

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

POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

Southern WV Community & Technical College- Inventory Management and Budget Process

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



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.

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Southern WV Community & Technical College: Inventory Management and Budget Process

May 10, 2021

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Southern Lacks Documented Policies and Procedures for Inventory Management as Required by WVCTC Procedural Rules §133-30 and §135-30. Further, the Current Processes for Inventory Management Do Not Provide for Effective Management of State Assets or Protection from Potential Misappropriation.

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Southern CTC Does Not Have a Documented Formal Budget Process for Determining the Annual Budget of the Institution, Increasing the Risk for Improper Fiscal Planning. The HEPC and WVCTC Currently Do Not Require the Institutions Under Their Purview to Have Such Policies or Procedures.

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Southern WV CTC Response to Audit Report

Executive Summary

The Legislative Auditor conducted the audit of Southern West Virginia Community and Technical College (Southern) pursuant to W.Va. Code §4-2-5. The objectives of this audit were to determine if the inventory record, policies, and procedures at Southern complies with generally accepted accounting standards, applicable state laws, rules, and the West Virginia Community and Technical College System (WVCTC) policies. Additionally, the audit sought to assess the accuracy and completeness of the inventory record and the effectiveness of internal control policies to deter fraud, waste, and abuse of Southern's assets. The audit also sought to evaluate the overall process for planning and implementing Southern's annual budget. The results and recommendations of this audit are highlighted below.

Report Highlights

Issue 1: Southern Lacks Documented Policies and Procedures for Inventory Management as Required by WVCTC Procedural Rules §133-30 and §135-30. Further, the Current Processes for Inventory Management Do Not Provide for Effective Management of State Assets or Protection from Potential Misappropriation.

- Southern has not established institutional policies and procedures as required by the WVCTC for inventory management.
- Southern does not record all capital assets as required by WVCTC Procedural Rule Title 135 Series 30 and the WVCTC Purchasing Manual.
- Southern's processes for surplus property violate WVCTC Procedural Rule Title 135 Series 30 and the WVCTC Purchasing Manual by:
 - Not maintaining an inventory record or required information for surplus assets,
 - Not providing guidance for determining the best method of disposition for yielding the greatest return.

Recommendations

- 1-1. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop formal written policies and procedures as required by the West Virginia Council for Community and Technical College System for asset management. The policies and procedures should utilize the West Virginia Higher Education Policy Commission and The West Virginia Council for Community and Technical College Education Purchasing Procedures Manual to track and account for equipment and furnishings to protect the assets of the institution.
- 1-2. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop and implement written policies and procedures for surplus property that align with WVCTC Procedural Rule Title 135 Series 30 13.1. These policies and procedures should ensure the surplus items are identified, tracked, and properly accounted for during the disposition process; identifies and accounts for surplus property throughout the disposition process, allows for disposition methods that yield the greatest return, and delineates a methodology for notifying staff of surplus items available for reassignment prior to the disposal of the asset.

Issue 2: Southern CTC Does Not Have a Documented Formal Budget Process for Determining the Annual Budget of the Institution, Increasing the Risk for Improper Fiscal Planning. The HEPC and WVCTC Currently Do Not Require the Institutions Under Their Purview to Have Such Policies or Procedures.

- Southern West Virginia Community and Technical College does not follow three out of the six steps of the *Government Finance Officers Association series of Best Practices in Community College Budgeting*.
- There are no mandatory requirements for West Virginia public institutions of higher education to have written policies and procedures for the budgeting process.

Recommendations

- 2-1. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop, document, and implement formal budgeting processes and procedures that reflect the best practices by the Government Finance Officers Association for community college budgeting.
- 2-2. The Legislative Auditor recommends the Legislature consider requiring the West Virginia Higher Education Policy Commission and the West Virginia Council for Community and Technical College Education establish formal requirements for all higher education institutions to develop and implement policies and procedures for the institutions' budgeting process to ensure proper fiscal stewardship and planning. The requirements of these policies and procedures should at a minimum incorporate the best practices of the Government Finance Officers Association referenced in this report.

Issue 1: Southern Lacks Documented Policies and Procedures for Inventory Management as Required by WVCTC Procedural Rules §133-30 and §135-30. Further, the Current Processes for Inventory Management Do Not Provide for Effective Management of State Assets or Protection from Potential Misappropriation.

Southern Community and Technical College (Southern) is under the authority of the West Virginia Council for Community and Technical College System (WVCTC). Southern has three campuses in Logan, Mingo, and Wyoming counties, and two smaller facilities located in Boone and Lincoln counties. The WVCTC established requirements for inventory management and the disposition of surplus items through Procedural Rule Title 133 Series 30 in 2005 and updated the rule in 2016 with Procedural Rule Title 135 Series 30. Under these rules, Southern is required to establish institutional guidelines and procedures for inventory management, file them with the Vice Chancellor for Administration and the institution's purchasing office, as well as have them available to the public upon request.

