

LEGISLATIVE POST AUDIT REPORT

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

FOR THE PERIOD JULY 1, 2009 - JUNE 30, 2010

AUDIT OVERVIEW

- Purchasing Procedures Not Followed
- Lack of Supporting Documentation
- Incorrect Payroll Related Tax Reimbursement from the Robert C. Byrd Clinic



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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 the West Virginia School of Osteopathic Medicine for the period of July 1, 2009 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 Objectives and Methodologies section. Our audit disclosed certain findings, which are detailed in this report. West Virginia School of Osteopathic Medicine management responded to the audit findings; we have included the responses following 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

SLS/cdo

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010**

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WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010

EXECUTIVE SUMMARY

Finding 1 Purchasing Procedures Not Followed

- ◆ We noted seven instances out of 50 or 14% of asset purchase transactions tested in the amount of approximately \$1,156,600 where WVSOM failed to comply with West Virginia Higher Education Policy Commission Purchasing Procedures.
- ◆ We noted 33 out of 107 or 31% of purchasing card transactions where purchasing procedures were not followed in the amount of approximately \$426,892.
- ◆ We noted four instances out of 60 or seven percent of cash disbursement transactions tested in the amount of approximately \$8,234 where WVSOM failed to comply with West Virginia Higher Education Policy Commission Purchasing Procedures.
- ◆ We noted 35 instances out of 170 or 21% of inventoried items tested where WVSOM did not inventory items in accordance with West Virginia Higher Education Policy Commission Purchasing Procedures inventory requirements.

Auditor's Recommendation

We recommend WVSOM comply with W.Va. Code §12-3-10(f), Higher Education Purchasing Procedures Manual, and the West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook. In addition, we recommend WVSOM maintain a listing of **all** items purchased over \$5,000. We also recommend WVSOM complete receiving reports, at original point of receipt, within 24 hours of receiving tangible commodities. Additionally, WVSOM should follow all applicable purchasing procedures for all purchases exceeding \$25,000.

Further, we recommend that all receipts be signed and itemized to show each item/service purchased and the price per unit or calculation to reach extended price of product or service. In addition, we recommend all asset locations be recorded as specific buildings and rooms or respective departments, and an institutional procedure be implemented to ensure that inventory is updated whenever assets are assigned to another location. For transferred assets, we recommend the present value, name and address of receiving party, and all other information required by the Higher Education Policy Commission be recorded on the State of West Virginia Retirement And/Or Surplus Form.

Spending Unit's Response

WVSOM concurs. See pages 15-21.

Finding 2 Lack of Supporting Documentation

- ◆ We noted seven instances out of 50 or 14% of asset purchase transactions tested where WVSOM was unable to provide auditors with supporting documentation for transactions totaling approximately \$2,604,906.

- ◆ We noted three instances out of 107 or three percent of purchasing card transactions tested where mandatory supporting documentation was unavailable; amounting to approximately \$20,982.
- ◆ We noted one instance out of 10 or 10% of employees tested where mandatory payroll deduction supporting documentation was not maintained amounting to approximately \$97.

Auditor's Recommendation

We recommend WVSOM comply with W.Va. Code §5A-8-9, W.Va. §21-5C-5, and the West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, by maintaining all required supporting documentation and verifying all documentation is accounted for on the WVSOM server before purging original documents. Further, we recommend that WVSOM maintain all required support documentation for employee deductions and verify all documentation is accounted for on the WVSOM server before shredding original documents.

Spending Unit's Response

WVSOM concurs. See pages 22-25.

Finding 3 Incorrect Payroll Related Tax Reimbursement from the Robert C. Byrd Clinic

- ◆ We noted the West Virginia School of Osteopathic Medicine Clinic, Inc. dba Robert C. Byrd Clinic (RCBC) did not reimburse WVSOM for social security withholding taxes for approximately \$53,269 during tax year 2010.

Auditor's Recommendation

We recommend WVSOM comply with Section VI, E of the Physicians Practice Plan and seek full reimbursement of all costs and payroll related taxes for serving as "paymaster" to the RCBC.

Spending Unit's Response

WVSOM concurs. See page 26.

Finding 4 Non-Compliance with Internal Travel Policies and Procedures

- ◆ We noted 28 instances out of 50 or 56% of travel transactions tested where WVSOM failed to comply with internal travel policies and procedures for approximately \$18,538.

Auditor's Recommendation

We recommend WVSOM comply with their internal Institutional Policy GA-33 by; accepting/approving only travel forms submitted within ten business days from the last day of travel, recalculating expenses before reimbursement, requiring all documentation to be submitted before reimbursement, and date stamping forms when received.

Spending Unit's Response

WVSOM concurs. See pages 27 & 28.

Finding 5 Lack of Internal Controls

During our audit of WVSOM, we noted the following lack of internal controls:

- ◆ The User Name and Password information for local bank accounts held by WVSOM are disclosed in procedures located on the school's server and available to all WVSOM employees.
- ◆ There is no segregation of duties between the cashier and accounts receivable function.
- ◆ Mail logs are not completed to document receipts received through the mail.
- ◆ Accounts receivables are not entered or balanced in the Accounting System. Also, an accounts receivable reconciliation is not performed.
- ◆ Machine totals and numerical receipt sequence is not verified by someone independent of the cashier function for WVSOM cash collection points.
- ◆ Payroll lacks a designated back up for the review of pre-edit when the controller is absent; a designated individual approves, but does not review the pre-edit payroll journal prior to submitting to the State Auditor's Office.
- ◆ Checks written to transfer revenues from the "Clearing Account" into the proper fund are not deposited timely. Additionally, the checks are created prior to a review of documentation and approval for transfer.

Auditor's Recommendation

We recommend WVSOM comply with W.Va. Code §5A-8-9 and W.Va. Code §12-2-2. Additionally, we recommend WVSOM change current passwords for local bank accounts and remove the username and passwords from all published procedures and any devices that may be saving the usernames and/or passwords. We also recommend WVSOM limit the cashiers' access to only posting payments and invoices to the accounts receivable general ledger and deny access that enable the cashier to post adjusting entries or delete invoices. In addition, we recommend WVSOM implement an independent verification of machine totals and numerical receipt sequence. Additionally, we recommend the designated back-up for payroll approval complete a review of payroll prior to submitting to the State Auditor's Office. Further, we recommend WVSOM management review supporting documentation and approve transfer amounts (\$) before the check(s) is created. Also, checks should be signed and deposited within 24 hours of printing.

Spending Unit's Response

WVSOM concurs. See pages 29 - 31.

Finding 6 Incorrect Federal Income Tax Withholding

- ◆ We noted four instances out of 20 or 20% of payroll transactions tested where federal income tax was incorrectly calculated in the amount of approximately \$910.

Auditor's Recommendation

We recommend WVSOM comply with Section 3402(a) of the Internal Revenue Code. Further, we recommend WVSOM reconcile data entry to employee completed documents.

Spending Unit's Response

WVSOM concurs. See page 32.

Finding 7 Misclassified Expenditures

- ◆ We noted two instances out of 29 or seven percent of Miscellaneous Expense transactions tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$38,606.
- ◆ We noted 19 instances out of 50 or 38% of Other/Special Disbursements tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$5,727.
- ◆ We noted one instance out of 55 or two percent of Contractual and Professional Expense transactions tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$4,001.
- ◆ We noted one instance out of 107 or one percent of Purchasing Card transactions tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$1,200.
- ◆ We noted one instance out of 21 or five percent of Repairs and Alterations Expense transactions tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$226.

Auditor's Recommendation

We recommend WVSOM comply with the West Virginia State Expenditure Schedule Instructions. Additionally, we recommend WVSOM reconcile each payroll object code individually.

