

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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Memorandum

To: Joint Committee on Government and Finance - Post Audit Subcommittee Members

From: Stacy L. Sneed, CPA, Director, Legislative Post Audit Division *SL*
Trenton W. Morton, Audit Manager, Legislative Post Audit Division
Amy J. Swain, CPA, Auditor III, Legislative Post Audit Division *ajs*

Date: August 25, 2008

Subject: West Virginia University Institute of Technology Local Bank Accounts

As part of the preliminary planning and review process for the post audit of West Virginia University Institute of Technology (WVUIT) for the period July 1, 2006 through June 30, 2008, we have conducted interviews, performed procedural walk-throughs and documented business procedures relating to nine of WVUIT's local bank accounts, as detailed in the schedule below:

<u>OWNER</u>	<u>ACCOUNT NAME</u>	<u>BANK</u>
State of WV – WVUIT	Refund Account	United
State of WV – WVUIT	Phillip & Sadie Sporn Loan	United
State of WV – WVUIT	F G Wood/N D Wood Fund	United
State of WV – WVUIT	Student Council Loan Fund	United
State of WV – WVUIT	Scholarships	United
State of WV – WVUIT	Federal Funds Pell Grant	United
State of WV – WVUIT	Federal Student Bank Loan Fund	City National
State of WV – WVUIT	Educational Opportunity Grant	City National
State of WV – WVUIT	National Direct Student Loan	City National

Local Bank Account Authorized Signatures

We noted that a WVUIT employee's signature is being used to issue checks from the aforementioned accounts, although that employee is no longer responsible for these accounts. We obtained and reviewed account signature cards for each of the nine bank accounts listed above. WVUIT's Chief Financial Officer is listed as an authorized signer on the accounts, along

with the Controller and the Student Loan Office Supervisor. The signature cards for these accounts specify that two authorized signatures must be present for all account withdrawals. The required signatures are affixed to checks for these accounts using a signature machine with plates bearing the signatures of the Chief Financial Officer and the Controller. On July 23, 2008, we conducted an interview with the Chief Financial Officer to discuss her responsibilities relating to the nine local bank accounts listed above. According to the Chief Financial Officer, she was relieved of her duties as Chief Financial Officer and given a “special assignment” in the Athletic Department on October 11, 2007; however, her official title has not changed. Since that time, the Chief Financial Officer has not had access to any information regarding these bank accounts, (canceled checks, bank statements, reconciliations, etc.) and was unaware that her signature plate continues to be used for the purpose of issuing financial aid refund checks to students.

Checks written from the date of the Chief Financial Officer’s reassignment on October 11, 2007 through June 30, 2008 totaled approximately \$6.8 million and are summarized in the following schedule:

<u>OWNER</u>	<u>ACCOUNT NAME</u>	<u># of Checks</u>	<u>Total Dollar Amount of Checks</u>
State of WV – WVUIT	Refund Account	346	\$ 228,929.67
State of WV – WVUIT	Phillip & Sadie Sporn Loan	3	3,000.00
State of WV – WVUIT	F G Wood/N D Wood Fund	33	52,401.70
State of WV – WVUIT	Student Council Loan Fund	11	1,100.00
State of WV – WVUIT	Scholarships	209	444,929.12
State of WV – WVUIT	Federal Funds Pell Grant	559	1,155,007.82
State of WV – WVUIT	Federal Student Bank Loan Fund	1,353	3,666,017.77
State of WV – WVUIT	Educational Opportunity Grant	68	953,482.62
State of WV – WVUIT	National Direct Student Loan	154	297,786.98
	Totals	<u>2,736</u>	<u>\$6,802,655.68</u>

The requirement that two signatures be present for any withdrawals from these accounts is intended to prevent unauthorized transactions from occurring by ensuring that at least two responsible individuals have reviewed each transaction. Circumventing this control by artificially affixing the signature of the Chief Financial Officer, who has no opportunity to review the transactions, creates the opportunity for fraud to occur. We believe that the failure to remove the Chief Financial Officer from these accounts and the use of her signature without her knowledge or review of account transactions along with the lack of physical controls over check stock and the check signature machine (as detailed below), could result in the misappropriation of funds that may go undetected.

