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Secretary of State

State of Oregon

**OREGON STATE UNIVERSITY**

**Hatfield Marine Science Center**

**Loss of Funds**



**Audits Division**

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*Auditing for a Better Oregon*

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As a result of our investigation into personal charges on a state procurement card, we also investigated cash handling practices at the Hatfield Marine Science Center, an operation of Oregon State University. This report contains the result of both audits.

We found cash missing from bookstore deposits totaling at least \$6,302. Due to missing cash register tapes, the actual loss may have been higher than the amount we were able to identify with available records. Our review encompassed July 1998 through March 2000, with limitations imposed by the missing records. These losses were occurring after the reconciliation of cash receipts records and prior to bank deposits.

We referred this matter to the Oregon State Police and the Lincoln County District Attorney's office.

Inadequate controls and records made it impossible to verify that all funds from the center's donation box had been accounted for properly. Our report also contains recommendations to improve cash handling controls at the Hatfield Marine Science Center, in both the bookstore and the business office.

OREGON AUDITS DIVISION

John N. Lattimer  
Director

Fieldwork Completion Date:  
September 28, 2000

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## **BACKGROUND**

During an audit of the Oregon State University (OSU), we identified transactions on a state procurement card that appeared to be personal charges. While investigating those purchases, we determined that cash was missing from the Hatfield Marine Science Center's bookstore receipts. Furthermore, the center does not have appropriate controls in place over cash handling duties.

The Hatfield Marine Science Center, located in Newport, Oregon, is part of OSU's Research Centers and Institutes. It is also affiliated with the College of Oceanic and Atmospheric Sciences.

A bookstore/gift shop is located near the entrance of the visitor's center. The bookstore manager deposits monies from bookstore sales into an OSU account. A donation box is also located in the center near the entrance for visitors to make donations. The center's business manager deposits the donations into an OSU Foundation account.

OSU authorizes its employees to use state procurement cards for small business-related purchases. The procurement cards are issued in a department's name, but look like a personal credit card. The bookstore manager is responsible for the bookstore's procurement card. She receives a monthly statement of charges, and is responsible for attaching documentation to support the charges and forwarding it to the center's Business Office for processing. The OSU Business Office in Corvallis pays the procurement card bills.



## CHAPTER 1: BOOKSTORE LOSSES

### BOOKSTORE SALES

In the lobby of the Hatfield Marine Science Center, a small bookstore sells science-related books, posters and other miscellaneous items. The bookstore manager, with assistance primarily from volunteers and student workers, operates the bookstore. She is responsible for purchasing items to sell, receiving goods, ensuring shelves are stocked, recording sales on the cash register, reconciling sales to receipts, and preparing and making bank deposits.

Our review of the bookstore records determined that at least \$5,316 of cash sales recorded on cash register tapes was not deposited to the university's bank account. At least another \$985 appears to be missing based on deposit slips and cash reconciliation records. The cash register tapes are missing from bookstore records for September 2 through December 22, 1999, for January and May 1999 and for other sporadic dates during February, March and April 1999. The bookstore manager indicated that due to a bug infestation, the records had probably been inadvertently discarded. As a result, possible cash losses during these periods could not be fully determined.

We performed a cash count on March 30, 2000 to determine whether the cash on hand agreed to the cash register tapes and deposit records after our previous attempt at a cash count failed to reconcile cash deposits and receipts. Cash and checks on hand at that time agreed to recorded cash and check receipts for the dates for which deposits had not yet been made.

Comparison of cash receipts and deposits (excluding check and Visa sales) for the periods with available records identified the following losses:

1. Cash totaling \$2,998.72 is missing for the period June 30, 1998 to December 29, 1998.

<u>Period</u>	<u>Cash Deposited</u>	<u>Cash Register Tape (after adjusting for errors in recording checks and Visa)</u>	<u>Reconciliation Cash (Short)/Over</u>	<u>Total Extra or (Missing) Cash</u>
July 1998	7,185.18	9,386.47	(49.64)	(2,151.65)
August 1998	9,940.10	10,933.49	(42.51)	(950.88)
September 1998	6,861.44	5,176.24	43.72	1,641.48
October 1998	3,479.29	4,017.59	7.89	(546.19)
November 1998	1,758.43	3,128.83	6.67	(1,377.07)
December 1998	<u>3,291.23</u>	<u>2,960.83</u>	<u>(55.19)</u>	<u>385.59</u>
<b>TOTAL:</b>	<u><b>32,515.67</b></u>	<u><b>35,603.45</b></u>	<u><b>(89.06)</b></u>	<u><b>(2,998.72)</b></u>

- Few cash register tapes are available for the period January through May 1999. Based on available cash reconciliations and deposits, another \$513.78 was not deposited and is missing during this five-month period.
- Cash totaling \$2,317.62 is missing for the period June 1, 1999 through September 1, 1999.

