

JOINT COMMITTEE ON GOVERNMENT AND FINANCE  
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR

# POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

## West Virginia Higher Education Institutions: Lack of Standard Policies for State Asset Management

Legislative Auditor: Aaron Allred  
Post Audit Division Director: Justin Robinson





**MODIFIED GENERALLY ACCEPTED GOVERNMENT  
AUDITING STANDARDS STATEMENT**

We conducted this performance audit mostly in accordance with the Generally Accepted Government Auditing Standards issued by the United States Government Accountability Office. 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. With the exception of sections 6.65 and 6.66 of the 2011 Generally Accepted Government Auditing Standards, all applicable standards were followed. The specific information concerning the deviation from those standards may be found in Appendix A of this report. Based on our professional judgment, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

POST AUDIT DIVISION  
Justin Robinson, Director



# POST AUDIT DIVISION

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## West Virginia Higher Education Institutions - *Lack of Standard Policies for State Asset Management*

February 9, 2021

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## Executive Summary

The Legislative Auditor conducted this audit of the State's higher education institutions pursuant to W.Va. Code §4-2-5. The objective of this audit was to determine if post-secondary education institutions in W.Va. have inventory policies and procedures that safeguard high risk non-capitalized assets and surplus state assets from fraud, misuse, and abuse. The results and recommendations of this audit are highlighted below.

### Report Highlights

#### **Issue 1: Higher Education Institutions Lack a Standardized Set of Policies to Ensure the Proper Safeguarding of State Assets from Fraud, Misuse, and Abuse.**

- Currently higher education institutions are exempt from the State Purchasing Division's requirements and are merely guided in their policy development by the higher education coordinating boards.
- Several higher education institutions have independent operational control and do not have to seek guidance from the higher education coordinating boards.
- Under many of the current policies used by higher education institutions, assets with a high risk of misappropriation such as laptops, desktops, iPads, video and photography equipment, scientific equipment, as well as various other electronics are not being properly safeguarded or recorded in the official inventory records.

### Recommendations

1. The Legislative Auditor recommends the Legislature modify West Virginia Code Chapter 18b and establish minimum inventory requirements for both capital and non-capital assets for all public institutions of higher education.
2. The Legislative Auditor recommends the Legislature modify West Virginia Code Chapter 18b and establish requirements for surplus assets, including the implementation of an internal notification system, for all public institutions of higher education.

## **Issue 1: West Virginia’s Higher Education Institutions Lack a Standard Set of Policies to Ensure the Proper Safeguarding of State Assets from Fraud, Misuse, and Abuse.**

In 2019, the Post Audit Division of the Legislative Auditor’s Office released reports highlighting issues concerning the inventory management procedures of Marshall University and Mountwest Community and Technical College. These reports determined that the inventory management procedures were not adequate to ensure the proper safeguarding of state assets from fraud, waste, or abuse. While there were varying specific causes for these inadequacies, both reports highlighted the higher education institutions’ exemption from the fixed asset requirements established by the State Purchasing Division as a common cause. During the June 2019 Post Audits Subcommittee meeting, former Senator Boso asked the Legislative Auditor if there were similar issues with the inventory processes of the other higher education institutions in the state.

As a follow up to these reports and the question posed by the former Senator, the Legislative Auditor sought to determine the adequacy of the inventory management policies of the remaining higher education institutions in safeguarding both capital assets and non-capital assets from fraud, waste, and abuse. This review evaluated the policies of the remaining 19 public higher education institutions but did not determine the operating effectiveness of those policies as they were carried out by each respective institution. The process of evaluating the operating effectiveness of these policies is time consuming, as it involves physical inspection of assets at each of the higher education facilities spread throughout the state. Conducting physical inspections of assets throughout the state was further inhibited by the current effects of COVID-19 at the time the audit work was being conducted.

