



INTERNAL AUDIT REPORT

K-CASH PROCESSES AND INTERNAL CONTROLS

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Internal Audit Department**

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EXECUTIVE SUMMARY

Overall, Internal Audit determined that there has been a lack of adequate internal controls over the K-Cash deposit and collection processes. Implementation of our recommendations should improve processes, internal controls, and compliance with policies, laws, and regulations.

This executive summary provides an overview of our audit observation and audit comment. The audit observation is explained in detail in the Audit Observation section of this report. The audit comment is explained in detail in the Audit Comments and Recommendations section of this report. Rating scales from the Board of Regents for individual audit comments (i.e., Material) are described in more detail in the Appendix. The Business Procedures Manual, Follow-Up Review, Section 16.3.7, states that, “Follow-up is required of all audit issues classified as significant or material. Each material issue reported as closed/resolved by institution management shall be reviewed by Internal Audit within sixty (60) days of the issue being reported as closed.”

- **Audit Observation**

Lack of adequate internal controls over K-Cash processes prior to calendar year 2011.

A lack of adequate internal controls resulted in approximately \$70,000 of cash being reported as missing during the period February 2010 through October 2010.

- **Audit Comment: Material**

Lack of adequate internal controls over the current K-Cash processes.

The lack of adequate internal controls over current K-Cash processes increases the risk that a loss or misappropriation of public funds may occur and not be detected in a timely manner.

INTRODUCTION

This audit report on KSU’s K-Cash processes and internal controls presents our audit comments and recommendations, along with management’s responses and our evaluation of their responses. Management provided their responses to Internal Audit in November 2011.

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ORGANIZATIONAL STRUCTURE

The K-Cash processes and related internal controls are managed by Auxiliary Services and Programs (ASaP). The departments that are managed by ASaP include the Bookstore, Culinary and Hospitality Services, Parking & Transportation and Copy/Print vending. Prior to December 2010, ASaP was one department within the Financial Services Office. Since December 2010, ASaP has been supervised by the Vice President for Operations. Shown below is ASaP’s organizational structure:

Vice President for Operations			
Executive Director of Auxiliary Services and Programs			
ASaP Overhead	Bookstore	Culinary and Hospitality Services	Parking & Transportation
<ul style="list-style-type: none"> • One Assistant Director of Financial Services • One Associate Director of Compliance • One Marketing Manager • Two ITS Specialists • Two Accountants • One Office Manager • One Administrative Assistant 	<ul style="list-style-type: none"> • One Director • One Associate Textbook Director • One Assistant Director of General Merchandise • One Business Manager • One General Merchandise Manager • One Sales Floor Manager • One OwlTEC Computer Store Manager • Two Accountants • Three textbook buyers/operational staff members • One Administrative Assistant (Logistics) • One General Merchandise and Trade Buyer • One Cashier Supervisor • One Clinique Sales Associate • One Cashier Supervisor • One Full-Time Cashier • 20-80 Student Assistants 	<ul style="list-style-type: none"> • One Director • One Assistant Director • One Culinary Manager • One Marketing Manager • One Catering Manager • One Manager of Campus Vending and Farm Initiatives • One Meal Plan Specialist • One Administrative Assistant • Approximately 200 External Vendor Employees (Sodexo) 	<ul style="list-style-type: none"> • One Director • One Manager • One Administrative Associate • Five Staff Members from Two External Vendors

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BACKGROUND INFORMATION

KSU began installing K-Cash machines on campus in July 2005. Initially, the machines were only used to load value onto ID cards and/or guest cards to facilitate using the campus' copiers and printers. Value was added to the cards by first inserting a card into the machine and then inserting the desired amount of cash. Eventually, the value on the cards could also be used to purchase items from various campus locations (Bookstore and retail food outlets) as well as meals at the Commons dining hall. The machines are supported by a software program called Multiplan, which continually tracks the transactions that occur in the K-Cash and Copy/Print machines and produces reports that show detailed information regarding the activity for each machine.