Southern has been operating under the authority of the WVCTC since 2004 and is therefore required to follow rules and regulations put forth by the WVCTC, including Procedural Rule §135-30 "Receiving and Inventory Management" (2016), and the preceding Procedural Rule §133-30 (2005). Each of these states:

"...as required by law and this rule, and consistent with administrative manuals, guidelines and procedures developed by the Vice Chancellor for Administration, the chief procurement officer shall have the duty and/or authority to establish institutional guidelines and procedures for receiving, inventorying and distributing materials, supplies, equipment, services and printing."

In 2018, the WVCTC in conjunction with the Higher Education Policy Commission (HEPC), released the *West Virginia Higher Education Policy Commission and West Virginia Community and Technical College System Purchasing Procedures Manual* (Purchasing Manual) to provide additional instructions to the institutions operating under the authority of each body. Mirroring the language in the two procedural rules, the Purchasing Manual also states the Chief Procurement Officer shall establish institutional guidelines and procedures for receiving and distributing materials, supplies, equipment, services, and printing to departments and offices within the institution and the guidelines and procedures shall be approved by the president and filed with the Vice Chancellor for Administration.

In the Purchasing Manual there are additional minimum requirements for inventory procedures, as well as the inventory management systems of the institutions. These requirements for the inventory management system include recording the date of acquisition, model number, serial number (if applicable), purchase order number, and payment account number(s). Further, the Purchasing Manual provides for surplus or retired assets including recording the retirement date, method of retirement, and disposal price (if applicable).

Southern has not adopted formal policies and procedures for inventory management as required by WVCTC Procedural Rules §133-30 and §135-30 since 2005.

To determine compliance with WVCTC inventory requirements, the Legislative Auditor requested Southern's policies and procedures for inventory management. In response, a representative of Southern stated, "*Southern West Virginia CTC has informal procedures in place,*

but no formal policies or procedures.” The Legislative Auditor then contacted Southern to determine the cause of this discrepancy and requested an explanation for the lack of formal documented policies and procedures as required by the governing WVCTC Procedural Rules. The current Controller of Southern stated, *“I have reviewed these procedural rules, and I agree with your understanding of the rules. As for why the College did not comply with these historical rule, [sic] I do not know.”*

Asset Management

While Southern does not have documented policies and procedures for inventory management, a review of the processes that are in effect was performed to determine the adequacy of those informal processes. The Legislative Auditor determined that Southern has not established effective institutional policies or procedures for inventory management as required since 2005. This lack of internal policies and procedures has led to capital assets not being recorded in the inventory record, capital assets missing required information in the inventory record, and non-capital assets lacking sufficient protection from fraud and abuse. Additionally, the processes that were established by Southern for surplus assets do not meet the requirements for surplus assets prescribed in the procedural rule.

The WVCTC Procedural Rule Title 135 Series 30, and the Purchasing Manual, define capital assets as those assets purchased with an acquisition cost of \$5,000 or above. Currently, Southern maintains two fixed asset inventory records related to capital assets which are maintained by the Finance Division. These two inventory records are segregated according to the function of the asset, either buildings and land, or equipment. Further, the audited financial statements for Southern for Fiscal Years 2018 and 2019 prepared by Suttle & Stalnaker, PLLC elaborated on the capital assets by stating:

Capital assets include property, plant and equipment and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library holdings, and 5 to 10 years for furniture and equipment. The College’s capitalization threshold is \$5,000.

All assets with an acquisition cost of less than \$5,000 are defined by the WVCTC as a non-capital asset. While Southern maintains two fixed asset inventory records for capital assets, **Southern stated its non-capital asset listing is not included on the official inventory record.** Additionally, Southern has neither a clear definition of a non-capital asset, nor policies and procedures governing non-capital assets. Southern stated non-capital assets consist of all desktop computers, laptop computers, and classroom workstations. The IT Department of Southern keeps track of these items and manages the non-capital asset listings. Southern’s non-capital assets are maintained on one of three listings that are maintained by the IT departments of each of the three campuses (Logan, Mingo, Wyoming). The assets of the smaller facilities in Boone and Lincoln counties are placed on one of the three campus listings.