Spending Unit's Response

WVSOM concurs. See pages 33-36.

Finding 8 Noncompliance with Internal Policies

- ◆ We noted employees are utilizing WVSOM phones for personal long-distance calls.

Auditor's Recommendation

We recommend WVSOM enforce Institutional Policy GA-22 and prohibit the use of personal long-distance phone calls. Additionally, we recommend management take disciplinary action for known use of personal long-distance calls charged to WVSOM.

Spending Unit's Response

WVSOM concurs. See page 37.

Finding 9 Purchasing Procedures Not Approved

- ◆ WVSOM was unable to provide us with the purchasing policies and procedures, for purchases not exceeding \$25,000 that have been approved by the WVSOM President and filed with the Vice Chancellor for Administration.

Auditor's Recommendation

We recommend WVSOM comply with section 2.2.1 of the Higher Education Purchasing Procedures Manual and seek approval of the institutional guidelines for purchases not exceeding \$25,000.

Spending Unit's Response

WVSOM concurs. See page 38.

Finding 10 Incorrect Terminal Pay

- ◆ We noted two instances out of 15 or 13% of items tested where an employee was not paid for unused leave as part of terminal pay in the amount of \$739.18. We also noted one instance out of 15 or seven percent of items tested where an employee was not paid for higher education pay as part of terminal pay in the amount of \$158.49.

Auditor's Recommendation

We recommend WVSOM comply with W.Va. Code §21-5-3. We further recommend WVSOM pay the underpayment to the employees that were affected by the improper calculation of Fiscal Year 2010 Annual Leave and higher education Payments.

Spending Unit's Response

WVSOM concurs. See page 39.

Finding 11 Incorrect W-2 Finding

- ◆ We noted one instance out of 15 or seven percent of items tested, where an employee's wages were overstated on the Form W-2 by \$6,808.40

Auditor's Recommendation

We recommend WVSOM comply with Treasury Regulations, Subchapter C, Sec. 31.6051-1 and Internal Revenue Code: Sec. 3401 for all future periods. We also recommend they follow the IRS Instructions for Forms W-2c/W-3c (Transmittal of Corrected Wage and Tax Statements) and provide Form W-2c to the employee and Forms W-2c and W-3c to the Social Security Administration with the correct amounts.

Spending Unit's Response

WVSOM concurs. See page 40.

Finding 12 Payment Before Services Rendered

- ◆ We noted one instance out of 15 or seven percent of annual increment payments tested where annual increment was incorrectly calculated in the amount of \$60 resulting in payment before services were rendered.

Auditor's Recommendation

We recommend WVSOM comply with W.Va. Code §5-5-2 and W. Va. Code §12-3-13 by calculating annual increment payments properly and not paying for services before services are rendered. Further, we recommend WVSOM seek reimbursement from employees that were affected by the improper calculation of Fiscal Year 2010 Annual Increment Payment.

Spending Unit's Response

WVSOM concurs. See pages 41 & 42.

Finding 13 Incorrect Annual Leave Accrual

- ◆ During our audit of sick and annual leave, we noted one instance out of ten or ten percent of the employees tested where annual leave was incorrectly calculated.

Auditor's Recommendation

We recommend WVSOM comply with the West Virginia Higher Education Policy Commission Procedural Rule Title 133, Series 38, Sections 3.2 and 3.3. In addition, we recommend WVSOM verify the hire date is used to calculate employee leave.

Spending Unit's Response

WVSOM concurs. See page 43.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010

INTRODUCTION

POST AUDIT AUTHORITY

This is the report on the post audit of WVSOM. 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

WVSOM was incorporated in 1972 as Greenbrier College of Osteopathic Medicine. The Greenbrier Military School, which had been in continuous operation for 160 years, closed in May 1972 and was purchased in July by the West Virginia Society of Osteopathic Medicine. In December, a charter for the Greenbrier College of Osteopathic Medicine was obtained from the State of West Virginia, and the school opened in October 1974 as a private institution with a charter class of 36 students. In January 1976, the college was brought into the state system of higher education as the West Virginia School of Osteopathic Medicine.

WVSOM educates primary care physicians for rural communities. The school is dedicated first and foremost to service for West Virginia and addresses the special health care needs of West Virginia’s elderly. The WVSOM program is comprehensive and includes two years of basic science education, two years of clinical training, one year of rotating internship, followed by two or more years of residency training.

The WVSOM Admissions Committee reviews files of all qualified applicants. Preference for admission is given to residents of West Virginia. Historically, just over half of each class has been composed of West Virginia Residents.

The WVSOM curriculum is designed to produce physicians who are competent in rural practice settings while assuring they have the education and legal status required for licensure in all states.

WVSOM is accredited by the Commission on Osteopathic College accreditations (COCA). COCA is recognized by the Council for Higher Education Accreditation and the United States Department of Education as the only official accrediting agency for colleges of osteopathic medicine in America.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010**

**SPENDING UNIT CONTACTS
FOR EXAMINATION COVERING PERIOD OF JULY 1, 2009 THROUGH JUNE 30, 2010**

Dr. Michael D. Adelman, D.O. President
Larry J. Ware, MBA, CPA Vice President for Finance and Administration
Barbara Bragg..... Controller
Pamela Ochala Director of Contracts/Purchasing
Ernest Piercy... Supervisor Central Receiving
Susan Griffith. Accountant/Payroll
Angela J. Hill Accountant

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010

AUDIT SCOPE

We have audited WVSOM for the period of July 1, 2009 through June 30, 2010. Our scope included an audit of internal control and compliance with the West Virginia Code, Higher Education Purchasing Manual, applicable State rules, and internal WVSOM policies applicable for fiscal year 2010. The audit was conducted in accordance with Generally Accepted Government Auditing Standards, except for the organizational independence impairment described in the section below.

OBJECTIVES AND METHODOLOGIES

The objectives of our post audit were to audit WVSOM's revenues and expenditures; to report any misapplication of State funds or erroneous, extravagant, or unlawful expenditures by WVSOM 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. Additionally, we were to examine WVSOM's records and internal control over transactions and to evaluate its compliance with the applicable laws, rules, regulations, and provisions of contracts or grant agreements referred to in the Scope section.

Except for the organizational impairment described in the following paragraph, we conducted our post audit in accordance with the standards applicable to performance audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about WVSOM's compliance with those requirements referred to above and performing such other procedures, as we considered necessary in the circumstances. Our audit does not provide a legal determination of WVSOM'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, but before November 13, 2011, 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 was acting Governor, the Executive Branch had 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 preparation for our testing, we studied legislation, applicable WV Code sections, applicable rules and regulations, and policies of WVSOM. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observations of WVSOM'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 WVSOM 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 the major financial-related areas of operations based on assessments of materiality and risk.

We did not audit WVSOM'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.

WVSOM'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 WVSOM and, accordingly, we express no opinion.

WVSOM'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.

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

WVSOM generally had adequate internal controls over its major financial activities, such as tuition and fees, employee benefits, operating expenses and financial aid. These controls generally ensured that WVSOM safeguarded revenues, paid vendors properly, and assessed fees in accordance with approved fee schedules. However, WVSOM had some control weaknesses and noncompliance in areas of high risk for errors.

For the items tested, WVSOM did not comply with some of the following: West Virginia Code, Title 133, WV Treasury Regulation Sub Chapter C, Internal Revenue Code 3401, Higher Education Purchasing

Manual, West Virginia Budget office 2010 Expenditure Schedule Instructions, applicable State of West Virginia rules, and internal WVSOM policies relevant for fiscal year 2010. Noncompliance with the aforementioned related to procurement, payroll, sick and annual leave accrual, travel expenditures, expense contracts, and expenditure classification.

