



***Carrie's Cafe
Cash Handling Procedures***

June 20, 2019

Office of Internal Audit and Risk Management



Missouri State[™]

U N I V E R S I T Y

DATE: June 17, 2019

TO: Wajeana G. White, Instructor

CC: Dr. Stephanie G. Hein, Head of Department of Hospitality Leadership
Dr. Tamera S. Jahnke, Dean of College of Natural and Applied Sciences
Dr. Frank A. Einhellig, Provost
Clifton M. Smart III, University President

FROM: Donna Christian, Director of Internal Audit and Risk Management
Natalie McNish, Senior Internal Auditor

Carrie's Cafe Cash Handling Procedures

BACKGROUND

On April 1, 2019, the Department of Internal Audit and Risk Management was notified by the Bursar's Office of cash reporting issues at Carrie's Cafe. Auditors coordinated a meeting to review the issues and possible resolutions on April 3, 2019. At that meeting, a decision was made to perform an audit of the cash handling procedures used at Carrie's Cafe.

Carrie's Cafe is a student-managed restaurant located on the fourth floor of Pummill Hall. Students enrolled in HSP 435 (Restaurant Management), through the Department of Hospitality Leadership in the College of Natural and Applied Sciences, design the menu, market the restaurant and prepare and serve the food. For the Spring 2019 semester, the restaurant is open on 15 specific dates during the hours of 11:30 am and 1:00 pm. The restaurant collects approximately \$12,000 to \$15,000 annually.

OBJECTIVE AND SCOPE

The objectives were to review cash handling of Carrie's Cafe. The scope included, but was not necessarily limited to, the Spring 2019 semester.

SUMMARY

Our audit included recommendations to record and deposit all money collected, retain all records in accordance with University policy, pay expenses through the University's established payment processes, and charge the appropriate sales tax rate to customers.



Donna K. Christian, CPA, CGFM,
Director of Internal Audit and Risk Management



Natalie B. McNish, CFE, CGAP
Senior Internal Auditor
Audit Field Work Completed: April 9, 2019

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Students registered in HSP 435 (Restaurant Management) complete all tasks related to the management and operations of Carrie's Cafe. Through its operations, customers purchase food and beverages, and leave tips. During our review of Carrie's Cafe, the following control weaknesses were identified:

1. Recording and Depositing

Tips paid by customers are not always deposited, but instead are held in cash by the instructor to be used to pay for meals for the class at the start and end of each semester. When tips are paid in cash the cash is withheld from deposits and not reported as income or transmitted to the University's Bursar's Office to be deposited. When tips are paid by check or credit card, the tip amount is withheld from cash sales when adequate amounts of cash is received. For example, during the first eight days of operation for the Spring 2019 semester, records show \$3,865 was recorded as food and beverage sales and credit card tips; however, only \$3,530 was deposited. The difference of \$335 was cash withheld from deposits. Any amounts paid for tips in cash are unknown and also not deposited.

On April 3, 2019, we counted a total of \$473 in cash being held by the Instructor that she identified as "tips." The University's Cash Handling Procedures policy (Op8.04) states, "all cash collected must be deposited at the bursar's office within one business day after collection/receipt of such money." To comply with University policy, all money received (including all tips) should be recorded and deposited.

2. Expenditures

Supporting documentation was not always retained for amounts spent from the cash tips held by the Instructor. These funds were to be used to purchase food for students at the beginning and the end of each semester. In addition, while some detailed receipts for prior purchases were retained, some receipts are unreadable and a list of participants served did not accompany each receipt. The University's Cash Handling Procedures policy (Op8.04) specifically prohibits the use of cash for expenditures and to properly document purchase of food for students, a list all individuals served (students/faculty/staff/etc.) must accompany a clearly itemized receipt. To comply with University policy, class meals should be paid through the University's normal expenditure process with the proper supporting documentation.