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AUDIT SCOPE AND OBJECTIVES

We conducted our examination in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Our audit scope and objectives addressed:

- Adequacy, integrity, and effectiveness of K-Cash internal controls.
- Level of compliance with Kennesaw State University and Board of Regents policies, procedures, and regulations.

Our review of the K-Cash processes and internal controls focused on:

- Identifying material control weaknesses that were inherent in the K-Cash collection and deposit processes prior to calendar year 2011.
- Identifying control weaknesses within the current K-Cash collection and deposit processes.
- Making recommendations for improvement.

During our review, we considered the internal control standards prescribed by the Committee on Sponsoring Organizations (COSO) and recommended by the Institute of Internal Auditors. COSO defines internal control as having the following five components:

1. **Control Environment** – The attitude that staff and management have regarding the importance of establishing and complying with strong internal controls. The control environment sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
2. **Risk Assessment** - the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.
3. **Information and Communication** - systems or processes that support the identification, capture, and exchange of information in a form and period that enables people to carry out their responsibilities.
4. **Control Activities** - the policies and procedures that help ensure management directives are carried out responsibly.
5. **Monitoring** - processes used to assess the quality of internal control performance over time.

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AUDIT OBSERVATION

NOTE: This observation warrants management’s attention, but does not require a written response.

Lack of adequate internal controls over the K-Cash processes prior to calendar year 2011

During our review of K-Cash processes prior to calendar year 2011, we determined that internal controls were inadequate to mitigate the risks associated with the collection and deposit of cash from the K-Cash machines. As a result, approximately \$70,000 of cash was reported as missing during the period February 2010 through October 2010.

One of the key processes related to the K-Cash machines is the collection and deposit of the cash that is inserted into the machines. During fiscal years 2010 and 2011, K-Cash machine users deposited, on average, approximately \$227,000 each fiscal year into the eight machines located throughout the campus. The machines are designed to only accept a certain amount of cash before they reach full capacity and will no longer accept any more bills. To prevent the machines from reaching full bill capacity and to avoid accumulating large sums of cash, the cash in the machines must be periodically removed and deposited at the Bursar’s office.

On October 23, 2009, Business Services contacted ASaP’s Director of Accounting and requested that the Director of Accounting begin performing monthly reconciliations on the “Other Liability K-Cash” account (219802). Prior to this date, ASaP Accounting was only performing annual reconciliations on this account at the end of each fiscal year. The purpose of the reconciliations was to identify any differences between the amounts reported in Multiplan and the amounts reported in the General Ledger (deposits). ASaP Accounting did not comply with the request to perform monthly reconciliations and did not perform another reconciliation until the end of the fiscal year (June 2010). The reconciliation performed in June 2010 and submitted to Business Services initially showed a cash balance difference of \$32,922 between Multiplan and the General Ledger. Although ASaP Accounting realized that the difference could be the result of a cash shortage, they did not conclude that the entire difference was the result of missing cash since there were non-cash transactions that could affect this account. ASaP Accounting consulted with ASaP’s Associate Director of Technical Services (ADTS) to determine if he could provide an explanation for the difference identified by the reconciliation. The ADTS, who was responsible for monitoring the collection of cash from the K-Cash machines, indicated that he believed there were errors on two lines of the reconciliation. Initially, the “Meal Plan Testing” and “Department Card” lines on the reconciliation showed cash amounts of \$0.00; the ADTS indicated that the amounts reported on these lines should have been \$595 and \$29,822, respectively. ASaP’s Director of Accounting assumed that the ADTS was correct and inserted these amounts into the

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reconciliation. As a result, the revised reconciliation that was resubmitted to Business Services showed that there was only a cash balance difference of \$2,522 between Multiplan and the General Ledger and this is the amount that was posted to ASaP's account. In later months, it was determined that most of the \$32,922 difference between Multiplan and the General ledger that was reported on the first reconciliation was likely attributable to cash that was collected from the K-Cash machines but not deposited at the Bursar's office.

