



Item: AF: I-1b

AUDIT AND FINANCE COMMITTEE

Thursday, June 5, 2014

**SUBJECT: REVIEW OF AUDITS: FAU 13/14-4, AUDIT OF KAREN SLATTERY
EDUCATIONAL RESEARCH CENTER FOR CHILD DEVELOPMENT FOR THE
2013 FALL SEMESTER.**

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

Primary audit objectives were to determine whether: 1) tuition and fee charges were properly authorized and disclosed in agreements with parents, and revenue collections were properly accounted for and timely deposited with the central cashier's office; 2) the Center's procedures and practices complied with applicable state and local regulations and with continuing accreditation requirements of the National Association for the Education of Young Children; and 3) physical security for the safeguarding of students, staff, and monetary assets of the Center were adequate.

Recommendations were made to improve accountability for assets, transaction documentation, and recordkeeping for access to the Center's facilities.

IMPLEMENTATION PLAN/DATE

Management has agreed to implement our recommendations by August 1, 2014.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Audit Report FAU 13/14-4

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 13/14-4
Report Issue Date: April 30, 2014

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Karen Slattery Educational Research Center for Child Development*

For the 2013 Fall Semester

Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

REPORT ON THE AUDIT OF

KAREN SLATTERY EDUCATIONAL RESEARCH CENTER FOR CHILD DEVELOPMENT

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
LETTER OF TRANSMITTALiii
EXECUTIVE SUMMARY	iv
SCOPE AND OBJECTIVES.....	1
BACKGROUND	2
COMMENTS AND RECOMMENDATIONS	2
CONCLUSION	6





MEMORANDUM

TO: Dr. John Kelly
President

FROM: Morley Barnett
Inspector General

A handwritten signature in black ink, appearing to read 'Morley Barnett', is written over the printed name of the Inspector General.

DATE: April 30, 2014

SUBJ: AUDIT OF KAREN SLATTERY EDUCATIONAL RESEARCH CENTER FOR CHILD DEVELOPMENT (ERCCD)

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Karen Slattery ERCCD at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made two recommendations to address our findings. We concur with the responses of the auditee which has 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 the recommendations by management.

Please call me if you have any questions.

cc: Interim Provost
Senior Vice Presidents
Vice Presidents
Auditee
FAU BOT Audit and Finance Committee
Inspector General, Florida Board of Governors
Florida Auditor General

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EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Karen Slattery ERCCD at Florida Atlantic University for the 2013 fall semester.

Our primary audit objectives were to determine whether:

- Tuition and fee charges were properly authorized and disclosed in agreements with parents, and revenue collections were properly accounted for and timely deposited with the central cashier's office;
- The Center's procedures and practices complied with applicable state and local regulations and with continuing accreditation requirements of the National Association for the Education of Young Children (NAEYC); and,
- Physical security for the safeguarding of students, staff and monetary assets of the Center were adequate.

Audit procedures included, but were not limited to, 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 collections and expenditures, and examination of various records related to administration of critical child care center functions.

Based on the audit work performed, we are of the opinion that the evaluated operations of the Center were in general compliance with applicable laws, rules and regulations, University policies and procedures, and sound business practices. However, we did identify opportunities to improve accountability over revenue collections, as well as improve documentation for some operational practices. In addition to our testwork, we recognize the positive conclusions with respect to the Center's operations made in 2013 by the Children's Services Council of Palm Beach County and the National Association for the Education of Young Children.

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



April 30, 2014

Dr. John Kelly
President
Florida Atlantic University
Boca Raton, Florida

Dear President Kelly:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Karen Slattery ERCCD at Florida Atlantic University for the 2013 fall semester.

Our primary audit objectives were to determine whether:

- Tuition and fee charges were properly authorized and disclosed in agreements with parents, and revenue collections were properly accounted for and timely deposited with the central cashier's office;
- The Center's procedures and practices complied with applicable state and local regulations and with continuing accreditation requirements of the National Association for the Education of Young Children (NAEYC); and,
- Physical security for the safeguarding of students, staff and monetary assets of the Center were adequate.

Audit procedures included, but were not limited to, 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 revenue collections and expenditures, and review of other practices in order to evaluate administration of child care center operations.

We obtained an understanding of the Center's operations by reviewing written policies and procedures, interviewing key personnel, observing actual practices, and analyzing key internal controls. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls and assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

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 Karen Slattery Child Care Center, located on the Boca Raton Campus, and more formally known as The Karen Slattery Educational Research Center for Child Development, is a lab school affiliated with FAU's College of Education and serves as a fieldwork site for FAU students involved in the disciplines of education, nursing, medicine, and science. The Center's stated mission is to help young children grow intellectually, socially and emotionally in a learning environment that nurtures and supports optimal development. In addition to oversight by the College of Education and a 10-member advisory board, the Center is one of three Boca Raton child care facilities accredited by the National Association for the Education of Young Children. Its activities also provide research opportunities in early childhood education for teacher education students.