WVSOM failed to maintain purchasing and bid documentation; therefore, auditors were unable to confirm the contract was awarded to the lowest bidder. Verifications were not performed in the areas of payroll, sick and annual leave accruals, travel expenditure settlements, and contracts. The lack of a verification control resulted in numerous incorrect calculations.

EXIT CONFERENCE

We discussed this report with management of WVSOM on October 13, 2011. All findings and recommendations were reviewed and discussed. Management's response has been included at the end of each finding.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010**

FUND LISTING

We have completed a post audit of WVSOM. The examination covers the period of July 1, 2009 through June 30, 2010.

GENERAL REVENUE ACCOUNTS

WVSOM maintained the following account:

Fund Number	Fund Name
0336	General Administration

SPECIAL REVENUE ACCOUNTS

WVSOM maintained the following special revenue accounts. These accounts represent funds from specific activities as required by law or administrative regulations. These funds were deposited with the State Treasurer in the following special revenue accounts:

Fund Number	Fund Name
4082.....	Tuition and Required E&G Fees
4083	Auxiliary & Auxiliary Capital Fees
4084.....	Education and General Capital Fees
4085	Gifts, Grants, and Donations (Non-Federal)

Tuition & Required E & G Fees Fund

This fund comprises other collections, fees, licenses, and investment earnings used to support all tuition and required educational and general fees (governed by W.Va. Code §18B-10-1).

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).

Education & General Capital Fees Fund

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

Gifts, Grants & Donations (Non-Federal) Fund

This fund comprises other collections, fees, licenses, and investment earnings to fund state, local and private grants, gifts, and contracts (governed by W.Va. Code §18B-10-1).

FEDERAL ACCOUNT

WVSOM maintained the following account that was funded with Federal sources:

<u>Fund Number</u>	<u>Fund Name</u>
8766.....	Federal Grants/Contracts

Federal Grants/Contracts Fund (8766)

This fund is a Federal fund to account for all federal grants and contracts activity (governed by W.Va. Code §18B-4-4).

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
JULY 1, 2009 – JUNE 30, 2010

FINDINGS AND RECOMMENDATIONS

Finding 1 Purchasing Procedures Not Followed

Condition: Out of a population of 144 Asset Transactions totaling approximately \$4,080,515, we tested 50 transactions (35%) of the population and approximately \$3,064,532 (75%) of the total dollar amount. We noted seven instances or 14% of items tested where WVSOM failed to comply with Higher Education Purchasing Policies and Procedures in the amount of approximately \$686,686. First, we noted six instances (12%) where we were unable to trace 45 fixed assets (*100% of purchased items tested greater than \$5,000*), including, but not limited to, medical simulation devices, computer servers and video monitor systems, to the WVSOM Fixed Asset Management System. These untraceable assets amounted to approximately \$643,664. Second, we noted one instance (2%) of items tested where the required receiving report was either not maintained for a purchase or was not scanned into the WVSOM server. This missing receiving report amounted to approximately \$43,022. (*See figure F1-1 below for a detailed listing of purchasing procedures not followed instances and amounts*)

Out of a population of 8,050 Purchasing Card Transactions totaling approximately \$4,061,347, we tested 107 transactions (1%) of the population and approximately \$755,280 (19%) of the total dollar amount. We noted 33 instances or 31% of items tested where Purchasing Procedures were not followed in the amount of approximately \$426,892. First, we noted 29 instances (27%) where receipts were not signed nor were receiving reports completed within 24 hours of receipt of goods to attest items were received amounting to approximately \$323,724. Second, we noted one instance (1%) where a WVSOM employee circumvented the purchasing procedures for purchases over \$25,000 by deeming the commodity to be a “Sole Source Purchase” when the item may have been available by more than one vendor in the amount of \$39,990. Third, we noted two instances (2%), in the amount of approximately \$35,465, where receipts were not itemized. Fourth, we noted one instance (1%) where a WVSOM employee circumvented the purchasing procedures for purchases over \$25,000 by splitting an invoice exceeding \$25,000 into two lesser transactions, also known as stringing, amounting to \$25,000 and \$2,713. (*See figure F1-1 below for a detailed listing of purchasing procedures not followed instances and amounts*)

Out of a population of 816 Cash Disbursement Transactions totaling approximately \$924,976, we tested 60 transactions (7%) of the population and approximately \$427,984 (46%) of the total dollar amount. We noted four instances or seven percent of items tested where the required receiving reports were either not maintained for purchases or were not scanned in to the WVSOM server. These missing receiving reports amounted to approximately

\$8,234. (See Figure F1-1 below for a detailed listing of purchasing procedures not followed instances and amounts)

Out of a population of 3,673 Fixed Assets , we tested 170 inventoried items (5%) of the population. We noted 35 instances or 21% of items tested where Purchasing Procedures were not followed. First, we noted 20 instances (12%) where inventory was in a different location than indicated on the inventory listing. Second, we noted 11 instances (6%) where the inventory listing did not specify the building and room or department location of an item. Third, we noted two instances (1%) where an asset was in WVSOM’s possession; however, its service tag was not easily visible. Fourth, we noted one instance (1%) where the remaining book value was not listed on the State of West Virginia Retirement/Or Surplus Form for an asset transferred to a County/State Agency. Fifth, we noted one instance (1%) where the address of the receiving party was not listed on the State of West Virginia Retirement/Or Surplus Form for an asset transferred to a County/State Agency.

Figure F1-1

<u>Purchasing Procedures not Followed</u>	<u>Instances</u>	<u>Amount</u>
Not Listed on Fixed Asset Inventory	6	\$ 686,686.00
Incomplete Receiving Reports/Unsigned Receipts	34	374,980.00
Bids not obtained	1	39,990.00
Receipts not Itemized	2	35,465.00
Stringing	1	27,713.00
TOTAL	44	\$1,164,834.00

Criteria:

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.2, states in part,

“The Chief Procurement Officer shall develop inventory procedures and an inventory management system for the institution that conforms to generally accepted accounting standards and practices, state law, the rules, policies and procedures of the Commission and the Governing Board have jurisdiction over the institution, and to meet the requirements of the institution’s annual financial audit...”

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.3, states in part,

“At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall in part:

a. Account for all equipment and furnishings with a value at the time of purchase of \$5,000 or more per unit...”

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, which shall be prepared at the original point of receipt of the commodities at the spending unit by employees designated by the head of the spending unit to receive the commodities and prepare 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 Virginia Higher Education Purchasing Procedures Manual, Section 9.2.2, states,

“The state officer or employee acting as head of each spending unit is responsible for the completion and timely submission of the receiving reports, which shall be prepared at the original point of receipt of the commodities at the spending unit by employees designated by the head of the spending unit to receive the commodities and prepare 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 acknowledgement 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 Virginia Higher Education Purchasing Procedures Manual, Section 5.28.1, states in part,

“Sole source and single source procurement are not permissible unless the materials, supplies, equipment, services and printing needed are available from only one supplier. A requirement for a particular proprietary item does not justify sole or single source procurement if there is more than one potential bidder

or offeror for that item. Single source procurement is permitted only when the goods and services are of such a unique nature that they cannot be acquired from any other source....”

Legislative Rule Title 133, Series 30, Section 8.1, states,

“Unless otherwise authorized by law, all purchases or acquisitions of materials, supplies, equipment, services, construction and printing shall be awarded by competitive bidding, except as provided in the following paragraphs of this rule:

- (a) Purchases not exceeding \$25,000;
- (b) Competitive sealed proposals;
- (c) Competitive selection procedures for professional services;
- (d) Sole source and single source procurement;
- (e) Emergency procurement;
- (f) Open end and federal contracts; and
- (g) Essential services.”

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

“...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.”

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.3, states in part,

“At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall: ...

