

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5820

**WASHINGTON STATE UNIVERSITY
ANIMAL SCIENCES DEPARTMENT**

Agency No. 365

Special Audit

July 1, 1991 Through February 28, 1997

TABLE OF CONTENTS

	Page
Background	1
Scope And Opinion	2
Schedule Of Findings:	
1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed	3

WASHINGTON STATE UNIVERSITY/ANIMAL SCIENCES DEPARTMENT

Agency No. 365

Special Audit

July 1, 1995 Through February 28, 1997

Background

On February 24, 1997, the Office of Internal Auditor, Washington State University (WSU), began an audit of the Animal Sciences Department, College of Agriculture and Home Economics, after cash receipting irregularities were brought to their attention by department management officials. The Department of Animal Sciences operates 11 units and accounts for numerous student clubs that process cash receipts. A student in the Cooperative Horse Organization Serving Students (C-HOSS) program gave the department two checks which had initially been made payable to the program; however, the payee on these checks had been altered to reflect the name of the department fiscal technician. These checks were subsequently deposited into the fiscal technician's personal credit union account.

The Office of Internal Auditor reviewed department cash receipting records for the C-HOSS program and interviewed the fiscal technician on February 26, 1997. During this meeting and in a subsequent meeting with department management officials, the fiscal technician admitted that she had misappropriated public funds from the department. The following morning, she gave her supervisor a handwritten slip of paper indicating that she had stolen \$2,731.49 from the department and stated that she wanted to make restitution for this amount. She further stated that when funds were taken, she did not issue official prenumbered department cash receipt forms ("D" series) for the transactions and then destroyed any generic receipts which had accompanied the money.

The fiscal technician made restitution to the department for \$2,731.49 and resigned her position of employment at WSU on March 3, 1997. This resignation was to be effective on the date her cumulative leave balance was exhausted.

On March 5, 1997, the Office of Internal Auditor notified the Office of State Auditor of this loss of public funds as required by state law. As a result, we immediately began an audit of cash receipts at the Animal Sciences Department, College of Agriculture and Home Economics, WSU.

WASHINGTON STATE UNIVERSITY/ANIMAL SCIENCES DEPARTMENT

Agency No. 365

Special Audit

July 1, 1995 Through February 28, 1997

Scope And Opinion

This report represents the results of our audit of cash receipts at the Animal Sciences Department, College of Agriculture and Home Economics, Washington State University (WSU), during the period July 1, 1991, through February 28, 1997. The purpose of our audit was to determine if cash receipts were properly accounted for and deposited with the WSU Controller's Office cashier.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This audit was conducted under the authority of *Revised Code of Washington* (RCW) 43.09.330.

The scope of our audit was limited to determining whether all cash receipts were properly accounted for and controlled. The scope of our work was not sufficient to enable us to express an opinion on WSU's financial statements, and we do not express an opinion on the financial position or results of operations of the Animal Sciences Department, College of Agriculture and Home Economics, WSU.

In our opinion, as detailed in the following finding, a fiscal technician misappropriated at least \$44,337.75 in public funds from the Animal Sciences Department, College of Agriculture and Home Economics, WSU.

WASHINGTON STATE UNIVERSITY/ANIMAL SCIENCES DEPARTMENT
Agency No. 365
Special Audit
July 1, 1995 Through February 28, 1997

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of the Animal Sciences Department, College of Agriculture and Home Economics, Washington State University (WSU), revealed that at least \$44,337.75 in public funds was misappropriated by a fiscal technician during the period July 1, 1991, through February 28, 1997. Accounting records were falsified and destroyed in an attempt to conceal these losses. There were no federal funds involved in this case. The schedule below summarizes these losses.

<u>Description</u>	<u>Amount</u>
Checks payable to WSU deposited in personal credit union account of fiscal technician	\$16,282.24
Check for cash substitution scheme	24,810.23
Undeposited funds from recorded transactions	<u>3,245.28</u>
Total losses	<u>44,337.75</u>
Less restitution on March 3, 1997	<u>(2,731.49)</u>
Net losses	<u>\$41,606.26</u>

The following methods were used to misappropriate these funds from revenue transactions of the Animal Sciences Department.

