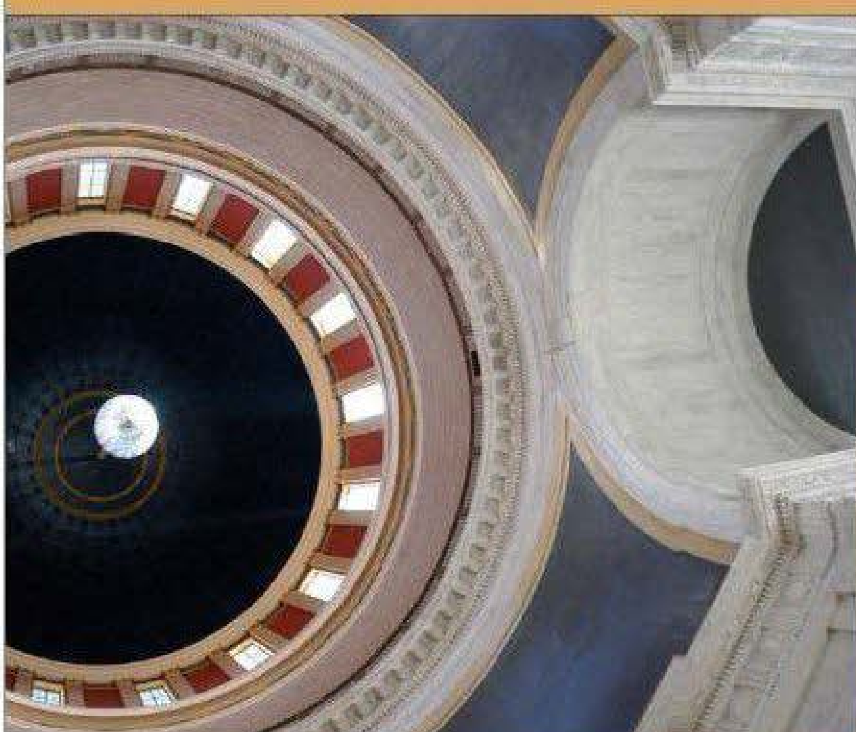
LEGISLATIVE AUDIT REPORT

Marshall University's Joan C. Edwards School of Medicine

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

Audit Overview

- Improper Inventory Management
- Improper Inventory Disposal
- Internal Control Weakness in the Computer Inventory System



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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we conducted a post audit of Marshall University's Joan C. Edwards School of Medicine for the period 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. Findings that were deemed inconsequential to the financial operations of the agency were discussed with management. Marshall University's Joan C. Edwards School of Medicine management has responded to the audit findings; we have included the responses at the end of the report.

Respectfully submitted,

Stacy L. Sneed

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

MARSHALL UNIVERSITY'S JOAN C. EDWARDS SCHOOL OF MEDICINE
JULY 1, 2009 – JUNE 30, 2010

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EXECUTIVE SUMMARY

Finding 1 Improper Inventory Management

We noted seven out of 45 instances of improper inventory management, or 16% of the inventory items tested, totaling $65,576.38. We are 95% confident that, if our sample holds true to the entire population of 1,217 inventory items, 81 to 355 inventory items, or 7% to 29%, totaling between approximately $400,000 and $1.8 million, have not been managed in accordance with MU and Higher Education equipment inventory management policies and procedures. Specifically, we noted seven instances where equipment inventory tags were not secured and/or not visible on an inventory item with an acquisition cost exceeding $5,000.

<u>Auditor's Recommendation</u>

We recommend Marshall University's Joan C. Edwards School of Medicine (MUSOM) strengthen equipment inventory controls by updating items in the inventory system, as determined necessary, in order to keep an accurate inventory record at all times in accordance with Procedural Title Rule 133, Series 30, and Section 9.3.4 of the West Virginia Higher Education Purchasing Procedures. In addition, we recommend MUSOM affix asset tags to all assets meeting the requirements detailed in Procedural Rule Title 133, Series 30 and Board of Governor's Policies and ensure the tags are placed in a visible location.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

Finding 2 Improper Inventory Disposal

During our test of controls of equipment inventory for Marshall University, we noted retired inventory items were sent to Marshall University's Receiving Department, where items not sold at university yard sales, scrapped, or sent to state surplus, were improperly disposed of in the university dumpsters. Marshall University did not track the items that were improperly disposed of and, therefore, documentation could not be provided which would allow us to make a determination of the quantity and amount of these items.

<u>Auditor's Recommendation</u>

We recommend Marshall University comply with W. Va. Code §18B-5-7(a) and the Marshall University Equipment Purchase and Inventory Control Policies and Procedures. Marshall University should properly dispose of equipment and cease from disposing of retired/obsolete inventory items in the University dumpsters. In addition, although

Marshall University stated that the Department of Administration's Surplus Property Unit stopped accepting retired/obsolete items in the mid-1980's, we believe, in the best interest of the State, Marshall University should reattempt to utilize the Surplus Property Unit as one of Marshall University's disposal methods. Therefore, we recommend Marshall University establish a policy that requires the disposal methods used for retired/obsolete inventory items to include the delivery of the items to the Surplus Property Unit. We further recommend Marshall University retain documentation in their files of any instances where the Surplus Property Unit declines to accept retired/obsolete items.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

Finding 3 Internal Control Weakness in the Computer Inventory System

In accordance with Marshall University policy, only items with a value of $5,000 or more are required to be added to the inventory system. However, since the value of computers is typically less than $5,000, MUSOM does not add computers to the inventory system. As a result, MUSOM does not have sufficient internal controls in place which allows MUSOM's management to effectively monitor computers owned by the school. We noted computer purchases for Fiscal Years 2009, 2010 and 2011 totaled $202,270.83, $206,402.65 and $232,694.43, respectively.

Both currently and during our audit period, the West Virginia Higher Education Policy Commission (WVHEPC) and Marshall University's policies only require items having a value of $5,000.00 or more to be included in the inventory system maintained by the institutions. The MUSOM's computers are not included in the respective inventory system since, generally, the value of computers fall below the $5,000 threshold. Without the inclusion of the computers in the inventory system, management has no effective way of monitoring computers.

