



SPECIAL REVIEW
OF
MISSOURI SOUTHERN STATE COLLEGE
VENDOR REFUNDS AND PAYMENTS

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-61
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www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

July 2000

www.auditor.state.mo.us

The following areas of concern were discovered as a result of a special review conducted by our office of the Missouri Southern State College Vendor Refunds and Payments.

According to college officials, in December 1999 the internal auditor at Missouri Southern State College discovered a discrepancy in a transaction initiated by the accounts payable clerk. Subsequent review by the internal auditor and the Missouri State Auditor's Office noted additional discrepancies and identified a misappropriation of at least \$22,190 between March 1, 1999 and December 31, 1999.

Between March 1999 and December 1999, thirty-one checks totaling \$21,785 made payable to Missouri Southern State College or college checks payable to college vendors were deposited into a bank account of a local association of which the accounts payable clerk served as treasurer. In December 1999, the college became aware of some of these discrepancies and this clerk subsequently reimbursed the college \$1,560 with a check from the association's bank account, and \$1,995 with a cashiers check purchased from her personal bank account. An additional \$331 also appears to have been reimbursed to the college in April 1999 with a money order. It is not clear what the source of funds for the purchase of this money order is. In addition, a Missouri Southern State College check for \$405 was used to pay the accounts payable clerk's personal credit card bill. As a result, \$18,304 (\$21,785 less \$1,560, \$1,995, and \$331 plus \$405) is still due to the college.

Twenty-four of the thirty-one checks totaling \$13,332 represent refunds from vendors to Missouri Southern State College for returned merchandise or overpayments. Five checks totaling \$6,458 were Missouri Southern State College checks made payable to college vendors. The remaining two checks totaling \$2,195 were Missouri Southern State College checks made payable to the association based upon invoices of which \$1,995 was fictitious. These invoices appeared to be copies of valid invoices from the association that had been altered.

While the majority of the checks were not made payable to the association, they were still deposited into the association's bank account. Several of these checks contained no endorsement; however, six checks were endorsed with a stamped endorsement reading, "Missouri Southern State College, Pay To The Order Of".

(over)

YELLOW SHEET

In one instance, a vendor file name in Missouri Southern State College's computer system appears to have been changed, prior to the check being printed so the check would be made payable to the association, of which the accounts payable clerk served as treasurer. Subsequent to the check being printed, the vendor file name appears to have been changed back which helped to conceal the misappropriation. A representative from the local association into whose bank account these checks were deposited indicated the association was unaware of this matter until December 1999. The association then contacted the college concerning this matter. They also indicated the misappropriated funds from Missouri Southern State College are no longer in the association's bank account.

In addition to the checks noted above, irregularities may have occurred with other checks written to or from the college. Along with the college, we are continuing our efforts to review certain disbursement records and will notify appropriate legal authorities of any additional misappropriated funds.

Rhonda Branham became an employee of Missouri Southern State College in May 1990. She became the accounts payable clerk in October 1997 and resigned in December 1999. As accounts payable clerk she was responsible for preparing invoices for payment, entering disbursement information into the computer system, and although not authorized to do so, received refunds from vendors. The local association to whose account the college's checks were deposited, indicated she served as treasurer from July 1996 until December 1999.

Information regarding this misappropriation has been turned over to the Jasper County Prosecuting Attorney and the city of Joplin Police Department.

The college has also identified unauthorized transactions totaling \$1,284 which appear to have been initiated by the former accounts payable clerk and paid for with Missouri Southern State College funds. These transactions include purchasing supplies and equipment for personal use and establishing two unauthorized cellular phone accounts.

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Board of Regents
and
Dr. Julio S. Leon, President
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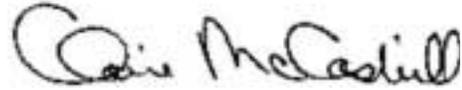
We have conducted a special review of Missouri Southern State College. The scope of our review included, but was not necessarily limited to, the period July 1, 1999 through December 31, 1999 and the two years ended June 30, 1999. The objectives of this review were to:

1. Investigate suspected irregularities regarding vendor refunds and payments.
2. Determine the amount of college funds misappropriated.
3. Review and evaluate certain controls and procedures regarding the collection of and accounting for vendor refunds and payments.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the financial records and procedures of Missouri Southern State College, interviewed college personnel, and examined other records and documents as we considered necessary for the review.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of Missouri Southern State College.