- a. Checks payable to WSU deposited in personal credit union account of fiscal technician: Revenue checks from both recorded and unrecorded cash receipt transactions from the various department programs were taken and deposited into the fiscal technician's personal credit union account. The amount of loss from this method was \$16,282.24.
- b. Check for cash substitution scheme: The fiscal technician manipulated cash receipt transactions and accounting records in a check for cash substitution scheme. Check payments from the various department programs and miscellaneous revenue sources were forwarded to the fiscal technician for processing. Instead of depositing these funds with the WSU Controller's Office cashier for the purpose intended, she substituted these checks for currency from other recorded transactions. A

corresponding amount of cash was then taken. The amount of loss from this method was \$24,810.23.

- c. Undeposited funds from recorded transactions: Cash from recorded cash receipt transactions from the various department programs was not deposited with the WSU Controller's Office cashier. The amount of loss from this method was \$3,245.28.

The fiscal technician prepared duplicate Cash Deposit Reports to conceal these irregular cash receipting activities. While the mode of payment information shown on the reports turned in to the WSU Controller's Office cashier agreed with the amount of funds actually transmitted for deposit, the mode of payment information listed on the form retained on file in the Animal Sciences Department indicated that more cash was collected than was deposited. However, the forms retained at the department had not been validated to prove that all funds collected had actually been deposited. In addition, the budget information and "D" series cash receipt form numbers listed on these forms was often reported inaccurately.

"D" series cash receipt forms were not properly accounted for or controlled at the department or the WSU Controller's Office. Since some forms were missing or destroyed, they represent the potential for additional losses. The mode of payment was often omitted from receipts issued by the department, and the original copy of "voided" receipts was not retained on file for review.

During the period of this loss, the fiscal technician was responsible for essentially all cash receipting functions in the administration section of the Animal Sciences Department. When the WSU Office of Internal Auditor discussed several cash receipting irregularities with her on February 26, 1997, she confessed to misappropriating public funds from the department and then resigned. She subsequently declined to discuss these irregularities with us on the advice of legal counsel.

The following internal control weaknesses allowed these losses to occur and not be detected by Animal Sciences Department management officials in a timely manner:

- a. There was an inadequate segregation of duties. The fiscal technician was responsible for practically all functions associated with processing cash receipt transactions and preparing Cash Deposit Reports for funds turned in to the WSU Controller's Office cashier. However, there was no periodic management review of the work performed by the accounting clerk which would accomplish the same objective as a segregation of duties between two or more employees.
- b. As described in the above finding, the fiscal technician falsified Cash Deposit Reports submitted to the WSU Controller's Office cashier and destroyed "D" series cash receipt forms. However, these irregularities were not detected by department management officials because the fiscal technician's work was not properly supervised or monitored. In addition, critical document verification steps were not taken at the WSU Controller's Office cashier function because of staff limitations. For example, while "D" cash receipt forms were filed numerically, no one verified the accuracy of the total amount collected and recorded on the forms which were attached to and supported each Cash Deposit Report filed by the departments. In addition, no one verified that all "D" receipt forms from the departments were sequentially accounted for and controlled.
- c. The fiscal technician did not make department deposits with the WSU Controller's Office cashier intact or on a timely basis.

- d. The decentralized programs did not prepare daily or periodic activity reports which summarized all cash receipting activities when cash turn-ins were made with the department fiscal technician. Formal transmittal forms were not used for cash turn-ins, and funds were not immediately receipted by the department fiscal technician. In fact, program personnel often gave unaccounted for funds to the fiscal technician for further processing and deposit. These procedures represent the primary cause of all losses of funds within the department, and make it impossible for anyone to determine the full extent of losses the department sustained from unrecorded transactions. Since activity reports were not prepared for program operations, no one was able to properly monitor the accountability for funds from revenue streams within or from the decentralized programs.
- e. Key transaction data elements were not monitored by the department to ensure the completeness of cash receipts turned in by the decentralized programs. These included such things as the sequential use of prenumbered official receipt forms, occupancy reports and associated records, gross profits testing from sales of inventory items, and "Z" (total accountability) tapes from cash registers. For example, the meat laboratory cash register was broken for an extended period of time during the period of this loss; however, even when the cash register was operational, "Z" tapes were not submitted to the department when funds were turned in for deposit.
- f. Cash collections were not always receipted at the point of origin within the decentralized programs using official prenumbered cash receipt forms. In some instances, generic cash receipt forms were used to record these transactions; however, these forms provide no control over cash receipts because they can be obtained from any office supply store.

