

SPECIAL REPORT

# INTERNAL CONTROLS OVER CONCORD UNIVERSITY'S CAMPUS BOOKSTORE, HOUSING HALL COUNCIL AND FLEET

FOR THE PERIOD JULY 1, 2008 - JUNE 30, 2009

## REPORT OVERVIEW

Lack of internal controls in the bookstore

Housing Hall Council collecting unapproved fees

Unapproved local bank accounts



WEST VIRGINIA LEGISLATIVE AUDITOR  
POST AUDIT DIVISION



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**WEST VIRGINIA LEGISLATURE**  
***Joint Committee on Government and Finance***

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The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have conducted a special report of the internal controls over Concord University's Campus Bookstore, Housing Hall Council and Fleet for the audit period of July 1, 2008 through June 30, 2009.

We have conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Our audit has disclosed findings which are detailed in this report. The University has responded to the audit findings; and we have included the responses at the end of each finding.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, CICA, Director  
Legislative Post Audit Division

**SPECIAL REPORT OF  
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CAMPUS BOOKSTORE, HOUSING HALL COUNCIL AND FLEET  
JULY 1, 2008 – JUNE 30, 2009**

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**INDEPENDENT AUDITOR'S REPORT**

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Post Audit Subcommittee:

**Compliance**

We have audited Concord University's (the University's) compliance with the laws, rules, and regulations applicable to the internal control over the Campus Bookstore, Housing Hall Council and Fleet for the year ended June 30, 2009. Compliance with the requirements referred to above is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the University's internal control over the Campus Bookstore, Housing Hall Council and Fleet. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. This audit was limited to the scope of assessing the internal control over the University's Campus Bookstore, Housing Hall Council and Fleet and the post audit of the University is ongoing. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, except for noncompliance noted in Findings 4 and 5, the University complied, in all material respects, with the compliance requirements referred to above that are applicable to internal control over the University's Campus Bookstore, Housing Hall Council and Fleet for the year ended June 30, 2009.

**Internal Control**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the University's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the University's internal control in Finding 1 and 2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the University's internal control in Finding 3, 6, 7 and 10 to be significant deficiencies.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

This communication is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, and management of Concord University. However, once released by the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

Stacy L. Sneed, CPA, Director  
Legislative Post Audit Division

May 27, 2010

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**EXECUTIVE SUMMARY**

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**Finding 1                      Bookstore Cash Count**

- During the cash count of the University Campus Bookstore, we noted:
  - Cash receipts had not been deposited within 24 hours of receipt in accordance with West Virginia Code.
  - The Bookstore Manager deposited about \$452.00 more than the amount of cash receipts counted during our cash count.
  - The Bookstore Manager told us that he did not deposit the actual cash receipts in the cash registers. Rather, when there was a shortage he added his personal moneys to the deposit or when there was an overage he took cash out of the deposit [and placed the cash in his desk drawer to use at a later date to make up for shortages]. No record was kept.
  - The Bookstore Manager told us, on occasion, he took a soft drink from the Bookstore without paying for it because he added his personal moneys to the previous days deposit to make up for a shortage. No record was kept.
  - The Bookstore Buyer took \$20.00 from a cash register and placed a personal check in its place.
  - We noted stale dated checks totaling \$550.00 and cash totaling \$49.00 in various envelopes in the Bookstore safe.

**Auditor's Recommendation**

We recommend the University comply with West Virginia Code and strengthen internal controls over cash receipts and assets in the Campus Bookstore. **(See pages 13 – 16)**

**University's Response**

*Concord University concurs with the findings.*

**Finding 2                      Lack of Segregation of Bookstore Functions**

- We noted a lack of segregation of duties of authorization and custody of asset functions in the University's Campus Bookstore. Also, we noted there was not an internal control strength to offset the lack of segregation of duties.



### **Auditor's Recommendation**

We recommend the University segregate the authorization and custody of asset functions to comply with West Virginia Code and strengthen internal controls. **(Pages 17 – 18)**

### **University's Response**

*Concord University concurs with the findings.*

## **Finding 3                      Housing Hall Council**

- The Housing Hall Councils collected fees that were not approved by the University's Board of Governors. Also, these unapproved revenues and the respective expenditures were not reported on the University's financial statements. We additionally noted a lack of management oversight over the Hall Council revenues and expenditures.

### **Auditor's Recommendation**

We recommend the University cease collection of Hall Council membership fees and other revenue collections until proper approval is obtained by the University's Board of Governors in accordance with West Virginia Code; report the Hall Council revenues and respective expenditures on the University financial statements; and implement proper management oversight over the Hall Councils. **(Pages 19 – 20)**

### **University's Response**

*Concord University concurs with the findings.*

## **Finding 4                      Unauthorized Local Bank Accounts**

- During our audit period, the University Campus Bookstore and Housing Hall Councils had local bank accounts that were not authorized or approved by the West Virginia State Treasurer's Office. We were also told that no bank reconciliations were performed on the unapproved outside bank accounts.

### **Auditor's Recommendation**

We recommend the University consider closing the outside bank accounts. If the University decides the outside bank accounts are a necessity, then we recommend the University comply with West Virginia Code and seek approval from the West Virginia State Treasurer's Office for the outside bank accounts. Further, we recommend bank reconciliations be performed by employees independent of the cashier's function. **(Pages 21 – 22)**

### **University's Response**

*Concord University concurs with the findings.*

**Finding 5                      Bookstore Sales Tax**

- The University’s Campus Bookstore was charging four percent State sales tax on food sales instead of three percent required by West Virginia Code.