Claire McCaskill
State Auditor

May 4, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Karen Laves, CPA
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EXECUTIVE SUMMARY

SPECIAL REVIEW OF
MISSOURI SOUTHERN STATE COLLEGE
VENDOR REFUNDS AND PAYMENTS
EXECUTIVE SUMMARY

According to college officials, in December 1999 the internal auditor at Missouri Southern State College discovered a discrepancy in a transaction initiated by the accounts payable clerk. Subsequent review by the internal auditor and the Missouri State Auditor's Office noted additional discrepancies and identified a misappropriation of at least \$22,190 between March 1, 1999 and December 31, 1999.

Weaknesses in the internal control system of Missouri Southern State College allowed this misappropriation to occur. Some checks made payable to Missouri Southern State College and some college checks payable to college vendors were deposited into a bank account of a local association of which the former accounts payable clerk served as treasurer. A college check was also used to pay the accounts payable clerk's personal credit card bill. Reimbursement of \$3,886 has been received from the association or clerk. In addition, it appears unauthorized purchases of supplies and equipment for personal use, and the unauthorized establishment of two cellular phone accounts were initiated by the former accounts payable clerk.

This misappropriation could have been prevented or detected on a more timely basis if adequate oversight and reviews had been performed and if internal controls as noted in the accompanying Management Advisory Report had been established.

Rhonda Branham became an employee of Missouri Southern State College in May 1990. She became the accounts payable clerk in October 1997 and resigned in December 1999. As accounts payable clerk she was responsible for preparing invoices for payment, entering disbursement information into the computer system, and although not authorized to do so, received refunds from vendors. The local association to whose account the college's checks were deposited, indicated she served as treasurer from July 1996 until December 1999.

MANAGEMENT ADVISORY REPORT

SPECIAL REVIEW
OF
MISSOURI SOUTHERN STATE COLLEGE
VENDOR REFUNDS AND PAYMENTS

According to college officials, in December 1999 the Internal Auditor of Missouri Southern State College discovered a discrepancy in a transaction initiated by the accounts payable clerk. During a routine audit of Missouri Southern State College (MSSC), the Missouri State Auditor's Office became aware of discrepancies within the accounts payable process. This special review was performed to more fully review the circumstances of these discrepancies and to more fully determine the extent of misappropriated funds.

Following are our comments regarding the misappropriation and the related accounting controls and procedures.

1. Missing Funds and Unauthorized Transactions

- A. Between March 1999 and December 1999, thirty-one checks totaling \$21,785 made payable to MSSC or college checks payable to college vendors were deposited into a bank account of a local association of which the accounts payable clerk served as treasurer. In December 1999, the college became aware of some of these discrepancies and this clerk subsequently reimbursed the college \$1,560 with a check from the association's bank account, and \$1,995 with a cashier's check purchased from her personal bank account. An additional \$331 also appears to have been reimbursed to the college in April 1999 with a money order. It is not clear what the source of funds for the purchase of this money order is. In addition, a MSSC check for \$405 was used to pay the accounts payable clerk's personal credit card bill. As a result, \$18,304 (\$21,785 less \$1,560, \$1,995, and \$331 plus \$405) is still due to the college.

Twenty-four of the thirty-one checks totaling \$13,332 represent refunds from vendors to MSSC for returned merchandise or overpayments. Five checks totaling \$6,458 were MSSC checks made payable to college vendors. The remaining two checks totaling \$2,195 were MSSC checks made payable to the association based upon invoices of which \$1,995 was fictitious. These invoices appeared to be copies of valid invoices from the association that had been altered.

While the majority of the checks were not made payable to the association, they were still deposited into the association's bank account. Several of these checks contained no endorsement; however, six checks were endorsed with a stamped endorsement reading, "Missouri Southern State College, Pay To The Order Of".

In one instance, a vendor file name in MSSC's computer system appears to have been changed, prior to the check being printed so the check would be made

payable to the association, of which the accounts payable clerk served as treasurer. Subsequent to the check being printed, the vendor file name appears to have been changed back which helped to conceal the misappropriation. A representative from the local association into whose bank account these checks were deposited indicated the association was unaware of this matter until December 1999. The association then contacted the college concerning this matter. They also indicated the misappropriated funds from MSSC are no longer in the association's bank account.

In addition to the checks noted above, irregularities may have occurred with other checks written to or from the college. Along with the college, we are continuing our efforts to review certain disbursement records and will notify appropriate legal authorities of any additional misappropriated funds.

Information regarding this misappropriation has been turned over to the Jasper County Prosecuting Attorney and the city of Joplin Police Department.

- B. The college has also identified unauthorized transactions totaling \$1,284 which appear to have been initiated by the former accounts payable clerk and paid for with MSSC funds. These transactions include purchasing supplies and equipment for personal use and establishing two unauthorized cellular phone accounts.