### **Higher Education Institutions’ Exemption from State Purchasing Division**

In the previously mentioned reports, the Legislative Auditor utilized the State Purchasing Division’s Surplus Property Operations Manual to establish the “best practices” for the state to account for its fixed asset inventory and reduce the likelihood of fraud or abuse occurring with those assets. The Purchasing Division’s policies for assets in the Surplus Property Operations Manual, applicable to state entities without a statutory exemption, define a “reportable” asset as:

1. An item with an original acquisition cost of \$1,000 or more and a useful life of one year or longer.
2. Any computer or other item with a central processing unit with an acquisition cost of \$500 or more; and
3. All firearms, regardless of cost.

These statewide rules for inventory establish the following requirements for assets that meet one of the three categories:

- The asset must be recorded in an inventory management system.
- Regular physical inventories must be conducted.
- Submission of certification of the inventory annually.
- Retirement of assets in accordance with Surplus Property Operations Manual.

These policies do several things. First, they provide accountability of assets purchased with taxpayer funds including non-capital assets such as computers that do not meet the \$1,000

threshold but are recognized as having a high risk of misappropriation or fraud. Further, the policies require agencies to maintain an inventory record in an inventory management system. While the record itself and use of an inventory management system allow tracking of an agency's assets, it also provides an opportunity for the agency to know what assets it has on hand at any time, the age of an asset, disposition, and so forth, allowing the agency to make better purchasing and equipment allocation decisions. The requirement to conduct regular physical inventories allows an agency to ensure its inventory record is accurate and complete, and the annual certification requirement compels the agencies to be diligent in doing so in order to further ensure the record of the state's asset inventory is accurate and complete each year. Should assets be identified as missing during these physical inspections, an agency can determine the cause and employ improved procedures to prevent the issues in the future to better protect these assets. These policies are not just beneficial to ensuring the safeguarding and accountability of state assets, they also allow agencies to be more responsive and make better decisions with more information at their disposal to do so. While the State Purchasing Division's requirements are the best practices for inventory management established for most state agencies, the higher education institutions in the state are exempt from these requirements.

There are two entities that coordinate and develop the public policy agendas of the public higher education institutions in the state. The Higher Education Policy Commission (HEPC) which oversees public four-year institutions, and the West Virginia Community and Technical College System (WVCTCS) which is the coordinating entity responsible for the administration of community and technical college education. Originally, all public higher education institutions were under the governance of either the HEPC or the WVCTCS and were required to follow the Surplus Property Operations Manual established through the State Purchasing Division. However, through a series of changes enacted by the Legislature since 2004, the governance of the public higher education institutions has been modified and none of the institutions are required to follow state purchasing rules.

In 2004, Senate Bill 448 was passed granting the WVCTCS and the HEPC rule making authority over higher education institutions; thus, exempting public institutions of higher education from the state purchasing requirements and the fixed asset inventory requirements as a result. In accordance with Senate Bill 448, HEPC and WVCTCS enacted the Procedural Rules in 2005 prescribing inventory management requirements for the receiving of inventory, inventory management, and the disposition of surplus assets. These Procedural Rules were modified in 2016 and are currently in effect.

In 2005, the Legislature passed Senate Bill 603, which granted operational independence to Marshall University and West Virginia University, which excluded these institutions from the procedural rules promulgated by HEPC. This left these two institutions to develop their own respective purchasing guidelines, including requirements for inventory management and for surplus property.

In 2017, the Legislature passed House Bill 2815 which expanded operational independence granted in the 2005 Senate Bill to West Virginia University Potomac State College, West Virginia University Institute of Technology, and the West Virginia School of Osteopathic Medicine.



As a result of these changes, the oversight of these higher education institutions are as follows:

HEPC currently has oversight of:

1. Bluefield State College
2. Concord University
3. Fairmont State University
4. Glenville State College
5. Shepherd University
6. West Liberty University
7. West Virginia State University.

WVCTCS currently has oversight of:

1. Blue Ridge Community and Technical College
2. BridgeValley Community and Technical College
3. Eastern West Virginia Community and Technical College
4. Mountwest Community and Technical College
5. New River Community and Technical College
6. Pierpont Community and Technical College
7. Southern West Virginia Community and Technical College
8. West Virginia Northern Community and Technical College
9. West Virginia University at Parkersburg.