**Auditor’s Recommendation**

We recommend the University comply with West Virginia Code and the State Tax Department Publication and charge the proper tax rate on sales of food. **(Pages 23 – 24)**

**University’s Response**

*Concord University concurs with the findings and has corrected this.*

**Finding 6                      University On-Site Fuel Tanks**

- We noted the University was not utilizing its internal controls over the use of the onsite fuel tanks, including not having a list of individuals having keys to the padlock on the fuel tanks; not properly monitoring security camera monitors and tapes; and not performing a reconciliation between the log sheet and the fuel purchased for the fuel tanks.

**Auditor’s Recommendation**

We recommend the University comply with the West Virginia Code and utilize internal controls over the use of the fuel tanks to ensure all fuel is used for the benefit of the State.  
**(Pages 25 – 26)**

**University’s Response**

*Concord University concurs with the findings.*

**Finding 7                      Internal Controls Over Fleet Vehicle Usage and University Fuel Cards**

- We noted the University did not have policies and procedures governing the use of State owned vehicles. Also, we noted several internal control weaknesses over fleet vehicle usage and the University fuel cards.

**Auditor’s Recommendation:**

We recommend the University comply with West Virginia Code and Procedural Rule Title 133, Series 29, and establish [and put into operation] approved written policies and procedures for State owned vehicles. **(Pages 27 – 29)**

**University’s Response**

*Concord University concurs with the findings.*

**Finding 8**                      **Scrap Vehicles Are No Longer Covered by BRIM But License Plates Are Affixed**

- We noted the University continues to have license plates affixed to four State-owned fleet vehicles [on the University's premises] that are no longer used by the University and are no longer covered under the Board of Risk and Insurance Management.

**Auditor's Recommendation**

We recommend the University return the scrapped vehicles license plates to the Division of Motor Vehicles. **(Page 30)**

**University's Response**

*Concord University concurs with the findings.*

**Finding 9**                      **Lease Agreement**

- Subsequent to our audit period, the University was paying \$150.00 more [per month/per bus] than stated in the Statewide contract agreement with Enterprise for the lease of two 15 passenger vans.

**Auditor's Recommendation**

We recommend the University compare the price of purchasing the buses to the rental or lease price and select the option with the lowest price and that would best benefit the State. **(Page 31)**

**University's Response**

*Concord University concurs with the findings.*

**Finding 10**                      **Bookstore Book Buyback**

- We noted the Bookstore Manager performs all functions of the textbook buyback and there is not an offsetting internal control strength to substantiate the lack of segregation of duties.

**Auditor's Recommendation**

We recommend the University comply with the West Virginia Code and strengthen internal controls. We recommend the University require a representative from the wholesale vendor who is independent from the University to conduct the book buyback or implement a proper offsetting internal control. **(Pages 32 - 34)**

**University's Response**

*Concord University concurs with the findings.*

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**INTRODUCTION**

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**POST AUDIT AUTHORITY**

This is the report on the post audit of the internal controls over Concord University's Campus Bookstore, Housing Hall Council and Fleet for the period of July 1, 2008 through June 30, 2009. The audit was conducted pursuant to Chapter 4, Article 2 of the West Virginia Code, as amended, which requires the Legislative Auditor to "make post audits of the revenues and expenditures of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the state and of the organization and functions of the state and its spending units."

**BACKGROUND**

Concord University is located in Athens, West Virginia, which is a part of Mercer County in the southern part of the state. It is a nationally accredited coeducational institution founded in 1872 and originally named Concord State Normal School. The name was changed to Concord State Teachers College in 1931 and to Concord College in 1943. Since 2004, its name is Concord University.

Enrollment for the 2008 Fall Semester was 2,837 students. There are 279 full-time faculty and professional staff. Concord University is a 123-acre campus. There are five residence halls and a residential apartment building located on the campus. In addition to Concord University's 25 buildings, current construction includes University Point, incorporating an alumni center, museum and Appalachian and faith studies component. Also, Concord University offers classes at the Erma Byrd Higher Education Center in Beaver, WV, and maintains an office in that location.

Degrees offered include Bachelor of Science, Bachelor of Arts, Bachelor of Social Work, Master of Education, Regents Bachelor of Arts and Associate of Arts.

Majors offered include Accounting, Advertising & Graphic Design, Athletic Training, Biology, Business Administration, Computer Science, Pre-law, Management, Pre-med, Psychology, Recreation & Tourism Management, Social Work, Sociology and Teacher Education.

A listing of personnel of the University is on the following page.

**INTERNAL CONTROLS OVER  
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**ADMINISTRATIVE OFFICERS AND STAFF  
AS OF JUNE 30, 2009**

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Dr. Gregory Aloia..... President

James Cannon ..... Vice President for Business and Finance (July 2008 – April 2009)

Dr. Charles “Chuck” Becker..... Vice President for Business and Finance (April 2009 – Present)

Elizabeth “E.J.” Cahill ..... Financial Reporting Officer/Controller

Elizabeth “Libby” Webb .....Financial Reporting Manager

Jeff Shumaker.....Director of Physical Plant

Richard Dillon .....Director of Housing and Residence Life

Chris Smallwood..... Bookstore Manager

Wayne Gunter.....Bookstore Supervisor

Steve Jarvis..... Bookstore Buyer

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**REPORT SCOPE**

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We have performed an assessment of internal controls over Concord University's Campus Bookstore, Housing Hall Council and Fleet. We performed cash counts of the University's cash receipts in these respective areas, if applicable; interviewed appropriate personnel; and documented the internal controls over assets or lack thereof. The audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. This assessment was conducted as part of our post audit of Concord University, in which additional report(s) will be released at a later date.

