

LEGISLATIVE POST AUDIT REPORT

West Virginia State University

For the Period: Expenditures July 1, 2010 - June 30, 2011
Select Cash Collection Points July 1, 2008 - June 30, 2009

AUDIT SUMMARY

- Inadequate Internal Controls and Receipt Procedures over the Collection of Revenues in the WVSU Daycare, Student Union, and Testing Center.
- Lack of Management Oversight and Supporting Documentation for State Purchasing Card Transactions.
- Failure to Adequately Monitor Equipment Inventory.



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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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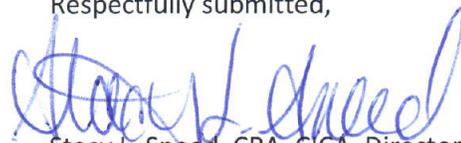
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The Joint Committee on Government and Finance:

In compliance with the provisions of the WV Code §4-2, as amended, we have conducted an audit of the West Virginia State University (WVSU) for the period of July 1, 2010 through June 30, 2011. This report is limited to WVSU's activities related to expenditures made from WVSU accounts in fiscal year 2011 and to revenue collections and deposits made in WVSU accounts during fiscal year 2009 (July 1, 2008 – June 30, 2009) for the following departments: WVSU Child Development Center, WVSU Student Union, WVSU Career Services and Cooperative Education, and WVSU Office of Collegiate Support and Counseling. In addition, we reviewed the Deloitte & Touche (D&T) audit contract and the billings for the West Virginia State University (WVSU) - Financial Statement Audit fiscal year ending June 30, 2011. We have released two previous reports dated July 23, 2011 and October 9, 2012, respectively, covering WVSU monies deposited into the WVSU Research and Development Corporation for the period of July 1, 2008 through June 30, 2009 and WVSU revenues collected and deposited in state accounts for the period of July 1, 2008 through June 30, 2009.

We have conducted our audit in accordance with Generally Accepted Government Auditing Standards except for the organizational independence impairment, affecting only the excluded cash collection points, discussed in the Objectives and Methodologies section of this report. Our audit disclosed certain findings that are detailed in this report. Included in Appendix A of this report are WVSU's responses to our audit findings.

Respectfully submitted,


Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

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**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

EXECUTIVE SUMMARY

Finding 1

Lack of Internal Controls - Child Development, Student Union and Testing Ctr.

Due to time constraints, three revenue collection points were excluded from our WVSU revenue report. The results of our audit on these three areas are, therefore, included with this report:

- (1) WVSU Child Development Center: The Center lacked segregation of major duties and lacked supporting documentation for all daycare charges and collections for fiscal year 2009. Also, no procedures or controls were in place, such as management oversight and routine review of accounting records, that would have off-set the lack of segregated duties. The Daycare Director was responsible for collecting and depositing Daycare service charges during fiscal year 2009. Conversely, for all but one month in fiscal year 2010, the Cashier's Office was responsible for billing and collecting Daycare receipts. Daycare deposits increased 339% from \$4,611 in fiscal year 2009 to \$20,221.25 for fiscal year 2010.
- (2) WVSU Student Union: The Student Union lacked segregation of key duties, lacked supporting documentation, lacked evidence of a reconciliation between receipt records and deposits and lacked an itemized record of deposits. Also, no procedures or controls were in place, such as management oversight and routine review of accounting records, that would have off-set the critical weakness in internal controls over these revenue collections. According to WVSU's Deposit records, Student Union deposits totaled \$50,096.85 for fiscal year 2009.
- (3) WVSU Testing Centers: Career Services lacked supporting documentation, lacked segregation of key duties or off-setting procedures such as management oversight, and lacked a daily reconciliation of receipts to receipt records. According to WVSU accounting records, the Testing Center deposited \$16,747.00 in WVSU accounts in fiscal year 2009; this includes \$1,130.00 in cash.

Auditor's Recommendation

We recommend WVSU comply with WV Code §5A-8-9b and §12-2-2, as amended, by strengthening internal control procedures to better safeguard monetary assets, retain supporting documentation, and reconcile assessed charges with receipts for deposit.

Spending Unit's Response

See Appendix A

Finding 2 P-card – Inadequate Oversight and Adherence to Policies for One P-card

While conducting our test of WVSU's purchasing card (P-card) transactions, we noted a failure to follow critical P-card internal control procedures regarding the use of one P-card assigned to a Physical Facilities Department employee. This P-card was used for purchases totaling \$829,827 during fiscal year 2011—far exceeding the use of any other WVSU P-card. Exceptions noted for fiscal year 2011 transactions included, but were not limited to, the following: Lack of point-of-sale receipts to support \$46,844 in purchase transactions, failure to record purchases totaling \$796,048 on log sheets and improper card delegation for \$37,177 in disbursements.

Auditor's Recommendation

We recommend WVSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Handbook, WVSU's Purchasing Card Policies and Section 14 of WVSU's Internal Policies (See Finding 2 in the *Reportable Compliance and Other Matters* section of this report for more detail).

Spending Unit's Response

See Appendix A

Finding 3 Inadequate Inventory Management System

WVSU's equipment inventory records and oversight procedures (internal controls) were critically deficient. The deficiencies include, but are not limited to, the following: (1) A lack of an all-inclusive fixed asset record. Moreover, items recorded on one or more inventory records, in many instances, failed to contain the required information; such as: item cost, description, serial number, location, etc.; (2) A lack of segregation in the records between WVSU asset purchases and those purchased by non-State funding sources and used by WVSU-affiliated private corporations; (3) Failure to remove assets belonging to the Kanawha Valley Community and Technical College, which was spun off from WVSU effective July 1, 2008, from WVSU's equipment inventory records; and (4) Failure to maintain an adequate record of assigned computers and computer-related equipment. During our audit period of fiscal year 2011, WVSU expended \$137,406.96 on equipment purchases. When one considers the additional purchases of equipment by WVSU both before and after our audit period, it is readily apparent that WVSU equipment purchases represent a substantial investment in WVSU's monetary resources.

Auditor's Recommendation

We recommend WVSU comply with Section 9.3 of the West Virginia Higher Education Purchasing Procedures Manual and maintain a complete, composite and up-to-date inventory listing.

Spending Unit's Response

See Appendix A

Finding 4 **Missing Equipment**

We were unable to locate 67 inventoried items, or 36%, out of 188 tested. We were unable to determine the original purchase price for seven of these items due to inadequate WVSU inventory records. However, the original cost of the 60 items that were documented in the inventory records totaled \$151,363.

Auditor's Recommendation

We recommend WVSU comply with West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.1 and account for and protect University assets.

Spending Unit's Response

See Appendix A

Finding 5 **Lack of Adequate Policies and Procedures over University Travel Cards**

During our audit period of fiscal year 2011, WVSU paid a total of \$191,434.56 in 15 separate payments to United National Bank for purchases made with the United Bank travel card. We tested 13 of these bank payments (1,171 card transactions) totaling \$189,438.68 and noted the following:

- Purchases made with the WVSU travel card are not subject to the same controls and safeguards as purchases made either through the WVSU accounts payable process or by the State issued P-card program;
- The travel card was used for non-travel purposes. A total of 372 travel card purchases (32%) totaling \$43,606.48 in payments (23%) were made from local vendors (vendors located within 15 miles of the WVSU campus). The majority of these local charges were for meals (78%), but also included charges for hotels (10%) groceries, snacks and beverages (8%) and athletic equipment, supplies and apparel (4%);
- Two purchases for \$602.05 and \$583.92 were made from a local Wal-Mart store. The items purchased consisted of a variety of food and beverages. We could not determine a legitimate reason for the purchases; however, WVSU officials told us these expenditures may have been made for team travel meals purchased prior to departure;
- No supporting documentation (e.g., team rosters, event schedules and recruit athlete profiles) was included with receipts for meals and hotels purchased for athletic teams and recruits to verify dates and participants of the athletic events.

Auditor’s Recommendation

We recommend WVSU implement policies and procedures, similar in nature to the P-card policies and procedures, to adequately monitor the use of the travel card. Alternatively, WVSU may choose to limit or terminate the use of the travel card and utilize the P-card, when possible. Cash advances could be processed through the WVSU Accounts Payable Office.

Spending Unit’s Response

See Appendix A

Finding 6 Inappropriate Travel Expenditures – University Travel Card

As stated in the previous finding, for our test of the WVSU travel card, we selected 13 WVSU travel card payments totaling \$189,438.68. Although there are no policies and procedures detailing unallowable expenditures or defining personal expenditures for the travel card, we believe some purchases made with this travel card were personal in nature and should have been disallowed. These are summarized in the table that follows:

| Inappropriate/Personal Expense | Number of Transactions | Amount |
|-----------------------------------|------------------------|------------|
| Local Personal Meals [^] | 12 | \$ 75.56 |
| Personal Items* | 18 | \$ 977.41 |
| | 30 | \$1,052.97 |

[^] Meals purchased within a 15 mile radius of the WVSU Campus.
*Personal Items include, but are not limited to, the following: feminine products, hair spray, bug spray, contact solution, prescriptions, over the counter pain relievers, tissues, team meal after funeral services, and shoes.

Auditor’s Recommendation

We recommend WVSU comply with WVSU Board of Governor Policy #5 Travel Regulations, Section 2.3. In addition, we recommend WVSU implement policies and procedures, similar to the WV P-card, to more adequately monitor the use of the travel card.

Spending Unit’s Response

See Appendix A

Finding 7 Travel Per Diem Incorrectly Calculated

During our test of travel expenditures, we noted the following:

- An employee on travel status received meal per diem reimbursement for 13 days; however, for nine of these days, meals were included as part of the registration fee; therefore, the employee was overcompensated by \$450.

- Hand-written alterations on email printouts supporting meal per diems disbursed to students increased the amount of per diem paid by \$400. In addition, the email printouts were not signed by the students. Such signatures are required by WVSU travel regulations as verification that students received meal per diems.
- A computer-generated travel expense settlement form had hand-written alterations made to the traveler's daily travel times and normal work hours. Prior to these alterations the employee was ineligible for meal reimbursements; however, the alterations resulted in the employee receiving meal per diems for two travel days totaling \$70. Also, this same expense form showed the employee was overpaid \$17 for his mileage for two days of travel. Mileage was reported as 40 miles roundtrip from Institute, WV to Charleston, WV; however, the roundtrip mileage is only approximately 20 miles.

Auditor's Recommendation

We recommend WVSU comply with WVSU Board of Governor Policy #5 Travel Regulations, Sections 4.6, 4.7, and 4.12 by requiring original signed statements from student travelers who receive per diem prior to reimbursing the guardian traveler. We also recommend WVSU remit only the per diem due employees and that WVUS not pay per diem to travelers when meals are provided as part of a registration fee. In addition, all reimbursement forms should be reviewed to verify proper mileage and mileage rates claimed by travelers.

Spending Unit's Response

See Appendix A

Finding 8 Purchasing Procedures not Followed – Travel Expenditures

As previously stated, during fiscal year 2011 WVSU paid a total of \$191,434.56 in 15 separate payments to United National Bank for purchases made by WVSU employees with the United Bank travel card. We selected 13 of these 15 travel card payments for testing. These payments totaled \$189,438.68 and included 1,171 individual purchase transactions. We noted purchasing procedures were not followed for several transactions including (1) \$17,735.39 in purchases supported with non-itemized receipts; (2) \$816.46 in purchases with missing or incomplete receipts; (3) \$2,876.12 in purchases with illegible receipts; (4) No receiving report for items purchased totaling \$24,921.64; and (5) Sales tax paid totaling \$868.31.

Auditor's Recommendation

We recommend WVSU comply with WVSU Board of Governor Policy #5 "Travel Regulations," WV Legislative Rule, Title 155, Series 1, Section 3, and WV Code §12-3-10(f). Lastly, we recommend WVSU comply with WV State Tax Department's Publication TSD-300, and cease paying sales tax on purchases made within the state of West Virginia.

Spending Unit's Response

See Appendix A

Finding 9 Purchasing Procedures not Followed - P-card Transactions

As reported in Finding 2, there was a critical lack of oversight and numerous non-compliance issues regarding the use of a State purchasing card (P-card) assigned to one Physical Facilities Department employee. In addition to these exceptions, other non-compliance issues related to the WVSU P-cards were noted during our audit as follows:

- 31 P-card transactions totaling \$31,388 in purchases and \$1,170 in refunds (credits) were not reconciled on individual monthly P-card log sheets as required by WVSU purchasing card procedures;
- 108 disbursement transactions totaling \$495,454 did not include purchasing requisitions.
- Five transactions totaling \$122,611 in purchases where receiving reports did not meet specified statutory requirements;
- WVSU staff failed to cancel a hotel reservation timely resulting in a “no-show” late cancellation charge of \$241.88;
- One transaction totaling \$551 where WV state sales tax was erroneously paid. The amount of tax assessed in error totaled \$31;
- Two instances where the \$5,000 individual transaction-limit was circumvented (stringing). The first transaction for \$5,183.20 was split into three transactions (three card swipes) and the second transaction for \$6,016.00 was split into two separate transactions;
- WVSU did not have permission from the State Auditor’s Office to complete transactions by 3rd Party Payment Processors—even though cardholders were regularly completing on-line purchases utilizing Pay-pal accounts. We noted four transactions made through 3rd Party Payment Processors in the amount of \$488;
- We noted one transaction totaling \$33.50 did not have a receipt available for our review.

Auditor's Recommendation

We recommend WVSU comply with State Code, the Auditor’s Office Payment Processing Guide and WVSU’s Purchasing Card Procedures.

Spending Unit's Response

See Appendix A

Finding 10 Inaccurate Bookstore Inventory Records

We audited 214 specific categories of merchandise items classified in the bookstore perpetual inventory system and noted the following:

- Twenty-nine inventory categories (13%) were understated in the perpetual inventory system maintained in the bookstore. The errors uncovered totaled approximately \$16,342.82 at cost in understated inventory items
- Two inventory categories (1%) were overstated in the perpetual inventory system. These missing items had a total wholesale cost of \$257.

Auditor's Recommendation

We recommend that the institution comply with WV Code §5A-8-9 by inputting Bookstore inventory quantities into the electronic point-of-sale (POS) system when received. We also recommend WVSU comply with WV Code §12-3-10(f) by preparing receiving reports at the original point-of-receipt. We further recommend additional employees be trained to manage inventory and record inventory items into the POS system so the system can remain up to date in the absence of the employee currently maintaining the system. We also recommend that periodic reviews of inventory be completed to ensure that human errors made while inputting inventory amounts are minimized.

Spending Unit's Response

See Appendix A

Finding 11 Incorrect Annual Increment

We audited 11 of 302 employees that received annual increment during our audit period and noted five employees whose years-of-service credits were not correctly calculated resulting in annual increment overpayments totaling \$480 for fiscal year 2011.

Auditor's Recommendation

We recommend WVSU comply with WV Code §5-5-1, as amended, WV Code §5-5-2, as amended, WV Code §18B-9-2, as amended and the Higher Education Policy Commission's Personnel Rule (Title 133, Series 38).

Spending Unit's Response

See Appendix A

Finding 12 Errors in Termination Pay

During our audit of WVSU retirements and resignations, we tested ten of 30 full-time employees who received termination pay during fiscal year 2011. Errors in calculating

terminal pay resulted in underpayments to employees totaling \$1,400.69 and overpayments to employees totaling \$336.08.