<u>Period</u>	<u>Cash Deposited</u>	<u>Cash Register Tape (after adjusting for errors in recording checks and Visa)</u>	<u>Reconciliation Cash (Short)/Over</u>	<u>Total Extra or (Missing) Cash</u>
June 1999	4,942.59	7,280.85	16.50	(2,354.76)
July 1999	8,314.05	9,561.39	18.65	(1,265.99)
August 1999 (including 9/1/99)	<u>11,669.82</u>	<u>10,410.52</u>	<u>(43.83)</u>	<u>1,303.13</u>
<b>TOTAL:</b>	<u><b>24,926.46</b></u>	<u><b>27,252.76</b></u>	<u><b>(8.68)</b></u>	<u><b>(2,317.62)</b></u>

**NOTE:** All register tapes are missing for the period 9/2/99 through 12/22/99; the bookstore manager could not locate them. Therefore, those periods are omitted from the loss calculation above.

- A review of the period September 2, 1999, to March 30, 2000, (when we performed a cash count) did not find any additional deposits that accounted for the missing cash. However, another \$471.90 is missing, based on the cash reconciliation and deposit records that were available for audit.

These losses are summarized in the table below:

<u>Time Period</u>	<u>Missing Cash</u>
June 30, 1998 – December 29, 1998	\$2,998.72
January 1999 – May 1999	\$ 513.78
June 1999 – September 1, 1999	\$2,317.62
September 2, 1999 – March 30, 2000	<u>\$ 471.90</u>
	<b>\$6,302.02</b>

5. Composition of Deposits

The following table compares cash and check receipts recorded on the cash register tapes to deposits according to bank validated deposit slips. This table does not reflect any adjustments noted on the cash drawer reconciliations, such as the errors made in recording check and credit card sales. Its purpose is to show the discrepancies between the composition of receipts and deposits.

Date	<b>RECEIPTS – Cash Register Tapes</b>		<b>DEPOSITS</b>	
	<b>Cash</b>	<b>Checks</b>	<b>Cash</b>	<b>Checks</b>
8/99	10,713.40	3,130.11	11,669.82	3,727.04
7/99	9,850.39	3,320.77	8,314.05	3,472.72
6/99	7,465.42	2,194.19	4,942.59	2,402.07
Subtotal	28,029.21	8,645.07	24,926.46	9,601.83
12/98	3,361.38	4,216.00	3,291.23	4,515.31
11/98	3,263.83	1,238.55	1,758.43	1,256.78
10/98	4,158.30	1,390.38	3,479.29	1,973.85
9/98	5,539.86	1,862.88	6,861.44	3,761.10
8/98	11,236.70	4,023.69	9,940.10	4,148.81
7/98	9,735.66	3,347.15	7,185.18	3,617.02
Subtotal	37,295.73	16,078.65	32,515.67	19,272.87
Total	65,324.94	24,723.72	57,442.13	28,874.70

As shown above, during each of these periods when register tapes and deposit slips are available:

- less cash was deposited than recorded as being received, and
- more checks were deposited than recorded as being received.

The individual items included in four bank deposits were examined to determine whether the discrepancies

resulted from delayed deposits or appeared to be check for cash substitutions. The June 14, 1999 deposit included some December 1998 receipts; the January 24, 2000 deposit included receipts from both November and December 1999. Furthermore, checks that had not been recorded as receipts were in the June 28, 1999 and October 20, 1998 deposits. When checks are deposited that have not been recorded in the accounting records, cash receipts can be removed from the deposit and the loss be undetected. This type of occurrence is characteristic of a check-for-cash substitution scheme.