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**OBJECTIVE AND METHODOLOGIES**

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The objectives of our special report were to assess the internal controls over Concord University's Campus Bookstore, Housing Hall Council and Fleet; to report any internal control weaknesses and noncompliance with the West Virginia State Code and any other relevant rules and regulations, that we find; to ascertain facts; and to make recommendations to the Legislature concerning post audit findings and functions of the University's Campus Bookstore, Housing Hall Council and Fleet Management. We were to determine whether there were proper internal controls, including proper management oversight and segregation of incompatible duties, over the aforementioned areas. Additionally, we were to report any non-compliance with applicable State laws, rules and regulations as they pertained to the internal control over the University's Campus Bookstore, Housing Hall Council and Fleet Management.

In preparation for our assessment of internal controls over the aforementioned areas, we studied legislation, applicable WV Code sections, applicable rules and regulations, and policies of the University that pertained to the Campus Bookstore, Housing Hall Council and Fleet Management. We interviewed University personnel to obtain an understanding of the internal controls over the aforementioned areas.

The University's response to the significant deficiencies, material weaknesses, reportable compliance and other matters identified in our audit have not been subjected to the auditing procedures applied in the special report of the internal control over the University's Campus Bookstore, Housing Hall Council and Fleet Management and accordingly, we express no opinion on them.

The University's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also,

projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Post Audit Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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## **CONCLUSIONS**

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We noted significant internal control weaknesses in Concord University's Campus Bookstore, Housing Hall Council and Fleet that warrant the immediate attention of the University's management. There is a possibility that error, theft or fraud may be occurring and unnoticed by University management.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the University's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report includes findings regarding significant instances of noncompliance with applicable laws, rules or regulations. Other less significant findings were communicated to the Universities that did not warrant inclusion in this report.

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## **EXIT CONFERENCE**

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We discussed this report with the management of Concord University on May 27, 2010. All findings and recommendations were reviewed and discussed. The University's response has been included at the end of each finding.

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**MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL AND  
REPORTABLE COMPLIANCE AND OTHER MATTERS FINDINGS**

**Finding 1                      Bookstore Cash Count**

Condition:                      During the cash count of the University Campus Bookstore on August 27, 2009, we noted the following:

1. We noted the three previous days cash receipts [August 24, 25 and 26, 2009] were in the safe and, therefore, had not been deposited within 24 hours of receipt in accordance with West Virginia Code.
2. We performed a cash count of the August 24, 25 and 26, 2009 cash receipts and recorded the amounts on a cash count form. The Bookstore Manager also counted the amounts and signed the cash count form to verify that our count of the cash was accurate. The Bookstore Manager provided us with support of the deposit on the following day; however, the amounts of cash deposited to the Business Office on August 28, 2009, did not match the amount of cash we counted. This is detailed in the table below.

Date Of Transactions	Auditors' and Bookstore Manager's Count of Cash on August 27, 2009	Deposit of Cash to Business Office on August 28, 2009	Variance
Aug. 24, 2009	\$5,085.25	\$4,917.00	\$(168.25)
Aug. 25, 2009	\$3,624.51	\$4,240.41*	\$ 615.90
Aug. 26, 2009	\$3,004.25	\$3,008.76^	<u>\$ 4.51</u>
<b>Total</b>			<b>\$ 452.16</b>

\*The Bookstore Manager told us he added \$5.16 out of his own wallet.

^The Bookstore Manager told us he added \$4.51 out of his own wallet.

3. The Bookstore Manager told us he has used his personal moneys to ensure the Bookstore deposits balance to the point of sale (POS) report. He also told us when there is an overage in the cash register, it is common practice for him to put the money in excess of the amount reported on the POS report in his desk drawer and use it at a later date to make up for shortages.



He further stated that no record was kept of his personal moneys put in the register and no record was kept of the money taken out of the cash register and placed in his desk drawer. At the time of our cash count, he told us that no moneys were in his desk drawer.

4. The Bookstore Manager told us when he uses his personal moneys to make the Bookstore deposits balance to the POS report, he may take a soft drink from the Bookstore cooler the following business day without paying for it and does not keep a record of these transactions.
5. We further noted cash register #1 had no transactions but contained the Bookstore Buyer's personal check written payable to Concord University in the amount of \$20.00 and dated August 26, 2009. The check had a post-it-note attached stating "hold". We noted this check was not deposited; rather, the Bookstore Buyer replaced the check with \$20.00. We also noted a stale- dated check in the amount of \$50.00 dated April 13, 2006, from the Bookstore Buyer located in the Bookstore safe in an envelope marked "Marsh Memorial". The Bookstore Buyer has access to the cash register and safe.
6. Lastly, we noted the safe contained an additional stale-dated check in the amount of \$500.00 dated June 19, 2002. Also, the safe contained \$49.00 cash in various envelopes.

Criteria:

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,

"The head of each agency shall:...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities..."

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part,

"... (a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of moneys so received for deposit in the state treasury and **shall deposit within twenty-four hours with the state treasurer all moneys received or collected** by them for or on behalf of the state for any purpose whatsoever..." (**Emphasis Added**).