Additionally, there are five institutions with independent operational control:

1. West Virginia University
2. West Virginia University Potomac State College
3. West Virginia University Institute of Technology
4. Marshall University
5. West Virginia School of Osteopathic Medicine.

Currently W.Va. Code requires the HEPC and the WVCTCS to establish rules to guide the development and approval of rules made by the governing boards of the higher education institutions, except for those institutions granted operational independence, which independently enact their own rules. The HEPC and WVCTCS in this capacity serve as a guide and a resource for higher education institutions when developing and setting rules, however the exempted schools do not have to follow the guidance.

### **Higher Education Capital Assets**

In 2016 the Procedural Rules used by HEPC and WVCTC were updated to what is currently in use. Currently under HEPC Procedural Rule Title 133 Series 30 and WVCTCS Procedural Rule Title 135 Series 30, the non-exempt institutions are required to inventory all equipment and furnishings with an acquisition cost of \$5,000 or more per unit. The purchasing manual authored jointly by HEPC and WVCTCS also require that in addition to the cost threshold that each item has a useful life of at least one year. These types of assets are capital assets, which are assets that are not expensed in the period they were incurred but recognized over a period of

time, typically greater than one year. These rules establish the minimum expectation of the non-independent institutions; however, these institutions may elect to adopt a standard for capital assets with a lower acquisition cost to better safeguard and account for those assets.

Of the 21 public higher education institutions in West Virginia, the Legislative Auditor analyzed 17 of them in this report. As mentioned above, Marshall and Mountwest were included in standalone audits. Additionally, West Virginia University's purchasing includes West Virginia University Institute of Technology and Potomac State. Southern West Virginia Community and Technical College is the only institution of higher education analyzed that does not have formal policies and procedures in place to safeguard capital assets. As of the date of this report, the Legislative Auditor has an audit of Southern underway as a result of this information. The other 16 higher education institutions all have formal policies and procedures in place for inventory, tracking, tagging, and capitalization of assets that meet the criteria for a capital asset. On the following page, Table 1 provides unaudited detailed information on each institution's enrollment numbers and capital assets as provided to the Legislative Auditor by each respective institution.

**Table 1 – Higher Education Institutions' Enrollment and Capital Assets**

Institutions	Student Enrollment	Capital Asset Reporting Value Threshold	Number of Reported Capital Assets	Total Value of Reported Capital Assets
West Virginia University	26,455	\$5,000	12,297	\$2,846,118,367
Fairmont State College	3,062	\$5,000	1,023	\$231,763,280
Shepherd University	2,963	\$1,000	7,257	\$211,429,912
West Liberty University	2,085	\$5,000	1,090	\$118,652,659
School of Osteopathic Medicine	837	\$5,000	672	\$108,003,986
Concord University	3,335	\$5,000	2,389	\$107,864,095
WV Northern CTC	728	\$5,000	2,590	\$60,358,643
Southern WV CTC	1,438	\$5,000	403	\$52,897,233
WV State University	3,538	\$5,000	133,928	\$54,727,927
BridgeValley CTC	1,649	\$5,000	303	\$49,389,540
WVU at Parkersburg	2,213	\$5,000	413	\$45,328,777
Glenville State College	889	\$5,000	1,526	\$30,715,584
Bluefield State College	1,261	\$5,000	185	\$29,093,414
Blue Ridge CTC	5,371	\$5,000	886	\$25,581,322
Pierpont CTC	1,484	\$5,000	243	\$23,147,621
Eastern West Virginia CTC	490	\$1,000	1,981	\$16,363,998
New River CTC	1,103	\$5,000	57	\$3,502,509
<b>Total</b>	<b><u>58,901</u></b>	<b><u>N/A</u></b>	<b><u>167,243</u></b>	<b><u>\$4,014,938,867</u></b>

*Source: Unaudited data as provided to the Legislative Auditor by each respective Higher Education Institution.*

As shown in Table 1, every institution except two adhere to the minimum requirement of \$5,000 established by HEPC and WVCTCS for inventorying and tracking capital assets. Both Shepherd University and Eastern West Virginia Community and Technical College continue to use the thresholds that were in place prior to the exemption from the state purchasing requirements.

