

POST AUDIT DIVISION

POST AUDITS SUBCOMMITTEE MEMBERS

SENATE MEMBERS	HOUSE MEMBERS
<i>President, Mitch Carmichael</i>	<i>Roger Hanshaw, Speaker</i>
Roman Prezioso	Timothy Miley
Mark Maynard	fish@ifl « ³ ; ...



LEGISLATIVE AUDITOR'S LETTER REPORT

December 17, 2019

Mountwest Community & Technical College - Inventory Management Practices

LEGISLATIVE AUDITOR'S
STAFF CONTRIBUTORS

Aaron Allred Legislative Auditor

Justin Robinson Director

Mike Jones, CFE Audit Manager

Randy Mays Senior Auditor

Christian Baumgarner Auditor

Sarah Clere Auditor

RaShawn Dunham Auditor

Brianna Walker Auditor

Nathan Hamilton Referencer

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 LEGISLATIVE AUDITOR'S OFFICE

Post Audit Division

1900 Kanawha Blvd. East, Room W-329
Charleston, WV 25305-0610
(304) 347-4880

Justin Robinson
Director



December 17, 2019

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:

The Legislative Auditor conducted a review of the inventory management practices of Mountwest Community and Technical College (Mountwest). This review was conducted to determine if those inventory management practices are effective to ensure the inventory record is complete and accurate, and to protect those assets from fraud, waste, and abuse. Formerly Marshall Community College, on July 1, 2008, House Bill 3215 made Mountwest an independent community and technical college no longer administratively linked to Marshall University. It was officially named Mountwest Community and Technical College by Senate Bill 499 in 2010, and in August 2012, Mountwest opened the doors to its own 28-acre campus in Huntington, West Virginia.

Mountwest is under the jurisdiction of the West Virginia Council for Community and Technical College Education (WVCTC). As such, Mountwest is subject to the Procedural Rules of the WVCTC. Title 135 Series 30 of those procedural rules sets forth inventory management requirements and states:

Purchasing, §12.2, Inventory Management §12.2.a:

The chief procurement officer or director of procurement shall inventory all equipment and furnishings that have a value at the time of purchase or acquisition of \$5,000 or more per unit. Such inventory shall be kept current at all times. An institution may elect to inventory equipment and furnishings with a value less than \$5,000 per unit.

Mountwest elected under this rule to establish even more stringent inventory policies than those required by the WVCTC procedural rule. These policies require all Mountwest owned furnishings and equipment assets having a minimum cost of \$200 each to be tracked and recorded in its inventory record. This includes assets with a useful life of over one year and IT equipment.

Mountwest's current inventory record contains a total of 3,251 assets, with 2,614 active assets still in use and 637 inactive assets marked as disposal, missing in action, surplus, or yard sale. The record is maintained in the entity's Wedge Advanced Software Product (WASP), an internal inventory management system. In reviewing the inventory record, the Legislative Auditor identified multiple discrepancies, errors, and omissions with Mountwest's inventory record as follows.

Reportable Assets Purchased in FY 2018 and FY 2019 Were Not Able to be Identified in the Inventory Record

The Legislative Auditor reviewed the purchase documentation from Fiscal Years 2018 and 2019 to verify that assets purchased meeting Mountwest's inventory requirements were properly recorded on the inventory record. Unique identifiers such as serial numbers, purchase order numbers, and asset tag numbers were used to identify a number of the assets on the inventory record. However, not all purchases were recorded in the inventory record utilizing these unique identifiers, making it impossible to reconcile all purchased assets to the inventory record.

