

**VIRGINIA MILITARY INSTITUTE**

**REVIEW OF CONTROLS  
OVER CASHIERING FUNCTION  
MARCH 2006**





# Commonwealth of Virginia

Auditor of Public Accounts

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March 23, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
Virginia Military Institute

In accordance with Section 30-138 of the Code of Virginia, on September 14, 2005, Virginia Military Institute (VMI) management notified the Auditor of Public Accounts and the Superintendent of the State Police that they had uncovered inappropriately cashed student payroll checks. Upon discovery of the fraudulent activity with the payroll checks, VMI personnel expanded their investigation and discovered additional incidents that looked highly suspicious. VMI management requested that the Auditor of Public Accounts perform a special review of the Institute's policies and procedures regarding its cashier's function.

We have reviewed the responsibilities of the cashiering function, evaluated the current policies and procedures, and assessed internal controls. The results of our review, our findings and recommendations for strengthening the Institute's policies and procedures, along with VMI management's response are in the accompanying report.

AUDITOR OF PUBLIC ACCOUNTS

WHC:sks  
Sks:45

# **VIRGINIA MILITARY INSTITUTE**

## ***Review of Controls Over Cashiering Function***

### **BACKGROUND**

In accordance with Section 30-138 of the Code of Virginia, on September 14, 2005, Virginia Military Institute (VMI) management notified the Auditor of Public Accounts and the Superintendent of the State Police that they had uncovered inappropriately cashed student payroll checks. The students never received the checks, yet someone had endorsed and cashed the payroll checks through the Cashier's change fund.

The Cashier maintained an imprest cash fund of \$7,000 for the purpose of cashing payroll and accommodation checks for cadets, faculty, and employees. The Cashier would cash the checks and then send the checks to the bank. The bank would return cash in the amount of these checks to replenish the fund. Additionally, the Institute's policy was to not cash checks made payable to Virginia Military Institute.

Upon discovery of the fraudulent activity with the payroll checks, VMI personnel expanded their investigation and discovered additional incidents that looked highly suspicious. They have identified over 130 transactions dating back to January 2003 with the potential loss approximately \$111,500. Most of these incidents involve checks for activities made payable to the Treasurer of VMI, which were miscellaneous revenues that did not have close management oversight.

The State Police and Commonwealth's Attorney have identified an employee who had access to this account and have arrested and indicted this individual. In addition to the diversions discussed above, there are some instances involving payment vouchers to VMI fabricated by the employee, who appears to have forged the signature of her supervisor. The employee would also send these checks to the bank, and would keep all or a portion of the returned cash.

VMI management requested that the Auditor of Public Accounts perform a special review of the Institute's policies and procedures regarding its cashier's function. In performing our work, we reviewed the responsibilities of the cashiering function, evaluated the current policies and procedures, and assessed internal controls. We have ten recommendations for strengthening the Institute's policies and procedures. Within our recommendations, we report the Institute's policy at the time of the loss, any actions already taken by the Institute, and our recommendations. As the Institute continues to implement corrective action, they should appropriately document revised policies and procedures and ensure the departments have put the policies and procedures into operation.

### Recommendation #1 – Improve Procedures Over Miscellaneous Revenues

The Institute receives miscellaneous revenues from a variety of sources, which are not subject to any regular review process or procedure. The infrequency and unanticipated nature of the collections resulted in these receipts being outside the normal oversight of management. The following are the types of transactions included in the loss:

- Quarterly payments for the use of an ATM Machine on post
- Royalties on mineral rights
- Commissions from food service vendors
- Payments from collection agencies
- Reimbursement from a cadet for Barracks damage
- Interest income – Department of Electrical Engineering
- Expenditure refunds

The Cashier would receive these miscellaneous revenues as checks and include them along with the cashed checks from the Change Fund for payment by the bank. Most checks were payable to Virginia Military Institute and restrictively endorsed by the Cashier. The bank would cash the checks and return the cash to the Cashier. On occasion, when a department would question the status of a collection, the Cashier would make the necessary transfers of funds within the accounts to cover the loss.