Due to a lack of defined procedures for non-capital assets or a clear indication of what assets Southern considered to be non-capital assets beyond computer equipment, the Legislative

Auditor sought to determine the accuracy of Southern’s inventory record by reviewing both capital and non-capital asset records. This was achieved by tracing purchasing records for each item to the inventory records for the period of July 1, 2017 to December 31, 2019. The Legislative Auditor reviewed the purchase documentation to locate assets meeting the definition of a capital asset as defined in the audited financial statements and utilized the definition of non-capital assets provided by Southern. As Southern’s description of workstations stated, “*usually computers*”, the Legislative Auditor included assets that were already located on the inventory record in the review which consisted of desktop computers, laptop computers, printers, scanners, and iPads. Additionally, since Southern does not have a dollar threshold for non-capital assets, the Legislative Auditor, selected assets that were purchased in the amounts from \$250 to \$4,999 to be traced to the inventory record.

The Legislative Auditor determined 139 assets¹ in total, valued at approximately \$182,000, were unable to be positively identified on the inventory record. These items were either not recorded in one of the inventory listings provided by Southern, or items that were recorded on one of the inventory listings did not have sufficient information available to definitively determine if the asset that was recorded was the asset identified on the purchase documentation.

Capital Assets (Items with an Acquisition Cost of \$5,000 or Above)

The Legislative Auditor reviewed assets recorded in Southern’s capital asset inventory management system that were purchased after the effective date of the Purchasing Manual, April 20, 2018 through February 2, 2020, to determine if Southern is meeting the minimum requirements of the WVCTC. The Legislative Auditor identified 20 items meeting the definition of a capital asset; thus, requiring inclusion of the asset in the inventory management system and the recording of the specific identifying information required by the Purchasing Manual.

All 20 capital assets identified as being purchased during the period reviewed were to some degree in non-compliance with the inventory management requirements. Two of these capital assets, an upright digital microscope and an immersion dissection table with a combined cost of \$11,622, were not recorded in the inventory management system. The remaining 18 capital assets were missing at least one of the pieces of information required by the Purchasing Manual. These records were missing various combinations of the date of acquisition, model number, and serial number. Additionally, Southern’s inventory management system is missing the necessary fields to record purchase order numbers, account number(s) used to pay for the purchase, retirement dates, method of retirement, and disposal price as required by the Purchasing Manual.

Non-Capital Asset Management (Items with an Acquisition Cost Less Than \$5,000)

Additionally, the Legislative Auditor determined 112, or 53 percent of non-capital assets that were purchased, were unable to be located on the inventory record. These 112 non-capital assets had a total acquisition cost of \$125,762. There were an additional 25 non-capital assets that were purchased that did not share uniquely identifying information between the purchasing invoice and the inventory record to be able to determine if the item was recorded on the inventory record. Of the 137 non-capital assets that were not positively identified in the inventory record, 84 were computers with a value of \$140,610 while 49 were printers, scanners, and iPads valued at \$30,037.

¹ The 139 items include: 2 Capital Assets (upright digital microscope and an immersion dissection table) and 137 Non-Capital Assets (112 not located on inventory record, 25 lacking unique identifying information to determine if the asset matched the purchasing records)

When the Legislative Auditor discussed these deviations from the requirements of the WVCTC Procedural Rules and Purchasing Manual for both capital and non-capital assets, a representative of Southern stated the following:

We did not receive the purchasing procedures manual from the Higher Education Policy Commission (HEPC) until late 2019. Our previous President resigned in late 2019, and our VP of Finance and Administration has stepped into a dual-leadership role as Acting President. Due to these circumstances, we have not yet had time to approve inventory procedures and an inventory system, or file these with the Vice Chancellor for Administration.

Surplus Asset Management

While Southern does not have written policies and procedures for the inventory management of assets, Southern does have a formal internal policy governing the process of surplus asset disposition. This internal policy for surplus assets does not comply with WVCTC Procedural Rule Title 135 Series 30 and the Purchasing Manual. Specifically, Southern does not maintain an inventory record of surplus assets, does not count and track surplus assets through disposition, does not maintain required documentation necessary to corroborate the disposition of surplus assets, and does not utilize a disposition method based on the greatest return.

According to the rule, Southern should identify, store, and inventory surplus assets until disposal. Additionally, corroborating information should be maintained such as, serial numbers, present value, inventory tag numbers, and recipients, if applicable. Additionally, in accordance with the Purchasing Manual, the chosen disposition method for surplus assets should be one that has the best prospect of yielding the greatest return to the institution.

Southern's written policies for surplus property, state that assets that are determined to still have value will be maintained at each campus location for a minimum period of three weeks for review and redistribution within Southern. All assets submitted as surplus property are screened to redistribute and further utilize the asset prior to the asset's disposal; however, there is no notification method in place to make the availability of a surplus asset known throughout all five physical locations of Southern facilities.