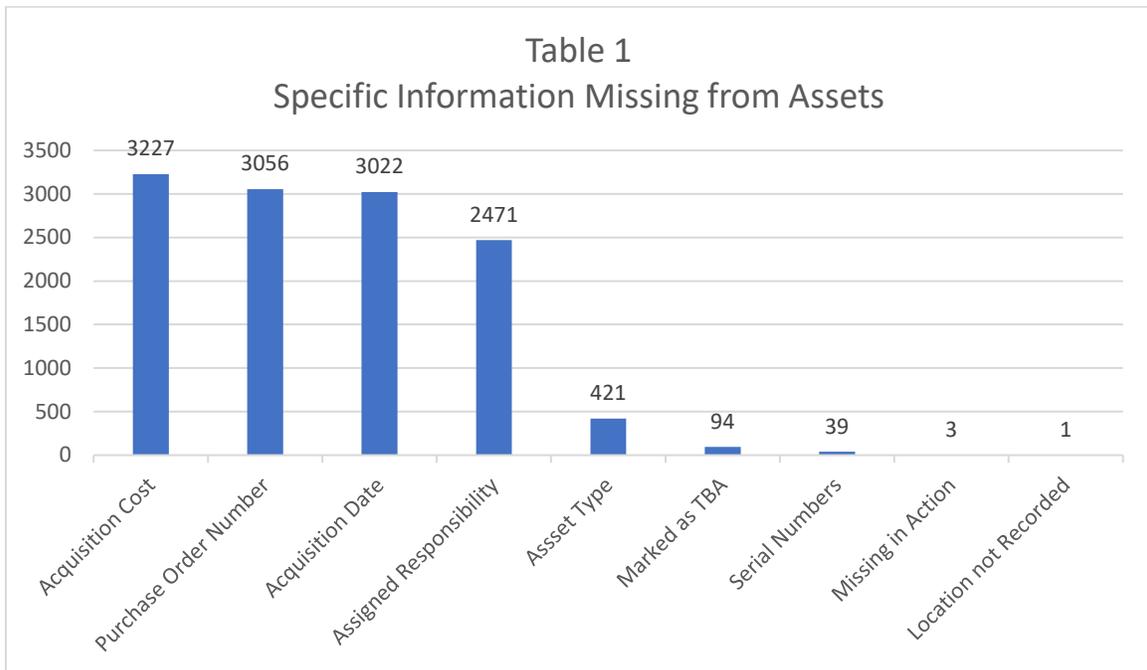
The Legislative Auditor identified 440 reportable assets valued at roughly \$473,700 in the purchasing documentation for Fiscal Year 2018 and 2019. The Legislative Auditor was unable to verify that all of the assets purchased were recorded in the inventory record due to the purchasing documentation and/or the inventory record lacking one or more pieces of uniquely identifiable information, such as a purchase order number, serial number, or asset tag number. Out of the 440 reportable assets purchased in 2018 and 2019, the Legislative Auditor was unable to confirm that 196 of these assets were included in the inventory record. Mountwest provided additional support that allowed the Legislative Auditor to confirm 10 additional assets. As for the remaining 186 assets, Mountwest was unable to provide sufficient evidence to provide a direct link between purchase documentation and the inventory record. Mountwest confirmed that for 106 of those assets with a cost of \$93,286.27, it did not properly record those assets in the inventory record as required citing several reasons these assets were not recorded in the inventory record. These reasons include: the assets were not received through the central receiving area, data entry backlog caused the items not to be entered, and a lack of administrative oversight over the inventory process. These reasons point out a weakness in Mountwest's inventory management processes and internal controls that allowed these items to be omitted. These deficiencies ultimately allowed 106 assets to go unrecorded in the inventory record thus increasing the susceptibility of these assets to fraud, misuse and abuse. For the remaining 80 items with a cost of \$57,729.83, the Legislative Auditor could not confirm that items in the inventory record were the items purchased due to lack of identifying information that would link the inventory record to the purchasing documentation. The remaining 254 reportable assets purchased during these two fiscal years were accounted for in Mountwest's inventory record. Recording the uniquely identifying information, which is a requirement in Mountwest's policies, assists in verifying purchased reportable assets are placed in the inventory record.

Mountwest’s Entire Current Inventory Record is Incomplete, with Required Pieces of Identifying Information Missing for Every Recorded Asset.

As previously mentioned, Mountwest elected to implement a more stringent inventory policy than what was required by the procedural rules of the WVCTC, requiring all assets with an acquisition cost of \$200 or more to be included in the inventory record. Further, Mountwest’s inventory policy requires certain information to be included on the inventory record to assist in identifying and distinguishing between identical assets. This internally developed policy requires the following information to be recorded for each asset:

- Asset Tag number
- Description
- Serial or manufacturer identification number (if applicable)
- Original cost
- Purchase order number (if applicable)
- Acquisition date
- Warranty and/or Disposition date
- Asset type
- Unit to which equipment is assigned
- Person assigned responsibility
- Location: Building and room

The Legislative Auditor’s review of the inventory recorded identified that all 3,251¹ assets were missing one or more pieces of information that is required by Mountwest’s inventory policy. The issues identified by the Legislative Auditor in the inventory record are delineated in the table that follows.



