

MASTER

STATE OF WEST VIRGINIA
AUDIT REPORT
OF

STATE TREASURER'S CHECK-CASHING SERVICE
FOR THE PERIOD
JULY 1, 1990 THROUGH FEBRUARY 4, 1992



OFFICE OF LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305

STATE TREASURER'S CHECK-CASHING SERVICE

FOR THE PERIOD

JULY 1, 1990 THROUGH FEBRUARY 4, 1992

STATE TREASURER'S CHECK-CASHING SERVICE

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STATE TREASURER'S CHECK-CASHING SERVICE

EXIT CONFERENCE

We held an exit conference on May 8, 1992 with the Assistant Treasurer and Division Head of the West Virginia State Treasurer's Office. All findings and recommendations were reviewed and discussed. The above named official's responses are included in italics in the Summary of Findings, Recommendations and Responses and after our recommendations in the General Remarks sections of this report.

STATE TREASURER'S CHECK-CASHING SERVICE

INTRODUCTION

The State Treasurer's Check-Cashing Service was created by Chapter 12, Article 4, Section 12 of the West Virginia Code, as amended, which states,

"The treasurer may provide a check cashing service at his office in the capitol building and may charge fees for such service for each check cashed and for each check returned for insufficient funds. For this purpose, he may establish from receipts in the treasury not more than two cash funds each in an initial amount not to exceed one hundred thousand dollars. He shall designate certain employees in his office who are to provide the service and have charge of such funds, and may require such employees to be bonded either individually or by blanket bonds. The cost of such bonds shall be paid out of the treasurer's current expense appropriations.

The fees received for such service shall be deposited in the cash funds and itemized accounts of such receipts shall be maintained. Any check determined by the treasurer to be uncollectible shall be charged against the fund from which it was cashed. The legislative auditor shall, at least annually, but may at any time, audit the cash funds and all accounts and records relating to the service provided pursuant to this section. If the amount of either cash fund (after charges for uncollectible checks) exceeds one hundred thousand dollars at the conclusion of any audit, the treasurer shall transfer such excess to the general revenue fund."

The Check-Cashing Service was discontinued by the former Treasurer, Thomas E. Loehr, on February 14, 1990. The operations of the Check-Cashing Service were reinstated by the current Treasurer, Larrie Bailey, on January 23, 1991.

STATE TREASURER'S CHECK-CASHING SERVICE

ADMINISTRATIVE OFFICERS AND STAFF

FEBRUARY 4, 1992

Thomas E. Loehr State Treasurer
(July 1, 1990 - January 8, 1991)

Larrie Bailey State Treasurer
(January 9, 1991 - Present)

Sam Cole Assistant Treasurer

Gail Moore Division Head

Jayne Hudnall Cashier

STATE TREASURER'S CHECK-CASHING SERVICE
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

COMPLIANCE MATTERS

Service Charge Fee Fund

1. The service charge fees collected on returned checks totaled \$380.00 during the audit period. A shortage of \$100.00 was detected on January 16, 1992 in Fund IV which is one of the two component units making up the Check Cashing Fund. The shortage which was the apparent result of a bank error was not discovered timely and the treasury was unable to recover the funds from the bank. After Fund IV is reimbursed \$100.00 from the collected service fees, a balance of \$280.00 will be available for transfer to the State's General Revenue Fund.

We recommend the State Treasurer, after allowing for the \$100.00 transfer to Fund IV of the Check Cashing Fund to cover the shortage, transfer the remaining balance of \$280.00 in the Service Charge Fee Fund to the General Revenue Fund as required by Chapter 12, Article 4, Section 12 of the West Virginia Code, as amended.

We will comply with this audit recommendation. (See page 7.)

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

Exchange of Checks for Currency

2. The \$100.00 shortage which was discovered on January 16, 1992 is an apparent result of cash received from the bank in exchange for checks not being counted at the time of the exchange. We believe that a procedure which calls for currency exchanged for checks to be counted at the time of receipt and an exchange receipt completed would lessen the probability for shortages of this type to occur in the future.