While it may be a reduced burden on these institutions to not incorporate items of a lower threshold into their inventory management systems, the tradeoff is that it increases the amount of assets that are not tracked and still have significant value to a potential fraudster. Items such as electronic devices, computers, or other institutional equipment with a cost of \$500-\$4,999 that are not currently required to be tracked still pose an increased risk for fraud.

**Higher Education Non-Capital Assets**

An asset with a useful life greater than one year but a value below the threshold established for a capital asset is known as a non-capital asset. While non-capital assets have a lower value than capital assets, the quantity and nature of the non-capital assets often pose a greater risk for

misappropriation. Non-capital assets such as computers, iPads, and other electronic devices not tracked by an institution are inherently more susceptible to misappropriation schemes since they are easily transportable and convertible to cash or something else of value to an individual.

Currently under rules promulgated by both the HEPC and the WVCTCS, the public institutions of higher education are only required to record assets valued at \$5,000 or more in the inventory management system, but may elect to include non-capital assets that do not meet the \$5,000 threshold. Since there are no requirements for the inventorying and tracking of non-capital assets, and institutions may elect to include non-capital items, there is no uniformity to the policies regarding non-capital assets at the public institutions of higher education.

Of the 17 public institutions of higher education reviewed, it was determined eight do not have any formal policies to govern the use, storage, tracking, and tagging of non-capital assets. In Table 2, the eight institutions and their policies, or a lack thereof, are listed:

<b>Table 2 Higher Education Institutions Lacking Non-Capitalized Assets Policies</b>	
<b>Institution</b>	<b>Non-Capitalized Assets Policy</b>
<b>BridgeValley Community and Technical College</b>	<b>None</b>
<b>Glenville State College</b>	<b>None</b>
<b>Pierpont Community and Technical College</b>	<b>Computer Equipment Only</b>
<b>Shepherd University</b>	<b>None</b>
<b>Southern WV Community and Technical College</b>	<b>Informal</b>
<b>West Liberty University</b>	<b>None</b>
<b>WV Northern Community and Technical College</b>	<b>None</b>
<b>West Virginia University</b>	<b>U.S. Gov. and Other Parties Only</b>
<i>Source: Data Provided to Legislative Auditor by Post-Secondary Institutions</i>	

The remaining nine institutions analyzed do have some policies and procedures in place; however, since there is no uniform requirement governing the institutions' non-capital assets, the policies all differ in what is required at each institution. Only Blue Ridge, Concord, Eastern, New River, and West Virginia State track non-capital assets on their official inventory record. Many of the institutions leave the tracking of non-capital assets up to the Information Technology departments because a multitude of non-capital assets tend to be technology related. By only tracking these non-capital assets, the University is increasing the risk associated with non-capital assets to be open to fraud, misuse, and abuse.

The Legislative Auditor notes that there are two institutions that appear to have more stringent requirements set for non-capital assets than the other higher education institutions. Those institutions are Concord University and Eastern West Virginia Community and Technical College. Both institutions have a non-capital asset threshold of \$250 and track non-capital assets on their official inventory record.

### **Non-Capitalized Assets Purchased by Higher Education Institutions**

As previously mentioned, the Surplus Property Operations Manual standards for reportable assets are the reporting standards followed by non-exempt state entities. These reporting thresholds are defined as assets that are valued at \$1,000 or more with a useful life of one year or more, as well as all firearms regardless of the cost, and all computers with an acquisition cost of \$500 or more. To assess the potential impact of the HEPC and the WVCTCS not mandating a unified requirement for assets with an acquisition cost below \$5,000, the Legislative Auditor sought to quantify the purchases of assets made by higher education institutions made during Fiscal Year 2019 that met the Surplus Property Operations Manual thresholds, but fell below the current HEPC and WVCTCS threshold of \$5,000.

