

LEGISLATIVE AUDIT REPORT

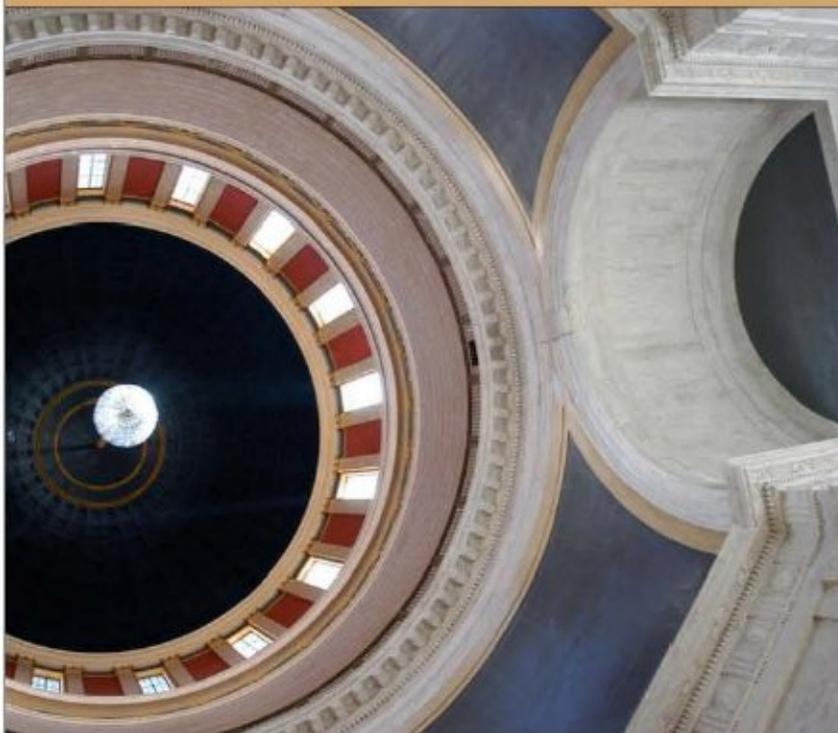
WEST LIBERTY UNIVERSITY

Athletic Department, Development Office & Alumni Association

FOR THE PERIOD JULY 1, 2007 - JUNE 30, 2010

REPORT OVERVIEW

- Operating as a Non-Profit Organization When Not Incorporated
- Not Reporting Fringe Benefits
- Non-Allowable Expenditures
- Use of State Facilities for Personal Gain



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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 W. Va. Code, §4-2, as amended, we have conducted an audit of West Liberty University's Athletic Department, Development Office, and Alumni Association for the period of July 1, 2007 through June 30, 2010.

We have conducted our audit in accordance with Generally Accepted Government Auditing Standards except for the organizational independence impairment discussed in the Opinion section of the Independent Auditor's Report. Our audit disclosed certain findings, which are detailed in this report. West Liberty University's management responded to the audit findings; we have included the responses following each finding.

Respectfully submitted,

A handwritten signature in black ink that reads "Stacy L. Sneed".

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

SLS/cdo

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	- 2 -
EXECUTIVE SUMMARY	- 4 -
INTRODUCTION	- 11 -
POST AUDIT AUTHORITY.....	- 11 -
BACKGROUND.....	- 11 -
SPENDING UNIT CONTACTS	- 12 -
REPORT SCOPE	- 13 -
OBJECTIVES AND METHODOLOGIES	- 13 -
CONCLUSIONS	- 14 -
EXIT CONFERENCE	- 14 -
FUND LISTING	- 15 -
REPORTABLE COMPLIANCE AND OTHER MATTERS	- 16 -
Finding 1 Operating as a Non-Profit Organization When Not Incorporated	- 16 -
Finding 2 Not Reporting Fringe Benefits.....	- 19 -
Finding 3 Non-Allowable Expenditures	- 21 -
Finding 4 Use of State Facilities for Personal Gain	- 24 -
Finding 5 Lack of Internal Controls Over Cash Receipts	- 25 -
Finding 6 Purchasing Procedures Not Followed	- 27 -
Finding 7 Monies Not Deposited Timely.....	- 30 -
Finding 8 Lack of Supporting Documentation	- 33 -
Finding 9 Misclassified Expenditures and Revenues	- 36 -
Finding 10 Non Reconciliation of FIMS to Banner	- 41 -
Informational Item 1 - Not Reporting Taxable Income	- 42 -
CERTIFICATE OF DIRECTOR,	
LEGISLATIVE POST AUDIT DIVISION	- 43 -

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

INDEPENDENT AUDITOR'S REPORT

Post Audit Subcommittee:

Compliance

We have audited West Liberty University's (hereafter referred to as WLU) Athletic Department, Development Office, and Alumni Association's compliance with the laws, rules, and regulations applicable for fiscal years 2008, 2009, and 2010. Compliance with the requirements referred to above is the responsibility of WLU's management. Our responsibility is to express an opinion on the WLU's compliance based on our audit.

Except for the organizational impairment described in the following paragraph, 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 could have a material effect on WLU. An audit includes examining, on a test basis, evidence about WLU's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of WLU's compliance with those requirements.

In accordance with W. Va. Code §4-2, the Post Audit Division is required to conduct post audits of the revenues and expenditures of the spending units of the state government. The Post Audit Division is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audit Subcommittee. Therefore, the Division has historically been organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State. However, this organizational independence was impaired when the President of the Senate became acting Governor of the State on November 15, 2010, in accordance with W.Va. Code §3-10-2. Audits completed after this date will not comply with Generally Accepted Governmental Auditing Standards sections 3.12 – 3.15. These sections of the auditing standards assert that the ability of an audit organization to perform work and report the results objectively can be affected by placement within the governmental organizational structure. Since the President of the Senate is acting Governor, the Executive Branch has the ability to influence the initiation, scope, timing, and completion of any audit. The Executive Branch could also obstruct audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports.

In our opinion, except for noncompliance noted in the findings of this report, WLU complied, in all material respects, with the compliance requirements referred to above that are applicable for fiscal years 2008, 2009, and 2010.

Internal Control

Management of WLU 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 WLU'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 WLU's internal control over compliance.

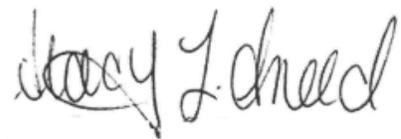
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness* in internal control over 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.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the University's internal control in Findings 5 and 9 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Respectfully Submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed". The signature is written in black ink and is positioned above the printed name.

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

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

EXECUTIVE SUMMARY

Finding 1 Operating as a Non-Profit Organization when not Incorporated

- We noted the “Hilltopper Athletic Club” (hereafter referred to as the Club) was operating as a non-profit organization. However, the organization is not incorporated in West Virginia. Revenues received by the Club were approximately \$101,515 for fiscal years 2008 – 2010. Two unauthorized local bank accounts operated in the name of the Club using WLU’s Athletic Department address. The management of these accounts were conducted by WLU employees, and in some instances, during the employees regular scheduled work hours.

Auditor’s Recommendation

We recommend the Club cease operating and representing the organization as a “non-profit” until the WV Secretary of State approves the Articles of Incorporation and proper documentation has been filed with the Internal Revenue Service. In addition, we recommend WLU create an authorized and approved special revenue account in accordance with W.Va. Code §12-1-7. Also, WLU should comply with W.Va. Code §5A-8-9 by maintaining adequate documentation and complete bank reconciliations monthly. In addition, WLU should create a purpose for the special revenue account, guidelines for the collection and disposition of the membership dues and fundraising revenues, and procedures for the year-end balance. In the event WLU would re-open a local bank account, we recommend WLU obtain authorization and approval from the State Treasurer’s Office.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 16-18.

Finding 2 Not Reporting Fringe Benefits

- We noted four athletic employees received taxable fringe benefits such as housing, meals, and utilities valued at approximately \$53,564 that were not reported by WLU on W-2’s or 1099’s.