Eight purchases totaling \$867 for office supplies and various computer equipment appear to be for personal use. Photocopies of open purchase orders and previously used purchase orders were used to provide documentation for these purchases. In one instance, the college President's signature was photocopied onto a copy of an invoice which gave the appearance that the invoice was approved for payment.

In addition, the former accounts payable clerk established two unauthorized cellular phone accounts for herself, and purchased two new cellular phones with MSSC funds. The college paid charges totaling \$417 for these unauthorized accounts.

These misappropriations were allowed to occur and not be detected for an extended period of time due to a lack of control procedures being in place. The following Management Advisory Report (MAR) comment addresses the needed controls.

WE RECOMMEND the college continue working with law enforcement authorities regarding any criminal prosecution and obtain full reimbursement of the misappropriated funds.

AUDITEE'S RESPONSE:

In December 1999, the Internal Auditor at Missouri Southern State College discovered suspicious activities by the account payable clerk. Subsequent investigation by the Internal

Auditor and the Missouri State Auditor's Office beginning in January 2000 determined that these suspicious activities had resulted in the misappropriation of college funds. The college, along with the Missouri State Auditor's Office, presented to the Jasper County Prosecuting Attorney and representatives from the City of Joplin Police Department all information regarding the misappropriation in a joint meeting held in early May 2000. The college is continuing to work with law enforcement authorities in an effort to obtain full reimbursement of the misappropriated funds.

2. Vendor Refunds and Payment Procedures and Controls

- A. The duties of preparing invoices for payment and receiving refund checks are not adequately segregated. The accounts payable clerk is responsible for matching invoices to purchase orders, sending invoices to department heads for approval, entering the invoices into the computer system for payment, and although not authorized to do so, received refunds from vendors.

To safeguard against possible loss, theft, or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by ensuring refunds are received and recorded by someone independent of the accounts payable process.

- B. Weaknesses exist within the college's disbursement process as follows.
1. All checks require two signatures, the treasurer and the secretary of the Board of Regents. Both signatures are applied by a check signing machine. The signature plate is stored in a safe in the vault located in the business office. The safe is left unlocked during the day, and all business office employees have access. In addition, several business office employees are allowed to run checks through the check signing machine. To decrease the potential for unauthorized disbursement by check, access to the signature plate should be limited.
 2. Signed checks are not adequately safeguarded prior to distribution. The checks are stored in the business office after being signed by the check signing machine. All office employees, including the accounts payable clerk, have access to the checks. To ensure checks are properly distributed, access to signed checks should be limited.
 3. A disbursement report showing all checks issued is generated and provided to the college Treasurer for his review. Documentation for all checks on the report that are greater than \$5,000 is reviewed. However, no one other than the accounts payable clerk reviews documentation to support checks less than \$5,000. During the two years ended June 30, 1999, there were approximately 40,000 transactions totaling over \$23

million that met the under \$5,000 criteria and therefore documentation was not reviewed by anyone other than the accounts payable clerk. This review is necessary to ensure all disbursements have been properly authorized. Had such a review been performed, some of the misappropriations noted in MAR No. 1 might have been detected.

4. The college uses an automated invoice processing system to process bills paid by the college. To receive payment, vendors must be entered in the system with a vendor number. Once vendors have been entered into the system the accounts payable clerk has the ability to change the vendor file name. In one instance noted in MAR No. 1, a vendor's file name was changed to the name of a local association for which the accounts payable clerk was treasurer. This resulted in the local association being the payee on the check and the check being deposited into the association's bank account. After the check was printed the vendor file name was apparently changed back to the original vendor name which helped to conceal the misappropriation. To decrease the potential for unauthorized disbursements, the ability to change vendor file names should be limited to someone independent of the accounts payable process.
- C. Fourteen of the twenty-four refund checks referred to in MAR No. 1 were initiated by merchandise returns of the bookstore. The bookstore submits to the business office a monthly list of items returned for credit or refunds. However, only the accounts payable clerk is responsible for comparing the items returned, to credit memos or refunds received. As a result, the misappropriation of over \$6,472 in refunds due the bookstore went undetected for several months. The comparison of items returned to credit memos and refunds received by someone independent of the accounts payable process is necessary to ensure all returns have been accounted for properly.
- D. The college has no written policies for returning merchandise and obtaining credits or refunds. Individual departments are allowed to handle their own merchandise returns. Some merchandise is returned through the college's central receiving department, while some merchandise is returned directly by the individual department who received the merchandise.

The business office relies on the individual departments to track their own returns and notify the business office if a credit memo or refund has not been received. However, many of the departments are not properly following up to ensure credits or refunds are received by the college. During our review of returned merchandise, we noted an open credit of \$572 from September 1999 that has not yet been used by the college.

To safeguard against the possible loss or misuse of funds, merchandise returned to vendors should be handled through one central location. To ensure that the college has received full credit for returned merchandise and to ensure the credit

is properly recorded, someone independent of the accounts payable process should record the credit. In addition, to ensure that procedures for returning merchandise and handling credit memos are followed, the college should establish a formal written policy.

- E. Six of the refund checks described in MAR No. 1 were endorsed with a stamp reading “Missouri Southern State College Pay To The Order Of”. The stamp may have helped to enable checks made payable to the College to be negotiated by someone else. College administrators indicated that they did not know of any legitimate purpose for the stamp. The stamp is currently stored in the vault located in the business office, and all business office employees have access to the vault. Failure to properly control the stamp could result in additional loss or misuse of funds. If there is not a need for the stamp, the college should dispose of it.

WE RECOMMEND the College:

- A. Adequately segregate the duties of preparing invoices for payment and receiving refund checks.
- B.1. Limit access to the signature plate.
 - 2. Ensure access to signed checks is adequately limited prior to distribution.
 - 3. Ensure documentation for expenditures is properly reviewed and approved prior to payment.
 - 4. Limit the ability to change vendor file names in the computer system to someone independent of the accounts payable process.
- C. Ensure someone independent of the accounts payable process compares the items returned by the bookstore to refunds received and investigates any problems noted in a timely manner.
- D. Establish written policies for returning merchandise and obtaining credits or refunds and establish controls to ensure these policies are enforced. The college should consider requiring all returns and refunds to be handled through a central location.
- E. Dispose of the “Missouri Southern State College Pay To The Order Of” stamp, or ensure access to the stamp is adequately limited.

AUDITEE’S RESPONSE:

- A. *The college agrees with the Auditor’s recommendation. An employee with no accounts payable responsibilities has been assigned to open all mail received in the business*

office. All checks received through the mail, including refund checks, are immediately stamped with a "Missouri Southern State College For Deposit Only" stamp and forwarded to the cashier for entry into the college's general ledger system. In addition, the accounts payable clerk is no longer responsible for reconciling refunds and credit memos from vendors to the general ledger system.

- B.1. The college agrees with the Auditor's recommendation. The signature plate is now being stored in a lockable file cabinet in the office of the Senior Vice President. The signature plate is locked in the file cabinet at all times when it is not in use. Access to the key for the file cabinet is limited to the Senior Vice President and the Treasurer.*
- 2. The college agrees with the Auditor's recommendation. The business office plans to purchase a lockable, rolling file cabinet within one month to store signed checks kept in the business office. The file will be kept locked and access to the file cabinet will be limited to those employees serving in the cashier function.*
- 3. The college agrees with the Auditor's recommendation. An employee not responsible for preparing invoices for payment will continue to review documentation for all checks \$5,000 or greater prior to payment. In addition, the employee will select several checks for less than \$5,000 and review documentation for these checks prior to payment.*
- 4. The college agrees with the Auditor's recommendation. The business office will begin working with the computer information department immediately to make programming changes that will limit the ability to change vendor file information in the general ledger system. The ability to make vendor file changes will be removed from the functions available to the accounts payable clerk and reassigned to an employee with no accounts payable responsibilities. The college plans to complete these changes within six months.*
- C. The college agrees with the Auditor's recommendation. The bookstore has recently installed a new point-of-sale computer system and has purchased a related accounting software package that will be implemented in July 2000. After this accounting software package is implemented in the bookstore, bookstore personnel (who are independent of the accounts payable function) will be responsible for reconciling merchandise returned to refunds and credit memos received.*
- D. The college agrees with the Auditor's recommendation. The college will establish written policies and procedures for returning merchandise and obtaining credits or refunds through a central college location and will also establish controls to ensure that these policies and procedures are enforced. The college will begin the process to establish these policies and procedures immediately and will fully implement the policies and procedures within one year.*
- E. Occasionally the college receives a check that should be payable to a student or another entity. For this reason, the college wishes to retain the "Missouri Southern State College Pay To The Order Of" stamp. The stamp is now being stored with the signature plate in a lockable file cabinet in the office of the Senior Vice President. The stamp is locked in the*

file cabinet at all times when it is not in use and access to the key is limited to the Senior Vice President and the Treasurer.

This report is intended for the information of the management of the college, and other applicable officials. However, this report is a matter of public record and its distribution is not limited.

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