The Center operates as an auxiliary unit giving highest priority for child care services to the children of students followed by the children of staff and faculty. During our audit period, the Center was staffed by a director, three administrative support employees and 28 full and part-time childcare givers. The Center has a capacity of approximately 100 children, infants through pre-kindergarten, and as is typically the case had full enrollment during the 2013 fall semester. Budgeted revenue for fiscal year 2013/14 is approximately \$1.1 million. Revenue receipts for the Center consist primarily of tuition payments and periodic subsidies from Family Central Inc., a non-profit 501(c)(3) agency serving families in South Florida. Other revenues are derived from miscellaneous charges such as late payments, late pick-ups, and diaper supply fees. Approximately 80% of tuition and miscellaneous payments are received via online credit card payments, with checks and money orders being the other acceptable forms of payment. All tuition and miscellaneous revenues, as well as any customer refunds and adjustments are processed on ProCare, a stand-alone child care management system.

COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

MONEY CONTROL DEFICIENCIES:

(1) *Need to Improve Accountability for Checks Received*

Procedures related to processing and accounting for the Center's revenues during our audit required checks to be retrieved from a drop-box by the director or program assistant, logged on a spreadsheet by the child care group leader, and the information emailed to the director and the program assistant as the initial step for a formal monthly reconciliation. These checks are then posted manually to customer accounts in the ProCare system by the program assistant. Subsequent accountability for check receipts require the Center's director to review and approve a three-way monthly reconciliation - prepared by the program assistant - of checks received, amounts posted to ProCare, and checks deposited with the central cashier's office (for posting to the Banner Finance system).

Compliance testing of all check receipts as noted on the *Monthly Reconciliation of Checks Received to ProCare System and Banner Finance Deposit* forms prepared by the program assistant for the months of July - December 2013, and discussions with the Center's administrative staff, revealed the following internal control deficiencies:

- Checks received were not being endorsed immediately upon receipt with the Controller's Office-approved bank stamp that includes the University's Bank of America account number;
- The Center's reconciliations for the period indicated receipt of 95 checks totaling \$118,424.24, of which 74 checks for \$86,366.99 (73%) were not delivered to the central cashier's office within three business days as required by established University practice. The checks were not remitted for deposit until four to 18 days after receipt;
- The monthly reconciliations for July through October had not been timely prepared by the program assistant and/or timely reviewed by the director. Specifically, two of the reconciliations were prepared more than 30 days after the end of the month, and the reconciliations for July through October were signed on 12/18/13 as having been reviewed by the director; and,
- The Center's reconciliations of check receipts were not prepared to take into account all check revenues posted to ProCare for a given month. Although details of checks received and deposited were listed, the total monthly ProCare checks received, as shown on the ProCare *Total Summary – Primary Accounts Only* were not on the reconciliation. Without this summary information, reconciling items such as timing differences and non-posted items could go undetected. Having noted this flaw in the reconciliation process, we independently performed full reconciliations, using the ProCare summary information, for the six reconciliations selected for review. As a result of our expanded testing, we discovered one error - a money order payment of \$292.50, received on September 13, 2013, which had not been posted to a customer's ProCare account. We notified the Center's program assistant of the discrepancy and the customer's account was corrected during our fieldwork.

(2) *Need to Segregate Incompatible Duties:*

As previously noted, the Center operates with a limited administrative staff, and such an operating environment often poses challenges as to the most secure and efficient way to conduct routine business transactions. In order to fully understand the control environment and consider the possibility of incompatible duties as it relates to accountability for monetary transactions, we interviewed key staff, considered written job descriptions, and observed daily operations. Based on our analysis, we learned that the Center's director and program assistant had the capability to update customer ProCare balances and also had the key for accessing the drop-box used for receipt of checks. Additionally, the child care group leader who is involved with the reconciliation of check receipts also has input capability in the ProCare system, though she does not have the drop-box key. Given these types of access by the Center's primary administrative employees and their involvement in the check revenues reconciliation process, we concluded that there were incompatible duties because effective internal control techniques recognize that employees who have access to assets, should not also have recordkeeping capabilities related to those same assets.

(3) *Lack of Formal Reconciliation for Credit Card Receipts*

While reviewing documentation for asset accountability, we noted that formal reconciliations were not being performed for credit card receipts processed through the Touchnet Market Place system. Based on discussions with the Center's administrative staff we learned that credit card

payments are electronically posted to FAU's main bank account and automatically recorded as individual entries in the Banner Finance system. However, the customers' ProCare accounts are updated manually by the program assistant and this increases the possibility of undetected errors if activity is not properly reconciled and independently reviewed. We performed an independent reconciliation of all credit card receipts for the month of October 2013 to test for possible differences between amounts posted to Banner as compared to the summary of manual ProCare entries. While none of the reconciling items indicated any irregularity, our testing revealed a minor posting error for one customer's ProCare account.

