

**Polynesian Club Audit**



Office of the Internal Auditor

Audit Report 2016 - 03

May 9, 2016

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## EXECUTIVE SUMMARY

The Polynesian Club was established to provide a way for students from Polynesian Islands to have leadership opportunities and meet together through socials and activities sponsored by the club. The club is funded primarily through an annual luau that is organized and put on by club members. Funds from the luau are used to pay for activities, socials and to assist students by providing them with textbooks.

The main audit objectives were to:

- Determine if cash handling, inventory and distribution of text books was done in accordance with Snow College policies and procedures.
- Determine if there was equal opportunity for students to participate in the Polynesian Club, fundraisers, and receive benefits from participation such as use of textbooks bought using club funds.

The department of Internal Audit completed a thorough review of all revenue and expense transactions of the Polynesian Club for January 2015 through May 1, 2016. Internal Audit also reviewed the internal controls and processes for ticket sales, textbook purchasing and inventory, and cash handling. There were material control deficiencies found in the ticket sales, cash handling, and text book inventories.

- 1) There was cash stored in a file cabinet that was not deposited in a timely manner.
- 2) Internal Audit could find no evidence of any cash handling policies or procedures.
- 3) Ticket sales logs were not complete.
- 4) Tickets did not include unique identifiers.
- 5) Expense tracking forms were not complete for 2015 and were not used for 2016.
- 6) Textbooks were not inventoried or tracked.
- 7) Students were charged \$25.00 textbook dues in addition to participating in the luau to receive textbooks (2015 and prior).

Participation and membership in the Polynesian club was open to all students. While there was equal opportunity for students to participate in the Polynesian Club activities, there was exclusivity in the participation of the annual luau show in 2015 and prior years. According to the prior club advisor, this exclusivity was enforced to maintain a level of authenticity with the show. The only students that were allowed to obtain text books from the club were those that participated in the show.

The vendor that was used to assist with the food purchasing, preparation and handling, for the 2015 luau, was a relative of the club advisor and a Snow College employee. The vendor did not receive payment for services, but food was purchased through his company. There were no conflict of interest disclosures or explanations as to the reasons for selecting this vendor for the food purchases.

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Internal Audit met with the Advisor of the Polynesian Club and his Supervisor several times during the course of the audit in order to keep them informed of the status of the audit as well as any process efficiencies that could be implemented into the Polynesian Club's current procedures. A more detailed listing of findings and recommendations can be found in the following pages of this report.

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## INTRODUCTION

### BACKGROUND

The Polynesian Club was established to provide a way for students from Polynesian Islands to have leadership opportunities and provide a forum for students from the islands to meet together through socials and activities sponsored by the club. The club is funded primarily through an annual luau that is organized and put on by club members. The club had also received some funding from Snow College in prior years. In 2015, the club received \$500.00 through Student Success, but in 2016 received no additional funds. Funds raised from the luau were used to pay for activities, socials and to assist students by providing them with textbooks.

Funds raised through the luau are collected in the following ways:

- Students selling tickets to family members and friends
- Patrons purchasing tickets at the door
- Patrons purchasing tickets at the college cashier's window
- Attendees making donations by throwing money on the stage or giving money to a dancer

Money given to dancers as donations during the show were kept by the dancers and is not turned in or reported to the club Advisor. Money thrown on the stage during the show was turned in to the Advisor and included in the deposit into the club account. Money collected through student sales and tickets purchased at the door were turned in to the Advisor, counted then deposited into the club account. All deposits were done through the cashier's office.

### AUDIT PURPOSE

The main audit objectives were to:

- 1) Determine if cash handling, inventory and distribution of text books was done in accordance with Snow College policies and procedures.
- 2) Determine if there was equal opportunity for students to participate in the Polynesian Club, fundraisers, and receive benefits from participation such as use of textbooks that were purchased using club funds.

## SCOPE AND METHODOLOGY

The scope of the audit described above was for January 2015 through May 1, 2016. Procedures for this audit were established through a risk assessment. The following table illustrates the risks identified and scoring of the risks.