We recommend the Treasurer strengthen internal controls over the exchange of checks for currency.

We have implemented the procedural changes called for in the audit recommendation. (See pages 9 - 10.)

STATE TREASURER'S CHECK-CASHING SERVICE

GENERAL REMARKS

INTRODUCTION

We have completed a postaudit of the West Virginia State Treasurer's Check-Cashing Service. The audit covered the period July 1, 1990 through February 4, 1992.

Check-Cashing Fund

In accordance with the West Virginia Code, Chapter 12, Article 4, Section 12, as amended, the West Virginia State Treasurer may establish two cash funds, each in an amount not to exceed \$100,000.00 for the purpose of providing a check-cashing service. The operations of the check-cashing service were discontinued from February 14, 1990 through January 22, 1991. The operations of the check-cashing service were reestablished January 23, 1991 by Treasurer Larrie Bailey.

Service Charge Fee Fund

The receipts for this fund are derived from a fee collected on each returned check redeemed at the cashier's window. The fee was \$10.00 during the period of the audit.

COMPLIANCE MATTERS

Chapter 12, Article 4, Section 12 of the West Virginia Code, as amended, generally governs the State Treasurer's Check-Cashing Service. We tested the above section plus applicable State regulations as they pertain to fiscal matters. Our findings are discussed as follows.

Service Charge Fee Fund

According to our test of non-sufficient fund check service fees and the treasurer's records, the service charge fees collected on returned checks for the audit period amounted to \$380.00. The cash count completed February 4, 1992 supports the amount held in the Service Charge Fee Fund. Chapter 12, Article 4, Section 12 of the West Virginia Code, as amended states in part,

" . . . If the amount of either cash fund (after charges from uncollectible checks) exceeds one hundred thousand dollars at the conclusion of any audit, the treasurer shall transfer such excess to the general revenue fund."

A shortage of \$100.00 was detected on January 16, 1992 in Fund IV which is one of the two component units making up the Check Cashing Fund. The shortage which was the apparent result of a bank error was not discovered timely and the treasury was unable to recover the funds from the bank. After Fund IV is reimbursed \$100.00 from the collected service fees, a balance of \$280.00 will be available for transfer to the State's General Revenue Fund.

We recommend the State Treasurer, after allowing for the \$100.00 transfer to Fund IV of the Check Cashing Fund to cover the shortage, transfer the remaining balance of \$280.00 in the Service Charge Fee Fund to the General Revenue Fund as required by Chapter 12, Article 4, Section 12 of the West Virginia Code, as amended.

I certainly concur with the preliminary draft of the Treasurer's check cashing service.

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

As a part of our examination, we reviewed and tested the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute assurance as to the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the period July 1, 1990 through February 4, 1992, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed a condition that we believe to be a weakness.

Exchange of Checks for Currency

The State Treasurer's Office has an agreement with a local bank whereby checks cashed through the Check-Cashing Service are exchanged for currency on a daily basis. The bank is compensated for services provided through a compensating balance arrangement. However, the procedures utilized in exchanging checks for currency do not include a procedure where the bank's representative and the Treasury employee sign an exchange receipt documenting the dollar amount of checks exchanged for currency.

The \$100.00 shortage which was discovered on January 16, 1992 is an apparent result of cash received from the bank not being counted at the time of the exchange. We believe that a procedure which calls for currency exchanged for checks to be counted at the time of receipt and an exchange receipt completed would lessen the probability for shortages of this type to occur in the future.

We recommend the Treasurer strengthen internal controls over the exchange of checks for currency.

