



DIXIE STATE COLLEGE OF UTAH
Athletic Department

Findings and Recommendations
For the Period July 2009 through March 2011

Report No. 11-DSC-A

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
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REPORT NO. 11-DSC-A

July 21, 2011

To the Board of Trustees, Audit Committee,
and
Stephen Nadauld, President
Dixie State College of Utah

During the course of our fiscal year 2010 financial audit testwork, we became aware through inquiry that the Athletic Department of Dixie State College of Utah (College) had received \$1,585 in cash but that the College had determined that the cash was never deposited. As a result of the apparent misappropriation, we performed additional testwork at the Athletic Department of the specific situation involving the misappropriation and also performed expanded cash receipting testwork for the period July 2009 through March 2011 to determine whether there were additional misappropriated funds and to determine the extent of internal control weaknesses at the Athletic Department.

FINDING SUMMARY AND OVERALL RECOMMENDATION

We have identified at least \$12,864 in misappropriations at the Athletic Department. The misappropriations included cash and checks received between July 2009 and March 2011 that were not deposited. We could not determine the exact amount missing due to inadequate receipting records and inadequate deposit documentation at the Athletic Department. The serious lack of internal control procedures, including the lack of separation of duties, inadequate cash receipting and safeguarding controls, and inadequate cash receipting policies and procedures, allowed the misappropriations to occur without detection as detailed in the findings and recommendations included in this report.

Overall Recommendation:

We recommend that the College implement adequate internal control procedures as detailed in the following findings and recommendations to help prevent future misappropriation of funds. We also recommend that the College take appropriate action in regards to collecting funds that have been misappropriated.

PROCEDURES PERFORMED

We have performed the procedures described below to certain aspects of the Athletic Department's internal control for the period July 2009 through March 2011.

1. We investigated the theft incident.
2. We reviewed the internal control over cash receipting procedures at the Athletic Department. We also tested Athletic Department cash receipts transactions.
3. We performed analytical procedures on certain areas of Athletic Department cash receipting to ascertain whether the amounts received were reasonable.
4. We reviewed the College's cash receipting policies and procedures.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the College's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the College's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. While the findings are not material weaknesses to the College, we feel that findings numbers 2 through 4 are material weaknesses in internal control to the financial activity of the College's Athletic Department.

This report is intended solely for the information and use of the College and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the College during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Debbie Empey, Audit Director, at (801) 538-1342.

Sincerely,



Auston G. Johnson, CPA
Utah State Auditor

cc: Stan Plewe, Vice President, College Services
A. Scott Talbot, Executive Director, Business Services
Eric Grob, Director of Accounting
Jason Boothe, Athletic Director
Don Reid, Director of Campus Police
Brock Belnap, Washington County Attorney

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FOR THE PERIOD JULY 2009 THROUGH MARCH 2011

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1. **MISAPPROPRIATION OF ATHLETIC DEPARTMENT REVENUE – At least \$12,864 misappropriated**

When we became aware of the \$1,585 in misappropriations noted in the management letter, we tested the cash receipting at the Athletic Department and found a total of at least \$12,864 in misappropriations between July 2009 and March 2011.

We reviewed cash receipting using three methods: 1) we obtained the Athletic Department handwritten receipt books and attempted to trace the handwritten receipts into deposits; 2) we obtained documentation from three coaches of cash/checks they had received directly and had subsequently remitted to the Athletic Coordinator for deposit; and 3) we performed analytical procedures on three sources of revenue for the Athletic Department that we considered to be higher risk and for which we believed we could accurately estimate the expected revenue. As a result, we found the following:

a. **Handwritten Receipts Teswork – \$5,058 misappropriated**

The dates on the handwritten receipts we tested spanned from July 2009 through January 2011. We tested 85 of the 103 receipts, which amounted to \$16,851 tested out of a population of \$17,904. Of the 85 receipts tested, we were able to trace only 27 receipts with certainty to a deposit at the Cashier’s Office. We traced another 32 receipts to a deposit, but with some uncertainty due to a lack of documentation for the deposit at either the Athletic Department or the Cashier’s Office (see Finding No. 3). We concluded that another 26 receipts were not remitted for deposit to the College. These misappropriated funds totaled \$5,058 (approximately 30% of the receipts tested). The majority of the missing amount was determined to be cash payments. Thirteen of the missing 26 receipts were issued by the Athletic Coordinator. The Athletic Coordinator was also responsible for safeguarding and depositing the collected funds (see Finding Nos. 2 and 3).