Two cash deposits, each for \$533, were made in January 1999 that were not reflected in the cash drawer reconciliation records. Therefore, the source of the cash that was deposited is not identified in the bookstore records. Even with these unidentified deposits, more than \$6,300 of bookstore cash receipts are missing.

The bookstore manager, in a written statement to us, confirmed that she is “solely responsible for the staffing, training, ordering, receiving, stocking, payables and accounting for the bookstore.” Besides her statement, review of the reconciliation and deposit records showed that the bookstore manager personally prepared or signed off on most of these records. Volunteers, student workers, and the bookstore manager operate the cash register, recording sales and collecting receipts. They also prepare the reconciliation between the cash register tapes and receipts on a daily or periodic basis. The bookstore manager signed off on the deposit section for approximately one-third of more than 300 reconciliations prepared between June 1998 and March 2000 (excluding January through May 1999). However, the bookstore manager initialed the deposit section of the reconciliation for 63 of 79 deposits prepared during this period (including January through May 1999). That is, she more frequently reviewed the reconciliation when a deposit was being made. Furthermore, she prepared all but 10 of the 79 deposits. The table below lists the shortages reflected on the reconciliations compared to cash shortages at the time of deposit.

Period	Cash Register Tapes	Cash – (Short) or Over	
		Reconciliation	Deposit
July 1998	9,386.47	(49.64)	(2,201.29)
August 1998	10,933.49	(42.51)	(993.39)
September 1998	5,176.24	43.72	1,685.20
October 1998	4,017.59	7.89	(538.30)
November 1998	3,128.83	6.67	(1,370.40)
December 1998	2,960.83	(55.19)	330.40
January 1999	(missing records)		
February 1999	(missing records)		
March 1999	(missing records)		
April 1999	(missing records)		
May 1999	(missing records)		
June 1999	7,280.85	16.50	(2,338.26)
July 1999	9,561.39	18.65	(1,247.34)
August 1999	10,410.52	(43.83)	1,259.30
September 1999	(missing records)		
October 1999	(missing records)		
November 1999	(missing records)		
December 1 to 22, 1999	(missing records)		
Dec 23 to 31, 1999	794.70	(18.70)	(19.49)
January 2000	1,921.35	(30.32)	(552.51)
February 2000	3,231.99	1.25	(599.50)
March 2000	3,517.09	3.31	1,086.26
<b>TOTAL for available records</b>	<b>72,321.34</b>	<b>(142.20)*</b>	<b>(5,499.32)*</b>

\* In determining the amount considered to be missing cash, we reduced the deposit shortage by the cash shortage identified during the reconciliation process. Thus, the net missing cash for the above time periods is \$5,357.12. In addition to the amounts shown in the table above, at least another \$431 was not deposited during the period of September 2, 1999 through December 22, 1999, and another \$513 for January through May 1999.

It is apparent that the cash was being taken after the reconciliation, and prior to deposit. For deposits missing cash, the following individuals prepared the deposits:

<u>Deposit Prepared By:</u>	<u>Analysis of deposits:</u>		
	<u>Missing cash</u>	<u>Excess cash</u>	<u>Net missing cash</u>
Bookstore manager	(\$7,807.85)	\$2,054.39*	(\$5,753.46)
Student worker 1	(\$ 774.87)	\$ 19.00	(\$ 755.87)
Student worker 2	\$ - 0 -	\$ 207.31	\$ 207.31
<b>TOTAL</b>	<b>(\$8,582.72)</b>	<b>\$ 2,280.70</b>	<b>(\$6,302.02)</b>

\* This amount includes two unidentified cash deposits of \$533 each in January 1999.

This information was provided to the Oregon State Police and to the Lincoln County District Attorney's office for their review.

## **VISA CARD PURCHASES**

While conducting an audit of the Oregon State University's procurement card program, certain purchases charged to the Hatfield Marine Science Center bookstore's card were identified as appearing to be personal charges. In early October 1999, we made an on-site visit to obtain documentation for the charges and to review procedures for card usage.

During this review, the bookstore manager agreed that most of the identified items were personal purchases. Of 49 charges from one particular vendor, she identified 47 that were personal purchases. She stated that these charges were to be placed against her personal credit card, but the vendor erred and charged the official bookstore card. The purchases were made in February and March 1999 and totaled \$886.73. The bookstore manager stated that she tried getting the charges moved to her personal card, then failing that, finally reimbursed these charges with a personal check. Her supervisor, the business manager, separately told us that the bookstore manager had repaid these charges with a personal check. When we requested the canceled personal check, the bookstore manager was unable to provide one.