During the time assets are stored at one of the three locations as a surplus asset, the Chief Procurement Officer at Southern does not maintain an inventory of the items that are under review, nor is there supporting documentation to corroborate the disposition of surplus assets recorded and maintained. No documentation beyond a written notification initiating the disposition process is required by Southern to denote the chain of custody through the completion of the disposition process.

According to Southern, if an asset identified as surplus is not redistributed within the three-week timeframe, the item is either sold, donated, or discarded. Southern's surplus policies do not provide any methodology or requirements to choose a disposition method that has the best prospect of yielding the greatest return. Additionally, while Southern indicated it sells, discards, or donates assets it cannot redistribute, the policies of Southern only allow surplus assets that cannot be redistributed to be sold or discarded. Southern indicated the disposition method utilized for each asset is dependent upon the depreciation status of the item; however, this process is not delineated in the institutional guidelines.

Without an inventory of surplus assets or documentation to support the disposition of surplus assets, it is not possible to corroborate the disposition of surplus assets, thus increasing the potential for the misappropriation of assets. Additionally, not utilizing standardized methodology for choosing a disposition method, and not notifying potentially interested internal parties an asset is available for reassignment is a potential waste of funds.

Increased Risk for Fraud and Asset Misappropriation Due to Insufficient Inventory Management Procedures

In 2020, the Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organization and premier provider of anti-fraud training and education, issued its Report to the Nations Global Study on Occupational Fraud and Abuse. This report is the largest global fraud study on occupational fraud. The ACFE found asset misappropriation schemes were the most common fraud in the worldwide study, representing 86 percent 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 ACFE study found 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 percent of the fraud cases studied were unable to recoup any of the financial loss.

Conclusion

All fraud cannot be prevented. 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 through effective internal control processes 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. Enacting proactive detection measures as part of the internal control process, including a regularly reconciled inventory record, asset tagging, and formal written policies, is the minimum barrier to prevent fraud and abuse of Southern's assets.

By not implementing policies and procedures governing the recording of and accounting for capital and non-capital assets through disposition, and not recording non-capital assets in the inventory record, Southern has placed all assets at a higher than necessary risk to be lost to fraud and abuse, in particular those assets that cost less than \$5,000. The continued lack of policies and procedures over Southern's assets could potentially lead to increased costs, ineffective budget planning, and reduced efficiencies in the use of those assets.

Based on this conclusion, the Legislative Auditor makes the following recommendations:

Recommendations:

- 1-1. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop formal written policies and procedures as required by the West Virginia Council for Community and Technical College System for asset management. The policies and procedures should utilize the West Virginia Higher Education Policy Commission and The West Virginia Council for Community and

Technical College Education Purchasing Procedures Manual to track and account for equipment and furnishings to protect the assets of the institution.

- 1-2. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop and implement written policies and procedures for surplus property that align with WVCTC Procedural Rule Title 135 Series 30 13.1 These policies and procedures should ensure the surplus items are identified, tracked, and properly accounted for during the disposition process; identifies and accounts for surplus property throughout the disposition process, allows for disposition methods that yield the greatest return, and delineates a methodology for notifying staff of surplus items available for reassignment prior to the disposal of the asset.

Issue 2: Southern CTC Does Not Have a Documented Formal Budget Process for Determining the Annual Budget of the Institution, Increasing the Risk for Improper Fiscal Planning. The HEPC and WVCTC Currently Do Not Require the Institutions Under Their Purview to Have Such Policies or Procedures.

Currently, neither the HEPC nor the WVCTC have established a requirement that the institutions under its purview have formal documented policies and procedures for preparing an annual budget. While not required, having defined and documented policies and procedures for formulating an annual budget is a best practice. Southern does not have formal documented policies and procedures for its annual budget process as it is not required to do so. In order to determine the adequacy of the budgetary processes currently in place at Southern, the Legislative Auditor reviewed the budgeting process of Southern and sought out best practices in budgeting that could be utilized for comparison and analysis.

The Legislative Auditor identified the Government Finance Officers Association (GFOA), founded in 1906, as the appropriate standard setter for best practices in budgeting. The GFOA represents more than 20,000 federal, state/provincial, and local public finance officials throughout the United States and Canada. The association and its members are deeply involved in planning, financing, and implementing thousands of governmental operations in each of their jurisdictions. GFOA's mission is to advance excellence in public finance. One way it seeks to fulfill its mission is through establishing best practices in public finance.

The GFOA has developed a series of best practices in community college budgeting, which clearly outlines six steps to developing a budget that best aligns resources with student achievement goals:

1. Prepare and develop inputs to the budgeting process;
2. Define goals and identify gaps;
3. Develop strategies to close the gaps;
4. Prioritize spending to enact strategies and allocate resources;
5. Check performance; and
6. Enhance budgeting practices.

