



**Winston-Salem State University | University of North Carolina School of the Arts
Office of Internal Audit & Institutional Compliance**

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AUDITOR'S TRANSMITTAL

January 13, 2014

Dr. Randy Mills, Interim Vice Chancellor for Finance and Administration
Winston-Salem State University
103 Blair Hall
Winston-Salem, NC 27110

Dear Dr. Mills:

The Office of Internal Audit performed surprise cash count audits at three University offices on June 26th, 2013. The results of our audits, along with recommendations for corrective action and management's responses, are contained in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S B Henry".

Shannon B. Henry
Chief Audit Officer and Executive Director of Institutional Compliance

Cc: Mr. Donald J. Reaves, Ph.D., Chancellor
Mr. Frank Lord, Controller
Mr. Donald Pearsall, Associate Vice Chancellor for Business Services
Mr. J. Nathan Thompson, Assistant Controller
Audit Committee, WSSU Board of Trustees

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INTRODUCTION

The Office of Internal Audit conducted surprise cash counts at three offices within the Division of Finance and Administration on June 26th, 2013. The objective of our audit was to determine if change funds and daily cash receipts were present and accounted for at the time of our visit. We also observed each offices's processes for compliance with State and University policies and conducted a follow-up to evaluate the University's progress toward resolving the findings included in prior years' audit reports. As part of the audit, University employees were asked basic questions about cash handling and accountability practices.

To conduct our audit we performed the following procedures:

- Examined records of the University to determine divisions or units which either hold petty cash or change funds, or serve as collecting units and names of persons responsible for the funds;
- Selected and performed surprise cash counts at three offices within the Division of Finance and Administration which collect funds and/or are in possession of change funds;
- Interviewed University employees; and
- Reviewed applicable governing regulations and University policies.

This report presents the results of our audit.

SCOPE AND METHODOLOGY

The Office of Internal Audit selected the following locations to perform surprise cash count audits:

Ticket Office – Two employees in the Ticket Office maintain a change fund of \$1,000 and collect receipts for ticket sales;

Conferences and Institutes – One employee in the Office of Conferences and Institutes maintains a receipt book and collects receipts for facility rental fees.

Student Accounts and Cashiering – One employee in the Student Accounts and Cashiering Office maintains a change fund of \$200 and collects and records all University cash receipts from students and other University departments.

At the time of our visits to each of the above areas, cash on hand was compared to the supporting documents to identify cash overages and shortages or other cash handling discrepancies. We also asked general questions about cash handling practices and noted concerns that came to our attention. Our review included a follow-up to evaluate the University's progress toward resolving the findings included in the prior year's audit report and was limited to the specified areas.

We also attempted to conduct a surprise cash count at the Police and Public Safety Parking Office; however, at the time of our count, the office was closed for training.

RESULTS

We found that the University has made efforts to tighten controls and develop cash handling policies in response to past internal audits; however, significant aspects of the issues noted in previous years have not been rectified.

Ticket Office

- The audit identified internal control weaknesses in the Ticket Office's cash handling procedures and practices.

Conferences and Institutes

- The audit identified internal control weaknesses in the Office of Conferences and Institutes' cash handling procedures and practices.

Student Accounts and Cashiering

- The audit identified internal control weaknesses in the Student Accounts and Cashiering Office's cash handling procedures and practices.

See the *Audit Findings and Responses* section on page 5 for further detail.

AUDIT FINDINGS AND RESPONSES

FINDINGS:

INTERNAL CONTROLS OVER CASH HANDLING ARE INSUFFICIENT TO ENSURE THAT CASH IS PROPERLY SAFEGUARDED AND HANDLED IN COMPLIANCE WITH STATE AND UNIVERSITY POLICY.

The University has insufficient policies and has not adopted procedures to implement existing policies to ensure safe handling of its cash receipts. Failing to safeguard cash increases the opportunity for asset misappropriation, petty theft, and use of University property for personal benefit. During our audit, we noted the following:

Ticket Office

Lack of Segregation of Duties and Management Oversight of the Cashiering Function:

- The Ticket Office maintains a staff of two persons that each print and sell tickets and reconcile ticket sales. If an employee is absent, one person handles ticket office transactions from beginning to end. There is no additional supervisory oversight or independent checks of the Ticket Office's receipt and reconciliation process for accountability.
- Based on our review and inquiry of staff, ticket printing is performed by the Ticket Office. We noted that the Ticket Office can print single tickets and assign ticket numbers. The Ticket Office uses cash register tape as documentation for ticket sales and no supervisory personnel reconciles the ticket sales to the ticket revenue or conducts verification procedures to ensure amounts collected and deposited by the Ticket Office are accurate.

