

CASHIERING

HUMBOLDT STATE UNIVERSITY

**Audit Report 11-38
July 18, 2011**

Members, Committee on Audit

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Melinda Guzman, Vice Chair
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William Hauck Hsing Kung Linda Lang

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University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Wendee Shinsato
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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
ICSUAM	Integrated California State University Administrative Manual
OUA	Office of the University Auditor
SAM	State Administrative Manual

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2010, the Board of Trustees, at its January 2011 meeting, directed that *Cashiering* be reviewed. Similar audits of cashiering activities were conducted during our Main and Satellite Cashiering audits in 2010.

We visited the Humboldt State University campus from May 2, 2011, through May 20, 2011, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on cashiering activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls for cashiering activities in effect as of May 20, 2011, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASHIERING [5]

Cashiering processes needed improvement. Specifically, at the athletics department, food concession receipts were not reconciled to the items sold, and at parking services, the contract on file between the campus and an outside vendor that processed parking citation payments had expired. These are repeat findings from prior audits.

SYSTEM ACCESS [6]

Access to cashiering systems needed improvement. Specifically, the campus did not have written policies and procedures for granting access to the cashiering systems, nor did it have an authorization form to document the granting, modification, and/or termination of access to cashiering systems. Additionally, system access was not always properly segregated.

ACCOUNTING RECORDS [7]

The campus did not have written policies and procedures for the accounting treatment and management review and monitoring of overages and shortages. Also, uncleared collections reconciliations were not always completed in a timely manner, and reconciling items posted to the uncleared collections account were not resolved and cleared at least once each quarter.

INTRODUCTION

BACKGROUND

Cashiering audits involve the assessment of the adequacy of the systems of internal accounting and administrative control surrounding cash receipts, cash handling, change funds, and purchase funds at main and satellite cashiering facilities.

The main cashier at each campus handles the majority of cash transactions for the campus. The main cashier's chief responsibility is the collection of registration and other student fees using mainly cash, credit cards, debit cards, cashier's checks, money orders, and personal checks. Other common transactions at the main cashier's office include the collection of payments for parking permits, petty cash reimbursements, disbursements of employee checks, and all other types of payment service needs, as well as deposits, recordkeeping, and the safeguarding of cash.

Satellite cashiering comprises the collection of cash at campus and off-site locations other than the main cashier. Examples of these locations include athletics, public safety, parking and transportation, student unions, student health centers, housing, reprographics, libraries, and the performing arts. Receipts in the form of cash, checks, and credit cards may be accepted at these locations for the sale of tickets and merchandise, as well as for the collection of various fees. Change and purchase funds that provide cash may also be held at these locations for small dollar purchases or services.

Historically, main and satellite cashiering audits were performed by the California State University (CSU) Office of the University Auditor (OUA) as part of cyclical audits, based on the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983 passed by the California Legislature and as detailed in Government Code (GC) Sections 13400 through 13407. FISMA audits were biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by GC Section 1236.

Beginning in calendar year 2010, cyclical FISMA audits were reevaluated and discontinued due to a change in the OUA audit risk assessment methodology. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas on each campus. Specific components of the FISMA audits were considered in this evaluation. Based on this review, senior management at the CSU campuses and the CSU systemwide Office of Risk Management recommended cashiering as a high-risk area for audit.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to cashiering activities and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the audit objective, specific goals included determining whether:

- ▶ Cash receipts business processes, policies, and procedures are well-defined and adequately documented and reflect appropriate internal controls.
- ▶ Procedures exist to ensure that all collections are deposited in an approved depository or otherwise adequately safeguarded.
- ▶ Accountability for cash items is established at the earliest possible time after receipt and maintained to prevent misappropriation of funds.
- ▶ Cash receipts are accurately recorded in the accounting records in a timely manner.
- ▶ Cash receipts system access is effectively controlled and appropriate.
- ▶ Segregation of duties in cash receipts activities is established and sufficiently maintained.
- ▶ Change and purchase funds are established and administered properly.
- ▶ Cashiering locations provide appropriate physical security.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Action Item, Agenda Item 2 of the January 25 and 26, 2011, meeting of the Committee on Audit stated that satellite review of Cashiering would include, but was not limited to, a review of business unit cashiering procedures, cash receipts processes, change and purchase funds, and the overall accountability for cash. Proposed audit scope would include review of Trustee policy, systemwide directives, state regulations, and campus policies and procedures for controlling cash receipts, accountability for cash, safeguarding of cash, timely deposits, and accurate recordkeeping.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. The audit focused on procedures in effect from January 1, 2010, through April 30, 2011.