Source: The information was obtained from the updated Inventory record, “WASP COMPARISON-4.3.19.xlsx” provided by Mountwest on April 9, 2019. ¹Included in the list of active assets are 24 room numbers. These room numbers were introduced into the system because Mountwest is currently updating its system to recognize all assets within a room through the room description. The 24 room numbers are not reflected in the chart as they are not assets.

As the table shows, the most common pieces of missing information are acquisition cost, purchase order number, acquisition date, and assigned responsibility or custodian of the asset.

While this seems troubling due to the volume of assets missing these pieces of information, much of the cause can be attributed to two factors. First, many assets were obtained during the transition from Marshall University, and were assets originally purchased and owned by Marshall. Therefore, it is difficult for Mountwest to obtain this information for all assets subject to the \$200 threshold given that information may not be available or was not obtained at the time Mountwest took possession of the items. Secondly, the \$200 threshold is so low that many of the items subject to the threshold are items that were not required to be tracked in Marshall University's inventory record which had an established threshold of \$5,000 at the time Mountwest separated. However, this does not account for all of the information that is missing from the record as any purchases made subsequent to the implementation of the \$200 threshold in 2018 should have all required information included in the inventory record.

Although Mountwest has internal policies and procedures to adequately record inventory, they are not consistent in providing all the information as required. By not properly adhering to internal policies and procedures to adequately record inventory, Mountwest is unable to determine where assets are located, to distinguish between identical assets and determine which assets are missing or the cost to the state of the missing assets, ineffectively protecting state assets from fraud, misuse, and abuse.

This review also identified other inventory management issues as follows:

- The Legislative Auditor was unable to locate 32 assets (30 percent) from a sample of 106 assets in the location indicated in the inventory record. The auditors were unable to confirm whether or not the assets were located in another location, however the inventory record did not accurately state the location or custodian of those assets. Examples of assets that were not located include drones and drone kits, virtual headsets and controllers, as well as desktop and laptop computers.
- The Legislative Auditor was unable to trace 5 out of 10 reportable assets identified in various locations to the inventory record. One of the five assets that was unable to be located in the inventory record was a biosafety cabinet. Using the asset tag number on the cabinet, it was determined through the inventory record that the asset tag number was improperly allocated to a lab chair said to be located in the surplus room.
- The Legislative Auditor was unable to locate 44 surplus assets out of 98 selected in the location indicated in the inventory record. Again, the Legislative Auditor cannot confirm if the assets are in another location, however the incorrect information in the record is a cause for this inability to do so.
- The Legislative Auditor determined that 37 surplus assets of the 98 sampled were incorrectly denoted as surplus in the inventory record due to data entry errors. Reviewing the asset history reports, the auditor found that the assets were never assigned to surplus and remain in use. Mountwest stated that part of the issue is due to data entry errors into the WASP inventory system. The default "lifecycle" field is set to "surplus", improperly noting a newly entered asset as surplus if not corrected manually upon recording the asset.

Although Mountwest's internal policies and procedures appear to be sufficient for effective inventory management and to properly safeguard state property from fraud, misuse, and abuse; Mountwest does not fully comply with its own internal policies and procedures. Mountwest's

policies require that specific information be provided in the inventory record that would allow state assets to be traced from the purchasing of the item through disposition, however the evidence obtained during the audit shows that these policies are not consistently followed. All assets on Mountwest's inventory record were missing one or more pieces of information that is required by its inventory policy. This in turn makes accounting for those assets difficult if they are unable to be located and the record does not accurately reflect the unique information needed to identify assets. In turn, this increases the risk of fraud, theft, and abuse of those state assets. While the Legislative Auditor has noted that the inventory record is incomplete and inaccurate, it is believed that the \$200 threshold for reportable assets may be overly cumbersome making the efficiency of the inventory process less than optimal and gives cause to many of the issues previously noted.

Mountwest's Current Inventory Requirements May Be Too Cumbersome to Efficiently and Effectively Manage Its Inventory Record.

The Legislative Auditor finds it commendable that Mountwest has elected to take steps to provide more accountability of state assets by requiring assets of \$200 or more to be recorded rather than the \$5,000 threshold that is required through the WVCTC procedural rule. However, it is the opinion of the Legislative Auditor that this requirement is also cause for many of the issues noted in this report. The \$200 threshold may be too low, and the requirements for all assets to include all the required pieces of identifying information may be impractical.