Management should improve the Institute's procedures to ensure the departments verify the reporting of revenue collections. For revenues in which the Institute receives year end 1099 reports, the Treasurer's Office should verify revenues recorded in the accounting system to the 1099 reports. In instances where a court orders an individual to repay the Institute, management should record an accounts receivable and monitor the activity. Furthermore, departments should review their accounts to ensure the Cashier records the revenues. When applicable, the Departments should verify amounts with reports or statements. Management should consider requesting periodic reports from vendors on the amounts remitted to the Institute.

In the case of food service commissions, the vendor sent Mess Hall commissions directly to the Cashier and sent other types of commissions for snack bars and vending to the Comptroller's Office. The Comptroller's Office would verify the amounts received and transmit the collection to the Cashier for deposit. They received a receipt from the Cashier. The Institute has requested that the vendor send all commissions to the Comptroller's Office. Management should review other types of collections and determine whether the payment should go directly to the Cashier.

#### Response:

We concur with the recommendation. We have identified individuals to be responsible for verifying receipt of funds into colleague:

- Quarterly payments for the use of an ATM machine on Post – Mary Ann Bloxton, Office Service Specialist - Treasurer's Office
- Royalties on mineral rights – Mary Ann Bloxton, Office Service Specialist - Treasurer's Office
- Commissions from food service vendors – Corey Matteson, Program Support Technician – Comptroller's Office

- Payments of Collection Agencies – Sandra Manuel, Bursar
- Court Ordered reimbursements – record as a receivable
- Interest income – Dawn Cochran, Secretary, Department of Electrical Engineering
- Expenditure refunds – addressed in Recommendation #2.

Further, the Comptroller has reminded department heads and others receiving monthly accounting reports generated through Colleague (the Institute's accounting system) the importance of reviewing those reports and verifying all receipts and expenses have been appropriately recorded.

#### *Recommendation #2 – Improve Review Procedures over Disbursements*

The Cashier would complete a Receiving Report/Request for Disbursement, sign her name as maker, forge the Bursar's name as authorizing the request, and then forward the request to the Accounts Payable staff for processing. The Director of Purchasing and Disbursements would then approve the disbursement. The request for disbursement did not always have adequate supporting documentation. Because these disbursements should have only transferred money between state and local funds, the request and supporting documentation did not receive the same scrutiny as other payment requests. In addition, no one routinely reviewed the outcome of these transfers to ensure the activity actually occurred.

We recommend that the Comptroller's Office review the procedures to ensure all requests for disbursements receive the appropriate level of review and approval. In addition, they should ensure that transfers of funds made by checks are properly recorded.

#### *Response:*

We concur with the recommendation. All individuals working in the finance area that generate journal entries or other transactions impacting the Institute's financial balances, were reminded on 1 March 2006, the importance of attaching appropriate backup to support all transactions posted to Colleague.

#### *Recommendation #3 – Reduce Amount of Cashier's Change Fund*

At the time of the loss, the Cashier maintained an imprest cash fund in the amount of \$7,000 for cashing checks of cadets, faculty, and employees. Since that time, the Institute has lowered the change fund to \$4,000. Having the Cashier both receipt and disburse funds increases the risk that a future loss may occur. Management needs to review its philosophy concerning the Cashier's duties and evaluate whether the risk of maintaining the imprest cash fund is appropriate.

Many organizations have their cashiering operation only receipt and deposit funds. By not separating these duties and allowing the Cashier to also maintain the imprest fund to cash accommodation checks presents opportunities that may lead to a similar situation. With the advent of debit cards and other electronic media, we would strongly suggest that management review its decision to keep the imprest fund.

If management maintains the fund, we recommend that Institute monitor the amount of the change fund throughout the year and adjust the amount based on need. Management should also review the activity of the change fund and determine whether alternatives to cashing certain checks are available.