Auditor’s Recommendation

We recommend WLU comply with W.Va. Code §18B-10-13 and establish fees to be charged for employee housing. In addition, we recommend that WLU comply with W.Va. Code §5A-8-9 and make and maintain adequate documentation for “fringe benefits” provided to employees. We also recommend WLU comply with their Personnel Procedure: 039 and require employee tenants to complete and sign a rental

agreement. Furthermore, we recommend that WLU comply with Internal Revenue Code §119(a) and report “fringe benefits” to the Internal Revenue Service and on employee W-2’s.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 19 & 20.

Finding 3 Non-Allowable Expenditures

- We noted seven out of 149 or 5% of purchasing card (P-Card) transactions tested where non-allowable expenditures were charged on P-Cards for approximately \$8,547.

Auditor’s Recommendation

We recommend WLU comply with the following:

W. Va. Code §18B-5-9(2), WLU’s Purchasing Card Handbook, West Virginia State Auditor’s Office Purchasing Card Policies and Procedures Handbook, W. Va. Code §12-3-10(a) and, W.Va. Code§ 12-3-10(b) by not allowing employees to use Purchasing Cards to purchase food, hotel rooms for non-employees, fuel, association dues, alcohol, movies/video games, anything personal in nature or not beneficial to the University. Also, WLU should not pay West Virginia sales tax on purchases made on products and services in West Virginia. Additionally, we recommend WLU seek reimbursement for non-employee hotel and food/alcohol expenses and employee’s personal movie/video expenses. In addition, we recommend WLU adhere to their disciplinary policies and procedures, including revoking card privileges, if necessary. We believe enforcing disciplinary policies and procedures will discourage purchasing cardholders from making non-allowable purchases.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 21-23.

Finding 4 Use of State Facilities for Personal Gain

- We noted West Liberty University Athletic Coaches conducted ten athletic camps during our audit period using University facilities. The revenues received for such camps were deposited into personal checking accounts maintained by the athletic coaches; however, the University did not receive any compensation for the facilities used.

Auditor’s Recommendation

We recommend WLU comply with the Board of Governor’s Policy 48 and prohibit the use of University facilities and/or equipment for personal gain. In addition, we recommend management monitor all activities/camps on campus to ensure assets are not being utilized for personal gain. Additionally, we recommend WLU Board of Governors create and implement a fee schedule for facility rental of external organizations.

Spending Unit's Response

The University agrees and will comply with the Legislative Auditors recommendation.
See page 24

Finding 5 Lack of Internal Controls Over Cash Receipts

- WLU does not have an institution-wide policy and/or procedure for the control and documentation of cash receipts.
- Some collection points are not recording cash and cash equivalents on a daily basis detailing at minimum the date received, payee, check number or cash receipt number, amount, and purpose.
- Mail logs are not completed to document receipts.
- Monies are not recorded on a standardized cash count sheet or tracking sheet.
- Season ticket reconciliations are not completed annually.

Auditor's Recommendation

We recommend that WLU develop an institution-wide policy and procedure for the collection, counting, and depositing of monies received. In addition, we recommend WLU comply with W. Va. Code §5A-8-9 and strengthen internal controls over cash collections at all cash collection points by implementing cash count sheets, cash and cash equivalent logs, and mail logs. Additionally, we recommend WLU complete season ticket reconciliations annually as well as create and implement policies and procedures for the issuance of season tickets and collection of season ticket monies.

Spending Unit's Response

The University agrees and will comply with the Legislative Auditors recommendation.
See pages 25 & 26.

Finding 6 Purchasing Procedures not Followed

We noted the following purchasing procedures not followed:

- Two instances out of 149 or 1% of P-Card transactions tested where cardholders processed their P-Cards multiple times for payment of two transactions for approximately \$31,160.
- Receipts were not signed nor were receiving reports completed for 42 out of 149 instances or 28% of P-Card transactions tested for approximately \$9,981.
- 17 P-Card transactions out of 149 or 11% tested, did not provide an itemized receipt for approximately \$4,028,.

- We noted one instance out of 149 or 1% of P-Card transactions tested where a cardholder did not sign his/her P-Card Log Sheet for approximately \$1,361.
- We noted one instance out of 149 or 1% of P-Card transactions tested where a Purchasing Card Exception Sheet was not completed entirely when submitted for approximately \$383.

Auditor’s Recommendation

We recommend that WLU comply with the following:

The West Virginia State Auditor’s Purchasing Card Policies and Procedures Handbook, W. Va. Code §12-3-10(f), and the WLU’s Purchasing Card Handbook (Revised 8-01-2009) by signing and dating all receipts and purchasing logs, completing receiving reports for all tangible commodities purchased, and only purchasing necessary products and/or services that do not exceed individual single transaction limits using a P-Card (ie. avoid stringing). Also, if a purchase is expected to exceed an individual’s single transaction limit, the payment/invoice should be directed to the Business Office.

The Purchasing Card Coordinator should request and only accept itemized receipts for all purchases. Cardholders should complete a “Purchasing Card Exception Sheet” in its entirety, if a receipt is lost or misplaced. In addition, we recommend WLU employee’s refuse payment or implement disciplinary action for P-Card purchases that do not follow purchasing procedures.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. **See pages 27-29.**

Finding 7 Monies Not Deposited Timely

- We noted 26 instances out of 26 or 100% of cash receipts tested where deposits were not made within one business day of collection totaling approximately \$1,026,222. WLU held monies for an average of 43 days before depositing into Chase Bank.
- We noted four instances out of ten or 40% of gate receipts tested where deposits were not made within one business day of collection totaling approximately \$3,180.
- We noted monies received, in the amount of approximately \$17,060, were not deposited into a State account.
- Season ticket revenues were collected by the Development Office staff in the amount of approximately \$5,585; however, these revenues were deposited into a local bank account in the name of the “Hilltopper Athletic Club” and expended for athletic purposes at the discretion of the Athletic Director and/or the Development Officer without the Board of Governor’s approval.

Auditor's Recommendation

We recommend WLU comply with W. Va. Code §12-2-2 by depositing monies collected within 24 hours of receipt as well as maintain a daily itemized record of monies received for deposit. We also recommend the WLU Foundation review their deposits to determine if any monies made payable to WLU were deposited into a WLU Foundation account. In addition, we recommend the WLU Foundation reimburse WLU for monies deposited into a Foundation account that were made payable to WLU.

Spending Unit's Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 30-32.

Finding 8 Lack of Supporting Documentation

- We noted 14 out of 65 instances, or 22% of the transactions tested, totaling approximately \$323,176, where supporting documentation was unavailable for current expenses.
- We noted seven out of 32 instances, or 22% of the transactions tested, totaling approximately \$268,126, where WLU failed to maintain adequate documentation supporting asset expenditures.
- We noted 13 out of 26 instances, or 50% of the cash receipts tested that required supporting documentation was not maintained amounting to approximately \$61,104.
- We noted 14 out of 35 instances, or 40% of the transactions tested, totaling approximately \$51,377, where WLU failed to maintain adequate documentation supporting repairs and alterations expenditures.
- We noted one out of ten instances, or 10% of the gate receipts tested that documentation was not maintained for an unknown amount. In addition, supporting documentation for all 11 athletic event gate receipts during fiscal year 2008 was not maintained. Athletic event gate receipts for fiscal year 2008 totaled \$24,055.
- We noted two out of 149 instances, or 1% of the transactions tested, totaling approximately \$1,075, where mandatory receipts were missing from P-Card holders Purchasing Card files.

Auditor's Recommendation

We recommend WLU comply with W. Va. Code §5A-8-9 and W. Va. Code §21-5C-5 and maintain all supporting documentation that accompanies the transactions. We also recommend WLU Purchasing Department implement an institution-wide purchasing requisition, used by all WLU departments, for requesting Purchase Orders.

Spending Unit's Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 33-35.

Finding 9 Non Reconciliation of FIMS to Banner

- We noted WLU’s Accounting Department did not complete reconciliations of West Virginia Financial Information System (FIMS) to their internal accounting system (Banner).

Auditor’s Recommendation

We recommend WLU comply with W. Va. Code §5A-8-9 and perform reconciliations between FIMS transactions and Banner transactions in a more timely manner.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. See pages 36-40.

Finding 10 Misclassified Expenditures and Revenues

- We noted that annual increments, in the amount of \$31,875, were misclassified as object code 001 (Personal Services).
- We noted ten instances out of 26 or 38% of the deposits tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$6,440.
- We noted four instances out of 264 or 2% of the expenditures tested were coded incorrectly according to the West Virginia Expenditure Schedule Instructions in the amount of approximately \$3,843.