About eleven months after Business Services initially contacted ASaP's Accounting Department regarding the completion of monthly reconciliations on the "Other Liability K-Cash Account," Business Services contacted the Accounting Department on September 20, 2010, and asked them again to begin performing monthly reconciliations. Since the Accounting Department did not perform monthly reconciliations, they were not aware that the cash shortage had grown from about \$33,000 in July 2010 to about \$70,000 in October 2010.

As a result of the \$70,000 in missing cash, Business Services contacted KSU's Public Safety Office on November 23, 2010, to request that video tapes for cameras on the K-Cash machines be pulled for review and ASaP contacted the Public Safety Office on November 29, 2010, to initiate an investigation. The Public Safety Office investigation report, dated December 10, 2010, concluded that, "...due to a lack of procedures that would have logged the identity of an individual accessing the machine and making deposits, criminal charges are not possible and all evidence is circumstantial."

In July 2011, Internal Audit began our audit of the K-Cash processes and internal controls. We interviewed individuals who were associated with the process of collecting and depositing cash from the K-Cash machines prior to calendar year 2011 to facilitate the identification of potential control weaknesses. Our review disclosed that, prior to calendar year 2011, there were numerous internal control weaknesses that contributed to the misuse, diversion, or theft of \$70,000 cash. The 14 primary internal control weaknesses are discussed below:

1. The ASaP Accounting Department was not performing monthly reconciliations on the cash that was being collected and deposited from the K-Cash machines. The reconciliations should have been performed monthly to verify that the amount of cash that was inserted into the machines was equal to the amount of cash that was deposited at the Bursar's office. Reconciliations were performed at the end of each fiscal year to determine if the amounts reported in Multiplan were consistent with the amounts reported in the General Ledger; however, monthly reconciliations did not begin until October 2010.

It should be noted that, if monthly reconciliations had been performed on a regular basis, any missing cash would likely have been detected by the end of the month in which the cash was missing. Thus, the cash that was missing in February 2010 would have been detected by the end of February 2010. Additionally, if ASaP Accounting had performed adequate research to determine the cause of the \$32,922 out-of-balance

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amount shown on the initial reconciliation performed in June 2010, they would have known that the cash was missing at that time.

2. The ASaP Accounting Department did not notify the Bursar's office to expect K-Cash deposits at regularly scheduled intervals. If the Bursar's office had been expecting deposits at regular intervals, they would have detected that only minimal deposits were made during the period February 2010 through October 2010. It should also be noted that the Bursar's office did not notice that the number of cash deposits had significantly decreased during the period February 2010 through October 2010 even though they had been consistently receiving cash deposits prior to this period.
3. The keys to the K-Cash machines were not adequately safeguarded. Some machine keys were kept in unlocked desk drawers, backpacks, and automobiles. Since there was no requirement to sign-out the machine keys, there was uncertainty as to who had possession of the keys. Additionally, the keys could be easily duplicated, either by taking a key to a locksmith or by providing a locksmith with the key number.
4. The cash in the K-Cash machines was unsecured inside the machines. Upon opening the machines, the cash was immediately visible and could easily be removed from the landing tray by the person opening the machine.
5. Cash was being collected from the machines by only one person. Another person was not present when cash was being collected to help ensure the cash was taken directly to the safe at ASaP's office location.
6. After being collected from the K-Cash machines, the cash was stored in a safe at ASaP's office. The cash was accumulated until there was approximately \$8,000 to \$10,000 and then it was taken to the Bursar's office for deposit. This process exposed KSU to an additional risk of theft.
7. The cash was not counted before it was taken to the Bursar's cashier for depositing.
8. The cash was taken to the Bursar's cashier by only one person.
9. Upon receipt of the cash, the Bursar's cashier did not count the money in front of the person depositing the cash. Instead, a manual receipt was given to the depositor for the amount shown on the K-Cash machine tape and the cash was placed in a safe and counted by a cashier by the next business day. After the cash was counted, the cash was posted into Banner and then deposited by a Bursar's office employee. A copy of the Banner entry was sent to ASaP and served as the receipt for the deposit.
10. Only one Bursar's Office employee counted the money from ASaP without another employee witnessing the count. If the amount counted for each machine did not match

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the amount on the K-cash machine tape, another employee was summoned to recount the cash. Cameras located throughout the Bursar's office help to identify potential perpetrators after an alleged theft has occurred if the video footage is still available for viewing.