The missing funds were from the following areas in the Athletic Department:

Equipment – knee brace ¹	\$ 430
Utility payments from student athletes living in the Iverson House (scholarship housing) ²	1,960
Athlete physical exam fees ²	110
Golf card fundraiser ²	1,125
Golf tournament fees	500
Softball players uniforms	525
Cheerleading	150
Misc	<u>258</u>
	<u>\$ 5,058</u>

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¹ Knee brace payment – The Athletic Coordinator indicated that he received the \$430 in cash from the student for payment of the knee brace, and that he (the Athletic Coordinator) paid the cash directly to the knee brace dealer on behalf of the student. The knee brace dealer denies being offered or receiving a cash payment for the knee brace. The College paid the vendor with a check through the normal cash disbursement process. The vendor indicated to us that it is against policy to collect cash payments.

² Utility payments, physical exam payments, and golf card fundraiser payments – see additional misappropriations in c. below.

b. Funds Initially Collected by Coaches – \$1,585 misappropriated

We obtained documentation directly from three coaches of cash/checks received by the coaches which were then turned over to the Athletic Department for deposit. The cash/checks received totaled \$38,081 and all of the funds could be traced to a deposit with the exception of the \$1,585 in cash that initiated the investigation.

Our investigation into the missing \$1,585 in cash concluded that the Athletic Coordinator received \$1,585 in cash and \$4,107 in checks from the cheerleading coach to fund travel for the cheerleaders. The money was kept in the Athletic Coordinator's office. The Athletic Coordinator initially indicated to us that the money was kept in a "safe," then he clarified that the "safe" was an unlocked lock box and later told us that the money was kept in an unlocked drawer. Two weeks after receipt of the money, the Athletic Coordinator prepared a deposit form that included only the checks, and he deposited the checks with the Cashier's Office. The Athletic Coordinator did not notify anyone of the shortage. The Athletic Coordinator indicated that he did not realize there was any money missing. When the missing funds were discovered by the Cashier's Office, the Athletic Coordinator was instructed to report the theft to Campus Police; however, this did not occur. The Athletic Coordinator told us that he called and left a message with Campus Police but never heard back. The Athletic Coordinator later admitted that he did not leave a message and did not follow up.

c. Analytical Procedures – at least \$9,366 misappropriated

Based on our analysis, we determined that at least \$9,366 in cash/checks received in the following areas was not deposited: utility payments from students athletes living in the Iverson House, payments for student athlete physical exams, and proceeds from the sale of golf cards to the public as a fundraiser for athletic scholarships. We calculated the amounts that should have been deposited and recorded and compared them to the amounts that were actually received and recorded by the Athletic Department. Based on other evidence obtained during cash receipting testwork (see above), we believe that the \$9,366 was misappropriated after it was received by the Athletic Department.

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Utility payments - We calculated the missing utility payments by determining the number of student athletes living in the Iverson House each semester and the amount due for utilities from each athlete per semester. When we asked for this information from the Athletic Coordinator, who was responsible for tracking the payments from the athletes, he indicated that utility costs for several athletes were covered by the Athletic Department; however, the coaches said that all athletes living in the Iverson House are required to pay the full amount of utilities. The Athletic Coordinator also indicated to us that he does not have good records of which athletes made payments and said he could not provide us with any records; however, the Athletic Coordinator notified the coaches of the athletes who were delinquent in paying for their utilities and the coaches would follow-up with the athletes, which indicates the Athletic Coordinator was tracking who had made payments. We used the coaches' information for our calculations. As a result of our analysis, we determined that \$4,250 was missing for the period of July 2009 through January 2011. This amount includes the \$1,960 in handwritten receipts for utility payments noted in a. above.

Physical exam payments - We calculated the missing physical exam payments by verifying with each coach the total number of athletes who competed in fiscal year 2011 and the amount due from each athlete for the physical exam required by NCAA regulations. We determined that at least \$3,091 was missing for the period of July 2010 to January 2011. This amount includes \$60 of the handwritten receipts noted in a. above.

Golf card fundraiser payments - We calculated the missing golf card payments by determining the total number of golf cards sold and the selling price for each golf card. We determined that at least \$2,025 was missing from October 2010 to January 2011. This amount includes the \$1,125 in handwritten receipts for the golf card fundraiser payments noted in a. above.