Auditor’s Recommendation

We recommend West Liberty University comply with the West Virginia State Expenditure Schedule and properly account for revenues and expenditures.

Spending Unit’s Response

The University agrees and will comply with the Legislative Auditors recommendation. See page 41.

Informational Item 1 Not Reporting Taxable Income

- We noted two West Liberty University Athletic Coaches conducted four athletic camps during tax years 2007, 2008, and 2009. Revenues totaling approximately \$80,380 were received by the Athletic coaches and were deposited into personal checking accounts; however, the Athletic Coaches did not report these revenues on Federal or WV State taxes as taxable income.

Auditor's Recommendation

We recommend that all persons promptly pay all taxes and other amounts due from them to the State.

Spending Unit's Response

The University will notify the individuals involved as to the Legislative Auditor's recommendation.

See page 42.

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

INTRODUCTION

POST AUDIT AUTHORITY

This is the report on the review of West Liberty University's (WLU) Athletic Department, Development Office, and Alumni Association. This audit was conducted pursuant to Chapter 4, Article 2, as amended, of the West Virginia Code, which requires the Legislative Auditor to "make post audits of the revenues and funds 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

West Liberty State College was chartered March 30, 1837 as West Liberty Academy and was operated privately until 1870 when it became West Liberty State Normal School. The name was changed to West Liberty State Teachers College in 1931 and to West Liberty State College in 1943. The College, located in West Liberty on State Route 88, eight miles north of Wheeling, is a multipurpose four-year liberal arts coeducational institution.

West Liberty grants baccalaureate degrees in elementary and secondary education, arts and sciences, business administration, dental hygiene, nursing and clinical laboratory science as well as offering the associate degree in dental hygiene. The College is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, Chicago, Illinois; the National Accrediting Agency for Clinical Laboratory Sciences, Chicago, Illinois; the National Council for Accreditation of Teacher Education, Washington, DC; National Association of Schools of Music, Reston, Virginia; the West Virginia Board of Examiners for Professional Registered Nurses; the National League for Nursing Accrediting Commission, New York, New York; Commission on Collegiate Nursing Education, Washington, DC; the American Dental Association Commission on Dental Accreditation, Chicago, Illinois; and the International Assembly for Collegiate Business Education, Overland Park, Kansas. Membership is maintained in the American Association of State Colleges and Universities, the American Council on Education, the American Association of Colleges for Teacher Education, and the Association of Governing Boards of Universities and Colleges.

**WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010**

**SPENDING UNIT CONTACTS
FOR EXAMINATION COVERING PERIOD OF JULY 1, 2007 THROUGH JUNE 30, 2010**

Robin C. CapehartPresident
John E. Wright, IIIExecutive Vice President/Chief Financial Officer
John L. Davis.....Executive Vice President/General Counsel
Cynthia McGee.....Business Manager
Sherri Mason.....Accounting Senior
James Watson Athletic Director
Jason Koegler Executive Director, Development Office
Ron Witt Director, Alumni Association

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

REPORT SCOPE

We have audited West Liberty University's Athletic Department, Development Office, and Alumni Association for the period of July 1, 2007 through June 30, 2010. Our scope included an audit of internal control and compliance with laws, regulations, and provisions of the Athletic Department, Development Office, and Alumni Association revenues and expenditures. The audit was conducted in accordance with Generally Accepted Government Auditing Standards, except for the organizational independence impairment previously described in the Opinion section.

OBJECTIVES AND METHODOLOGIES

The objectives of our report were to audit WLU's Athletic Department, Development Office, and Alumni Association transactions; to report any misapplication of State funds or erroneous, extravagant, or unlawful expenditures by WLU's Athletic Department, Development Office, and Alumni Association that we find; to ascertain facts, and to make recommendations to the Legislature concerning audit findings, the revenues and expenditures of the state and of the organization, and functions of the state and its spending units. We were to determine whether expenditure and revenue transactions were related to the WLU Athletic, Development and Alumni programs, were reasonable, and were recorded properly in the accounting systems. Additionally, we were to examine WLU's records and internal control over transactions and to evaluate its compliance with applicable State laws, rules, and regulations.

In preparation for our testing, we studied legislation, applicable WV Code sections, applicable rules and regulations, and policies of WLU. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observations of WLU's operations, and through inspections of documents and records. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Additionally, we reviewed the budget, studied financial trends, and interviewed WLU personnel to obtain an understanding of the programs and the internal controls respective to the scope of our audit. In planning and conducting our audit, we focused on Athletic, Development, and Alumni financial-related areas of operations based on assessments of materiality and risk.

We did not audit WLU's federal financial assistance programs for compliance with federal laws and regulations because the State of West Virginia engages an independent accounting firm to annually review such programs administered by State agencies.

To select transactions for testing, a non-statistical sampling approach was used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Transactions were selected for testing randomly and using professional judgment.

WLU's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subject to the auditing procedures applied in the audit of the University and, accordingly, we express no opinion.

WLU'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.

CONCLUSIONS

We noted significant internal control weaknesses in WLU's Athletic Department, Development Office, and Alumni Association 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 University that did not warrant inclusion in this report.

EXIT CONFERENCE

We discussed this report with management of West Liberty University on February 24, 2011. All findings and recommendations were reviewed and discussed. Management's response has been included at the end of each finding.

**WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010**

FUND LISTING

We have completed a review of WLU's Athletic Department, Development Office, and Alumni Association. The examination covers the period of July 1, 2007 through June 30, 2010.

SPECIAL REVENUE ACCOUNTS

WLU maintained the following special revenue account. This account represents funds from specific activities as required by law or administrative regulations. This fund was deposited with the State Treasurer in the following special revenue accounts:

Fund Number	Fund Name
4563	Auxiliary & Auxiliary Capital Fees

Auxiliary & Auxiliary Capital Fees Fund

This fund comprises other collections, fees, licenses, and investment earnings to fund all auxiliary and auxiliary capital fees (governed by W. Va. Code §18B-10-1).

WEST LIBERTY UNIVERSITY
ATHLETIC DEPARTMENT, DEVELOPMENT OFFICE, AND ALUMNI ASSOCIATION
JULY 1, 2007 – JUNE 30, 2010

REPORTABLE COMPLIANCE AND OTHER MATTERS

Finding 1 Operating as a Non-Profit Organization When Not Incorporated

Condition: We noted that the “Hilltopper Athletic Club” (the Club) originated as a 501(c)3 organization. Revenues received by the Club were approximately \$56,356, \$7,145, and \$38,014 for Fiscal Years 2010, 2009, and 2008, respectively. 501(c)3 status was not maintained due to nonpayment of the annual license fee. On March 6, 2009, Branch Banking and Trust (BB&T) informed the Club that 501(c)3 documentation was needed in order to maintain a checking account as a non-profit organization. In April 2009, the Club submitted forms to the Internal Revenue Service (IRS) to regain 501(c)3 status. The IRS informed the Club that incorporation documentation must be stamped by the West Virginia Secretary of State’s office. The Club submitted new Articles of Incorporation to the West Virginia Secretary of State. The West Virginia Secretary of State denied the Articles of Incorporation for the fact that the West Virginia Department of Revenue and Tax revoked the Club. In July 2009, the Club opened a checking account at Main Street Bank. The Club presented themselves as an Incorporation with 501(c)3 status to Main Street Bank. The Club continued to operate as a 501(c)3 organization which was incorporated in the State of West Virginia knowing that the entity was not an authorized 501(c)3 incorporated organization.

“Hilltopper Athletic Club” revenues are generated from membership dues and fundraising activities. These revenues were deposited into two local bank accounts that operated in the name of the Club using WLU’s Athletic Department’s address. The accounts were not open simultaneously. These accounts were not authorized or approved by the West Virginia State Treasurer’s Office. Monthly bank balances varied between \$16,863 and (\$882) during our review period. The average monthly balance during our review period was \$5,671.

The administration, advertising, selling tickets, and performing deposits for the membership dues and fundraisers were performed by State employees; and in some instances, during the State employees regular scheduled work hours. We were able to determine that \$513 was expended for alcohol beverages and/or alcohol services. In addition, WLU did not perform bank reconciliations for the aforementioned account(s).