...b. Establish a procedure to number and tag all equipment and furnishings required to be inventoried; ...

...f. Record the location of equipment and furnishings; i.e., the department, or the building and room number; ...”

West Virginia Higher Education Purchasing Procedures Manual, Section 10.2.5.1, states in part,

“Transfers of obsolete, surplus and unusable materials, supplies and equipment may be made to municipal, county, state and

federal agencies and institutions. The Chief Procurement Officer shall keep a record of such transfers containing the following information on each item: ...

...e. Present value of the materials, supplies, and equipment;
and

f. The name and address of the agency or institution receiving the materials, supplies and equipment.”...

Cause:

According to the Supervisor of Central Receiving, items were booked together and capitalized with the building. If the items were listed in the Fixed Asset Inventory System, Banner would “double book” the items and assets on the balance sheet would be overstated.

The WVSOM Supervisor of Accounts Payables II stated the WV State Auditor’s Office considers signed and dated invoices as a permissible form to attest the receipt of commodities.

The WVSOM Supervisor of Accounts Payable II stated the rental contract split into two transactions to circumvent required purchasing procedures should have been acquired through the competitive bidding process and will be in the future.

The WVSOM Purchasing Director stated the purchase exceeding \$25,000 classified as a “Sole Source Purchase” should have been acquired through the competitive bidding process.

The WVSOM Human Resources Assistant III stated transportation and shuttle charges concerning moving expenses are calculated by the vendor via an electronic input system that does not produce an itemized calculation of the complex charges.

The WVSOM Supervisor of Central Receiving stated “We have in place procedure for departments to notify us when equipment is moved from one location to another by e-mail; however our campus is going through several renovation projects replacing the HVAC systems and due to the school hiring a new President and Academic Dean several offices are being relocated, (IT has notified us of all computer moves) and once projects are complete and we finish our equipment inventory up dates will have been caught up with moves.

WVSOM uses Org # as the Department reference #; on our current reports we only list the Org # and not the title assigned to the Org #. After reviewing the Retirement/Or Surplus Forms, we believe this to be an isolated situation when this item was typed into our Q drive file for OBA this line was left blank. The form in question was transferred to the Lewisburg City Police Department and signed by the Lewisburg Chief of Police; our local Police department was in the process of moving from their current location to private house they remodeled to house the Lewisburg Police Department and we did not have their new address.”

Effect: Processing payment for purchases in non-compliance with West Virginia State Code, West Virginia Higher Education Purchasing Procedures Manual and the West Virginia State Auditor's Purchasing Card Policies and Procedures may allow unauthorized purchases to be made with state monies and/or provide opportunity for theft or misplacement of state property. Not completing receiving reports or signing receipts, for purchased products, within 24 hours of original point of receipt deters legislative efforts to prevent theft and identify the initial party receiving commodities.

In addition, by not signing and dating invoices or completing receiving reports at the original point of receipt, human error is more likely to occur when accounting for all products received. Purchases circumventing the procedures required for products or services needed, in excess of \$25,000, and purchases inappropriately classified as "Sole Source Purchase", may allow unqualified related party purchases to take place, inadequate services to be provided, and/or overpayment of services or products purchased. Lastly, receipts that contain charges that do not disclose the calculation used to value the provided services creates a risk of allowing payment for services that are incorrectly calculated in amount due.

By not specifying the department or building and room number each item is located in and not updating locations of assets and not tagging equipment; inventory is more vulnerable to theft and/or misplacement. Also, not knowing the specific or correct location of an asset prevents the intent for employees to take responsibility of assets in their department or office. In addition, audit efforts are hindered by the time required to locate assets; therefore excessive state resources are expended to account for institutional assets.

Names and Addresses are required to be recorded for parties receiving retired assets from higher education institutions. Absent the name and/or address, the asset may be transferred to a fictitious vendor posing as a qualified agency. Present Value of transferred items must also be recorded. Absent the present value, an asset with remaining significant value may be transferred.

Recommendation: We recommend WVSOM comply with W.Va. Code §12-3-10(f), Higher Education Purchasing Procedures Manual, and the West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook. In addition, we recommend WVSOM maintain a listing of all items purchased over \$5,000. We also recommend WVSOM complete receiving reports, at original point of receipt, within 24 hours of receiving tangible commodities. Additionally, WVSOM should follow all applicable purchasing procedures for all purchases exceeding \$25,000.

Further, we recommend that all receipts be signed and itemized to show each item/service purchased and the price per unit or calculation to reach extended price of product or service. In addition, we recommend all asset locations be recorded as specific buildings and rooms or respective departments, and an institutional procedure be implemented to ensure that inventory is updated whenever assets are assigned to another location. For transferred assets, we recommend the present value, name and address of receiving party, and all

other information required by the Higher Education Policy Commission be recorded on the State of West Virginia Retirement And/Or Surplus Form.

Spending Unit's
Response:

WVSOM concurs.

Internal procedures are being reviewed and; where possible, strengthened to meet all regulations and procedures.

In addition, on future building construction, the accounting treatment will be changed for equipment purchased for the new building set-up. The equipment will not be capitalized as part of the building cost, but will be recorded in the fixed asset system individually.

Finding 2**Lack of Supporting Documentation**

Condition:

Out of a population of 144 Assets Transactions totaling approximately \$4,080,516, we tested 50 transactions (35%) of the population and approximately \$3,064,532 (75%) of the total dollar amount. We noted seven instances or 14% of items tested totaling approximately \$2,604,906 where bids and/or purchase orders were either not maintained for all vendors or the required bid documentation was not scanned in its entirety to the WVSOM server. *(See Figure F2-1 below for a detailed listing of lack of supporting documentation instances and amounts)*

Out of a population of 8,050 Purchasing Card Transactions totaling approximately \$4,061,347, we tested 107 transactions (1%) of the population and approximately \$755,280 (19%) of the total dollar amount. We noted three instances or three percent of items tested where mandatory supporting documentation was unavailable; amounting to approximately \$20,982. First, we noted one instance (1%) where the purchasing card maintenance form, for an employee's single transaction limit to be increased from \$0.00 to \$16,831 or above, was not available to support a transaction made in the amount of approximately \$16,830. Second, we noted one instance (1%) where a hospitality form supporting a hospitable purchase in the amount of approximately \$2,077 was not present on the WVSOM Server. Third, we noted one instance (1%) where a receipt was not scanned in its entirety on to the WVSOM server; therefore, we were unable to calculate purchased items in the amount of approximately \$2,075. *(See Figure F2-1 below for a detailed listing of lack of supporting documentation instances and amounts)*

Out of a population of 816 Cash Disbursement Transactions totaling approximately \$924,976, we tested 60 transactions (7%) of the population and approximately \$427,984 (46%) of the total dollar amount. We noted one instance or two percent of items tested totaling approximately \$131 where we were unable to locate a copy of the required purchase order. *(See Figure F2-1 below for a detailed listing of lack of supporting documentation instances and amounts)*

Figure F2-1

<u>Lack of Supporting Documentation</u>	<u>Instances</u>	<u>Amount</u>
Bids and/or Purchase Orders	8	\$2,605,037.00
Maintenance Form	1	16,830.00
Hospitality Form	1	2,077.00
Incomplete Receipt	1	2,075.00
TOTAL	11	\$2,626,019.00

Out of a population of 148 employees, we tested ten employees (7%) of the population. We noted one instance or one percent of employees tested where mandatory support documentation was not maintained amounting to approximately \$97. We noted two deductions taken on payroll dated 07/16/2009 and two additional deductions taken on payroll dated 06/30/2010 that were withheld from an employee, but we could not locate the document

authorizing the deductions with the employee's signature. (See figure F2-2 below for a detailed listing of lack of supporting documentation and amounts)

Figure F2-2

<u>Lack of Supporting Documentation</u>	<u>Payroll Date</u>	<u>Amount</u>
Conseco	06/30/2010	\$56.55
Short Term Disability	06/30/2010	16.75
Short Term Disability	07/16/2009	16.73
PEIA Optional Life	07/16/2009	7.20
TOTAL		\$97.23

Criteria:

West Virginia Higher Education Purchasing Procedures Manual, Section 5.34.1 and part (b), states,

“The Chief Procurement Officer shall maintain a purchasing file for each procurement or acquisition that shall contain all relevant information pertaining to such purchase or acquisition, including but not limited to:”

“. . . b. The quotations, bids, proposals or expressions of interest received in response to a solicitation; however, an unopened quotation, bid, proposal or expression of interest and documents or portions of documents in the procurement file stamped or marked “propriety” in accordance with the West Virginia Code, Chapter 29B, shall not be considered a public document or record;”

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....”