The current budgeting process at Southern does not fulfill the first three of the six budgeting best practices necessary to have an effective budgeting process according to the GFOA. Southern has not established principles or policies to guide the budget process, does not utilize a root cause analysis to determine the root cause of gaps between the current and desired state of the college, and does not develop strategies to close the gaps determined by a root cause analysis.

GFOA 6 Steps for an Effective Budget Process vs Southern's Process

Step 1: Prepare and Develop Inputs to the Budgeting Process.

According to the GFOA, the first step in developing the budgeting process involves establishing principles and policies to guide the budget process and gain a better understanding of the forces that shape the budget. The GFOA's "Best Practices in Community College Budgeting" establishes budget principles and policies and set standards for how a college

manages its resources. According to the best practices, analyzing academic and financial performance, as well as the external forces that shape the budget, is key to understanding their impact on a college's budget.

Southern has not established principles or policies to guide the budget process. However, Southern uses Evisions Argos² for analyzing academic and financial performance to monitor head count and full-time equivalent (FTE) for enrollment estimates. Southern forecasts revenues by estimating state appropriations and tuition & fee revenues for the expected number of students by looking at its history of revenues and projecting forward. Southern forecasts expenditures based on prior years and accounts for uncertainty when forecasting by maintaining reserves it can fall back on until it can take action for lost revenue. Southern also monitors budget adjustments and reserves using Ellucian Banner Finance³.

Step 2: Define Goals and Identify Gaps.

This entails developing goals that are realistic and measurable, guiding the budgeting and planning process, and identifying the gaps between the goals and current state and determining the root causes of those gaps so a college can develop the most effective, long-lasting solutions.

According to the best practices, *“root cause analysis has the advantage of focusing the organization on preventative, rather than remedial, solutions. Prevention is often cheaper and is almost always better for the constituent. By finding root causes, a college can develop the most effective, long-lasting solutions.”*

Southern has developed goals in its mission statement which list its institutional commitments to guide the budgeting and planning process but do not determine the root cause of gaps between the current and desired state of the college. According to the mission statement, Southern is committed to providing the following:

- Developmental and pre-college level education for those who lack the necessary academic background for direct entry into college-level courses.
- Programs of study leading to the associate in arts and the associate in science degrees which can be effectively transferred and applied toward the baccalaureate degree.
- Programs of study in career and technical fields leading to a skill-set certification, certificate degree and/or the associate in applied science degree for entry into the workforce.
- Workforce development, continuing education and training programs that support the needs of employees and employers and serve as a mechanism for economic development.
- Support services that assist students in achieving their education and training goals, as well as community interest programs and activities that promote personal growth and cultural enrichment.

² Argos is enterprise reporting software to form ad-hoc queries for advanced analytics and dashboards.

³ Banner is enterprise resource planning software designed for higher education institutions.

Southern further explained unit goals are derived from institutional priorities and developed by each administrative unit to support compact/master plan, mission and vision, and Board of Governor (BOG) goals. Departmental goals/objectives consist of departments within each unit establishing annual goals/objectives. With approval of the immediate supervisor, an annual “Employee Plan of Action” to support departmental, unit, and institutional goals is developed.

Southern stated it does not perform a root cause analysis to determine the cause of gaps between the current and desired state. Southern monitors its current state and budgets using wvOASIS Financials, and Banner Finance to determine potential shortfalls between goals and the current state. Failing to utilize strategies to determine the root cause of gaps can potentially leave the true cause for these gaps unidentified allowing the issue to perpetuate. This can leave Southern with a stop-gap response that creates a continual gap between the current state and the desired state.

Step 3: Develop Strategies to Close the Gaps.

The GFOA states the agency should formally adopt a set of strategies to overcome the gaps between the current and desired state and instructs a root cause analysis is a method of problem solving that looks beyond symptoms to find the underlying cause of a problem. According to the GFOA, strategies should be adopted and implemented that address the root causes of challenges the college faces, that align with the college’s budgeting principles and policies, that are consistent with proven practices, and that provide a coherent set of action steps for implementation.

Southern does not develop strategies to close the gap between the current and desired state. As previously stated, Southern does not determine the root cause of gaps between the current and desired state of the college. Southern’s process for closing the gap is to cut off unnecessary purchasing. Unnecessary purchasing is defined by Southern as, “*if the institution can still carry on with our day-to-day business without the purchase, it is deemed unnecessary.*” This process does not adhere to GFOA standards in developing strategies to address the root cause of gaps between the college’s current and desired state.

By not determining the root cause of gaps and having a pre-determined outcome to cut off unnecessary purchasing when gaps develop, Southern would be unable to find the underlying cause of a budget shortfall or problem. The issue causing the gap is not addressed and may continue to cause further issues.