Criteria: Chapter 29, Article 19, Section 5 of the West Virginia Code, states in part,

“(a) Every charitable organization...which intends to solicit contributions, donations or grants within this state or to have funds solicited or received on its behalf shall, prior to any

solicitation, file a registration statement with the Secretary of State...”

Chapter 29, Article 19, Section 15(d) of the West Virginia Code, states in part,

“...Any charitable organization who willfully and knowingly violates any provisions of this article by employing any device, scheme, artifice, false representation or promise with intent to defraud or obtain money or other property shall be guilty of a misdemeanor, and, upon conviction thereof, for a first offense, shall be fined not less than one hundred dollars nor more than five hundred dollars, or be confined in the county jail not more than six months, or be both fined and imprisoned; and for a second and any subsequent offense, shall be fined not less than five hundred dollars nor more than one thousand dollars, or confined in the county jail not more than one year, or be both fined and imprisoned...”

Chapter 12, Article 1, Section 7 of the West Virginia Code, states in part,

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

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: Checks needed to be written for expenses incurred by the “Hilltopper Athletic Club”; therefore, during July of 2009 the Main Street Checking Account was opened with the initial deposit of \$22,000.00 by a Development Officer and a non-employee (WLU alumni) under the Hilltopper Athletic Club, Inc.’s name and WLU’s Athletic Departments’ address.

The Athletic Director stated that he did not believe the monies were State monies; therefore, the account did not need to be authorized by the State Treasurer’s Office. However, the Chief Financial Officer deemed the “Hilltopper Athletic Club” revenues to be State monies

Effect: By operating as a non-profit organization absent proper authorization to do so, taxes not applicable to non-profit organizations may be evaded. In addition, collecting donations from deceived donors may potentially result in litigation. By not having the local bank account(s) approved by the State Treasurer’s Office, the revenues generated from the membership dues and fundraising activities were not reported as revenues nor were the expenses from the local

bank account(s) recorded as expenses on WLU's financial statements. Since bank reconciliations were not performed, we were unable to determine if monies collected and deposited were in accordance with WV Code.

Recommendation: We recommend the "Hilltopper Athletic Club" cease operating and representing the organization as a "non-profit" organization until the Articles of Incorporation are approved by the WV Secretary of State and proper documentation has been filed with the Internal Revenue Service. In addition, we recommend WLU create an authorized and approved special revenue account in accordance with W.Va. Code §12-1-7. Additionally, WLU should comply with W.Va. Code §5A-8-9 by maintaining adequate documentation and complete bank reconciliations monthly. In addition, WLU should create a purpose for the special revenue account, guidelines for the collection and disposition of the membership dues and fundraising revenues, and procedures for the year-end balance. In the event WLU would re-open a local bank account, we recommend WLU obtain authorization and approval from the State Treasurer's Office.

Spending Unit's Response: The "Hilltopper Athletic Club" has closed the outside bank account and transferred the account balance to a University account. The "Club" has ceased to operate as an independent organization. The University account is subject to all State and University accounting and financial procedures. If the "Club" is reconstituted within the University framework it will follow all of the guidelines recommended by the Legislative Auditors. There are no plans to reopen any local bank accounts.

Finding 2

Not Reporting Fringe Benefits

Condition:

We noted four issues with athletic employee fringe benefits valued at approximately \$53,564. First, we noted four athletic employees were living in campus housing valued at approximately \$36,320 free-of-charge. In addition, services such as cable television, telephone, internet, and utilities were provided free-of-charge valued at approximately \$6,160. Second, we noted two of the four athletic employees were provided meal plans free-of-charge with the benefit valued at approximately \$11,084. The job descriptions do not state that housing and/or meals be provided as a benefit of employment or that the position is required to “live-in” campus housing. Third, we noted that WLU management was unaware of the free-of-charge housing and meals provided to the employees. Fourth, we noted that the employees’ housing benefit was not reported on the employee’s W-2’s (See chart below for a detailed listing of reportable amounts).

<u>Fringe Benefit</u>	<u>Reportable Amount</u>
Housing	\$36,320
Meals	11,084
Utilities	4,525
Cable, Telephone, Internet	<u>1,635</u>
TOTAL	<u>\$53,564</u>

Criteria:

Chapter 18B, Article 10, Section 13 of the West Virginia Code, states in part,

“The appropriate governing board of each state institution of higher education shall fix the fees to be charged students and faculty members for rooms, board and meals at the dormitories, faculty homes, dining halls and cafeterias operated by such board at the institution. Such fees shall be commensurate with the complete cost of such services....”

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....”

Section 119(a) of the Internal Revenue Code, states in part,

“Meals and lodging furnished to employee, his spouse, and his dependents, pursuant to employment. There shall be excluded from gross income of an employee the value of any meals or lodging furnished to him, his spouse, or any of his dependents by or on behalf of his employer **for the convenience of the employer, but only if** -

(2) in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment....” (Emphasis Added)

Cause: The Chief Financial Officer, Human Resources Department, and the Payroll Department were unaware of the fringe benefits provided to the employees.

Effect: By providing employees with campus housing free-of-charge, WLU recognized a loss in revenue. In addition, services such as cable television, internet, telephone, and utilities were expenses recognized by WLU that were not reimbursed by the employees. Lack of management oversight and documentation prevented the “fringe benefit” from being reported on the employees’ W-2’s.

Recommendation: We recommend that WLU comply with W.Va. Code §18B-10-13 and establish fees to be charged for employee housing. In addition, we recommend that WLU comply with W.Va. Code §5A-8-9 and make and maintain adequate documentation for “fringe benefits” provided to employees. We also recommend WLU comply with their Personnel Procedure: 039 and require employee tenants to complete and sign a rental agreement. Also, we recommend that WLU comply with Internal Revenue Code §119(a) and report “fringe benefits” to the Internal Revenue Service and on employee W-2’s.

Spending Unit’s
Response:

Any employee receiving “fringe benefits” of housing is required to sign a rental agreement and required to pay utilities and cable/internet fees. All “fringe benefit” meal plans must be covered by WV48’s. In any case of non-cash “fringe benefits” the individual must have prior written approval of the Director of Human Resources and the Chief Financial Officer. The University will comply with Internal Revenue Code §119(a) and report “fringe benefits” to the Internal Revenue Service and on employee W-2’s.

Finding 3

Non-Allowable Expenditures

Condition:

From a population of 2,593 P-Card transactions, we noted seven instances out of 149 or 5 percent of items tested where purchases were non-allowable in the amount of approximately \$8,547. First, we noted that food was purchased totaling approximately \$7,170. The non-allowable food purchases do not include team travel meals. Second, we noted a hotel room and applicable tax was charged to a WLU P-Card for a non-employee. The non-employee stayed four nights in the hotel room, totaling approximately \$645. Third, we noted that fuel was purchased in the amount of \$479. Fourth, we noted Association dues were paid by use of P-Card in the amount of \$193. Fifth, we noted alcohol was purchased in the amount of \$24. In addition, the alcohol was charged to a hotel room, paid for with a WLU P-Card, by a non-employee. Sixth, we noted WV sales tax was paid totaling approximately \$21. Seventh, we noted a movie/video game purchase, in the amount approximately \$14, charged to a hotel room paid for with a P-Card. (See chart below for a detailed listing of non-allowable purchase amounts)

<u>Non-Allowable Expense</u>	<u>Amount</u>
Food	\$7,170.00
Hotel Room – Non-Employee	645.00
Fuel	479.00
Association Dues	193.00
Alcohol – Non-Employee	24.00
WV Sales Tax	21.00
Movie/Video Game	14.00
TOTAL	<u>\$8,546.00</u>

Criteria:

Chapter 18B, Article 5, Section 9(2) of the West Virginia Code, states in part,

“...Traveling expenses may not include fuel or food purchases...”

West Liberty University’s Purchasing Card Handbook, Revised 8-01-2009, states in part,

“...The purchase card **CANNOT** be used for payment of any association dues. All payments for association dues are required to be processed by Accounts Payable...”

...“Restricted items that cannot be purchased with a purchase card:

- Alcoholic beverages...

