to achieve the project objective:

- Reviewed BUS-49 and local campus main cashier and sub cashier requirements;
- Reviewed the organizational structure for the Main Cashiering Offices;
- Identified the sub-cashiering units that regularly submitted deposits to the Main Cashiers;
- Interviewed Hillcrest and Thornton Hospital Main Cashier and FANS management and staff;
- Analyzed transactions for February 27, 2014 to gain an understanding of how cash and documents flow through the cash and accounting system;
- Prepared flow charts of cash handling processes;
- Assessed separation of responsibilities in cashiering procedures;
- Obtained and reviewed the current FANS organization chart;
- Interviewed FANS management and staff;
- Evaluated vending machine cash collection and reporting procedures; and
- Analyzed the daily cash overages and shortages for 531 Hillcrest FANS deposits and 719 Thornton Hospital FANS deposits for the period July 1, 2013 to June 23, 2014.

III. Conclusions

Based on our review procedures, we concluded that cash deposit and revenue reconciliation procedures related to financial system controls in the Main Cashier’s Offices and Finance were generally adequate to ensure that revenue was received and deposited in accordance with UC and campus policy and good business practices. However, we observed that selected practices and controls in the Thornton Hospital Cashier’s Office and some sub-cashiering units did not strictly comply with BUS-49. We also concluded that FANS cashiering activities were substantially compliant with University policy and helped to ensure that risks inherent in cash handling activities and corresponding financial accounting were minimized based on the volume of cash handling activity at each location. Documentation of cash collections, transfers and allocations was comprehensive and readily available. Staff with daily responsibilities for ensuring that cash was appropriately secured and accurately reported had received the appropriate cash handling training.

We also identified opportunities to improve controls related to Main Cashier’s Office segregation of duties, management of credit card terminals, physical security; and FANS timeliness of deposits, petty cash fund management and cash transport.

These issues are discussed in more detail below.

IV. Observations and Management Corrective Actions

A. Main Cashier Deposit Validation Process

The Thornton Hospital Main Cashier received and verified deposits alone, which violated BUS-49 deposit preparation and validation requirements.

BUS-49 section XA.5 states: "The Main Cashiering Station must record each deposit from cash handling departments or Sub-Cashiering Station. All cash deposits must be counted under dual control."

The Thornton Hospital Main Cashier received and verified deposits alone, which did not comply with the BUS-49 requirement of dual custody when preparing and validating deposits. However, we noted that two cameras had been placed facing the Cashier’s desk space (from front and back) as a compensating control to monitor and record the Cashier’s activities. At the time of the audit, general practice required that the Cashier open each deposit bag (for non-retail
pharmacy deposits) and reconcile the cash and credit card sales to the deposit advice. The Cashier then entered the deposit advice information into the campus Integrated Financial Information System (IFIS).

The Outpatient Pharmacy deposit process required that deposits be prepared (under dual custody) by pharmacy personnel, and submitted in a sealed deposit bag to the Main Cashier, with the deposit advice attached to the outside of the deposit bag. The Cashier entered the deposit information into the IFIS without opening the sealed deposit bag, which eliminated the cash re-count process, and avoided the segregation of duties issue. Applying this process elsewhere would result in process efficiencies for the Cashier and also minimize the risk associated with one person re-handling deposits.

We noted that additional staffing in the Thornton Hospital Main Cashier’s Office did not occur when new service centers opened at Thornton Hospital, including the Sulpizio Cardiovascular Center and the ECOB. The opening of the Jacobs Tower in 2016 will also impact the Cashier’s Office. Staffing may need to be reevaluated.

**Management Corrective Actions:**

1. The Cashiering Office has received approval to fill one staff position that has been vacant for two years.

2. The Health System Controller and the Payroll and Cashiering Services Manager will revise the Thornton Hospital Main Cashier procedure to improve BUS-49 compliance and process efficiencies.

3. The Health System Controller and the Associate Administrator for Facilities and Hospitality will ensure that space in the La Jolla Medical Center Cashier’s Office is adequate to meet current and future Cashier’s Office staffing requirements.

**B. Inactive Credit Card Terminals**

Credit card terminals at 31 of 50 locations were active, but had not been used in six months.

As of June 30, 2014, there were 50 active credit card machines in Medical Center units. We were advised that 31 of 50 machines that were being reconciled monthly had no activity except for the fees charged by the bank. Reconciling inactive credit card terminals is an inefficient use of resources. In addition, the unused terminals incurred $6,456 in fees for the period January 1, 2014 through June 30, 2014.
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Management Corrective Action:

Finance will determine whether credit card terminals with no activity can be eliminated, and unnecessary terminals will be de-commissioned.

C. Main Cashier’s Office Physical Security

Security cameras in the Hillcrest Main Cashier’s Office were not functioning.

While reviewing controls in the Hillcrest Main Cashier’s Office vault, we noted that there were four security cameras in the area. The Cashier stated that the cameras had not been functioning for at least three weeks and that the monitors were off. Upon follow-up with the Medical Center Security Office, we learned that three of the four cameras were not repairable. The Security Office had provided management with an estimated cost to replace the non-functioning cameras. However, they had not received a response.

Management Corrective Action:

The Health System Controller is working with Security to repair or replace all cameras in the Hillcrest Main Cashier’s Office are as soon as possible.

D. Frequency of Deposits

Sub-cashier deposits were not processed or submitted timely in some cases.

Policy requires that cash and cash equivalents at sub-cashiering stations and departments be deposited weekly or when deposits on hand exceed $500.