We focused primarily upon the internal administrative, compliance, and accounting controls over cashiering activities. Specifically, we included within the scope of our review the following:

- ▶ Procedures for receipting and storing cash.
- ▶ Segregation of duties involving cash receipting.
- ▶ Background checks for employees involved in the receipt of cash.
- ▶ Establishment and maintenance of accountability for cash items.
- ▶ Safeguarding of cash receipts from loss or misuse.
- ▶ Accurate and timely recordkeeping of cash receipts to the general ledger.
- ▶ Periodic campus performance of cash counts.
- ▶ Proper establishment and administration of change and purchase funds.
- ▶ Access restrictions to cashiering and accounting systems.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASHIERING

Cashiering processes needed improvement.

We reviewed cash collection points at extended education, housing, parking, and athletics, and we found that:

- ▶ At the athletics department, food concession receipts were not reconciled to the items sold. This is a repeat finding from the prior Athletics Administration audit.
- ▶ At parking services, the contract on file between the campus and the Phoenix Group, which processes campus parking citation payments, expired on June 30, 2010, and showed no evidence of review, updating, or renewal. This is a repeat finding from the prior FISMA audit.

State Administrative Manual (SAM) §7901 states that the accuracy of a department's accounting records may be proved partially by making certain reconciliations and verifications.

Integrated California State University Administrative Manual (ICSUAM) §5208.0, *Multi-Year Contracts*, dated March 19, 2001 states that a contract for goods or services may be entered into for any period of time deemed to be in the best interests of the California State University, provided the term of the contract and conditions of renewal or extension, if any, are included in the solicitation.

The athletic director stated that the reconciliation procedure was established but was not being followed by athletics personnel. The contracts and procurement director stated that there is a regular practice to review and reinstate continuing contracts, but the Phoenix Group contract was not renewed due to oversight.

Inadequate control over cash receipts and contract execution increases campus exposure to loss and liability from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Ensure that the athletics department reconciles food concession receipts to the items sold.
- b. Review, update, and renew the contract with the Phoenix Group.

Campus Response

We concur. The campus will:

- a. Ensure that the athletics department reconciles food concession receipts to the items sold.
- b. Review, update, and renew the contract with the Phoenix Group.

Expected completion date: August 31, 2011

SYSTEM ACCESS

Access to cashiering systems needed improvement.

We found that:

- ▶ The campus did not have written policies and procedures for granting access to the cashiering systems.
- ▶ The campus did not have an authorization form to document the granting, modification, and/or termination of access to cashiering systems.
- ▶ There was no documentation demonstrating that the access listings for cashiering systems were reviewed annually.
- ▶ System access was not always properly segregated. Cashiers at extended education and housing were able to process refunds in PeopleSoft Student Finance.

SAM §5325 states that each agency is responsible to provide security roles and responsibilities to employees, contractors, and third-party users. This will ensure the users are informed of their roles and responsibilities for using agency information assets, reduce the risk of inappropriate use, and includes a documented process to remove access when changes occur. Personnel practices related to security management include, among other areas, training of agency employees with respect to security responsibilities and policies, signing of acknowledgments of security responsibility by all employees, and termination procedures that ensure that agency information assets are not accessible to former employees.

SAM §8080, §8080.1, and §8080.2 state, in part, that no one person will perform more than one of the following types of duties: receiving and depositing remittances, inputting receipts information, and reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions.

ICSUAM §8060.0, *Access Control*, dated April 19, 2010, states that campuses must have a documented process for provisioning approved additions, changes, and terminations of access rights and reviewing access of existing account holders. Access to campus protected information assets must be denied until specifically authorized. Appropriate campus managers and data owners must review, at least annually, user access rights to information assets containing protected data.

The director of financial services stated that procedures for the granting and removal of access to CashNet were being redesigned, and that the redesigned procedures require documented approval for the granting, modification, or removal of access, as well as an annual review. She further stated that complete segregation of duties was difficult due to staffing constraints.

Failure to adequately control user access to systems increases campus exposure to loss from inappropriate acts.

Recommendation 2

We recommend that the campus:

- a. Develop policies and procedures for granting access to the cashiering systems.
- b. Document approval for the granting, modification, and/or termination of access to cashiering systems.
- c. Perform and document an annual review of access listings for cashiering systems.
- d. Remove extended education and housing cashiers' ability to process student refunds in PeopleSoft Student Finance.

