



INTERNAL AUDIT
UNIVERSITY *of* WASHINGTON

**Internal Audit Report
2011 - 042**

**Department of Chemistry
Key Deposit Fund**

April 2012

Submitted to: Paul Hopkins, Chair
Department of Chemistry

Copies to: V'ella Warren, Senior Vice President
Ann Anderson, Controller's Office
Gary Ikeda, Attorney General's Office
Mindy Kornberg, Human Resources
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Linda Nelson, College of Arts and Sciences
Sandie Rosko, Student Fiscal Services
John Vinson, University Police



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UNIVERSITY *of* WASHINGTON

April 25, 2012

Paul Hopkins, Chair
Department of Chemistry

Re: Audit of Key Deposit Fund

Enclosed is the final audit report. We appreciate your response and have included it in the report. In all cases, we concur with the actions planned or already implemented.

Based on the implementation date included in the response, we will perform a follow-up review to determine whether management has acted upon our recommendations and whether the corrective actions have achieved the desired effect.

We appreciate the assistance we received from your staff during this review. If we can be of further service, please call Sharon Sandler or me at 543-4028.

Sincerely,

Richard Cordova
Executive Director
Internal Audit

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Executive Summary

Internal Audit performed a special investigation related to a suspected misappropriation of University resources at the Department of Chemistry (Chemistry). University Police informed Internal Audit that an employee at Chemistry had inappropriate custody of University cash, checks, and cancelled University procurement cards (procard) on November 25, 2011.

The objectives of the review were to determine whether University funds had been misappropriated and internal controls were sufficient to ensure departmental cash receipts, and revolving funds are properly accounted for, safeguarded, and handled in accordance with University policies and procedures, and procard transactions are for valid University business.

During the course of our work we identified control weaknesses to which we assigned a rating of medium priority. Detailed descriptions of these findings, Internal Audit's recommendations, and management's responses are provided in this report.

We concluded that \$6,555 in University funds had been misappropriated. In addition, we concluded the objective regarding procard transactions was met while the objectives for accountability safeguarding of cash receipts and revolving funds, and compliance with University policies and procedures had not been met.

Background and Scope

Background

On November 28, 2011, University Police notified Internal Audit that a vehicle being driven by a University employee had been stopped by the Washington State Patrol (WSP) in the early morning hours of November 25, 2011. The WSP conducted a search of the employee's vehicle and personal belongings and questioned her. Based on the answers and items found, the WSP took possession of the employee's purse. The contents included an envelope which contained a check from the University for \$1,400 made payable to "Chemistry Key Deposit", five personal checks for \$50 each made payable to "University of Washington", and \$300 in cash. In addition her purse contained five University Procurement Cards with the employee's name as the cardholder.

The employee, Deanna Brewer is a fiscal specialist in the Department of Chemistry (Chemistry). Her responsibilities include preparing deposits for the Key Deposit Fund, issuing disbursements from the Key Deposit and Department Revolving Funds, receiving and reconciling the bank statements and reconciling financial activity to the My Financial Desktop (MyFD).

Ms. Brewer was placed on administrative leave December 1, 2011 and her employment was terminated January 20, 2012. Ms. Brewer did not appear at two scheduled interview dates which Chemistry management, Internal Audit and Human Resources provided to her to meet and discuss the suspected misappropriation (December 14, 2011 and January 4, 2012).

Scope

The scope of our audit was to investigate the suspected misappropriation and internal controls over the key deposit fund and revolving fund.

Our fieldwork took place in December 2011 and January 2012. We reviewed all key deposit cash receipts for the period January 2010 through November 2011 (Ms. Brewer was responsible for managing the key deposits from April 2010 through November 2011). Additionally, we sampled disbursements from the key deposit and departmental revolving funds and procard transactions for the period of January 2010 - November 2011.

Objectives and Conclusions

The following table lists the audit objectives and related conclusions:

Objective	Conclusion
Determine whether University funds have been misappropriated from the key deposit account, departmental revolving fund and misappropriated use of the procard.	We found that \$6,555 was misappropriated from key deposit cash receipts.
Determine whether internal controls are sufficient to ensure key deposit cash receipts are properly accounted for, safeguarded and handled in accordance with University policies and procedures.	Internal controls need to be improved.
Determine whether internal controls are sufficient to ensure the revolving funds are properly accounted for, safeguarded and handled in accordance with University policies and procedures.	Internal controls need to be improved.
Determine whether internal controls are sufficient to ensure procard transactions are for valid University business.	Internal controls are sufficient.

Summary of Findings

The following table categorizes the number of findings presented to management. The findings are detailed in the following section of this report. Each finding represents a condition, error or internal control weakness identified during the audit that may have a negative impact on the University's or unit's assets, financial information, ability to comply with laws and regulations or University policies and procedures.

For each finding, we prepared a recommendation to address the situation and requested management's plans for remediation. We request that the timing of management's remediation be commensurate with the impact of the finding.

Internal Audit will follow-up with management to determine whether remediation has been implemented in the timeline established for each finding.