A week later, the business manager told us the bookstore manager had actually repaid the amount in cash. When asked for a copy of the cash receipt, the business manager stated that because the bookstore manager had come in to pay as the business office's deposit was being prepared, a receipt was not given to her. Shortly thereafter, however, he provided an unnumbered, loose cash receipt slip stating that \$886.73 was received from the bookstore manager. The cash receipt slip was dated July 14, 1999; its entry into the accounting records dated July 21.

While reviewing the bookstore's cash receipt and deposit records during this period, we determined that a cash shortage of \$1,377.73 occurred on June 29, 1999.

Records at both the bookstore and the business office are inadequate to provide assurance that the bookstore manager repaid her personal charges on the official bookstore credit card with personal funds.

**We recommend** that OSU require HMSC to maintain proper accounting records, particularly when transactions involve employee reimbursements.



## **CHAPTER 2: MANAGEMENT AND ACCOUNTING CONTROLS**

During the audit at HMSC, we noted that internal controls over cash are weak, both at the Bookstore and at the Business Office. Effective internal controls over cash collections are necessary to prevent mishandling of funds and to safeguard against loss.

### **BOOKSTORE**

Controls should be improved in the following areas:

- The Bookstore manager is responsible for cash transactions from beginning to end. The manager performs cashiering duties in the Bookstore and is also responsible for preparing and making deposits, and reconciling records. This does not provide necessary segregation of duties to safeguard cash.
- The business manager does not review the reconciliations of cash receipts and deposits.
- Deposits are not made in a timely manner. We noted deposits held from several days up to seven weeks. Cash deposits were most notably delayed during the months of November and December 1999, coinciding with the holiday season. Check deposits also were delayed during the same time periods. Additionally, a deposit for \$569.30 consisting of 16 checks received in December 1998 was not deposited until June 1999, six months later. Timely deposits help prevent loss of funds and make funds available for program purposes.
- Checks made payable to HMSC employees were deposited into the HMSC Bookstore account, indicating that checks were being cashed from the drawer. Accountability is more difficult when receipts are not maintained intact. Other provisions should be made for cashing employee checks.
- Checks received from other agencies are not being receipted. Checks were received from the Oregon Department of Fish and Wildlife and the Oregon Department of Transportation that were deposited but were not recorded on cash register tapes, nor

were they recorded in cash drawer reconciliation records. Accountability for transactions is not established when sales are not recorded.

- The Bookstore office where cash is kept is not secured. Additionally, the manager, assistant manager, and some of the volunteers all have access to the cash box key. As few persons as possible should have access to undeposited cash.
- Records are not adequately maintained. Cash register tapes for September 2, 1999 through December 22, 1999, and for January and May 1999 were missing. Additionally, several register tapes were missing from the period of February through April 1999. Further, cash drawer reconciliation records were incomplete for five of the 21 months that were audited. Thus, reconciliations and transactions were more difficult to verify.

## **BUSINESS OFFICE**

The following cash controls can be improved:

### **Cash receipts**

- Cash received by the HMSC Business Office is not always receipted.
- Cash receipts are not pre-numbered.
- The record copies of cash receipt slips were torn from the receipt book after they were written. As a result, accountability is not ensured.

### **Donation Box receipts**

- OSU Foundation cash donations are generally handled solely by the HMSC Business Manager. As a general rule, the Business Manager empties the donation box, prepares and makes the deposits, and maintains spreadsheet records showing daily receipts. An exception to this occurs during the summer months, when an intern is responsible for counting the cash and preparing the deposit.

- Independent, supervisory review of the related record keeping does not occur.
- Deposits are not always made in a timely manner; deposits are generally not made daily and sometimes not made within a week's time.

For both the bookstore and the business office, HMSC and OSU management should ensure that roles and responsibilities in the cash handling process provide segregation of duties and establish accountability.

**We recommend** that OSU ensure HMSC follow fundamental rules to establish accountability for cash receipts, including the following:

### **Collection of cash**

Establish control over cash receipts immediately.