While the weaknesses noted above are specific to the Animal Sciences Department, College of Agriculture and Home Economics, WSU, we have reported significant weaknesses in cash receipting for the university as a whole in our prior three audit reports. WSU operates more than 150 decentralized cash receipting locations across the various campuses.

The Animal Sciences Department, College of Agriculture and Home Economics, WSU has a personnel dishonesty bond policy for all employees. However, the amount of these losses did not exceed the deductible provision of the policy.

We refer this matter to the Whitman County Prosecuting Attorney for any criminal action appropriate under Title 9A RCW.

We recommend the Animal Sciences Department, College of Agriculture and Home Economics, WSU, seek recovery of the misappropriated \$41,606.26 and related audit/investigation costs from the fiscal technician. We further recommend the Washington State Office of the Attorney General review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.330.

We also recommend:

- a. The Animal Sciences Department, College of Agriculture and Home Economics, WSU, review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

- b. WSU review cash receipting procedures in other colleges, departments, and units to ensure that internal controls over cash receipts have been properly established and are periodically monitored.

Auditee's Response

Recommendations:

a) *The Animal Sciences Department, College of Agriculture and Home Economics, WSU, review overall accounting controls, correct the weaknesses outlined above, and implement an effective system for internal controls designed to ensure the protection of public assets.*

University Response:

This audit, and its findings, show serious weakness in the internal control processes of the Animal Sciences Department, in the supervisory and management review of the fiscal technician handling cash transactions, and the accountability for funds in department and student programs.

The College of Agriculture and Home Economics accepts the recommendation of the audit report; CAHE has already taken steps to improve training, supervision and accountability; and CAHE will undertake additional actions, described below to "correct the weaknesses...and implement an effective system of internal control designed to insure the protection of public assets."

The actions taken and proposed to be taken are a result of audits conducted by the Office of the Internal Auditor (February 24, May 6, and June 18, 1997) and the office of the State Auditor.

I. Actions Taken by the Department of Animal Sciences:

- A. *Upon detection of the fraud on February 24, 1997, the following steps were immediately taken:*
 - 1. *Removed cash handling duties from suspected employee.*
 - 2. *Changed access to computer account files.*
 - 3. *Changed department money safe combination.*
 - 4. *Eliminated practice of depositing funds belonging to student clubs.*
 - 5. *Began design, which since has been completed, of a spreadsheet on D-receipt information that will supplement data on revenues generated and deposited. This information will be used monthly by individual center managers and central department personnel to monitor revenue flow.*
 - 6. *Purchase lockable cash bags for each unit generating income.*
 - 7. *Purchased WSU-Department of Animal Sciences "for deposit only" stamps.*
 - 8. *Created a cash register tape reconciliation form that is used by the Meats Laboratory to reconcile revenue processed on a weekly basis.*
 - 9. *Discussed cash handling procedure with Department personnel who handle cash. Instruction was given on proper handling procedures and the need to issue a receipt for cash sales.*

- B. *The May 20, 1997 internal audit memo addresses the fiscal management of the Meats Laboratory and cash control inadequacies and recommends a series of basic controls for the Meats Laboratory. CAHE will monitor the implementation of these procedures on a periodic basis; for example, by assigning a College fiscal review officer to monitor the sales of meat and verify that all correct procedures are used from one hour before opening to one hour after closing sales. This review/monitoring will continue through all areas that handle cash from the Meats Laboratory.*
- C. *The June 18, 1997 internal audit memo recommends receipting properly for accountability at all steps when funds change hands. Implementation of this recommendation has begun, per memo from the Interim chair, June 25, 1997. CAHE monitoring on a periodic basis will verify that the correct procedures are followed.*
- D. *Training:*
 - 1. *With respect to training, CAHE held a mandatory training program, June 18, 1997, on internal controls, internal control review, and internal control review checklists. All administrative managers and fiscal technicians either attended this training, or in the case of two persons, received individualized training. The WSU Controller's Office provided the initial training to the CAHE Business and Finance Office. The Business and Finance Office provided the training to the College.*