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."

West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, Section 6.2, states,

"Individual transaction limits and credit limits are determined by each Spending Unit P-Card coordinator upon approval by the State Auditor's Office P-Card Division. It is a violation of policy to manipulate the ordering, billing, or payment process in order to circumvent established cardholder limits."

West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook, Section 6.8, states,

"Hospitality expenses may be paid using the P-Card. Specific documentation requirements exist for hospitality expenditures and that documentation must remain consistent regardless of the method of payment. Any hospitality documentation must be available to the State Auditor's Office P-Card Division for inspection."

Chapter 21, Article 5C, Section 5 of the West Virginia Code, states,

"Every employer subject to the provisions of this article shall make or cause to be made, and shall keep and preserve at his place of business for a period of two years, a written record or records of the name and address of each of his employees as herein defined, his rate of pay, hours of employment, payroll deductions, and amount paid him for each pay period."

Cause: The WVSOM Supervisor of Accounts Payables II stated the missing supporting documentation is attributed to human error. Often individuals do not check that all required documentation has been scanned on to the WVSOM server before purging original documents.

The WVSOM Accountant/Payroll stated the missing supporting documentation is attributed to the employee's length of employment. Employees are not required to complete new enrollment forms each year so this employee's original enrollment forms were completed in 1974 and would have either been shredded or in off-site storage.

Effect: By failing to retain proper supporting documentation, we are unable to determine if the lowest advertised bidder received the contract. In addition by not maintaining a copy of the required purchase order, there is an increased risk of unauthorized purchases being made.

Proceeding with payment for transactions lacking supporting documentation may allow for unauthorized purchases. By not completing a hospitality form, expenditures may be made that do not comply with qualifying events that allow for hospitable purchases. A maintenance form should be completed for every change in purchasing card transaction limits. Absent documentation to prove proper transaction limits, purchases are assumed to be made in excess of intended limit.

Deducting amounts from an employee's pay that are not authorized reduces the employee's net pay they should receive. If the employee is not covered by the vendor, the agency has funds that are not due to them. The employee believes they are covered; however, if the employee files a claim, it could be denied.

Recommendation: We recommend WVSOM comply with W.Va. Code §5A-8-9, W.Va. §21-5C-5, and the West Virginia State Auditor's Purchasing Card Policies and Procedures Handbook by maintaining all required supporting documentation and verifying all documentation is accounted for on the WVSOM server before purging original documents. Further, we recommend WVSOM maintain all required supporting documentation for employee deductions and verify all documentation is accounted for on the WVSOM server before purging original documents.

Spending Unit's
Response:

WVSOM concurs.

Internal procedures are being reviewed and strengthened to meet all regulatory requirements.

In addition, effective July 1, 2011, WVSOM implemented the BDMS scanning module of SCT's Banner software suite. The new system provides an opportunity to WVSOM to correct past indexing problems in the previous scanning system K-docs that made retrieving documents challenging.

Finding 4

Non-Compliance with Internal Travel Policies and Procedures

Condition:

Out of a population of 844 Travel Transactions totaling approximately \$258,116, we tested 50 transactions (6%) of the population and approximately \$53,611 (21%) of the total dollar amount. We noted 27 instances (54%) of noncompliance with internal travel policies and procedures for approximately \$17,548.

First, we noted 21 instances where the Travel Expense Account Settlement Forms totaling approximately \$17,261 were not submitted within ten business days after the last day of approved travel as required by the WVSOM Institutional Policy.

Second, we noted one instance where WVSOM reimbursed the employee for meals when a Travel Meal Log was not submitted with the Travel Expense Account Settlement Form. In addition, we were unable to verify approximately \$258 out of the \$750 of travel expenses reimbursed to the employee due to the Travel Meal Log is missing.

Third, we noted two instances where WVSOM reimbursed the employees a total of \$18 over the actual amount of travel expenses incurred. Additionally, we noted three instances where WVSOM did not reimburse the employee for all travel expenses incurred totaling approximately \$11.

Criteria:

Section II of the WVSOM Institutional Policy: GA-33 states in part:

“ . . . Employees are responsible for submitting a State of West Virginia travel expense account settlement form, with all required receipts and attachments, within ten (10) business days after the last day of approved travel to qualify for reimbursement of expenses and for payment.”

Section IX of the WVSOM Institutional Policy: GA – 33 states in part:

“ . . . Responsibility for auditing the expense account of a traveler lies with WVSOM. Approval of a traveler’s expense account settlement by WVSOM means that the expense settlement meets all the criteria established in this policy for reimbursement. WVSOM shall audit and submit an accurate expense account settlement for reimbursement to the State Auditor’s Office within a reasonable amount of time after receiving such settlement from the traveler.”

Section V of the WVSOM Institutional Policy: GA-33 states in part:

“ . . . Receipts are not required for meal reimbursement; however, a WVSOM Meal Expense Log sheet must be attached to the traveler’s expense settlement form when reimbursement for meals is being requested. . . ”

Cause: According to the Supervisor of Accounts Payable II, "WVSOM does not enforce the 10 day rule on travel reimbursement."

According to the Supervisor of Accounts Payable II, incorrect reimbursements were due to a miscalculation, human error, and the employee "went by travel form since he was still within his limits of \$50 per day while traveling out of state. VP signed as approval." In addition, incorrect amounts were reimbursed due to the State Auditor's Office either not rejecting or catching the mistake.

According to the Supervisor of Accounts Payable II, the employee was reimbursed for all expenses without submitting all required documentation due to the missing meal log "may have been with travel but didn't get scanned in properly."

Effect: The time lapse between employee travel and submission of the travel expense account settlement form may allow fraudulent expenses to be less detectable and more likely to occur. Additionally, expenses may be posted to the incorrect Fiscal Year for which they occurred.

By not verifying the travel expense account settlement forms with receipts and other supporting documentation and recalculating charges, unauthorized and/or inflated expenses may be overlooked. Not completing the travel meal log makes it possible for individuals to circumvent dollar amount thresholds setup in WVSOM Institutional Policy.

Recommendation: We recommend WVSOM comply with their internal Institutional Policy GA-33 by accepting/approving only travel forms submitted within ten business days from the last day of travel, recalculating expenses before reimbursement, requiring all documentation to be submitted before reimbursement, and date stamping forms when received.

Spending Unit's Response: *WVSOM concurs.*

The travel expense account settlement timeline provision of WVSOM's internal institutional Policy GA-33 will be enforced.

