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NOVEMBER 11, 2018

LETTER REPORT ON BUREAU OF JUVENILE SERVICES INVENTORY MANAGEMENT

LEGISLATIVE AUDITOR'S STAFF CONTRIBUTORS

Justin Robinson..... Director
Mike Jones, CFE..... Audit Manager
Randolph Mays, II..... Senior Auditor
Ra'Shawn Dunham..... Auditor

WEST VIRGINIA LEGISLATIVE AUDITOR'S OFFICE

Post Audit Division

1900 Kanawha Blvd. East, Room W-329
Charleston, WV 25305-0610
(304)

Justin Robinson
Director



November 11, 2018

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

The Honorable Roger Hanshaw, Speaker
West Virginia House of Delegates
Post Audits Subcommittee, Co-Chair
Room 228 M, Building 1
State Capitol Complex
Charleston, WV 25305

Mr. President and Mr. Speaker:

In February of this year, Cabinet Secretary Jeff Sandy of the West Virginia Department of Military Affairs and Public Safety (DMAPS) requested a series of inventory audits on various agencies and divisions under his purview. The Legislative Auditor began with an audit of the Division of Homeland Security and Emergency Management (Homeland Security). The audit, which was released to the Post Audits Subcommittee in May of 2018, found that Homeland Security was not in compliance with W.Va. Code §5A-3-35 or the Department of Administration's Surplus Property Operations Manual. The Legislative Auditor selected the Bureau of Juvenile Services as the next DMAPS agency for an inventory audit, the results of which are discussed in this letter report.

The Bureau of Juvenile Services (Juvenile Services) is an agency within the West Virginia Division of Corrections and Rehabilitation. Juvenile Services ensures public safety by providing confinement facilities across the state for youth that are charged or found guilty of a misdemeanor or felony crime which would be punishable by incarceration if committed by an adult. Juvenile Services also provides youth reporting centers which provide education, therapy, and crisis intervention to students having difficulty or who exhibit persistent negative behavior. Juvenile Services operates 17 Youth Reporting Centers and 10 Juvenile Centers statewide, as well as a central office located in Charleston, West Virginia.

The objective for the audit of Juvenile Services' asset inventory was to determine if the inventory management system was operating in compliance with applicable W.Va. Code,

the Department of Administration's Surplus Property Operations Manual, and that the system is operating effectively to properly account for all reportable assets.

Similar to the findings in the Homeland Security report, **the Legislative Auditor determined that Juvenile Services' inventory management system was not operating in compliance with W.Va. Code or the Department of Administration's Surplus Property Operations Manual. Further, Juvenile Services' inventory management system does not provide reliable tracking of the assets owned by the agency, nor does it adequately safeguard those assets from misappropriation. The Legislative Auditor identified the following issues regarding Juvenile Services' inventory management:**

1. The Bureau of Juvenile Services was not in compliance with W.Va. Code §5A-3-35 or the Surplus Property Operations Manual with respect to maintaining a current and complete inventory of reportable assets¹.
2. The Bureau of Juvenile Services has not updated internal policies to incorporate the inclusion of assets in the wvOASIS fixed asset module.

W.Va. Code §5A-3-35 requires the head of the spending unit to keep and maintain an accurate inventory of its reportable assets. Also, Juvenile Services was subject to the Department of Administration's Inventory Management & Surplus Property Disposition Handbook. To determine if Juvenile Services was operating an inventory management system as required by this criterion, the Legislative Auditor reviewed the inventory record maintained in the wvOASIS financial system module and purchases made by Juvenile Services subject to the inventory process.

The inventory record in wvOASIS included 1,880 items, which had a total original acquisition cost of approximately \$31 million. From the review of the inventory record, auditors identified 468 assets with missing, inaccurate, or incomplete serial numbers. Further, auditors determined that only 180 of these assets would reasonably be expected to have serial numbers based on the item type. These 180 assets included items such as riding mowers, snow blowers, printers, computers, a bandsaw, and a welder. Additionally, auditors identified 15 items in the wvOASIS inventory record that did not have agency assigned asset tags assigned to them.