Legislative Rule Title 158, Series 6, Section 5, states in part,

"5.1. Removal - Public officials and public employees shall not remove government property from the work-place for their private benefit.

5.2. Improper Use - Public officials and public employees shall not use government property for personal projects or activities that result in private gain. This subsection does not apply to the de minimis use of government property.”

Cause: The Bookstore Manager told us the cash collections were not deposited within 24 hours of receipt because he was very busy since it was the beginning of a new semester and he had not had time to deposit the moneys. We were unable to determine the reason for the variance in the amount of cash counted during our cash count and the amount of cash deposited. However, the Bookstore Manager provided us with a memorandum detailing the differences between the cash count and the amount subsequently deposited with the University Business Office (**See Attachment A**). The Bookstore Manager told us he does not deposit the actual amount of cash collections because he wants to make sure the deposit equals the POS report. The Bookstore Manager stated he may take a soft drink without paying for it because he used his personal moneys to make the cash collections balance to the POS report. The Bookstore Buyer had taken \$20.00 cash out of the cash register to buy lunch and replaced the money with a personal check. Also, we noted a lack of segregation of Bookstore functions (noted in Finding 2). Further, the Bookstore Manager stated he was not aware the miscellaneous moneys and stale dated checks were in the safe.

Effect: Cash collections not deposited within 24 hours were not available to be used for the benefit of the State. The financial statements were misstated because the Bookstore Manager does not deposit the actual amount of cash collections. We were unable to determine the amount of financial statement misstatement because the Bookstore Manager does not keep a record of moneys taken out of the deposit or personal moneys added to the deposit. Because of the many internal control weaknesses discussed in the condition of this finding, including the Bookstore Manager not depositing the actual amount of cash collections, the possibility exists that fraud and/or theft may occur and go unnoticed by University management. Specifically, we were unable to assure ourselves all cash collections were deposited and not used for other purposes, including personal gain.

Also, soft drink inventory is overstated due to the practice of the Bookstore Manager taking a soft drink without remitting payment. The Bookstore Manager is removing the soft drinks (government property) without payment from the work-place for personal benefit. Further, the Bookstore Buyer is using the University’s Bookstore imprest fund for personal benefit by borrowing money. While these behaviors may have been unintentional, if the behaviors continue the possibility exists that fraudulent activity, including theft may occur and go unnoticed by University management.

Recommendation: We recommend the University comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and deposit moneys within 24 hours of receipt. We also recommend the Bookstore Manager deposit the actual

amount of moneys that is in the cash registers at the end of the day and cease the practice of taking money out of the deposit or adding personal moneys to the deposit. Additionally, we recommend the Bookstore Manager stop taking soft drinks for personal use without ringing them through the cash register. Further, we recommend the Bookstore Buyer [and other employees, if applicable] cease the practice of borrowing University funds.

University's Response: *We concur with the findings and are in the process of addressing the issues raised in the report. In addition, prior to the draft findings, the University had contracted with an outside firm to audit certain aspects of the bookstore operations. This project will continue until the end of the 2009-2010 fiscal year. The University intends to incorporate the findings of the contract firm and the legislative auditors into updated policies and procedures for bookstore operations.*

## Finding 2

### Lack of Segregation of Bookstore Functions

#### Condition:

We noted a lack of segregation of duties of the authorization and custody of asset functions in the University's Campus Bookstore. Also, we noted there was not an internal control strength to offset the lack of segregation of duties. During our audit period, the Bookstore Manager, former Bookstore Supervisor, and Bookstore Buyer simultaneously:

- Performed cash register transactions;
- Performed returns on cash registers;
- Authorized returns on cash registers;
- Authorized voided transactions on cash registers;
- Counted the cash register drawers and closed out the cash registers at the end of each day;
- Made deposits to the Business Office; and
- Had access to all cashiers' identification numbers.

#### Criteria:

Management is responsible for establishing and maintaining effective internal controls. A fundamental concept of internal control is adequate segregation of incompatible duties. For adequate segregation of duties, management should ensure responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets are assigned to different employees.

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,

"The head of each agency shall:...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency **designated to furnish information to protect the legal and financial rights** of the state and of persons directly affected by the agency's activities..." (**Emphasis Added**).

Codification of Statements on Auditing Standards, AU 316.85, states in part,

"...Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks
- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations..."

#### Cause:

The Bookstore Manager told us there is a lack of staff to properly segregate duties.

#### Effect:

Segregation of duties is one of the key concepts of internal control. The lack of segregation of the authorization and custody of asset functions or proper offsetting strength substantially increases the risk that fraud, including management override, may be committed and not detected by agency controls. An employee with multiple functional roles has the opportunity to abuse their

power; the possibility exists the aforementioned employees could carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities. Fraud could be perpetrated by the employee faking a void or return transaction and taking the respective moneys from the cash register [when closing out the cash register] for personal use. The risk of fraud occurring and being undetected is greatly increased because the only persons counting the cash drawers and closing the cash register are the aforementioned employees that lack proper segregation of duties.

Recommendation: We recommend the University segregate the authorization and custody of asset functions to comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and strengthen internal controls. Specifically, the employees with the ability to authorize returns and void transactions should not have the ability to run the cash registers; should not close out the cash registers; and should not have access to employee identification codes. The cashiers should count their own drawers in order to close out the registers at the end of each day or shift and the count should be verified by the employees with the authorization function and the approval should be appropriately documented. We believe significantly large institutions, such as the University, should have adequate staffing to make such segregation of duties achievable.