The separation of duties weakness (see Finding No. 2), cash receipting weaknesses (see Finding No. 3), and inadequate written policies and procedures over cash receipting (see Finding No. 4) allowed the misappropriation of cash/checks received to occur without detection.

Recommendation:

We recommend that the College implement the recommendations in Finding Nos. 2 through 4 to strengthen internal control procedures in the Athletic Department. We also recommend that the College take appropriate action in regards to collecting funds that have been misappropriated.

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College's Response:

Personnel associated with the misappropriation have been removed from their position of handling cash and are being required to repay the misappropriated amounts. The misappropriation of resources in the Athletic Department was evidence that there were inadequate compensating controls in place. A number of steps have been taken to remedy this situation including numerous controls, procedures, departmental training and the planning of the cash handling.

2. **SEPARATION OF DUTIES WEAKNESS**

The Athletic Coordinator is responsible for collecting cash/checks received, preparing the deposit form, depositing the receipts at the Cashier's Office, and reconciling those receipts to Banner (the College's accounting system). Inadequate separation of duties exists when the same individual has custody of assets, access to accounting records, and/or reconciliation responsibilities. Inadequate separation of duties allowed the misappropriation of Athletic Department funds identified in Finding No. 1 to occur without detection.

Recommendation:

We recommend that the Athletic Department separate recording and reconciling duties and limit those duties to those with no ability to access cash or checks received.

College's Response:

Dixie State College, like many other small Colleges, has departments composed of a single person who has many responsibilities including cash handling. Internal controls, such as adequate separation of duties, are obviously absent in such departments. Compensating controls must be put into place to provide adequate assurance that revenues and expenditures will be handled appropriately. We have developed a number of these controls that will provide such assurance. These controls have already been implemented and will be reviewed by the internal audit office of the College.

3. **CASH RECEIPTING AND SAFEGUARDING WEAKNESSES**

The Athletic Coordinator is responsible for handling the cash/checks received at the Athletic Department. Although the Athletic Coordinator primarily receipts the cash/checks, other employees can also receipt the money. Once received, all cash/checks are given to the Athletic Coordinator to safeguard and deposit at the College's Cashier's Office. The Athletic Department has the following weaknesses related to cash receipting and safeguarding of cash:

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- a. The Athletic Department does not use a mail log, which serves as an initial record of mailed-in payments, to create a reliable record of payments received by mail. In addition, the mail is opened by only one employee (the Athletic Coordinator). The mail should be opened and logged by two employees and the mail log should be signed by both employees indicating the log is accurate and complete. The mail log should then be reconciled to the deposit receipt provided by the Cashier's Office by someone who does not have access to cash/checks received to ensure all cash/checks received by mail are deposited and recorded in Banner (also see c. below).
- b. The Athletic Department does not have adequate controls over handwritten receipts for walk-in payments. Employees at the Athletic Department: 1) do not issue handwritten receipts to all walk-in customers, including issuing receipts for both cash and checks, 2) do not issue receipts in numerical sequence, 3) do not always maintain a copy of each receipt in the receipt book, and 4) do not maintain all three copies of the receipt in the receipt book when the receipt is voided. Instead, employees in the Athletic Department typically write receipts only when customers pay in cash and issue the receipts out of sequential order. Also, we noted one instance where all three copies of the receipt were missing from the receipt book and one instance where the original receipt was missing and the duplicates were marked void. Original, pre-numbered receipts should be issued in numerical sequence to all walk-in payers for both cash and check payments, a copy should be maintained on file with a copy of the deposit form (see f. above) and a copy should remain in the receipt book, and if a receipt is voided, the original and both copies should remain in the book. The numerical sequence of all receipts issued should then be accounted for and reconciled to the deposit receipt provided by the Cashier's Office by someone who does not have access to cash/checks received to ensure all cash/checks received are deposited and recorded in Banner (also see c. below).
- c. In March 2011, the Athletic Department implemented a procedure to review deposit records; but, the procedure is ineffective because it does not include a reconciliation of initial receipt records to what was deposited. The current review includes a comparison of the deposit form to the deposit receipt provided by the Cashier's Office. However, because there is no reconciliation of initial receipt records (mail log and pre-numbered receipts, as discussed in a. and b. above), the review does not ensure all cash that should have been deposited was actually deposited. Someone who does not have access to cash/checks received should perform a complete reconciliation of initial receipt records, the deposit form, and the deposit receipt provided by the Cashier's Office to ensure that all funds received are properly recorded and deposited. The reconciliation should include accounting for the numerical sequence of the handwritten receipts.
- d. The Athletic Department has not properly safeguarded cash/checks received. Athletic Department personnel often left cash/checks on the Athletic Coordinator's desk when the Athletic Coordinator was not in his office to receive the funds. In addition, the Athletic Coordinator kept the money that he received in his office while awaiting deposit (which