Finding 5

Lack of Internal Controls

Condition:

During our audit of WVSOM, we noted the following lack of internal controls:

- ◆ The User Name and Password information for local bank accounts held by WVSOM are disclosed in procedures located on the school's server and available to all WVSOM employees.
- ◆ There is no segregation of duties between the cashier and accounts receivable function. In many departments, the cashier has the ability to collect monies from individuals and also post the transaction to the accounts. In addition, the WVSOM Cashier's Office reconciles outside loan bank accounts as well as administers student refunds and revenue transfers from the clearing account.
- ◆ Mail logs are not completed to document receipts received through the mail and mail is not opened by a designated employee separate from the collection or deposit functions and accounts receivable recording function for all collection points with the exception of the WVSOM Cashier's Office.
- ◆ Accounts receivables are not entered or balanced in the Accounting System. Also, an accounts receivable reconciliation is not performed.
- ◆ Machine totals and numerical receipt sequence is not verified by someone independent of the cashier function for WVSOM cash collection points.
- ◆ Payroll lacks a designated back-up for the review of pre-edit when the controller is absent; a designated individual approves, but does not review the pre-edit payroll journal prior to submitting to the State Auditor's Office.
- ◆ Checks written to transfer revenues from the "Clearing Account" into the proper fund are not deposited timely. We noted 11 instances where these transfer checks were waiting signature and/or deposit for two to eight days. Additionally, the checks are created prior to a review of documentation and approval for transfer.

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.” **[Emphasis Added]**

Cause: The Controller stated the following:

- ◆ The username and password was published in the procedures manual not realizing that the manual was going to be available on the server.
- ◆ The lack of segregation between the cashier and accounts receivable function was due to a lack of funding to hire an additional employee.
- ◆ WVSOM was unaware that a mail log was required to be maintained.
- ◆ The non-entry of accounts receivable in Banner was due to the non-usage of the accounts receivable module in Banner. The Information Technology department informed the Controller that it was not cost beneficial to activate the module.
- ◆ The non-verification of machine totals and numerical receipt sequence has not been an issue that needed addressed.
- ◆ The designated back-up for payroll approval is supposed to review the payroll prior to approving.

The Cashier stated that the checks are created prior to approval in order to eliminate the delay of review and approval before creating the check. The two-eight days it sometimes takes may be for the reviewing of documentation or that the designated signor is absent for a couple days.

Effect: When usernames and passwords for local bank accounts are available to a vast number of personnel, the risk of fraud and/or theft is greatly increased. The lack of segregation between the cashier and accounts receivable function creates the potential for granting fictitious discounts and/or deleting paid invoices from the accounts receivable general ledger without managements/accountants knowledge. Due to the lack of a mail log, management and/or auditors are unable to verify that the monies received by mail were deposited intact and timely. By not entering the accounts receivable accounts in the accounting system (Banner), there is no “audit trail” to confirm all entries/adjustments are proper. Also, the non-reconciliation of accounts receivable may lead to incorrect balances being reported on the year-end fund balances or incorrect balances invoiced to patrons. Fictitious discounts, refunds, and voids may be undetected if someone independent of the cashier does not verify machine totals and numerical receipt sequence. The lack of a designated back-up for payroll review creates the potential for incorrect or fraudulent payroll payments when the payroll reviewer is absent. If checks are created two to eight days before depositing, they are more susceptible to theft or misplacement. In addition, by not signing and depositing transfer checks immediately, the checks are more susceptible to theft or misplacement.

Recommendation: We recommend WVSOM comply with W.Va. Code §5A-8-9 and W.Va. Code §12-2-2. Additionally, we recommend WVSOM change current passwords for local bank accounts and remove the username and passwords from all published procedures and any devices that may be saving the usernames and/or passwords. We also recommend WVSOM limit the cashiers’ access to only posting payments and invoices to the accounts receivable general ledger and

deny access that enable the cashier to post adjusting entries or delete invoices. In addition, we recommend WVSOM implement an independent verification of machine totals and numerical receipt sequence. Additionally, we recommend the designated payroll approval back-up complete a review of payroll prior to submitting to the State Auditor's Office. Further, we recommend WVSOM management review supporting documentation and approve transfer amounts (\$) before the check(s) is created. Also, checks should be signed and deposited within 24 hours of printing.

Spending Unit's
Response:

We concur.

WVSOM has taken the recommended actions regarding security and will work towards strengthening internal controls to address the areas noted.

Finding 6 **Incorrect Federal Income Tax Withholding**

Condition: Out of a population of 148 full-time and 111 part-time/work study employees paid, we tested ten (7%) full-time employees and ten (9%) part-time/work study employees. We noted four instances (20%) of items tested where federal income tax was incorrectly calculated in the amount of approximately \$910.

Criteria: Section 3402(a) of the Internal Revenue Code, states in part,

"Except as otherwise provided in this section, every employer making payments of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary..."

Cause: Per the Payroll Accountant, the W-4's were marked by the employees for "Married but withhold at the higher Single rate". The information was entered into the Electronic Payroll Information Control System as "Married".

Effect: The incorrect withholding amounts will not affect the tax liability; however, it could affect the amount an employee will have to pay or be refunded when filing their Income Tax Return with the IRS.

Recommendation: We recommend WVSOM comply with Section 3402(a) of the Internal Revenue Code. Further, we recommend WVSOM reconcile data entry to employee completed documents.

Spending Unit's
Response: *We concur.*

Internal procedures have been strengthened with data entry review being performed within the Payroll Department by the two accountants.

Finding 7

Misclassified Expenditures

Condition:

Out of a population of 29 Miscellaneous Expenditure (051) transactions, we tested 100% of the population totaling approximately \$33,520. We noted two instances or seven percent of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$38,606. These two transactions were coded using object code 051 (Miscellaneous Expenses); however, we believe this type of transaction does not meet the definition of Object Code 051. The nature of this type of transaction should be coded using object code 031 (Association dues and Professional Memberships).

Out of a population of 65 Other/Special Disbursements (object codes 080, 083, 089, 156, and 160) totaling approximately \$905,130, we tested 50 transactions (77%) of the population and approximately \$856,300 (95%) of the total dollar amount. We noted 19 instances or 38% of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$5,727. A portion of the recalculated amount for these 19 expenditures was coded using object code 012 (Public Employees' Insurance); however, we believe this type of transaction does not meet the definition of Object Code 012. The nature of this type of payment should be coded using object code 160 (WV OPEB Contributions).

Out of a population of 1,370 Contractual and Professional (025) transactions totaling approximately \$2,430,258, we tested 55 transactions (4%) of the population and approximately \$1,247,150 (51%) of the total dollar amount. We noted one instance or two percent of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$4,001. 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. The nature of this type of transaction should be coded using object code 027 (Computer Services).

Out of a population of 8,050 Purchasing Card Transactions totaling approximately \$4,061,347, we tested 107 transactions (1%) of the population and approximately \$755,280 (19%) of the total dollar amount. We noted one instance or one percent of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of \$1,200. This transaction was coded using object code 030 (Rentals (Machine and Miscellaneous)); however, we believe the portion of the transaction, amounting to \$1,200, does not meet the definition of Object Code 030. The respective portion of the transaction was made for delivery charges and should be coded using object code 053 (Postal and Freight).

Out of a population of 21 Repairs and Alterations Expenditure (object codes 061-068) transactions, we tested 100% of the population totaling approximately \$87,466. We noted one instance or five percent of the items tested were in noncompliance with the West Virginia Expenditure Schedule Instructions in the amount of approximately \$226. This transaction was coded using object code 062 (Research, Educational, and Medical Equipment Repairs); however, we

believe this type of transaction does not meet the definition of Object Code 062. The nature of this type of transaction should be coded object code 026 (Travel).

