

POST AUDIT DIVISION

POST AUDITS SUBCOMMITTEE MEMBERS

SENATE MEMBERS
President, Mitch Carmichael
Ed Gaunch
Roman Prezioso

HOUSE MEMBERS
Tim Armstead, Speaker
Timothy Miley
Eric Nelson Jr.



MAY 22, 2018
LEGISLATIVE LETTER REPORT

DEPARTMENT OF HOMELAND SECURITY – *Inventory*

LEGISLATIVE AUDITOR'S STAFF CONTRIBUTORS

Aaron Allred..... Legislative Auditor
Adam Fridley..... Audit Manager
Randolph Mays, II..... Senior Auditor
Ra'Shawn Dunham..... Auditor

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS STATEMENT

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (**GAGAS**). 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

1900 Kanawha Blvd. East, Room E-132
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Aaron Allred
Legislative Manager

May 22, 2018

The Honorable Mitch Carmichael, President
West Virginia State Senate
Post Audits Sub-Committee, Co-Chair
Room 229 M, Building 1
State Capitol Complex
Charleston, WV 25305

The Honorable Tim Armstead, Speaker
West Virginia House of Delegates
Post Audits Sub-Committee, Co-Chair
Room 228 M, Building 1
State Capitol Complex
Charleston, WV 25305

Mr. President and Mr. Speaker:

In February, the Cabinet Secretary for the West Virginia Department of Military Affairs and Public Safety (DMAPS) requested that the Legislative Auditor conduct a series of inventory audits on various agencies and divisions within DMAPS. The Legislative Auditor began with a review of the Division of Homeland Security and Emergency Management's (Homeland Security) fixed assets inventory.

The Legislative Auditor's review of Homeland Security's inventory management program identified the following issues:

1. The Division of Homeland Security and Emergency Management has not complied with W. Va. Code §5A-3-35 or the Surplus Property Operations Manual with respect to maintaining an accurate and complete inventory of reportable fixed assets.
2. While the Division of Homeland Security and Emergency Management is working to correct the identified issues with its inventory management program, there are several unaccounted for fixed assets.

West Virginia Code and Department of Administration Policy Establish the Requirements and Guidelines for Maintaining Fixed Asset Inventories.

In accordance with state law, each spending unit is required to keep and maintain an accurate inventory of its fixed assets. W. Va. Code §5A-3-35 states:

The head of every spending unit of state government shall, on or before July 15, of each year, file with the director an inventory of all real and personal property, and of all equipment, supplies and commodities in its possession as of the close of the last fiscal year, as directed by the director.

In addition, the Department of Administration's Surplus Property Operations Manual clearly establishes agencies' responsibilities in maintaining fixed asset inventories:

3.1 Agency Responsibilities: *Agencies are responsible for all assets under their jurisdiction, regardless of their state, origin or acquisition cost, from the date of purchase to the date of retirement. This includes keeping equipment secure, entering reportable assets into the wvOASIS Fixed Asset System, conducting physical inventories, submitting annual certifications of that inventory, and retiring assets properly. (Emphasis added).*

With respect to reportable assets, the Surplus Property Operations Manual establishes thresholds that define which assets must be reported into the wvOASIS Fixed Asset System:

1. All assets with an acquisition cost of \$1,000 or more and a useful life of one year or more;
2. all laptops and CPUs costing \$500 or more; and
3. all firearms, regardless of cost.

The Division of Homeland Security and Emergency Management Has Not Kept an Up-to-Date Inventory of Its Fixed Assets in wvOASIS Since 2012. While the Division Is In the Process of Creating a Full and Accurate Inventory, There Are Several Unaccounted For Items.

The Legislative Auditor obtained Homeland Security's inventory list from wvOASIS and noted that it only contained 16 items with an acquisition date between 2013 and 2018. As a result, the Legislative Auditor met with Homeland Security staff to discuss the Division's inventory.