Also, 309 items in Juvenile Services' wvOASIS inventory record, or roughly 16 percent of all assets recorded, were allocated to the W.Va. Industrial Home for Youth facility. In 2013, this facility was allocated to another DMAPS entity and is no longer utilized by Juvenile Services. Therefore, the inventory record for these 309 assets should have been modified to accurately reflect the actual assignment of the asset. Juvenile Services should have modified the physical location of the asset in the inventory record if the agency maintained possession of the item, or transferred the asset to the appropriate DMAPS entity's inventory record. However, neither of these actions occurred. All 309 items remain assigned to Juvenile Services and are indicated as being located at the W.Va. Industrial Home for Youth facility.

¹Beginning July 1, 2018 Juvenile Services is exempted from this section of code, and the Surplus Operations Manual.

In addition to reviewing the inventory record for Juvenile Services, the Legislative Auditor also obtained agency purchase documentation for Fiscal Years 2017 and 2018. The thresholds for reportable assets established in the Surplus Property Operations Manual are: (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. Based on these thresholds, Juvenile Services made 162 purchases containing 277 items that required inclusion in the agency's asset inventory. Auditors used this information to trace the purchased items back to the inventory record in wvOASIS to determine if they were properly recorded. Of the 277 items identified in those purchases that required inclusion in the agency's inventory record, auditors were unable to locate 123 items, or 44 percent, of those items purchased in the inventory record. These 123 items have an original acquisition cost of approximately \$185,000 and include laptops, desktop computers, turn mowers, lawn tractors, cameras, video recorders, and flat screen monitors.

An inventory record that lacks the identifying information of an asset, or does not reflect an asset's existence, increases the risk that those assets can be misappropriated or subjected to fraud. As noted in the Association of Certified Fraud Examiner's 2018 Report to the Nations Global Study on Occupational Fraud and Abuse², asset misappropriation schemes were the most common fraud reported, highlighting the importance of effective asset inventory management. Additionally, internal control weaknesses were responsible for nearly half of the fraud cases reviewed in the study.

In addition to the requirements in W.Va. Code §5A-3-35, both Section 8.1.4 of the West Virginia Purchasing Division Procedures Handbook and the Surplus Property Operations Manual require that reportable property be added to the agency's wvOASIS asset inventory record. The Handbook references the Surplus Property Operations Manual, which states the following:

*All assets with an acquisition cost of \$1,000 or more and a useful life of one year or more **must be entered into the wvOASIS Fixed Asset System**, with two exceptions. All laptops and CPU's costing \$500 or more must be entered into the Fixed Asset System, as well as all guns, regardless of the acquisition cost... (Emphasis added).*

Additionally, the W.Va. Department of Administration handbook states the following:

*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).*

Juvenile Services' internal asset control policy was last updated on July 1, 2013, prior to the use of the wvOASIS system to manage fixed assets. This policy uses adequate thresholds for reporting based on acquisition cost and useful life, but because it has not been

² The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. The ACFE's 2018 Report to the Nations is the 10th edition of the largest global study on occupational fraud. The study included 2,690 fraud cases from 23 major industry categories in 125 countries.

updated since the implementation of wvOASIS, the policy does not require items to be recorded in the wvOASIS asset inventory record. Additionally, the policy states that assets that are reportable to the W.Va. Department of Administration shall be managed in accordance with procedures outlined in the Department of Administration's Handbook, Inventory Management & Surplus Property Disposition. However, beginning July 1, 2018 Juvenile Services is exempted from the Purchasing Division requirements via House Bill 4338.

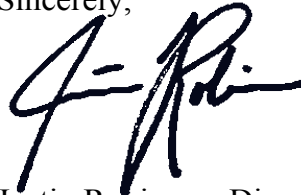
Conclusion

Given the incomplete and inaccurate inventory information maintained in the wvOASIS fixed asset system of Juvenile Services, and the fact that the internal policy of Juvenile Services has not been updated to incorporate wvOASIS, or the exemptions granted in House Bill 4338, the Legislative Auditor determined the inventory management system to be ineffective at monitoring and protecting state assets from potential misappropriation. Based on this conclusion, the Legislative Auditor makes the following recommendations:

Recommendation

1. The Legislative Auditor recommends that the Bureau of Juvenile Services update its current asset control policy to ensure an accurate inventory record of reportable assets in the wvOASIS Fixed Asset System.
2. The Legislative Auditor recommends the Bureau of Juvenile Services develop a corrective action plan to ensure the fixed asset record in wvOASIS reflects a complete and accurate record of assets owned, including all relevant identifying information of the asset.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin Robinson". The signature is stylized with a large initial "J" and "R".