The Legislative Auditor found that during Fiscal Year 2019, the 17 institutions reviewed purchased 5,577 assets, valued at approximately \$8.15 million, that would have been outside the scope of the current HEPC and WVCTCS inventory guidelines, but would have been accounted for using the Surplus Property Operations Manual requirements. These non-capital assets purchased by the institutions ranged from five assets valued at approximately \$13,500 at New River Community and Technical College, to 3,471 assets valued at approximately \$5.3 million at West Virginia University. The total assets and total asset cost for each respective institution is recorded below in Table 3.

<b>Table 3</b>		
<b>FY 2019 Asset Purchases Meeting Surplus Property Inventory Requirement (Below \$5,000)</b>		
<b>Institution</b>	<b>Number of Assets</b>	<b>Total Cost</b>
West Virginia University	3,471	\$5,324,855
Shepherd University	254	\$350,259
School of Osteopathic Medicine	257	\$330,040
Blue Ridge CTC	187	\$304,351
WV Northern CTC	204	\$280,749
Fairmont State College	221	\$268,920
West Liberty University	283	\$268,127
Pierpont CTC	124	\$196,279
Bridge Valley CTC	114	\$161,129
Southern WV CTC	120	\$145,550
Concord University	91	\$122,801
WVU at Parkersburg	85	\$112,992
Glennville State College	52	\$89,802
WV State University	54	\$80,833
Bluefield State College	38	\$74,432
Eastern West Virginia CTC	17	\$27,617
New River CTC	5	\$13,544
<b>TOTAL</b>	<b>5,577</b>	<b>\$8,152,280</b>
<i>Source: Obtained from auditor review of FY19 purchasing documentation for each institution</i>		

Based on this information, the average value of the assets purchased that are not required to be recorded in an institution’s inventory record is approximately \$1,462 per asset. Included in the 5,577 items purchased were items susceptible to misappropriation such as laptops, desktops, iPads, video and photography equipment, scientific equipment, as well as various other electronics. These assets individually valued at less than \$5,000 represent a large quantity of assets that are at a higher risk for misappropriation schemes, since they are more easily concealed and transported, have a secondary market for resale, or are susceptible to theft for personal use. Additionally, a lack of a policy requirement for non-capital assets not only increases the likelihood that an item can be misappropriated, but it also increases the likelihood of it occurring undetected. If the item is not recorded in an inventory record or tracked, there is no proof of its existence outside of the purchasing record making it very difficult to determine if an item is missing.

The Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization and the preeminent provider of anti-fraud training, education, and research. As part of the ACFE mission to reduce the incidence of fraud, the association conducts a regular global survey of fraud. In the ACFE 2020 Report to the Nations Global Study on Occupational Fraud and

Abuse, the ACFE found that asset misappropriation schemes were the most common fraud in the study, representing 86% of all occupational fraud schemes. The broad category of asset misappropriation included both larceny of assets through asset requisitions and transfers, and larceny committed during the purchasing and receiving of organizational assets, as well as false sales and shipping, and simple unconcealed larceny.

The Report to the Nations study also found that the quick detection of fraud is vital to protecting an organization from potential damage. The typical time between when a fraud begins and when it is detected is 14 months and the longer a fraud remains undetected the greater the financial loss is to the organization. Additionally, a lack of internal controls was a contributing factor to one third of all fraudulent activities. Once an organization has been the victim of a fraud it can be difficult to recoup the financial loss. In the United States and Canada, 55% of the fraud cases studied were unable to recoup any of the financial loss.

The Legislative Auditor recognizes that all fraud cannot be prevented, as even the largest organizations with robust internal controls and anti-fraud measures can and will inevitably be victims of fraudulent individuals. However, quick detection of fraudulent activity is vital to protecting the organization from long term systemic fraud and abuse by individuals determined to defraud and abuse the system that is in place. A key component in the quick detection of misappropriation schemes is an effectively implemented policy incorporating non-capital assets into all aspects of the inventory management system including recording, tagging, tracking, and accounting for the non-capital assets.