Lack of Controls Over Checks & Signature Machine

We also noted that an Accounting Assistant I (#1) is responsible for entering the information into the computer system (Banner) that results in checks being generated from the aforementioned bank accounts. Additionally, Accounting Assistant I #1 generally affixes the signatures to the checks using the signature machine; however, the Student Loan Officer Supervisor and another

Accounting Assistant I (#2) can also use the signature machine in her absence. Further, these checks are occasionally prepared manually using a typewriter prior to the signatures being affixed. The signature machine is located on top of a file cabinet in the Business Office/Cashier's Office near the safe where the signature machine key is kept. The safe is unlocked each morning and left open throughout the day. We also noted that check stock relating to five of the above accounts is stored in an open shelf next to Accounting Assistant I #1's desk which is also located in the Business Office/Cashier's Office. Many individuals, including students, visit this office for various reasons throughout the day. In addition to Accounting Assistant I #1's responsibilities as mentioned above, she is responsible for performing the monthly reconciliation for these accounts with the exception of the Refund Account.

As a result of the lack of physical controls over check stock and the check signing machine, multiple employees or other individuals with access to the WVUIT Business Office/Cashier's Office could gain access to these items. This could result in the unauthorized issuance of checks and the loss of funds from one or more of the local bank accounts. Further, we believe that Accounting Assistant I #1 should not have physical possession of checks, prepare checks, and be responsible for the reconciliation of the accounts. This lack of segregation of duties could also result in the misappropriation of funds from these accounts.

We believe that the lack of internal controls over WVUIT's outside bank accounts is in noncompliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which requires that the head of every spending unit "...Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities..." Further, in accordance with Section III of the West Virginia State Treasurer's Office (STO) Outside Bank Account Policy and Procedures, State agencies should immediately notify the STO in writing when there is a change of any authorized persons on an account along with a copy of updated signature cards. In addition, Section V of the West Virginia STO Outside Bank Account Policy and Procedures states that agencies should maintain as much internal control over outside bank accounts as possible. These internal control measures include not allowing the person who signs the checks or reconciles the bank accounts to have possession of the checkbook.

Recommendation

We recommend the WVUIT comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and the STO Outside Bank Account Policy by removing the Chief Financial Officer from all local accounts and discontinuing the use of her signature plate in the signature machine. We also recommend that WVUIT implement physical controls over the check stock and signature machine that would prevent unauthorized individuals from gaining access to these items. We further recommend they segregate job duties to reduce the risk of the misappropriation of funds.

Spending Unit Responses

See Attached



Institute of Technology
West Virginia University

Office of the Provost

August 19, 2008

Stacy L. Sneed, CPA, Director, Legislative Audit Post Audit Division
Building 1, Room W-329
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610

Dear Ms. Sneed:

I offer the following response as a follow-up to our August 14, 2008 meeting to discuss West Virginia University Institute of Technology's Local Bank Accounts.

Recommendation

We recommend the WVUIT comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and the STO Outside Bank Account Policy by removing the Chief Financial Officer from all local accounts and discontinuing the use of her signature plate in the signature plate machine. We also recommend that WVUIT implement physical controls over the check stock and signature machine that would prevent unauthorized individuals from gaining access to these items. We further recommend they segregate job duties to reduce the risk of the misappropriation of funds.

Response

WVU Tech agrees with your recommendations and has initiated the appropriate steps to comply with those recommendations. The local banks have issued new signature cards removing the former Chief Financial Officer's name from the accounts. WVU Tech is processing new signature cards. WVU Tech has discontinued the use of the signature plate in question. The check stock and signature machine will be moved to a secure location accessible by only those employees who have responsibility for use of the check stock and signature machine by the close of business on August 21, 2008. WVU Tech has segregated job duties to maintain appropriate internal controls.

Effective with the beginning of the fall 2009 term, all student refunds and check writing will be processed through the Morgantown campus utilizing well established internal controls and disbursement procedures. As a result, the referenced local bank accounts will be closed and duplication of process to create checks on the WVU Tech campus will no longer be necessary.

Thank you for the opportunity to respond to your recommendations. Should you have questions, please feel free to contact Narvel G. Weese Jr., Vice President for Administration and Finance, at 304-293-2545.

Sincerely,

Scott M. Hurst, Ph.D.

Interim Campus Provost

- c: Dr. C. Peter Magrath, Interim President
Aaron Allred, Legislative Auditor
Mr. William R. Quigley, Director of Internal Audit
Dr. Brian Noland, Chancellor, HEPC
Mr. Dennis Taylor, Vice Chancellor for Administration, HEPC

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