<u>Auditor's Recommendation</u>

We recommend MUSOM establish policies which mirror the State of West Virginia Purchasing Division's requirements that all computers with a value of $500 or greater to be included in the institution's respective inventory system. Also, we recommend the WVHEPC consider changing its policies to require all institutions under the WVHEPC include computers in their respective inventory system. We further recommend MUSOM conduct an inventory of all computers to ensure that the computers are still in MUSOM's possession.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

Finding 4 **Improper Payroll Deductions**

During the course of our audit we found several discrepancies with employee deductions in the areas of health insurance premiums. We noted nine out of 27, or 33%, instances where our recalculated deductions did not match the deductions in the original transactions, totaling approximately $3,888 for the year that should have been deducted from the employee's gross pay and was not. We are 95% confident that, if our sample holds true to the entire population of 3,394 payroll transactions, 563 - 1,828 transactions, or 17% - 54% of payroll transactions are projected to have inaccurate health care deductions.

<u>Auditor's Recommendation</u>

We recommend the MUSOM comply with WV Code §12-3-13 and §5A-8-9, as amended, and develop a system of internal control to reduce computational errors and/or unsupported payroll deductions. We further recommend MUSOM work with PEIA to determine the total amount of premiums that were incorrectly paid. We recommend all underpayment/overpayments of premiums by employees are collected/refunded.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

<u>PEIA Response</u>

See Appendix B on pages 30 and 31.

Finding 5 **Internal Control Weakness of Leave**

Upon reviewing leave slips, we found seven out of 24, or approximately 29%, did not have signature approval. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 50 to 190 employees, or 13% to 50% are projected to have leave slips without signature approval.

Three employees, out of 24, were missing sick leave slips and three employees out of24, were missing annual leave slips totaling approximately 13% of leave slips that did not reconcile to the Leave Usage Reports or MUHR balances. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 11 to 120 employees, or 3% to 32% are projected to have missing leave slips.

We noted calculation errors for five employees in the MUSOM's official leave record. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 29 to 156 employees, or 8% to 41%, are projected to have a calculation error.

One employee, out of 24, or approximately 4%, did not have a doctor's note for missing more than 5 sick days.

<u>Auditor's Recommendation</u>

We recommend MUSOM comply with Marshall University Board of Governor's Policies & Procedures by documenting leave in the form of paper, have that form signed by the employee and the approving supervisor, and require a doctor's excuse for more than five consecutive absences. We further recommend MUSOM comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code by maintaining records that contain adequate and proper documentation.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

Finding 6 Lack of Physical Safeguarding of Equipment held in the Central Receiving Warehouse

During fieldwork, we observed surplus equipment that was stored in an unsecured location within the warehouse. The Central Receiving Warehouse does not have security cameras or a security fence/other barrier to limit access to these items from the public. Students also have classes in this same warehouse. This internal control weakness increases the potential for theft by the public since there is no safeguard of these items.

<u>Auditor's Recommendation</u>

We recommend Marshall University implement their Equipment Purchase and Inventory Control Policies and Procedures, and enforce greater controls over the safeguarding of their equipment.

<u>Spending Unit's Response</u>

See Appendix A on pages 26-30.

INTRODUCTION

POST AUDIT AUTHORITY

The audit was conducted pursuant to Chapter 4, Article 2 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

Marshall University's Joan C. Edwards School of Medicine is a state-supported, community-based medical school established in 1977. MUSOM emphasizes primary care at a relatively modest cost and with a great deal of self-reliance and community support. MUSOM specializes in rural health issues as expressed in special efforts to recruit students from rural West Virginia and place graduates in clinical practice in rural areas. Clinical and basic research is focused also on health issues related to rural populations.

The Biomedical Sciences Center of Excellence in Research and Graduate Education and Forensic Science Programs offer students nationally competitive and regionally relevant graduate education.

Over the years, Marshall has carefully but steadily implemented curricular changes designed to produce more and better qualified physicians entering the primary care specialties. Marshall has always ranked high in the percentage of graduates entering primary care. Marshall has been honored through the Family Practice Percentage Awards program of the American Academy of Family Physicians: the school has one bronze and three silver awards.

Significant improvements have been made in the research sector. Through strong interdisciplinary effort in the basic sciences, the medical school in 1990 received a National Science Foundation EPSCoR grant that has brought approximately $5 million to Marshall. This allowed the school to develop a core molecular biology facility for research. In 1993, the biomedical sciences program was named Marshall University's second Center of Excellence. In 1996, it was one of the three graduate programs statewide selected as Programs of Excellence. A new research building at the Veteran's Affairs Medical Center and the new Medical Center Complex have greatly increased Marshall's efficiency and optimized patient care and clinical education.

SPENDING UNIT CONTACTS

Marshall University's Joan C. Edwards School of Medicine

James J. Schneider ....Senior Associate Dean for Finance & Administration

Dr. Charles McKown..Dean and Vice President for Health Sciences

Wanda Webb ....Dean's Office Leave Coordinator

Denise Smith .... Health Science Library Administrative Secretary

Edward Dzierzak.. Health Science Library Director

Libby Nickell .... Dean's Office Administrator

Marshall University

Stephen J. Kopp Ph.D...Marshall University President

Mary E. Heuton ....Controller/CFO

Selah Wilson...Sr. Manager of Accounting/Controller Office

Juanita Parsons .... Assistant Director of Accounts Payable & Payroll

Michelle Brown Douglass...Director of Human Resources

Perry Chaffin .... Director of Internal Audit

Karla Murphy, CPA, MBA ....MURC Controller

Alice Roberts .... Manager of Accounting

Berry Beckett...Director of Student Financial Systems/ Bursar

Robert Collier..Assistant Director of Student Financial Systems/ Bursar

Melanie Gallaher..Purchase Card & Travel Coordinator

Lisa Henry...Human Resources Representative

Andrea Koutsunis..Human Resources Representative

Jill Hayes…………………………………………………………………………………………………….Accounts Payable Supervisor

Shyla Abraham ……………………………………………………………………………………………………..Payroll Manager

Carla Adkins……………………………………………………………………………………………………Payroll Representative

Deborah Watson…………………………………………………Interim Manager of Shipping, Receiving, & Fixed Assets