**Table 1 - Risk Assessment Results**

Risk Category	Risk Description	Risk Score <sup>1</sup>	Ranking
Financial	Loss or theft of luau tickets	10.33	1
Financial	Inaccurate reporting of revenues	9.67	2
Financial	Fraud or theft of fundraiser funds or club assets (textbooks)	9.33	3
Financial	Loss of textbooks	9.25	4
Financial	Waste in spending	8.88	5
Financial	Overspending	8.88	5
Strategic	Misalignment with purpose of Snow College Clubs and Organizations	8.83	6
Financial	Inappropriate use of funds	8.50	7
Strategic	Termination of club charter	8.00	8
Strategic	Loss of or frozen funding	8.00	8
Operational / IT	Membership benefits not realized (students don't receive textbooks)	6.33	9
Operational / IT	Loss of club records	6.33	9
Operational / IT	Human error	6.33	9
Operational / IT	Students not given equal opportunity to participate in the club	6.00	10

Risks identified and ranked do not indicate an occurrence. The risk assessment is a measure of the likelihood of an event and the impact to the club and the college if it occurs. See Appendix A for more information on the Risk Assessment.

Audit procedures were developed to test the strength of controls that should be in place to mitigate the risks for all risks that scored 7.5 or higher. Following were the test objectives:

- 1) Determine if tickets issued to students to sell were logged, tracked and properly accounted for
- 2) Determine if revenues from ticket sales, donations and textbook dues, and expenses were accurately recorded in Banner and on the budget tracking form
- 3) Determine if cash and checks collected from luau ticket sales and donations were properly secured and deposited in a timely manner
- 4) Determine if holds were placed on student transcripts for students that did not turn in money from ticket sales, unsold tickets

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<sup>1</sup> Risk Score Scale

1 – 4 = Low Risk

5 – 10 = Moderate Risk

11 – 14 = High Risk

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- 5) Determine if textbooks were properly inventoried, marked (or tagged), checked-out, checked-in and tracked
  - 6) Verify that expenses were properly approved and were not excessive
  - 7) Determine if contracts for services and goods were properly approved

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a thorough review of revenues and expenses recorded in Banner, purchasing card expenses, luau ticket sales reports, and textbook inventories and logs. The conclusions are only applicable for Snow. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The evidence gathered meets professional audit standards and is sufficient to provide senior management with the proof of the conclusions derived from the internal auditor.

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## OBSERVATIONS AND CONCLUSIONS

There were material control deficiencies in the ticket sales, cash handling, and text book inventories.

### ***1 - There was cash stored in a file cabinet that was not deposited in a timely manner.***

For the 2016 luau, the tickets were distributed to students to sell approximately one month prior to the luau. Students turned in the funds to the advisor after they sold the tickets and the advisor locked up the funds in a file cabinet in his office. Funds raised from ticket sales at the door and donations were also locked up in the same file cabinet. The club student leaders met with the advisor to count the funds and make the deposit on April 14.

**Table 2 –Cash Deposits**

Date Funds Received	Date of Deposit	Amount	# Business Days
4/10/15	4/15/15	\$1669.95	3
4/11/15	4/16/15	\$315.00	3
3/1/2015 – 4/11/2015	4/21/15	\$1530.00	Between 7 and 37 days <sup>2</sup>
No record	4/23/15	\$255	Unknown
No record	4/29/15	\$838	Unknown
3/1/2016 – 4/9/2016	4/14/2016	\$2934.87	Between 4 and 33 days
3/1/2016 – 4/9/2016	4/14/2016	\$91.00	Between 4 and 33 days
3/1/2016 – 4/9/2016	4/14/2016	\$320.55	Between 4 and 33 days

***Cash deposits were not timely***

The 2016 luau was held on April 9 and funds totaling \$3346.42 were deposited on April 14. The 2015 luau was held on April 11 and there were deposits made on different days. There was no policy regarding when deposits should be made. Best business practices suggest that all types of cash should be deposited within three business days.

By not depositing cash in a timely manner, the Polynesian club is at risk of losing their main source of revenues, due to theft, loss or fraud.