The Legislative Auditor also recognizes that the public institutions of higher education discussed above have drafted policies governing non-capital assets in accordance with the rules and guidance prescribed by HEPC and WVCTCS. However, these institutions must recognize that the current minimum requirement may not be sufficient to protect and track the assets of the state, and that each have the fiduciary duty to do so. Requiring public institutions of higher education to enact policies for non-capital assets, that includes recording the non-capital assets in the inventory record, tagging of non-capital assets, and regularly reconciling the inventory record, is the minimum barrier to prevent and quickly detect misappropriation of non-capitalized assets.

### **Higher Education Surplus Assets**

Currently under both HEPC and WVCTCS rules the chief procurement officer or director of procurement at each public institution shall identify and inventory the institution's surplus or obsolete materials, supplies, and equipment and shall store such materials, supplies, and equipment until such a time as they may be disposed in accordance with the rules and state law. There is no requirement that the staff at the institution be notified internally of assets available and preparing to be put in surplus.

When given the exemption from the purchasing article of W.Va. Code, that also gave the public institutions of higher education an exemption from the surplus property process and requirements that other state spending units must follow. The requirements for surplus property for all other state spending units comes from the West Virginia State Agency for Surplus Property (WVSASP). In the Surplus Property Operations Manual provided by WVSASP, it states that

WVSASP must approve all methods of disposition related to commodities or expendable commodities regardless of the acquisition cost. Based upon various factors, including the condition of and the potential reuse of the item the agency wishing to surplus the item will suggest one of 10 disposition methods to WVSASP. Those 10 methods include deliver to surplus property, surplus pick-up, sell on-site, trade-in, sell for scrap, recycle/dispose as waste, lost asset, stolen asset, destroyed asset, or retire to Office of Technology.

The Legislative Auditor found that all but seven higher education institutions have a formal system in place to notify staff before the item is disposed of through the surplus process when assets from other departments are available. The seven higher education institutions that either have no notification system at all or an informal system in place are: Blue Ridge Community and Technical College, Bluefield State College, BridgeValley Community and Technical College, Concord University, Southern Community and Technical College, West Liberty University, and West Virginia State University. This notification process would facilitate the re-purposing of surplus assets in one department to be utilized by another department and thus, help institutions prevent waste and unneeded spending on duplicate assets.

The Legislative Auditor notes that two institutions, Fairmont State University and West Virginia University, have what appear to be robust policies and procedures in place for potential surplus assets. Fairmont State University employees are notified of assets that are available before items are taken into surplus and are advised to determine if an item needed is available from surplus before purchasing. Fairmont makes every attempt to utilize assets internally before seeking an external source to transfer the assets or put them up for bid. West Virginia University uses three different methods to notify staff of assets that are available including, via an email notification, a surplus website, and by individual request. Additionally, both Fairmont State University and West Virginia University keep record of custody throughout the surplus process.

Blue Ridge Community and Technical College is the only institution that indicated the institution does not surplus property. When they are disposing of assets, they use a destroy method in which they do things such as shred computer hard drives and destroy computer shells through a recycling company and for larger metal items they are disposed of with companies that deal with scrapping metal. By not putting assets into surplus the institution is potentially destroying assets that could be used by other departments at the institution, and instead those departments may be purchasing new assets therefore costing the institution and potentially the state. Additionally, the institution may potentially not be recouping any funds that may have been realized through the sale of a surplus asset

For the institutions lacking a formal notification system in place to inform employees and other departments of surplus assets, the only way the employees would be aware of surplus assets is if they contact all the other departments in the institution or the department of purchasing. By not notifying other departments within the institution of assets that are available for reassignment there is a potential waste of the institutions' funds.

## **Conclusion**

The Legislative Auditor acknowledges the additional work required to manage assets below \$5,000 in an institution's inventory management system. However, many systems can



automate some of these processes and such items could be identified at the time of purchase based on the established criteria. Further, many institutions already have informal processes for accounting for and recording inventory of computers and other items that do not meet the \$5,000 threshold, however a lack of clear and standardized policies applicable to all institutions results in a myriad of informal policies that may or may not function as intended. While these assets on their own may not be significant in value, the lack of standard policies results in all of the state's higher education institutions' assets with a value less than \$5,000 being susceptible to fraud or loss. West Virginia's higher education institutions have combined total assets valued at roughly \$4 billion spread amongst facilities all over the state<sup>1</sup>. This total value primarily only accounts for assets with a value of \$5,000 or greater. Without standardized policies required for items that fall between \$1,000 and \$5,000 for these institutions, and other high risk items such as computers and tablets, there are potentially hundreds of millions of dollars of assets that are at additional risk of fraud or misappropriation throughout these institutions' facilities all over the state.