Number of Findings	Priority/ Impact Level	Requested Implementation Timeline (months)
0	Critical	Three
0	High	Six
4	Medium	Twelve
0	Low	Twelve
4	TOTAL	

We conducted our examination in accordance with the International Standards for the Professional Practice of Internal Auditing and, accordingly, included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

Findings, Recommendations and Management Response

Finding (Medium Risk)	Recommendation
<p>1. Misappropriation of University Resources</p> <p>Our investigation determined that \$6,555 in cash receipts from key deposits was misappropriated during the period June 1, 2010 through November 30, 2011. During this period of time, the employee under investigation was responsible for preparing and taking deposits, related to funds collected for key deposits, to the bank. In addition she was responsible for reconciling the deposits to the bank statements and MyFD.</p>	<p>The department should coordinate with University Police for any action deemed necessary.</p> <p>The department should coordinate with Student Fiscal Services to seek restitution.</p>
<p><i>Management Response:</i></p> <p><i>We agree. We filed a report with the University Police Department on January 4, 2012. Detective Bresko was assigned to the case and awaits the audit report to begin his investigation. He did retrieve and return to us the checks and cash confiscated by the Washington State Patrol at the time they questioned Ms. Brewer and those receipts have been deposited.</i></p> <p><i>We have contacted Student Fiscal Services and will work with them as necessary to seek restitution. Receipt of the audit report initiates their process.</i></p> <p><i>Implementation date – March 2012.</i></p>	

Finding (Medium Risk)	Recommendation
<p>2. Separation of Duties</p> <p>We noted a weakness in the separation of duties functions over cash receipts and cash disbursements for two revolving funds which are held in a checking account.</p> <p>Cash Receipts</p> <p>Cash handling and recordkeeping duties are currently performed by one fiscal specialist. The fiscal specialist is responsible for preparing the deposit and reconciling to the monthly bank statements and MyFD.</p> <p>Cash Disbursements (Revolving Funds)</p> <p>The fiscal specialist is responsible for preparing the reimbursement requests for the revolving funds, receiving and depositing the reimbursement checks and reconciling the corresponding checking accounts and the fund amount. For the Key Deposit Revolving Fund, the fiscal specialist has check signing authorization and there was no other review and authorization of the reimbursement requests.</p> <p>Misappropriation of funds can occur without detection when incompatible duties are combined.</p>	<p>The department should establish controls to ensure proper separation of duties in the following areas:</p> <p>Cash Receipts</p> <p>There should be an independent person to verify all cash receipts were deposited.</p> <p>Cash Disbursements</p> <p>There should be an independent person to review the reimbursement request and perform the bank and fund reconciliation.</p>
<p>Management Response:</p> <p><i>We agree.</i></p> <p><i>Cash Receipts: We have separated duties as recommended.</i></p> <p><i>Cash Disbursements: We have separated duties as recommended.</i></p> <p><i>Implementation date – November 2011.</i></p>	

Finding (Medium Risk)	Recommendation
<p>3. Cash Accountability</p> <p>Cash receipts are not properly accounted for when transferring from the Chemistry Business Office (Business Office) to the Chemistry Accounting Office (Accounting Office). The Accounting Office fiscal specialist collects the cash receipts from the Business Office without an accounting of the amount collected.</p> <p>Chemistry uses a pre-numbered receipt book to account for the cash receipts. The date written in the cash receipts book is not always the actual date the cash receipts were received. The form in the cash receipts book is completed when the key order is processed, not when the customer brings in the cash receipts.</p> <p>Without a proper accounting of the funds transferred to another custodian, the risk of missing funds increases.</p>	<p>The department should establish controls to ensure there is proper accountability when funds transfer from one custodian to another.</p> <p>The department should establish controls to ensure the cash receipts book reflects the actual date the funds were received.</p>
<p><i>Management Response:</i></p> <p><i>We agree.</i></p> <p><i>Cash Receipts: A new policy was drafted once it became clear funds had been misappropriated. The new procedure creates a paper record when funds are transferred from the Business Office to the Accounting Office, with the appropriate staff member from each office verifying the amount transferred and providing a signature; a second Accounting Office staff member then confirms the deposit and provides a signature.</i></p> <p><i>Receipt Book: Receipts are now written only when cash is received and no longer prepared in advance.</i></p> <p><i>Implementation date – December 2011.</i></p>	

Finding (Medium Risk)	Recommendation
<p>4. Safeguard Cash</p> <p>Cash receipts for the key deposits are received in the Business Office. They are stored in the cash receipts book in an unlocked desk cabinet.</p> <p>Checks are not restrictively endorsed at the time of receipt, which is not in accordance with University policy.</p> <p>During our testing we noted cash receipts were not deposited timely. Delays in deposits varied from 10 days to 3 months.</p> <p>The University policy states cash received by a unit must be deposited when a total of \$500 accumulates or at least weekly if less than \$500.</p> <p>The risk of lost or misappropriated funds increases when cash is not properly secured or deposited timely.</p>	<p>The department should establish controls to ensure cash receipts are safeguarded and deposited timely.</p> <p>Cash receipts should be stored in a secure place with limited access.</p> <p>Checks should be restrictively endorsed at the time of receipt.</p> <p>Cash receipts should be deposited when \$500 accumulates or at least weekly.</p>
<p><i>Management Response:</i></p> <p><i>We agree. Cash receipts are now stored in a locked desk cabinet and transferred to the fiscal specialist at least weekly, or when there is more than \$500 collected, per UW policy. Checks are restrictively endorsed at the time of receipt. Cash is taken to the bank by the accounting office the same day it is transferred from the business office. On the rare occasion funds cannot be deposited the same day, they will be stored in the accounting office safe and deposited the following working day.</i></p> <p><i>Implementation date – The receipt book and deposits were immediately secured in a locked cabinet following the incident in late November 2011. Changes to transfer and deposit practices were implemented in December 2011. Restrictive endorsement of the checks took effect March 2012.</i></p>	