Auditor's Recommendation

We recommend WVSU comply with WV Code §12-3-12, as amended, and WV Code §5-5-2, as amended.

Spending Unit's Response

See Appendix A

Finding 13 Improper Use of Change Order

WVSU initiated a change order totaling \$1,152,000 as an addition to an existing open-ended contract. Although open-ended contracts may be entered into to secure an hourly rate for services, State statute requires rebidding of any single project expected to exceed \$250,000. Therefore, the architectural planning for the major renovation should have been treated as a separate project and should have been bid out, rather than included on an existing contract as a change order.

Auditor's Recommendation

We recommend WVSU comply with WV Code §5G-1-3, as amended, and request expressions of interest for all architectural and engineering service projects in the excess of \$250,000.

Spending Unit's Response

See Appendix A

Finding 14 Higher Education Purchasing Procedures not Followed - Fixed Assets

As part of our equipment inventory test, we selected a sample of assets recorded on WVSU equipment inventory records and traced the sample of equipment selected to the equipments' physical locations as indicated on the lists. We also used auditor judgment and selected items observed at various locations on WVSU's campus and traced these equipment items to the inventory lists. Lastly, we selected equipment items purchased during fiscal year 2011 and traced these items both to the WVSU inventory lists and the equipments' physical location as documented on the list. After we completed the audit, we noted the following exceptions:

- WVSU equipment inventory tags were not readily visible and/or legible for 11 assets;
- 30 instances where inventory was in a different location than indicated on the inventory listing;
- One equipment item was not affixed with a WVSU equipment inventory tag nor was the item's serial number correctly entered onto the WVSU inventory listing.

Auditor's Recommendation

We recommend WVSU comply with West Virginia Higher Education Purchasing Procedures Manual and tag all equipment required to be tagged, assuring tags are placed on the asset so that they can be easily located and legibly read, record all required information for inventoried assets, and update inventory records to reflect all changes in assets, (i.e. physical moves or retirement).

Spending Unit's Response

See Appendix A

Finding 15 Noncompliance with Leave Procedures

An employee took 105 hours (14 consecutive days) of sick leave during the month of November 2010. No documentation could be provided to show the necessity of the sick leave.

Auditor's Recommendation

We recommend WVSU comply with HEPC Procedural Rule Title 133, Series 38, Section 5.5 by ensuring proper supervisor oversight of employee leave.

Spending Unit's Response

See Appendix A

Finding 16 Errors in Student Employee Pay

We noted the following from our audit of student payroll:

- WVSU was unable to provide us with employee timesheets supporting five work-study/ student payroll disbursements (14% of sample) totaling \$1,306;
- WVSU uses a "student agreement" form to document agreed-upon hourly rates of pay for each student employee; however, WVSU was unable to locate one such student agreement for an employee that was paid \$4,135.65 in wages during our audit period;

- Six instances (17% of sample) where employees did not receive the proper amount of pay. On four of these occasions employees were underpaid by a combined \$65.28 and on two occasions employees were overpaid by a combined \$20.75.
- Social Security and Medicare taxes were deducted from a student employee's wages; however, according to IRS regulations, student employees are exempt from such taxes. In total for fiscal year 2011, \$34 in Social Security and Medicare taxes were erroneously withheld from the student's wages.

Auditor's Recommendation

We recommend WVSU comply with the WV Code §12-3-13, as amended, WV Code §21-5-3, as amended, and WV Code §21-5C-5. We also recommend WVSU comply with Internal Revenue Code §3121(b)(10) and not deduct Social Security and Medicare taxes from student employee pay.

Spending Unit's Response

See Appendix A

Finding 17 Lack of Itemized Records

We audited all 40 miscellaneous expenditure transactions totaling \$19,009.58. We noted twelve instances, totaling \$1,948, where monthly invoices for parking permits for students attending classes at the Capitol Center in Charleston were not itemized nor reconciled to a student roster and/or parking tickets detailing the time each student parked and the cost of each ticket. Also, we audited 78 repairs and alterations disbursements totaling \$404,458 and noted one disbursement where documentation for supplies from the vendor to support the total amount paid of \$24,640 did not include an attached itemized invoice for materials costing \$1,559.

Auditor's Recommendation

We recommend WVSU comply with the West Virginia State Auditor's Legislative Rule Title 155, Series 1, Section 3.1 and WV Code §5A-8-9.

Spending Unit's Response

See Appendix A

Finding 18 Improperly Calculated Invoices

While auditing invoices paid for repairs and alternations, we noted WVSU paid one invoice totaling \$6,597 that contained omissions and errors. The invoice failed to include seven hours of work by two employees totaling \$325.50. We also noted an apparent addition error for another employee on the invoice whereby the total hours documented for the employee failed to include one hour of work noted in the hours detailed on the invoice. We believe it is probable the detail hours were correct and, if so, the employee was underpaid \$58.50. In any event, we believe the invoice should not have been paid until discrepancies and omissions were rectified.

During our audit of assets purchased during fiscal year 2011 we noted one receipt/invoice for building improvements totaling \$11,178, was miscalculated. The unit total for hours worked and amount paid per hour did not total the extended amount displayed on the invoice. The invoice total was under calculated by \$320.

Auditor's Recommendation

We recommend WVSU comply with WV Code §5A-8-9, the West Virginia Higher Education Policy Commission Procedural Rule 133-30, and the West Virginia State Auditor's Office Payment Processing Guide.

Spending Unit's Response

See Appendix A

Finding 19 Lack of Policies and Procedures on Calculating Daily Rate of Separation Pay

Neither WVSU nor the Higher Education Policy Commission has a documented rule or procedure that provides for the prescribed method of calculating employee pay when an employee terminates employment. In the absence of such a policy or rule, we believe WVSU and other higher education institutions should use the method developed by the WV Division of Personnel (DOP). The terminal pay calculations used by WVSU resulted in variances in comparison with the method prescribed by the DOP. One employee would have been paid \$468 more had WVSU employed the DOP method of calculating terminal pay. Another employee would have been paid \$22 more had WVSU used the DOP prescribed method.

Auditor's Recommendation

Although there are no specific rules regarding how WVSU should calculate lump sum payments or payments for working part of a pay period, we recommend WVSU voluntarily elect to follow the methods prescribed by the WV Division of Personnel. The DOP rules for calculating a lump sum payment assures all payments for terminal annual leave are treated the same for all separating State employees.

Spending Unit's Response

See Appendix A

Item 1 Review of Additional Charges for WVSU's 2011 Financial Statement Audit

We were asked by WVSU personnel to review additional billings for the West Virginia State University (WVSU) - Financial Statement Audit fiscal year ending June 30, 2011 performed by Deloitte & Touche (D&T). WVSU voiced concerns about the justifications for D & T's additional assessments for this audit. We determined the additional charges assessed complied with the contract. We concluded the services outlined in the additional charges memo were not negotiated as part of the contract and are "additional services". However, we did not consult Governmental Accounting Standards Board (GASB) Statements or review D&T work papers; therefore, we cannot determine

whether the additional work was necessary or if the time spent recommending adjustments or performing additional testing was reasonable.

Auditor's Recommendation

We recommend if the agency believes journal entries prescribed by D&T are incorrect, they should consult Governmental Accounting Standards Board (GASB). If they find the recommended entry is not in compliance with GASB and the entry the University originally made was correct, they should pursue a refund for the amount charged for the adjustment recommendation and any additional testing resulting from adjustment.

Spending Unit's Response

No Response

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
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JULY 1, 2008 – JUNE 30, 2009**

INTRODUCTION

POST AUDIT AUTHORITY

This report is on the post audit of the expenditures of West Virginia State University (WVSU) and collection and deposit of revenues of the WVSU Student Union, the WVSU Testing Center and the WVSU Child Development Center. In addition, we reviewed the Deloitte & Touche (D&T) audit contract and the billings for the West Virginia State University (WVSU) - Financial Statement Audit fiscal year ending June 30, 2011. We released a previous report dated July 23, 2011, covering WVSU monies deposited into the WVSU Research and Development Corporation for the period of July 1, 2008 through June 30, 2009 and a report dated October 9, 2012 covering WVSU collections and deposits into university accounts for the period of July 1, 2008 through June 30, 2009.

Our audit of WVSU's expenditures & previously excluded cash collection points was conducted pursuant to Chapter 4, Article 2, as amended, of the West Virginia Code. This article requires the Legislative Auditor to "make post audits of the revenues and funds of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the State and of the organization and functions of the State and its spending units."

BACKGROUND¹

West Virginia State University was founded under the provisions of the Second Morrill Act of 1890 as the West Virginia Colored Institute, one of seventeen land-grant institutions authorized by Congress and designated by the states to provide for the education of black citizens in agriculture and the mechanical arts. West Virginia was one of the states that maintained segregated educational systems at that time.

From 1891 to 1915, the original Institute offered the equivalent of a high school education, vocational training, and teacher preparation. In 1915, the West Virginia Collegiate Institute began to offer college degrees. Under the leadership of President John W. Davis, the academic program was expanded and new buildings were constructed, and in 1927, the institution was accredited by the North Central Association; in 1929, it became West Virginia State College (WVSC). Over the next decades, WVSC became recognized as one of the leading public institutions of higher education for blacks.

¹ Background information for West Virginia State University obtained from the University's Web Site (<http://www.wvstateu.edu/about-wvsu/history>).

In 1954, the United States Supreme Court gave its historic decision outlawing school segregation. The consequence of this decision for West Virginia State College was a rapid transition from a black college to an integrated institution serving a predominantly white, commuting, and older student population. This shift in student population and mission occurred in part due to demographics and in part due to efforts made by the college administration to reverse a decline in enrollment during the early 1950's. Enrollment quadrupled during the following decade. Recently, WVSU has been approved to begin offering graduate courses and has received University Status.

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

WEST VIRGINIA STATE UNIVERSITY CONTACTS

Hazo W. Carter, Jr..... President (1987 – June 2012)

Brian O. Hemphill..... President (July 2012 – Present)

Robert Parker..... VP of Finance (September 2004 – August 2011)

Melvin Jones..... VP of Business and Finance (August 2012 – Present)

Lawrence Smith..... Director of Fiscal Affairs (September 1994 – July 2012)

Lori B. Elliott..... Controller (April 2010 – October 2012)

..... Assistant VP of Business & Finance (October 2012 – Present)

Janis Bennett..... Purchasing Director

Carmen Parish..... Budgets/Accounting Director and Fiscal Affairs Assoc Director

Regina Powell..... Payroll Manager

Barbara Rowell..... Human Resources Director (December 1988 – January 2013)

Phillip Judd..... Director of Physical Facilities

Mark Akers..... Bookstore Manager

Deloris Davis..... Daycare Director (June 1994 – February 2011)

Jeffrey Miller..... Director of University Union & Student Activities

Sandy Maharaj..... Program Administrative Sr. for Career Services and Cooperative Education

Kellie Toledo..... Director of Collegiate Support and Counseling Services

Martha Jones..... Cashier's Office Program Specialist (July 2010 – Present)

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

AUDIT SCOPE

We have audited West Virginia State University (WVSU) expenditures for the period of July 1, 2010 through June 30, 2011. The scope of this report was limited to internal controls and compliance with laws, regulations, and provisions of contracts or grant agreements as they relate to expenditures and the collection and deposit of revenues for the previously excluded cash collection points (July 1, 2008 through June 30, 2009). In addition, we reviewed the Deloitte & Touche (D&T) audit contract and the billings for the West Virginia State University (WVSU) - Financial Statement Audit fiscal year ending June 30, 2011. The audit was conducted in accordance with Generally Accepted Government Auditing Standards: July 2007 Revision, except for the organizational independence impairment, affecting only the excluded cash collection points, described in the Objectives and Methodologies section below.

OBJECTIVES AND METHODOLOGIES

The objectives of our post audit for this report were to audit WVSU's collection and deposit of revenues for the WVSU Student Union, the WVSU Testing Center and the WVSU Child Development Center for fiscal year 2009 (previously excluded from prior revenue report) and expenditures for fiscal year 2011, to report any misapplication of State funds or erroneous, extravagant, or unlawful expenditures by WVSU that we find; to ascertain facts, and to make recommendations to the Legislature concerning audit findings. We were to determine whether monies due WVSU Student Union, Testing Center, and Child Development Center were collected, if these revenues were properly deposited, and if revenue transactions were recorded properly in the accounting systems. Additionally, we were to examine WVSU's records and internal control over expenditure transactions and to evaluate WVSU's compliance with applicable State laws, rules, and regulations. Lastly, we were to assess and reduce audit risk.

We were asked to review additional billings for the West Virginia State University (WVSU) - Financial Statement Audit fiscal year ending June 30, 2011 performed by Deloitte & Touche (D&T). In order to comply with this request we developed the following objectives: Determine if the services were additional or previously agreed upon in the contract and determine if the additional charges were assessed in accordance with the contract. In order to accomplish our objectives, we reviewed the additional charges for the audit fiscal year 2011 financial statement audit and reviewed the D&T contract to determine if these charges were in compliance. We reviewed the contract, additional charges memo, and recalculated the additional charges.

Except for the organizational impairment, affecting only the excluded cash collection points, described in the following paragraph, we conducted this post audit, which is a performance audit, in accordance with the standards applicable to performance audits contained in Generally Accepted Government Auditing Standards: July 2007 Revision. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about WVSU's compliance with those requirements referred to above and performing such other procedures, as we considered necessary in the circumstances.

In accordance with W. Va. Code §4-2, the Post Audit Division is required to conduct post audits of the revenues and expenditures of the spending units of the state government. The Post Audit Division is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audits Subcommittee. Therefore, the Division has historically been organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State. However, this organizational independence was impaired for the excluded cash collection points when the President of the Senate became acting Governor of the State on November 15, 2010, in accordance with W.Va. Code §3-10-2. Audit work for any audit conducted after this date, but before November 13, 2011, will not comply with Generally Accepted Governmental Auditing Standards: July 2007 Revision, sections 3.12 – 3.15. These sections of the auditing standards assert that the ability of an audit organization to perform work and report the results objectively can be affected by placement within the governmental organizational structure. Since the President of the Senate was acting Governor, the Executive Branch had the ability to influence the initiation, scope, timing, and completion of any audit. The Executive Branch could also obstruct audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports.

In preparation for our testing, we reviewed Chapter 18B of the West Virginia (WV) Code, which specifically relates to WV Higher Education institutions. We also reviewed the other applicable sections of the WV Code. In addition, we reviewed Title 133, Series 1 through 53 of the West Virginia Higher Education Policy Commission's (HEPC) rules and regulations and the WVSU Board of Governor's Polices Nos. 1 through 59. We documented provisions of the above that we considered significant. We determined compliance with those requirements noted in criteria listed above by interview, observation of the WVSU's operations, and through inspection of and conducting audit tests on WVSU documents and records. In addition, we obtained certain financial information recorded in WVFIMS via Crystal Reports. We also obtained and reviewed financial information recorded in the Banner accounting system, which is the primary accounting system used by WVSU. Additionally, we reviewed the WVSU budget, studied financial trends, and interviewed WVSU personnel to obtain an understanding of the programs and the internal controls respective to the scope of our audit. We prepared "procedure narratives" from these interviews and provided the interviewees opportunities to review and approve these narratives in order to diminish the chance of errors or misunderstandings. In planning and conducting our audit, we focused on the financial-related areas of operations.