Ann Knotts …….Budget Director

Stephanie Smith……………………………………………………………………………………………..Director of Purchasing

Charlie Racer ………………………………………………………………………………..Assistant Director of Purchasing

AUDIT SCOPE

We have audited Marshall University's Joan C. Edwards School of Medicine's (MUSOM) funds for the period July 1, 2009 through June 30, 2010. The results of our testing of the health insurance deductions will be reported in an additional report at a later date. As a medical education component of the university of West Virginia system, the audit of MUSOM was required by W. Va. Code 18B-16-9(f). Our audit scope included an audit of internal control and compliance with the West Virginia Code, Higher Education Purchasing Manual, applicable State rules, and internal MUSOM policies applicable for fiscal year 2010. We conducted this post audit, which is a performance audit, in accordance with the standards applicable to performance audits contained in 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 MUSOM's revenues and expenditures; to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by MUSOM that we find; 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. We were to determine whether expenditure and revenue transactions were related to MUSOM's programs, were reasonable, and were recorded properly in the accounting systems. Additionally, we were to examine MUSOM's records and internal control over transactions and to evaluate its compliance with applicable State laws, rules and regulations.

Except for the organizational impairment described in the following paragraph, we conducted this post audit, which is a performance 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 MUSOM'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 MUSOM'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 Audits 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 MUSOM. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observations of MUSOM'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 MUSOM personnel to obtain an understanding of the programs and the internal controls respective to the scope of the audit. In planning and conducting our post audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk.

We did not audit MUSOM'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 statistical and 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.

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

MUSOM'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.

We did not disclose any identifying information concerning employees or vendors within this report in an effort to protect the privacy and interests of all parties. This lack of disclosure is not significant to the understanding of this report and should have no impact on the usefulness of the information provided. All information pertinent to the report has been disclosed.

This communication is intended solely for the information and use of the Post Audits Subcommittee, the members of the WV Legislature, and management of MUSOM. However, once presented to the Post Audits Subcommittee, this report is a matter of public record and its distribution is not limited. Our reports are designed to assist the Post Audits 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

MUSOM 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 MUSOM safeguarded revenues, paid vendors properly, and assessed fees in accordance with the approved fee schedules. MUSOM had some control weaknesses and non compliance in areas of high risk for management oversight.

This report includes findings regarding significant instances of noncompliance with the West Virginia Code, Title 133, WV Higher Education Purchasing Manual, WV State Auditor Purchasing Card Policies and Procedures, applicable State of WV rules, and internal MUSOM policies relevant for fiscal year 2010. Noncompliance with the aforementioned related to payroll, sick and annual leave, and inventory.

MUSOM failed to perform management oversight pertaining to leave slips and leave calculations resulting in missing leave slips and numerous calculation errors. MUSOM had several equipment items without a tag number and not in the location noted in the inventory listing. Marshall University failed to follow policy regarding disposal of equipment.

EXIT CONFERENCE

We discussed this report with management of the spending unit on June 11, 2012. All findings and recommendations were reviewed and discussed. Management’s response has been included in Appendix A at the end of the report.

FUND LISTING

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

GENERAL REVENUE ACCOUNTS

MUSOM maintained the following account:

Fund Number	Fund Name
0347	General Administration

SPECIAL REVENUE ACCOUNTS

MUSOM maintained the following 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 revenue accounts:

Fund Number	Fund Name
4894	Tuition and Required E&G Fees
4895	Gifts, Grants, and Donations (Non-Federal)
4896	Lottery Education

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).

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).

Lottery Education Fund

This fund goes into the General Fund and comprises lottery transfers (governed by W.Va. Code §18C-7-7).

REPORTABLE COMPLIANCE AND OTHER MATTERS

Finding 1 **Improper Inventory Management**

Condition: We noted MUSOM failed to comply with Marshall University's and the Higher Education Policy Commission's inventory management policies and procedures for seven of the 45 items (16%) selected for our equipment inventory test. According to the MUSOM equipment inventory list, these seven equipment items had an original purchase price totaling $65,576.38. We are 95% confident that, if our sample holds true to the entire population of 1,217 inventory items, 81 to 355 inventory items, or 7% to 29%, totaling between approximately $400,000 and $1.8 million, have not been managed in accordance with MU and Higher Education equipment inventory management policies and procedures.

Specifically, we noted seven equipment inventory items were either not affixed with the required equipment inventory tags or such tags were not visible. The seven equipment items that were not managed in accordance with applicable equipment management policies are summarized in the following table:

Equipment Description	Equipment Type	Issue	Amount
Camera, Digital	Electronics/ IT Equipment	Tag not secure and/or not visible	$ 5,695.25
Mail Sorter, Horizontal	Office Equipment	Tag not secure and/or not visible	9,120.04
Projector, LCD	Electronics/ IT Equipment	Tag not secure and/or not visible	5,245.00
Copy Machine	Office Equipment	Tag not secure and/or not visible	18,012.00
Refrigerator, Isotemp	Other	Tag not secure and/or not visible	5,009.09
Truck, Pickup	Vehicle	Tag not secure and/or not visible	16,500.00
Plow, Snow	Other	Tag not secure and/or not visible	5,995.00
		Total	**$65,576.38**

Criteria: Marshall University Equipment Purchase and Inventory Control Policies, states in part, "Maintaining the Equipment Database:...The Receiving department shall be responsible for entering data and maintaining it current on all equipment processed through its receiving function. All fields in the data base of the equipment inventory program shall be completed to the extent possible, in accordance with guidance in the Higher Education Purchasing Procedures Manual...."

"Departmental Responsibilities: The security and physical safeguarding of equipment is the responsibility of the department possessing physical control. Ultimately, it is the department head that is responsible."