(4) *Need to Improve Controls for Customer Refunds*

Compliance testing of all tuition refunds (14 items totaling \$5,585.65) made during the audit period revealed parent refund calculations by the program assistant were not always reviewed or approved by the Center's director, or otherwise properly documented. We noted the following instances that were contrary to sound business practice:

- Five refunds were not supported by documentation indicating how the amounts were calculated; and,
- Formal approvals by the Center's director for thirteen credit card refunds to customers, as calculated by the program assistant, were not documented.

Recommendation No. 1

To address the above internal control weaknesses, we recommend that management develop and implement procedures to improve accountability over revenue collections in several fundamental ways. Specifically, the procedures should require the following practices be in place:

- Immediate endorsement of checks upon receipt with the standard bank stamp which includes the University's Bank of America account number;
- Delivery of checks received to the central cashier's office within three business days;
- Preparation of comprehensive check receipts reconciliations with explanation of any differences between checks received, postings to customer ProCare accounts, and bank deposits recorded in Banner. Reconciliations should be prepared monthly and reviewed within 30 days after the end of each month. Coupled with the checks reconciliation process, levels of access to the ProCare system and possession of the key to the drop-box among the Center's administrative staff should be restricted in order to maintain proper internal controls for asset accountability;
- Formal preparation and supervisory review of monthly reconciliations for customer online credit card payments processed through the Touchnet Market Place system and posted manually to individual ProCare accounts; and,
- Preparation and retention of documentation for refunds to customers which support the basis for how refund amounts were calculated, along with evidence of approval by the Center's director.

As an alternative to the current business practice of receiving checks and money orders as acceptable tuition payments from families, management may wish to consider requiring that only on-line (Touchnet Market Place) payments be accepted. If such a requirement became the Center's standard practice, it would eliminate the internal control deficiencies related to accountability over paper negotiable instruments as described above.

To the extent that procedures related to asset accountability, as described above, have not been formalized, the Center should develop or revise its written procedures to incorporate sound business practices for current use, and as a reference document for future training of employees.

Management's Response

Action Plan:

The Karen Slattery Center will transition to family payment of tuition through online (Touchnet MarketPlace) payments only and will eliminate the acceptance of checks and money orders effective August 1, 2014. This decision will eliminate the internal control deficiencies related to accountability over paper negotiable instruments as described above. Additionally, the Center will begin using a standard University check endorsement stamp and consider limiting ProCare access so that proper internal control procedures are not violated, while maintaining an acceptable level of operations.

For improved accountability over reconciliation of online payments and refunds to customers, management agrees with the recommendation, and will develop and maintain documentation that evidences proper and consistent oversight of these processes.

Implementation Date: August 1, 2014

Responsible Auditee: Lydia Bartram, Director - Karen Slattery ERCCD

CHILD CARE CENTER SECURITY:

Need to Document Assignment of Keys to Center Employees

As part of our audit we discussed various security measures with the Center's director and, through observation and review of documents, confirmed major aspects of the Center's safeguards that were in place. We noted that management had a keen awareness of the Center's safeguard requirements with respect to students, the staff, various confidential records, as well as the physical environs. However, as a result of our review, we became aware that the Center had not documented the assignment of keys to individual staff members, as would be expected of similar pre-school/child care facilities.

Recommendation No. 2

Given that assignment of keys is an important part of authorized access to the Center's assets, records and general facilities, we recommend that a list of all keys assigned to employees be

maintained. This listing will prove critical if the duties of employees change, or if employment with the Center is terminated.

Management's Response

Action Plan:

A limited number of employees have key access to the Karen Slattery Center building. A key assignment form has been developed and completed, which records the employees who have been assigned keys. This form will be maintained and monitored by the program assistant. This deficiency has been addressed.

Implementation Date: April 18, 2014

Responsible Auditee: Lydia Bartram, Director - Karen Slattery ERCCD

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.

Within the past three years, our office has not conducted any audits related to the Karen Slattery ERCCD. Accordingly, a follow-up on prior audit findings is not applicable.

CONCLUSION

Based on the audit work performed, we are of the opinion that the audited operations of the Center were being conducted in general compliance with applicable laws, rules and regulations, University policies and procedures, and sound business practices. We believe that our recommendations are cost-beneficial to implement and will strengthen the Center's overall internal control environment.

We wish to thank the staff of the Karen Slattery ERCCD for their cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

Audit Performed By: Ben Robbins, CPA