To select transactions for testing, both statistical and non-statistical sampling approaches were used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Transactions were selected for testing randomly and by using professional judgment. Projections are only applicable to those samples chosen statistically. Where projections provide relevant information, they have been included in this report.

WVSU's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, applying any evaluation of internal control to future periods is subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Post Audits Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations.

CONCLUSIONS

WVSU had a lack of internal controls, lack of segregation of duties, and lack of supporting documentation with no off-setting procedures or oversight in regards to the select cash collection points.

For the items tested, WVSU did not comply with parts of WV Code, HEPC Rules and Policies, WV State Auditor P-Card Policies and Procedures, WV State Auditor Payment Processing Guide, and WVSU Board of Governors Policies. Instances of noncompliance related to asset inventory management, p-card expenditures, travel, contracts, payroll, and leave. Most issues were a result of inadequate recordkeeping, lack of internal controls, lack of management oversight, and lack of policies and procedures. Particularly, one p-card holder, accounting for 18.5% of all WVSU p-card purchases during the audited fiscal year, failed to adhere to multiple p-card policies including: but not limited to, lack of point-of-sales receipts and improper card delegation which can be partly attributed to inadequate oversight. In addition, the asset inventory records were critically deficient due to a lack of an all inclusive fixed asset record, missing information, failure to update records, and failure to monitor high-theft items listed on the inventory such as computers and computer related equipment.

In regards to the Deloitte & Touche WVSU Financial Statement Audit - fiscal year ending June 30, 2011, we determined the additional charges assessed complied with the contract. We concluded the services outlined in the additional charges memo were not negotiated as part of the contract and are "additional services". However, we did not consult Governmental Accounting Standards Board (GASB) Statements or review D&T work papers; therefore, we cannot determine whether the additional work was necessary or if the time spent recommending adjustments or performing additional testing was reasonable. In addition, no matter when an accounting error is discovered, the agency is responsible for the error and for the accuracy of its financial statements.

This report includes findings regarding significant instances of noncompliance with applicable laws, rules and regulations. We noted other instances of noncompliance that, while not significant enough to warrant inclusion in this report, still merit the attention of WVSU management. These items were communicated in a letter to WVSU management.

EXIT CONFERENCE

We discussed this report with management of WVSU on September 17, 2013. All findings and recommendations were reviewed and discussed. Management's response has been included at the end of the report in Appendix A.

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

FUND LISTING

We have completed a post audit of the expenditures for West Virginia State University and the collection and deposit of revenues for West Virginia State University Student Union, the WVSU Testing Center and the WVSU Child Development Center. The examination covers the period of July 1, 2010 through June 30, 2011 and July 1, 2008 – June 30, 2009, respectively.

GENERAL REVENUE ACCOUNTS

WVSU maintained the following account:

| <u>Fund Number</u> | <u>Fund Name</u> |
|-------------------------------|-----------------------------|
| 0373 | General Administration Fund |

SPECIAL REVENUE ACCOUNTS

WVSU maintained the following special revenue accounts. These accounts represent funds from specific activities as required by law or administrative regulations. These funds were deposited with the State Treasurer in the following special revenue accounts:

| <u>Fund Number</u> | <u>Fund Name</u> |
|-------------------------------|--|
| 4611..... | Tuition and Required E&G Fees |
| 4612 | Auxiliary & Auxiliary Capital Fees |
| 4613..... | Education and General Capital Fees |
| 4614 | Gifts, Grants, and Donations (Non-Federal) |

Tuition & Required E & G Fees Fund

This fund comprises other collections, fees, licenses, and investment earnings used to support all tuition and required educational and general fees (governed by W.Va. Code §18B-10-1).

Auxiliary & Auxiliary Capital Fees Fund

This fund comprises other collections, fees, licenses, and investment earnings to fund all auxiliary and auxiliary capital fees (governed by W.Va. Code §18B-10-1).

Education & General Capital Fees Fund

This fund comprises other collections, fees, licenses, and investment earnings to fund all required and general capital fees (governed by W.Va. Code §18B-10-1).

Gifts, Grants & Donations (Non-Federal) Fund

This fund comprises other collections, fees, licenses, and investment earnings to fund state, local and private grants, gifts, and contracts (governed by W.Va. Code §18B-10-1).

FEDERAL ACCOUNT

WVSU maintained the following account that was funded with Federal sources:

| <u>Fund Number</u> | <u>Fund Name</u> |
|-------------------------------|-----------------------------|
| 8775..... | Federal Grants/Contract |

Federal Grants/Contracts Fund (8775)

This fund is a Federal fund to account for all federal grants and contracts activity (governed by W.Va. Code §18B-4-4)

**WEST VIRGINIA STATE UNIVERSITY
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REPORTABLE COMPLIANCE AND OTHER MATTERS

Finding 1 **Lack of Internal Controls - Child Development, Student Union and Testing Ctr.**

Condition: Detailed below is the lack of internal controls we found over the WVSU Child Development Center, WVSU Student Union, and WVSU Testing Center revenues.

WVSU Child Development Center

While reviewing daycare revenues, we found the cash collection point lacked segregation of major duties and lacked supporting documentation for all daycare charges and collections in fiscal year 2009. Also, no procedures or controls were in place, such as management oversight and routine review of accounting records, that would have off-set the lack of segregated duties.

The West Virginia State University Daycare Director was responsible for overseeing all daycare functions during fiscal year 2009, including both recording and collecting daycare revenues. The director simultaneously maintained attendance records, billed patrons for daycare services, collected payment, and deposited receipts. Upon request for all supporting documentation for fiscal year 2009 daycare revenues, we were informed all related documentation was destroyed by water damage when a water line ruptured. According to WVSU deposit records, a total of \$4,611 was deposited in daycare receipts during fiscal year 2009. Billing was assumed by the WVSU Cashier's Office in August, 2009 and, at that date, Daycare patrons were required to remit payments directly to the Cashiers Office. This procedure remained in place until the Daycare closed in February of 2011.

As stated above, the Daycare Director was responsible for collecting and depositing Daycare service charges during fiscal year 2009. Conversely, for all but one month in fiscal year 2010, the Cashier's Office was responsible for billing and collecting Daycare receipts. As the following table illustrates, deposits increased by 339% during fiscal year 2010. WVSU officials could offer no legitimate explanation for such a substantial increase in daycare revenues from one year to the next. Therefore, the results of this comparison strongly suggest that a substantial portion of Daycare revenues for fiscal year 2009 may have not been properly deposited into WVSU accounts.

| Deposits FY 2009 | Deposits FY 2010 | Amount of Increase | Percentage Increase |
|------------------|------------------|--------------------|---------------------|
| \$4,611.00 | \$20,221.25 | \$15,610.25 | 339% |

WVSU Student Union

During our review of student union revenues, we found a lack of segregation of key duties, lack of supporting documentation, lack of reconciliation, and lack of itemized record keeping of deposits. Also, no procedures or controls were in place, such as management oversight and routine review of accounting records, that would have off-set the critical weakness in internal controls over these revenue collections.

The director of the University Union and Student Activities collects receipts for student union services, completes weekly reconciliations of the cash register records and receipts collected, and makes deposits to the University Cashier's Office. Additionally, the cash register utilized in the student union is not integrated with University accounting software. A daily reconciliation is not completed of charges for services provided and revenue collected to ensure all monies were collected and deposited. The director also has the ability to approve and provide refunds. In addition, no record is kept by student union employees collecting money for services provided in the game room or fitness center. The money is sealed in an envelope at the end of each day by student workers and slipped under the director's office door. All deposits are made in batches and are classified as "College Union Fitness Center" or "Student Union"; therefore, we could not reasonably trace charges that have been recorded to deposited receipts. We also find it impractical to generate a population for testing due to the lack of itemized records of charges for all services provided by the Student Union.

According to WVSU's Deposit records, student union deposits totaled \$50,096.85 for fiscal year 2009. None of this amount was in the form of cash. Deposits for fiscal year 2010 totaled \$88,563.85 with \$4,826.75 of that amount in the form of cash. According to WVSU personnel, the increase in total and cash amounts for fiscal 2010 was due to the installation of coin-operated copy machines and pool tables. Prior to 2010, student employees were responsible for collecting moneys from patrons for the use of copy machines and pool tables.

WVSU Testing Centers

During our review of the Department of Career Services and Cooperative Education and WVSU Office of Collegiate Support and Counseling revenues, we found a lack of supporting documentation, lack of segregation of key duties or off-setting procedures such as management oversight, and a lack of daily reconciliation of receipts to receipt records. According to WVSU accounting records, the Testing Center deposited \$16,747.00 in WVSU accounts in fiscal year 2009; this includes \$1,130.00 in cash. We noted the following internal

control weaknesses and inadequacies in the Testing Center's revenue collection and deposit process:

- The Department of Career Services and Cooperative Education could not provide us with the following documentation for fiscal year 2009:
 - Receipt records for all testing services,
 - Weekly deposit memos, and
 - An itemized record of all charges for services provided.
- One employee had the authority to accept payment, complete deposit forms, and deposit collections with the University Cashier's Office;
- A daily reconciliation is not performed for collections and testing service charges;
- Collections are deposited in batches, which do not specify individual student payments. In addition, by sorting the Banner data by description, name, and dollar amount, we found many of the collections were misclassified by test type; therefore, we are unable to assure ourselves the "batch" deposits included the correct test monies.

Monies not Deposited within 24 hours of Receipt

In addition, none of the three cash collection points' described above deposited proceeds in the Cashier's Office within 24 hours as required by State statute. In all three cases deposits were made on a weekly basis.

Due to the internal control weaknesses detailed above, we found it impractical to obtain a population for testing and we were unable to ensure the proper amount of monies were collected and deposited to the credit of WVSU.

Criteria:

WV Code § 5A-8-9b, states in part:

“(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities...” (Emphasis Added)

WV Code § 12-2-2, as amended, states in part:

“All officials and employees... shall keep a daily itemized record of moneys received for deposit...and shall deposit within twenty-four hours with the State Treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever.” (Emphasis Added)

Cause: WVSU had inadequate internal controls and management oversight in revenue collections for these three centers/departments.

Until the Daycare service was discontinued, the WV Division of Health and Human Resources (DHHR) administered a federally funded program known as WV CONNECT that assisted low-income families by covering the costs associated with child care services. During fiscal years 2008, 2010, and 2011, DHHR used program monies to pay billings submitted to their office for covered WV CONNECT members utilizing the WVSU Daycare. However, the WV CONNECT Support Provider Specialist stated "There were no requests for payment submitted, processed, or denied for the time period of July 1, 2008 through June 30, 2009 for WVSU Daycare".

According to the director of the WVSU Student Union, the department was unaware that invoices and weekly reconciliation reports were to be retained; therefore, such documentation prior to calendar year 2011 was discarded.

According to the Director of Career Services and Cooperative Education, the registration forms for the College Level Examination Program (CLEP) and the Defense Activity for Non-Traditional Education Support (DANTES) were not kept because many students registered, but did not actually go through with testing; therefore, these students were only required to pay the service fee on the actual test day. Also, the candidates did not complete a registration form on test day; however, the Residual ACT candidates completed a registration form and submitted a fee prior to the test.

Effect: Management is responsible for establishing and maintaining the internal control environment. Furthermore, every employee plays a role in either strengthening or weakening the Institution's internal control system. Therefore, all employees need to be aware of the concept and purpose of internal controls. The lack of adequate controls and process procedures for the three collection points described above results in an increased risk that moneys may be lost or stolen without subsequent detection.

By not properly segregating key financial duties, such as recording attendance, billing patrons, and accepting payments, an employee has the ability to misappropriate payments received by customers and alter billing/attendance records to eliminate the paper trail documenting the existence of the charge. In addition, failure to itemize deposits for related charges makes it impractical to perform reconciliations with deposit records and determine if the proper amounts were deposited.

Recommendation: We recommend WVSU comply with WV Code §5A-8-9b and §12-2-2, as amended, by strengthening internal control procedures to better safeguard monetary assets. We also recommend WVSU retain supporting documentation, and reconcile assessed charges with receipts for deposit. To assist WVSU in this

process, we recommend WVSU review and follow the *WV State Treasurer's Cash Receipts Handbook for West Virginia Spending Units*.

Management is responsible for developing and implementing adequate internal controls designed to protect its assets. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing transactions, and handling related assets. No one individual should control all key aspects of a transaction or event.

We also recommend WVSU establish procedures to retain records in a safe environment and to strengthen internal controls for billing and collecting all testing fees and student union rentals, activities and miscellaneous receipts.

Spending Unit's Response

See Appendix A

Finding 2

P-card – Inadequate Oversight and Adherence to Policies for One P-card

Condition:

While conducting our test of WVSU's purchasing card (P-card) transactions, we noted a failure to follow critical P-card internal control procedures regarding the use of one P-card assigned to a Physical Facilities Department employee. This P-card was used for purchases totaling \$829,827 during fiscal year 2011—far exceeding the use of any other WVSU P-card. In fact, this card was used for 18.5% of all WVSU P-card purchases made during the fiscal year. As a result, we expanded our testing for this P-card to include all 1,520 transactions made during fiscal year 2011 and noted the following:

Purchasing Card Delegation

- For 91 P-card purchase transactions (12%) out of 804 transactions tested for card delegation, someone other than the cardholder signed either the P-card receipts or an attached form serving as the receipt by documenting the items purchased. These 91 transactions totaled \$37,177 in disbursements.

Purchasing Procedures Not Followed

- Twelve transactions in the amount of \$2,075 in charges and \$688 in refunds where a "WVSU purchasing card itemized invoice exception report" did not include the cardholder's signature.
- Three instances where sales tax amounting to \$287 was paid for transactions totaling approximately \$4,621.

Split Purchasing Card Transactions

- One instance where a purchase was split into three transactions to circumvent the credit card's \$5,000 single transaction limit. The purchase was for "paper products" and "janitorial supplies" and totaled \$9,890.87; however, it was processed in three separate P-card transactions (swipes) resulting in three separate invoices. The vendor indicated on the three invoices "Invoice Message: Rebill/splitting account due to Credit Card limit. Ref Invoice 45259".

Purchasing Card Lack of Documentation

- 1,388 P-card transactions (91%) out of 1,520 totaling \$796,048 (95%) in purchases and \$4,814 in credits (100%) were not documented on monthly P-card log sheets as required by WVSU purchasing card procedures.
- 120 transactions where documentation such as receipts and/or invoices necessary to support and justify purchases made on behalf of WVSU were not available for our review totaling \$46,844.

Criteria:

WV Code §18B-5-4, as amended, states, in part:

“(u) Purchasing card use may be expanded by the council, commission and state institutions of higher education pursuant to this subsection.