Procedural Rule Title 133, Series 30 states in part,

"...13.2.1…Such inventory shall be kept current at all times…"

Section 9.3.3 of the WV Higher Education Purchasing Procedures Manual, states in part,

"***At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall:***…

a. Account for all equipment and furnishings with a value at the time of purchase of $5,000 or more per unit. An institution may elect to inventory equipment and furnishings with a value of less than $5,000 per unit;

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

c. Identify ….model number and serial number, if applicable;…

f. Record the location of equipment or furnishings; i.e., the department, or the building and room number;..." ***(Emphasis Added)***

Cause: MUSOM personnel stated that items may be missing tags because they fell off, were taken off, or could not be placed on an asset because of the assets use, such as, a snow plow or a wash rack. Additionally, personnel stated that if a department receives an item directly, and places the inventory tag on the asset, they may place the inventory tag in a location that is not visible. MUSOM personnel further stated that when an item is not located in the location listed on the Marshall University Equipment Inventory listing, it is simply because an item was relocated and the Equipment Inventory Listing was not updated.

Effect: The risk of theft and/or fraud is greatly increased. Specifically, during our audit of equipment inventory for MUSOM, the lack of inventory tags and updated item location, increases the risk that items may be stolen and go unnoticed by management.

Recommendation: We recommend MUSOM strengthen equipment inventory controls by updating items in the inventory system, as determined necessary, in order to keep an accurate inventory record at all times in accordance with Procedural Title Rule 133, Series 30, and Section 9.3.4 of the West Virginia Higher Education Purchasing Procedures. In addition, we recommend MUSOM affix asset tags to all assets meeting the requirements detailed in Procedural Rule Title 133, Series 30 and Board of Governor's Policies and ensure the tags are placed in a visible location.

Spending Unit's Response: **See Appendix A on pages 26-30.**

Finding 2 **Improper Inventory Disposal**

Condition: During our audit period and in accordance with MU equipment inventory procedures, obsolete or unwanted equipment items were forwarded by MUSOM and other MU departments to Marshall University's Receiving Department. Once the items were received, they were generally sold at university yard sales, scrapped, or sent to state surplus. However, we were told by a Receiving Department employee that some retired items were improperly discarded in university dumpsters. Marshall University did not track the items that were improperly discarded and, therefore, documentation could not be provided which would allow us to make a determination of the specific items discarded.

Criteria: Chapter 18B, Article 5, Section 7(a) of the West Virginia Code, states,

> "(a) The Commission, the Council and the governing boards shall dispose of obsolete and unusable equipment, surplus supplies and other unneeded materials, either by transfer to other governmental agencies or institutions, by exchange or trade, or by sale as junk or otherwise. The Commission, the Council and each governing board shall adopt rules governing and controlling the disposition of all such equipment, supplies and materials".

The Marshall University Equipment Purchase and Inventory Control Policies and Procedures, states in part,

> "…Departmental Responsibilities:
>
> Equipment may NOT be cannibalized, thrown into the dumpster, or trashed in any way…
>
> Inventory:
>
> University equipment can only be cleared from the inventory by following State Code Regulations. Equipment can be sold at public auction, sent to surplus property, donated or transferred to another State agency, or traded on new equipment. ***Equipment cannot be cannibalized or destroyed and thrown into dumpsters*** by University staff, faculty, or students…" **(Emphasis Added)**

Cause: The receiving staff stated that all retired/obsolete inventory items are initially sent to the receiving department where several options occur: 1. Items are sold at a yard sale. 2. If items are not sold, they are held for up to three sales. 3. Items are sent to scrap. If none of the above disposal methods are used, items are thrown in the University dumpster. The receiving staff noted that items thrown in the dumpster are "very old and obsolete". The receiving staff stated that in the past, Marshall University sent retired/obsolete items to the Department of Administration's Surplus Property Unit but, in the mid-1980's, the Surplus Property Unit stopped accepting items from the University. Marshall University's Receiving Department could not explain why the Surplus Property Unit stopped accepting retired/obsolete inventory items and could not provide documentation supporting when and why the Surplus Property Unit stopped accepting these items.

Effect: When retired/obsolete inventory items are improperly disposed of in the University dumpster, any future benefit that could be derived from other WV State agencies is terminated. In addition, by disposing of these items rather than sending them to surplus property, MUSOM will forego money that could have otherwise been received from surplus property auctions. Further, disposal of certain inventory items may be in violation of federal environmental law.

Recommendation: We recommend Marshall University comply with W. Va. Code §18B-5-7(a) and the Marshall University Equipment Purchase and Inventory Control Policies and Procedures. Marshall University should properly dispose of equipment and cease from disposing of retired/obsolete inventory items in the University dumpsters. In addition, although Marshall University stated that the Department of Administration's Surplus Property Unit stopped accepting retired/obsolete items in the mid-1980's, we believe, in the best interest of the State, Marshall University should reattempt to utilize the Surplus Property Unit as one of Marshall University's disposal methods. Therefore, we recommend that Marshall University establish a policy which requires the disposal methods used for retired/obsolete inventory items to include the delivery of the items to the Surplus Property Unit. We further recommend Marshall University retain documentation in their files of any instances where the Surplus Property Unit declines to accept retired/obsolete items.

Spending Unit's Response: **See Appendix A on pages 26-30.**

Finding 3 **Internal Control Weakness in the Computer Inventory System**

Condition: In accordance with Marshall University policy, only items with a value of $5,000 or more are required to be added to the inventory system maintained by the MUSOM Division of Information Technology. However, since the value of computers is typically less than $5,000, MUSOM does not add computers to the inventory system. As a result, MUSOM does not have sufficient internal controls in place which allows MUSOM's management to effectively monitor computers owned by the school. We noted computer purchases for Fiscal Years 2009, 2010 and 2011 totaled $202,270.83, $206,402.65 and $232,694.43, respectively.

Since computers are not entered into the inventory system, a listing could not be provided from the inventory system of all computers owned by MUSOM which could serve as our population. As an alternative method of determining a population of all computers owned by MUSOM, we obtained a report from Marshall University's Division of Information Technology. However, we noted that the report was limited to listing only those computers that were logged into the Marshall University's network at the time the report was generated; computers owned by MSM but not logged into the network at the time the report was generated did not appear in the report. As a result, we could not assure ourselves that the report listed all computers owned by MUSOM. Additionally, this report did not include the serial number, inventory tag number or the value of the computers listed further limiting the usefulness of the report in determining all computers owned by MUSOM and preventing us from determining the total value of all computers. We also noted there is no written policy which instructs employees of various departments in the MUSOM on how to account for computers.