Response:

On 5 October 2005, we decreased the amount of the change fund to \$4,000. Just prior to Spring break, we increased the change fund to \$5,000, but have since returned the balance to \$4,000. We will continue to monitor the activity in this account to try and better anticipate demands and adjust the balance accordingly.

Checks are cashed as a customer service to cadets, faculty, and staff. The check cashing service we provide is heavily used by cadets. Unlike many campus environments, cadets have limited access to local banking institutions. While an ATM is located on Post, they do not have ready access to cash two party checks, paychecks or government checks. As an example, on 2 March, the cashier cashed checks for seven cadets and one employee. On 6 March, the cashier cashed checks for 11 cadets and four employees. On 10 March, 20 checks were cashed for cadets and five were cashed for employees.

We understand the APA's concern for the Cashier having the responsibility of receipting as well as disbursing funds, but we believe that with the other compensating controls implemented, such as maintaining a check log, maintaining copies of all checks cashed, added emphasis on the importance of reconciling departmental accounts each month, automation of the Daily Cash Receipts Reconciliation, performance of surprise cash counts monthly, and removing the responsibility for the compilation of accounts to be written-off from the Cashier, it would be extremely more difficult for a similar incident to occur.

We agree with the APA's recommendation to review the activity of the change fund to determine whether alternatives to cashing certain checks are available. We are in the process of reviewing our process for travel advances and reimbursements to eliminate cashing of large team travel reimbursement checks. Currently, travel advance checks are issued for team travel. The reimbursement check, at times, may be large and we are unable to cash the check to allow the traveler to pay back their advance. VMI is considering issuing a one time advance or loan to one coach for each team during their season. The traveler or coach would submit reimbursement vouchers after each trip to replenish their advance. At the end of the season, the traveler would return the original advance or loan. We also highly encourage the use of travel charge cards in lieu of using cash advances whenever possible.

*Recommendation #4 – Maintain a Mail Log of Checks Received*

The Institute's procedure has the Cashier open all mail not associated with cadet payments. Student Accounting staff perform the cashiering function for cadet payments and the Cashier received all other payments. When mail arrived each day, they would separate the mail based on the type of envelope, which distinguished the type of payment.

We recommend that someone outside of the Cashier and Student Accounts department open the mail and make a log of payments received. The Bursar could verify the mail log to the day's deposit. An alternative procedure would have the Cashier and Student Accounts each open the other's mail and make a log of payments.

Response:

We contend that checks received by the Student Accounting technician in a Student Accounting return envelope are secure and do not need to be logged. A receivable has been previously recorded in Colleague when a cadet registers for classes.

Effective 7 March 2006, all non-cadet checks received in the mail will be opened by Terry Manuel, Accounts Payable Clerk – Comptroller's Office. She will prepare a log of those payments not requiring a return receipt. The Bursar will be responsible for making sure these checks are deposited.

Recommendation #5 – Maintain Documentation of Checks Cashed

The Cashier does not maintain documentation of checks cashed. The person cashing a check either writes a check payable to the individual or endorses the check made payable to themselves over to the Institute, and receives cash. The Cashier then sends the cashed checks to the bank the next day. There is no log of checks to verify the total amount of the checks or who the checks are from.

The Institute now adds on a tape the amounts of the cashed checks sent to the bank. We suggest that cashier maintain a copy of each check cashed during the day. This would provide documentation of the cadet or employee's name and the check amount in case the checks were lost or stolen. The Bursar could also use this documentation to review the types and names for checks cashed.

Response:

SunTrust Bank requested that VMI begin depositing all checks cashed in our office. The Cashier prepares a disbursement form made payable to SunTrust, with copies of the cashed checks as backup. The disbursement form is entered into Colleague by accounts payable and a check is prepared. The check is endorsed "For Cash" by the Bursar, Comptroller, or the Director of Purchasing and Disbursements. This procedure became effective 6 March 2006.

