

Winston-Salem State University | University of North Carolina School of the Arts
Office of Internal Audit & Institutional Compliance

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April 17, 2014

Donald J. Reaves, Ph.D.
Chancellor
Winston-Salem State University
200 Blair Hall
Winston-Salem, NC 27110

Dear Chancellor Reaves:

This report is in response to your request that we gather facts about fraudulent P-Card transactions conducted by a Facilities Management Department employee. The University's Department of Police and Public Safety investigated the matter and reported that the Inventory Manager in the Facilities Management Department colluded with another employee in the same department and made purchases with a University P-Card that were for the personal benefit of both parties. The Department of Police and Public Safety filed criminal charges against the two employees. Subsequent to the police investigation, both employees were terminated from the University. Internal Audit reviewed the matter to identify the weaknesses in the University's internal control structure that allowed this to occur and go undetected. Our review was limited to the P-Card transactions of the individuals involved in the criminal activity, as identified by the police investigation.

Pursuant to North Carolina General Statute § 116-40.7 we have completed our review of this matter to the extent allowed by the quality of the information received and the available evidence.

To conduct our review we performed the following procedures:

- Interviewed University employees;
- Examined relevant documents and records; and
- Reviewed University policies.

Our review revealed that the Facilities Management Department has inadequate review and reconciliation procedures to prevent and detect P-Card fraud. Our review also revealed that the Facilities Management Department's operational protocols are not

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sufficient to ensure that P-Card purchases for inventory and supplies are for legitimate business needs. The results of our investigation, along with recommendations for corrective action and management's responses, are contained in this report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "S B Henry", written in a cursive style.

Shannon B. Henry

Chief Audit Officer and Executive Director of Institutional Compliance

cc: Dr. Randy Mills, Interim Vice Chancellor for Finance and Administration
Mrs. Patricia D. Norris, Chief of Police and Director of Public Safety
Mr. Owen Cooks, Associate Vice Chancellor for Facilities Management
Mr. Alan Ireland, Director of Purchasing
Audit Committee, WSSU Board of Trustees

FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS OVER P-CARD PURCHASES WITHIN THE FACILITIES MANAGEMENT DEPARTMENT ARE INSUFFICIENT TO ENSURE THAT UNIVERSITY FUNDS ARE PROPERLY SAFEGUARDED AND HANDLED IN COMPLIANCE WITH STATE AND UNIVERSITY POLICY.

Failing to safeguard funds increases the opportunity for use of University resources for personal benefit.

FINDING:

1. Members of management and the business staff within the Facilities Management Department did not fulfill their responsibilities concerning P-Card reconciliation.

We reviewed 100% of the Inventory Manager's P-Card purchases from January 2011 through June 2013. During that time period the Inventory Manager's P-Card purchases totaled approximately \$814,000. We noted that in every case his P-Card transactions were signed, indicating approval, by at least two and in some cases three individuals via the monthly P-Card reconciliation packets. The designated Facilities Management Department's (Facilities) P-Card reconciler signed each month and the second and/or third signature varied between department management and other business office staff. Nevertheless, based on our review, the following P-Card transactions representing 31% of his total purchases or \$252,000 were identified as nonconforming:

- Copper purchases of approximately \$68,000 were traced to evidence from a local recycling company showing a Facilities employee's sales of copper for personal profits of approximately \$27,000;
- A refrigerant purchase for approximately \$1,000 was tied to evidence from a local pawn shop showing a sale of refrigerant by a Facilities employee for a personal profit of \$225; *During our review, a Department of Police and Public Safety investigation of an unrelated matter revealed that a third Facilities employee provided facts concerning his involvement in misappropriating approximately \$67,000 of refrigerant purchased by the Inventory Manager with his University P-Card. The Department of Police and Public Safety is still investigating this matter. See the next bullet for additional findings related to refrigerant purchases.*
- Additional purchases of copper in the amount of \$17,000, refrigerant in the amount of \$68,000, ballast kits in the amount of \$15,000 and other miscellaneous items in the amount of \$7,000 had no associated work orders or other sufficient documentation necessary to establish legitimacy;
- Purchases that appeared unusual in description, quantity, source or amount or had missing or irregular receipts totaled approximately \$33,000; and
- 93 occasions where the same incomplete work order was used for a host of items amounting to approximately \$43,000.

