



UNCSA

## Office of Internal Audit

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# Cash Count and Receipting Review

April 8, 2015

### Internal Audit Team

Shannon Henry  
*Chief Audit Executive*

Stacy Sneed  
*Audit Manager*

Javon Lee  
*Auditor*

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**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**

April 8, 2015

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 and receipting audits at two University offices on June 24<sup>th</sup> and 27<sup>th</sup>, 2014. We also conducted a follow-up to evaluate the University's progress toward resolving findings included in prior year's audit reports. The results of our audits, along with recommendations for corrective action and management's responses, are contained in this report.

Respectfully submitted,

Shannon B. Henry  
Chief Audit Executive

cc: Mr. Lindsay Bierman, 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 count and receipting audits at two offices within the University of North Carolina School of the Arts (UNCSA) on June 24<sup>th</sup> and 27<sup>th</sup>, 2014. 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 visits. We also observed each office's receipting processes for compliance with State and University policies and conducted a follow-up to evaluate the University's progress toward resolving findings included in prior year's 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 two University offices which collect funds;
- Evaluated the University's progress toward resolving findings included in past audit reports;
- Interviewed University employees; and
- Reviewed applicable governing regulations and University policies.

Engagements completed by the Winston-Salem State University Office of Internal Audit are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

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:

*Community Music School – The Community Music School maintains a change fund of \$100.00 and collects tuition and fees for offering music lessons to people of all ages who live in Winston-Salem and the surrounding areas.*

*Design and Production – The School of Design and Production collects receipts for lost studio keys, equipment rentals, and special projects and events.*

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 also included a follow-up to evaluate the University's progress toward resolving findings included in past audit reports concerning cash handling in the Cashier's Office, the Bookstore, and University-Wide. Please see the section entitled *Results* for further details.

## RESULTS

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**Our review of the University's progress toward resolving the findings in previous cash and receipting audits revealed the following:**

### *Cashier's Office*

- The Cashier's Office provided evidence of management oversight of its receipting function. *It is our opinion that the issues reported in the prior year concerning the Cashier's Office have been resolved.*

### *Bookstore*

- The Bookstore closed permanently on July 3, 2014. *Therefore, the matters reported in the prior year regarding the Bookstore have been closed.*

### *University-Wide*

- The University drafted procedures for reversals and/or corrective entries performed by the Cashier's Office. These procedures have not been finalized.
- Our review and inquiry of cash handlers revealed that certain cash handlers have not been trained on the University's cash handling policies and procedures. *The Office of Internal Audit will conduct a post-follow-up review to ensure the procedures are finalized and effectively implemented, including procedures to ensure cash handlers are trained.*

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

### *Community Music School*

- The audit identified internal control weaknesses in the Community Music School's cash handling procedures and practices. See the *Audit Findings and Responses* section on page 5 for further detail.

### *Design and Production*

- The audit identified internal control weaknesses in the School of Design and Production's cash handling procedures and practices. See the *Audit Findings and Responses* section on page 5 for further detail.

## AUDIT FINDINGS AND RESPONSES

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### **FINDINGS:**

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

The University has insufficient policies and has not adopted procedures to implement existing policies to ensure cash is appropriately received and safeguarded in all receipting areas. Failing to safeguard cash, University-wide, increases the opportunity for asset misappropriation, petty theft, and use of University property for personal benefit. During our audit, we noted the following:

#### **COMMUNITY MUSIC SCHOOL**

##### ***Services Rendered Without Payment:***

During our review, we noted that services are being rendered at the Community Music School prior to full payments being received and the Community Music School has no consistent or effective means of collecting past due receipts. Failing to ensure cash is received as per policy increases the risk of loss to the University.

Based on our review of policies and procedures and inquiry of staff, the prior Director of the Community Music School (*separated from the University during our review*) entered into payment arrangements with students outside of those identified in office policies. Further, the prior Director admitted to being behind in her collection efforts. As per the prior Director, her intention was to help individuals attend classes who were unable to pay as per the Community Music School's documented and acceptable payment arrangements.