AMAS performed a cash count and detailed inspection of the Thornton Hospital Café safe, and verified that the full amount of the change fund was accounted for. However, we also noted that the safe contained cash donations collected for the Banister House that the supervisor stated had accumulating for several weeks.

Proceeds from Café and Barista sales are usually counted and deposited with the Main Cashier’s Office the next business day. However, the FANS Cash Coordinator and a Hospital Assistant collected cash from vending machines weekly. Hillcrest and Thornton Hospital vending revenues were typically between $2,500 and $3,500, and between $500 and $1,000, respectively. The Cash Coordinator stated that because the Arbor Café typically needed $500 per day in one dollar bills, he sometimes held the vending deposits to use for change. Therefore, sometimes, the vending deposit was not made timely.

In addition, the FANS Cash Coordinator was the only person who knew the third part of the three-part safe combination at Hillcrest. In his absence, the drop safe could not be opened, and deposits had accumulated. The Hillcrest Main Cashier
advised us that this had occurred in May 2013, when the Cash Coordinator was on vacation. Security controls should be designed to ensure that deposits are made timely regardless of staff availability.

On May 7, 2014, while an experienced Supervisor was on vacation and the Assistant Director had been released, the Cove credit card payments did not process correctly due to cashier error. The credit card settlement was not completed automatically, which resulted in cashier drawers being out of balance. Because the clerk responsible for deposit reconciliations was not able to reconcile the sales to receipts, she did not prepare the deposits for that day and the following day. The FANS Cash Coordinator at Hillcrest was not contacted to provide assistance. Reconciling cash to sales is a separate function that should not have interfered with processing deposit timely.

When the Supervisor returned, he had to complete the credit card settlements manually, and a Clerk then prepared several of the outstanding deposits the next day, and the remainder on the subsequent business days. The Thornton Hospital Cashier advised us that on May 14, 2014, she received 15 deposits from FANS. A FANS Supervisor had gone to the Main Cashier’s Office earlier in the week to make deposits. However, because the Cashier was not in the office, rather than put them in the night drop, deposits were returned to the FANS safe to be made when the Cashier’s signature could be obtained on the deposit log.

To further evaluate the timeliness of deposits, we obtained deposit data for the months of January and February 2014 and noted that there was no CDR for February 28 for Thornton Hospital. The Manager reported that deposits were not prepared that day because the Cashier was out of the office. All of the deposits for February 27, 2014 were processed on the next business day, March 3, 2014.

We also vouched deposit transactions on the Hillcrest February 27, 2014 GL voucher detail report for CMMCH583 to 38 supporting deposit advice documents. When we compared the dates on the supporting documents to the date on the deposit documents, we noted the following:

- The supporting documents for twelve deposits indicated that checks had been received more than seven days prior to the deposit. One of the checks was deposited 94 days after it was written.
- Three deposits included supporting documents to indicate that checks had been received one to seven days prior to the deposit. However, the amount of the checks exceeded $500, and deposit was not made on the next business day.
- Thirteen of the 15 not in compliance were from the Department of Surgery.
- Deposits not made timely totaled more than $30,000.
Management Corrective Actions:

1. One additional FANS administrator has been assigned the responsibility for maintaining the third digit for the Hillcrest drop safe.

2. FANS management will:
   
a. Monitor the timing of deposits to ensure that deposits are transferred to the bank in compliance with BUS-49 requirements.

   b. Revise the FANS cash handling policy to state that the Main Cashier's signature is not required on the deposit log if the log includes the initials of the two individuals who transported and witnessed the deposit being deposited into the Main Cashier’s Office night drop.

3. Cashiering and FANS managements will ensure that staffing is adequate to cover key positions when regularly scheduled employees are absent.

4. The Health System Controller and Payroll and Cashiering Services Manager will remind all Medical Center sub-cashiering units to follow current policy, which requires that all checks and cash totaling $500 or more be deposited by the close of the following business day, regardless of whether funds have been reconciled to sales or other expected revenue figures.

E. Petty Cash

Hillcrest FANS is utilizing an unauthorized petty cash account.

To facilitate vending activity, FANS management had installed a change machine containing $1,000 in bills and coins in the Arbor Café. In 2013, the change machine was vandalized by unknown individual(s), and bills totaling $735 were stolen from the machine. The change machine was not replaced or repaired, and the remaining $265 was placed into the cashiering office safe in a separate bag and was being used for vending refunds. We completed a cash count of the cashiering office safe, and verified that safe contained excess cash of $265.

Management Corrective Action:

The FANS Director will work with the Campus General Accounting to identify the necessary steps to include the remaining $265 from the change machine to the existing Arbor Café change fund.
F. Transporting Cash

FANS employees were unnecessarily transporting cash between Thornton Hospital and Hillcrest.

FANS maintained vending machines at Hillcrest and Thornton Hospital. The Hillcrest Cash Coordinator and another employee collected cash from vending machines at each location once a week. They then transported the cash collected from both locations to the FANS cashiering office in Hillcrest to be counted and verified. Thornton Hospital vending machine revenues, which typically totaled between $500 and $1000 per week, could be counted and deposited with the Thornton Hospital Main Cashier’s Office.

Transporting cash unnecessarily from Thornton Hospital to Hillcrest increased the risk of cash loss.

**Management Corrective Action:**

FANS management will implement separate vending machine deposits at Hillcrest and La Jolla to eliminate the transport of cash between those locations.