



Item: AF I-3 B

BOT AUDIT AND FINANCE COMMITTEE

Tuesday, October 17, 2006

**SUBJECT: FAU 05/06-5, AUDIT OF CENTRAL CASHIER'S OFFICE FOR THE PERIOD
JANUARY 1 – MARCH 31, 2006.**

PROPOSED BOARD ACTION

Information Only.

BACKGROUND INFORMATION

Audit objectives were to determine whether money collections were properly accounted for, reconciled, accurately recorded in the university's accounting records, and timely deposited; customer refunds were valid, properly supported and authorized, and accurately processed; and, physical security measures for the safeguarding of personnel and monetary assets of the cashier's office were adequate.

Five recommendations were made to address transaction accountability, segregation of duties, and asset security issues.

IMPLEMENTATION PLAN/DATE

Management has agreed to implement the audit recommendations during the period August 1, 2006 through March 30, 2007.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Audit Report FAU 05/06-5

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 05/06-5
Report Issue Date: June 30, 2006

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Central Cashier's Office*
For the Period of January 1 through March 31, 2006

Use of Report

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REPORT ON THE AUDIT OF CENTRAL CASHIER'S OFFICE

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OFFICE OF INSPECTOR GENERAL
Florida Atlantic University

MEMORANDUM

TO: Frank T. Brogan
President

FROM: Morley Barnett 
Inspector General

DATE: June 30, 2006

SUBJ: AUDIT OF CENTRAL CASHIER'S OFFICE

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the central Cashier's Office (Boca Raton) at Florida Atlantic University for the period January 1 through March 31, 2006. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made five recommendations to address our findings. We concur with the responses of the auditee which have been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of our recommendations by management.

Please call me if you have any questions.

cc: University Provost
Executive Vice President
Vice Presidents
FAU Controller's Office
FAU BOT Audit and Finance Committee
Chancellor, State University System of Florida
Florida Auditor General

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EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the central Cashier's Office (Boca Raton Campus) at Florida Atlantic University for the period January 1 through March 31, 2006.

Our audit objectives were to determine whether money collections were properly accounted for, reconciled, accurately recorded in the university's accounting records, and timely deposited; customer refunds were valid, properly supported and authorized, and accurately processed; and, physical security measures for the safeguarding of personnel and monetary assets of the cashier's office were adequate.

Audit procedures included, but were not limited to, a review of written operating policies and procedures, inquiries of Controller's Office employees, an evaluation of key internal controls, and compliance testing of selected money collection and customer refund transactions.

Based on the testwork performed, we have concluded that the central Cashier's Office was in general compliance with applicable laws, rules, regulations, policies, and procedures, and sound business practices, pertaining to the audited cashing operations. However, we did identify opportunities for improvement in the general areas of:

- Transaction accountability;
- Segregation of duties; and,
- Asset security.

The details of all findings, as well as suggestions for corrective action, can be found in the Comments and Recommendations section of this report.

FAU
OFFICE OF INSPECTOR GENERAL
Florida Atlantic University

June 30, 2006

Frank T. Brogan
President
Florida Atlantic University
Boca Raton, Florida

Dear President Brogan:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the central Cashier's Office (Boca Raton Campus) at Florida Atlantic University for the period January 1 through March 31, 2006.

Our audit objectives were to determine whether money collections were properly accounted for, reconciled, accurately recorded in the university's accounting records, and timely deposited; customer refunds were valid, properly supported and authorized, and accurately processed; and, physical security measures for the safeguarding of personnel and monetary assets of the cashier's office were adequate. Audit procedures included the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of money collection and customer refund transaction documentation to determine whether control procedures were operating effectively.

We obtained an understanding of the operations of the central Cashier's Office by reviewing written policies and procedures, interviewing key Controller's Office personnel, observing actual practices, and evaluating key internal controls.

Our assessment of compliance with applicable laws, rules and regulations, and established policies and procedures, was based on reviews of pertinent supporting documentation for judgementally selected fiscal transactions. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent university records, and other factors including auditor judgement.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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BACKGROUND

The central Cashier's Office at the Boca Raton Campus is a unit of the University Controller's Office, and is the primary collection point for monies paid to FAU. Other cashier's offices are located at the Davie, Ft. Lauderdale, Treasure Coast, and MacArthur campuses. The central Cashier's Office ("the Office") receives and processes payments from students and other customers over-the-counter, as well as via drop-box, mail, the Internet, and wire transfer. In addition, bulk deposits are received for processing from other university departments on the Boca Raton Campus which have been authorized to operate as decentralized money collection areas.

Apart from its money collection responsibilities, the Office is involved in the processing of certain customer refunds; conducting research for specified reconciling items appearing on the university's bank account reconciliations; and, performing other fiscal operations. During the audit period, the Office had a staff of five full-time employees and a temporary employee under the supervision of an Associate Controller.