The Legislative Auditor also believes that through such standardization in policies, the records of these institutions' assets will become more complete, possibly allowing the institutions to make better budgeting or equipment allocation decisions. While there may be some cost and burden in requiring institutions to adopt a lower threshold and additional procedures to include items below \$5,000, the benefits in many cases may outweigh those costs and burdens. The cost of higher education continues to rise and with the effects of COVID-19 they could rise even more as higher education institutions incur more costs to provide distance and remote learning solutions. With this in mind, having a better record of all of an institution's assets and improving the management of those assets could be one way to help reduce costs through better budgeting and purchasing decisions. By properly tracking all assets, higher education institutions could reduce the risk of duplicative purchasing and unneeded spending by taking advantage of surplus assets.

### **Recommendations**

1. The Legislative Auditor recommends the Legislature modify West Virginia Code Chapter 18b and establish minimum inventory requirements for both capital and non-capital assets for all public institutions of higher education.
2. The Legislative Auditor recommends the Legislature modify West Virginia Code Chapter 18b and establish requirements for surplus assets, including the implementation of an internal notification system, for all public institutions of higher education.

<sup>1</sup> In 2018, Marshall University reported 4,448 assets with a value of \$33,641,265 which are not included in Table 1. Including this value with the total cited in Table 1 makes the total institutions' assets value approximately \$4 billion.

**Appendix A**  
**Objective, Scope, & Methodology**

The Post Audit Division with the Office of the Legislative Auditor conducted this post audit as authorized by Chapter 4, Article 2, Section 5 of the West Virginia Code, as amended. The post audit was conducted in accordance with the standards applicable to performance audits contained in the generally accepted government auditing standards (GAGAS) issued by the Government Accountability Office, except for one deviation. The Post Audit Division did not conduct data reliability analysis on the data supplied by the higher education institutions regarding the capital asset inventory items and their value.

Specifically, the Post Audit Division did not follow 6.65 and 6.66 of the 2011 government auditing standards for the capital asset information supplied by the higher education institutions. To conduct data analysis on each of the 19 separate inventory systems would have been beyond the scope of the audit and prevented the timely reporting of the audit conclusions. We believe that overall sufficient and appropriate evidence was obtained to provide a reasonable basis for the findings and conclusions based on the audit objectives, and the lack of data reliability did not have an impact on the overall audit.

**Objective**

The objective of this audit was to determine if post-secondary education institutions in W.Va. had inventory policies and procedures that safeguarded high risk non-capitalized assets and surplus state assets from fraud, misuse, and abuse.

**Sub-Objective**

Quantify post-secondary education institutions' non-capitalized assets purchased in FY 2019 that met the Surplus Property Operations Manual thresholds for reportable assets and were below the \$5,000 reportable threshold of HEPC/WVCTCS.

**Scope**

The scope of this audit assessed the inventory policies and procedures for capitalized, non-capitalized and surplus assets of the following post-secondary education institutions for fiscal year 2019:

1. Blue Ridge Community and Technical College
2. Bluefield State College
3. BridgeValley Community and Technical College
4. Concord University
5. Eastern West Virginia Community and Technical College
6. Fairmont State University
7. Glenville State College
8. New River Community and Technical College
9. Pierpont Community and Technical College

10. Shepherd University
11. Southern West Virginia Community and Technical College
12. West Liberty University
13. West Virginia Northern Community and Technical College
14. West Virginia University Potomac State College
15. West Virginia School of Osteopathic Medicine.
16. West Virginia State University.
17. West Virginia University
18. West Virginia University at Parkersburg.
19. West Virginia University Institute of Technology

When running reports to quantify the non-capitalized assets purchased at each higher education institution, we used the following object codes: 3246, 3248, 3249, 3252, 5200, 5201, 5202, 5203, 5204, 5205, 5206, 5207, 5208, 5209, 5210, and 5211. By limiting the population of data, we eliminated many object codes of various expenses that would not be categorized as an asset.