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was, at times, as long as several weeks). Due to inconsistent statements, it is unclear whether the money was kept in an unlocked drawer, a lock box, or a safe, but the Athletic Coordinator's office was accessible to many people. This resulted in improper safeguarding of funds. Cash/checks should always be properly receipted as described in a. and b. above and then placed in a safe to await deposit. As few employees as possible should be given access to the safe. The Athletic Department did purchase a safe in response to the theft of \$1,585 in cash in November 2010 (see Finding No. 1).

- e. The coaches receive cash/checks directly from various sources such as donors, sports camp participants, and student athletes, which is an internal control weakness and is in violation of the Dixie State Cash Handling Policy 6-1.2.6. This policy restricts faculty, staff, and administrators from receiving cash unless approved by the Business Services Office and proper procedural controls and monitoring have been implemented. All cash should be sent directly to the Athletic Department, Cashier's Office, or Development Office. Failure to adhere to proper cash handling procedures results in a violation of College policy and could result in the misappropriation of cash without detection. The Athletic Department has recently implemented the use of pre-addressed envelopes to be given to potential donors. These same envelopes could also be given to camp participants or used in any situation where a coach could be in a position to collect cash to ensure a coach does not feel pressure to accept the cash from the public, student athletes, or other sources.
- f. The Athletic Coordinator did not maintain sufficient documentation for deposits. The Athletic Coordinator is responsible for accumulating the cash/checks received in the Athletic Department, preparing a deposit form which summarizes and codes the cash/checks received, and taking the cash/checks and deposit form to the College's Cashier's Office for deposit. The Athletic Coordinator did not retain source documentation (a copy of the deposit form along with accompanying supportive documentation such as handwritten receipts or the record of payment received by mail) to identify the contents of the deposit. Therefore, we were unable to determine with certainty whether 32 of the 85 handwritten cash receipts we tested (see Finding No. 1), totaling \$4,398, had been deposited. Proper internal control requires that documentation be retained in order to ensure cash/checks received are properly deposited by creating an audit trail to facilitate tracing a payment to deposit.
- g. Budget reports are not issued to the various coaches regularly in order to facilitate their review of detailed revenues, expenditures, and journal entries posted to their applicable accounts in Banner. Some coaches indicated that they review budget reports, whereas other coaches indicated that they have never seen a budget report. Budget reports should be given to the coaches monthly so they can be aware of transactions posted to their accounts and provide an additional level of review for the propriety and reasonableness of transactions. Failure to issue detailed budget reports for the coaches' reviews could result

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in incomplete or inappropriate transactions being posted to Banner accounts without detection.

- h. The Athletic Coordinator did not ensure timely deposit of cash/checks received. Dixie State Cash Handling Policy 6-1.2.3 dictates that deposits should be brought to the Cashier's Office on a daily basis. Of the 27 cash receipts that we were able to trace to a deposit (see Finding No. 1), 19 (70%) were deposited later than one day after receipt, and five of them were deposited between 20-28 days after receipt.

The internal control weaknesses above allowed the misappropriation of Athletic Department funds identified in Finding No. 1 to occur without detection.