Computers, both desktop and laptop, by nature, are especially susceptible to the risk of theft due to their portability and relatively high value. Although the risk of theft can never be eliminated, an internal control policy which allows management to monitor computers could reduce the risk of theft. By including computers in the inventory system, management would easily be able to identify the type, location, value, etc. of the computers and the employee to whom each computer is assigned. Additionally, inclusion in the inventory system would ensure that computers would be included in the periodic inventory count. Inclusion would also increase the likelihood that computers would be selected for testing in both internal and external audits.

Criteria: West Virginia Higher Education Purchasing Procedures Manual states in part,

"…9.3.3 At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall:

a. Account for all equipment and furnishings with a value at the time of purchase of $5,000 or more per unit. **An institution may elect to inventory equipment and furnishings with a value of less than $5,000 per unit;** …" (**Emphasis Added**)

The Marshall University Board of Governors Policy No. FA-9 Section 4 states:

4.1 Pursuant to West Virginia Code §18B-5-4, the Governing Board shall adopt rules governing and controlling acquisitions, purchases and inventory management of materials, supplies, equipment, services, construction, and printing, and the disposal of obsolete and surplus materials, supplies, and equipment.

Cause: Though the State of West Virginia Purchasing Division's Inventory Management Training Manual states that all computers with an acquisition cost of $500 or more are to be entered in the WVFIMS Fixed Asset System, West Virginia institutions of Higher Education are exempt from Purchasing Division rules and regulations and therefore not required to track their computers. However, Section 9.3.3 of the West Virginia Higher Education Purchasing Procedures Manual gives MUSOM the authority to inventory items less than $5,000. The agency stated that they do not inventory computers because of the $5,000 capital asset threshold and the primary responsibility for safeguarding University assets, including computers rests with the staff who use them and the Department administrators, chairs and division directors who order/approve or assign them.

Effect: By not entering computers in the inventory system, computers would not be included in the audit of the respective institution's annual inventory. This, in turn, increases the risk that computers may be stolen and the theft remains undetected by management.

Recommendation: We recommend MUSOM establish policies that mirror the State of West Virginia Purchasing Division's requirements that all computers with a value of $500 or greater to be included in the institution's respective inventory system. Also, we recommend the WVHEPC consider changing its policies to require all institutions under the WVHEPC include computers in their respective inventory system. We further recommend MUSOM conduct an inventory of all computers to ensure that the computers are still in MUSOM's possession. Additionally, we recommend the listing contain all pertinent information needed in order to locate the appropriate computers (serial numbers, tag numbers, location, etc.).

Spending Unit's Response: **See Appendix A on pages 26-30.**

Finding 4 **Improper Payroll Deductions**

Condition: During the course of our audit we found several discrepancies with employee deductions in the areas of health insurance premiums. We noted nine out of 27, or 33%, instances where our recalculated deductions did not match the deductions in the original transactions, totaling approximately $3,888 for the year that should have been deducted from the employee's gross pay and was not. We are 95% confident that, if our sample holds true to the entire population of 3,394 payroll transactions, 563 - 1,828 transactions, or 17% - 54% of payroll transactions are projected to have inaccurate health care deductions. The health care differences are listed below:

Name	Salary	Salary Range Used for PEIA Deduction	PEIA Plan	Premium Per Agency	Audited Premium	Difference	Yearly Difference
Employee #1	$ 52,000.00	$42,001.00 -$50,000.00	Plan A Family	$123.50	$155.50	($ 32.00)	($ 768.00)
Employee #2	42,267.00	$36,001.00 - $42,000.00	Plan A Employee Only	26.00	33.50	(7.50)	(180.00)
Employee #3	66,000.00	$50,000 - $62,500	Plan A Employee Only	44.50	51.50	(7.00)	(168.00)
Employee #4	42,267.00	$36,000.00 -$42,000.00	Plan A Family	99.50	123.50	(24.00)	(576.00)
Employee #5	30,700.00	$20,001.00 -$30,000.00	Plan A Family & Employee Spouse	49.00	60.50	(11.50)	(276.00)
Employee #6	$29,468.00	Unknown	Plan A Family	68.00	72.50	(4.50)	(108.00)
Employee #7	45,393.00	$30,001.00 -$36,000.00	Plan A Family & Employee Spouse	60.50	89.50	(29.00)	(696.00)
Employee #8	140,000.00	$100,001.00 -$125,000.00	Plan A Employee Only	86.50	101.00	(14.50)	(348.00)
Employee #9	$ 52,000.00	$42,000.00 - $50,000.00	Plan A Family	$ 123.50	$155.50	(32.00)	(768.00)
					Total	**($162.00)**	**($3,888.00)**

Criteria: Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, states in part:

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

West Virginia Public Employees Insurance Agency's Shopper's Guide Plan Year 2010 Benefits states:

"Premium for employees of State agencies, colleges and universities and county board of education are based on the employee's annual salary."

According to PEIA's website pertaining to premiums:

Salaries are collected by PEIA in May of every calendar year through various agency budget divisions. The salary used is the annualized salary based on the latest figure available.

Cause: Upon request, the MUSOM stated there was nothing they could do to correct the inconsistencies. The agency stated PEIA updates insurance premiums automatically in EPICS and it's out of their control and the taxes are also calculated in the EPICS system.

According to PEIA's Chief Financial Officer, employees' premiums are alculated based upon salary information PEIA receives from the State Budget Office. The salary file that PEIA received for fiscal year 2010 did not include updated salary information for Marshall University employees.

According to an employee of the West Virginia State Budget Office, the file transferred from the Office of Technology to PEIA did not include Marshall University's updated information due to human error. A file which did not have Marshall University's updated information was incorrectly sent by the Office of Technology to PEIA. Additionally, once the information is received at PEIA, a verification that the information is correct is performed. However, due to an oversight, this verification was not performed.