- All cash received should be recorded on the cash register or a pre-numbered receipt, with a copy being given to the customer and a duplicate record being retained.
- Cash register tapes and other receipt records should be maintained in a secure location.
- Restrictive endorsements should be made on all checks as they are received.
- For the donation box receipts, two people should be present when cash is emptied from the box and counted.

### **Balancing of cash receipts**

- All cash collected must be balanced daily by comparing the total of the cash, checks, and credit card receipts to the cash register totals.
- A record should be maintained of all cash shortages or overages with explanations for all differences.

### **Preparation of deposits**

- All checks, cash and credit card receipts must be stored in a safe or other secure place until they are deposited.
- Someone not involved with collecting the cash should prepare the deposit. The bank deposit slips, cash receipt records, and any reconciliations should be retained in a secure location.
- Deposits should be made promptly, when a designated amount of receipts has accumulated, or at least once a week.
- The moneys received should be deposited intact, that is, in the form originally received. Each deposit should include all moneys collected since the previous deposit. Checks should not be cashed out of official receipts.

### **Reconciliations**

- An employee who has no cash handling responsibilities should reconcile cash register totals and prenumbered receipts to deposit slips. This should include verifying the composition of deposits to the composition of receipts.

## **COMMENDATION**

The courtesies and cooperation extended by the officials and staffs of Hatfield Marine Science Center, Oregon State University and the Oregon University System during the course of this review were commendable and sincerely appreciated.

## **AUDIT TEAM**

Sharron Walker, CPA, CFE, Deputy Director  
James D. Pitts, Audit Administrator  
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**AGENCY'S RESPONSE TO THE AUDIT REPORT**





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June 18, 2001

John Lattimer, Director  
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**RE: AUDIT RESPONSE, HATFIELD MARINE SCIENCE CENTER**

Dear John,

Attached is Oregon State University's response to your audit of the Hatfield Marine Science Center. We concur with a number of your suggestions and have implemented many, as recognized in our response.

We appreciate the opportunity to provide our views on your findings and strengthen existing control systems.

Sincerely,

A handwritten signature in cursive script that reads "Robert M. Specter".

Robert M. Specter  
Vice President for Finance and Administration

RMS:pje  
Enclosure

c: Joe Cox, Chancellor, Oregon University System  
Paul Risser, President, Oregon State University  
Tim White, Provost and Executive Vice President, Oregon State University  
Patricia Snopkowski, Director, Oregon University System Internal Audit Division

## OREGON STATE UNIVERSITY RESPONSE

### State of Oregon Audit Division, Hatfield Marine Science Center Audit

#### **VISA Card Purchases**

##### ***Finding***

1. Inappropriate use of HMSC Bookstore's procurement card for personal purchases during the period February and March of 1999.

The University's procurement card program has substantially changed since the winter of 1999. New policies and procedures were implemented, new guidelines were written and distributed through the University's website, and the Business Affairs Payables department, with direct responsibility for oversight of the purchasing card program has been reorganized. Two specifically identified Accounting Technicians have been assigned to review monthly purchasing activity logs from the departments.

All of these changes have substantially reduced the risk of inappropriate use of HMSC Bookstore's procurement card along with all other cards in use across the OSU campus. This was reported on extensively in our response to the Secretary of State Audit Division's Review of Selected Operations in September of 2000. OSU's response was dated October 16, 2000.

#### **HMSC Bookstore**

##### ***Findings***

1. Inadequate segregation of duties
2. No review of reconciliations by Business Manager
3. Deposits not made in timely manner
4. Checks payable to employees cashed by bookstore
5. No receipt records for checks from other state agencies
6. Cash not secured adequately
7. Missing cash register tapes and reconciliation reports

##### ***Response***

Since spring of 2001, the cash reconciliation and deposit processes for Hatfield Marine Science Center (HMSC) have been completely revised with the arrival of a new HMSC Business Manager. For the bookstore, the following daily procedures are performed:

- At the close of each business day, the cash register is “Z’d” out. Two staff personnel, and occasionally one staff personnel and a volunteer, complete a balance and reconciliation process. The cash drawer is then balanced.
- The day’s cash receipts are recorded on a preprinted reconciliation sheet. The totals from the “Z” tape are recorded on the reconciliation sheet and balanced with the cash receipts. Overages/Shortages are verified and recorded. Both people initial the recorded information.
- The day’s cash receipts are placed in a bank bag, which is placed in a locking bank bag and kept in the bookstore safe awaiting deposit. The currency from the cash drawer is placed in a bank bag and stored in the safe.
- The HMSC Business Manager verifies the reconciliations and prepares the deposits for the Bookstore on a weekly basis. At the time of preparing the deposit and verifying the reconciliations, the remaining Bookstore cash advance, which is kept in a cash box in the safe, is verified.

