



STATE OF NORTH CAROLINA

SPECIAL REVIEW

**USS NORTH CAROLINA
BATTLESHIP COMMISSION**

WILMINGTON, NORTH CAROLINA

MARCH 1996

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

SPECIAL REVIEW

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WILMINGTON, NORTH CAROLINA

MARCH 1996

LETTER OF TRANSMITTAL

March 26, 1996

The Honorable James B. Hunt, Jr., Governor
Captain D. R. Scheu, Director
U.S.S. North Carolina Battleship Commission
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the U.S.S. North Carolina Battleship Commission. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General, and other appropriate officials.

Respectfully submitted,

Ralph Campbell, Jr.
State Auditor

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OVERVIEW

The U.S.S. *North Carolina* Battleship Commission operates and maintains the U.S.S. *North Carolina* “as a permanent memorial and exhibit commemorating the heroic participation of the men and women of North Carolina in the prosecution and victory of the Second World War...” The U.S.S. *North Carolina* is open to the general public on a daily basis for tours and also provides a gift shop.

The Commission has twenty-four permanent employees assigned to the maintenance and operation of the U.S.S. *North Carolina*. The Commission had total revenues of \$2,595,490 and total expenditures of \$2,518,778 for the fiscal year ending September 30, 1995.

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INTRODUCTION

In November 1995, we received a request from the North Carolina Battleship Commission to review a suspected embezzlement of funds.

We used the following procedures to conduct our special review:

1. Interviews with employees of the U.S.S. *North Carolina*.
2. Examination of daily receipt reports pertaining to admission receipts for the tour of the U.S.S. *North Carolina* during the time period of June 1995 through November 12, 1995.

This report presents the results of our special review conducted pursuant to G.S. §147-64.b(c)(16) rather than a financial audit. The Office of the State Auditor performs an annual financial audit of the U.S.S. *North Carolina*.

FINDINGS AND RECOMMENDATIONS

1. A SALES SUPERVISOR IN THE TICKET AND GIFT SHOP TOOK MONEY OUT OF THE U.S.S. NORTH CAROLINA'S DAILY RECEIPTS AND TRIED TO DISGUISE HIS ACTIONS BY VOIDING TRANSACTIONS.

According to the Accounting Technician I, (Accountant), she is responsible for accounting for all daily cash receipts. She said that cash receipts are derived from sale of admission tokens, souvenirs, items in the vending machines, and concession stand items (during the summer season). She said that the U.S.S. *North Carolina* implemented a computerized cash receipting system called VISTA in February 1995 to record all admission token sales. The VISTA system has two terminals located at the admission windows (token windows), one terminal in the Sales Director's Office, one terminal in the Promotion Director's Office, one terminal in the Comptroller's Office, and one terminal in the Accountant's office. The Accountant said that when visitors want to tour the U.S.S. *North Carolina* they must buy tokens at the front admission windows. The customers are given a token(s) and a receipt by the cashier. The customer must place the token(s) in the turnstile to enter the premises. The cashier places the cash received from the customers in one of the two cash drawers. At the end of the day, the closing supervisor on duty takes the cash in the tills out of the cash drawers. The supervisor removes all cash from the two tills except for the change funds. The cash is then bundled and placed in separate deposit bags. The deposit bags are stored in a safe until the next morning when they are delivered to the Accountant.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

After the cash is delivered, the Accountant counts the cash and compares the count to a daily receipt report that she prints off of the VISTA system. According to the Accountant, the closing supervisor does not have access to the daily receipt reports. They do print an activity report at the end of each day that gives the number of persons admitted (total adults, children, and school groups), but the report does not show detailed transactions. In addition, the closing supervisor checks the counter on the turnstile and sends the number to the Accountant with the cash each morning.

According to the Accountant, it is normal for the U.S.S. *North Carolina* to have cash overages and shortages during the summer months, but not during the winter season when the number of visitors is lower. When the overages and shortages continued into the winter of 1995, the Accountant became concerned and began to investigate.

The daily receipt report details the activity on Token Window 1 (TW1) and Token Window 2 (TW2). The Accountant said that she called the company that installed the software and told them of the problem with the overages and shortages. After much discussion they came to the conclusion that someone must be entering transactions from a terminal other than TW1 and TW2. The software company instructed her on how to run a report that detailed every transaction no matter where it was entered from. When she ran the report, she found that someone was entering transactions from the Sales Director's terminal. The user identification name on the report was that of one of the Sales Supervisors in the ticket and gift shop.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Accountant ran the reports from the day the VISTA system was implemented (February 1995) through November 1995. She determined that voids were only entered from TW1 and TW2 until June 1995. In June 1995, someone began voiding transactions in batches from the Sales Director's terminal under the Sales Supervisor's name. The Accountant informed the Director of the U.S.S. *North Carolina* who, in turn requested an investigation.