The items noted above are detailed in Figure F7-1

Figure F7-1

Transaction Type	Instances	Amount	Object Code per Agency	Object Code Description Per Agency	Audited Object Code	Audited Object Code Description
Miscellaneous	2	\$38,606.00	051	Miscellaneous	031	Association dues
Other/Special	19	5,727.00	012	PEIA Insurance Premiums	160	OPEB Contributions
Contractual/Professional	1	4,001.00	025	Contractual/Professional	027	Computer Services
P-Card	1	1,200.00	030	Rentals	053	Postal and Freight
Repairs and Alterations	1	225.80	062	Research, Education, Med Equip repairs	026	Travel
TOTAL	24	\$49,759.80				

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

“Miscellaneous: 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.”

Object Code 031 as defined in the 2010 Expenditure Schedule Instructions, states,

“Association Dues and Professional Memberships: Dues for membership in associations that benefit the state or the agency, including payments to governmental or private accrediting agencies for required license/accreditation services for hospitals or educational institutions, require the Department Secretary’s or designee’s approval. Also for an employee’s current professional licensing fee that is necessary (i.e., required) to perform his or her CURRENT job or enable the employee to remain current in the job related field.”

Object Code 012 as defined in the 2010 Expenditure Schedule Instructions, states,

“Public Employees’ Insurance: Premiums paid to Public Employees Insurance Agency for public employees’ and retirees’ health insurance.”

Object Code 160 as defined in the 2010 Expenditure Schedule Instructions, states,

“WV OPEB Contribution: For employer mandated annual required contributions to fund Other Postemployment Benefits (OPEB) associated with the West Virginia Retiree Health Benefit Trust Fund.”

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

“Contractual and Professional: Services performed by individuals or firms considered to be professional or semiprofessional in nature. A written agreement (WV-48 or equivalent) is required except for indigent burial payments, and for transportation of bodies for chief medical examiner.....”

Object Code 027 as defined in the 2010 Expenditure Schedule Instructions, states,

“Computer Services: Charges for computer services by IS&C, WVNET, State Auditor’s Office, legislative computer system, or any other authorized entity for contractual or professional support services for computers and software, programming, machine time, transaction fees, and/or other related computer services. A written agreement (WV-48 or equivalent) is required for professional and contractual services.”

Object Code 030 as defined in the 2010 Expenditure Schedule Instructions, states,

“Rentals (machines and miscellaneous): Rental of data processing equipment, computers, printers, copying machines, word processors, telephones, safe deposit boxes, water cooler or any other equipment not owned by the spending agency. Includes rental of specific materials or equipment necessary for the production of a program or exhibit except for Training and Development.”

Object Code 053 as defined in the 2010 Expenditure Schedule instructions, states,

“Freight: Charges for either shipping or receiving material. This will include courier service charges, motor freight, air freight and other express charges, such as fuel surcharge. United Parcel Service or similar companies charges are to be considered freight charges.”

Object Code 062 as defined in the 2010 Expenditure Schedule Instructions, states,

“Research, Educational, and Medical Equipment Repairs: Labor and/or material used in the repair or maintenance of equipment located in the classroom or laboratories. Also, for repairs or maintenance of any medical equipment.”

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.”

Cause: The WVSOM Payroll/Accountant explained the error was made during 2009 when the employees, the OPEB payments were misclassified for, were hired and OPEB contributions changed from Object Code 012 to Object Code 160. The OPEB contributions for these individuals were originally coded in EPICS as Object Code 012 out of habit.

The WVSOM Supervisor of Accounts Payables II attributed the misclassified purchasing card transaction and Repairs and Alterations transaction to human error. The misclassified Miscellaneous Expense Transaction was coded using the object code used in previous years that was not corrected.

The WVSOM Purchasing Assistant III stated the contractual and professional transaction was a renewal of an existing contract so it was entered using the same object code used previously.

Effect: By misclassifying expenditures under an incorrect object code, annual budgeted amounts could be affected. In addition, fund balances could be misstated.

Recommendation: We recommend WVSOM comply with the West Virginia State Expenditure Schedule Instructions. Additionally, we recommend WVSOM reconcile each payroll object code individually.

Spending Unit's Response: *WVSOM concurs.*

Internal procedures are being reviewed with the purpose of strengthening where possible. In addition, campus informational meetings are scheduled with departmental personnel to provide education on expenditure coding.

Finding 8 Noncompliance with Internal Policies

Condition: During our review, we noted employees are utilizing WVSOM phones for personal long distance calls. Management is aware of employees’ personal long distance calls being billed to WVSOM; however, no action has been taken to eliminate the personal long distance use of phones. Management simply asks the employees on a monthly basis which calls are work related and which are personal. Management is relying on the employees to report personal use of long-distance phone calls and to reimburse WVSOM for all personal calls. Reimbursements amounted to \$94.45 during our audit period.

Criteria: WVSOM Institutional Policy GA-22 states;

“Use of the telephone system for personal long-distance calls shall not be permitted unless such calls are charged to the employee’s home telephone number”

Cause: The controller stated that the practice of reimbursing WVSOM for personal long-distance calls has been the “normal” way of doing it for the past 20 years.

Effect: The use of WVSOM long-distance phone service for personal calls could result in additional expenses incurred that did not benefit WVSOM. Management's acknowledgement and lack of action creates an environment where employees could perceive the compliance with internal policies is not important.

Recommendation: We recommend WVSOM enforce Institutional Policy GA-22 and prohibit the use of personal long-distance phone calls. Additionally, we recommend management take disciplinary action for known use of personal long-distance calls charged to WVSOM.

Spending Unit’s
Response: *WVSOM concurs.*

Institutional Policy GA-22 will be enforced.

Finding 9 Purchasing Procedures Not Approved

Condition: We requested approved institutional guidelines for purchases not exceeding \$25,000. WVSOM was unable to provide us with the purchasing policies and procedures that have been approved by the WVSOM President and filed with the Vice Chancellor for Administration. However, WVSOM was able to provide us with a memo from the President indicating the required documentation for purchases not exceeding \$25,000.

Criterion: Section 2.2.1 of the Higher Education Purchasing Policies and Procedures Manual States in part;

“...the Chief Procurement Officer shall have the duty and responsibility to:

(e.)Establish institutional guidelines and procedures for purchases not exceeding \$25,000. Such guidelines and procedures shall provide for obtaining adequate and reasonable records to properly account for funds and to facilitate auditing. **These guidelines, and any updates, shall be approved by the president and filed with the Vice Chancellor for Administration. [Emphasis Added]**

Cause: Management was unaware that the institutional guidelines were not approved by the President and filed with the Vice Chancellor for Administration.

Effect: Not having approved and filed institutional guidelines for purchases not exceeding \$25,000, managements’ communication of proper purchasing procedures is inadequate. This increases the risk of non-compliant purchases and a lack of a proper management oversight.

Recommendation: We recommend WVSOM comply with section 2.2.1 of the Higher Education Purchasing Procedures Manual and seek approval of the institutional guidelines for purchases not exceeding \$25,000.

Spending Unit’s Response: *WVSOM concurs.*

The institutional guidelines approved by the President for purchases not exceeding \$ 25,000 will be filed with the Vice Chancellor for Administration.

Finding 10

Incorrect Terminal Pay

Condition: Out of a population of 48 Terminal Payments totaling approximately \$63,005, we tested 15 payments or 31% of the population and approximately \$44,924 (71%) of the total dollar amount. We noted two instances or 13% of items tested where employees were not paid for unused leave as part of terminal pay in the amount of approximately \$739. We noted one instance or seven percent of items tested where an employee was not paid for higher education pay as part of terminal pay in the amount of approximately \$158. Higher education pay is pay referred to in the SUPPLEMENTAL AGREEMENT FOR REPAYMENT OF STUDENT LOANS that states in part, "**WHEREAS**, WVSOM is agreeable, as an inducement to the employment of said Employee, to pay an additional stipend of Six Hundred and Twenty-Five (\$625.00) dollars per pay period, not to exceed \$150,000.00 for the purpose of retiring Employee's outstanding student loans for medical school...". WVSOM management was not aware of the incorrect payment.