West Virginia State Auditor’s Purchasing Card Policies and Procedures Handbook, states in part,

“...Travel expenses shall not include food expenses or any personal expenses on hotel folios such as room service or movie expenses...”

... “The State of West Virginia is tax exempt and should not pay tax to in-state vendors...”

Chapter 12, Article 3, Section 10a of the West Virginia Code, states in part,

Purchasing cards issued under the program shall be used for official state purchases only...”

Chapter 12, Article 3, Section 10b of the West Virginia Code, states in part,

“...It is unlawful for any person to use a state purchase card, issued in accordance with the provisions of section ten-a of this article, to make any purchase of goods or services in a manner which is contrary to the provisions of section ten-a of this article or the rules promulgated pursuant to that section. Any person who violates the provisions of this section is guilty of a felony and, upon conviction thereof, shall be confined in the penitentiary not less than one nor more than five years, or fined no more than five thousand dollars, or both fined and imprisoned...”

Cause: The WLU Athletic Director explained the food, alcohol, movie/video game and hotel room for a non-employee was accidental in nature and unintentional.

The WLU Business Manager stated purchases regarding food, fuel, association dues and sales tax were due to human error and lack of proper oversight.

Effect: By allowing cardholders to purchase commodities that are non-allowable, State monies are not utilized in the legislation’s intended manner. Monies that could have been used on allowable products and services are unavailable due to the misuse of appropriated funds. Further, budgeted funds intended for needed goods and services may not be available when non-allowable purchases are made.

Recommendation: We recommend that WLU comply with the following:

W. Va. Code §18B-5-9(2), WLU’s Purchasing Card Handbook, West Virginia State Auditor’s Office Purchasing Card Policies and Procedures Handbook, W. Va. Code §12-3-10(a) and, W.Va. Code §12-3-10(b) by not allowing employees to use Purchasing Cards to purchase food, hotel rooms for non-employees, fuel, association dues, alcohol, movies/video games, anything personal in nature or not beneficial to the University. Also, WLU should not pay West Virginia sales tax on purchases made on products and services in West Virginia. Additionally, we recommend WLU seek reimbursement for non-employee hotel and food/alcohol expenses and employee’s personal movie/video expenses.

In addition, we recommend WLU adhere to their disciplinary policies and procedures, including revoking card privileges, if necessary. We believe enforcing disciplinary policies and procedures will discourage cardholders from making non-allowable purchases.

Spending Unit's
Response:

The University will comply with W.Va. Code §18B-5-9(2), WLU's Purchasing Card Handbook, West Virginia State Auditor's Office Purchasing Card Policies and Procedures Handbook, W.Va. Code §12-3-10(a) and, W.Va. Code §12-3-10(b). The University has recovered the food/alcohol expenses and is in the process of recovering the non-employee and employee's personal movie/video expenses. The University will institute stronger disciplinary procedures for cardholders making non-allowable purchases.

Finding 4 Use of State Facilities for Personal Gain

Condition: We noted WLU Athletic Coaches conducted ten athletic camps during our audit period (July 1, 2007 – June 30, 2010). The athletic coaches utilized several WLU facilities to conduct these athletic camps; however, a facility fee was not charged by WLU nor was the University reimbursed for the additional expenses incurred such as utilities, maintenance, and housekeeping. The revenues received by the athletic coaches were deposited into personal checking accounts; therefore, University facilities were used for personal activities that resulted in personal gain.

Criteria: Section 4.2 of West Liberty University’s Board of Governor’s Policy 48, states in part:

“An employee may not use the College’s computers or other equipment, vehicles (including vehicles rented or leased by the College), facilities, supplies, etc. for personal projects or for activities that result in private gain – including but not limited to, other employment – to the employee or to another individual.”

Cause: The athletic coaches were under the impression that the fees charged for room and board included the use of all facilities.

Effect: The use of State facilities for personal gain could result in additional expenses and/or liability incurred by WLU.

Recommendation: We recommend WLU comply with the Board of Governor’s Policy 48 and prohibit the use of University facilities and/or equipment for personal gain. In addition, we recommend management monitor all activities/camps on campus to ensure assets are not being utilized for personal gain. Additionally, we recommend WLU Board of Governors create and implement a fee schedule for facility rental of external organizations.

Spending Unit’s Response: In the fiscal Years 2008 and 2009 the University charged both internal and external camps/conferences for room and board. Both internal and external camps/conferences benefited from the University’s failure to follow the Board of Governor’s Policy No. 48. In fiscal year 2010 and summer of 2010 the University charged both internal and external camps/conferences a 15% fee on top of food costs. This fee was designed to cover University overhead and the University recognizes it did not comply with Board of Governor’s Policy 48. The University is in the process of determining facility fees that will be presented to the Board of Governor’s for approval at the meeting on April 20, 2011. The approved fee schedule will be implemented and applied to both internal and external camps/conferences during the summer of 2011.

Finding 5

Lack of Internal Controls Over Cash Receipts

Condition: We noted that WLU does not have an institution-wide policy and/or procedure for the control and documentation of receipts. In addition, all collection points are not recording cash and cash equivalents on a daily basis detailing at minimum the date received, payee, check number or cash receipt number, amount, and purpose. We also noted mail logs are not completed to document receipts. Additionally, all cash collections are not recorded on a standardized cash count sheet or tracking sheet. Also, season ticket reconciliations are not completed annually. We noted there are significant weaknesses concerning cash collecting, counting, and depositing.

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, states in part,

"All officials and employees... shall keep a daily itemized record of moneys received for deposit...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."

Cause: The Business Manager stated that the institution was unaware that the items noted above were a requirement.

Effect: By not having an institution-wide policy and procedure for documenting and collecting revenues, there is no consistency between departments for the collection and depositing of monies and in some instance no audit trail maintained. When collections are not recorded on a daily basis, management and/or auditors are unable to verify that the collections were authorized to be collected and if the monies were deposited intact and timely. If money is collected and not counted at the site of collection, this may allow employees to lose or steal money collected. Without proper management oversight, the possibility exists that allows employees to operate in an environment that is susceptible to theft and/or fraud.

Recommendation: We recommend that WLU develop an institution-wide policy and procedure for the collection, counting, and depositing of revenues. In addition, we recommend that WLU comply with W. Va. Code §5A-8-9 and strengthen internal controls over cash collections at all cash collection points by implementing cash count sheets, cash and cash equivalent logs, and mail logs. Additionally, we recommend WLU complete season ticket reconciliations annually as well as create and implement policies and procedures for the issuance of season tickets and collection of season ticket monies.

Spending Unit's
Response:

The University installed in April 2010 an institution-wide policy and procedure for the collection, counting, and depositing of revenues.

The University will comply with W.Va. Code §5A-8-9 and strengthen internal controls over cash collections at all collection points.

The University will develop policies and procedures for the issuance and collection of season ticket revenues. As an integral part of the policy and procedure will be season ticket reconciliations on a fiscal-year basis.

Finding 6**Purchasing Procedures Not Followed**

Condition:

From a population of 2,593 P-Card transactions, we noted 63 out of 149 transactions tested or 42 percent of purchases were in non-compliance with purchasing procedures in the amount of approximately \$31,150. First, we noted two instances where WLU employees processed their P-Cards multiple times for payment of one transaction, also known as stringing, totaling approximately \$15,397. Second, we noted 42 instances, in the amount of approximately \$9,981, where receipts were not signed nor were receiving reports completed within 24 hours of receipt of goods to attest items were received. Third, we noted 17 instances, in the amount of approximately \$4,028, where receipts were not itemized. Fourth, we noted one instance where a P-Card holder failed to sign his P-Card Purchasing Log in the amount of approximately \$1,361. Fifth, we noted one instance where an incomplete, excluding quantity of services, "Purchasing Card Exception Sheet" was submitted, in the amount of approximately \$383, in place of an original receipt. (See chart below for a detailed listing of non-allowable purchase amounts)

<u>Purchasing Procedures not Followed</u>	<u>Noncompliance Instances</u>	<u>Amount</u>
Stringing	2	\$ 15,397
Unsigned Receipts	42	9,981
Receipts not Itemized	17	4,028
Unsigned P-Card Purchasing Log	1	1,361
Incomplete "Purchasing Card Exception Sheet"	1	383
TOTAL	63	<u>\$31,150.00</u>

Criteria:

Chapter 12, Article 3, Section 10(f) of the West Virginia Code, states in part,

"A receiving report shall be submitted to the state auditor verifying the receipt of commodities by a state spending unit. The receiving report shall be an internally-generated document, either written or prepared using electronic media, that identifies commodities received. Commodities as defined in this section include, but are not limited to, the following: Materials, equipment, supplies, printing and automated data processing hardware and software.