The Deputy Director of Homeland Security indicated that in early 2018, he had identified that the Division's inventory was not updated or accurate. Further, he confirmed to the Legislative Auditor that **a minimal number of fixed assets had been inventoried from 2013 to 2018.** Further, the Deputy Director stated that, *"it had been several years since the last physical inventory and reconciliation had been conducted."* At a subsequent meeting, Homeland Security informed the Legislative Auditor that a physical inventory was last conducted in 2014. While the inventory listing in wvOASIS had not been kept updated, the Division did have some internal inventory records over this time period. However, those records were not complete or accessible.

The Legislative Auditor concludes that this is problematic not only because the Division uses millions of dollars in state and federal funds to purchase items, but also because **the federal government gives the Division items of considerable value** to be used to carry out its mission. Despite this, no effort has been made in recent years to account for these assets and protect them against theft or misuse.

When asked why the Division had not been keeping its inventory up-to-date, Homeland Security identified several contributing factors. Previously, the Division did not have a section or individual with the specific responsibility of asset management. Rather, the finance and accounting manager was given the responsibility of asset management, and previous individuals in that position did not place much emphasis on it. Additionally, Homeland Security indicated that when the Division transitioned to the wvOASIS system, there was not much effort exerted to ensure a smooth transition with respect to asset management.

To address its current inventory issues, Homeland Security hired a part-time, temporary employee on January 8, 2018 whose sole responsibility is to remedy the Division's inventory shortfalls. According to Homeland Security, the employee was provided one-on-one training at Surplus Property and began the process of identifying the Division's inventory issues and putting together an updated inventory.

In order to create a full and accurate inventory for the Division, the employee is conducting physical walkthroughs of the Division's facilities and compiling a comprehensive list of fixed assets which are then entered into wvOASIS.

While conducting his physical inventory, the employee has noted that several of the Division's assets are currently unaccounted for. According to Homeland Security, there are approximately nine trailers (camping and box trailers) that are listed on the Division's current asset list that have yet to be located. The Legislative Auditor was able to approximate the value of these nine trailers and determined that the total value of the unaccounted-for assets is approximately \$254,000.00. Table 1 provides a breakdown.

Table 1 Unaccounted For Trailers	
Item	Acquisition Value
American Hauler Trailer	\$6,263.00*
Cavalier Trailer	\$3,400.00
Cavalier Trailer	\$12,386.00*
Cavalier Trailer	\$12,386.00*
Pace American Trailer	\$41,325.00*
Pace American Trailer	\$41,325.00*
Pepro Trailer	\$113,075.00
Rockwood Trailer	\$12,386.00*
Southeastern Trailer	\$12,000.00
Total	\$254,546.00
*Acquisition Value is approximated using the values listed for similar items. <i>Source: Acquisition Values were derived from similar items in the Division's existing inventory list (pre-2013); list of unaccounted for trailers was provided by the Division.</i>	

On May 18, 2018, the Division informed the Legislative Auditor that the Pepro Trailer is not accounted for and the asset is permanently housed in Big Chimney, West Virginia. The Division had not been able to locate the asset because it had been mislabeled originally. Additionally, Homeland Security reported that one utility task vehicle (UTV) is listed on the Division's asset inventory for which no current location is known. According to the National Automobile Dealers Association's price guide, the manufacturer's suggested retail price (MSRP) for a base-model 2005 Polaris UTV starts at \$8,999.00.

Additionally, the Legislative Auditor was informed that assets of considerable value have been loaned out to other state agencies in the past. However, due to the lack of inventory management over the years, Homeland Security is currently unable to locate or account for these items. Homeland Security also indicated that it possesses many items that are located in remote locations that have not been properly inventoried. This includes items such as water pumps, which have an acquisition value of approximately \$1,500 each, or radio equipment. Currently, the Division has indicated that it does not have a system in place to adequately track and monitor these assets.