11. ASaP Accounting did not retain K-Cash machine tapes or deposit receipts from the Bursar's office. The tapes and receipts were previously retained in a notebook that was maintained by ASaP's (former) Director of Technology Services, until he resigned in February 2010. After the Director of Technology Services resigned, the Director of Accounting did not believe it was his responsibility to retain these documents, tapes, and receipts. Business Services indicated that the Bursar's office maintained a record of all receipts issued for K-cash deposits.
12. The process of collecting and depositing cash from the K-Cash machines was not adequately monitored after the Director of Technology Services resigned in February 2010.
13. Video footage showing activity at the K-Cash machines was only available for two weeks after the footage was recorded.
14. Some employees had the ability to alter the information in Multiplan to create the appearance that there was less cash in the machine than what should have been in the machine.

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AUDIT COMMENTS AND RECOMMENDATIONS

Audit Comment: Material

Lack of adequate internal controls over the current K-Cash processes

During our review of the current K-Cash processes, we determined that ASaP and Business Services implemented new internal controls associated with the cash collection and deposit processes. However, there is still a lack of adequate internal controls to mitigate the risks associated with the handling of the cash from the K-Cash machines. Inadequate internal controls over cash handling increases the risk that a loss or misappropriation of public funds may occur and not be detected in a timely manner.

After it was discovered that approximately \$70,000 of cash was missing from the K-Cash machines during the period February 2010 through October 2010, ASaP and/or Business Services implemented the following new internal controls in calendar year 2011:

1. The cash inserted into the K-Cash machines goes into a locked metal canister inside the machine. Therefore, the cash is not visible or accessible when the machine is opened by a person.
2. The keys to the K-Cash machines are more secure. For example:
 - a. The keys to the machines are kept in a single location at ASaP and must be signed out.
 - b. The keys cannot be retained overnight or during the weekend by the individuals who signed them out.
 - c. The keys (one master key and one backup key) that open the cash canisters are kept in a safe in the Bookstore Business Manager's office.
3. There are two people that collect the cash together and take the cash canisters to the Bookstore Business Manager.
4. The Bursar's office developed a schedule that indicates the dates on which K-Cash deposits should be made. If deposits are not made on the scheduled date, the Bursar contacts ASaP to investigate the missed deposits.
5. Since April 2011, the Reporting & Compliance area of Business Services monitors the deposit log that the Bursar's office maintains for K-Cash deposits.
6. Cash from the K-Cash machines is no longer being stored in the safe at ASaP.

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Although some progress has been made to strengthen internal controls, Internal Audit identified the following internal control weaknesses over the current K-Cash processes and the risks that ASaP management assumes as a result of these weaknesses:

1. The monthly K-Cash reconciliations do not include a line item entitled “Cash Over or Short” to facilitate immediate identification of missing cash. The reconciliations that ASaP Accounting performs each month are complex as they include a summary of all items that affect total revenues (e.g., declining balances, meal plans, guest cards, etc.). The reconciliations, however, do not provide a simple summary of cash transactions. It should be noted that the amount of cash that should have been deposited during the month could easily be determined by subtracting the grand totals that were shown on the machine meters at the beginning of the month from the grand totals shown on the meters at the end of the month and then accounting for minor differences. **Risks: The current reconciliations could result in missing cash not being detected in a timely manner since they do not readily show if cash is missing.**
2. The cash from the K-Cash machines is being collected and deposited by two individuals who are employed by the vendor (MSA, Inc.) instead of by two KSU employees. The primary responsibility of these vendor individuals is to maintain the K-Cash machines and not to perform cash collection and depositing services directly for KSU. **Risks: KSU assumes a liability risk resulting from the possibility that these non-KSU employees could be injured or could leave the campus with the canisters containing the cash from the K-Cash machines.**
3. Upon receipt of the cash, the Bursar’s cashier did not count the money in front of the person depositing the cash. Instead, a manual receipt was given to the depositor for the amount shown on the K-Cash machine tape and the cash was placed in a safe and counted by a cashier by the next business day. After the cash was counted, the cash was posted into Banner and then deposited by a Bursar’s office employee. A copy of the Banner entry was sent to ASaP and served as the receipt for the deposit. **Risks: The amount of cash that is counted could be less than the amount that should be in the canisters and it would be difficult to determine why the cash was missing.**
4. Only one Bursar’s Office employee counted the money from ASaP without another employee witnessing the count. If the amount counted for each machine did not match the amount on the K-cash machine tape, another employee was summoned to recount the cash. Cameras located throughout the Bursar’s office help to identify potential perpetrators after an alleged theft has occurred if the video footage is still available for viewing. **Risks: The amount of cash that is counted could be less than the amount that should be in the canisters and it would be difficult to determine who took the missing cash.**