II. Actions To Be Taken:

- A. *Training.*
 - 1. *A second in-depth training program on cash receipts and cash handling is scheduled for September 23-24, 1997, at the CAHE Staff Development Workshop, Pullman. Topics include the separation of duties and accountability and compliance to the Business Policies and Procedures Manual.*
 - 2. *Verification of participation will be maintained by the CAHE Business and Finance Office.*
 - 3. *A special training session for all faculty and staff in the Department of Animal Sciences will address the issue of institutional business policies and procedures, the accountability for student accounts by faculty advisors, and state accounts by faculty and administrative managers.*
- B. *Internal Accountability*
 - 1. *The lack of accountability of revenue streams will be addressed by monthly review of revenues and reports to faculty advisors or managers of revenue generating programs.*
 - 2. *Appropriate allocation of revenues to accounts will be monitored and verified.*
 - 3. *Periodic site visits of unit programs by CAHE Business and Finance Office Representatives will verify that correct procedures are being followed.*

4. *Any corrective actions required will be implemented immediately.*
5. *Responsible individuals will be evaluated based on their ability to maintain internal accountability.*

C. *Student Accounts*

1. *A recommendation of the internal auditor is for funds of student clubs to be handled through CUB accounting and the Controller's cashier. CAHE concurs.*
2. *When losses to specific student clubs are known, the Department will take immediate steps to reimburse the clubs for their loss with non-appropriated funds.*
3. *CAHE will schedule training sessions at the beginning of each school year for student club officers and faculty club advisors on cash handling and record maintenance of club activities.*

Recommendations:

- b) *WSU review cash receipting procedures in other colleges, departments, and units to ensure that internal controls over cash receipts have been properly established and are periodically monitored.*

University Response:

I. Actions Taken by WSU

1. *The person who misappropriated funds in the Animal Sciences Department is no longer employed by the University.*
2. *WSU has received partial restitution of the money misappropriated and will pursue recovery of the remaining balance misappropriated.*
3. *The Internal Audit Office performed a cash control audit of the Meats Lab and met with the department's Administrative Manager on May 6th. A memo of May 20th details specifically how receipts should be recorded by the Meats Lab and reviewed and monitored by the Administrative Manager.*
4. *On June 8, 1997, the Controller's Office provided internal control training specifically to the College of Agriculture and Home Economics Administrative Managers and Fiscal Technicians.*
5. *The University administration had met with responsible College of Agriculture and Home Economics administrators to clearly define the problem and the requirements to resolve the issues brought forth in the various audits.*
6. *The Internal Auditor has directed the College to have all student organizations use the CUB Accounting Services.*

II. Actions to be Taken:

1. *The Controller's Office will implement a University process that will require an individual other than the one who would be issuing departmental receipts to pick-up and sign-for the official receipts from the Controller's Office.*
2. *The WSU Controller's Office will provide additional cash handling and internal control training to the College of Agriculture and Home Economics on September 23-24, 1997. Cash handling and internal control training will continue to be provided to all employees University-wide with cash handling responsibilities. Emphasis will be placed on those areas of concern brought forth in the audit.*
3. *The Internal Audit Office will perform periodic follow-up reviews within the College of Agriculture and Home Economics to ensure compliance with University policies and procedures.*
4. *The Internal Audit Office will place emphasis on internal controls and cash handling methods in other departmental reviews.*
5. *The WSU Controller's Office will assist the College of Agriculture and Home Economics Central Finance Office in establishing a cashiering operation for the College. This will allow the College to better monitor receipts and cash handling activities of the College Units to ensure compliance with University policies.*
6. *The Office of the Vice President of Business Affairs will develop and implement a plan to review all cash handling operations and internal control structures throughout the University to ensure compliance with established University policies and procedures. The State Auditors have offered to assist in reviewing the 150 sites. In addition, an Internal Audit position is to be added to the current audit staff to increase frequency of departmental audits and to add emphasis on cash handling and internal control policies and procedures in future internal reviews.*

Auditor's Concluding Remarks

Based upon the response, the issues delineated in our report appear to have been addressed. We will review these areas again in our subsequent audit. We would like to express our appreciation to the WSU staff, and acknowledge their extraordinary assistance and cooperation throughout the audit process.