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<sup>2</sup> Number of days ranged because there was no tracking of when funds were turned in by the students or the amounts for the ticket sales

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## ***2 - Internal Audit could find no evidence of any cash handling policies or procedures***

Students and the club advisor were involved in cash handling through luau ticket sales but had no documented policies or procedures for cash handling. There weren't any controls over the ticket sales such as receipts or logs to record how much money was collected from each student. In the absence of sales records, amounts collected could not be reconciled with the amounts deposited. There were odd amounts deposited even though the ticket prices were \$5.00 for a show ticket and \$15.00 for the show and dinner. See table 3 for a listing of the deposits made.

***Table 3 – Deposit Amounts***

<b>Date of Deposit</b>	<b>Amount</b>
4/15/15	\$1669.95
4/16/15	\$315.00
4/21/15	\$1530.00
4/23/15	\$255
4/29/15	\$838
4/14/2016	\$2934.87
4/14/2016	\$91.00
4/14/2016	\$320.55

***Odd deposit amounts for luau tickets***

According to the club advisor, there were odd amounts due to the donations that were made during the show. Funds from donations were not tracked and were included with the funds collected at the door and through student sales.

Accountability for cash and tickets cannot be established or enforced without documented policies and procedures.

## ***3 - Ticket sales logs were not complete***

The advisor had a tracking log that was used when distributing tickets to students to sell. The log was not complete and was not used to reconcile tickets sold with cash received. Accountability for ticket sales and cash received cannot be established when the tickets and cash are not properly tracked.

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#### ***4 - Tickets did not include unique identifiers***

Tickets did not include a unique identifier such as a pre-printed number or barcode. Tickets were printed on a color stock paper could easily be replicated. For tracking purposes, the advisor hand-wrote a number on the back of each ticket, but the number was not used to reconcile tickets with sales.

Tickets without unique identifiers can easily be replicated and sold. This could result in theft of tickets and funds and fraud.

#### ***5 - Expense tracking forms were not complete for 2015 and were not used for 2016***

Student Life provides clubs with expense tracking forms to assist the clubs in tracking and reporting expenses. These forms are optional for the club to use. However, in order to receive funding they are encouraged to complete the reports and submit them with their funding requests. The club received \$500.00 in 2015 and submitted a tracking form. However, the form did not include all expenses. Also the form was not used in 2016 to track any expenses. The club relies on the Business Office to “true up” the account balance at the end of the fiscal year.

Where purchasing cards are used to pay club expenses, it is possible for expenses to exceed the revenues. Also, the club may not receive additional requested funding if expenses are not properly tracked and the club president may be held responsible for unauthorized or unpaid expenses.

Snow college Club Finances handbook states “...the college will not be responsible for any unpaid or unauthorized expenses. If such a case occurs, then the total amount due will be placed on the club president’s student account and such student’s records / transcripts will be held until the debt is paid.”

“Advisors oversee the proper expenditure of monies for club functions and review expenditures and club financial records. Audit of the club financial record may occur at any time. Therefore, it is recommended advisors turn in a budget tracking form at the end of each semester which would include copies of all receipts.”

#### ***6 - Textbooks were not inventoried or tracked***

There were no inventory controls over textbooks that were owned by the Polynesian Club. Textbooks were not tagged or stamped identifying them as owned by Snow College or the club.

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There was no list showing books that were available for students to check-out or use. The club did track books that were purchased each year, but did not have a master inventory of all books available through the club. There also was no defined policy for the disposal of discontinued textbooks. Holds were placed on student accounts for unreturned textbooks that were purchased, but no tracking mechanism was in place to determine students that were using textbooks that were purchased in prior years.

A current inventory of textbooks would help the Polynesian Club be able to provide more textbooks to students. In addition, club student leadership would learn the importance of good record keeping and asset tracking.

***7 - Students were charged \$25.00 textbook dues in addition to participating in the luau to receive textbooks (2015 and prior)***

Prior to 2016, students that obtained textbooks from the Polynesian Club were required to pay \$25.00 dues for each textbook received through the club. Requirements to obtain textbooks included participation in the annual luau and \$25.00 for each textbook.

The current advisor discontinued charging textbook dues because he believes participation in the luau is sufficient. Snow College Student Life Club Handbook states: "A chartered club is allowed to request semester dues from its members, which are not to exceed \$10/semester. Any club dues above the pre-approved \$10/semester must be approved by the Director of Student Life".