Justin Robinson, Director



STATE OF WEST VIRGINIA
DEPARTMENT OF MILITARY AFFAIRS & PUBLIC SAFETY
**DIVISION OF CORRECTIONS
AND REHABILITATION**



BETSY C. JIVIDEN
COMMISSIONER

JEFF S. SANDY, CFE, CAMS
CABINET SECRETARY

Office of the Commissioner
1409 Greenbrier Street
Charleston, WV 25311
304-558-2036 – Telephone
304-558-5367 - Fax

November 9, 2018

Justin D. Robinson, Director
Post Audit Division
Building 1, Room W-329
Charleston, WV 25305

Re: Post Audit Report on Inventory within the Division of Juvenile Services

Dear Director Robinson:

Thank you for providing us with the draft copy of the Division of Juvenile Services audit report on inventory. As you know, House Bill 4338 consolidated the Division of Juvenile Services, Division of Corrections, and the Regional Jail and Correctional Facility Authority into the Division of Corrections and Rehabilitation (DCR). The bill also created the Division of Administrative Services, which will be administering DCR asset management including inventory. The two agencies will also work together to create new policies and procedures to address inventory going forward, which will address your recommendations of updating policy and a corrective action plan. Please note that House Bill 4338 exempted DCR from the West Virginia Purchasing Division and Surplus Property, thus DCR is not required to comply with the "*Purchasing Division Procedures Handbook*" and the "*Surplus Property Operations Manual*" as stated in your first recommendation.

We have started to address several of the inventory issues identified in the report, and the following is an update of the status of those issues.

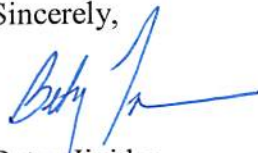
1. **Auditors determined that 336 assets should have serial numbers listed within the wvOASIS inventory record.** Further research has determined that 156 of those items are furniture which generally do not have serial numbers. The remaining 180 items are being identified to determine the missing information.
2. **Auditors identified that 15 items in the wvOASIS inventory record did not have agency asset tag numbers.** Staff has corrected this issue. The asset tag numbers have properly been entered into wvOASIS.
3. **Auditors identified that 309 items (16 percent) of Division of Juvenile Services inventory once allocated to the WV Industrial Home for Youth were reallocated to another DMAPS**

facility. In 2013, the WV Industrial Home for Youth became the Salem Correctional Center which was a facility of the former WV Division of Corrections. While at that time, the items should have been transferred to that agency, this issue is somewhat nullified because of the consolidation. Although, the location will be changed in the wvOASIS records as the Salem Correctional Center within DCR.

4. **Auditors were unable to locate in the inventory record 123 items that were purchased with an original total acquisition cost of approximately \$185,000.** It is my understanding that the audit team did not visit the sites to determine if the items could be located, but only reviewed inventory records. Nevertheless, those items should have been entered into wvOASIS. Since receiving the draft, 74 of the items have correctly been entered into inventory records, including all of the computers. Additionally, staff visually spot checked 12 of the items (9.7% valued at \$21,070.64) by visiting the facilities. The crosscut shredder identified as being at "Central Office" is now physically located in the new offices for the former Division of Juvenile Services at the main DCR headquarters at 1409 Greenbrier Street in Charleston. Staff also visually located the three items the audit team identified as being located at Tiger Morton Juvenile Center and the eight items at Donald Kuhn Juvenile Center. Those 11 items were in the correct locations. Staff will continue to enter the remaining items into the wvOASIS inventory record.

Thank you again for providing us with a copy of the draft report, and identifying areas that need to be corrected and addressed in the anticipated inventory policy for the Division of Corrections and Rehabilitation. Representatives will be attending the Post Audits Subcommittee meeting scheduled for Sunday, November 11, 2018 to respond to the report.

Sincerely,



Betsy Jividen

- c. Jeff Sandy, Cabinet Secretary, Department of Military Affairs and Public Safety