Regarding the \$200 threshold, the sheer volume of items purchased in a given year and the nature of those items meeting this threshold can cause any number of issues already highlighted in this report. Many office chairs and other smaller items meet this threshold; however, the items may be moved around so much that tracking the location of these items could be difficult. Also, many assets that meet this requirement have a very low risk of misappropriation. In determining whether Mountwest's current threshold of \$200 is potentially overly cumbersome, the Legislative Auditor compared the existing requirements to the requirements of the Department of Administration's Surplus Property Operations Manual.

The Legislative Auditor evaluated the 440 asset purchases of Mountwest made in Fiscal Years 2018 and 2019 subject to the \$200 threshold to determine what assets would be subject to the reportable threshold of the Department of Administration Surplus Property Operations Manual. The Surplus Property Operations Manual defines reportable assets as having an original acquisition cost of \$1,000 or more and a useful life of one year or longer, all firearms, regardless of cost, and all computers with an acquisition cost of \$500 or more.

Of those 440 assets, 185, with a value of \$63,044, were purchased between the \$200 requirements set by Mountwest and the reportable thresholds established through the Purchasing Division. 70 of those 185 assets, with a value of \$30,975, appear to be assets with a higher risk of fraud misuse and abuse that would still be required to be included in the inventory record. However, 115 of the assets were not high risk, and consisted of chairs, tables, file cabinets, and workstations which the Legislative Auditor would recommend not be required to be included in the inventory record.

In some instances, controls and thresholds set by the Surplus Property Operations Manual may not fully protect some of the higher risk assets, however applying a lower threshold to items that Mountwest deems higher risk is more practical than applying it to all items. Therefore, the Legislative Auditor believes the current threshold requirement of \$200 for all purchased assets to

be more stringent than necessary, making the process overly cumbersome and creating issues such as a backlog for data entry and an incomplete and inaccurate inventory record.

Regarding the requirement that all items in the inventory record have all identifying information listed, the Legislative Auditor believes this too to be impractical in certain respects. As previously mentioned, many of Mountwest's assets were obtained during the transition from Marshall University. Due to the Marshall's inventory threshold being set at \$5,000 and the fact that many of the items were furnishings purchased well into the past, such required information simply is not available for inclusion in the inventory record. Since Mountwest's policy makes no differentiation of which assets are subject to the \$200 threshold, it effectively makes all assets subject to this threshold without any consideration for the availability of the information. It is the opinion of the Legislative Auditor that this requirement should be applied only to assets that were purchased subsequent to Mountwest separating from Marshall University for which such required information would be available. For assets that were acquired prior to this time, recording as much unique identifying information as possible will provide the most efficient means of accounting for and safeguarding those assets. Updating the current inventory policies to reflect this requirement would also negate many of the issues noted in this report concerning items in the inventory record with missing information.

Mountwest Community and Technical College Maintains Adequate Controls Over Firearms

Due to the sensitive nature of firearms as a state-owned asset, the Legislative Auditor sought to confirm whether Mountwest was in possession of any state-owned firearms and verify that all firearms are able to be located where indicated on the inventory record and secured. Mountwest's Office of Public Safety is responsible for security at the campus. Mountwest utilizes contracted security service personnel provided by A1 Security LLC and directly employs the Director of Public Safety and a Security Guard within the Office of Public Safety for their campus security. The Director of the Public Safety Department and several contracted security officers provide patrol protection of the campus. The Legislative Auditor determined that handguns carried by the security service personnel are owned by the contractor and not owned by Mountwest, and therefore are not recorded on the inventory record. Additionally, The Director of Public Safety and Security Guard directly employed by Mountwest carry firearms which are the personal property of the employees. However, Mountwest does own one rifle and one shotgun, for extreme situations, which are maintained in a secure safe with restricted access inside the Department of Public Safety main office. We were able to determine that the firearms are in the location stated on the inventory record and are secured.

Conclusion

The Legislative Auditor finds it highly commendable that Mountwest management understands the necessity and has developed more stringent policies over inventory management than required by the West Virginia Council for Community and Technical College Education to protect state property. Although Mountwest's internal policies and procedures appear to provide sufficient criteria for inventory management to properly safeguard state property from fraud, misuse, and abuse, Mountwest does not fully comply with its own internal policies and procedures.

Furthermore, there appears to be a lack of oversight over the inventory record and during the physical inventory performed by department heads to ensure information is updated and accurate. The inventory record is missing crucial information that would distinguish one asset from another, assets are missing asset tags which are necessary to be able to trace the asset to the

inventory record, purchasing documentation cannot be reconciled to assets on the inventory record, and the cost to the state for misappropriated assets cannot be determined. While some of this is due to not following proper procedures, many of the issues noted in the report can be attributed to the \$200 threshold for assets to be included in the inventory record. While some assets at this threshold are of high-risk of fraud and theft, the majority are not and requiring their inclusion in the inventory record places undue burden on the staff.