Criterion: Chapter 21, Article 5, Section 3 of the West Virginia Code states in part,

"(a) Every person, firm or corporation doing business in this state,...shall settle with its employees at least once in every two weeks, unless otherwise provided by special agreement, and pay them the wages due, less authorized deductions and authorized wage assignments, for their work or services."
[Emphasis added]

Chapter 5, Article 5, Section 3 of the West Virginia Code states in part,

"Every eligible employee, as defined in section one [5-5-1] of this article, at the time his or her active employment ends due to resignation, death, retirement or otherwise, may be paid in a lump sum amount, at his or her option, for accrued and unused annual leave at the employee's usual rate of pay at the time..."

Cause: The Accountant/Payroll stated that the underpayments were due to human error.

Effect: By underpaying the employee, WVSOM has understated expenses; therefore, inflating the amount of funds available for other expenditures.

Recommendation: We recommend WVSOM comply with W.Va. Code §21-5-3. We further recommend WVSOM pay the underpayment to the employees that were affected by the improper calculation of Fiscal Year 2010 Annual Leave Payment.

Spending Unit's
Response:

WVSOM concurs.

The clerical errors have been corrected and recommended payments made.

Finding 11**Incorrect W-2 Finding**

Condition: Out of a population of 48 Terminal Payments totaling approximately \$63,005, we tested 15 payments or 31% of the population and approximately \$44,924 (71%) of the total dollar amount. We noted one instance, or seven percent of items tested, where an employee's wages were overstated on the Form W-2 by approximately \$6,808.

Criterion: Treasury Regulations, Subchapter C, Sec. 31.6051-1 states in part,

"Every employer...shall furnish to each such employee, in respect of the remuneration paid by such employer to such employee during the calendar year, the tax return copy and the employee's copy of a statement on Form W-2...Each statement on Form W-2 shall show the following:...(c) The total amount of wages as defined in section 3401(a),..."

Internal Revenue Code: Sec. 3401 states in part,

"(a) Wages

For purposes of this chapter, the term "wages" means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer..."

Cause: The Accountant/Payroll stated that the employee's terminal pay direct deposit was rejected by the employee's bank because the account had been closed. The agency processed a check in a special payroll; however, the original processing was not reversed.

Effect: Because the original processing was not reversed but the funds were returned to the agency, the Form W-2 was overstated by the amount of the employee's terminal pay.

Recommendation: We recommend WVSOM comply with Treasury Regulations, Subchapter C, Sec. 31.6051-1 and Internal Revenue Code: Sec. 3401 for all future periods. We also recommend WVSOM follow the IRS Instructions for Forms W-2c/W-3c (Transmittal of Corrected Wage and Tax Statements) and provide Form W-2c to the employee and Forms W-2c and W-3c to the Social Security Administration with the correct amounts.

Spending Unit's
Response:

WVSOM concurs.

The required correcting forms will be submitted on behalf of the estate of the affected employee to the Internal Revenue Service.

Finding 12**Payment Before Services Rendered**

Condition: Out of a population of 153 Annual Increment Payments totaling approximately \$116,222, we tested 15 payments or ten percent of the population and \$10,020 (9%) of the total dollar amount. We noted one instance or seven percent of items tested where annual increment was incorrectly calculated in the amount of \$60 resulting in payment before services were rendered. WVSOM management was aware of the incorrect calculation; however, they did not seek reimbursement. Instead, WVSOM management informed the employee that the subsequent (Fiscal Year 2011) annual increment payment would be reduced by one year increment pay (\$60). However, after further review, we found the subsequent annual increment payment was not reduced by the overpayment made in the previous year.

Criteria: Chapter 5, Article 5, Section 2 of the West Virginia Code, states in part,

“(a) Every eligible employee with three or more years of service shall receive an annual salary increase equal to sixty dollars times the employee's years of service. In each fiscal year and on the first day of July, each eligible employee shall receive an annual increment increase of sixty dollars for that fiscal year.

(b) Every employee becoming newly eligible as a result of meeting the three years of service minimum requirement on the first day of July in any fiscal year is entitled to the annual salary increase equal to sixty dollars times the employee's years of service, where he or she has not in a previous fiscal year received the benefit of an increment computation. Thereafter, the employee shall receive a single annual increment increase of sixty dollars for each subsequent fiscal year.”

Chapter 12, Article 3, Section 13 of the West Virginia Code, states,

“No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered.”

Cause: The Accountant/Payroll stated that there was a change in the understanding of how increment was to be calculated after the issuance of the FY 2010 Annual Increment payment.

Effect: When payment is made before services rendered, WVSOM assumes the risk of the employee resigning or being terminated before services are rendered in full.

Recommendation: We recommend WVSOM comply with W.Va. Code §5-5-2 and W. Va. Code §12-3-13 by calculating annual increment payments properly and not paying for services before services are rendered. Further, we recommend WVSOM seek reimbursement from the employee that was affected by the improper calculation of Fiscal Year 2010 Annual Increment Payment.

Spending Unit's
Response:

WVSOM concurs.

Internal procedures are being reviewed to strengthen processes to minimize human errors. In addition, WVSOM will seek to recover the \$ 60.00 employee receivable.

Finding 13

Incorrect Annual Leave Accrual

Condition: Out of a population of 248 employees, we tested ten employees', (4%) of the population, Sick & Annual Leave. We noted one instance or ten percent of the items tested where annual leave was incorrectly calculated due to the employee accruing the incorrect amount of leave for the number of years of service. Leave was calculated using the seniority date instead of the hire date causing the employee to be shorted a total of 18.84 hours of leave.

Criteria: West Virginia Higher Education Policy Commission Procedural Rule Title 133, Series 38, Section 3.2, states,

“3.2 Employees occupying full-time classified positions shall be eligible for annual leave on the following basis:

3.2.1 Less than 5 years' service: 1.25 days per month;

3.2.2 5 but less than 10 years' service: 1.50 days per month;

3.2.3 10 but less than 15 years' service: 1.75 days per month;

3.2.4 15 or more years' service: 2.00 days per month.”

West Virginia Higher Education Policy Commission Procedural Rule Title 133, Series 38, Section 3.3, states,

“3.3 Employees working at least 1,040 hours per twelve (12) consecutive months on a regular and continuing basis, but less than 1,950 hours shall accumulate annual leave on a pro rata basis.”

Cause: The Accountant/Payroll stated there is a discrepancy in the hire date and seniority date causing the years of service to be incorrectly calculated.

Effect: By failing to calculate leave using the hire date, there is an increased risk of additional employees accruing the incorrect amount of leave for their years of service. In addition, due to our audit period only covering fiscal year 2010, leave may be incorrectly calculated for this employee, as well as others, in prior years.

Recommendation: We recommend WVSOM comply with the West Virginia Higher Education Policy Commission Procedural Rule Title 133, Series 38, Sections 3.2 and 3.3. In addition, we recommend WVSOM verify the hire date is used to calculate employee leave.

Spending Unit's Response:

WVSOM concurs.

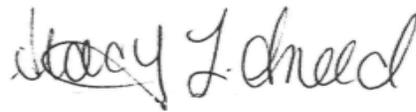
The institution has changed its internal procedures to use the hire date to calculate employee leave.

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 December 2011.



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

Notification of when the report was released and the location of the report on our website was sent to the Secretary of the Department of Administration to be filed as a public record. Report release notifications were also sent to the West Virginia Higher Education Policy Commission; West Virginia School of Osteopathic Medicine; Governor; Attorney General; WVSOM Governing Board; and State Auditor.