I certainly concur with the preliminary draft of the Treasurer's check cashing service and would like to make the following remarks regarding "the exchange for checks for currency" item in this report. Since the check cashing procedure in the Treasurer's office is now a joint effort between the Treasurer's office and the Board of Investments, the monies necessary to establish this account would be coming through the Board of Investments, I wrote a letter to the Board of Investments January, 1991 requesting a contract be established between Ameribank and the Treasurer's office specifically outlining the checks to cash

transfer policy of which I have attached a copy. Concurrently Mr. Simpson Chief Operating Officer of the Board of Investments wrote a letter to Shelia Derreberry with Ameribank requesting a contract be instituted between Ameribank and the Board of Investments at which time an agreement was validated on the signature card copy attached. Since the Board of Investments handles all receipts and disbursements of monies for the State of West Virginia I was with the opinion based on Mr. Simpson's letter of the opinion that a contract had been negotiated between those two agencies.

Finally, we have a policy in our office which requires a signature by both the bank representative and Treasurer personnel upon exchanging checks for cash.

It is and will continue to be the Treasurer's interest to assure that the people's money are safeguarded in the best possible manner.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the schedule of transactions of the State Treasurer's Check-Cashing Service for the period July 1, 1991 through February 4, 1992 and the year ended June 30, 1991. The schedule of transactions of the State Treasurer's Check-Cashing Service is the responsibility of the management of the West Virginia State Treasury. Our responsibility is to express an opinion on the schedule of transactions of the State Treasurer's Check-Cashing Service based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of transactions of the State Treasurer's Check-Cashing Service is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of transactions of the State Treasurer's Check-Cashing Service. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule of transactions of the State Treasurer's Check-Cashing Service. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the schedule of transactions of the State Treasurer's Check-Cashing Service was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the schedule of transactions referred to above presents fairly, in all material respects, the transactions of the State Treasurer's Check-Cashing Service for the period July 1, 1991 through February 4, 1992 and the year ended June 30, 1991, on the basis of accounting described in Note A.

Respectfully submitted,



Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

March 20, 1992

Auditors: Michael E. Sizemore, CPA, Supervisor
Paul E. Deuley
Gary L. Williams

STATE TREASURER'S CHECK-CASHING SERVICE

SCHEDULE OF TRANSACTIONS

	<u>For the Period</u> <u>July 1, 1991 Through</u> <u>February 4, 1992</u>	<u>Year Ended</u> <u>June 30, 1991</u>
Beginning Balance:		
Check-Cashing Fund	\$200,001.18	\$ 620.00
Service Charge Fee Account	110.00	1,410.00
	<u>200,111.18</u>	<u>2,030.00</u>
Cash Receipts:		
Transfer From General Revenue Fund	-0-	200,000.00
Service Charge Fee From Returned Checks	270.00	110.00
Overage Due to Ordinary Course of Business	-0-	1.18
	<u>270.00</u>	<u>200,111.18</u>
 TOTAL CASH TO ACCOUNT FOR	 <u>\$200,381.18</u>	 <u>\$202,141.18</u>
Disbursements:		
Transfer to General Revenue Fund	\$ -0-	\$ 1,410.00
Checks Deemed Uncollectible by Treasurer	-0-	620.00
Shortage	101.18	-0-
	<u>101.18</u>	<u>2,030.00</u>
Ending Balance:		
Check-Cashing Fund	199,900.00	200,001.18
Service Charge Fee Fund	380.00	110.00
	<u>200,280.00</u>	<u>200,111.18</u>
 TOTAL CASH ACCOUNTED FOR	 <u>\$200,381.18</u>	 <u>\$202,141.18</u>

STATE TREASURER'S CHECK-CASHING SERVICE

NOTE TO SCHEDULE OF TRANSACTIONS

Note A - Accounting Policy

Accounting Method: The State Treasurer's accounting method for the check-cashing service is on the cash basis of accounting. Therefore, certain revenues and the related assets are recognized when received rather than when earned, and certain disbursements are recognized when made rather than when the obligation is incurred.

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Postaudit Division, do hereby certify that the report of audit appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 12, Article 4, Section 12, as amended, and that the same is a true and correct copy of said report.

Given under my hand the 18th day of May,
1992.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

Copy forwarded to the Secretary of the Department of Administration. to be filed as a public record. Copies forwarded to the State Treasurer; Governor; Attorney General; and, State Auditor.