When a club does not comply with the standards, the club is at risk of negatively affecting the club charter status and/or funding.

***8 - There was exclusivity in the club where only Polynesians were allowed to participate in the show and receive the benefits (textbooks and donations) for participation.***

Anybody that wanted to be a member of the Polynesian club was allowed to join. Most of the membership in the club happened through word-of-mouth.

According to the prior advisor, there was exclusivity in the club where only Polynesians were allowed to participate in the show and receive textbooks. There was no audition or pre-defined criteria established for luau participants. Most luau participants were recruited by the club leadership.

According to the prior advisor, the club wanted to maintain a certain level of quality and authenticity by only involving those that were of Polynesian descent. The current advisor is not aware of any issues with

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exclusivity. In the 2016 luau there was a dancer that was non-Polynesian. He stated that “anyone that wanted to participate was allowed to participate.”

***9 – There were no conflict of interest disclosures or documented explanations for using a family member’s private business for food purchases for the luau***

The vendor that was used to assist with the food purchasing, preparation and handling, for the 2015 luau, was a relative of the club advisor and a Snow College employee. The vendor did not receive payment for services, but food was purchased through his company for the luau. There were no conflict of interest disclosures or explanations as to the reasons for selecting this vendor for the food purchases.

The prior advisor said that she was able to get the food at a discounted rate by going through her son-in-law’s private business. Her son-in-law is also an employee at Snow College. Food for the 2016 luau was purchased through the college’s food services.

## **RECOMMENDATIONS**

Internal Audit recommends the following controls be implemented:

### **Cash Handling and Luau Ticket Sales**

- 1) Develop and implement written policies and procedures on cash handling
- 2) Include a unique identifier on each ticket printed and sold such as a barcode or unique number
- 3) Use a log when distributing tickets to students to sell. At a minimum include on the log the student name, date of issue, number of tickets, unique identifiers on the tickets, and two signatures.
- 4) When students return funds collected, log the amounts collected and reconcile the cash received with the log. Include a copy of the log with the deposits and reconcile the deposit amounts with the log.
- 5) Collect ticket stubs or a count of luau attendees and reconcile the number of attendees with the number of tickets sold.
- 6) Set up and use separate activity codes in Banner for the following:
  - a. Cash received through student ticket sales
  - b. Cash received through ticket sales at the door
  - c. Cash received from donations
- 7) Reconcile donations received during the luau
- 8) Consider having students deposit funds raised through ticket sales with the cashier rather than the give them to the advisor

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## **Textbook Distribution and Inventory**

- 1) Determine and document club policy on textbook usage and fees. Ensure the policy is in line with Snow College policies and procedures.
- 2) Create an inventory tracking system to track textbooks purchased through the Polynesian Club and account for all books that are in the inventory.
- 3) Stamp or tag all textbooks purchased by the Polynesian Club
- 4) Research textbook recycling options and implement a recycling program for out-of-date textbooks.

## **Expense Tracking and Transparency**

- 1) Maintain records of all club expenses and track all expenses using the expense tracking form
- 2) Disclose and document any potential conflicts of interest

## **Equal Opportunity**

- 1) Document criteria for qualifications for participation in the annual luau and to receive textbooks
- 2) Consider providing textbooks for students that assist with the luau, such as food preparation, serving, selling tickets, etc.

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## **MANAGEMENT RESPONSE**

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## Appendix A – Risk Assessment

The following formula and key was used to assess each of the risks:

**Risk Score** = Likelihood \* Impact + (5 – Control Effectiveness)

<b>Risk Assessment Key</b>	
<b>Likelihood</b>	
1 = Low (not likely to occur) 2 = Moderate (may occur) 3 = High (has or will occur)	
<b>Impact</b>	
1 = Low (no real impact) 2 = Moderate (minor loss < \$5000 or temporary disruption) 3 = High (major loss > \$5000 or long term disruption)	
<b>Control Effectiveness</b>	
1 = Control not in place 2 = Control in place but doesn't meet requirements 3 = Control meets requirements 4 = Control exceeds some requirements 5 = Control exceeds all requirements	