Effect: Not entering the proper deductions for the employees can result in under/over deductions for employee's benefits and taxes. Underpayment of taxes can result in uncertain consequences for the employee with the State and IRS. Also, failure to remit correct amounts to insurance companies and tax departments may result in services being denied to employees or penalties being assessed.

Recommendation: We recommend the MUSOM comply with WV Code §12-3-13 and §5A-8-9, as amended, and develop a system of internal control to reduce computational errors and/or unsupported payroll deductions. We further recommend MUSOM work with PEIA to determine the total amount of premiums that were incorrectly paid. We recommend all underpayment/overpayments of premiums by employees are collected/refunded.

Spending Unit's Response: **See Appendix A on pages 26-30.**

Finding 5 **Internal Control Weakness of Leave System**

Condition: We found seven of 24 (29%) employees in our test sample of employee leave for FY 2010 did not have signature approval on one or more of their leave approval slips. According to MUSOM policy, an employee must sign, and an approved supervisor must authorize, leave slips. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 50 to 190 employees, or 13% to 50% are projected to have leave slips without signature approval.

In addition to the exceptions noted above, we noted three employees were missing sickleave slips and three employees were missing annual leave slips. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 11 to 120 employees, or 3% to 32% are projected to have missing leave slips. Also, we noted calculation errors for five employees in the MUSOM's official leave record. We are 95% confident that, if our sample holds true to the entire population of 378 employees eligible for leave, 29 to 156 employees, or 8% to 41% are projected to have a calculation error. Additionally, we noted one employee failed to have the required doctor's note for missing more than five sick days. Finally, the years-of-service was calculated incorrectly for one employee.

Criteria: Heads of agencies are to have an effective system of internal controls in the form of policies and procedures designed to ensure the spending unit operates in compliance with the laws, rules and regulations which govern it.

Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, 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 for the state and of persons directly affected by the agency's activities... ."

Marshall University's Human Resource Policy 26 states:

> "This policy and procedure applies to leave-accruing employees. Accrued leave taken and reported on payroll timesheets or other leave usage reports must be documented by paper forms signed by the employee and the approving supervisor, maintained in the employing department, and not submitted in lieu of other leave usage reporting documents. Such forms, referred to leave request forms, must satisfy audit requirements including a requirement that the amount and type of leave recorded on payroll or leave usage input documents must

match exactly that represented by leave request forms (modified as necessary based on actual usage). Leave request forms are to be retained by the employing department for five calendar years including the year in which the leave is taken. After five years retention, such records may be destroyed. Employing department refers to the college, department, or office at which level leave records for member employees are consolidated for timesheet input or leave usage reporting."

Marshall University's Benefits Handbook states in part:

> "Sick leave for more than five (5) consecutive days shall not be granted to an employee for illness without satisfactory proof of illness or injury, as evidence by a statement of the attending physician or by other proof satisfactory to the institution."

Employees in full-time classified positions shall be eligible for annual leave based on length of service as follows:

- < Five years of service 1.25 days/month 15 days/year
- 5 -10 years of service 1.50 days/month 18 days/year
- 10-15 years of service 1.75 days/month 21 days/year
- 15+ years of service 2.00 days/month 24 days/year

Eligible employees who work less than 1,950 hours per year earn leave on a pro rata basis.

Cause: The missing leave slips, calculation errors, lack of reconciliations and lack of doctor's note were due to management oversight. According to the Senior Associate Dean, the Dean's office failed to obtain a doctor's note for sick leave in excess of five days for the one employee in the finding as required by Marshall University's Policies & Procedures.

Effect: Errors in employee leave balances and missing leave slips can result in under/over payments for unused annual leave upon an employee's retirement, resignation or death and an advantageous/adverse effect upon an employee's retirement annuity payments to the employee or his/her beneficiary. The error(s) could affect subsequent transfers of sick and annual leave hours to another state agency for transferring employees. Furthermore, in the event of retirement, sick leave may be converted to health insurance coverage or for provisions lawfully provided for at that time and an employee who resigns or retires will be paid for unused annual leave. An employee may also donate Catastrophic Leave, which provides for paid leave donated by co-workers.

Recommendation: We recommend MUSOM comply with Marshall University Board of Governor's Policies & Procedures by documenting leave in the form of paper, have that form signed by the employee and the approving supervisor, and require a doctor's excuse for more than five consecutive absences. We Further recommend MUSOM comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code by maintain records containing adequate and proper documentation.

Spending Unit's Response: **See Appendix A on pages 26-30.**

Finding 6 **Lack of Physical Safeguarding of Equipment held in the Central Receiving Warehouse**

Condition: During fieldwork, we observed surplus equipment which was stored in an unsecured location within the warehouse. The Central Receiving Warehouse does not have security cameras, a security fence or other barrier to limit access to these items from the public. Students also have classes in this same warehouse. Examples of our observations of the Central Receiving Warehouse are shown in Appendix C.

Criteria: The Equipment Purchase and Inventory Control Policies and Procedures states in part:

"The security and physical safeguarding of equipment is the responsibility of the department possessing physical control. Ultimately, it is the department head that is responsible. If equipment is moved from one room or department to another, the department **must** notify receiving to update the inventory records. Equipment may **NOT** be cannibalized, thrown into the dumpster, or trashed in any way. Trade-ins of used University equipment for new shall require the approval of the appropriate Receiving supervisor and will be documented on the purchase order. "

Cause: Significant internal control weaknesses and lack of management supervision over equipment inventory.

Effect: Lack of safeguarding over surplus equipment in the warehouse poses a greater threat of theft, as well as misplacement of the aforementioned equipment. This could result in inventory records becoming obsolete if equipment is misplaced or stolen.

Recommendation: We recommend Marshall University implement their Equipment Purchase and Inventory Control Policies and Procedures, and enforce greater controls over the safeguarding of their equipment.