### **Methodology**

We obtained documentary evidence in the form of the internal policies and procedures regarding the tracking and safeguarding of assets at post-secondary education institutions. Currently W.Va. Code requires HEPC and WVCTCS to establish rules to guide the development and approval of rules made by the governing boards of the higher education institutions, except for those institutions granted operational independence, which independently enact their own rules. We reviewed the inventory policies and procedures regarding capitalized, non-capitalized, and surplus assets of the post-secondary education institutions. Currently under HEPC Procedural Rule Title 133 Series 30 and WVCTCS Procedural Rule Title 135 Series 30, the non-exempt institutions are required to inventory all equipment and furnishings with an acquisition cost of \$5,000 or more per unit and with a useful life in excess of one year and they may elect to include non-capital assets that do not meet the \$5,000 threshold.

We looked for inventory procedures that would protect all of the assets at these institutions from fraud, waste, and abuse. We did not determine the operating effectiveness of these policies as they were carried out by each respective institution. The process of evaluating the operating effectiveness of these policies is time consuming, as it involves physical inspection of assets at each of the higher education facilities spread throughout the state. Conducting physical inspections of assets throughout the state was further inhibited by the current effects of COVID-19 at the time the audit work was being conducted.

We compared the policies and procedures that are currently in use at the higher education institutions to the State guidelines, set by the state Purchasing Division's Surplus Property Operations Manual, and identified any potential inventory policy issues similar to the issues reported in the Marshall University audit released June 18, 2019 and the Mountwest Community and Technical College report released December 17, 2019. The Purchasing Division's guidelines were used because in the Marshall and Mountwest reports we determined that those establish the "best practices" for the state to account for its asset inventory and reduce the likelihood of fraud

or abuse occurring with those assets. The Purchasing Division's guidelines set thresholds and criteria for capitalized, non-capitalized, and surplus assets. The following are the guidelines set by the Purchasing division:

### **Capitalized Assets**

- An item with an original cost of \$1,000 or more and a useful life of one year or longer.
- Any computer or other item with a central processing unit with an acquisition cost of \$500 or more.
- All firearms regardless of cost.

### **Non-Capitalized Assets**

- Assets that are valued at less than \$1,000 or have a useful of life of less than one year, or assets expendable in nature.

### **Surplus Assets**

- WVSASP must approve all methods of disposition related to commodities or expendable commodities regardless of the acquisition cost.
- Based upon various factors, including the condition of and the potential reuse of the item the agency wishing to surplus the item will suggest one of 10 disposition methods to WVSASP.

After reviewing the inventory policies and procedures we quantified the non-capitalized assets purchased by the higher education institutions in FY 2019 to determine what non-capitalized assets from each institution met the thresholds set in the Surplus Property Operations Manual. To quantify the non-capitalized assets purchased by the higher education institutions we pulled documentary evidence in the form of purchasing reports from wvOASIS that contained all assets purchased in FY19. We then looked for supporting documentation on wvOASIS that would give an itemized description of the purchases made and determined which of those assets were non-capitalized and which of those non-capitalized assets would have met the threshold set by the Surplus Property Operations Manual. If we were unable to find the supporting documentation on wvOASIS we contacted the higher education institution and asked them to provide us with any supporting documentation for that purchase.

**Appendix B**  
**Agency Response**

This audit was not a direct audit of a particular governmental entity and therefore a response from each higher education institution was not sought. The results of the audit were communicated to representatives of the Higher Education Policy Commission and the West Virginia Community and Technical College System. These are the two governing bodies that guide the development and approval of rules made by the governing boards of the higher education institutions, except for those institutions granted operational independence. As of the date of this report, neither governing body provided any comments regarding the findings, conclusions, or recommendations of the report. If comments are received after the publication of the report this appendix will be updated appropriately.





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