The central Cashier's Office, as well as the cashier's offices at other campuses, currently utilize the SalePoint cashiering system to process all money collections received. However, the university is planning to convert its cashier's offices to the TouchNet Payment Gateway cashiering system during the 2007 Spring semester. Given this situation, it is possible that successful implementation of management's action plans to address certain of our audit recommendations could be influenced by the capabilities and characteristics of the proposed new system.

COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

Inadequate Accountability for Over-the-Counter Credit Card Refunds

Based on discussions with management, we noted that an end-of-day reconciliation of over-the-counter credit card refunds processed by employees on the Office's designated Bank of America terminal, was not being performed. The absence of a supervisory reconciliation of the supporting documentation for the refunds to the daily credit card settlement report increases the risk of unauthorized or fraudulent refunds to customers' credit card accounts, given that all Office employees share the use of the credit card terminal.

Compliance testing of all *ten* over-the-counter credit card refunds processed by the cashier's office for *eight* judgmentally selected business days during the audit period, confirmed the lack of a documented supervisory review and reconciliation of the supporting documentation - refund slips signed by customers, memoranda from other university departments, student information system (SIS) screen printouts, etc. - for the transactions.

Recommendation No. 1

We recommend management ensure that reconciliations of the supporting documentation for over-the-counter credit card refunds to the credit card settlement report from the Bank of America terminal, are performed daily. The cashiering supervisor should document the reconciliation by signing/initialing and dating the daily credit card settlement report.

To support future compliance with the reconciliation process, the aforementioned procedure should be incorporated into the Cashier's Office Procedures Manual.

Management's Response

Action Plan:

Management agrees with the recommendation and will implement a new procedure to rectify this oversight.

Implementation Date:

August 1, 2006

Responsible Auditee:

Stacey Semmel, University Controller

Inadequate Segregation of Conflicting Duties

Based on test work performed, we determined that the cashiers and supervisors of the central Cashier's Office have the ability to directly post financial transactions - including credit card refunds, and Web credit card and Web check payment adjustments - to students' accounts on the student information system (SIS) concurrent with having update access to the SalePoint cashiering system and the capability to post credit card refunds to customers' credit card accounts. Both cashiers and supervisors are authorized to process over-the-counter refunds to customers' credit card accounts via a designated Bank of America terminal, whereas only supervisors have the capability to process Web (Internet) refunds to customers' credit card accounts via the TouchNet Payment Gateway system.

Management has indicated that it is operationally necessary for cashier's office personnel to have update access to the Billing & Receivables (BR) application of SIS in order to efficiently post credit card refunds to students' accounts, timely process manual entries which may be required to correct any daily reconciling differences between the SalePoint and SIS systems, and post other essential transactions.

Ideally, the duties of direct financial update of students' SIS accounts should be segregated from the cashiering function. Currently, cashier's office employees have the potential to misappropriate monies collected, and conceal the misappropriation, by posting unauthorized financial transactions to students' SIS accounts and ultimately the Banner Finance system. In addition, cashiers and supervisors have the ability to independently process credit card refunds to customers' SIS and credit card accounts without the involvement of another employee. Compliance testing of a sample of *ten* Web credit card refunds and *eight* over-the-counter credit card refunds disbursed to students during the audit period indicated that 15 of these refunds - *seven* Web and *eight* over-the-counter - were exclusively processed by one cashier's office employee. Although the tested refunds were valid, these results underscore the need for better segregation of duties in this area.

Recommendation No. 2

To optimize controls, we recommend that management consider segregating cashiering duties from the function of direct financial update of students' SIS accounts. All cashiering tasks - including the processing of refunds to customers' credit card accounts - should be the exclusive responsibility of the cashier's office. The responsibility for directly updating students' billing and receivables records on the SIS should reside with authorized employees of the Student Accounts unit of the Controller's Office. However, given management's operational concerns, one alternative to improve controls could be to restrict SIS-BR update access to cashiering supervisors only, and/or limit the update access of cashiers/supervisors to only those specific BR screens that are functionally necessary.

Management's Response

Action Plan:

Management has reviewed SIS access for all cashier personnel and found that limiting access would adversely affect operations. Management willingly accepts the risk based on the cost/benefit ratio. Access will be reviewed again when Banner for Students is implemented. The anticipated go-live date is March 2007.

Implementation Date:

March 30, 2007

Responsible Auditee:

Stacey Semmel, University Controller

Incomplete Employee Key & Combination Assignment Logs

Employee key and combination assignment logs are important in terms of recording the keys/cards/combinations issued to Controller's Office employees to allow them access to the general office area, vault, safes, and other asset storage areas of the cashier's office. In addition, these logs serve to document the return of specific keys, cards, and combinations by terminating employees as well as the dates on which combinations assigned to ex-employees are changed.