University's Response: We concur with the findings and will address segregation of duties and other internal control issues in conjunction with the contract firm recommendations as indicated in Finding 1.

**Finding 3**

**Housing Hall Council**

**Condition:**

During our audit period, the Housing Hall Councils collected fees that were not approved by the University's Board of Governors. Also, these unapproved revenues and the respective expenditures were not reported on the University's financial statements. These fees included Hall Council membership fees and cash collections from sales of soda, movies and care packages for student residents; and non-member fees [when using items purchased with Hall Council moneys]. The Hall Councils also collected moneys through fundraisers.

We were unable to determine the total amount of revenue collected by the Hall Councils and respective expenditures during our audit period due to lack of supporting documentation. At a minimum, we noted a total of \$6,430.10 in revenues were collected and deposited into unapproved outside bank accounts by the Hall Councils during our audit period (See Finding 4); however, the Resident Directors (RDs) informed us that not all cash collections were deposited.

We additionally noted a lack of management oversight over the Hall Council revenue and expenditures. Specifically, one RD kept Hall Council cash in a safe located in his apartment. At the time of our cash count, the amount of Hall Council money in the South Tower RD's safe located in his apartment totaled \$547.15.

**Criteria:**

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,

"The head of each agency shall:...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities..."

Chapter 18B, Article 10, Section 1(e) of the West Virginia Code, as amended, states in part,

"The schedule of all tuition and fees, and any changes in the schedule, shall be entered in the minutes of the meeting of the appropriate governing board and the board shall file with the commission or council, or both, as appropriate, and the Legislative Auditor a certified copy of the schedule and changes."

**Cause:**

The Financial Reporting Officer/Controller had not heard of the hall councils and said those fees would not be institutional fees and, therefore, were not approved by Board of Governors. The University's Director of Housing and Residence Life stated he was aware of the membership fees and other revenues collected by the Hall Councils, but he was not aware whether the fees were approved by the Board of Governors.

**Effect:** Students were charged an unauthorized and unapproved fee for Hall Council membership. The cash receipts of the Hall Councils and the expenditures of these funds were not reported on the University's financial statements. Also, the lack of management oversight over these unapproved revenues and respective expenditures increases the risk of theft and/or fraud to occur and go unnoticed by management.

**Recommendation:** We recommend the University cease collection of Hall Council membership fees and other revenue collections until proper approval is obtained by the University's Board of Governors in accordance with Chapter 18B, Article 10, Section 1(e) of the West Virginia Code, as amended. We further recommend the University comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and report the Hall Council revenues and respective expenditures on the University financial statements. Finally, we recommend the Housing Department implement proper management oversight over the Hall Councils.

**University's Response:** We agree with the concerns raised by the auditors. We will take steps to either eliminate the fee or collect it through an approved process. Revenues collected, if any, will be appropriately reflected in the University financial statements. The unauthorized bank account will be closed or approved by the State Treasurer's Office.

**Finding 4**                      **Unauthorized Local Bank Accounts**

Condition:                      During our audit period, the University Campus Bookstore and Housing Hall Councils had local bank accounts (account) that were not authorized or approved by the West Virginia State Treasurer’s Office (STO).

The Bookstore account was in the custody of the Bookstore Manager and in the name [and address] of the Campus Bookstore. The Bookstore Manager and former Bookstore Supervisor had signature authority to the outside bank account. The Bookstore Manager told us he only uses the account to cash checks from the [book buyback] vendor to have cash on hand to be used in the book buyback.

The four Housing Hall Councils had local bank accounts in the custody of the RD and in the name [and address] of the respective hall council. The respective RD had signature authority to the outside bank accounts. The account was used to deposit membership fees and other various cash collections. (Discussed in Finding 3).

We were also told that no bank reconciliations were performed on the unapproved outside bank accounts.

Criterion:                      Chapter 12, Article 1, Section 7 of the West Virginia State Code, as amended, states in part,

“...Only the treasurer may enter into contracts or agreements with financial institutions for banking goods or services required by spending units...”

Cause:                              The Bookstore Manager told us the outside bank account was already established when he took his position and he was unaware that it was not approved by the State Treasurer’s Office. The University’s Director of Housing and Residence Life stated he was aware of the accounts held by the RDs for the Hall Councils; however, he was unaware whether or not the four accounts were approved by the State Treasurer’s Office.

The Bookstore Manager told us bank reconciliations were not performed on the outside bank account because it is only used once a semester to cash checks from the [book buyback] vendor.

Effect:                              The STO would not know about the University having the outside bank accounts; therefore, the STO records improperly reflect the outside bank accounts held by the University.

Recommendation:              We recommend the University consider closing the outside bank accounts. If the University decides the outside bank accounts are a necessity, then we recommend the University comply with Chapter 12, Article 1, Section 7 of the West Virginia Code, as amended, and seek approval from the STO for the



outside bank accounts held by the Campus Bookstore and Housing Hall Councils. Further, we recommend bank reconciliations be performed by employees independent of the cashiers function.

University's Response: We concur with the findings and will either close the accounts or seek proper approval to maintain them.

**Finding 5**

**Bookstore Sales Tax**

Condition:

We noted the University’s Campus Bookstore did not assess the proper food tax rate during our audit period in non-compliance with West Virginia State Code.

