



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona State University
As of May 9, 2005



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 26, 2005

The Arizona Board of Regents

Dr. Michael Crow, President
Arizona State University

We have performed a procedural review of the University's internal controls in effect as of May 9, 2005. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed the cash receipts at Cashiering Services, Intercollegiate Athletics, Public Events, Residential Life, and the Student Health Center.

As a result of our review, we noted certain deficiencies in internal controls that the University's management should correct to ensure it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations concerning them are described in the accompanying summary.

This letter is intended solely for the information and use of the Arizona Board of Regents and the University and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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University Response

The University should strengthen controls over cash receipts

Because cash is highly susceptible to potential theft or misuse, the University's management should establish and enforce effective controls to safeguard cash receipts at the various departments and help ensure receipts are accurately recorded. Auditors reviewed cash receipts at Cashiering Services (a department of Financial Services, the central cash receipting office of the university), Intercollegiate Athletics, Public Events, Residential Life, and the Student Health Center and determined that the University has not accomplished all of these objectives for the departments reviewed. The following departments had noted deficiencies: Intercollegiate Athletics, Residential Life, and Student Health Center.

Incompatible employee responsibilities—Separating employee responsibilities is critical to effective internal controls as it reduces the risk of both erroneous and inappropriate transactions. In general, approving, accounting, and reconciling responsibilities should be separated among employees; however, in both the Intercollegiate Athletics ticket office and the Student Health Center, the accounting specialist received cash, recorded receipts in the accounting system, reconciled receipts to supporting documentation, and deposited the receipts. Further, a supervisor did not review the reconciliations or the bank deposit slip prior to deposit.

Credit card information was not properly secured—Data security should be a key component of the University's policies and procedures with respect to credit card payment acceptance and processing. Customers expect assurance that their account information and personal data are being properly safeguarded. Under credit card company requirements, merchants must store cardholder information in a secure area limited to authorized parties only, or face possible penalties. However, the Residential Life student housing applications typically included the full credit card number, expiration date, and student or parent signature and were kept in an unlocked filing cabinet that unauthorized personnel could access.

Deposits were not made in a timely manner—Depositing cash within established time frames and ensuring receipts are recorded properly on the University's financial system are essential to safeguarding assets. The Intercollegiate Athletics ticket office did not always make deposits in a timely manner. For example,

auditors noted one deposit for over \$4,223 that was made 13 days after the cash was received. Also, auditors determined that off-site ticket sales for weekend events may not be deposited in a timely manner. University guidelines require checks and cash receipts to be deposited daily for all cash receipts in excess of \$500 and checks in excess of \$2,500. In addition, the Intercollegiate Athletics business office did not maintain a log to indicate when cash receipts were received. As a result, auditors were unable to determine whether these receipts were recorded and deposited in a timely manner.

Lack of cashier accountability—In order to keep each employee accountable and reduce the risk of fraudulent activity, the University should ensure that departments keep cash secure and limit access to cash registers to appropriate employees. The Student Health Center has one cash register, with individual employee security code capability; however, the same security code and cash drawer is used by all employees. Therefore, if overages and shortages occurred, they could not be traced to a specific cashier. In addition, supervisory personnel did not approve corrections or changes to cash register amounts.

The University should ensure that all departments receiving cash follow proper cash-handling and recording policies and procedures, and periodically monitor that those procedures are operating effectively. Adherence to the following procedures can help the University's departments ensure that all cash receipts are properly recorded and controlled:

- Separate responsibilities for recording and reconciling cash receipts among employees and have an independent employee review reconciliations and the deposit slip prior to the deposit being made.
- Establish, implement, and monitor policies to safeguard credit card information.
- Deposit cash receipts in accordance with university guidelines.
- Maintain a log of all cash receipts unless a cash register is used for recording receipts. Record receipt dates for all the entries in the log.
- Assign employees separate cash register drawers and data entry codes.

August 2, 2005

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix AZ 85018

Dear Ms. Davenport:

Arizona State University presents the following response to your procedural review of several selected cash receipting areas of the university.

There are approximately 25 internal controls needed for each department having cash receipting operations. The Auditor General's Office reviewed 5 departments, meaning that there are over 100 controls that one could look for in the review of the 5 departments. The auditors noted in total 5 control deficiencies.

All of the deficiencies noted were also at variance with the published Departmental Cash and Check Receipting Financial Policies of the University.

While there were several needed control improvements noted, ASU is pleased that there were no control improvements noted for the largest of the 5 departments reviewed, in terms of total receipts handled, the Central Cashiering Services Operation. Total annual cash receipts for the 5 departments reviewed is \$268 million, with the central Cashiering Services Operation having \$220 million annual cash receipts, or 82% of the total cash receipts.

For the 5 total control deficiencies noted, the respective departments have already, or in the case of only one of the deficiencies, is in the process of implementing action to strengthen the overall cash receipting controls as recommended by the auditors.

We appreciate the opportunity to formally respond to the recommendations. If there are any questions, or further clarification is desired, please contact us.

Sincerely,

Carol N. Campbell 
Executive Vice President and CFO