Recommendation #6 – Perform Complete Review of Daily Cash Receipts Reconciliation

The Bursar would review the Cashier's Daily Cash Receipts Reconciliation to verify that the amount of the deposit matched the deposit ticket attached. However, she did not test the amounts on the reconciliation to verify its accuracy or completeness.

The Bursar has begun adding the reconciliations daily. We further suggest that the Cashier complete the reconciliations electronically, therefore the cashier can send the file to the Bursar for review. This would reduce the Bursar's review time if she can verify the reconciliation's accuracy electronically. This would also ensure that the reconciliations are legible.

Response:

We concur with this recommendation. The Daily Cash Receipts Reconciliation form has been set up as an Excel spreadsheet. The cells within this spreadsheet have been secured so that only the Bursar has access to the formulas. The Cashier completes this electronic form and transmits it to the Bursar for approval. The Bursar can quickly view this form to see that it balances and whether there were any overages or shortages for the day. This expedites the review and helps to assure its accuracy as well as legibility. Once the Bursar completes her review, she prints the form, has the Cashier sign it as the preparer and she then signs it as the approver.

Recommendation #7 – Review Over/Under Account Timely

The Bursar did not review the Cashier's over/under account but once or twice a year. She has now started to review this account once a month. We recommend that the Cashier document the use of the over/under account on the Daily Cash Receipts Reconciliation. Therefore, when the Bursar reviews the Reconciliation each day, she can review the amount charged to the over/under account for that day. This will provide the Bursar with the amount of activity in the account during her monthly review of activity in the over/under account.

Response:

The Bursar reviews the over/under account each month. Additionally, the Daily Cash Receipts Reconciliation form as explained in the response to recommendation #6 above requires any overages or shortages to be reflected on this form in order for it to balance.

Recommendation #8 – Improve Approval Procedure of Write-offs

The Cashier had responsibility for compiling the list of accounts for write-off accounts in addition to receiving the payment on accounts from the collection agencies. Therefore, she had access to the funds received, and then could write off that account without anyone knowing the Institute had received payment.

The Institute has changed this procedure by giving the responsibility of write-offs to the Bursar. We also recommend that the Comptroller continue to review and approve accounts recommended for write off.



Response:

We concur with this recommendation. The Bursar will prepare the write-off list and forward it for review by the Comptroller. The Comptroller will then forward the list with his recommendation for write-off to the Deputy Superintendent for Finance, Administration, and Support. The Deputy Superintendent will submit to the Superintendent or Board of Visitors for action in accordance with the Institute's Write-Off Policy.

Recommendation #9 – Perform Surprise Cash Counts

The Bursar would perform surprise cash counts of the Cashier's change fund approximately twice a year. The new procedure has the Bursar doing cash counts six times a year. We recommend monthly surprise cash counts. Furthermore, the Bursar should perform periodic cash counts of change funds and collection points within the Institute.

Response:

We concur with the recommendation. The Bursar will maintain a log of all cash counts conducted that will be available for review. The Comptroller will periodically review this log to assure these counts are conducted.

Recommendation #10 – Instruct Bank Not to Cash Checks Made Payable to VMI

The Institute indicates that its internal policy was to only cash properly endorsed checks made payable to the "payee" from the Cashier's Change Fund. The Cashier would then bundle these checks together and send them to the bank for cashing and replenishing the Change Fund. Therefore, the Cashier should not cash checks made payable to the Institute or remit such checks to the bank.

The Institute assumed the bank would not cash checks made payable to VMI. However, most of the fraudulent activity occurred by the Cashier sending checks made payable to VMI from vendors and payees, as well as the Institute itself, and having the bank cash these checks. The cashier would then keep some or all of the returned funds, and deposit the rest back into the Institute's accounts. We recommend that the Institute instruct the bank, in writing, not to cash any checks made payable to VMI.

Response:

While SunTrust Bank has been notified that under no circumstances should checks made payable to "VMI" or the "Treasurer of VMI" be cashed (see attached), we don't believe this measure was necessary as it is the industry standard or "common practice" for all checks made payable to an entity to be deposited and not cashed.