(1) The council and commission jointly shall establish procedures to be implemented by the council, commission and any institution under their respective jurisdictions using purchasing cards. The procedures shall ensure that each meets the following conditions:

(A) Appropriate use of the purchasing card system;

(B) Full compliance with article three, chapter twelve of this code relating to the purchasing card program; and...”²

West Virginia State Auditor Legislative Rule, Title 155, Series 7, Section 4, states, in part:

“4.1. The Director of Operations may:

4.1.a. Allow agency participation in the Pcard Program;

4.1.b. Require documentation of appropriate accounting and internal control procedures related to Pcard use;...

4.1.h. Draft letters and memorandum concerning Pcard policies and procedures and changes in the program;...

4.1.t. Establish procedures for documenting, reconciling, and paying invoices for Pcard transactions;...”²

West Virginia State Auditor’s Office P-card Policies and Procedures Manual Section 2.4, states in part:

“...Spending Unit coordinator responsibilities include, but are not limited to the following: conducting periodic reviews of transactions to ensure they are appropriate for the Spending Unit and that budgetary permission and/or supervisory authorization are part of the approval process...”

West Virginia State Auditor’s Purchasing Card Policies and Procedures Manual, states in part:

“4.4 P-card Delegation

P-card delegation is prohibited. P-card delegation is the practice of allowing an individual other than the cardholder whose name

² WVSU must comply with WV State Auditor’s Office purchasing card policies and procedures for all expenditures made on the WV P-card. See cited code section §18B-5-4 and WV State Auditor Legislative Rule Title 155, Series 7, Section 4.

appears on the front of the P-card to have access to the P-card or P-card number to initiate or complete a transaction. P-card delegation increases the risk of fraud and cardholder liability...”

West Virginia State Auditor’s Office P-card Policies and Procedures Section 6.0, Subsection 6.2 Transaction Limit, which states in part:

“...It is a violation of policy to manipulate the ordering, billing, or payment process in order to circumvent established cardholder limits...”

West Virginia State Auditor’s Office P-card Policies and Procedures Section 6.0, subsection 6.6 Ordering, which states in part:

“...the total charge may not exceed the cardholder’s assigned transaction limit...”

West Virginia State University Purchasing Card Program Policies and Procedures Section 6.0, subsection 6.3 Stringing, which states in part:

“Stringing is the intentional manipulation of the ordering, billing, or payment process in order to circumvent the transaction limit. Stringing includes: splitting an invoice exceeding the transaction limit into more than one transaction, and colluding with a vendor to split an order into separate invoices. Stringing of payments is prohibited.”

West Virginia State Auditor’s Office Purchasing Card Policies & Procedures manual Section 7.0 states, in part:

“Documentation must be obtained for each transaction placed on the P-card and must be available upon request by the State Auditor’s Office P-card Division. Documentation may include itemized receipts, log sheets (manual or electronic), individual statements, or any other documentation required by applicable laws, rules and regulations, P-card Policies and Procedures, and other governing instruments.”

West Virginia State Auditor’s Office P-card Policies and Procedures Handbook section 7.1, states in part:

“... In the event that an acceptable form of receipt is not available, the cardholder shall create, either in paper or electronic form, an itemized list which satisfies the requirements set forth in this subsection. The cardholder and direct supervisor or coordinator’s signatures, physical or

electronic, are required as well as the date the goods were received, along with whatever receipt is available...”

West Virginia State Auditor’s Office P-card Policies and Procedures Handbook section 6.2, states, in part:

“The State of West Virginia is tax exempt and should not pay tax to in-state vendors. Cardholders should remind vendors that the State of West Virginia is tax exempt before initiating a transaction... **It is the cardholder’s responsibility to ensure charge accuracy. Sales tax or shipping charges should be addressed immediately with the vendor by the cardholder.**”
(Emphasis Added)

Section 7.1 of WVSU’s *Purchasing Card Program Policy and Procedures* states in part:

“Except where otherwise exempted by statute or rule, an itemized receipt must be obtained for each transaction placed on the card....**The person receiving the goods shall sign the receipt and state in writing the date the goods or services were received.** If the person receiving the goods is not the cardholder, a receiving report will be required. The cardholder shall also acknowledge receipt of the merchandise by physical signature. The purchaser’s signature shall be affixed to the form: inclusive of the date the goods were received, along with whatever receipt is available.” **(Emphasis Added)**

West Virginia State University Purchasing Card Internal Procedures Section 14, states in part:

“...Reconciled statement, receipt & log sheet are forwarded to Purchasing Card Coordinator...”

Cause: We noted a critical lack of oversight of the cardholder’s P-card activity. The P-card holder’s purchases and all supporting documents were not approved or reviewed by another WVSU employee prior to payment to card service provider.

Effect: The cardholder’s signature on receipts or receiving reports documenting P-card purchases indicates the cardholder is aware and responsible for the purchases and agrees the charges listed are legitimate. When the cardholder fails to sign-off on such receipts, invoice exception reports, and/or receiving reports, an important P-card internal control that can serve to mitigate the risk of fraudulent, abusive and/or unallowable charges is circumvented.

By failing to complete individual monthly P-card log sheets, there is no way to determine that reconciliations were performed by the cardholder and prove that all items were received by the university.

By paying WV sales tax to in-state vendors, the University is without the use of those funds.

Splitting an invoice over more than one transaction allows the university to circumvent the State Auditor's Office Purchasing Card Policies and Procedures, section 6.2 regarding transaction limits. This may increase the risk for making unauthorized purchases. It also can allow other policies to be circumvented (e.g., not using vendors with statewide contracts, not attaining bids, etc).

By failing to submit receipts and supporting documentation, the purchasing card coordinator cannot ensure that all purchases were made for official state business to benefit the university.

The risk of fraudulent and inappropriate purchases is increased when management accepts as legitimate support recreated receipts that are neither itemized nor signed by the cardholder or the cardholder's direct supervisor. Also, it is not possible for the coordinators to determine exactly what was purchased from vendors when itemization is not present on vendor invoices.

Recommendation:

We recommend WVSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Handbook Section 7.1 by requiring each card holder to sign P-card receipts and/or a completed receiving report documenting receipt of the service or commodity acquired by P-card. Also, in the event that an acceptable form of receipt is not available, WVSU should ensure that the cardholder legibly recreate either in paper or electronic form, unavailable receipts which include fully itemized lists reflecting the goods or services purchased and contain the vendor name, date of purchase, the price of items, the date the goods were received, and include whatever receipt is available. Furthermore, the cardholder's and direct supervisor's or coordinator's signatures, physical or electronic, are required on each recreated receipt.

We recommend that WVSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Manual Section 4.4 by ensuring that only the individual whose name appears on the front of the purchasing card has physical access to the card. We further recommend that the University follow internal WVSU purchasing card policies by freezing and/or revoking purchasing cards that were utilized to make unauthorized purchases, including delegated purchasing card purchases and by requiring P-card holders to sign all receipts to indicate that they are aware of the charges and agree that they are legitimate.

We recommend that WVSU cease paying West Virginia sales tax to in-state vendors and thoroughly review all receipts for sales tax.

We recommend WVSU comply with the West Virginia State Auditor's Office (WVSAO) Purchasing Card Policies and Procedures Manual subsections 6.2, 6.6 and internal University Policies and Procedures subsection 6.3 by ensuring that all purchases made with state purchasing cards are below the agreed upon credit card transaction limits and monthly credit card limits. Further, we

recommend that the program coordinator review all purchases to ensure that entrusted cardholders are not circumventing the limits by splitting purchases into multiple, smaller transactions on the same or different dates for similar products, in collusion with the vendor.

We recommend the cardholder comply with the WVSU policy by preparing and signing log sheets, which should be submitted monthly by the cardholder, verifying it is accurate and all purchases were made by that authorized individual. We also recommend WVSU management comply with internal agency policies by ensuring all monthly reconciliation documentation includes a receipt for every purchase signed by the cardholder, and an invoice for all P-card transactions to ensure restricted and unallowable purchases are not placed on P-cards. We also recommend that management perform a more thorough reconciliation and review of physical facilities transactions on a monthly basis for all P-card holders within the department.

Spending Unit's Response

See Appendix A

Finding 3

Inadequate Equipment Inventory Management System

Condition:

In order for us to complete our audit of WVSU asset inventory, we requested a listing of all inventoried assets currently in the custody of the University. Initially we directed this request to the WVSU Physical Facilities Department. The Physical Facilities Department receives and affixes equipment inventory tags to fixed assets. They provided us with hand-written receiving logs utilized to assign and record all assets over \$5,000 and all computer equipment received by the University for fiscal years 2009 through 2013. Due to the impracticality of gathering logs for all applicable fiscal years, the frequent instances of undocumented required information, and the lack of information documenting the retirement of assets, we deemed the receiving log an un-auditable stand-alone inventory record.

Since the Physical Facilities records were critically deficient, we requested an inventory listing from the Purchasing Department. The Purchasing Department provided us with an electronic version of the "receiving logs," as previously discussed. This record contained information on equipment items received between July 1, 1999 and March 20, 2012. They also provided us with a fixed assets' listing used to create financial statements. The fixed assets' listing did not include all assets elected by WVSU to be issued a *WVSU Inventory Control Number Tag*. In order for us to conduct our audit of asset inventory, we created a combined inventory population including assets from all three inventory records provided. We noted the following inadequacies over inventory management during our formation of the fixed assets inventory population:

- **A lack of an all inclusive fixed assets inventory record:** Three different inventory records were combined to gather an inventory population. Even in combining the records, there were numerous exceptions where information necessary to account for fixed assets was not documented.
- **A lack of segregation between assets purchased by outside funding sources³ and state funding:** All assets are assigned a WVSU inventory control number tag regardless of the funding source. In addition, both the manual receiving log and the electronic receiving log do not designate a record field specifying the funding source. We were informed after a sample was generated that purchase orders indicated if assets were purchased by the Land-Grant or the Research and Development Corporation. Therefore, we were able to remove some of these assets and generate a new sample; however, not all assets recorded in the receiving logs referenced a purchase order number. As a result, we were unable to remove all items purchased with outside funding by reviewing the purchase order reference.
- **Assets purchased on behalf of the Kanawha Valley Community and Technological College (the CTC) prior to their separation from the**

³Programs funded federal and private funds.

University on July 1, 2008 were not removed from WVSU's records in a timely manner nor was inventory updated to show if items were retired: We were informed some assets were retired by the University and some were taken by the CTC when the two schools separated; however, we could not determine what items were retired and what items were taken by the CTC.

- **WVSU does not maintain an adequate record of assigned computers and computer-related equipment:** Department heads are responsible for monitoring electronic inventory items within their department; however, there is no department that tracks all assigned computer-related assets. The Purchasing, Physical Facilities and Computer Services Departments do not maintain current composite records of the location of all computer-related assets. The Physical Facilities Department informed us they receive purchase deliveries of computers and computer related equipment. According to Department employees, upon receipt of equipment the Department will affix a state tag to each computer equipment item and deliver the equipment item to Computer Services for department distribution. Computer Services inputs the location of assigned computers in their software system "MyState" prior to delivery; however, the Department cannot generate a composite listing of all assigned computers. Information in "MyState" cannot be queried to provide a listing of equipment inventory; rather, records can only be accessed individually. As a result, there is no practical way to use the information in the system to determine a population of assets.
- **Inventory records not updated to reflect retirements or reassignments:** Many new equipment purchases are intended to replace older equipment items currently in use. However, neither the Physical Facilities Department nor the Computer Services Department has implemented internal control procedures requiring departments to account for and return the replaced equipment so the equipment can either be reassigned or properly retired in accordance with the *Higher Education Purchasing Procedures Manual*. As a result, neither the Physical Facilities Department nor the Purchasing Department updates inventory records to reflect reassignments or retirements.
- **In many instances required commodity information such as asset location and item description was not documented by WVSU for assets elected to be inventoried.** We noted 88 instances (5%) out of 1,705 inventoried equipment items where the logs failed to include either the item location or description.

Criteria:

WV Code §18B-1B-1, as amended, states in part:

"...There is hereby created the "Higher Education Policy Commission", hereinafter referred to as the "commission". It is the intent of the Legislature that the commission be responsible

to develop, gain consensus around and **oversee the public policy agenda for higher education...**" (Emphasis Added)⁴

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3, states in part:

"The purpose of inventory and inventory management is to track and account for the monies spent for equipment and furnishings so as to protect the assets of the institution...."

At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall:

- a. Account for all equipment and furnishings with a value at the time of purchase of \$5,000 or more per unit. An institution may elect to inventory equipment and furnishings with a value of less than \$5,000 per unit;
- b. Establish a procedure to number and tag all equipment and furnishings required to be inventoried;
- c. Identify the date of acquisition, model number and serial number, if applicable;
- d. Provide a short physical description;
- e. Identify the cost of acquisition, including shipping and installation costs;
- f. Record the location of equipment or furnishings; i.e., the department, or the building and room number;
- g. Provide the purchase order number and account number(s) used to pay for the purchase; and
- h. When retired, indicate the retirement date, method of retirement and disposal price, if applicable....

The Chief Procurement Officer shall perform or provide for an institution-wide audit and inventory of the institution's assets on a schedule consistent with generally accepted accounting

⁴ WVSU must comply with West Virginia Higher Education Policy Commission rules, policies, and procedures. See cited code section §18B-1B-1.

standards and as prescribed by law or regulation, when applicable....

The institution's inventory report shall be kept on file in the institution's Purchasing Office and made available to appropriate parties upon request."

Cause: WVSU does not perform a physical inventory trace for desktop and laptop computers. In our opinion, failure to perform such a trace at least annually increases the risk that WVSU equipment will be stolen or lost without subsequent detection. Further, failure to regularly and routinely perform such an equipment trace has contributed to WVSU's inaccurate and incomplete asset inventory records.

Effect: During our audit period of fiscal year 2011, WVSU expended \$137,406.96 on equipment purchases. When one considers the additional purchases of equipment by WVSU both before and after our audit period, it is readily apparent that WVSU equipment purchases represent a substantial investment in WVSU's monetary resources. Still, we noted numerous deficiencies in WVSU's practices in safeguarding their equipment assets. WVSU assets are highly susceptible to theft, misuse and loss due to the lack of an up-to-date composite list of all fixed assets and computer-related equipment. Because the University never performs a physical inventory trace for desktop or laptop computers, computer-related equipment, or other electronics purchased for less than \$5,000, this equipment may be stolen or lost and go unnoticed indefinitely.

In addition, WVSU's practice of assigning state inventory tags to all assets received by the University regardless of funding source makes it extremely difficult and inefficient to determine whether assets were purchased with state funds, federal funds or private funds. As a result, it was not practical for us to limit our audit to only those equipment items purchased with state funds. Further, since purchase and inventory requirements may differ depending on the funding source for such items, the audit team was faced with additional challenges in conducting the audit that would not have existed if WVSU had adequate procedures for documenting funding sources for equipment purchases.

Recommendation: We recommend WVSU establish an internal control process designed to secure and safeguard vulnerable assets. Examples include security for and limited access to equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to equipment inventory control records.

We recommend WVSU comply with Section 9.3 of the West Virginia Higher Education Purchasing Procedures Manual and maintain a complete, composite and up-to-date inventory listing. WVSU should record all required information for all inventoried assets. Additionally, we recommend WVSU implement

procedures to ensure all computer-related assets are accounted for and that employees who are assigned obsolete or outdated equipment be required to return the equipment to the WVSU Physical Facilities Department when WVSU distributes replacement computers or accessories to these employees. Also, we recommend the WVHEPC consider changing its policies whereby all institutions under the WVHEPC are required to include computers and other electronic devices (ipads, printers, scanners, etc.) in their respective equipment inventory system.