The state officer or employee acting as head of each spending unit is responsible for the completion and timely submission of the receiving reports,... The receiving reports shall include, but not be limited to, the following information: Vendor name, description and quantity of commodities received, date commodities are received, whether commodities are acceptable for payment, and a signed acknowledgment of receipt by the employees receiving the commodities. The receiving reports required by this section shall be prepared within twenty-four hours of the receipt of the commodities."

West Liberty University's Purchasing Card Handbook, Revised 8-01-2009, states in part,

"Receiving reports are required for all commodities that are not strictly services. The reports may consist of packing slips, or the form developed for the p-card process. All receipts must be signed and dated within 24 hours of the receipt of the material."

West Virginia State Auditor's Office Legislative Rule Title 155, Series 1 Receiving Report Requirements from the Secretary of State's Code of State Rules, states in part:

"...All receiving reports shall be prepared within 24 hours after the receipt of commodities received...A receiving report shall be in a format approved by the Auditor...All receiving reports submitted to the Auditor shall contain the following... The date the commodities were received. The actual date on which the commodities were received by the authorized individual... All receiving reports shall contain the original signature of the authorized individual designated to receive commodities and prepare receiving reports..."

West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, states in part,

"...It is a violation of policy to manipulate the ordering, billing, or payment process in order to circumvent established cardholder limits."

"...The receipt must be legible, itemized..., and contain the vendor name, date of purchase and price of items. Receipt documentation may be paper or electronic and shall be retained by the Spending Unit..."

"...Cardholders must review all transactions to ensure that they are legitimate, for official State business, and that all required documentation is included..."

"...In the event that an acceptable form of receipt is not available, the cardholder shall create, either in paper or electronic form, an itemized list which satisfies the requirements set forth in this subsection. The cardholder and direct supervisor or coordinator's signatures, physical or electronic, are required as well as the date the goods were received, along with whatever receipt is available."

Cause: The WLU Business Manager stated errors regarding Receipts not itemized, Unsigned Receipts/Receiving Report, and Unsigned Documents (Purchasing Card Exception Sheet & Unsigned P-Card Log Sheet) were due to human error and lack of proper oversight.

The WLU Athletic Director stated exceeding his P-Card single transaction limit was accidental in nature and unintentional; he was unsure of the proper method for running the transaction.

The WLU Volleyball Coach stated the bill should have been split into two transactions. The uniforms and shoes were ordered at the same time however, they were received separately.

Effect:

By processing P-Card transactions for payment, that are in noncompliance with internally generated policies and procedures, West Virginia State Code and the West Virginia State Auditor's Purchasing Card Policies and Procedures, WLU may approve purchasing card transactions for payment that are potentially fraudulent in nature. Unsigned receipts and internal purchasing documents may allow unauthorized individuals to make purchases. Processing payment for products or services that exceed a cardholder's single transaction limit allow the cardholders to make purchases beyond their intended use. Receipts that are not itemized create a risk of allowing payment for products that may be non-allowable or incorrectly calculated in amount due.

Collectively, all of the aforementioned purchasing procedures not followed allow for potential fraud or misuse of the West Virginia State Purchasing Card.

Recommendation:

We recommend that WLU comply with the following:

The West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, W. Va. Code §12-3-10(f), and the West Liberty University Purchasing Card Handbook (Revised 8-01-2009) by signing and dating all receipts and purchasing logs, completing receiving reports for all tangible commodities purchased, and only purchasing necessary products and/or services that do not exceed individual single transaction limits using a Purchasing Card (ie. avoid stringing). Also, if a purchase is expected to exceed an individual's single transaction limit, the payment/invoice should be directed to the Business Office.

The Purchasing Card Coordinator should request and only accept itemized receipts for all purchases. Cardholders should complete a "Purchasing Card Exception Sheet" in its entirety if a receipt is lost or misplaced. In addition, we recommend WLU management refuse payment or implement disciplinary action for P-Card purchases that do not follow purchasing procedures.

**Spending Unit's
Response:**

The University will comply with the West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, W.Va. Code §12-3-10(f), and the West Liberty University Purchasing Card Handbook (Revised 8-01-2009). While the University believes it has made considerable improvement in fiscal year 2010, the University recognizes there are too many errors and oversights in the use and audit of the P-Cards.

The University has hired a Controller to be responsible for the financial operations of the Business Office. With the addition of this position the University expects considerable improvement in the efficiency and overall procedure control of the Business Office functions.

Finding 7**Monies Not Deposited Timely**

Condition: From a population of 36 Cash Receipts transactions, we noted two issues of non-compliance.

1. We noted 26 instances out of 26 or 100% of items tested where deposits were not made within one business day of collection totaling approximately \$1,026,222. WLU held monies for an average of 43 days before depositing into J.P. Morgan Chase bank. We were unable to determine the number of days monies were held before being deposited for four of the transactions tested due to the lack of supporting documentation; therefore, they were not included in calculating the average days monies were held before deposited.
2. We noted one instance out of 26 or 4% of items tested where monies received in the amount of approximately \$10 were not deposited into a State account.

From a population of 78 Athletic Events, we noted four instances out of ten or 40% of athletic event revenues tested where deposits were not made within one business day of collection totaling \$3,180. For the athletic event revenues noted above, WLU held monies for an average of 5 days before depositing into J.P. Morgan Chase bank.

The items noted above are detailed in the chart below

Substantive Test	Noncompliance Instances	Tested Instances	Percent (%) of Noncompliance	Average Days	Amount
Cash Receipts	26	26	100%	43	\$1,026,222
Gate Receipts	4	10	40%	5	3,180
TOTAL	30	36	80%	36	<u>\$1,029,402</u>

We also noted monies received in the amount of approximately \$17,060 were not deposited into a State account. First, we noted two checks made payable to West Liberty University Athletic Department in the amounts of approximately \$2,475 and \$9,000 were not deposited into a State account. The monies were deposited into the West Liberty University Foundation. Second, we noted that season ticket revenues were collected by the Development Office staff in the amount of approximately \$5,585; however, the revenues were not deposited into the auxiliary operating account. The revenues were deposited into a local bank account in the name of the "Hilltopper Athletic Club". The season ticket revenues were expended for athletic purposes at the discretion of the Athletic Director and/or the Development Officer without the Board of Governor's approval.

Criteria: Chapter 12, Article 2, Section 2 of the West Virginia Code, states in part,

"All officials and employees... shall keep a daily itemized record of moneys received for deposit...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.”

Chapter 18B, Article 10, Section 11 of the West Virginia Code, states in part,

“...The governing board of a state institution of higher education may fix and charge admission fees to athletic contests.....All money received from such fees and contracts shall be deposited in the auxiliary operating account of the institution and expended for any purpose considered necessary and proper by the governing board....”

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 Business Manager stated WLU business office employees were unaware that deposits were required to be made within 24 hours of collection.

The Athletic Director stated checks received and made payable to the Athletic Department were intended for the “Hilltopper Athletic Club Foundation Account” but were made out incorrectly. The Athletic Director also stated season ticket monies collected by the Development Office were not segregated to reflect the portion of monies which should have been deposited as “Season Ticket Revenues” in the auxiliary operating account.

The WLU Program Assistant II stated gate receipts were not required by the University to be deposited within 24 hours of collection during our audit period however, subsequent to our audit period the WLU CFO informed the Athletic Department that all deposits must be made within 24 hours of collection.

Effect: Monies that are not deposited in a timely manner may not be properly safeguarded resulting in the risk of misplacement or theft. When monies were not deposited into a State account, WLU did not receive the revenues and interest was not earned on the monies. And, by not depositing season ticket monies into a State account, WLU did not receive the revenues for which they provided a service. In addition, the financial statements did not reflect these revenues.