Recommendation:

We recommend that the Athletic Department:

- a. **Implement a mail log system that creates a reliable record of cash/checks received by mail, including requiring that the mail be opened by two employees and creating a mail log that is signed by both employees indicating the log is accurate and complete.**
- b. **Issue pre-numbered receipts in numerical sequence to all walk-in payers, maintain a copy of all receipts with the deposit form, maintain a copy of all receipts in the receipt book, and retain all three copies of voided receipts in the receipt book.**
- c. **Perform a complete reconciliation of initial receipts (mail log and pre-numbered receipts), to the deposit receipt provided by the Cashier's Office by someone who does not have access to cash/checks received by mail or walk-in payers, including accounting for the numerical sequence of the handwritten receipts.**
- d. **Safeguard cash by immediately placing all cash/checks in the safe until deposited, and limiting access to the safe to as few employees as possible.**
- e. **Implement procedures to restrict coaching staff from accepting or collecting cash/checks and instead have coaching staff issue pre-addressed envelopes to anyone who attempts to give them cash/checks.**
- f. **Prepare and retain adequate documentation for cash/checks deposited.**
- g. **Prepare and issue monthly detailed budget reports to all coaches to facilitate their review of revenues, expenditures, and journal entries posted to their applicable accounts in Banner.**

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h. Deposit funds timely as required by the College's Cash Handling Policy.

College's Response:

All audit recommendations have been incorporated into a departmental plan that incorporates a number of internal control guidelines as outlined in the audit and specified by the Director of Revenue. This plan was also approved by the Departmental Director and the Director of Revenue.

4. INADEQUATE WRITTEN POLICIES AND PROCEDURES OVER CASH RECEIPTING

The College has inadequate written policies and procedures over cash receipting. The College has a main Cashier's Office but also allows cash collections at secondary locations in the various College departments. However, the College has extremely limited written policies regarding cash receipting at secondary locations on campus and the policies and procedures do not adequately address basic internal control measures over cash receipting. The College should develop a written policy for cash receipting at secondary locations which addresses, at a minimum, the following:

- procedures to establish a reliable record of cash/checks received;
- procedures for safeguarding cash/checks received prior to deposit with the Cashier's Office;
- procedures for maintaining a record of cash receipts and deposit; and
- procedures to reconcile the original record of receipt to the deposit receipt provided by the Cashier's Office by someone who does not have access to cash/checks received.

The College should ensure employees at secondary locations are adequately trained on cash receipting policies and procedures. Lack of adequate written policies and procedures over cash receipting and lack of training contributed to the environment that resulted in the misappropriation of funds occurring without detection.

Recommendation:

We recommend that the College implement adequate written cash receipting policies and procedures and adequately train employees on the policies and procedures.

College's Response:

The College has reviewed both written policies and procedures and has recognized that insufficient written procedures existed. It was also recognized that training needed to be more formal and be required for any person handling cash at the College, and that this training needed

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to be acknowledged by the person receiving the training. As a result, extensive procedures have been written and distributed to all departments on campus as part of a formalized training program. Each participant acknowledges the training by class roles and on documentation that they receive. Reviews of State, Regent and Campus policies surrounding the collection of cash are part of that training. Individuals that demonstrate their inability to follow these procedures will not be allowed to handle cash.

5. IMPROPER ACCOUNTING FOR REVENUES AND REIMBURSEMENTS

While attempting to trace handwritten receipts to a deposit (see Finding No. 1), we noted that the account coding assigned to the deposits by the Athletic Coordinator was not always accurate or consistent. For the 27 receipts which we successfully traced to a deposit, we noted the following problems:

- a. Three credit card payments for Iverson House utilities were coded to other areas in athletics. This understated the Iverson House revenues and overstated the revenues in the other areas. One of these three miscoded Iverson House receipts was coded to the Softball account as a uniform reimbursement. This was notable since several days prior, two cash payments for softball uniforms had been receipted but were never deposited. This indicates a possible cover-up of a misappropriation.
- b. The payments for Iverson House utilities were generally recorded as revenue except for one that was recorded as a negative expense. While either method may be acceptable, using both methods is not consistent.
- c. Six receipts for reimbursement for softball uniforms were recorded as negative expenses to “books and publications.”

The Athletic Department should coordinate with the Business Office to determine the appropriate method for recording reimbursements. Revenues and reimbursements should be recorded accurately and consistently to ensure that the financial statements and NCAA financial information are accurate.

Recommendation:

We recommend that the Athletic Department record revenues and reimbursements appropriately.

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College's Response:

Each department has been required to submit a written plan that details the types of cash and other revenues they will be handling. The plan must incorporate a number of specific internal control guidelines provided by the Director of Revenue, including appropriate receipting, custody of cash, transmittal of deposits and other items. This plan must be approved by the Director of Revenue before the department will be allowed to receive cash or credit cards. Procedures also require that the plan must be updated and approved for any changes in the types of revenues that the department will receive.