Conclusion

As a result of the Division's own identification of the issues with its inventory management system and the Legislative Auditor's review, Homeland Security has developed a comprehensive corrective action plan with benchmarks and target dates to resolve these issues and come into compliance with the inventory management requirements of the West Virginia Code and the Surplus Property Operations Manual. A copy of this corrective action plan is enclosed with this letter.

Further, on May 15, 2018, the Cabinet Secretary for DMAPS informed the Legislative Auditor that he has directed his Deputy Cabinet Secretary to conduct a 90-day observation of Homeland Security's operations and oversee their progress with respect to completing the corrective action plan in place. Upon conclusion of the 90-day observation, a report will be provided to the Governor and the Cabinet Secretary of DMAPS.

The Legislative Auditor concludes that the Division of Homeland Security and Emergency Management should adhere to its corrective action plan, not only to fully account for the fixed assets it currently possesses, but to create a sustainable asset management program moving forward. In addition, **the Legislative Auditor recommends that the Division of Homeland Security and Emergency Management provide status updates to the Post Audits Subcommittee on its progress in meeting the goals and targets established in the corrective action plan.** Further, the Legislative Auditor intends to conduct a follow-up audit of the Division's inventory upon the Division's completion of the corrective action plan to assess the completeness and accuracy of its updated inventory listing of reportable fixed assets.

Recommendation

1. The Legislative Auditor recommends that the Division of Homeland Security and Emergency Management provide status updates to the Post Audits Subcommittee on its progress in meeting the goals and targets established in the corrective action plan.
2. The Legislative Auditor recommends that the Division review all purchases made during the period in which an inventory was not maintained to determine whether items purchased should have been included as reportable property. Further, the Division should provide this list to the Post Audit Division at a later date and detail the disposition of each item and note any items that were not able to be located.

Sincerely,



Aaron Allred

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

1900 Kanawha Blvd. East, Room E-132
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Aaron Allred
Legislative Manager

May 14, 2018

Jimmy Gianato, Director
Division of Homeland Security and Emergency Management
1900 Kanawha Blvd., E.
Building 1, Room EB-80

Dear Secretary Smith:

This is to transmit a draft copy of the letter report on issues regarding the Division of Homeland Security and Emergency Management. This letter report is tentatively scheduled to be presented during the May 20th – 22nd interim meeting of the Post Audits Subcommittee. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to respond to the report and answer any questions committee members may have during or after the meeting.

If you would like to schedule an exit conference to discuss any concerns you may have with the letter report, please notify Nathan Harris, Assistant to the Director at 304-347-4880 by Wednesday, May 16, 2018. In addition, should you choose to provide a written response, please provide it to us by noon on Thursday, May 17, 2018 in order for it to be included in the final report. Thank you for your cooperation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Adam Fridley".

Adam Fridley

Enclosure

c. Cabinet Secretary Jeff S. Sandy, CFE, CAMS

Objective, Scope, and Methodology

The Post Audit Division within the Office of the Legislative Auditor conducted this review as authorized by Chapter 4, Article 2, Section 5 of the *West Virginia Code*, as amended.

Objectives

The objective of this review is to determine the extent to which the Division of Homeland Security and Emergency Management has complied with the West Virginia Code and other applicable criteria with respect to its maintenance of an inventory of all reportable fixed assets.

Scope

The scope of this review consists of the Division's Inventory over the last five fiscal years (FY 2014-18). This audit was unable to evaluate the Division's fixed asset inventory because it does not presently exist.

Methodology

Post Audit staff gathered and analyzed several sources of information and assessed the sufficiency and appropriateness of the information used as evidence. Testimonial evidence was gathered through interviews with various agencies that oversee, collect, or maintain information. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues, to confirm the existence or non-existence of a condition, or to understand the respective agency's position on an issue. Such testimonial evidence was confirmed by either written statements or the receipt of corroborating or physical evidence.