Spending Unit's Response: **See Appendix A on pages 26-30.**

APPENDIX A
SPENDING UNIT'S RESPONSE

June 19, 2012

Ms. Stacy L. Sneed, C.P.A.
Director
Legislative Post Audit Division
Building 1, Rm. W-329
1900 Kanawha Blvd., E.
Charleston, WV 25305-0610

Dear Ms. Sneed:

Thank you for sharing with us the draft of the School of Medicine's audit report for FY 2010. We appreciate the considerable time and effort which the Post Audit Division invested in reviewing the medical school's compliance with State and University policies, procedures and practices and the professional manner in which your audit staff conducted this examination. Although the School of Medicine through the University is subject to an annual financial audit by Deloitte & Touché, this is the first examination in recent memory that focuses on internal control and compliance issues and as such we believe it provides an excellent opportunity for performance improvement in these important areas.

Because the School of Medicine functions as an integral component part of the overall University many of the policies and procedures identified in the audit findings affect not only the School of Medicine but all other University departments and divisions. Therefore, we will work with the University's central accounting, auditing, human resources, and purchasing and other support staff to review and address the specific findings and determine what policy, procedural or other changes may be necessary as a result of your audit. In particular, we will conduct the necessary in-service education to insure that all School of Medicine staff are aware of and conform to the State's and the University's policy and procedures in these areas. In advance of those detailed reviews we have provided some general comments regarding each finding on the attached document.

We appreciated the opportunity to meet with you and discuss the audit findings on Monday June 11th and will also plan to attend the June 26th presentation to the Post-Audits Subcommittee. At this time Mr. Perry Chaffin, the University's Director of Internal Audits and I are planning to attend that meeting. If additional University staff are available to attend I will advise you in advance. Again, thanks for your efforts to assist us in improving our performance.

Sincerely,

James J. Schneider

James J. Schneider
Senior Associate Dean
for Finance & Administration

cc. Stephen J. Kopp, Ph.D., President
Robert C. Nerhood, M.D., Interim Dean
Joseph I. Shapiro, M.D., Dean Designate

Marshall University (MU)
Joan C. Edwards School of Medicine (SOM)
Responses to FY 2009-10 Legislative Post Audit Division Findings

Finding # 1 Improper Inventory Management

The SOM, working with MU's Receiving Department (Inventory Control office) has corrected most of the items noted. Those not fully corrected at this point in time are in process of being corrected. Additionally, the SOM will conduct an in-service education session for all responsible departmental personnel with MU's Purchasing, Receiving and Inventory Control staff to insure that everyone understands the requirements and the importance of adhering to them. The SOM's Finance & Administration staff will take a more active oversight role in the annual equipment inventory update.

Finding #2 Improper Inventory Disposal

The MU Receiving Department and MUSOM will change procedures to determine that retired/obsolete items are properly disposed. The SOM is not aware of any inventoried equipment or any equipment of any material value that was disposed of in this manner. The policy on proper disposal will be reinforced with all responsible personnel as part of the in-service education session referred to in #1 above.

Finding #3 Internal Control Weakness in the Computer Inventory System

Due to the rapid obsolescence of modern computer equipment, particularly desktop and laptop computers, MU believes that the $5,000 equipment capitalization threshold is appropriate from a financial accounting and reporting standpoint. However, it also recognizes that the ubiquitous nature of computers and their relative portability make them susceptible to loss or theft. While the SOM and MU information technology offices maintain a record of all computers connected to the University's networks, it is possible, although unlikely, for an individual department to order and receive computers without attaching them to the network. Therefore, the SOM and MU information technology staff will work to develop a more comprehensive computer equipment tracking mechanism, either within or outside the inventory control system. This is critical not only to safeguard University assets but also for data security.

Finding #4 Improper Payroll Deductions

MU submits updated files through the State budget and payroll system for each pay period reflecting current salaries for all employees. The MU Payroll Office will work with PEIA to determine which files are being accessed for premium determination purposes and insure that correct employee premiums are assessed.

Finding # 5 Internal Control Weakness of Leave System

SOM will conduct an in-service education session for all SOM supervisors regarding the leave approval process and the importance of tracking leave time while we work with MU Human Resource Services staff to seek a more automated leave reporting system which would provide for on-line submission, approval and tracking of leave with an appropriate electronic audit trail. Additionally, MUSOM will work with MU Human Resources to implement proper procedures for extended illnesses and the calculation of years of service.

Finding #6 Lack of Physical Safeguarding of Equipment held in the Central Receiving Warehouse

Central Receiving has informed the SOM that the area in question is the receiving area where large equipment items or supply orders are temporarily stacked prior to delivery to departments and other locations or placed in more secure storage. The receiving area is visible to several receiving department personnel during working hours and the entire complex is surrounded by an eight foot security fence and has an alarm system connected to the MU Police Department. MU will review the Receiving area to determine if additional precautions are warranted.

APPENDIX B
PEIA’S RESPONSE TO FINDING 4

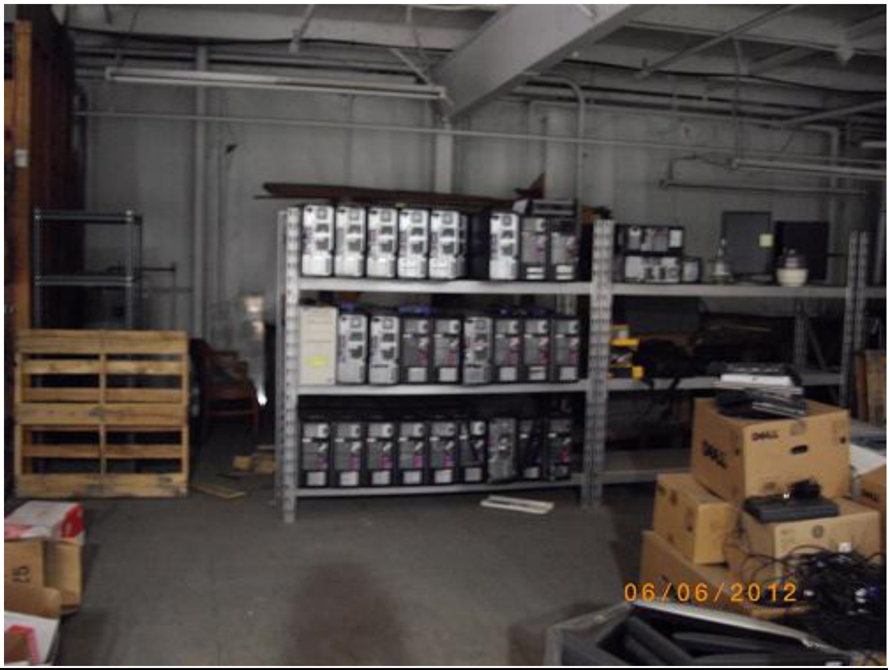
PEIA Response: In order for the PEIA Salary Index Codes (Index Code) to be updated each year, PEIA requests a file be extracted from the Budget Office Position Information Management System (PIMS) of the most recent salary information. This occurs each May. This file is then uploaded into the PEIA Benefits Administration System (BAS) to set the upcoming fiscal year Index Code. PEIA then uploads all enrollment information that is changing as of July of the upcoming plan year for each agency to review. This allows them the ability to assure their billing and payroll reconcile in preparation for the new plan year and respective changes. This is known as the Early Warning Report.