*Recommendation:* The University should ensure that all individuals responsible for cash receipting and collections are trained to ensure compliance with the applicable policies and procedures. Further, management should monitor to ensure policies and procedures are being followed and this monitoring should be documented.

*University Management's Response:* Thank you for your recommendation regarding services rendered without payment in the Community Music School. We agree with the recommendation by your office and we have already implemented corrective action. Offering services without payment is not the school's approved operating procedure. The school has revised its procedure and requires all services to be paid prior to rendering services.

## AUDIT FINDINGS AND RESPONSES *(continued)*

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### ***Insufficient Policies and Procedures:***

During our review, we noted that there are no policies or procedures in place that document how scholarships and discounts are awarded at the Community Music School. Failing to have policies and procedures in place for scholarship and discount awarding allows bias which impacts public trust and increases the risk of financial loss.

The Community Music School accepts and receives donations from the public for scholarships for its students. Further, our review of the records revealed that the Community Music School utilizes discounts. Based on our review of how scholarships and discounts are awarded, we found that there are no written policies, procedures or internal controls in place to guide decisions by management to grant scholarship funds and award discounts. We reviewed the spreadsheets, used to track the student schedules, number of lessons, tuition and fees, and scholarship information, and noted fee adjustments with no explanation. Additionally, it appeared that scholarships and discounts were awarded in varied amounts based on the prior Community Music School Director's opinion of need.

*Recommendation:* The University should establish policies and procedures for the Community Music School that outline scholarship and discount awarding. The policies should document the University's rationale for awarding scholarships and discounts, including the measures used to determine qualification.

*University Management's Response:* Thank you for your recommendation regarding insufficient policies and procedures in the Community Music School. We agree with the recommendation by your office and we have already implemented corrective action. Awarding discounts and scholarships was not the school's approved practice. The school has revised its operating procedure and no longer provides any discounts or scholarships. If we decide to offer such scholarships or discounts in the future, we will have written policies and procedures in place to prevent bias and risk of financial loss.

## **DESIGN AND PRODUCTION**

### ***Lack of Management Oversight:***

Our review revealed that Director of Budget and Finance in the University's School of Design and Production (D & P) is responsible for all cash transactions including cash budgeting, cash receipting, and cash expending with very little departmental oversight. With a lack of segregation of duties and limited management oversight, there is an increase in the risk of misappropriation.



## AUDIT FINDINGS AND RESPONSES *(concluded)*

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Based on our review and inquiry of staff, we noted that the Director of Budget and Finance in D & P collects all departmental cash receipts for various items such as, lost studio keys, equipment rentals, and donations for special projects and events. Further, the Director of Budget and Finance is the budget manager for all funds and thus manages and maintains responsibility for the accounting of the department's money. Lastly, the Director of Budget and Finance transacts the department's expenses; she purchases all goods and reconciles all purchase transactions. Outside of the Dean of D & P's signature on the reconciliation of purchase transactions, we noted nothing further in the way of management oversight or checks and balances within the department for the Director's cash handling, cash management, and purchasing responsibilities. *During discussions with the Controller's Office, it appears the practices employed by the D & P Budget Manager are the same for other University budget managers, campus-wide.*

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

*Recommendation:* To mitigate the risks of misappropriation and incorporate duty segregation, the University should consider centralizing cash collections campus-wide via the University's Cashier's Office. Paying persons should be directed to the Cashier's Office with a deposit form from the receiving department to ensure that funds are applied appropriately.

*University Management's Response:* Thank you for your recommendation regarding lack of management oversight over University budget managers. Internal Controls are very important to the University and we will continue to do our best at segregating duties. Unfortunately, due to the small staff size within departments, sometimes it is difficult to apply the principles of segregation of duties and independent internal verification. However, in light of this finding, we have made changes to our cash control procedures. We are in the process of implementing technology to replace the acceptance of cash by accepting credit and debit cards. Also, we are doing what we can to minimize risk and will work towards directing cash payments the departments collect towards the Cashier.