Auditors confirmed with the Division that an inventory of its fixed assets had not been maintained and obtained a listing of some of the assets that the Division is unable to locate.

We conducted this performance audit in accordance with 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Note: Former Post Audit Division Director, Denny Rhodes, separated from employment with the Legislative Auditor's Office on April 24, 2018 with the intention of starting employment with the Department of Military Affairs and Public Safety. Subsequently, questions regarding a possible impairment of or threat to the Legislative Auditor's independence were raised. After consultation with another legislature's audit office, it was determined that no such impairment of or threat to the independence of the Legislative Auditor exists as a result of these circumstances.

Planning for Correction and Sustainment of WV DHSEM Asset Management Program

INTERNAL AND DELIBERATIVE-WORK PLAN

Background: As noted during the Legislative review and other information, we realize that WV DHSEM is lacking in many areas of a viable Asset Management program. The process for corrections to this situation is multi-faceted as noted in this document.

Goal: To develop a step by step plan to mitigate this issue.

Step 1: Identify the Problem

Anticipated Completion Date: May 15, 2018

Status: In Progress

Through self-assessment and efforts by WV DSHEM Staff, especially Mr. Samples, many items have been sent to State Surplus. Further, it is identified that multiple items, some of which are large value or deemed pilfer able that are not recorded on wvOASIS. The shell document feature of wvOASIS has not been used and not all items are not on the record. We recognize the significance of the asset problem and have and are taking major steps to correct this issue.

During this step, the agency will have a stand down (2 iterations to get 100% attendance) for all WV DHSEM employees discussing, emphasizing and development of a strong asset management culture.

Step 2: Develop in-house Policy

Anticipated Completion Date: May 30, 2018

Status: Beginning the process.

WV DHSEM is implementing a revised purchasing policy by May 15, 2018 which has threads to the asset management policy. (One will tie hand in hand with the other). The final meeting and review of the purchasing policy is the week of May 7, 2018.

The policy shall contain and prescribe specific training for levels of managers and implementers of the WV DHSEM Asset processes. This includes formal and informal training.

We are establishing a virtual team consisting of Deputy Director – Team Lead, Mr. Samples, Mr. Linville, and others to review other agency policies and write a viable policy for WV DHSEM. This will be complete by May 30, 2018

Step 3: Hiring and Consolidation of Dedicated employees for Asset Management and Fleet Management by developing a Fleet and Asset Management Section.

Anticipated Completion Date: See Below

Status: Beginning the process.

- WV Military Authority and WV DHSEM entered into a verbal agreement to develop methodology to consolidate functions Asset Management between the two agencies. This provides redundancy and the ability for two party review. A written MOU will be complete NLT May 14, 2018 detailing the duties.
- Hire a full time employee for WV DHSEM lead on Asset and Fleet Management. This will be through Military Authority processes. (Pending availability of funding) NLT: End of May
- Utilize two (2) WV Military Authority personnel to assist in following steps in this document. This effort begins week of May 7, 2018.
- Note: Fleet Management and Asset Management will be their primary duties and noted as such on their personnel files and appraisal forms.

Step 4: Electronically Survey all WV DHSEM purchases for potential inclusion into Oasis system.

Anticipated Completion Date: Aug 30, 2018

Status: Begins week of May 14, 2018.

Step 5: Purge Oasis system of non-necessary shell documents.

Anticipated Completion Date: July 30, 2018

Status: In progress.

Step 6: Validate all inventory (two parts).

6-1 Validate all inventory now noted in Oasis, on separate system such as TME (SIRN), and other WV DHSEM listings.

August 30, 2018

6-2 Physically locate all WV DHSEM inventory either in OASIS or not. Correctly identify and account for all such assets.

November 30, 2018

Step 7: Provide updates to WV DHSEM and Legislative Auditors until Processes Complete.

At a schedule to be determined, provide detailed briefings and updates to satisfactorily show progress and completion.