Spending Unit's Response

See Appendix A

Finding 4

Missing Equipment

Condition:

Although, as stated in the previous finding, WVSU asset inventory records and inventory management procedures were critically deficient, we selected a sample of equipment items from the records that were available and attempted to locate these items. We were unable to locate 67 inventoried equipment items, or 36%, of the 188 items selected for our audit. We were unable to determine the original purchase price for seven of these items due to inadequate WVSU inventory records (see: Inadequate Equipment Inventory Management System finding). However, according to WVSU equipment inventory records, the original cost of the remaining 60 items we could not locate totaled \$151,363. These included 40 computers (four purchased in 2011, four purchased in 2010, five purchased in 2009, nine purchased in 2008, one purchased in 2007, two purchased in 2006, seven purchased in 2005, two purchased in 2003, one purchased in 2002, one purchased in 2000, and four did not have acquisition date recorded on records), an I-Pad purchased in 2012, printers, and other various items. A Sanyo Projector with an original purchase price of \$6,000 in 2001 was included in the 67 missing items. According to WVSU personnel, the projector was stolen on or before November 10, 2003.

Criteria⁴:

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.1, states,

“The purpose of inventory and inventory management is to track and account for the monies spent for equipment and furnishings so as to protect the assets of the institution.”

West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.3, states in part,

“At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall:

- a. Account for all equipment and furnishings with a value at the time of purchase of \$5,000 or more per unit. An institution may elect to inventory equipment and furnishings with a value of less than \$5,000 per unit; ...
- f. Record the location of equipment or furnishings; i.e., the department, or the building and room number;

Cause:

WVSU did not have adequate procedures in place to monitor equipment purchases after the equipment items were placed in service. This is particularly true for items costing less than \$5,000 each—even though these items were listed on inventory lists. Although often lacking necessary information, the

inclusion of equipment items on the inventory lists indicated to us that WVSU had some intention to protect the school's investment by tracking the use of these assets. However, as previously stated, such monitoring was critically deficient.

Effect: As stated in the previous finding, WVSU expended \$137,406.96 on equipment purchases during fiscal year 2011 alone. This represents a substantial investment for WVSU. The lack of oversight over equipment and equipment inventory records fosters an environment whereby equipment items are highly vulnerable to theft and misuse.

Recommendation: We recommend WVSU comply with West Virginia Higher Education Purchasing Procedures Manual, Section 9.3.1 and account for and protect University assets.

Spending Unit's Response

See Appendix A

Finding 5**Lack of Adequate Policies and Procedures over University Travel Cards****Condition:**

During our audit period of fiscal year 2011, WVSU paid a total of \$191,434.56 in 15 separate payments to United National Bank for purchases made by the United Bank travel card. Purchases made with the WVSU travel card are not subject to the same controls and safeguards as purchases made either through the WVSU accounts payable process or by the State issued P-card program.

We selected 13 of the 15 travel card payments for our test of the travel card. These payments totaled \$189,438.68 and included 1,171 individual purchases. After reviewing these purchases, it is our opinion all purchases could have been made either through the regular accounts payable process or by P-card.

We also noted the travel card was used for non-travel purposes. In our test there were 372 travel card purchases (32%) totaling \$43,606.48 in payments (23%) made from local vendors (vendors located within 15 miles of the WVSU campus). Due to a lack of policies and procedures governing the use of the travel card, we were unable to determine if these expenses were appropriate and beneficial to the University. We noted the following local purchases were charged on the University travel card.

| Local Purchases | Instances | Amount |
|--|-------------------|---------------------------|
| Meals* | 259 | \$34,098.03 |
| Groceries, Snacks, and Beverages | 74 | 3,546.48 |
| Hotels** | 26 | 4,388.45 |
| Athletic Equipment, Supplies, and Apparel | <u>13</u> | <u>1,573.52</u> |
| Total: | <u>372</u> | <u>\$43,606.48</u> |
| *Local Meals (meals purchased within 15 miles of WVSU campus) included but are not limited to: athletic team pre and post game meals, recruiting meals, meals for parents of recruits, coach and faculty meals, meals for student activities and banquets, and possible team travel meals upon leaving or returning to campus. | | |
| **Includes hotel rooms for athletic recruits and two hotel rooms for fundraising events | | |

Two purchases for \$602.05 and \$583.92 included in the "Groceries, Snacks, and Beverages" category were made at the local Wal-Mart. These two transactions were made in January 2011 and consisted of a variety of food and beverages. We were informed these expenditures may have been made for team travel meals and purchased prior to departure; however, we noted some items were perishable and frozen.

In addition, we found no supporting documentation (e.g., team rosters, event schedules and recruit athlete profiles), included with receipts for meals and hotels purchased for athletic teams and recruits to verify dates and participants of the athletic events. As a result, we could not determine if these costs supported a WVSU sanctioned event. In some instances, names of travelers were not detailed on hotel folios. Therefore, we could neither ensure all expenses were for eligible travelers nor could we determine if they were extravagant.

Criteria⁴:

HEPC Title 133 Procedural Rule, Series 29, Section 7.1, states:

“Meal expense reimbursement shall be made in accordance with the institution’s policies and procedures and is **limited to actual expenses for food, service and gratuities up to the applicable maximum daily rate** authorized by the Commission or Governing Board. Specifically excluded are alcoholic beverages and entertainment expenses.”
(Emphasis Added)

WVSU Board of Governors Policy #5 Travel Regulations, Section 2.3, states:

“A Corporate travel card may not be used for personal expenses;”

WVSU Board of Governors Policy #5 Travel Regulations, Section 4.5.2, states:

“Lodging shall be reimbursed at the least expensive single room rate. If accommodations are shared with other travelers their name(s) must be noted on the travel settlement;”

HEPC Title 133 Procedural Rule, Series 29, Section 3.3, states:

“Travel may be authorized only for official business and only if the institution has the financial resources to reimburse the traveler for travel expenses.”

Cause:

Unlike the regular disbursement process, WVSU travel card purchases can be completed while circumventing management approval—even assuming the existence of a procedure requiring such approval. Also, unlike the State issued purchasing card, there is no procedure requiring that purchasing transactions be reconciled to vendor receipts; although, in some cases reconciliations were completed by cardholders. Further, P-card transactions are subject to the oversight of the WV State Auditor’s Office, whereas the travel card is not subject to control and oversight of any agency other than WVSU. As a result of the lack of controls and oversight of purchases made with the WVSU travel card, there is an increased risk that purchases made may be fraudulent or extravagant.

Due to the lack of adequate procedures and management oversight over travel card purchases, cardholders are left to their own judgment as to appropriate travel expenditures. Also, the Athletic Department only has one P-card; therefore, coaches use their travel card for most team related expenses, including local meals.

Effect:

WVSU paid a total of \$191,434.56 to United National Bank for purchases made by the United Bank travel card during fiscal year 2011. By not properly monitoring the use of the University travel card, the University is fostering an environment for misuse or fraudulent expenses. In addition, funds expended on personal purchases and extravagant spending further diminishes the financial standing of WVSU. Further, using the travel card rather than the P-card allows

cardholders to circumvent policies and procedures set in place by the West Virginia State Auditor's Office to monitor spending and mitigate fraud and abuse of state funds.

Recommendation: We recommend WVSU implement policies and procedures, similar in nature to the P-card policies and procedures, to adequately monitor the use of the travel card. These procedures should detail the proper use of the travel card to better clarify allowable and non-allowable expenditures and, as a result, mitigate the risk of improper, extravagant or fraudulent travel costs. We recommend WVSU generate and maintain a roster of the individuals in a travel group and subsequently review this roster immediately after the conclusion of the travel event to ensure travel costs are only paid for authorized individuals and that the costs are not extravagant. Alternatively, WVSU may choose to limit or terminate the use of the travel card and utilize the P-card. Cash advances could be processed through the WVSU Accounts Payable Office.

Spending Unit's Response

See Appendix A

Finding 6

Inappropriate Travel Expenses

Condition:

During our audit period of fiscal year 2011, WVSU paid a total of \$191,434.56 in 15 separate payments to United National Bank for purchases made by the United Bank travel card. For our test of the travel card, we selected 13 WVSU travel card payments totaling \$189,438.68.

Although there are no policies and procedures detailing unallowable expenditures or defining personal expenditures, we believe the following commodities were personal in nature and should have been disallowed:

| Inappropriate/Personal Expense | Number of Transactions | Amount |
|-----------------------------------|------------------------|-------------------|
| Local Personal Meals [^] | 12 | \$ 75.56 |
| Personal Items [*] | 18 | \$ 977.41 |
| | 30 | <u>\$1,052.97</u> |

[^] Meals purchased within a 15 mile radius of the WVSU Campus.
^{*}Personal Items include, but are not limited to, the following: feminine products, hair spray, bug spray, contact solution, prescriptions, over the counter pain relievers, tissues, team meal after funeral services, and shoes.

We noted three instances included in the table above under personal items where a cardholder charged three hotel rooms totaling \$253 for her husband—even though her husband was not employed by WVSU. In addition, we noted two instances totaling \$517, also included in the table above under personal items, where the same cardholder purchased athletic conditioning equipment with her travel card and had the equipment shipped to her husband at their home address.

Criteria⁴:

WVSU Board of Governors Policy #5 Travel Regulations, Section 2.3, states:

“A Corporate travel card may not be used for personal expenses;”

HEPC Title 133 Procedural Rule, Series 29, Section 3.3, states:

“Travel may be authorized only for official business and only if the institution has the financial resources to reimburse the traveler for travel expenses.”

Cause:

Travel card purchases are not sufficiently monitored for impermissible or inappropriate purchases by anyone outside the Athletic Department. In our opinion, this lack of oversight has allowed inappropriate travel costs to routinely occur. The WVSU Purchasing Director explained that determining permissible purchases made on the WVSU travel card by athletics staff members is left to the discretion of the Athletics Department. The Purchasing Director also explained that the University permits purchases for personal hygiene and prescriptions for athletes.

Effect: By not properly monitoring the use of the WVSU travel card, the University is fostering an environment for misuse or fraudulent expenses. In addition, funds expended on personal purchases and inappropriate spending further diminishes the financial standing of WVSU.

Recommendation: We recommend WVSU comply with WVSU Board of Governor Policy #5 Travel Regulations, Section 2.3. In addition, we recommend WVSU implement policies and procedures, similar to the WV P-card, to more adequately monitor the use of the travel card. These procedures should detail the proper use of the travel card to better clarify allowable and non-allowable expenditures. Alternatively, WVSU may choose to limit or terminate the use of the travel card and utilize the P-card. Cash advances could be processed through the WVSU Accounts Payable Office.

Spending Unit's Response

See Appendix A

Finding 7

Travel Per Diem Incorrectly Calculated

Condition:

During our audit of WVSU travel expenditures, we randomly selected and tested 77 transactions totaling \$221,988.37 out of a population of 201 travel expenditures amounting to \$259,086.09. During our test we noted three instances where travel reimbursements were either overpaid or computer-generated documents supporting travel expenses contained hand-written alternations that resulted in an increase in the amount of travel expenses paid. The three exceptions are detailed below:

- An employee on travel status received per diem reimbursement for 13 days; however, for nine of these days, meals were included as part of the registration fee; therefore, the employee was overcompensated by \$450.
- Hand-written alterations on documents supporting meal per diems disbursed to students increased the amount of per diem paid by \$400. A WVSU employee entrusted with accompanying students on an out-of-state conference trip remitted to the WVSU Accounts Payable Department print outs of e-mails from four students verifying the students' receipt of travel per diems; however, each email printout contained hand-written alterations whereby the original \$100 meal per diem indicated on the printout was changed to \$200. In addition, the email printouts were not signed by the students. Such signatures are required by WVSU travel regulations as verification that students received meal per diems.
- A computer-generated travel expense settlement form had hand-written alterations made to the traveler's daily travel times and normal work hours. Travel hours were originally recorded as 8:00 am to 5:00 pm, which would have resulted in the employee being ineligible for meal per diems. However, the form was altered to show travel times of 6:00 am to 7:00 pm and, as a result, the employee received meal per diem for two travel days totaling \$70. Also, this same expense form showed the employee was overpaid \$17 for his mileage for two days of travel. Mileage was reported as 40 miles roundtrip from Institute WV to Charleston WV; however, the roundtrip mileage is only approximately 20 miles.

Criteria:

West Virginia State University Board of Governor's Policy #5 "Travel Regulations", Section 4, states in part;

"4.6 Meals

4.6.1 Meal reimbursement is **NOT** allowed on one-day travel, except for exigent circumstances as authorized and when travel time begins and/or extends more than two (2) hours beyond the traveler's normal work day.

4.6.2 Reimbursement will be made for actual expenses up to the maximum daily rate as follows: Meal expense reimbursement is limited to **actual expenses** for food, services and gratuities up to the rate authorized by the Governing Board. Specifically excluded are alcoholic beverages and entertainment expenses.

4.6.6 Travelers **will not** receive an allowance or reimbursement for meals that are included in registration fees...

4.6.8 Travelers transporting or accompanying students or others entrusted to a spending unit for their care, education or placement, receipts are required or in lieu of receipts for students, a student signature form may be provided."

4.7 Mileage

4.7.1 Mileage is reimbursed for use of a personal vehicle;

4.7.2 Reimbursement will be at the current rate as established by the State of West Virginia and/or Internal Revenue Service."

4.12 Student Travel/Guardian Travel

4.12.1 Meal receipts are required for reimbursement unless per diem allocation is issued;

4.12.2 If a daily per diem is allocated to each student or other individual, the traveler is responsible for disbursing the funds and must submit a signed statement from each student verifying receipt of monies..."

Cause: A lack of management oversight exists for travel reimbursements. Reimbursement forms were approved for payment without a thorough review for compliance with WVSU BOG Policy 5 governing travel expenditures.

The Purchasing Director also explained when travelers use their home address as their headquarters on the reimbursement form it is changed to Institute; however, in the instance noted above, mileage calculations were not changed.

Effect: By paying per-diem to travelers who are provided meals as part of their registration, the state is essentially paying for the employees' meals twice.

We were unable to determine whether or not the alterations to the emails supporting meal per diems disbursed to students were the result of fraudulent activity. If so, then WVSU overpaid the guardian traveler \$400. Regardless of whether or not this particular incident was fraudulent, the practice of accepting altered, unsigned student statements verifying receipt of monies certainly increases the risk WVSU may be defrauded.

Lastly, If WVSU does not verify the reasonableness of mileage documented on expense reimbursement forms additional overpayments are likely to occur. Accepting reimbursement forms with hand-written alterations could allow reimbursements to be incorrect and/or state monies to be misappropriated.

Recommendation: We recommend WVSU comply with WVSU Board of Governor Policy #5 Travel Regulations, Sections 4.6, 4.7, and 4.12 by requiring original signed statements from student travelers who receive per diem prior to reimbursing the guardian traveler and remitting only the per diem due to the employee and not paying per diem to travelers when meals are provided as part of a registration fee. In addition, all reimbursement forms should be reviewed to verify proper mileage and mileage rates are claimed by travelers.