We discovered that these transactions were voided with a relatively lengthy period of time between the time the transactions were entered and the time they were voided. We determined that forty-nine voids totaling \$4,383 occurred on a terminal other than TW1 or TW2 from June 1995 through November 12, 1995. During our interview with the Sales Supervisor, he admitted to voiding transactions on the terminal in the Sales Director's office and taking money for personal use. However, he stated he was not sure of the amount of money he had taken from the U.S.S. *North Carolina*.

RECOMMENDATION

Although this employee has been terminated, we recommend that the management of the U.S.S. *North Carolina* take the necessary action to recoup the monies taken by the Sales Supervisor.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. SERIOUS INTERNAL CONTROL WEAKNESSES EXIST IN THE HANDING OF DAILY CASH RECEIPTS AT THE U.S.S. NORTH CAROLINA.

During our special review at the U.S.S. *North Carolina*, we determined that serious internal control weaknesses exist in the handling of daily cash receipts. Some of the weaknesses include the following:

- ◆ Numerous employees are operating out of the same cash drawer each day.
- ◆ Employees know each other's passwords that are used to log on the cash receipting system that records admission sales.
- ◆ Employees record transactions for receipts and voids while the cash receipting system is operating under another employee's password.
- ◆ Employees are not submitting approved voided receipts in all instances when a void occurs.

These weaknesses caused unexplained voided transactions and overages and shortages of cash when compared to the daily cash receipt reports. We determined that from June 1995 through November 12, 1995 that there have been 653 voided transactions totaling \$12,053, including the voids reported in Finding One. Some of the voids appear to be legitimate; however, as noted above some were not. In addition, we noted other questionable voids that occurred at times when the Sales Supervisor was not at work. However, we were unable to determine if any other employees had improperly taken monies belonging to the U.S.S. *North Carolina*.

Based on an analysis prepared by the Accountant, overages and shortages of cash occur regularly when the cash taken in on a particular day is compared to the daily receipt reports. As mentioned earlier, numerous employees use the same cash drawer.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Although the Sales Supervisor admitted to taking receipts when confronted by auditors, due to the internal control weaknesses that existed during our review we were unable to match every voided transaction, overage and shortage to the person or persons responsible.

RECOMMENDATION

We recommend that the management of the U.S.S. *North Carolina* strengthen internal controls to eliminate the weaknesses noted above. The following controls should be implemented.

- ◆ Every employee that operates a cash receipting terminal (cash register) should be given an individual cash drawer for which they are responsible.
- ◆ Each cashier should be required to settle-up their activity at the end of their shift every day and be responsible for any discrepancies.
- ◆ Management should remind employees of the importance of keeping their password confidential for any computerized system they operate. Employees must be made to log-on the system by using their own password, and log-out of the system at any time they are not running a cash register.
- ◆ Someone in the accounting office should be selected to review voided transactions on a daily basis.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- ◆ Employees must be required to submit approved supporting documentation explaining any voided transactions that have occurred.
- ◆ Any discrepancies noted should be investigated immediately.

In accordance with our usual procedure, we are referring a copy of this report to the Financial Audit Division of the Office of the State Auditor for follow-up during the annual financial audit.

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Statement of Financial Impact

Exhibit A

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting these areas where the system of internal controls were either circumvented or should be enhanced.

- | | |
|--|----------|
| 1. Transactions voided under the Sales Supervisor's name on terminals other than Token Window 1 and Token Window 2 during the period June 1995 through November 1995. The Sales Supervisor admitted that he voided transactions to disguise the money he was taking from daily receipts. | \$ 4,383 |
| 2. Transactions voided on Token Window 1 and Token Window 2. Due to significant internal control weaknesses in the cash receipting system, we could not determine whether any of this amount was stolen or exactly who voided each receipt. | 7,670 |

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Exhibit B

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DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mrs. Betty Ray McCain	Secretary, Department of Cultural Resources
Captain D. R. Scheu	Director, U.S.S. North Carolina Battleship Commission
Mr. J. Allen Adams	Chairman, U.S.S. North Carolina Battleship Commission

LEGISLATIVE BRANCH

Appointees of the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative Harold J. Brubaker, Co-Chairman
Senator Austin Allran	Representative James W. Crawford, Jr.
Senator Betsy L. Cochrane	Representative N. Leo Daughtry
Senator J. Richard Conder	Representative Theresa H. Esposito
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Senator Anthony E. Rand	Representative Liston B. Ramsey
Senator J. K. Sherron, Jr.	Representative George S. Robinson
Senator Ed N. Warren	Representative Carolyn B. Russell

Other Legislative Officials

Representative James B. Black	Minority Leader of the N.C. House of Representatives
Mr. Thomas L. Covington	Director, Fiscal Research Division

March 26, 1996

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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<http://www.osa.state.nc.us/OSA/>.

As required for disclosure by G. S. §143-170.1, 275 copies of this public document were printed at a cost of \$250.25, or 91¢ per copy.