The Role Definition and Responsibility section of the University's P-Card Guidelines regarding the Department Reconciler's Responsibilities states:

FINDINGS AND RECOMMENDATIONS *(continued)*

Ensure packets are accurate and complete according to P-Card guidelines and statement/on-line reconciliation user guides before submitting to Purchasing. Proof statements and receipts to make sure all purchases are valid and that receipts are acceptable and match transactions. Oversee appropriate use of P-Cards and review and approve each cardholder's account on a monthly basis. Each month forward the reconciliation packets to Purchasing with all required signatures as final approval that everything is correct. Approve charges made to the P-Card. This process certifies that the purchases are in compliance with University, Department, and P-Card guidelines.

The Role Definition and Responsibility section of the University's P-Card Guidelines regarding the Department Head's Responsibilities states: "Ensure cardholder and reconciler responsibilities are managed well."

The Compliance section of the University's P-Card Guidelines states: "WSSU Purchasing Services reserves the right to revoke and cancel any P-Card(s) for failure to comply with the guidelines of the program. WSSU Purchasing Services has the right to exercise appropriate action as deemed necessary." The disciplinary actions provided in the P-Card Guidelines are warnings, 30 and 60 day suspensions, cancellation and incident reports to Internal Audit.

RECOMMENDATIONS:

- The University should consider an immediate suspension of P-Card privileges for the Facilities inventory management function until the employees that are responsible for supervision and P-Card compliance are trained or retrained on the University's P-Card Guidelines.
- The University should determine if the acts of non-compliance identified in this matter constitute negligence and take the appropriate disciplinary action against the responsible individuals as considered necessary.

FINDING:

- 2. The Facilities department has insufficient inventory control policies and has not adopted procedures to implement existing work order management policies to ensure safe handling of University resources.**

Without the appropriate policies and procedures to ensure purchases for materials and supplies are legitimate and appropriately handled, there is an increased risk of asset loss and the University incurring inappropriate or unnecessary costs.

Our review and the Department of Police and Public Safety's investigation revealed sufficient evidence to prove that the fraudulent acts of the Facilities Inventory Manager were substantial and went undetected for several years. Based on our review and inquiry of staff, Facilities does not maintain documented policies or procedures for inventory management and control.

FINDINGS AND RECOMMENDATIONS *(concluded)*

Facilities maintains a web module for University employees to submit work orders for work requests, however, the process has not been effectively implemented. Based on our review and inquiry of staff, the work orders can show equipment, materials, and work requests for installation, repair and maintenance.

RECOMMENDATION:

To maintain control over the safeguarding of assets, Facilities should develop written policies and procedures for inventory control and adopt procedures to ensure the work order management system is effectively implemented.

RANDY W. MILLS, Ed.D.



INTERIM VICE CHANCELLOR FOR
FINANCE & ADMINISTRATION

April 3, 2014

Mrs. Shannon B. Henry
Chief Audit Officer and Executive Director of Institutional Compliance
Winston Salem State University | University of North Carolina School of the Arts
601 S. Martin Luther King, Jr. Drive
Winston Salem, NC 27110

Dear Mrs. Henry:

We have reviewed and concur with your findings and recommendations concerning the P-Card issues in the Facilities Management Department at Winston-Salem State University. Specific responses and recommendations to the findings are below:

FINDING ONE:

Members of management and the business staff within the Facilities Management Department did not fulfill their responsibilities concerning P-Card reconciliation.

RESPONSE/RECOMMENDATION ONE:

Authorization of Facilities Management P-Card users and Supervisor approvers was suspended. We have identified and trained new card holders in this area. Further, the Facilities P-Card Reconciler has left the University. We will establish new Reconciler roles with appropriate training to ensure the roles are fulfilled per the P-Card Guidelines.

We have identified negligent acts by the Supervisor involved in overseeing Maintenance cardholder activity and removed the individual from procurement responsibility. Further, we are pursuing appropriate disciplinary action.

FINDING TWO:

The Facilities Department has insufficient inventory control policies and has not adopted procedures to implement existing work order management policies to ensure safe handling of University resources.

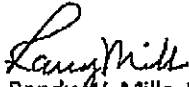
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RESPONSE/RECOMMENDATION TWO:

Facilities Management will develop written policies and procedures for inventory control and work order management by June 1, 2014 to ensure the appropriate management of P-Card and other procurement transactions within the Facilities Department.

Respectfully,



Randy W. Mills, Ed.D.

Interim Vice Chancellor for Finance and Administration

cc: Mr. Owen Cooks, Associate Vice Chancellor for Facilities Management
Mrs. Patricia Norris, Chief of Police and Director of Public Safety
Mr. Alan Ireland, Director of Purchasing