Spending Unit's Response

See Appendix A

Finding 8

Purchasing Procedures not Followed - Travel Expenditures

Condition:

During our audit period of fiscal year 2011, WVSU paid a total of \$191,434.56 in 15 separate payments to United National Bank for purchases made by the United Bank travel card. We selected 13 of these 15 travel card payments for testing. These payments totaled \$189,438.68 and included 1,171 individual purchase transactions. We noted purchasing procedures were not followed for several transactions as detailed below:

| Non-Compliance | Transaction Instances* | Transaction Amount |
|--|------------------------|--------------------|
| Receipts not Itemized | 81 | \$17,735.39 |
| Missing/Incomplete Receipts | 16 | 816.46 |
| Receipts not Legible ** | 37 | 2,876.12 |
| No Receiving Report | 41 | 24,921.64 |
| WV Sales Tax Paid*** | 299 | \$ 868.31 |
| <p>* Individual transactions may be included in more than one non-compliance category. For example, a transaction with no supporting receipt and no receiving signature would be included in both categories. Therefore, it would be erroneous to combine transaction instances and amounts from each category for the purpose of determining the number of transactions and amounts with non-compliance issues.</p> <p>** Includes receipts either completely or partially illegible. Transaction amount includes only illegible portion for receipts that are partially legible. This amount was calculated by subtracting legible portion of receipt from total transaction amount.</p> <p>*** Due to missing and illegible receipts, determining whether or not sales tax was paid could not be determined for all transactions tested. Therefore, the amount of WV Sales Tax paid is likely higher than amount indicated.</p> | | |

Criteria:

WV Code §12-3-10(f), states in part:

“A receiving report shall be submitted to the state auditor verifying the receipt of commodities by a state spending unit....

The receiving reports shall include, but not be limited to, the following information: Vendor name, description and quantity of commodities received, date commodities are received, whether commodities are acceptable for payment, and a **signed acknowledgment of receipt by the employees receiving the commodities....”(Emphasis Added)**

West Virginia State Auditor Legislative Rule, Title 155, Series 1, Section 3, which specifies the requirements for vendor invoices, states in part:

“...3.1 Itemization. All invoices submitted to the Auditor for payment should contain the following:

3.1.a. **An itemized description** indication the type of materials, supplies, or services provided;...

3.2. A Miscellaneous itemization. Invoices indicating A miscellaneous itemization are not acceptable for payment....”

3.6. Original invoice. All invoices submitted to the Auditor shall be an original or a certified original. The following are considered original invoices:

3.6.a. Wholly original invoices;

3.6.b. Invoices in which the body is wholly original; the body being the section of the invoice which contains the itemization, quantity, and price of the goods or services...” (Emphasis Added)

The WV State Tax Department Publication TSD-300 states in part:

“...Purchases by the United States government or the **State of West Virginia, including their institutions or subdivisions** and county and municipal governments of West Virginia **are exempt from sales tax...**” (Emphasis Added)

WVSU Board of Governors Policy #5 Travel Regulations, Section 4.12, states in part;

“Student Travel/Guardian Travel:

4.1.2.1 Meal receipts are required for reimbursement unless per diem allocation is issued;...”

Cause: We noted a critical lack of management oversight over travel purchases completed using travel cards. The purchases were not approved by anyone other than the athletic director prior to payment to card service provider.

Effect: Paying WV sales tax on in state purchases generates a loss of funds that should have been available for other goods or services needed by the University. Also, when receipts are incomplete, not itemized or legible, the University cannot ensure the purchases were allowable, or in some cases, if sales tax was paid. Further, unsigned receipts and monthly card statements create uncertainty regarding whether or not the purchase was properly authorized by the cardholder.

Recommendation: We recommend WVSU comply with WVSU Board of Governor Policy #5 "Travel Regulations" and obtain receipts for all purchases made on the University travel card. In addition, we recommend WVSU comply with WV Legislative Rule, Title 155, Series 1, Section 3, and Chapter 12, Article 3, Section 10(f) of the WV Code and attain itemized and legible receipts and sign all receipts/statements or complete a receiving report for all expenditures. Lastly, we recommend WVSU comply with WV State Tax Department's Publication TSD-300 and cease paying sales tax on purchases made within the state of West Virginia.

Spending Unit's Response

See Appendix A

Finding 9

Purchasing Procedures not Followed - P-card Transactions

Condition:

As reported in Finding 2, there was a critical lack of oversight and numerous non-compliance issues regarding the use of the State purchasing card (P-card) assigned to one Physical Facilities Department employee. In addition to these exceptions, other non-compliance issues related to the WVSU P-cards were noted during our audit. Out of a population of 10,183 P-card transactions totaling approximately \$4,486,356, we tested 120⁵ transactions (1.2%) of the population and approximately \$494,164 (11%) of the total dollar amount. The exceptions are detailed as follows:

We noted 31 P-card transactions (26% of our sample) totaling \$31,388 in purchases and \$1,170 in refunds (credits) were not reconciled on individual monthly P-card log sheets as required by WVSU purchasing card procedures. All of the exceptions related to cardholders within the Physical Facilities Department. Although the physical facilities purchasing agent maintained an electronic purchasing card master log sheet for all physical facilities P-card holders, we were unable to reconcile the log sheet to physical facilities P-card transactions for fiscal year 2011. Out of the \$1,669,845 in physical facilities P-card charges paid during the fiscal year, \$1,334,379 (80%) were not documented on the master log sheet and, therefore, could not have been verified by WVSU as legitimate charges prior to payment.

We noted 108 disbursement transactions totaling \$495,454 did not include purchasing requisitions.

We noted five transactions (4% of our sample) totaling \$122,611 in purchases where receiving reports were completed by persons that did not receive the goods.

We noted one refund transaction totaling \$241.88 was not credited in full according to the original charge amount. This occurred because the hotel reservations reserved on the P-card were not cancelled in a timely manner in accordance with the hotel cancellation policy. WVSU Management had never approved the reservations; therefore, they were unaware of the pending transaction. After reviewing the hotel invoices filed with the refund transaction documentation, we noted the documentation indicated a \$483.76 charge was a penalty for a no-show hotel reservation. We contacted the hotel and found that if reservations are cancelled within 24 hours prior to scheduled arrival time then no charges would be assessed.

We noted one transaction totaling \$551 where WV State sales tax was erroneously paid. The amount of tax assessed in error totaled \$31.

⁵ The original sample was 134 transactions; however, we used auditor judgment to remove the transactions for one P-cardholder to test separately due to the vast number of P-card transactions. See Finding 2 *P-card – Inadequate Oversight and Adherence to Policies for One P-card* for all items noted relating to this individual's P-card.

We noted two instances⁶ where transactions were split into multiple, smaller transactions to circumvent the credit card single transaction limit (stringing). The two separate transactions were split into five separate individual transactions for a total dollar amount of \$11,199.20. The specific instances are noted in the table below, with all transaction limits equal to \$5,000 for a single purchase:

| Instance Number | WVFIMS ID NUMBER | Shell Record Number | Goods/Services Purchased | Posted Credit Card Date | Vendor Name | Amount |
|--------------------------|------------------|---------------------|----------------------------|-------------------------|-------------------------|-------------------|
| 1 | I011172615 | S006145299 | Symphony Orchestra Tickets | 6/21/2010 | John F. Kennedy Center | \$2,000.00 |
| 1 | I011172615 | S006145300 | Symphony Orchestra Tickets | 6/21/2010 | John F. Kennedy Center | \$2,000.00 |
| 1 | I011172615 | S006145301 | Symphony Orchestra Tickets | 6/21/2010 | John F. Kennedy Center | \$1,183.20 |
| Instance #1 Total | | | | | | \$5,183.20 |
| 2 | I011229637 | S006189353 | Dinner Show | 7/21/2010 | Tommy Gun's Garage Inc. | \$3,000.00 |
| 2 | I011229637 | S006189354 | Dinner Show | 7/21/2010 | Tommy Gun's Garage Inc. | \$3,016.00 |
| Instance #2 Total | | | | | | \$6,016.00 |

We noted four out of 120 instances (3.3%) that a P-card was utilized to complete transactions through 3rd Party Payment Processors in the amount of \$488. WVSU did not complete the specified form as required by the West Virginia State Auditor's Office P-card Division titled "Spending Unit Request to Complete Transactions by 3rd Party Payment Processors"; however, cardholders were regularly completing on-line purchases utilizing Pay-pal accounts set up on the P-cards. After auditors requested this form from management, WVSU completed and signed the required request form on 01/28/2013.

We noted one transaction totaling \$33.50 did not have a receipt available for our review.

Criteria²:

WV Code §12-3-10f states, in part:

"A receiving report shall be submitted to the state auditor verifying the receipt of commodities by a state spending unit...The state officer or employee acting as head of each spending unit is responsible for the completion and timely submission of the receiving reports, which shall be prepared at the original point of receipt of the commodities at the spending unit by employees designated by the head of the spending unit to receive the commodities and prepare the receiving reports.

⁶ Transactions noted in this finding exclude instances of stringing reported in Finding 2 P-card – Inadequate Oversight and Adherence to Policies for One P-card.

The receiving reports shall include, but not be limited to, the following information: Vendor name, description and quantity of commodities received, date commodities are received, whether commodities are acceptable for payment, and a signed acknowledgment of receipt by the employees receiving the commodities. The receiving reports required by this section shall be prepared within twenty-four hours of the receipt of the commodities..."

West Virginia State Auditor's Office P-card Policies and Procedures states, in part:

"...6.2...It is a violation of policy to manipulate the ordering, billing, or payment process in order to circumvent established cardholder limits..."

"...6.6 Payments may be made through 3rd Party Payment Processors such as PayPal only **upon prior approval** by the State Auditor's Office P-card Division. When paying by telephone, fax, mail, or internet, the vendor should be provided with a complete shipping address...the total **charge may not exceed the cardholder's assigned transaction limit...** (Emphasis Added)

"...6.7 The State of West Virginia is tax exempt and should not pay tax to in-state vendors. Cardholders should remind vendors that the State of West Virginia is tax exempt before initiating a transaction... **It is the cardholder's responsibility to ensure charge accuracy. Sales tax or shipping charges should be addressed immediately with the vendor by the cardholder.**"(Emphasis Added)

"...7.0 Documentation must be obtained for each transaction placed on the P-card and must be available upon request by the State Auditor's Office P-card Division. Documentation may include itemized receipts, log sheets (manual or electronic), individual statements, or any other documentation required by applicable laws, rules and regulations, P-card Policies and Procedures, and other governing instruments."

"...7.1...The receipt must be legible, itemized (reflecting the goods or services purchased), and contain the vendor name, date of purchase and price of items...In the event that an acceptable form of receipt is not available, the **cardholder shall create**, either in paper or electronic form, an **itemized list** which satisfies the requirements set forth in this subsection. **The cardholder and direct supervisor or coordinator's signatures, physical or electronic, are required as well as the date the**

goods were received, along with whatever receipt is available.”(Emphasis Added)

The WV State Auditor’s Office Payment Processing Guide Chapter 3 Section II B Invoice Guidelines, as amended, states in part:

- “2. Non-Original invoices must be certified by either the agency administrator or chief financial officer and another employee of the spending unit with WVFIMS signature authority.
- 6. Itemization which includes a description of the goods or services received
- 7. Invoice extensions and total must be correct.”

Post Audit Documented WVSU Purchasing Card Procedures states in part:

“...If an employee other than the P-card holder receives the commodity they are required to complete a receiving report. Once the receiving report is completed, the purchase documentation is forwarded to the cardholder...”

West Virginia State University Purchasing Card Program Policies and Procedures states, in part:

“6.3 Stringing is the intentional manipulation of the ordering, billing, or payment process in order to circumvent the transaction limit. Stringing includes: splitting an invoice exceeding the transaction limit into more than one transaction, and colluding with a vendor to split an order into separate invoices. Stringing of payments is prohibited...”

“...8.0 The cardholder must review all transactions to ensure that they are legitimate and for official state business, and that all required documentation is included...The cardholder must compare transactions appearing on the individual statement with the required log sheet and actual receipts...” (Emphasis added)

West Virginia State University Purchasing Card Internal Procedures 12, 13, & 14 states in part:

- “12) In-house statement reconciled against receipt & log... 13) Before submitting to Purchasing Card Coordinator... e) CitiBank statement signed by you as Cardholder...
- 14) Reconciled statement, receipt & log sheet are forwarded to Purchasing Card Coordinator...
- 15) Purchasing Card Subcoordinator Reviews Cardholder transactions against individual statement, ensuring that

transaction are for official state business and all documentation is present.”

West Virginia State University Purchasing Card Procedures, states in part:

“...The cardholder must first determine that there is a need for a good or service. The **cardholder must then obtain authorization through the completion of a P-card purchase requisition form.** Each department has their own variation of an authorization form. This **form must have the signatures of the respective employees’ department head, Provost, and the Vice President of Finance, as appropriate...**” (Emphasis added)

Cause: We noted a lack of oversight over P-card activity. The purchasing card coordinator stated that the Physical Facilities department employees’ P-card records did not include individual monthly purchasing card log sheets because a master log sheet was maintained by the department; however, the log only accounted for 20% of the department’s P-card purchases.

Effect: By failing to complete individual monthly purchasing card log sheets, we could not assure ourselves that a proper reconciliation was performed and documented for each billing period by physical facilities cardholders. The purchasing card log sheet also served as a receiving report at WVSU; therefore, not preparing P-card log sheets also meant that no receiving reports were maintained for these expenditures.

By failing to complete the required purchase requisitions documenting purchase approval signatures of the department head, provost, and Vice President of Finance, we cannot assure ourselves that all purchases were allowable and authorized for payment.

Allowing employees other than the actual receiver of items purchased to complete receiving reports using another person’s name increases the risks that goods may not be received.

By not ensuring that pre-charged hotel reservation charges were cancelled before the cancellation deadline in accordance with hotel policy, the university was charged penalty fees for the no-show room.

Allowing recreated receipts which were not itemized in a detailed manner and were not signed by the cardholder and/or their direct supervisor, the opportunity for fraud or misappropriation of state funds exists. It is also not possible for the coordinators to determine exactly what was purchased from vendors when no receipt is available.

By paying WV sales tax to in-state vendors, the university is without the use of those funds.

Splitting an invoice over more than one transaction allows the University to circumvent the State Auditor's Office Purchasing Card Policies and Procedures, section 6.2 regarding transaction limits. This may increase the risk for making unauthorized purchases. It also can allow other policies to be circumvented, e.g., not using vendors with statewide contracts, not attaining bids, etc.

By failing to complete the necessary Purchasing Card 3rd Party Payment Processors request/approval form, the university was exercising Purchasing Card privileges which were not granted to them by the WWSAO Purchasing Card Division.

By failing to submit receipt documentation, the purchasing card coordinator cannot ensure that all purchases were made for official state business to benefit the university.

