



UNCSA

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

601 S. Martin Luther King Jr. Drive  
Winston-Salem, North Carolina 27110  
phone 336.750.2065 | fax 336.750-8891  
[www.wssu.edu](http://www.wssu.edu) | [www.uncsa.edu](http://www.uncsa.edu)

## AUDITOR'S TRANSMITTAL

December 16, 2013

Mr. George Burnette, Chief Operating Officer  
University of North Carolina School of the Arts  
1533 South Main Street  
Winston-Salem, NC 27127-2188

Dear Mr. Burnette:

The Office of Internal Audit performed surprise cash count audits at four University offices on June 27<sup>th</sup>, 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. Henry".

Shannon B. Henry  
Chief Audit Officer

Cc: Mr. James Moeser, Interim Chancellor  
Ms. Carin Ioannou, Senior Director of Business Affairs  
Ms. Lisa McClinton, Controller  
Audit Committee, UNCSA Board of Trustees

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## INTRODUCTION

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The Office of Internal Audit conducted surprise cash counts at four offices within the Division of Business Affairs on June 27<sup>th</sup>, 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 office's processes for compliance with State and University policies and conducted a follow-up to evaluate the University's progress toward resolving findings included in the prior year's audit report. 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 four offices within the Division of Business Affairs which collect funds and 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

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

Financial Services (Cashier's Office) – *The Cashier's Office maintains change funds of \$1,150 and collects and records all University cash receipts from students and other University Departments.*

Bookstore – *The Bookstore maintains change funds of \$200 and collects receipts for store purchases.*

Mail Room – *The Mail Room maintains change funds of \$200 and collects receipts for the sale of postage stamps and other postal services.*

One Card Office – *The One Card Office maintains change funds of \$50 and collects receipts for student debit card deposits, parking permits and replacement student identification cards.*

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.

## RESULTS

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We found that the University made the following improvements since the previous year's audit:

### *Cashier's Office*

- The cashier's change fund has been decreased by \$1,600 since the previous year's audit.
- The cashier no longer has physical access to the deposit once prepared and separately verified.

### *Bookstore*

- The Bookstore's change fund has been decreased by \$550 since the previous year's audit.
- The safe in which the change fund is kept is no longer visible.
- The cash drawer is now kept locked when not in use.

### *Mail Room*

- The Mail Room no longer maintains cash in the cash register overnight. All cash is removed and stored in a secure location.

### *University-Wide*

- The University developed and implemented procedures for change funds inclusive of internal controls and accountability measures to ensure proper use and safeguarding of the funds.
- The Controller's Office is now performing separate verifications of cash drawers and change funds throughout the year.

We also identified administrative practices that need further improvement to mitigate the risk of error and/or fraud:

### *Cashier's Office*

- The audit identified internal control weaknesses in the Cashier's Office's cash handling procedures and practices. See the *Audit Findings and Responses* section on page 6 for further detail.

### *Bookstore*

- The audit identified internal control weaknesses in the Bookstore's cash handling procedures and practices. See the *Audit Findings and Responses* section on page 6 for further detail.

## **RESULTS (*concluded*)**

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### *Mail Room*

- We noted that the responsibility for the cash registers in the Mail Room is not assigned to specific persons. Rather, the cashiers use the same login identification to conduct transactions. University management chose to accept this deficiency when it was identified in the previous year's audit based on the costs to rectify the issue.
- There were no further discrepancies noted in the Mail Room.

### *One Card Office*

- There were no discrepancies noted in the One Card Office.

## AUDIT FINDINGS AND RESPONSES

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### **FINDINGS:**

#### **INTERNAL CONTROLS OVER CASH HANDLING ARE INSUFFICIENT TO ENSURE THAT CASH IS PROPERLY SAFEGUARDED.**

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:

#### ***Insufficient Policies and Procedures & Lack of Management Oversight across the University***

**Cashier's Office:** Based on our review and inquiry of staff, the Financial Services' cashier collects all cash receipts, records all cash receipts in the system, balances the daily cash receipts, and prepares the bank deposit. We noted further that the cashier performs voids and/or reversals. According to management, the cashier detail reports are reviewed daily to ensure the cashier's entries are appropriate and as according to office practices. When requested, management was not able to provide evidence of this review.

**Bookstore:** Based on our review and inquiry of staff, we noted that the Bookstore staffs one person that collects and records all cash receipts, performs cash voids and returns, balances the daily cash receipts, and submits the cash receipts to the Cashier's Office for entry and deposit. We noted that the Bookstore employee performs these functions with no management oversight.

**University-Wide:** We noted that the University's cashiering policies and procedures do not describe the process by which the cashier is to void or reverse transactions; neither do they describe the appropriate means of review and approval for voids and reversals.

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. When it is not possible to properly segregate duties due to size constraints, management should identify compensating controls to minimize the impact and likelihood of the deficiency. However, these controls must be operating effectively at all times to properly mitigate the segregation of duty issues. All assignments of responsibilities should be documented.

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

**AUDIT FINDINGS AND RESPONSES (*concluded*)**

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**RECOMMENDATIONS:**

1. University management should work with each receipting area to ensure that, where possible, no one individual handles cash transactions from beginning to end. In areas where it is not possible to properly segregate duties due to size constraints, management should identify compensating controls and monitor to ensure these controls are operating effectively.
2. University management should ensure that all assignments of cash handling responsibilities are documented in the University's cashiering policies.





# UNCSA

To: Shannon Henry

From: Carin Ioannou

Date: November 27, 2013

Re: Cash Count Audit Management Response

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Thank you for your recommendations for the Student Accounts Office and Campus Store (Bookstore) as a result of your Cash Count Audit. We agree that internal controls are important to mitigate risk and we endeavor to segregate duties as much as possible given our small campus size. We have improved our processes in these two areas based on your recommendations.

Effective immediately, the Bursar will maintain a folder in the Student Accounts office containing the reversal reports with evidence of the void review process. In addition, the cashiering policies and procedures have been updated to reflect refinements to cash handling and void guidelines.

In response to the audit findings for the Campus Store (Bookstore), the Director of Auxiliary Services will provide management oversight of the Campus Store's (Bookstore) daily deposit of funds. Evidence of this review will be provided on the Daily Deposit form.