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5. Video footage showing activity at the K-Cash machines was only available for two weeks after the footage was recorded. **Risk: Video footage is not available for review in the event that the monthly cash reconciliations reveal that there is a cash shortage.**
6. ASaP has not assigned a specific management employee to monitor the collection and deposit of cash from the K-Cash machines. **Risk: Lack of management oversight over the cash collection and deposit processes could result in proper policies and procedures not being consistently followed.**
7. Some employees have the ability to alter the information in Multiplan to create the appearance that there is less cash in the machines than what should be in the machines. **Risk: Theft of cash could occur because Multiplan reports will not show the actual amount of cash that should be in the machines.**
8. Multiplan is not user-friendly and it is not easy to query reports that could be used to monitor K-Cash machine activity. **Risk: Reports that accurately depict K-Cash machine activity may not be readily generated. This could result in management not being aware of either questionable machine activity or inaccurate financial reporting in a timely manner.**
9. There are currently 36 keys that can be used to open any of the cash canisters. **Risk: Having an excessive number of extra keys to open the cash canisters could result in keys being lost and/or individuals having improper access to the cash inside the canisters.**

Recommendations:

To help strengthen controls over K-Cash processes, we recommend that ASaP develop and implement written policies and procedures, which should include ongoing monitoring of the processes by ASaP Accounting management, to ensure that:

1. The monthly cash reconciliations include a line item entitled “Cash Over or Short.” The reconciliation of cash transactions should be transparent and should only include relevant information regarding the cash that was inserted into the machines and the cash that was deposited with the Bursar.
2. Two specific KSU employees, with one alternate employee, are assigned the responsibility of collecting and taking cash deposits to the Bookstore Business Manager. No other employees should collect and take the cash to the Bookstore Business Manager unless there is a legitimate reason and they are approved by the Assistant Director of ASaP Financial Services. Additionally, the two assigned

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employees should always accompany each other during the collection and transporting of cash.

3. The Bookstore Business Manager and a cash collector count the cash inside the canisters together. The Bookstore Business Manager and the cash collector will complete and sign a Deposit Transmittal Form. The cash collector will provide a copy of the Deposit Transmittal Form to the ASaP Accountant, who will reconcile the amounts on the transmittal form to the K-Cash machine tapes and the Bursar's Banner receipt. The Bookstore Business Manager will present the cash and Deposit Transmittal Form to the Bursar's cashier on the same day that the cash is received. If the Bursar's office is closed when the Business Manager receives the cash, the cash will be brought to the Bursar's cashier no later than the next business day. The Bookstore Business Manager will observe the Bursar's cashier counting the cash and verify that the total amount of cash counted agrees with the Deposit Transmittal Form. The Bursar's cashier will verify the deposit in front of the Bookstore Business Manager and provide a Banner receipt to the Bookstore Business Manager.
4. A cost-benefit analysis is performed to determine the reasonableness of extending video footage availability to one month for those cameras that record K-Cash machine activity. This would ensure the footage is still available in the event that the monthly cash reconciliations reveal cash shortages.
5. A specific management official is assigned to monitor the collection and deposit of cash from the K-Cash machines and the related reconciliations. The assigned management official should understand that they would be held accountable in the event that the K-Cash processes are not adequately monitored.
6. The Multiplan vendor is contacted to facilitate restricting access to the field that changes the "Bill Count" date range (this is the field that allows users to create the appearance that there was less cash in the machine than what should have been in the machine).
7. The Multiplan Administrator works with the Multiplan vendor to facilitate generating reports that readily show K-Cash machine activity at any given point in time.
8. The Bookstore Business Manager takes 34 of the 36 canister keys to KSU's locksmith and witnesses the locksmith destroying the keys. The remaining two keys should be kept in the safe in the Business Manager's office.