Recommendation:

We recommend WWSU comply with WV Code §12-3-10f and WWSU purchasing card policies by ensuring that all cardholders complete individual monthly purchasing card log sheets (which WWSU states serve as their receiving reports) in their entirety by filling in a row for each purchase made on their card along with all columnar fields in the log sheet for each related row. Additionally, we recommend the cardholder sign the log sheet, verifying it is accurate and all purchases were made by that authorized individual. We also recommend WWSU management ensures all monthly reconciliation documentation includes a receipt for every purchase signed by the cardholder acknowledging the purchase is legitimate, an invoice, and an authorized purchase requisition for all P-card transactions to ensure restricted purchases are not placed on P-cards. We also recommend that management perform a more thorough reconciliation and review of physical facilities transactions on a monthly basis for all P-card holders within the department. We recommend that all cardholders complete the internally required purchase requisition forms before initiating a transaction on any state P-card. Also, we recommend that receiving reports only be completed for goods or services that were made for legitimate purchases which were verified as received by authorized receivers and not for credit card adjustments.

We recommend WWSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Handbook Section 7.1 in the event that an acceptable form of receipt is not available, by legibly recreating either in paper or electronic form unavailable receipts. Also, the cardholder's and direct supervisor's or coordinator's signatures, physical or electronic, be required and verified on each recreated receipt.

We recommend WWSU comply with WV Code §12-3-10a by ensuring that all goods and services have been received before charges are placed on a P-card, including canceling hotel reservations to avoid penalty fees.

We recommend WVSU cease paying West Virginia sales tax to in-state vendors and thoroughly review all receipts for sales tax.

We recommend that WVSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Manual subsections 6.2, 6.6 and internal University Policies and Procedures subsection 6.3 by ensuring that all purchases made with state purchasing cards are below the agreed upon credit card transaction limits and monthly credit card limits. Further, we recommend that the program coordinator review all purchases to ensure that entrusted cardholders are not circumventing the limits by splitting purchases into multiple, smaller transactions on the same or different dates for similar products, in collusion with the vendor.

We recommend that WVSU comply with the West Virginia State Auditor's Office Purchasing Card Policies and Procedures section 6.6 as well as the WVSAO Purchasing Card Division's requirements by completing and maintaining all mandatory request forms for 3rd party purchases made using P-cards.

Spending Unit's Response

See Appendix A

Finding 10 **Inaccurate Bookstore Inventory Records**

Condition: We audited 214 specific categories of merchandise items classified in the bookstore perpetual inventory system. We conducted a physical count of the stock items in these categories and noted numerous inaccuracies regarding the number of stock items documented in the perpetual inventory system. These discrepancies are detailed below:

- Twenty-nine inventory categories (13%) were understated in the perpetual inventory system maintained in the bookstore.
- Two inventory categories (1%) were overstated in the perpetual inventory system.

Criteria: WV Code §5A-8-9 states in part:

“(b)...Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities...”

WV Code § 12-3-10(f)states in part:

“...The state officer or employee acting as head of each spending unit is responsible for the completion and timely submission of the receiving reports, **which shall be prepared at the original point of receipt of the commodities at the spending unit by employees designated by the head of the spending unit to receive the commodities and prepare the receiving reports...**” (Emphasis added).

Cause: Bookstore inventory records were inaccurate due to a lack of management oversight, adequate employee training, and timely record keeping. Only one bookstore employee was assigned the responsibility to maintain the inventory system, therefore; when this employee was absent, inventory was available for sale prior to entry in the perpetual inventory system. In addition, for the understated inventory categories, receiving reports for items that were unpacked and/or stocked on store shelves were not completed until after the inventory count was completed.

Effect: **Understated Inventory Categories:** The errors uncovered in our sample totaled approximately \$16,342.82⁷ at cost in understated inventory items.

⁷ Amount is approximate; we are unable to calculate the true “higher” value due to the missing cost amounts for inventoried books.

Overstated Inventory Categories: Due to inventory management practices, we could not determine if missing inventory items (i.e., number of items recorded in the inventory system minus physical count) were properly sold and the proceeds of the sale deposited into WVSU accounts. These missing items had a total wholesale cost of \$257

Inaccurate inventory records increase the risk that items may be lost or stolen resulting in lost revenue for WVSU, the State, and the West Virginia State Tax Department. Inventory items could be removed from the electronic inventory through fictitious sales in the Point-of-sale (POS) system or by inputting new reduced inventory quantities into the textbook maintenance screens by employees who handle all key aspects of recording inventory and recording/reviewing sales transactions.

Recommendation: We recommend that the institution comply with WV Code §5A-8-9 by inputting Bookstore inventory quantities into the electronic Point-of-Sale (POS) system when received in an accurate and timely manner to assure all items are properly accounted for before items are sold to customers. We also recommend compliance with WV Code §12-3-10(f) by preparing receiving reports at the original point of receipt of the commodities and submitting them in a timely manner. We further recommend that additional employees be trained how to manage inventory and record inventory items into the POS system so the system can remain up to date in the absence of the employee currently maintaining the system. We also recommend that periodic reviews of inventory be conducted to ensure that human errors made while inputting inventory amounts are minimized. Finally, we recommend key aspects of record-keeping and sales be segregated among bookstore employees so as to reduce the risk of one employee having the ability to steal bookstore moneys and conceal the theft by manipulating sales and inventory records.

Spending Unit's Response

See Appendix A

Finding 11

Incorrect Annual Increment

Condition:

We audited 11 of 302 employees that received annual increment during our audit period and noted five employees whose years-of-service credits were not correctly calculated resulting in annual increment overpayments totaling \$480 for fiscal year 2011. These exceptions are noted below:

- WVSU counted temporary employment as applicable years-of-service when calculating annual increment payments for three employees in our sample. However, according to a legal interpretation of the statute authorizing State employee annual increment payments, temporary service should not be included as years-of-service when calculating annual increment.⁸ As a result of this error, these employees were overpaid a total of \$360, as detailed in the table below:⁹

| Name | WV-11 Effective Date | Temporary Service | Overpayment |
|--|----------------------|-------------------|---------------------|
| Employee 1 [^] | 7/1/2006 | 22 months | \$120 |
| Employee 2 | 7/1/2007 | 12 months | 60 |
| Employee 3 | 7/1/2007 | 39 months | <u>180</u> |
| TOTAL | | | <u>\$360</u> |
| [^] Employee 1 started temporary employment on August 31, 2004; however, the date used to calculate annual increment was incorrectly input as July 1, 2004. | | | |

- One employee's seniority date was not updated to reflect the actual start date. The anticipated start date was July 1, 1992; however, the employee did not actually report to work until September 7, 1992. This error resulted in an overpayment of \$60.
- We noted one employee whose years-of-service credit for annual increment erroneously included time the employee was on a leave of absence. This resulted in a \$60 overpayment for annual increment during our audit period¹⁰.

Criteria⁴:

WV Code §5-5-1, as amended, which defines eligible employee for purpose of receiving annual increment payments, states in part:

⁸ We mailed a questionnaire to all WV Higher Education Institutions to determine if these institutions were including temporary employment as applicable years of service for annual increment calculations. Twelve institutions indicated they do not include temporary service in annual increment calculations and one institution (in addition to WVSU) indicated they did include such service in annual increment calculations if the employee subsequently becomes eligible to receive annual increment as a regular part-time or regular full-time employee.

⁹ In addition to these three employees, another employee received credit towards years-of-service for time worked as a temporary employee; however, the additional temporary service credit was not enough to affect payment of annual increment.

¹⁰ We noted the employee was overpaid a combined \$220 for annual increment for the previous four fiscal years.

...(a) **"Eligible employee" means:...**

(2) Any classified employee as defined in section two, article nine, chapter eighteen-b of this code who is an employee of a state institution of higher education, the Higher Education Policy Commission or the Council for Community and Technical College Education..."

WV Code §18B-9-2, as amended, states in part:

...(a) **"Classified employee" or "employee" means a regular full-time or regular part-time employee** of an organization who holds a position that is assigned a particular job title and pay grade in accordance with the personnel classification and compensation system established by this article or by the commission and council..."

The West Virginia Higher Education's Personnel Rule Title 133, Series 8, differentiates between full-time regular, part-time regular and temporary employees. It's apparent from these definitions that a temporary employee is not considered a "classified employee" as defined in WV Code §18B-9-2, as amended, quoted above. Although temporary employees are covered by the Higher Education classification program, they are distinct from regular full-time and regular part-time employees. Section Two of Title 133, Series 8 states in part:

2.1 This subsection defines the different types of employment that institutions may use and the status under the classification program and for benefits.

2.1.1 Full-Time Regular Employee (FTR). Any employee in a classified position created to last a minimum of nine months of a twelve month period and in which such employee is expected to work no less than 1,040 hours during said period....

2.1.2 Part-Time Regular Employee (PTR). An employee in a position created to last less than 1,040 hours during a twelve-month period....

2.1.3 Temporary Employee. An employee hired into a position expected to last fewer than nine months of a twelve month period regardless of hours worked per week....

2.1.8 Change In Status...Previous length of service as temporary, casual, and student employees shall not be credited toward seniority calculations under other sections of this rule or statute..."

We requested a legal opinion from Legislative Services regarding whether or not temporary employment with a Higher Education institution should be included when calculating years-of-service credit for annual increment payments. An attorney with Legislative Service provided an opinion on this matter dated July 02, 2013, which is quoted in part below:

“This in response to your request for an opinion as to whether employees of higher education institutions may receive "years of service" credit for temporary employment for purposes of calculating that employee's annual increment benefit. I have reviewed the relevant state code and rules, and I am not aware of any provision that permits the use of temporary employment in calculating a state higher education employee's annual increment benefit....” (Emphasis Added)

WV Code §5-5-2, as amended, states in part:

“(a) Every eligible employee with three or more years of service shall receive an annual salary increase equal to sixty dollars times the employee's years of service...”

Higher Education Policy Commission, Title 133, Series 38, states in part:

“...2.10 Employees on leave of absence without pay shall not accrue annual or sick leave or years of service credit for any and all full months in which they are off the payroll....”

Cause:

We believe many of the errors in annual increment payments are the result of those WVSU employees responsible for the increment calculations not understanding what qualifies as years-of-service. In addition, WVSU lacked an adequate process ensuring that breaks-in-service and amended employee start dates were properly factored into employee years-of-service credits. Including temporary service in the calculation of annual increment, not updating an employee's start date, counting a leave of absence as time worked, and miscalculating prior years of service resulted in several noted overpayments of annual increment.

According to the University, temporary employees are covered by the classification program. If temporary employment exceeds 1,040 hours during any twelve-month period, the employee is either terminated or hired into a regular position with the University. The employee is then eligible for benefits, including annual increment. WVSU allows service worked as a temporary employee to be credited toward the calculation of annual increment provided that the transition from a temporary employee to a regular employee is uninterrupted.

Effect: We noted a total of \$480 in overpayments of annual increment during our audit period of fiscal year 2011. We also noted additional overpayments that occurred in other fiscal years. Erroneous overpayments deprive WVSU and the State of moneys that would have otherwise been available for other purposes. Due to the prevalence and the type of errors noted, we believe it is highly likely significant additional overpayments have been made over the course of several fiscal years.

Recommendation: We recommend WVSU comply with WV Code §5-5-1, as amended, WV Code §5-5-2, as amended, WV Code §18B-9-2, as amended and the Higher Education Policy Commission's Personnel Rule (Title 133, Series 38). We recommend WVSU develop and initiate a policy that will serve to ensure that years-of-service credits included for annual increment calculations comply with applicable statutes quoted above, thus mitigating the risk of overpayments of annual increment. We recommend the University assure temporary employment does not exceed 1,040 hours during any twelve-month period in order to eliminate the need of changing the status of a temporary employee to a regular employee. If a change in status is necessary, service worked as a temporary employee should not be credited toward the calculation of annual increment. We also recommend WVSU comply with HEPC Title 133 Series 38 by not counting a leave-of-absence as years of service credit.

Spending Unit's Response

See Appendix A

Finding 12

Errors in Termination Pay

Condition:

When an employee separates from employment, it is the agency's responsibility to calculate the employee's termination pay, which includes regular pay for the final work days, the terminal value of accrued and unused annual leave and prorated annual increment.

During our audit of WVSU retirements and resignations, we tested ten of 30 full-time employees who received termination pay during fiscal year 2011. We noted the following:

Regular Pay

- One employee was not paid for eight days of sick leave taken prior to retirement, resulting in an underpayment of \$920.69.

Terminal Annual Leave

- One employee was paid for more annual leave hours than accrued. The employee had an annual leave balance of 120.625 hours on August 1 and used 121.5 hours as of August 30. The employee remained on payroll until August 31 and also received a lump sum payment for one day. This resulted in a total overpayment of \$231.08.

Prorated Increment

- One employee did not receive prorated annual increment, resulting in an underpayment of \$450.
- One employee received prorated increment when the employee did not have three years-of-service, resulting in an overpayment of \$60¹¹.
- The yearly increment for one employee used to calculate prorated increment was erroneously increased prior to the employee working another full year of service, resulting in an overpayment of \$45.

Criteria:

WV Code §12-3-13, as amended, states:

“No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered.”

WV Code §5-5-2, as amended, states in part:

“(a) Every eligible employee with three or more years of service shall receive an annual salary increase equal to sixty dollars times the employee's years of service. In each fiscal year and on

¹¹ We also noted this employee was overpaid an additional \$180 for annual increment paid in July 2010.

the first day of July, each eligible employee shall receive an annual increment increase of sixty dollars for that fiscal year.”

Neither the Higher Education Policy Commission nor WVSU has a policy instructing higher education institutions on how to calculate pro rata annual increment or unused annual leave for terminating employees. Therefore, we recommend WVSU and other higher education institutions elect to follow the method prescribed by the West Virginia Division of Personnel (DOP). DOP Policy 5, page 4, states in part:

“Separating employees shall be paid the annual increment on a pro rata basis for the portion of service rendered by the employee during the current fiscal year of employment.”

“The prorated portion an employee receives upon separation prior to June 30, shall be based on his or her totaled full years of service, and shall be computed based on the months of service rendered in the fiscal year in which the employee terminates.”

Cause:

Neither the Higher Education Policy Commission, the WVSU Board of Governor’s nor WVSU management has a documented and detailed procedure on how terminal pay should be calculated. Therefore, the WVSU Payroll Department was left to their own devices in calculating terminal pay and, as a result, errors and inconsistencies were prevalent in the calculations.

In addition, some erroneous payments were the result of oversights and other errors made by those employees calculating terminal pay. Since no procedure was in place requiring management review of such calculations, these mistakes were not detected and corrected.

Effect:

Errors in calculating terminal pay resulted in underpayments to employees totaling \$1,400.69 and overpayments to employees totaling \$336.08.

Recommendation: We recommend WVSU comply with WV Code §12-3-12, as amended by not paying employees salaries for services not rendered (overpayments). We recommend WVSU comply with WV Code §5-5-2, as amended, and pay annual increment only to employees with three or more years of service and to only increase years of service credit as of the measurement date (July 1). We also recommend all employees who are eligible to receive annual increment be paid prorated increment when separating from employment. Pro-rata increment should be based on the years-of-service calculation for full years of service (rounded down) on what would have been the next measurement date had the employee worked the entire fiscal year. Lastly, we recommend WVSU remit all underpaid sick leave payouts and annual increment payments due to separated employees.