During our audit period, the Bookstore sold candy bars, crackers and juice beverages. During field work, it became apparent the Bookstore was charging four percent State sales tax on food sales during our audit period instead of three percent required by West Virginia State Code.

The Financial Reporting Manager told us fiscal year (FY) 2009 Bookstore sales tax [including food tax] collected and forwarded to the State Tax Department totaled \$9,993.52. However, the University could not tell us how much of this sales tax was for food [and food ingredients].

Criteria:

West Virginia Code Chapter 11, Article 15, Section 3a, as amended, states in part,

*“(a) Rate of tax on food and food ingredients. -- Notwithstanding any provision of this article or article fifteen-a...of this chapter to the contrary, the rate of tax on sales, purchases and uses of food and food ingredients intended for human consumption after the thirty-first day of December, two thousand five, shall be five percent of its sales price... after the thirtieth day of June, two thousand seven, shall be four percent of its sales price...**after the thirtieth day of June, two thousand eight, shall be three percent of its sales price**, as defined in said section....” (Emphasis Added).*

West Virginia State Tax Department Publication TSD-419 states in part,

“Effective July 1, 2008, the Sales Tax and Use Tax is reduced to 3% on the sales, purchases and uses of food and food ingredients intended for human consumption. However, the reduced rate of tax does not apply to sales, purchases and uses by consumers of prepared food, food sold through vending machines and soft drinks.”

Cause:

The Bookstore Manager stated he was unaware of the legislation which required the State of West Virginia sales tax on food to decrease from four percent to three percent. We informed the Bookstore Manager of this on July 27, 2009; however, we noted as of May 6, 2010 the cash registers in the Bookstore still were charging four percent sales tax on food sales.

Effect:

As a result of being in noncompliance with State statute, the University over charged food tax to consumers and paid excess food tax to the State Tax Department.

Recommendation: We recommend the University comply with Chapter 11, Article 15, Section 3a of the West Virginia Code, as amended, and the State Tax Department Publication and charge the proper tax rate on sales of food.

University's Response: This finding has been corrected.

**Finding 6 University On-Site Fuel Tanks**

Condition: The University has two onsite fuel tanks. During the preliminary planning and review state of the audit, we noted the University was not utilizing its internal controls over the use of the onsite fuel tanks. The Finance Reporting Manager told us gasoline purchased for the fuel tank totaled \$20,550.26 during fiscal year 2009.

We were told the fuel tanks had a padlock to prevent unauthorized use of the tanks. However, the University did not have a list of who had keys to the padlock on the fuel tanks. We informed the University of this on April 20, 2010. We received a letter (**Attachment B**) dated April 28, 2010 from the Interim Vice President of Business and Finance informing us the University replaced the padlocks on the fuel tanks. Further, we were provided with a list of individuals who now have keys to the padlocks on the fuel tanks.

We also noticed there are security cameras set up to monitor the fuel tanks and are recorded on VHS tapes. However, the Physical Plant Director told us no one watches the monitors on an ongoing basis; the VHS tapes are recorded over every seven days; and the security camera monitor is behind a whiteboard where it cannot be adequately viewed.

Lastly, we noted the University requires employees to record the amount of fuel dispensed from the onsite fuel tanks onto a log sheet. The data from the log sheet is monitored by the Physical Plant Director for any excessive fuel usage; however, there is no reconciliation between the log sheet and the fuel purchased for the fuel tanks.

Criterion: Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part, “The head of each agency shall...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities...”

Cause: The Director of Physical Plant told us the University did not keep track of persons assigned keys to the fuel tank; video tapes would only be viewed if needed and he only reviewed the fuel card statements. Additionally, we noted the University did not have policies and procedures governing the fuel tank usage.

Effect: The possibility exists fuel purchased with State funds may have been used for personal benefit and/or stolen and gone unnoticed by University management.

Recommendation: We recommend the University comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and utilize internal controls over the use of the fuel

tanks to ensure all fuel is used for the benefit of the State. The internal controls to be utilized include, keeping the list of individuals issued keys to the fuel tank padlocks updated; properly review the security camera footage; and perform reconciliations of fuel purchased for the fuel tanks to the fuel tank usage recorded on the log sheets.

University's Response: We concur with the findings. The padlock has been changed and a list of key holders is being maintained. The facilities manager has been tasked to develop and maintain a fuel reconciliation process.

**Finding 7****Internal Controls Over Fleet Vehicle Usage and University Fuel Cards**

## Condition:

We noted the University did not have policies and procedures governing the use of a state owned (fleet) vehicles. Also, we noted several internal control weaknesses over fleet vehicle usage and the University fuel cards.

***Vehicle Usage***

The University has a total of 24 [owned and leased] fleet vehicles onsite at the campus. During our audit period, three of these fleet vehicles were used by various University employees, sub-contracted custodial staff and University students for authorized State business.

The Director of the Physical Plant informed us that during our audit period the University did not check whether or not the individual using the fleet vehicle had a drivers' license. Also, paperwork was not completed prior to individuals using the vehicles; rather, only a calendar was used to reserve the vehicles. A State Vehicle Mileage card [detailing, among other things, the driver; vehicle used; purpose of travel; destination; and beginning and ending mileage] was completed by the driver upon return of the vehicle and submitted to the Physical Plant Department. However, we were unable to determine if the State Vehicle Mileage card was reviewed by the Physical Plant Department due to lack of notation on the card.