Insufficient Policies and Procedures:

- The University's policy regarding ticket sales states that, "All ticket sales are final; there are absolutely no ticket exchanges or refunds." We noted, however, that the University provides refunds for tickets when events are cancelled. Further, based on our review and inquiry of staff, there are no documented procedures for the ticket refund process.

Good internal controls require separation of duties as preventative and detective measures. Further, organizations have a responsibility to properly segregate job duties so that no one person handles cash transactions from beginning to end and to assign responsibilities in a manner which encourages checks and balances. All assignments of responsibilities and activities which are allowed and prohibited should be documented.

AUDIT FINDINGS AND RESPONSES (continued)

Conferences and Institutes

Inadequate Processes, Ineffective Oversight and Noncompliance with State and University Policies:

- During our review, we found that the Office of Conferences and Institutes' processes for receipt book collections were not adequate to prevent or detect a misappropriation of funds. Specifically, we noted receipts that were skipped, incomplete and voided with no documented authorization or explanation. We also noted \$5,141.90 in cash receipts that were not deposited timely.
- According to the receipt book custodian, there are no documented policies and procedures for receipt book collections.

Good internal controls require that all cash and checks received are promptly recorded and deposited in the form originally received. Further, all cash receipts should be reconciled daily with the appropriate documentation (cash reports, receipt books, mail logs). Without proper internal controls over receipt book collections, there is a lack of accountability for proper handling and an increased risk of noncompliance and loss due to misappropriation.

North Carolina General Statute § 147-86.11(e)(2) requires that "moneys received shall be deposited daily in the form and amounts received".

The University's policy, *Departmental Cash Collections*, requires cash handlers to: "Deposit monies, bringing along the departmental transmittal and receipt book, within twenty-four hours to the Office of Billings and Receivables."

Student Accounts and Cashiering

Poor Controls over Access to Cash:

- Based on our review and inquiry of staff, we noted that the responsibility for the cash register in the Student Accounts and Cashiering Office is not assigned to specific persons. We observed various staff members using the same login identification to conduct transactions.

Without proper internal controls over access to cash drawers, there is a lack of accountability for cash discrepancies and an increased risk of loss due to asset misappropriation.

AUDIT FINDINGS AND RESPONSES (continued)

University-Wide*Insufficient Policies and Procedures and Inadequate Training of Cash Handlers:*

- During our surprise cash counts of 2012, we noted that certain cash handlers were not aware University policies and procedures related to cash handling. As a result, we recommended that cash handlers be fully trained to ensure compliance with cash handling policies and procedures. As per management's response to the surprise cash counts of 2012, policies and procedures would be updated and all personnel involved in cash handling functions would be trained. We noted that management has made efforts to tighten controls and develop cash handling policies in response to past internal audits. However, these policies and procedures appear to be of limited use and not distributed University-wide. Further, at the time of the 2013 cash counts, cash handlers had not received any training.

North Carolina General Statute § 147-86.10 requires that:

All agencies, institutions, departments, bureaus, boards, commissions, and officers of the State...shall devise techniques and procedures for the receipt, deposit, and disbursement of moneys coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances.

CONCLUSIONS:

Weaknesses in the internal controls over cash handling can result in a substantial loss to the University. We noted a lack of oversight and monitoring, inadequate control policies and procedures, and a failure on the part of the University to fully implement the appropriate corrective measures to resolve the findings included in the prior year's audit report.

The establishment and adjustment of fiscal rules are under the authority of the Controller's Office within the Division of Finance and Administration. Additionally, the Office has oversight responsibility of the University's change funds and receipt books. Consequently, the Office is in the best position to strengthen University controls related to cash handling. The Controller's Office can ensure fiscal rules and other forms of guidance including training are adequate to help with University-wide cash handling responsibilities and can also enhance oversight activities of cash handling policies, procedures and practices.

The University's current practices allow for theft or other cash receipting errors and irregularities to occur and go undetected.