Campus Response

We concur. The campus will:

- a. Document procedures for granting access to the cashiering systems.

Expected completion date: August 31, 2011

- b. Document approval for the granting, modification, and/or termination of access to cashiering systems.

Expected completion date: August 31, 2011

- c. Perform and document an annual review of access for cashiering systems.

Expected completion date: September 30, 2011

- d. Remove extended education and housing cashiers' ability to process student refunds in PeopleSoft Student Finance.

Expected completion date: Fully implemented

ACCOUNTING RECORDS

OVERAGES AND SHORTAGES

The campus did not have written policies and procedures for the accounting treatment and management review and monitoring of overages and shortages.

Specifically, we found that:

- ▶ Overages and shortages reported on tracking sheets at the athletics and parking services departments were not recorded on the campus' cashiering and financial systems.
- ▶ Explanations for the two overages and shortages recorded in campus cashiering and financial systems in calendar year 2010 were not recorded, nor was supervisory review documented.

SAM §8070 states that employees who receive and disburse money will be held accountable for the money in their custody. They will be held personally responsible for any cash discrepancies. In addition, each department differs as to their collection activities, frequency, and amount of cash collected. Therefore, each department is responsible for establishing standards of performance for their cashiers and prescribing corrective actions to be utilized when performance standards are not satisfied.

SAM §8171 states that cash overages in a change fund, cash purchase fund, or cash payment fund will be credited to a cash overages account at the time of identification, and will be cleared as revenue or operating revenue at least once each quarter.

SAM §8172 states that cash shortages in a change fund, cash purchase fund, or cash payment fund will be established as an accounts receivable from the custodian at the time of identification, and that explanations for the shortage should be reviewed and signed by the person's supervisor.

The director of financial services stated that overages and shortages were tracked and recorded for the main cashier's office. She further stated that although the satellite cashiers' overages and shortages were tracked, they were not posted to CashNet due to oversight. She also stated that procedures were being implemented to ensure that overages and shortages would be tracked, posted, and reviewed.

Lack of accounting policies and procedures increases the risk of misunderstandings related to the performance of duties and functions and may result in inconsistent treatment and handling of issues.

Recommendation 3

We recommend that the campus:

- a. Develop policies and procedures related to the accounting treatment and management review and monitoring of overages and shortages.
- b. Record overages and shortages on the campus' cashiering and financial systems.
- c. Record explanations for overages and shortages in campus cashiering and financial systems, and document supervisory review.

Campus Response

We concur. The campus will:

- a. Develop policies and procedures related to the accounting treatment and management review and monitoring of overages and shortages.
- b. Record overages and shortages on the campus' cashiering and financial systems.
- c. Record explanations for overages and shortages in campus cashiering and financial systems, and document supervisory review.

Expected completion date: August 31, 2011

UNCLEARED COLLECTIONS

Uncleared collections reconciliations were not always completed in a timely manner, and reconciling items posted to the uncleared collections account were not resolved and cleared at least once each quarter.

Specifically, we found that:

- ▶ Two of the three uncleared collections reconciliations we reviewed were prepared later than 30 days after the end of the preceding month.
- ▶ Reconciling items posted to the uncleared collections account totaling \$161,907 were initially noted in August 2010, but were not cleared and resolved until March 2011.

SAM §7901 states reconciliations will be prepared monthly within 30 days of the preceding month.

SAM §10508 states that varying circumstances determine the clearance of uncleared collections and that items should be cleared at least once each quarter.

The director of financial services stated that the regular practice is to reconcile the uncleared collections account within 30 days. She further stated that the delay in completing the two reconciliations was due to turnover in staff performing the duty, and the untimely clearing of reconciling items was due to oversight.

Failure to complete reconciliations and clear uncleared collections entries in a timely manner increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 4

We recommend that the campus:

- a. Reconcile the uncleared collections account within 30 days of the preceding month.

- b. Resolve and clear reconciling items posted to the uncleared collections account at least once each quarter.

Campus Response

We concur. The campus will:

- a. Reconcile the uncleared collections account within 30 days of the preceding month.
- b. Resolve and clear reconciling items posted to the uncleared collections account at least once each quarter.

