

Procedure/Process Title:	Internal / External Audits		
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Department:	Student Fiscal Services		
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INTERNAL/EXTERNAL AUDITS

POD Class – In the “Managing Your Department's Money to Withstand Audit” class we will provide you with basic information that may help you during an audit, specifically focused on cash handling. In addition, we will address areas of “high risk” so you are aware of what to focus on when you return to your department.

The role of Internal Audit is to examine and evaluate the adequacy and effectiveness of the University’s system of internal controls. This involves the auditors visiting departments at the university, acquiring understanding of operations under review and identifying areas where internal controls could be improved. In addition, they will make improvement recommendations that will assist departments in better managing their internal controls. Any specific questions or deviations from recommended procedures should be referred to Internal Audit.

Below you will find the following:

- 1) Policy of cash handling from auditing –Administrative Policy 31.1
- 2) Audit recommendations
- 3) Common internal control weaknesses and the recommended process to assist you avoiding these findings

1 – Policy-Administrative Policy 31.1 <http://www.washington.edu/admin/rules/APS/31.01.html>

A university unit that handles cash must have both an awareness of and show a commitment to strong internal controls for cash receipts. Management of a University unit has the responsibility for establishing and maintaining the proper environment of internal controls. This environment is established by the unit's **organization** with written procedures; it is maintained by **awareness** through regular communications between management and staff and through management's **commitment** by example and review. Internal controls are necessary to prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process.

All University units collecting cash must develop and implement procedures that address the following elements of cash receipts. Information regarding these procedures can be located in the Cash Management website, under Cash Handling Procedures:

- Separating individual cash handling duties;
- Accounting for cash as it is received;
- Safeguarding the handling and storage of cash;
- Depositing cash promptly;
- Reconciling cash activity in a timely manner;
- Monitoring of the process by administrators not directly involved.

Both Internal Audit and the State Auditors may on occasion conduct surprise audits of the cash and associated documentation. You should ask for identification from the auditor before you allow access to the cash. Do not allow the auditor to count the cash on their own. If in doubt, please call Internal Audit at 206-543-4028.

Note: Additional helpful information can be found in:

<http://www.washington.edu/admin/finmgmt/sfs/cash/pdf/Cash-Handling-Procedures.pdf>

2 - Audit Recommendations

Below are listed some of the recommendations from the Internal Auditing department:

Cash Handling

Separation of Duties

- Separate duties of receiving and handling cash payments, reconciling the source documents to the deposit, and posting the payments and adjustments to customer accounts.

Approval and Documentation

- Ensure voids, paid-outs and adjustments are properly approved and documented.
- Establish accountability for all forms of revenue received such as using cash receipt books or logs, cash registers or tickets.

Reconciliation and Review

- Use cashier-validated cash transmittal or bank-validated deposit slips when reconciling deposits to the monthly financial records (e.g. Budget Activity Report).
- Reconcile source documents (e.g. pre-numbered cash receipts, logs, cash register tapes) to validated cash transmittals or bank deposit slips.
- Account for the sequential “Z” readings of cash register machines, or non-resettable cumulative totals during the reconciliation process.

Safeguarding

- Endorse checks upon receipt.
- Store cash (includes checks and credit card slips) in a locked secure location.
- Restrict access to cash to the minimum number of authorized employees.
- Change the safe combination when employees leave the unit.
- Make deposits within 24 hours of receipt or when \$500 accumulates.
- Perform unannounced cash counts.

Billings

Separation of Duties

- Separate duties of receiving and handling cash payments, reconciling the source documents to the deposit, and posting the payments and adjustments to customer accounts.

Approval and Documentation

- Ensure billing adjustments are properly approved and supported.

3 -Common Internal Control Weaknesses

Recent internal control weaknesses that were identified by Internal Auditors regarding cash management were:

- Reconciliation of receipts to deposits is inconsistent.
- Money is not deposited in a timely manner.
- Adjustments and voids to cash receipts and accounts receivables are not sufficiently reviewed and approved. Receipts are not sufficiently monitored to ensure compliance with policy or to ensure correct amounts are collected for services provided.
- Checks received by mail are not restrictively endorsed.
- Multiple cashiers work out of the same cash drawers.
- Overage and shortages are investigated only exceeding \$25.
- Lack of segregation of duties or compensating monitoring controls.
- Access to cash receipts or change funds is not secured to restrict access.

Addressing the control weaknesses:

Money is not deposited in a timely manner.

Recommended process: Cash Receipts accumulating to less than \$500 must be deposited at least weekly. Cash Receipts accumulating to \$500 or more, must be deposited by the end of the next business day.

Certain locations may require a more restrictive policy based on security, cash/check composition, and the average dollar amount of checks. It is recommended, that at minimum, a deposit be made once a week.

Adjustments and voids to cash receipts and accounts receivables are not sufficiently reviewed and approved. Receipts are not sufficiently monitored to ensure compliance with policy or to ensure correct amounts are collected for services provided.

Recommended process: The supervisor of the cash collection area has the responsibility for reviewing and approving voided cash receipts and documenting all actions performed.

Checks received by mail are not restrictively endorsed.

Recommended process: Checks should be endorsed as soon as they are received, by mail or in person, in a department.

Endorsing protects the university from having the check negotiated by unauthorized parties.

All endorsements are restricted to the left 1 1/2 inches on the back of the check. The endorsement stamp should include a budget number if all checks go to the same budget, or if multiple budgets are used, include department name and box number. This information is used to identify returned checks.

Multiple cashiers work out of the same cash drawers.

Recommended process: Each cashier must be assigned their own cash drawer.

Overage and shortages are investigated only exceeding \$25.

Recommended process: Administrators should review the nature and extent of overages and shortages. Overages and shortages should be monitored for unusual patterns.. Additionally, cashiers must have all over and and shortages approved and recorded by a supervisor

Lack of segregation of duties or compensating monitoring controls

Recommended process: Separate the components of cash handling - collecting, depositing, and reconciling - so that one individual does not have responsibility for more than one component. In small departments separate the handling of the actual cash from the reconciliation.

Access to cash receipts or change funds is not secured to restrict access.

Recommended process:

1. During hours of operation, secure coins, currency, credit card slips and checks to restrict access.
2. At other times store all coins, currency, credit card slips, and checks in a safe or other locked secure place until they are deposited.
3. Each cashier should be assigned their own cash drawer

Any questions regarding audits should be referred to the Internal Audit team. You can find additional information in the Internal Audit Webpage at <http://www.washington.edu/admin/audit/index.htm>