AUDIT FINDINGS AND RESPONSES (continued)

RECOMMENDATIONS:

1. In order to increase accountability and uniformity of policies and procedures University-wide, the Controller's Office should develop detailed policies and procedures applicable to all University cash handlers. The Controller's Office should ensure that all assignments of cash handling responsibilities are documented in the policies. These policies should enforce effective controls and consistency and include accountability measures to ensure the proper use and safeguarding of these funds.
2. Personnel should be fully trained to ensure compliance with cash handling policies and procedures. Such personnel should be required to sign a statement acknowledging that they have been trained, read and understand the relevant policies and procedures. Management should monitor to ensure these new procedures are being followed and this monitoring should be documented.
3. The Controller's Office should work with each receipting area identified above to ensure appropriate security measures and procedures to safeguard cash are clearly identified and utilized. Procedures should be implemented to ensure that, where possible, no one individual handles cash transactions from beginning to end and that all cash transactions are appropriately reconciled.
4. Supervisory personnel who do not handle cash should review cash handling documents and perform specific verification procedures daily providing for reasonable and sound internal controls. These review and verification procedures should be documented. In addition, the Controller's Office should conduct random audits of cash handling areas University-wide and maintain the results, as per University policy.

**Aspects of these recommendations have been reported for four consecutive years.*

UNIVERSITY'S RESPONSES:

We concur with the findings and recommendations.

Ticket Office

Ideally, the ticket office will need a 3rd staff member to effectively satisfy segregation of duty recommendations. Until a 3rd person can be acquired, the Office of Business Services will implement the following management oversight procedures:

1. A departmental checklist will be created to be completed and signed off by the ticket office manager for the purpose of conducting normal independent checks of ticket office receipts and reconciliation processes. The ticket office manager will complete the checklist on either a daily, or as often as needed basis. The ticket office manager will also attach reports of tickets produced and tickets sold per event batch per day. Should the need for the production of single tickets (tickets produced on demand out of a normal batch assignment) arise, the ticket office manager will document the reason why single ticket(s) were produced,

AUDIT FINDINGS AND RESPONSES *(continued)*

- ticket office personnel producing ticket(s), and the name, title and contact information of person(s) requesting said action.
2. A representative from the Business Services Office will perform, at a minimum, one weekly independent check of ticket office receipts and reconciliation processes for accountability. Checklists, as mentioned in section one, will be reviewed and signed off by the Business Services representative. The Business Services representative will also conduct a cash count and reconciliation of tickets produced to tickets sold. Reports of tickets produced and tickets sold will be signed off by Business Services representatives, as well as single ticket production reporting.
 3. The purchase of a new ticketing system has been proposed. The new system will enable remote back office access for the purpose of conducting periodic checks. The proposed ticketing system will provide a much more robust reporting tool, which will make ticket production and sales reconciliation easier. The proposed ticketing system also has a stronger password accessibility feature which holds users accountable when making changes to ticketing production.
 4. Ticket office personnel, along with the Business Services Office, will review the University's policies and insure the ticket office policy is shored up and in accordance with the University's. Once policies are produced, a copy will be forwarded to the both Interim Vice Chancellor for Finance and Administration and the Controller for further review and approval for implementation.

Conferences and Institutes

Ideally, Conferences and Institutes (C&I) will need a 3rd staff member in order to successfully prevent or detect a misappropriation of funds. Until a 3rd person can be acquired, the Office of Business Services will implement the following management oversight procedures:

1. A departmental checklist will be developed and utilized by the C&I manager when conducting daily, or as often as needed, review of the client contract process and payment transactions. The C&I manager will further insure that the receipt book accurately reflects all transactions, and are free from skipped, incomplete and voided receipts without proper supporting documentation. The C&I manager will work to insure that all funds are turned in to the Cashier's Office in accordance with University policy. The C&I manager will confirm all aforementioned actions via the departmental checklist. Representatives from the Office of Business Services will provide additional oversight to C&I by reviewing and signing checklist (on a weekly basis) to confirm that management oversight regarding contract processes, payment transactions, receipt book management and cash deposits are being handled in accordance with University and departmental policy. Business Services representatives will also check actual documentation, i.e. contracts, cash receipts and reports for accuracy and accountability.
2. The Business Services Office will work in conjunction with C&I personnel to develop policies that will encompass contract processes, payment transactions, receipt book management and cash deposits. Policies will be reviewed by appropriate individuals for further review and approval.

AUDIT FINDINGS AND RESPONSES (concluded)

Student Accounts and Cashiering & University-Wide

1. The Student Accounts and Cashiering Office will update and develop the University's cash handling policies and procedures during the month of January.
2. Training will be scheduled with all University cash handlers to be completed by February 15, 2014.
3. Documentation of training will be prepared for all cash handling employees and supervisors with the acknowledgement of receipt of cash handling training. The training will include procedures to transfer responsibilities as well.
4. Included with the cash handling procedures will be internal control procedures to assure the safeguarding of cash and segregation of duties.
5. Action will be taken to develop and implement procedures for supervisory review and verification of cash handling documents.