Note that cash receipts are always in dual custody during the daily balancing process, and that both custodians initial ending balances. In addition, the HMSC Business Manager verifies ending balances prior to deposit. The new bookstore manager then periodically reviews deposits for completeness. We would also like to note that the HMSC Business Manager prepares daily deposits. We enhanced the security of the cash by the daily use of a bank bag, and storage in the safe. We believe that these procedures provide sufficient segregation of duties, ample review of reconciliations by the HMSC Business Manager, eliminate the risk of missing records from week-to-week, and increase the security of the cash on hand overnight.

Other Bookstore procedure revisions include the prohibition of cashing checks payable to employees at the bookstore, and the production of written cash handling procedures for Bookstore personnel.

## **Business Office Cash Receipts**

### ***Findings***

1. Cash received not always recorded
2. Cash receipts not pre-numbered
3. Copies of cash receipts not retained

### ***Response***

Other cash receipt and deposit activities at HMSC that have been revised are as follows:

- The Housing Coordinator records Housing and Room Rental receipts in a duplicate receipt book. Almost all of the payments are made by check since cash payments are discouraged. The Housing Coordinator brings all checks to the Business Office to be kept in the safe. She then records her cash receipts in the Housing Cash Log.
- On a weekly basis, the HMSC Business Manager obtains a copy of the Housing Cash Log, verifies the cash receipts and prepares the bank deposit. A Business Office staff member takes the deposit to the bank, and the housing coordinator periodically verifies deposits to accounting records.
- Education Program fees are recorded in a duplicate receipt book by the program's Administrative Assistant. Invoices or registration forms for participation in the programs are noted with index and account codes for deposit. Almost all of the payments are made by check since cash payments are discouraged. The payment information is recorded in the cash log.
- The Administrative Assistant brings all checks to the Business Office to be kept in the safe. On a weekly basis, the HMSC Business Manager obtains a tape from the cash log, verifies the cash receipts and prepares the bank deposit. A Business Office staff member takes the deposit to the bank. The Administrative Assistant periodically verifies deposits to accounting records.
- Vending machines are emptied periodically, as needed. The currency is counted and the coins are taken to the bank for counting by machine. A receipt is written in the Business Office receipt book for the total of the deposit. Currency and coins are stored in the Business Office safe awaiting deposit. A member of the Business Office staff makes deposit.
- Miscellaneous cash payments are recorded in the Business Office receipt book. All receipts, cash and checks, are recorded in the Business Office cash log. All receipts awaiting deposit are kept in the Business Office safe. Business Office staff makes deposits at least once weekly.

Weekly deposits are made when amounts do not warrant daily deposits.

The HMSC Business Manager has produced written cash handling procedures for Business Office personnel. We believe that the implementation of the procedures identified above ensures that receipt records are comprehensive and reliable allowing HMSC to maintain a complete audit trail for its cash receipts.

### **Business Office Donation Box Receipts**

#### ***Findings***

1. Inadequate segregation of duties in preparing deposit of donation box receipts
2. Deposits not made in a timely manner

#### ***Response***

Donation box cash receipt and deposit activities at HMSC that have been revised are as follows:

- The donation box in the Visitor's Center is emptied on a daily basis with two people present, no exceptions. The donations are counted in the Business Office with two people present and recorded on a spreadsheet. The donations are held in the Business Office safe awaiting deposit.
- Deposits are made on a regular basis, at least weekly, by one of the Business Office staff. Weekly deposits are made when amounts do not warrant daily deposits.
- The deposits are reconciled on a monthly basis by the Visitor's Center Administrative Assistant.

We believe that these procedures provide sufficient segregation of duties as well as improving the timeliness of the deposits.



## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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