Recommendation: We recommend that WLU comply with W. Va. Code §12-2-2 by depositing monies collected within 24 hours of receipt as well as maintain a daily itemized record of monies received for deposit. We also recommend the West Liberty University Foundation review their deposits to determine if any monies made payable to WLU were deposited into a West Liberty University Foundation account. In addition, we recommend the West Liberty University Foundation

reimburse WLU for season ticket revenues and monies deposited into a Foundation account that were made payable to WLU.

Spending Unit's
Response:

The University will comply with W.Va. Code §12-2-2 by depositing monies collected within 24 hours of receipt as well as maintain a daily itemized record of monies received for deposit. All Imprest funds have been reviewed and updated. Imprest procedures and timing are monitored on a regular basis.

The University has filed for reimbursement of the \$2,475.97 and \$9,000.00 erroneously deposited in the West Liberty Foundation.

The University is in the process of determining the amount of Athletic ticket revenue deposited erroneously by the Alumni Association and Hilltopper Athletic Club in the Foundation over the FY 08, 09, and 10. The University will file for reimbursement from the Foundation and redeposit in the proper Athletic Department revenue account.

Athletic season ticket sales and procedures are under review to assure proper account deposit and reconciliation.

Finding 8**Lack of Supporting Documentation**

Condition:

- From a population of 684 current expenses transactions, we noted 14 out of 65 instances, or 22% of the transactions tested, totaling approximately \$323,176, where supporting documentation was unavailable.
- From a population of 67 asset purchases, we noted seven out of 32 instances, or 22% of the transactions tested, totaling approximately \$268,126, where WLU failed to maintain adequate documentation supporting asset expenditures.
- From a population of 36 cash receipts transactions, we noted 13 out of 26 instances, or 50% of the cash receipts tested that required supporting documentation was not maintained amounting to approximately \$61,104.
- From a population of 88 repairs and alterations transactions, we noted 14 out of 35 instances, or 40% of the transactions tested, totaling approximately \$51,377, where WLU failed to maintain adequate documentation supporting repairs and alterations expenditures.
- From a population of 78 athletic events, we noted one out of ten instances, or 10% of the gate receipts tested that documentation was not maintained for an unknown amount. In addition, supporting documentation for all 11 athletic event gate receipts during fiscal year 2008 was not maintained. Athletic event gate receipts for fiscal year 2008 totaled \$24,055.
- From a population of 2,593 purchasing card transactions, we noted two out of 149 instances, or 1% of the transactions tested, totaling approximately \$1,075, where mandatory receipts were missing from P-Card holders Purchasing Card files.

The items noted above are detailed in the charts below

Expenses		
<u>Test</u>	<u>Noncompliance Instances</u>	<u>Amount</u>
Assets	7	\$268,126
Current Expenses	14	323,176
Repairs and Alterations	14	51,377
Purchasing Cards	2	<u>1,075</u>
TOTAL	37	<u>\$643,754</u>

Revenues		
<u>Test</u>	<u>Noncompliance Instances</u>	<u>Amount</u>
Cash Receipts	13	\$61,104
Gate Receipts (FY 2008)	11	24,055
Gate Receipts (FY 2009-2010)	1	N/A *
TOTAL	25	<u>\$85,159</u>

**Unable to determine the amount due to deposit not made within 24 hours.*

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, states in part,

"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 received for deposit in the State Treasury...."

West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, states in part,

"...In the event that an acceptable form of receipt is not available, the cardholder shall create, either in paper or electronic form, an itemized list which satisfies the requirements set forth in this subsection. The cardholder and direct supervisor or coordinator's signatures, physical or electronic, are required as well as the date the goods were received, along with whatever receipt is available..."

"...The receipt must be legible, itemized (reflecting the goods or services purchased), and contain the vendor name, date of purchase and price of items. Receipt documentation may be paper or electronic and shall be retained by the Spending Unit. A receipt description, which only states "Miscellaneous", or "Merchandise", or only includes a vendor's stock or item number, is not acceptable..."

Cause:

The WLU Business Manager stated errors regarding missing documentation were due to human error and lack of proper oversight.

WLU Business Office employees explained athletic event deposit receipts and supporting documentation for fiscal year 2008 are unavailable due to misplacement.

The WLU Procurement Director stated missing purchasing documents are due to poorly managed storage.

Effect: Missing receipts or missing information may allow payment for products or services that may not be an allowable expense. Missing deposit receipts and supporting documentation may cause controversy between departments and the Business Office if a discrepancy should occur. Further, missing athletic event supporting documentation may allow for theft or misuse of collected funds.

Recommendation: We recommend that WLU comply with W. Va. Code §5A-8-9 and maintain all supporting documentation that accompanies the transactions. We also recommend WLU Purchasing Department implement an intuitional-wide purchasing requisition, used by all WLU departments, for requesting Purchase Orders.

Spending Unit's Response: The University will comply with W.Va. Code §5A-8-9 and maintain all supporting documentation that accompanies the transactions.

In the spring of 2010 the University had accumulated approximately 2,000 boxes of various department records. These were stored on parts of three floors in Shaw Hall and had to be relocated with the renovation of the building. With a review of records retention and advice from the Legislative Auditors on financial retention the University shredded approximately 900 boxes of unnecessary records. The remaining records are currently in storage in a dormitory and will be moved to a newly designed record retention area in Shaw Hall upon completion of the renovation. Record storage and proper retention is being monitored on a regular basis.

Prior to the fall of 2008 the University's use of and adherence to P-Card procedures was admittedly erratic. In the fall of 2008, all repair, maintenance, and capital items were eliminated from P-Card use and required a standard purchase order requisition. The Purchasing Department maintains detailed records on all purchase order transactions.

Finding 9

Misclassified Expenditures and Revenues

Condition:

- We noted that annual increments, in the amount of \$31,875, were misclassified as object code 001 (Personal Services). We believe annual increment should have been classified as object code 004 (Annual Increment). Misclassified annual increment amounts for Fund 4563 – Auxiliary and Auxiliary Capital Fees were \$9,625, \$11,125, and \$11,125 for fiscal years 2008, 2009, and 2010, respectively.
- From a population of 36 Cash Receipts transactions, we noted ten instances out of 26 or 38% of the deposits tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$6,440. We noted nine deposits totaling approximately \$652 were coded as object code 682 (Athletic Event Income). We believe the correct object code for these transactions is 679 (Tuition and Fees). We also noted one deposit totaling approximately \$5,787 was coded as object code 682; we believe this deposit should have been coded as object code 670 (Gifts and Donations).
- From a population of 684 Current Expense transactions, we noted one instance out of 65 or 2% of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$2,533. This transaction was coded using object code 051 (Miscellaneous). We believe the appropriate object code for this transaction is 052 (Training and Development).
- From a population of 654 Contractual and Professional transactions, we noted one out of 50 instances or 2% of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$772. This transaction was coded using object code 025 (Contractual and Professional); however, we believe this type of transaction does not meet the definition of Object Code 025. We believe the nature of this type of transaction should be coded using object code 059 (Student Activities).
- From a population of 2,593 P-Card transactions, we noted two instances out of 149 or 1 percent of the items tested were in noncompliance with West Virginia Expenditure Schedule Instructions in the amount of approximately \$537. We noted one out of 149 (1%) instances in the amount of approximately \$477 where a transaction was coded using object code 026 (Travel); however, we believe this transaction has a specific object code 029 (Vehicle Rental). We also noted one out of 149 (1%) instances in the amount of approximately \$59 where a transaction was coded using the object code 051 (Miscellaneous), we believe this transaction belongs under object code 034 (Clothing, Household, and Recreational Supplies).