As of August 15, 2009, the University began leasing fleet vehicles through Enterprise. The rental agreement indicates drivers must be over age 25; however, the Director of the Physical Plant informed us this requirement is not checked by the University.

***Fuel Cards***

During our audit period, the University had five Exxon fuel cards kept at the Physical Plant Department. The Director of the Physical Plant told us the fuel cards were signed out by the drivers of the fleet vehicles to purchase fuel for the respective fleet vehicle, as needed. Purchases on the Exxon fuel cards during our audit period totaled \$2,597.73.

The Director of the Physical Plant further informed us the fuel cards were kept on a shelf behind the work study student's desk. Work study students recorded the issuance and return of the fuel cards on a manual log sheet; however, receipts were not submitted to the University to support the purchases placed on the fuel cards.

It also came to our attention that there was no reconciliation between the monthly Exxon [fuel card] statement, the receipts and the log kept by the work study students.

Criteria: Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,

“The head of each agency shall:...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities...”

Higher Education Policy Commission Procedural Rule Title 133, Series 29, states in part,

“...5.2.1.1. State Owned Vehicles: The availability and use of a state owned vehicle will be determined by the institution’s policies and procedures....

5.2.2. The operator (traveler) of a vehicle must possess a valid operator’s license....”

Schedule A of the Lease/Rental #09-043 between the University and Enterprise for two 2009 Ford Senators states in part,

“...All drivers must be at least 25 years of age, possess a valid driver’s license...”

Cause: We noted the University did not have any policies and procedures governing the use of state owned vehicles.

Effect: The possibility exists drivers of fleet vehicles may not have been licensed drivers or drivers of the leased vehicle may not have been over age 25 and the drivers may not have been covered under the University’s insurance policy. Also, the fleet vehicle and fuel card may have been used for non-Business related travel and gone unnoticed by management.

Recommendation: We recommend the University comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and HEPC Procedural Rule Title 133, Series 29, and establish [and put into operation] approved written policies and procedures for State owned vehicles. We further recommend the policies and procedures for State owned vehicles include copying drivers license of employees and students using State vehicles; completion of paperwork [including documentation of proper age for compliance with applicable lease agreements] prior to vehicle usage and proper notation of supervisory review; proper storage of fuel cards; maintaining receipts to support purchases placed on fuel cards; and a reconciliation between the monthly fuel card statement, the receipts and the log kept by the work study students.

University’s Response: We concur with the findings and will take steps to implement the auditors’ recommendations. In addition, Enterprise will allow van drivers, under the age of 25, if the driver has completed an on-line training course. As part of our

implementation plan, we will require the course before allowing an underage person to drive the vans.



**Finding 8**                      **Scrap Vehicles Are No Longer Covered by BRIM But License Plates Are Affixed**

Condition:                      The University has a total of 24 [owned and leased] fleet vehicles onsite at the campus. We noted five of the State-owned fleet vehicles are not used by the University and are noted on their records as “scrap”. These five vehicles are no longer covered under the Board of Risk and Insurance Management (BRIM) but four continue to have license plates attached.

Criterion:                      Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,  
  
“The head of each agency shall...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities...”

Cause:                              The Director of Physical Plant told us there is no set procedure followed to remove the plates from the vehicles.

Effect:                              The license plate could be stolen or borrowed and used on other vehicles. This could be a liability to the University.

Recommendation:              We recommend the University comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and return the scrapped vehicles license plates to the Division of Motor Vehicles.

University’s Response:        We concur with these findings and will implement the recommendations.



**Finding 10****Bookstore Book Buyback**

## Condition:

We noted the Bookstore Manager performs all functions of the textbook buyback and there is not an offsetting internal control strength to substantiate the lack of segregation of duties. This increases the risk that error, theft, and/or fraud [of the wholesale vendor's money used in the textbook buyback] may occur and go unnoticed by University management.

We noted during our audit period the wholesale vendor did not perform the University's textbook buybacks. Rather, the Bookstore Manager conducted the textbook buybacks with the wholesale vendor's money. Upon completion of the textbook buyback, the Bookstore Manager created a Book Buyback Report detailing the price of the wholesale books, number of books needed, number of books purchased and original price; mailed the wholesale books purchased to the wholesale vendor; and sent a cashier's check for the remaining cash amount to the wholesale vendor. Also, the wholesale vendor sends an invoice to the University for the amount of the wholesale vendor's money used to purchase text books kept by the University.

## Criteria:

Management is responsible for establishing and maintaining effective internal controls. A fundamental concept of internal control is adequate segregation of incompatible duties. For adequate segregation of duties, management should ensure responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets are assigned to different employees.

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part,

"The head of each agency shall...(b) make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designated to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities..."

Codification of Statements on Auditing Standards, AU 316.85, states in part,

"...Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks
- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations..."

## Cause:

The Bookstore Manager performs all functions of the textbook buyback and there is not an offsetting internal control strength to substantiate the lack of segregation of duties.

Effect: The possibility exists that that error, theft, and/or fraud [of the wholesale vendor's money used in the textbook buyback] may occur and go unnoticed by University management.

Recommendation: We recommend the University comply with Chapter 5A, Article 8, Section 9 of the West Virginia and strengthen internal controls. We recommend the University require a representative from the wholesale vendor who is independent from the University to conduct the book buyback. If the University continues to allow the Bookstore Manager to perform the textbook buyback, we recommend a proper offsetting internal control be implemented. For example, University management could ensure the number of textbooks listed as purchased during the textbook buyback for the University were properly entered into the University's inventory system and that the number of these on-hand textbooks reconciles to the number of books in the University's inventory.