Step 4: Prioritize Spending to Enact Strategies and Allocate Resources.

This step involves prioritizing and allocating expenditures that align with the college’s goals. The GFOA states current and new expenditures need to be prioritized so the college’s limited resources are directed towards the most cost-effective expenditures for reaching the college’s goals. A budget document should tell the story of the challenges the college faces and how the college is using its resources to address its challenges.

Southern prioritizes and allocates resources to fixed costs, institutional priorities, and then unit needs as resources are available. Budgeting is need-based, not percentage-based throughout the institution. Southern’s planning process for budgeting begins with developing unit goals, departmental goals/objectives, and employee plans of action. Southern stated its budget is based on the needs of each unit.

The Legislative Auditor asked Southern to explain how it prioritizes current and new expenditures, so resources are directed towards the most cost-effective expenditures for reaching the college's goals and a budget document. Southern stated, "*verbal discussions are held with the CFO and the director of the purchasing unit, and the decision to expend our resources is made by the CFO. Also, if a new expenditure is more than \$50,000, we put that out to bid. This ensures that large purchases are cost-effective.*"

Step 5: Check Performance.

The best practices indicate performance should be regularly checked to see if progress towards goals is being made and adjust, as necessary. The best practices state an organization should monitor and evaluate outcomes from budgeting decisions by establishing a system to regularly check progress of budgeted priorities and adjust as necessary.

When asked if Southern implements performance measures to determine if goals are being achieved, Southern stated it does and explained it monitors wvOASIS Financials and Banner Finance to determine potential shortfalls between goals and its current state, the BOG approves the budget annually, and the CFO gives the BOG an update of actual revenues and expenditures at every board meeting.

Step 6: Enhanced Budgeting Practices.

This step encourages defining roles, measures of success and allocation methodologies to increase transparency and accountability in the budget process. According to the best practices enhanced budgeting practices, the college should establish criteria and measures for success of the budgeting process. Such criteria consist of establishing governance and ownership over the budgeting process as a prerequisite to establishing criteria and measures for success of the budgeting process.

Additionally, the enhanced budgeting practices section provides the college should allocate costs of shared support services to subunits to better understand the true cost of offering services. Furthermore, a college should develop an allocation model to distribute the costs of support services fairly and transparently to the college's sub-units. The allocation model should take into account the goals behind developing an allocation model and the cost and benefits of administering the allocation system.

Southern's Current Budget Process

During the review of Southern's budgeting process, the Legislative Auditor sought to determine the roles and responsibilities of those involved in developing and approving the budget and the policies and procedures governing those processes. Southern has defined roles and allocation methodologies that direct accountability; however, these roles and methodologies are not formalized in a written document.

When asked if a governance structure is utilized for the budgeting process, how are roles communicated, and how it was documented, Southern stated the budgets are sent out to every Vice President and the BOG. The Vice Presidents are responsible for their budgets and working within these budgets. Southern stated the CFO presents the final budget to the BOG who vote to approve it. The BOG is required to have training annually and also have a fiduciary responsibility to the State. If the CFO were unavailable for an extended period of time during budget development, as occurred during the audit, Southern would be lacking clear direction in developing its budget. This could lead to the incorrect performance of required protocols and application of methodologies

that inhibit the construction of the most cost-effective budgeting plan for reaching the college's goals.

Conclusion

The Legislative Auditor concludes the lack of Legislative policies on how to effectively develop and document the budgeting process heightens the risk of poor fiscal planning resulting in funding gaps, and to a lesser extent the increased risk of certain types of fraud. Additionally, this deprives the college of flexibility in responding to challenges that arise, may lead to inefficiencies allocating resources amongst the college's departments, and inhibits the college's ability to financially plan for changes in enrollment.

Due to escalating education costs which could in turn create future funding issues, Southern must focus on the most efficient ways to reach its institutional goals. However, the lack of a standardized process governing the formulation of a budget is an issue which affects more than just Southern. Since the HEPC and WVCTC do not require the institutions develop a formal documented budget process, this issue is likely more pervasive throughout the higher education institutions in the state. A recent audit of Bluefield State College also revealed Bluefield did not have a comprehensive formal budget process for its institutional budget. The budgetary process at Bluefield State College was so informal, even after multiple requests to provide the documentation associated with the budget process, the Legislative Auditor concluded that the documents provided were in such disarray that the documents were unable to be audited. While the budgeting process at Southern was objectively better than that of Bluefield State College, similar budgetary issues at these two institutions of higher education highlight the need to address a potentially systemic weakness in the budgetary control requirements of all higher education institutions under the HEPC and WVCTC.