By not maintaining a complete and accurate inventory record through practical inventory management policies, Mountwest's assets are at an increased risk for fraud, waste, and abuse.

Recommendations

1. The Legislative Auditor recommends that Mountwest modify existing policies and procedures to ensure all assets are received at a centralized location, with all required pieces of uniquely identifiable information, such as a purchase order number, serial number, or asset tag number, as well as the location and asset custodian recorded in the inventory before the asset is released for use.
2. The Legislative Auditor recommends Mountwest management develop policies that would require purchase documentation and the inventory record share unique identifying information for individual reportable assets, and perform an annual reconciliation between purchases made and the inventory record to ensure all assets purchased have been recorded.
3. The Legislative Auditor recommends that Mountwest modify the default "lifecycle" field from "surplus" to "active" when entering new assets into the inventory record.
4. The Legislative Auditor recommends that Mountwest management determine if the \$200 reportable asset requirement is too cumbersome and consider the State of West Virginia Department of Administration Purchasing Division's Surplus Property Operations Manual requirements as an alternative. Further, Mountwest should develop a consideration for high risk assets that have a purchase price below the requirements set forth by the Surplus Property Operations Manual. If Mountwest management deems it necessary to retain the \$200 asset requirement, another option Mountwest may consider is to construct less restrictive requirement tiers for assets with a lower risk of misappropriation such as chairs, tables, file cabinets, and workstations to alleviate some of the burden.

Respectfully Submitted,



Justin Robinson

Attachment: Mountwest Community & Technical College Response to Post Audit Report

December 12, 2019

Mr. Justin D. Robinson
Director, Legislative Post Audit Division
1900 Kanawha Boulevard, East
Building 1, W-329
Charleston, WV 25305-0610

Re: Legislative Audit

Mr. Robinson,

Thank you for your report dated December 17, 2019 pertaining to the audit of Mountwest Community & Technical College's inventory management practices. Mountwest is committed to being outstanding stewards of taxpayer and student dollars and safeguarding our assets. We appreciate the opportunity this audit has provided for review of our policies and procedures.

The Legislative Auditor made several recommendations regarding our inventory policy and procedures, including ensuring all assets are received at a central location, requiring purchasing and inventory records share unique identifiers for each asset, modifying our inventory software, and to consider if our policies are cumbersome. We appreciate the viewpoint of the auditors and will consider these recommendations as we move forward.

While the safeguarding of assets is always a priority, we do have additional strategic goals that are also supported by our inventory management practices. More specifically, one goal is to utilize a single software system to record and track the asset throughout its entire life cycle. So far, our efforts have streamlined our own annual asset audit process, provided us with the information needed to establish an annual budget for academic classroom furnishings, increased the re-use of surplus property and decreased expenditures related to the purchase of new assets. Moving forward, our current inventory management practices will provide additional opportunities to efficiently and effectively forecast the budgetary needs for all equipment, furniture, and other essential items that support the College's mission.

To accomplish that goal, our inventory management practices were regularly assessed and modified as opportunities for improvement were identified. As the Legislative Auditor is aware, over the past several fiscal years, we have had considerable turnover in key positions for purchasing and receiving and have gone through several iterations of inventory policies. That presented a challenge for all involved in the audit as assets purchased several years ago were not subjected to the same inventory standards as those purchased more recently. While we recognize the challenges of having such a stringent inventory policy, we remain confident the policy can be effectively practiced moving forward. We also recognize the policy will continue to evolve as we assess the capabilities based upon current staffing levels, the opportunities for improvement, and the costs and benefits of our internal controls.

This audit has provided a wonderful learning opportunity for us and we have already made enhancements to the inventory process. Again, we thank the Legislative Auditors for the review of our inventory management practices and their professionalism throughout this process.

Representatives from Mountwest will be present at the Post Audit Subcommittee meeting on December 17, 2019 to answer any questions. If there are any additional questions or comments, please feel free to contact me.

Sincerely,



Terri L. Tomblin-Byrd
Vice President for Operations and Information Technology
Mountwest Community & Technical College
P: 304/710.3472
E: tomblin@mctc.edu

Cc: Dr. Keith J. Cotroneo, President
S. Derek Adkins, Chief Financial Officer