3. Record Retention

Some financial records, including the cash register drawer reconciliation forms, cashiering system reports, credit card summaries, and related records were destroyed which limited our review to the current semester. When records were obtained on April 3, 2019, records prior to November 13, 2018 had been destroyed. In accordance with the University's Records Retention Policy (Op8.18), these records should be retained for a period of 5 years.

4. Sales Taxes

The sales tax rate charged by the cafe between April 1, 2018 and April 8, 2019, was incorrect. The sales tax rate for this location changed from 7.6% to 8.1% on April 1, 2018; however, the cashiering system was not updated to reflect this change. As a result, customers were not charged correctly and the balance of sales tax due was paid from cafe revenues.

Further, in instances where credit card tips were reported and deposited, these monies were misreported as taxable sales which resulted in sales taxes being unnecessarily paid on these monies. To ensure sales taxes are appropriately collected and paid, the cashiering system should be updated to reflect the

proper sales tax rate and all monies deposited should be properly classified in the University's accounting system.

5. Change Fund

A \$150 change fund is maintained for Carrie's Cafe. The origin of this fund is unknown and the fund is not recorded as cash on hand in the University's accounting records.

Recommendations

1. All money received (including all tips) should be recorded and deposited. Class meals should be paid through the University's normal expenditure process.
2. Pay for class meals through the University's normal expenditure process and retain proper supporting documentation.
3. Retain all records in accordance with the University's Records Retention Policy (Op8.18).
4. Update the cashiering system to reflect the proper sales tax rate and properly classify taxable and nontaxable sales in the University's accounting system.
5. Notify Financial Services Office of the \$150 change fund.

Management's Response

The Hospitality Leadership Department Head provided the following management response:

The report has been reviewed by both the instructor and the department head. All recommendations noted in the report have been implemented this semester and paperwork has been updated.

Carrie's Cafe
Operating Results
Year ended June 30,

	2014	2015	2016	2017	2018	2019*
<u>Revenue</u>						
Sales - Taxable	\$ 12,770	\$ 12,583	\$ 14,380	\$ 13,288	\$ 11,150	\$ 12,273
Sales - Non-taxable	\$ -	\$ 230	\$ 1,275	\$ 372	\$ 1,066	\$ 2,589
Total Operating Revenue	\$ 12,770	\$ 12,813	\$ 15,655	\$ 13,660	\$ 12,216	\$ 14,862
<u>Expenses</u>						
Food	\$ 6,733	\$ 8,658	\$ 9,864	\$ 6,443	\$ 7,822	\$ 10,942
Sales Tax	\$ 902	\$ 889	\$ 1,016	\$ 939	\$ 806	\$ 834
Clothing	\$ 504	\$ 749	\$ 710	\$ 212	\$ 683	\$ 951
Laundry & Cleaning	\$ 1,553	\$ 1,768	\$ 747	\$ 1,377	\$ 1,577	\$ 1,497
Printing, Binding & Photos	\$ 93	\$ 142	\$ 119	\$ 157	\$ 151	\$ 272
Building, Supplies & Equipment	\$ 445	\$ 762	\$ 2,682	\$ -	\$ 1,524	\$ -
Service Agreements - Other	\$ -	\$ -	\$ 58	\$ 58	\$ -	\$ 1,495
Other	\$ 732	\$ 405	\$ 101	\$ -	\$ 327	\$ 554
Total Operating Expenses	\$ 10,962	\$ 13,373	\$ 15,298	\$ 9,186	\$ 12,890	\$ 16,545
Operating Profit (Loss)	\$ 1,808	\$ (560)	\$ 358	\$ 4,474	\$ (675)	\$ (1,683)
Beginning Fund Balance	\$ 5,533	\$ 7,341	\$ 6,781	\$ 7,138	\$ 11,613	\$ 10,938
Ending Fund Balance	\$ 7,341	\$ 6,781	\$ 7,138	\$ 11,613	\$ 10,938	\$ 9,254

* Revenues and expenditures for the 2019 year reflect deposits and payments posted as of June 11, 2019.