The items noted above are detailed in the chart on the following page

<u>Transaction Type</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>	<u>Object Code per Agency</u>	<u>Object Code Description Per Agency</u>	<u>Audited Object Code</u>	<u>Audited Object Code Description</u>
Annual Increment	FY 2009	\$11,125.00	001	Personal Services	004	Annual Increment
Annual Increment	FY 2010	11,125.00	001	Personal Services	004	Annual Increment
Annual Increment	FY 2008	9,625.00	001	Personal Services	004	Annual Increment
P-Card	3/15/2010	477.00	026	Travel	029	Vehicle Rental
P-Card	9/22/2009	59.00	051	Miscellaneous	034	Clothing, Household, and Recreational Supplies
Contractual/ Professional	2/14/2008	772.00	025	Contractual/ Professional	059	Student Activities
Current Expenses	9/27/2007	2,533.00	051	Miscellaneous	052	Training and Development
Cash Receipts	7/21/2009	5,787.00	682	Athletic Event Income	670	Gifts and Donations
Cash Receipts	12/11/2009	214.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	12/18/2009	120.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	12/15/2008	80.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	5/11/2010	86.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	3/10/2010	60.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	11/4/2008	40.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	7/21/2009	27.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	5/5/2009	20.00	682	Athletic Event Income	679	Tuition and Fees
Cash Receipts	5/14/2009	4.00	682	Athletic Event Income	679	Tuition and Fees
	TOTAL	\$42,154.00				

Criteria: Object Code 001 as defined in the 2010 Expenditure Schedule Instructions, states,

“Compensation paid to full-time, part-time, temporary or intermittent employees with payroll deductions, e.g., Federal or State withholding, social security, retirement, etc.”

Object Code 004 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“Annual compensation to an eligible employee as defined in the state code (W.Va. Code §5-5-1). The Annual Increment shall be paid from Activity 004 or from another appropriate activity from which salaries are paid,... Annual Increment shall always be paid using Object Code 004.”

Object Code 026 as defined in the 2010 Expenditure Schedule Instructions, states,

“Travel: Payments for authorized in-state and out-of-state travel expenses in accordance with the State Travel Regulations as issued by the Travel Management Office, Division of Purchasing, Department of Administration and other approved travel plans. This object code is applicable to State employees, board members, commission members, consultants, contractors, and students, patients, and inmates of state schools, hospitals and institutions. Includes athletic travel, team and associated individual travel.

Note: Do not include per diem - only travel related to per diem. (See Object Code 002.) For those travel expenses associated with training and development, see Object Code 052. Vehicle rental see Object Code 029.”

Object Code 029 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“Vehicle Rental: Auto, aircraft (i.e., fixed wing and helicopter), farm equipment (off road) rental, earth moving, hauling, and DOH emergencies for snow/flood.”

Object Code 051 as defined in the 2010 Expenditure Schedule Instructions, states,

“Allowable employee recognition awards, except those paid from personal services and benefits, and those supplies or services which cannot be classified under any other object code. Use Object Code 059 for expenses related to student activities.”

Object Code 034 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“...Household supplies include items purchased for cleaning, laundering, detergents, disinfectants, light bulbs, garbage cans, trash bags, etc....”

Object Code 025 as defined in the 2010 Expenditure Schedule Instructions, states,

“Contractual: Charges for services performed on a continuing basis (weekly, monthly, etc.)”

“Professional: Services performed by state agency attorneys, engineers, architects, CPAs, performers, artists, guest speakers and process servers.”

Object Code 052 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“All costs that are associated with the training, development, and education of an employee, ...”

Object Code 682 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“Used to record athletic game ticket sales, athletic department field rentals, tournament fees and miscellaneous.”

Object Code 679 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“Collected by colleges and universities, e.g., educational and general fees, capital fees, auxiliary fees and other similar enrollment, course or program specific fees.”

Object Code 670 as defined in the 2010 Expenditure Schedule Instructions, states in part,

“Used to record private, state and local gifts and donations.”

Cause: The WLU Accountant Sr. stated the aforementioned misclassifications were due to human error. Also, the misclassification of Annual Increment was an error made that was not previously corrected because the Business Office personnel did not realize the classification was incorrect. The Accountant Sr. further informed us the mistake has been addressed subsequent to our audit period; the annual increment expense will be classified as object code 004 (Annual Increment) beginning July 1, 2011.

Effect: By misclassifying expenditures and revenues under an incorrect object code, annual budgeted amounts could be affected. In addition, financial statements could be misstated.

Recommendation: We recommend WLU comply with the West Virginia State Expenditure Schedule and properly account for revenues and expenditures.

Spending Unit’s Response: The University will comply with the West Virginia State Expenditure Schedule and properly account for revenues and expenditures.

The previous statement is and has been the University's objective. Since early 2004 when the University reduced the accounting function to one accountant the burden of coding has fallen on one employee. Shear volume and considerable manual input of data after coding have resulted in errors. The University has hired a Controller to be responsible for the financial operations of the Business Office. With the addition of the position the University expects considerable improvement in the efficiency and overall procedure control of the Business Office functions.

Finding 10

Non Reconciliation of FIMS to Banner

Condition: We noted the WLU Accounting Department did not complete reconciliations of West Virginia Financial Information Management System (FIMS) to WLU's internal accounting system (Banner).

Criteria: Chapter 5A, Article 8, Section 9(b) 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 designed 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 WLU Accountant Sr. stated FIMS is not reconciled to Banner due to the conversion of the Accounts Receivable/Cash system to Banner in July of 2002. The WLU Business office was initially unable to reconcile FIMS to Banner because of the inability to verify the accuracy of the conversion of the old system to Banner.

Effect: Financial statements may be misstated due to an error in transaction(s) and untimely detection by WLU management.

Recommendation: We recommend WLU comply with W. Va. Code §5A-8-9 and perform reconciliations between FIMS transactions and Banner transactions in a more timely manner.

Spending Unit's Response:

The University will comply with W.Va. Code §5A-8-9 and perform reconciliations between FIMS transactions and Banner transactions in a more timely manner.

The previous statement is and has been the University's objective. Unfortunately, since Banner was implemented in 2003 the University has never been able to reconcile Banner with FIMS. The University believes the listing of a multitude of reasons causing non-reconciliation is counter productive. The Banner system has flaws and proper support from WVNET has been inadequate. The University is searching for outside assistance in resolving the Banner system problems. The University has hired a Controller to be responsible for the financial operations of the Business Office. With the addition of the Controller the University expects considerable improvement in the efficiency and overall procedure control of the Business Office functions. With the improvements in Banner and a reduction in manual transaction errors between the systems the University will reconcile FIMS and Banner.

Informational Item 1 Not Reporting Taxable Income

Condition: We noted two WLU Athletic Coaches (Assistant Men’s Basketball Coach, Offensive Coordinator Football Coach) conducted four athletic camps during tax years 2007, 2008, and 2009. Revenues were received by the Athletic coaches and were deposited into personal checking accounts; however, the Athletic Coaches did not report these revenues on Federal or WV State taxes as taxable income. During tax year 2007, there was one instance, in which taxable income was not reported, totaling approximately \$23,230. During tax year 2008, there was one instance, in which taxable income was not reported, totaling approximately \$23,000. During tax year 2009, there were two instances where taxable income was not reported, totaling approximately \$34,150.

<u>Tax Year</u>	<u>Unreported Amount</u>
2007	\$23,230
2008	23,000
2009	34,150
TOTAL	<u>\$80,380</u>

Cause: The Assistant Men’s Basketball Coach stated that he was a basketball coach and not a businessman, and was unaware that he should report this income on his Federal or WV State taxes because of the minimal amount of revenues earned from the athletic camps.

The Offensive Coordinator Football Coach stated that he was also unaware that he needed to report the minimal amount of revenues earned from the athletic camps on his taxes.

Effect: By not reporting athletic camp revenues on individual tax returns, the Athletic Coaches’ taxable income could be understated causing Federal and State Governments to collect insufficient taxes for the year. By not collecting proper taxes for the year, Federal and State Governments could have lost additional revenues earned from interest on the monies not received.

Recommendation: We recommend that all persons promptly pay all taxes and other amounts due from them to the State. Additionally, we recommend the aforementioned athletic coaches amend prior tax returns, as appropriate.

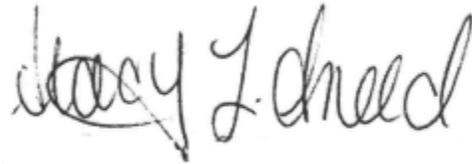
Spending Unit’s Response: The University will notify all internal coaches conducting summer camps to promptly pay all taxes and other amounts due from them to the State. The University will recommend the internal coaches amend prior tax returns as appropriate.

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 25th day of February 2011.

A handwritten signature in black ink that reads "Stacy L. Sneed". The signature is written in a cursive style with a large initial "S".

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; West Liberty University; Governor; Attorney General; and State Auditor.