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Management Responses:

1. We agree with the audit recommendation. The individual who will be primarily responsible for implementing this recommendation is ASaP's Accounting Professional III. We will accomplish this by matching or comparing the insertions of K-Cash, as shown on the K-Cash machine tapes, to the receipt and deposit documents provided by the cash collectors and the Bursar's office. This will be done for every K-Cash collection and deposit. We began performing reconciliations in December 2010; however, these reconciliations did not include a separate section for cash reconciliations.
2. We agree with the audit recommendation. The individual who will be primarily responsible for implementing the recommendation is ASaP's Assistant Director of Financial Services. The primary individuals who will be collecting cash from the K-Cash machines are the Assistant Manager of the Bookstore and an individual from Public Safety. Additionally, two other individuals, the Bookstore's Textbook Sales Floor Manager and Materials Manager III, will serve as back up cash collectors in the event that one or both of the primary individuals are not available. The date by which this recommendation will be implemented is November 14, 2011.
3. We agree with the audit recommendation. The individual who will be primarily responsible for implementing the recommendation is ASaP's Assistant Director of Financial Services. We will accomplish this by informing the cash collectors and the Bookstore Business Manager that they will be required to follow the procedures documented in recommendation number three above. The date by which this recommendation will be implemented is December 1, 2011.
4. We agree with the audit recommendation. The individual who will be primarily responsible for implementing the recommendation is the IT Systems Support Professional III in KSU's Office of Strategic Security & Safety/Enterprise Risk Management. We will accomplish this by contacting the Assistant Vice President for Strategic Security & Safety/Enterprise Risk Management and recommending that an analysis be conducted to evaluate the benefits and related increased costs of extending video footage to one month. The information regarding cost should be communicated to the Executive Director of Auxiliary Services no later than October 31, 2011. Unless entirely cost prohibitive, the extended video footage should be in place by January 31, 2012.

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5. We agree with the audit recommendation. The individual who will be primarily responsible for implementing the recommendation is ASaP's Assistant Director of Financial Services. The date by which the recommendation will be implemented is November 11, 2011. This process was managed by ASaP's Assistant Director of Technology Services prior to January 2011 and by various individuals from February through October 2011.

6. We agree with the audit recommendation. The individual who will be primarily responsible for implementing this recommendation is the Associate Director of Infrastructure & Server Support. The steps that will be taken to implement this recommendation are:
 - Recommend that ITS work with ITC to complete project and monitor progress.
 - Discuss the recommendation at the ITC User's Group Meeting on October 21, 2011.
 - Have ASaP's IT Systems Support Specialist II follow up with ITS to check on progress.

The date by which this recommendation will be implemented is March 31, 2012.

7. We agree with the audit recommendation. The individuals who will be primarily responsible for implementing this recommendation are ASaP's IT Systems Support Specialist II and Accounting Professional III. The latest date by which this recommendation will be implemented is June 30, 2012.

8. We agree with the audit recommendation. The individual who will be primarily responsible for implementing this recommendation is the Bookstore's Business Manager. The date by which this recommendation will be implemented is November 30, 2011.

Evaluation of Responses:

Satisfactory

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APPENDIX

BOARD OF REGENTS

Audit Comment Rating Scale

Significant = Significant violation of policies/procedures/laws and/or weak internal controls. Significant opportunity to improve effectiveness and efficiency. Significant risk identified. Corrective action required.

Material = Material violation of policies/procedures/laws, and/or unacceptable internal controls, and/or high risk for fraud/waste/abuse, and/or major opportunity to improve effectiveness and efficiency.