Expected completion date: August 31, 2011

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Rollin C. Richmond	President
Dave Bugbee	Contracts and Procurement Director
Barbara Cline	Administrative Support, Music
Dan Collen	Athletics Director
Mike Douglas	Buyer I, Plant Operations
Allison Freeman	Accounting Analyst, Student Financial Services
Holly Freitas	Assistant Director, Housing & Dining Services
Carl Hansen	Dean of Extended Education
Lynda Henderson	Housing Cashier
Karyn Hoppe	Information Services Coordinator, University Police Department
Emily Kupec	Financial Analyst
Burt Nordstrom	Vice President, Administrative Affairs
Brandon Price	Accountant Technician I, Financial Services Accounting
Shelli Ramirez	Cashier, Student Financial Services
Lynne Sandstrom	Director, Financial Services
Laurie Sheppard	Athletics Business Manager
Debbie Snead	Lead Cashier, Student Financial Services
Carol Terry	Associate Vice President, Business Services
Sandy Wieckowski	Student Financial Services Supervisor



HUMBOLDT STATE UNIVERSITY

Vice President of Administrative Affairs

July 25, 2011

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210

RECEIVED
UNIVERSITY AUDITOR

JUL 25 2011

THE CALIFORNIA STATE
UNIVERSITY

Audit Report 11-38 – Cashiering

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to Audit Report 11-38 –Cashiering, findings #1 through #4.

Please review the responses and let us know if there are any questions, concerns, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened.

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Burt Nordstrom, Vice President Administrative Affairs

Cc: Rollin C. Richmond, President (w/o enclosures)
Carol Terry, Associate Vice President of Business Services (w/o enclosures)

CASHIERING
HUMBOLDT STATE UNIVERSITY
Audit Report 11-38

CASHIERING

Recommendation 1

We recommend that the campus:

- a. Ensure that the athletics department reconciles food concession receipts to the items sold.
- b. Review, update, and renew the contract with the Phoenix Group.

Campus Response

We concur. The campus will:

- a. Ensure that the athletics department reconciles food concession receipts to the items sold.
- b. Review, update, and renew the contract with the Phoenix Group.

Expected Completion Date: August 31, 2011

SYSTEM ACCESS

Recommendation 2

We recommend that the campus:

- a. Develop policies and procedures for granting access to the cashiering systems.
- b. Document approval for the granting, modification, and/or termination of access to cashiering systems.
- c. Perform and document an annual review of access listings for cashiering systems.
- d. Remove extended education and housing cashiers' ability to process student refunds in PeopleSoft Student Finance.

Campus Response

We concur. The campus will:

- a. Document procedures for granting access to the cashiering systems.

- b. Document approval for the granting, modification, and/or termination of access to cashiering systems.
- c. Perform and document an annual review of access for cashiering systems.
- d. Remove extended education and housing cashiers' ability to process student refunds in PeopleSoft Student Finance.

Expected Completion Dates:

- a. August 31, 2011
- b. August 31, 2011
- c. September 30, 2011
- d. Fully Implemented

ACCOUNTING RECORDS

OVERAGES AND SHORTAGES

Recommendation 3

We recommend that the campus:

- a. Develop policies and procedures related to the accounting treatment and management review and monitoring of overages and shortages.
- b. Record overages and shortages on the campus' cashiering and financial systems.
- c. Record explanations for overages and shortages in campus cashiering and financial systems, and document supervisory review.

Campus Response

We concur. The campus will:

- a. Develop policies and procedures related to the accounting treatment and management review and monitoring of overages and shortages.
- b. Record overages and shortages on the campus' cashiering and financial systems.
- c. Record explanations for overages and shortages in campus cashiering and financial systems, and document supervisory review.

Expected Completion Date: August 31, 2011

UNCLEARED COLLECTIONS

Recommendation 4

We recommend that the campus:

- a. Reconcile the uncleared collections account within 30 days of the preceding month.
- b. Resolve and clear reconciling items posted to the uncleared collections account at least once each quarter.

Campus Response

We concur. The campus will:

- a. Reconcile the uncleared collections account within 30 days of the preceding month.
- b. Resolve and clear reconciling items posted to the uncleared collections account at least once each quarter.

Expected Completion Date: August 31, 2011

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

August 22, 2011

CHICO

MEMORANDUM

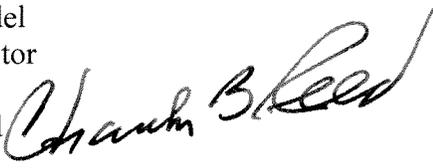
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed 
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 11-38 on *Cashiering*,
Humboldt State University

LONG BEACH

LOS ANGELES

In response to your memorandum of August 22, 2011, I accept the response as submitted with the draft final report on *Cashiering*, Humboldt State University.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS