

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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MEMO

To: Thedford L. Shanklin, CPA, Director

From: Michael E. Sizemore, CPA, Audit Manager. ^{MES}
William H. J. Spencer, III, CPA

Date: November 16, 2004

Subject: FOLLOW-UP REVIEW OF THE AUDIT REPORT OF THE WEST VIRGINIA DEPARTMENT OF EDUCATION, DIVISION OF TECHNICAL AND ADULT EDUCATION SERVICES (DIVISION OF VOCATIONAL EDUCATION), CEDAR LAKES CONFERENCE FOR THE PERIOD JULY 1, 2001 - DECEMBER 31, 2003

In accordance with your instructions, we have conducted a follow-up regarding the post audit of the West Virginia Department of Education, Division of Technical and Adult Education Services (Division of Vocational Education), Cedar Lakes Conference Center for the period July 1, 2001 through December 31, 2003. In the audit, we disclosed a total of 10 audit findings. Our follow-up reveals that the Division of Technical and Adult Education Services (The Division) still has two audit findings, both related to the administration and oversight of the Cedar Lakes Conference Center (the Center) remaining to resolve. Specifically, we recommended the Division cease the practice of extending credit for room rentals and other services provided at the Center in noncompliance with Chapter 18, Article 2, Section 16 of the West Virginia Code and we also recommended the Division establish and maintain records regarding the Minimum Reserve Fund for debt service in relation to the Cedar Lakes Conference Center Revenue Bonds, 1995 Series A and B. However, as of November 16, 2004, the Division continues the practice of extending credit and the Division still has not reconstructed the financial activities related to the bond issue. We were told the Division intends to seek a change in State law during the upcoming legislative session which would permit the Center to carry accounts receivable and the

Division is still working with the paying agent (City National Bank) in an effort to locate copies of supporting documentation for all of the transactions which have occurred in the bond issue since its issuance and this effort is still ongoing. Below, we have summarized each of the audit findings contained in the post audit, our recommendations with respect to each audit finding and the actions taken by the Division regarding each finding.

Finding #1 - Suspected Fraud at the Cedar Lakes Conference Center

During our post audit of the Cedar Lakes Conference Center (the Center), the Assistant State Superintendent of the Division of Technical and Adult Education Services of the West Virginia Department of Education told us that certain instances of suspected fraud had been brought to his attention by employees of Cedar Lakes Conference Center involving actions by the former General Manager.

We Recommended:

This matter be referred to the Commission on Special Investigations.

Action Taken:

The matter was referred to the Commission on Special Investigations.

Finding #2 - Lack of Effective System of Internal Controls

During the course of our examination, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the West Virginia Department of Education (WVDOE), Division of Technical and Adult Education Services (Division of Vocational Education) did not have an effective system of internal controls in place to ensure the Center was in compliance with applicable State laws, rules and regulations. We believe an effective system of internal controls would have alerted management to these violations at an earlier date and allowed more timely corrective action.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended and establish an effective system of internal controls over the Center that will serve to alert management to areas of noncompliance as noted in this report.

Action Taken:

In response to the audit finding, the Division has implemented several changes designed to improve the oversight of the Cedar Lakes Conference Center (the Center). Among these changes are the General Manager of the Center is now required to submit weekly, monthly and annual reports to the Assistant Superintendent of the Division of Technical and Adult Education Services. The General Manager is now in weekly contact with the West Virginia Department of

Education's Office of Finance. The General Manager participates in the Executive Directors Meetings of the Division of Technical and Adult Education Services and the Assistant Superintendent of Technical and Adult Education Services meets regularly with the General Manager and other members of the Center's management team.

Finding #3 - Administration and Oversight of the Cedar Lakes Conference Center

We noted eight weaknesses in the internal control structure of Cedar Lakes Conference Center, six of which were material weaknesses, which we believe were caused by weak administration of the affairs of the Center and lack of oversight of the Center by the WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education). These areas of material weaknesses involved the following: **1.** The existence of unauthorized accounts receivable having numerous instances of account adjustments which were not supported by any written documentation explaining the reasons for the adjustments; **2.** Our inability to determine whether all moneys due the Center during the period July 1, 2001 through December 31, 2003 had been collected, deposited and properly accounted for in the accounting records; **3.** The Center did not maintain inventories of merchandise purchased for resale in the gift shop, as well as, food products purchased for use and resale in the Dining Hall; **4.** The Center provided services and generated revenues without statutory authority to conduct such transactions; these transactions included the sale of party trays by the Dining Hall; **5.** The Center operated the FFA-FHA Conference Center, Crafts Center Fund - Account 3953 without specific statutory authority for the account in State law; **6.** Free meals and lodging were given to independent consultants who provided craft instruction at the Center; however, no records were maintained regarding these activities; **7.** The Center did not have a system in place that accounts for the use of building and maintenance supplies; and, **8.** The West Virginia Department of Education, Division of Technical and Adult Education Services (Division of Vocational Education) did not have adequate records in place regarding the Minimum Reserve Fund for the Cedar Lakes Conference Center Revenue Bonds, 1995 Series A and B bonds.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 18, Article 2, Section 16 of the West Virginia Code and strengthen internal controls at the Cedar Lakes in the following areas:

- 1. Unauthorized Accounts Receivable**
- 2. Cash Receipts**
- 3. Lack of Inventories for Merchandise for Resale**
- 4. Unauthorized Services**
- 5. Craft Fund Not Specifically Authorized by State Law**
- 6. Free Lodging and Meals Not Reflected in Accounting Records**
- 7. Building and Maintenance Supplies**
- 8. "Minimum Reserve" Fund for Bond Debt Service**

Action Taken:

According to information supplied by the General Manager and our review of both documentation of financial activities and observation of procedures in use at the Center, the following actions have been taken by the Division:

#1 - Unauthorized Accounts Receivable

- WVDE will seek a change in state statute similar to Division of Tourism or West Virginia higher education system.

#2 - Cash Receipts

- Staffing changes have been made that segregates duties. Staff assigned to complete the audit has no access to cash or other functions.
- Night Audit staff reports directly to Coordinator of Administrative Services. The Coordinator of Administrative Services is responsible to document the review of all night audit reports and prepare the documents for the General Manager's approval. Appropriate forms have been developed and are in use.
- All incoming mail now has the "date received" stamped on the mail. A form has also been created that lists all receipts when mail is opened. There is currently an established mail procedure in place.
- The safe is presently locked at all times; employees assigned to cash drawers are the only employees with access to their respective cash drawer.
- The Daily Cash Report reflects all cash including beginning balances for all change funds.
- No money is collected at the Dining Hall and no pickups at the Dining Hall can be made unless customers stop at the office to pay and receive the necessary paperwork to pickup order.

#3 - Lack of Inventories for Merchandise for Resale

- A complete inventory of all store items for resale has been instituted. Electronic cash registers were purchased for tracking individual store item for sale. Each item has been assigned a PLU (Price Look Up) Number. Items sold can later be printed on a report from the register showing the quantities sold by each PLU Number. Each PLU number total is subtracted from updated inventory for each item. Reports are presented for review and approval by the General Manager weekly.
- A representative from WVDE Child Nutrition office provided assistance to the Food Service Director in developing an inventory system. Inventories are being completed on all resale items in the Dining Hall. Reports are presented for review and approval by the General Manager.
- A record keeping system has been implemented to account for all meals prepared and served.
- Dining Hall ticket taker counts all individuals who walk thru the door and also checks meal tickets and/or wrist bands. Individuals without meal tickets must come to the

office to purchase a ticket for the meal. The Food Service Director or Cafeteria Managers are the only individuals authorized to permit individuals through the line that do not have a ticket or wrist band. Appropriate records are kept and submitted on a daily basis to the Coordinator of Administrative Services and General Manager.

#4 - Unauthorized Services

- Effective July 1, 2004, off-site catering was discontinued. The Center is fulfilling only the commitments made prior to the finding. The WVDE will seek a statute change.

#5 - Craft Fund Not Specifically Authorized by State Law

- Account 3953 has been eliminated and is no longer utilized. A Craft Account has been established under fims fund 3960 using grant id 11809.

#6 - Free Lodging and Meals Not Reflected in Accounting Records

- All room and board is reflected in the reservation/accounting system. The Coordinator of Administrative Services is the only staff member that has authority to make any adjustments in the computer reservation system. **ALL** changes must be approved by the General Manager. Three posting codes (Volunteer Labor, Advertising & Publicity, and Inadequate Facilities/Write Off) have been developed to reflect and account for all changes.
- The *Agreement Questionnaire* (WV-50) is now completed for professional services.
- Lodging and meals are now reflected on all *Agreement Forms* (WV-48)

#7 - Building and Maintenance Supplies

- Two employees have been assigned to the inventory system for paper/cleaning supplies used throughout the camp.
- A new secured storage area has been constructed to secure all tools/materials/supplies. An inventory system has been implemented to account for all tools and materials used.
- Another building (Manpower) has been cleaned and all other building materials are stored in this building. An inventory system is utilized to account for all materials and supplies within this building.
- Maintenance Supervisor prepares records for the General Manager's review.

#8 - "Minimum Reserve" Fund for Bond Debt Service

- A request has been filed with City National Bank to research their files on microfilm for history of deposits and interest. Upon the receipt of this information, the WVDE will prepare a ledger of the deposits and interest.

Finding #4 - Salaries Paid Before Services Were Rendered

We learned that during the period February 15, 2003 through February 20, 2003, the Center was impacted by a significant ice storm which caused major disruptions to the Center's operations, including a sustained power outage. During this five-day period, we found documentation which indicated that employees of the Center who were full-time employees and who were scheduled to work were credited with having worked eight hours on each scheduled work-day for them, even if they did not report to work. We estimate the Center incurred salary costs of approximately \$18,000 as a result of employees who did not report for duty, but were paid during the period.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended.

Action Taken:

A new policy has been developed and distributed to all staff of the West Virginia Department of Education which indicates that employees who are unable to report to work must either use accumulated compensatory time and/or annual leave in order to be paid.

Finding #5 - Leave Accruals

We noted significant weaknesses in the internal control system over the timekeeping function and corresponding leave accruals at the Center. Specifically, we observed that no prior authorizations are required for overtime work; time cards are not required to be signed by employees or their supervisors to verify hours worked; no compensatory leave records are maintained which would alert management as to the amounts of compensatory time being earned by specific employees; the timekeeper's calculations for hours worked and leave accruals are not subject to review by another Center employee for the purpose of locating computational errors; Supervisors do not approve time entered manually by employees who neglect to punch their time cards; the Center's method used to calculate time worked is in noncompliance with the provisions of the Federal Fair Labor Standards Act; and, the Center's charge against leave balances is 1/4 day or 2 hours; however, employees were being allowed to convert residual amounts of leave in less than 1/4 day increments into their compensatory leave balance thereby allowing some employees to circumvent the limitations on carryforward of available annual leave. As a result of these weaknesses, we believe one employee's compensatory leave balance was understated by 12.75 hours while another employee's compensatory leave balance was overstated by 17.50 hours. Also, some employees are able to circumvent the 40-day limit on carryforward of annual leave.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) develop an employee manual for the Center that ensures all requirements for accruing and using leave, as well as, computing time worked are documented. We further recommend the WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) implement sufficient internal controls over timekeeping to ensure employees are paid appropriately, time cards are reviewed and signed by appropriate supervisory personnel and reflect hours actually worked, leave accruals are computed correctly, leave time is not converted to compensatory leave, and employees receive supervisory approval before working overtime hours.

Action Taken:

In response to the audit finding, the Division has taken the following steps to implement the recommendations contained in the post audit:

- An employee manual has been developed and sent to the WVDE for review and adoption by the WV State Board of Education. The new document ensures all requirements for accruing and using leave, as well as computing time worked, are documented.
- The following formal written procedures have been developed and implemented to address these issues:
 1. Written Authorization for Overtime
 - Procedures have been implemented that require written approval of all compensatory/overtime by an employee's respective supervisor and the General Manager.
 - All staff must work 40 (hourly), 37.5 (salary) hours (2.5 hours given for lunch) a week (not including annual/sick leave) before receiving overtime. Overtime will be given only after actually working 40/37.5 (2.5 hours for lunch) hours. Holidays and annual/sick leave time are not working hours, therefore, they cannot be computed for overtime.
 2. Signature to Verify Hours Worked
 - New time card procedure for all hourly employees was implemented. Each hourly employee has a time card for each pay period. After the employee's timecard is processed at the end of each pay period, employees **must sign** their respective card. All hourly employees have until the next payroll is calculated to sign the previous card. This time frame permits any errors to be quickly adjusted.
 - **Salary employees** continue to use one time card for each month. The employee must sign the card on the front bottom after the 15th of each month and on the back bottom at the end of each month.
 3. Cumulative Compensatory Leave Records
 - Cumulative employees' accrual compensatory/overtime records are now provided to the general manager at the end of each pay period.
 4. Timekeeper Calculations and Leave Accruals Not Subject to Review

- An additional staff person was moved to the office to assist in performing the various duties associated with personnel matters. This person reports directly to the Director of Operational Services. All records are prepared for the Director's review and subsequent review and approval by the General Manager.
- 5. Rounding Time to the Nearest ½ Instead of Quarters of an Hour
 - Credit for time worked is now computed to the next 15 minutes.
 - If an employee is scheduled to work 8 to 4 and they clock in 10 minutes early or late, they do not get credit for those 10 minutes unless the supervisor initials their time card which would indicate that they were needed to start early or stay late.
 - Recalculations of hours worked to determine any applicable back pay due employees has been made for all employees covering the two years required per US Department of Labor Guidelines. Payment will be made to effective employees.
- 6. Supervisors Do Not Approve Time Entered Manually
 - Any time written on the time cards must be initialed by the department supervisor, and the General Manager. The General Manager initials the cards on the days that time cards are calculated for the previous week.
- 7. Residual Leave
 - An employee that signs up for ¼ day (2 hours) of annual or ½ day (4 hours) sick leave must use those hours. No unused annual and/or sick leave can be converted to compensatory time.
 - If a salary employee has to leave for an emergency during the work week and such departure results in the employee having less than the required hours for a full weeks pay, they have the following options:
 - Not be paid for time absent
 - Utilize any accumulated compensatory time
 - Submit annual/sick leave form for time absent (2 hour and/or 4 hour increments only).

Finding #6 - Equipment Inventory

We noted that five equipment purchases with a total cost of \$47,076.22 which we had physically observed during our fieldwork were not shown in the Center's official inventory as maintained by the Division of Technical and Adult Education Services (Division of Vocational Education).

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 5A, Article 3, Section 35 of the West Virginia Code and Sections 3.1 and 3.6 of the State of West Virginia's Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines.

Action Taken:

A complete equipment and material inventory has been completed and is currently being updated. The Division intends to tag all equipment which is required to be tagged. The inventory when completed will also serve as the official record for insurance purposes. The Division has put procedures in place to update the inventory on a regular basis and a staff person has been assigned the specific duties of maintaining the Center's inventory.

Finding #7 - No Authorization for Imprest Funds and Local Bank Accounts

During the period covered by our audit, the Center operated two local bank accounts, a \$550.00 Change Fund and another imprest fund known as the Stamp Fund; however, neither the local bank accounts or the two imprest funds were authorized by the State Treasurer as required by Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended. We noted the two local bank accounts were both closed in January 2002.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and ask the State Treasurer to formally approve the use of any and all change funds in use at the Center.

Action Taken:

The State Treasurer's Office has given formal written approval for the Change Fund in use at the Center. The Imprest Fund Number assigned was 20200. The Stamp Fund noted in the audit was eliminated in April 2004.

Finding #8 - Lease Agreement

We located documentation which indicated the Center entered into a lease for telephone equipment at a total cost of \$24,750.60; however, the Center did not follow the rules and regulations for competitive bidding for leased items costing \$10,000 or more as established by the Purchasing Division of the West Virginia Department of Administration.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Sections 8.7 and 8.16 of the Purchasing Division's Policies and Procedures Handbook.

Action Taken:

Cedar Lakes will continue to follow established procedures and will comply with Sections 8.7 and 8.16 of the Purchasing Division's Policies and Procedures Handbook.

Finding #9 - Late Payment of Invoice

We learned during our review of cash disbursements made by the Center that the Department of Education paid a vendor's invoice totaling \$11,700 regarding asbestos removal approximately six months after the date shown on the invoice.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

Action Taken:

Cedar Lakes will continue to follow established procedures and will comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

Finding #10 - Bids Not Obtained

The Center purchased a \$3,882 heating/cooling unit without obtaining three verbal bids as recommended by the Section 6.1.2 of the Purchasing Division's Policies and Procedures Handbook.

We Recommended:

The WVDOE, Division of Technical and Adult Education Services (Division of Vocational Education) comply with the provisions of Section 6 of the Purchasing Division's Policies and Procedures Handbook regarding obtaining competitive bids.

Action Taken:

The Division has put procedures in place at the Center specifically to comply with Section 6 of the Purchasing Division's Policies and Procedures Handbook.