Given the continual cost escalation occurring in higher education, as well as the potential long-term lingering economic impacts from COVID-19, it is imperative all higher education institutions enact comprehensive budgetary processes that meet minimum best practices. By implementing a standard for all higher education institutions to attain, all higher education institutions would be operating with a similar set of processes providing comparable data and allowing the institutions to pinpoint specific areas of the budget for reductions if necessary. Having a comprehensive budgetary process, enforced by Legislative policies, on how to effectively develop and document the budgeting process which adheres to the standards set by the GFOA will help ensure universities and state colleges are able to effectively manage its operations and respond appropriately to changes.

Based on this conclusion, the Legislative Auditor makes the following recommendations:

Recommendations:

- 2-1. The Legislative Auditor recommends Southern West Virginia Community and Technical College develop, document, and implement formal budgeting processes and procedures that reflect the best practices by the Government Finance Officers Association for community college budgeting.
- 2-2. The Legislative Auditor recommends the Legislature consider requiring the West Virginia Higher Education Policy Commission and the West Virginia Council for Community and Technical College Education establish formal requirements for all

higher education institutions to develop and implement policies and procedures for the institutions' budgeting processes to ensure proper fiscal stewardship and planning. The requirements of these policies and procedures should at a minimum incorporate the best practices of the Government Finance Officers Association referenced in this report.

Appendix A

WEST VIRGINIA LEGISLATIVE AUDITOR'S OFFICE

Post Audit Division

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Justin Robinson
Director



April 28, 2021

Pamela Alderman, President
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Mount Gay, West Virginia 25637

Dear President Alderman:

This is to transmit a draft copy of the Post Audit Division's report on Southern's inventory management and budgeting process. This report is scheduled to be presented during the Post Audits Subcommittee meeting Monday, May 10, 2021 at 1:00pm in the Senate Finance Committee Room, Room 451-M. We recommend a representative from Southern be present at the meeting to respond to the report and answer any questions committee members may have during or after the meeting.

Please contact Terri Stowers, Executive Assistant, at 304-347-4880, by close of business on Friday April 30, 2021 to schedule the virtual exit conference to discuss the draft of the report. Our office uses Microsoft Teams to facilitate virtual meetings. Please let us know if this is an issue and we will do our best to accommodate another option. If you wish to provide a written response to be included in the final report, we ask that this be provided to us by the close of business on Thursday May 6, 2021. If you have any questions or concerns, please feel free to contact me. Thank you for your understanding and cooperation.

Sincerely,

A handwritten signature in blue ink that reads "Justin Robinson".

Justin Robinson

Attachment: Post Audit Draft Report – Southern CTC Inventory Management and Budget Process

Appendix B

Objective, Scope, and 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 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.

The Legislative Auditor's Office reviews the statewide single audit and the DOH financial audit annually with regards to any issues related to the wvOASIS financial system. The Legislative Auditor's Office on a quarterly basis requests and reviews any external and internal audits of the wvOASIS financial system. Through its numerous audits, the Legislative Auditor's Office is constantly testing the financial information contained in the wvOASIS financial system. In addition, the Legislative Auditor's Office has sought the professional opinion of the reliability of wvOASIS from the Joint Committee on Government and Finance's Fiscal Officer, who along with her staff uses the wvOASIS system daily. Based upon these actions, along with the audit tests conducted on the audited agency, it is my professional judgement that the information in the wvOASIS system is reliable for auditing purposes under the 2018 Yellowbook. However, in no manner should this statement be construed as a statement that 100 percent of the information or calculations in the wvOASIS financial system is accurate.

Objective 1:

Determine if the inventory record, policies, and procedures at Southern complies with generally accepted accounting standards, applicable state laws, rules, and WVCTC policies.

Sub-objective 1:

Assess the accuracy and completeness of the inventory record.

Scope:

The audit objective encompassed Southern's current inventory records, purchasing records, and surplus records for July 1, 2017 through December 31, 2020.

Methodology:

Auditors obtained documentary evidence in the form of invoices of purchases obtained from wvOASIS and Southern's capital and non-capital inventory records. Auditors also utilized testimonial evidence from e-mails with Southern representatives that explain the inventory and surplus process of Southern. The auditors utilized this information to provide analytical evidence, by cross-referencing the purchasing documentation with Southern's inventory record to determine if purchases were being properly recorded on the inventory records.

Sub-objective 2:

Assess effectiveness of internal control policies to deter fraud, waste, and abuse of Southern's assets.

Scope:

The audit encompassed Southern's inventory policies and the inventory procedures in effect from July 1, 2017 through December 31, 2019, Southern's current inventory records.