University's Response: We concur with findings and will make necessary changes in controls.



**ATTACHMENT A**



Concord University Bookstore

Student Center  
1000 Vermillion Street  
PO Box 1000, D-122  
Athens, WV 24712

Phone: 304-384-5314  
Fax: 304-384-3096  
E-mail:



CONCORD  
UNIVERSITY

MEMO:

To

Name:  
Organization Name/Depth:  
CC:  
Phone number:  
Fax number:

From

Concord University  
Phone: 304-384-5314  
Fax: 304-384-3096

*Urgent  
For Review  
Please Comment  
Please Reply*

Date sent:  
Time sent:  
Number of pages including cover pages:

Message:

This memo is in response to the request made by visiting auditors to explain the differences found in the counts of the deposits made by the auditors and the actual count made when the deposits were recounted later in the day for delivery to the business office. The primary explanation revolves around the fact that the Bookstore manager was in process of counting the deposits for delivery on the morning of 8/25/09 when the Bookstore became so busy that the Bookstore manager could not complete the count and a portion of the monies for one day were put in the wrong envelope and then put back in the safe. This is explained below by day.

Auditor's Count 8/24/09: Cash=\$5085.25, Checks=\$4,966.97, MO=\$400.00  
POS Report stated cash to be= \$3111.50, difference of= -\$26.25, Checks = \$5172.47 (including MO that was validated as check).  
After counting all Checks and the Money Order for the value written by the customer. The actual total of the checks was \$5366.97 because money order was not validated for \$400.00 but for total of sale(\$232.00).  
Cash recounted taking this into account was the same as counted by the Auditors or \$5085.25  
Total of cash, checks, and MO = \$10,452.22.  
Total Cash that should've been in envelope for 8/24/09 = \$4,917.00 (including the \$26.25), for a difference of \$168.25. determined that this was the amount that apparently was displaced during the busy moment when some cash was put in the wrong envelope and this amount should have been for 8/25/09.

Auditor's Count 8/25/09: Cash=\$3624.00, Checks=\$4272.13  
POS Report stated Cash = \$4240.41, Checks=\$4272.13  
Difference in cash= -\$616.41.  
\$616.41-\$168.25= \$448.16.  
After noticing the shortage, the Bookstore Manager looked through all envelopes and found that a small bunch of bills were bound in the returns and credit card envelope for 8/25/09 (The auditors apparently missed counting this bunch of bills because they were bound to the returns receipts inside a second envelope that was not examined thoroughly). The Bookstore Manager concluded that this small amount must have been put in this envelope at the end of day when the last register was counted down after closing. The small amount was exactly \$443.00. This still left a shortage of -\$5.16. This amount was added by the Bookstore out of his own wallet to make up for the difference and make sure the deposit balanced.

Auditor's Count 8/26/09: Cash=\$3004.25, Checks\$1063.42  
POS report stated cash = \$3008.76, checks = \$1063.42  
Difference = -\$4.51. This difference was added in by Bookstore Manager out of his own wallet in order to balance.





**ATTACHMENT B**





April 28, 2010

Mr. Aaron Allred  
Legislative Auditor's Office  
Building 1, Room W-329  
1900 Kanawha Blvd., East  
Charleston, WV 25305-0610

Dear Mr. Allred:

In reference to your letter of April 20, 2010 addressed to Dr. Aloia, please be advised that the padlocks to the fuel tanks have been replaced. New keys are being issued to appropriate employees. The attached list indicates who now has, or will ultimately have, a key to the fuel pumps.

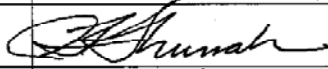
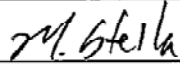
Thank you for calling this issue to our attention and we hope that our response alleviates your concerns.

Sincerely,

A handwritten signature in cursive script that reads "Charles P. Becker".

Charles P. Becker, Interim VP Business & Finance

cc. Dr. Gregory F. Aloia

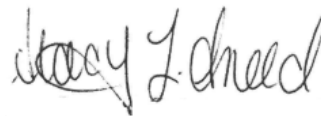
FUEL TANKS LOCATED AT MAINTENANCE				
KEY ISSUED				
KEY #	GAS & DIESEL	DATE ISSUED	PERSON ISSUED TO	SIGNATURE
#1	DGM18	4/26/10	Jeff Shumaker	
#2	DGM18	4/26/10	Mark Stella	
#3	DGM18	4/26/10	Terry Moulder	
#4	DGM18		GARY KENTON	
#5	DGM18		ROY SHORTER	
#6	DGM18		STEVEN WOOD	
#7	DGM18		JOHN BUCKLAND	
#8	DGM18		LARRY MANN	
#9	DGM18		TERRY ROTEBERRY	
#10	DGM18		STANLEY METZ	
#11	DGM18			
#12	DGM18			
#13	DGM18			
#14	DGM18			
#15	DGM18			

**STATE OF WEST VIRGINIA**

**OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:**

I, Stacy L. Sneed, CPA, CICA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 8th day of June 2010.



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Stacy L. Sneed, CPA, CICA, Director  
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record.

Copies forwarded to the West Virginia Higher Education Policy Commission; Concord University; Governor; Attorney General; and State Auditor.