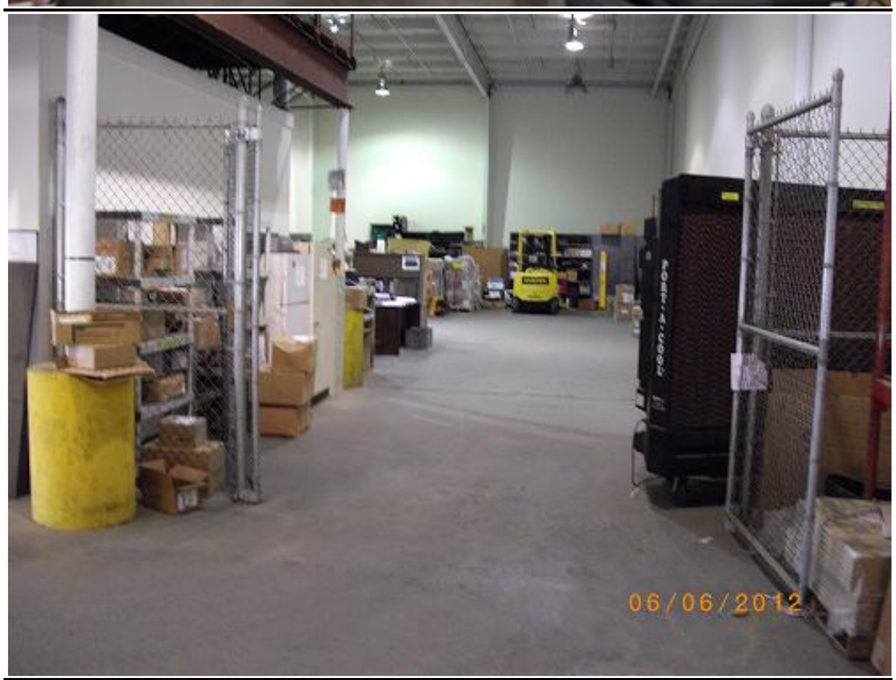
During the WV Legislature's Post Audit of the Marshall University School of Medicine, PEIA was inquired of regarding the Index Code differences they were noting during their payroll audit. Upon review, PEIA learned that Marshall University is an agency that has to be entered into PIMS via a file interface process. Unfortunately, that interface file had not arrived at Budget when the PIMS salary file was created for FY 2010. Due to this, no salary changes for Marshall occurring in 2009 were loaded into BAS for FY 2010 from this process. These increases were included for FY 2011.

Now that PEIA is aware of this issue, it is in the process of rebuilding the appropriate premiums for FY 2010. PEIA will collect the difference in premium caused by this issue.

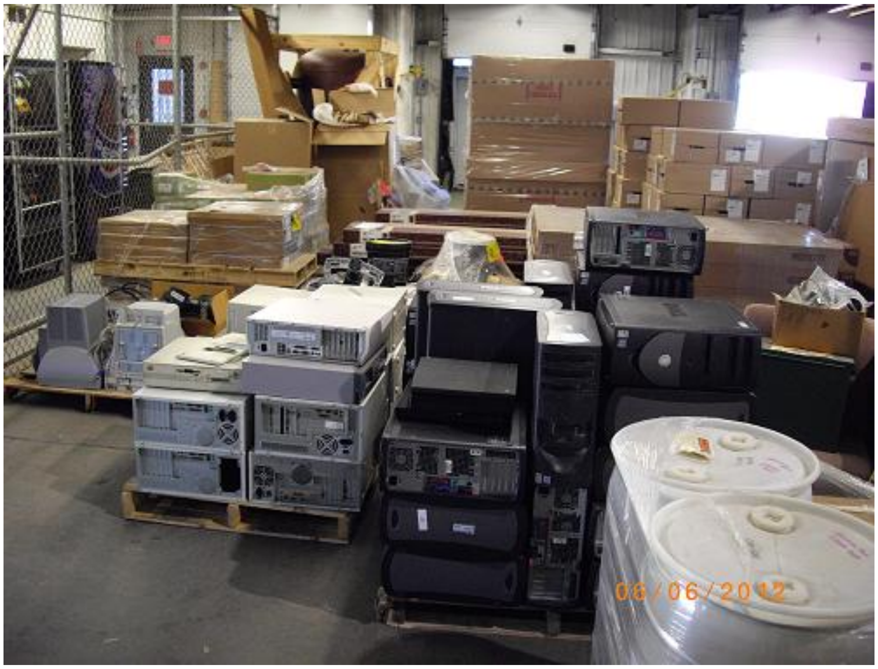
Further, to assure this does not occur again, PEIA programmers will rewrite the program to upload the PIMS salary information. The new programming will advise of any missing salary information.

APPENDIX C
CENTRAL RECEIVING WAREHOUSE PHOTOS


06/06/2012


06/06/2012

APPENDIX C (Continued)



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 July 2012.

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 were forwarded 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; Marshall University Governing Board; Marshall University Joan C. Edward's School of Medicine; Governor; Attorney General; and State Auditor.