Methodology:

Auditors obtained testimonial evidence in the form of e-mails from Southern representatives about Southern's unofficial policies and procedures concerning its inventory. Auditors also obtained documentary evidence from the Purchasing Manual. The auditors utilized Southern's testimonial evidence and compared them to the Procedural Rules. The auditors compared the Purchasing Manual to Southern's inventory record to determine if the purchase information that is required to be recorded on the inventory record was present. Finally, the auditors utilized auditor judgement for what is considered an inventoriable asset to determine if Southern could better protect its assets from fraud, waste, and abuse.

Objective 2:

To evaluate the overall process for planning and completing Southern's annual budget.

Scope:

The audit encompassed Southern's budgetary processes for fiscal years 2016-2020.

Methodology:

Auditors obtained testimonial evidence through PowerPoint slides and e-mails between Southern representatives and the auditors about Southern's unofficial budgetary processes and documentary evidence in the form of GFAO's current, *Best Practices in Community College Budgeting*. The auditors used the GFOA's best practices to evaluate the overall process for planning and completing Southern's annual budget and to ascertain if Southern was following the best budgetary practices in the industry. Auditors also obtained documentary evidence of Southern's audited financial statements, as well as Southern's expense, revenue, and budgetary reports for fiscal years 2016 through 2020. The documentary evidence was reviewed to ascertain if revenues met expenses and to ascertain if there were any considerable anomalies of concern. The auditors did not make any determination regarding the appropriateness of any financial decision made by Southern.

May 6, 2021

Justin Robinson, Director
West Virginia Legislative Auditor's Office
1900 Kanawha Blvd. East, Room W-329
Charleston, WV 25305-0610

Dear Mr. Robinson:

This letter is intended to respond to the Post Audit Division's report on Southern West Virginia Community and Technical College's (Southern) inventory management and budgeting process. We ask that this letter be entered into the final report that is submitted to the Post Audits Subcommittee.

In response to the first issue, concerning inventory management, we agree with your findings and recommendations. Southern will develop formal written policies and procedures as required by the West Virginia Council for Community and Technical College System for asset management. The College will also develop formal written policies and procedures for surplus property that align with WVCTC Procedural Rule Title 135 Series 30 13.1. We at the College have already started the process of "cleaning up" our list of Fixed Assets, and we will continue to work on this until we are confident that it is entirely correct.

Our Chief Information Officer is already in the process of creating a software that will track and account for our fixed assets, including equipment and furnishings that meet our capitalization threshold of \$5,000. This will replace our current Fixed Assets list that is stored in Excel. Until this software is implemented, we will continue to use the Excel documents and work on completing the information that is currently missing from the records (purchase order numbers, account numbers used to pay for the purchase, retirement dates, method of retirement, and disposal price as required by the Purchasing Manual).

Our CIO is also in the process of creating a software to track non-capital assets, which will help us tremendously in preventing potential fraud and misallocation of assets moving forward. We believe that tracking these assets, especially items such as laptops, printers, scanners, webcams, etcetera, is very important in preventing misallocation of these resources.

For the second, and final, issue of the budgeting process, Southern has already made great strides in implementing an improved budgeting process. The budgeting process has historically been led by the Chief Financial Officer with little to no input from budget managers; however, for the Fiscal Year 2022 budget, we have created an entirely transparent process that involves all budget managers. Dr. Pamela Alderman, President of Southern, created a Budget Committee which consisted of every budget manager and members of Southern's Finance unit. The Budget Committee met and analyzed every spending unit in the College, and we balanced our budget together. Dr. Alderman also created the Budget Development Timeline, and we adhered to this timeline and actually completed many of the tasks ahead of the deadlines. We convened the Budget Committee on January 7, 2021, and had budget forms electronically mailed to budget managers and supervisors by January 27. The Committee then met several times, and we finalized our budget on April 15. Adrian May, Controller, presented these



completed budgets to the Southern WV Community and Technical College's Board of Governors on April 20, 2021. At the time of this letter, these budgets have already been sent to all budget managers and entered in wvOASIS for the upcoming fiscal year. We will document these processes and procedures to ensure that they reflect the best practices by the Government Finance Officers Association for community college budgeting.

We appreciate the opportunity to respond to your final audit report. It was a pleasure working with your audit team, and we also appreciate the hard work of the auditors and their final recommendations. We will work tirelessly to ensure that all of your concerns are put to rest, and that our accounting procedures pertaining to inventory management and the budgeting process adhere to your recommendations.

Thank you,

A handwritten signature in blue ink that reads 'Adrian May'.

Adrian May, Controller
Southern WV Community and Technical College

SOUTHERN.WV.EDU

Southern is accredited by The Higher Learning Commission and is an AA/EO/ADA Institution.

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