Although the cashier's office had key and combination assignment logs in place, a comparison of the actual access of employees - based on inquiry of management and/or our observations - to the cashier's office and its asset storage areas, with the access recorded on the Office's logs, resulted in the following exceptions:

- The assignment of cards to *eight* employees to allow them access to the Office entrance door was not recorded on the logs;
- The combination access to the departmental deposits drop-box and customer checks drop-box of the Office for *two* employees was not recorded on the logs;
- The combination access to the main vault for *two* employees was not recorded on the logs;
- *Two* employees with combination access to the two safes within the main vault had not signed/initialed the logs to acknowledge receipt of the combinations;
- The assignment of keys to *six* employees to allow them access to their workstation cash drawers was not recorded on the logs; and,

- The return of specific keys and an entrance door access card by a cashier's office employee prior to her departure on maternity leave was not recorded on the logs.

Without accurate logs, there is inadequate accountability for access to asset storage areas, and management has no assurance that all keys/cards/combinations issued to employees will be returned upon their termination.

Recommendation No. 3

We recommend management ensure that an up-to-date key and combination assignment log is maintained for each employee with access to the cashier's office and/or its asset storage areas. Given the discrepancies cited, management should consider conducting an inventory of all keys, cards, and combinations issued, in order to accurately document the key/card/combination assignment for each affected employee on a new individual log to be signed-off by the employee. To facilitate future compliance, the procedures for maintaining current logs should be documented in the Cashier's Office Procedures Manual.

Management's Response

Action Plan:

Management agrees with the recommendation and will comply with the Inspector General's request.

Implementation Date:

August 1, 2006

Responsible Auditee:

Stacey Semmel, University Controller

Lack of Periodic Cash Counts of Unused Operating Change Funds

The management of the cashier's office was not conducting period cash counts of operating change funds which had not been used for an extended period of time. Given that these funds were not maintained under dual control, or the sole custody of a designated employee, the performance of periodic counts would serve to identify and deter any loss, theft, or misappropriation of the monies. Although the funds were kept under restricted access in a safe within the main vault, the fact that more than one employee had access to the safe would make it difficult to affix responsibility in the event of defalcation of these assets. As of 5/12/06, we determined that the Office was holding *three* operating change funds - *two* assigned to designated employees, and *one* unassigned - of \$100 each, which had not been used for at least 30 days.

Recommendation No. 4

We recommend that management perform periodic cash counts of operating change funds which have not been used for an extended period of time. The counts should be conducted by two employees and documented on an appropriate cash count form signed and dated by the employees involved. To the extent that the cashier's office performs monthly periodic counts of the reserve change fund (\$1,500), it may be efficient to conduct counts of the unused operating change funds at the time of the reserve change fund counts. To facilitate future compliance, the recommended procedure should be included in the Office's written operating procedures.

Management's Response

Action Plan:

Management agrees with the recommendation and will comply with the Inspector General's request.

Implementation Date:

August 1, 2006

Responsible Auditee:

Stacey Semmel, University Controller

Untimely Endorsement of Customer Checks

The cashier's office receives checks from individual customers in-person, or via mail or drop-box. Checks are also received as part of departmental bulk deposits which may be delivered in-person or via drop-box. Established university practice requires that all checks from customers be restrictively endorsed for deposit to FAU promptly upon initial receipt by a cashier's office or authorized decentralized money collection area, as applicable. Prompt endorsement restricts the negotiability of the checks should they become lost or stolen.

Our inspection of the checks included in the daily money collections processed by a cashier on 5/4/06, indicated that all 17 checks - a total of \$2,315.88 - which were contained in two departmental bulk deposits, had not been restrictively endorsed for deposit to FAU's main depository bank account as of the morning of 5/5/06. Although the areas which had initially received the checks - College of Arts & Letters and the Office of International Programs - had neglected to endorse the checks, they should have been endorsed when processed by the cashier.

Subsequent to our review, the checks were endorsed by the cashier's office prior to the preparation of the cashier's daily bank deposit.

Recommendation No. 5

We recommend management take appropriate steps to help ensure that all personnel in the role of collecting money on behalf of the university comply with the established practice of restrictively endorsing all checks promptly upon receipt for processing. The check endorsement policy should be incorporated into the Cashier's Office Procedures Manual to support employee training and consistent processing of negotiable assets.

Management's Response

Action Plan:

Management agrees with the recommendation and will comply with the Inspector General's request. Information pertaining to this policy will be disseminated to the university community.

Implementation Date:

September 1, 2006

Responsible Auditee:

Stacey Semmel, University Controller

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

All recommendations from the prior audit of the central Cashier's Office were subsequently found to be effectively implemented during the course of cyclical audit follow-up procedures routinely performed for recommendations issued by our office.

CONCLUSION

Based on the results of the audit tests performed, it is our opinion that the evaluated operations of the central Cashier's Office were being conducted in general compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices. Notwithstanding this assessment, we have made several recommendations to improve internal controls which we believe are cost-beneficial to implement.

We wish to thank the staff of the Cashier's Office for their kind cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

Audit Performed By: Mike Hewett, CIA, CBA, CFSA, CGAP
Allaire Vroman