Spending Unit's Response

See Appendix A

Finding 13 **Improper Use of Change Order**

Condition: WVSU had an open-ended contract permitting WVSU to gain architectural support for various renovation projects on campus for a specified period of time. A change order was initiated to add architectural planning for a major renovation to a University building; however, the change order had a total cost of \$1,152,000. Although, open-ended contracts may be entered into to secure an hourly rate for services, State statute requires rebidding of any single project expected to exceed \$250,000. Therefore, the architectural planning for the major renovation should have been treated as a separate project and should have been bid out, rather than included on an existing contract as a change order.

Criteria: WV Code §5G-1-3, as amended, states in part;

“In the procurement of architectural and engineering services for **projects estimated to cost \$250,000 or more**, the director of purchasing shall encourage firms engaged in the lawful practice of the profession to submit an expression of interest, which shall include a statement of qualifications and performance data, and may include anticipated concepts and proposed methods of approach to the project....” **(Emphasis Added)**

Cause: WVSU failed to ensure compliance with State code in regards to adherence to bid requirements for the project noted above. The WVSU Purchasing Director stated the open-ended contract covering all renovation needs was entered into for convenience.

Effect: The use of one vendor for all projects, including large renovations, lacks the promotion of competitive pricing. In addition, the hourly rates may be fixed by the contract terms, but major projects with estimated costs based on percentage-of-completion of the required work performed allows vendors to set comfortable, rather than competitive prices.

Recommendation: Since the estimated cost exceeded the required bid threshold of \$250,000, we believe WVSU should have treated the major renovation of the respective building as a stand-alone project and bid out the needed architectural services separately. We recommend WVSU comply with WV Code §5G-1-3, as amended, and request expressions of interest for all architectural and engineering service projects in the excess of \$250,000.

Spending Unit's Response

See Appendix A

Finding 14 **Higher Education Purchasing Procedures not Followed - Fixed Assets**

Condition: Out of a “modified population”¹² of 1,699 inventoried items, we tested 188 assets (11%) of the population. We noted 37 instances or 20% of items tested where Purchasing Procedures were not followed. First, we noted 11 assets (6%), during our physical inventory trace, where a WVSU tag was not readily visible and/or legible. Secondly, we noted 25 (13%) instances where inventory was in a different location than indicated on the inventory listing. Lastly, we noted one (1%) instance where a WVSU tag was not present nor was the serial number correctly entered onto the University inventory listing.

As part of our inventory test we physically observed ten assets and traced them to the inventory listings provided. Out of the ten assets selected we noted five assets were observed in a different location than indicated on University records.

Criteria⁴: West Virginia Higher Education Purchasing Procedures Manual, Section 9.3, states in part,

“The purpose of inventory and inventory management is to track and account for the monies spent for equipment and furnishings so as to protect the assets of the institution....

At a minimum, the inventory procedures and inventory management system developed by the Chief Procurement Officer shall:

- a. Account for all equipment and furnishings with a value at the time of purchase of \$5,000 or more per unit. An institution may elect to inventory equipment and furnishings with a value of less than \$5,000 per unit;
- b. Establish a procedure to number and tag all equipment and furnishings required to be inventoried:
- c. Identify the date of acquisition, model number and serial number, if applicable;
- d. Provide a short physical description;
- e. Identify the cost of acquisition, including shipping and installation costs;

¹² “modified population” - We combined all inventory records provided to us by WVSU and removed duplicate assets, assets purchased with non-state funding (funding source not indicated for all assets), and assets not likely to be stolen or lost.

- f. Record the location of equipment or furnishings; i.e., the department, or the building and room number;
- g. Provide the purchase order number and account number(s) used to pay for the purchase; and
- h. When retired, indicate the retirement date, method of retirement and disposal price, if applicable....

Cause: WVSU did not have adequate procedures in place to monitor equipment purchases after the equipment items were placed in service. This is particular true for items costing less than \$5,000 each—even though these items were listed on inventory lists. Although often lacking necessary information, the inclusion of equipment items on the inventory lists indicated to us that WVSU had some intention to protect the school’s investment by tracking the use of these assets. However, as previously stated, such monitoring was critically deficient.

Effect: By not affixing the tag in a manner where it can be easily read, an asset may be associated with the wrong state tag. Also, if serial numbers are recorded incorrectly and a tag is either missing or not visible, personnel may not be able to identify the asset. Inventory records should be updated at the time an asset is transferred from one location to another; an inventory trace is nearly impossible to complete when items are not in the areas indicated on inventory records therefore, state time and resources are not utilized in an efficient manner when assets cannot be easily located for physical observation. In conclusion, all of the purchasing procedures not followed detailed above foster an environment for theft and misappropriation of assets.

Recommendation: We recommend WVSU comply with West Virginia Higher Education Purchasing Procedures Manual and tag all equipment required to be tagged, assuring tags are placed on the asset so that they can be easily located and legibly read, record all required information for inventoried assets, and update inventory records to reflect all changes in assets, (i.e. physical moves or retirement).

Spending Unit’s Response

See Appendix A

Finding 15 **Noncompliance with Leave Procedures**

Condition: An employee took 105 hours (14 consecutive days) of sick leave during the month of November 2010. No documentation could be provided to show the necessity of the sick leave.

Criteria⁴: Higher Education Policy Commission (HEPC) Procedural Rule Title 133, Series 38, Section 5.5, states in part:

“Sick leave for more than five (5) consecutive days shall not be granted to an employee for illness without satisfactory proof of illness or injury, as evidenced by a statement of the attending physician or by other proof satisfactory to the institution.”

Cause: The employee’s supervisor failed to require the employee to turn in a medical excuse for the sick leave taken. Since WVSU’s leave system only requires supervisor approval for leave, the Human Resources Department would not have been aware the employee took more than five consecutive days unless the employee or their supervisor informed them.

Effect: Without documentation to show that over five consecutive sick leave days were warranted, employees could abuse their sick leave.

Recommendation: We recommend WVSU comply with HEPC Procedural Rule Title 133, Series 38, Section 5.5 by ensuring proper supervisor oversight of employee leave.

Spending Unit’s Response

See Appendix A

Finding 16

Errors in Student Employee Pay

Condition:

During our audit of student payroll (work-study), we tested 35 (2%) of 1,688 WVSU work-study/ student payroll disbursements made during fiscal year 2011 and noted the following:

- WVSU was unable to provide us with employee timesheets supporting five work-study/ student payroll disbursements (14% of sample) totaling \$1,306. Therefore, we were unable to determine if the employees received the proper amount of pay. By using statistical software we projected the results of our test on the sample selected to all 1,688 work-study/ student payroll disbursements made during fiscal year 2011 and estimated approximately 241 of work-study payroll disbursements were not supported by timesheets.¹³
- WVSU uses a "student agreement" form to document agreed-upon hourly rates of pay for each student employee; however, WVSU was unable to locate one such student agreement for an employee that was paid \$4,135.65 in wages during our audit period of fiscal year 2011. Since we could not determine the employee's hourly rate, we could not verify if the employee was paid the correct wages for the audit period.
- We noted six instances (17% of sample) where employees did not receive the proper amount of pay. On four of these occasions employees were underpaid by a combined \$65.28 and on two occasions employees were overpaid by a combined \$20.75.

By using statistical software we projected the results of our test on the sample selected to all 1,688 work-study payroll disbursements made during fiscal year 2011 and estimated approximately 289 of work-study/ student payroll disbursements contained errors in pay.¹⁴

- While reviewing the work-study/ student payroll disbursements, we noted Social Security and Medicare taxes were deducted from a student employee's wages; however, according to IRS regulations, student employees are exempt from such taxes. In addition to our original sample, we selected all of the remaining student payroll disbursements¹⁵ made to the employee during fiscal year 2011 and determined Social Security and Medicare taxes were consistently withheld from the student employee's

¹³ Projection calculated with RAT-STATS statistical software. The projected point estimate was 241. We are 95% confident the error rate is between 83 to 508 work-study payroll disbursements, or 4.92% to 30.10% of the 1688 work-study/ student payroll disbursements made during fiscal year 2011.

¹⁴ Projection calculated with RAT-STATS statistical software. The projected point estimate was 289. We are 95% confident the error rate is between 113 to 565 work-study payroll disbursements, or 6.69% to 33.47% of the 1688 work-study/ student payroll disbursements made during fiscal year 2011.

¹⁵ There were three work-study payroll disbursements made to the employee during fiscal year 2011.

wages. In total, \$34 in Social Security and Medicare taxes were erroneously withheld.

Criteria: WV Code §12-3-13, as amended, states:

“No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered.”

WV Code §21-5-3, as amended, states in part:

“(a) Every person, firm or corporation doing business in this state, except railroad companies as provided in section one of this article, shall settle with its employees at least once in every two weeks, unless otherwise provided by special agreement, and pay them the wages due, less authorized deductions and authorized wage assignments, for their work or services....”

WV Code §21-5C-5 states:

“Every employer subject to the provisions of this article shall make or cause to be made, and shall keep and preserve at his place of business for a period of two years, a written record or records of the name and address of each of his employees as herein defined, his rate of pay, hours of employment, payroll deductions, and amount paid him for each pay period.”

Internal Revenue Code §3121(b) states in part:¹⁶

“For purposes of this chapter, the term “employment” means any service, of whatever nature, performed...except that such term shall not include—

(10) service performed in the employ of—a school, college, or university,...if such service is performed by a student who is enrolled and regularly attending classes at such school, college, or university”

Cause: Causes for exceptions are listed in same order as exceptions noted in the “Condition” section above:

- 1) In the instances noted, work-study/ student timesheets were not properly filed or maintained by WVSU.
- 2) The student agreement form was not properly filed or maintained by WVSU.

¹⁶ Social Security and Medicare taxes on employee wages are effectuated by Internal Revenue Code §3101(a) and §3101(b), respectively. The sections state the specified tax rates are to be applied to wages received with respect to employment (as defined in section 3121(b)).

- 3) Lack of oversight and human error resulted in a majority of instances of improper pay.
- 4) During fiscal year 2011, the employee worked both as a student employee (exempt from Social Security and Medicare taxes) and, during the summer, as a temporary employee (non-exempt from Social Security and Medicare taxes). The employee's temporary employee ID number was erroneously entered into the payroll system for the employee's student employment, which triggered the Social Security and Medicare tax deductions from the student employee's wages.

Effect: Due to inadequate record-keeping, for exceptions 1) and 2) described above, we were unable to determine if the work-study/ student wages paid were correct. For exceptions 3) and 4), wages paid were incorrect. For these two exceptions combined underpayments totaled \$99.28 and overpayments totaled \$20.75.

Recommendation: We recommend WVSU comply with the WV Code §12-3-13, as amended, and §21-5-3, as amended, by enhancing internal controls in order to mitigate the risk of paying for services not rendered and the risk of failing to pay all wages due student employees. We recommend WVSU comply with the WV Code §21-5C-5 by maintaining written records that document hours worked and rates-of-pay for work-study/ student employees. We recommend WVSU comply with Internal Revenue Code §3121(b)(10) by not deducting Social Security and Medicare taxes from student employee pay. We further recommend work-study and student employee supervisors and the payroll department make a greater effort to review timesheets and payments to reduce the risk of errors.

Spending Unit's Response

See Appendix A

Finding 17

Lack of Itemized Records

Condition:

We tested all 40 miscellaneous expenditures transactions made during fiscal year 2011. These expenditures totaled \$19,009.58. We noted twelve instances, totaling \$1,948, where monthly invoices for parking permits for students attending classes at the Capitol Center in Charleston were not itemized nor reconciled to a student roster and/or parking tickets detailing the time each student parked and the cost of each ticket.

There were 293 repairs and alterations disbursements totaling \$858,777 during fiscal year 2011. We selected for testing 78 of the disbursements totaling \$404,458. We noted one (1.3%) transaction out of 78 transactions where documentation for supplies from the vendor to support the total amount paid of \$24,640 did not include an attached itemized invoice for materials costing \$1,559.

Criteria²:

WV Code §5A-8-9 states in part:

“The head of each agency shall: ...(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities...”

West Virginia State Auditor Legislative Rule Title 155, Series 1, Section 3.1, states:

“Itemization. -- All invoices submitted to the Auditor for payment shall contain the following:

- 3.1.a. An itemized description indicating the type of materials, supplies or service provided;
- 3.1.b. An invoice or order date and the date of service, if the item to be paid is a service; and
- 3.1.c. Any additional information required by the Auditor.”

Cause:

Expenditures were paid without adequate supporting documentation due to the lack of proper management oversight and lack of communication between university departments. The WVSU Accounts Payable Clerk pays the bill and relies on the Capitol Center to verify the accuracy of the parking costs; however, the Capitol Center employees do not receive documentation for the parking permits. The City of Charleston remits the invoice directly to the business office.

The Purchasing Director stated that the item was paid without all supporting documentation due to human error.

Effect: By not obtaining an itemized invoice or original parking tickets, the cost of each ticket is unknown and the University could be paying an incorrect rate or paying for time a parking space was not utilized by a WVSU student.

By failing to obtain itemized invoices for materials used by service vendors, the University administration cannot be assured that all of the items purchased for use by the vendor in performing repair jobs were necessary or accurately billed by the vendor.

Recommendation: We recommend WVSU comply with West Virginia State Auditor Legislative Rule Title 155, Series 1, Section 3.1 by obtaining original parking receipts, student roster for classes that require parking in the Charleston garage and reconciling them to the invoices received by the City of Charleston.

We recommend WVSU comply with WV Code §5A-8-9 by ensuring that all records contain adequate and proper documentation to protect the legal and financial rights of the state.

Spending Unit's Response

See Appendix A

Finding 18 **Improperly Calculated Invoices**

Condition: While auditing invoices paid for repairs and alternations, we noted WVSU paid one invoice totaling \$6,597 that contained omissions and errors. The invoice failed to include seven hours of work by two employees totaling \$325.50. We also noted an apparent addition error for another employee on the invoice whereby the total hours documented for the employee failed to include one hour of work noted in the hours detailed on the invoice. We believe it is probable the detail hours were correct and, if so, the employee was underpaid \$58.50. In any event, we believe the invoice should not have been paid until discrepancies and omissions were rectified.

Out of a population of 128 assets purchased during fiscal year 2011, we tested 72 purchases (56%) of the population. We noted one (1%) receipt/invoice, totaling \$11,178, was miscalculated. The unit total for hours worked and amount paid per hour did not total the extended amount displayed on the invoice. The invoice total was under calculated by \$320.

Criteria⁴: West Virginia Higher Education Policy Commission Procedural Rule 133-30 section 8.12.2, states in part:

“...If there is a conflict between the extension price and the unit price, the unit price shall prevail...”

West Virginia State Auditor’s Office Payment Processing Guide Chapter 3 section II part B, states in part:

“...7. Invoice extensions and total must be correct...”

Cause: The invoices were paid before ensuring the accuracy of the billing due to a lack of thorough review of invoice calculation extensions and management oversight.

Effect: By paying vendor invoices without recalculating all extensions to ensure proper billings, the University could be submitting payment for over and under the amount that actually should have been billed and paid.

Recommendation: We recommend WVSU comply with the West Virginia Higher Education Policy Commission Procedural Rule 133-30 and the West Virginia State Auditor’s Office Payment Processing Guide by ensuring that all invoice extensions and totals are correct according to the listed quantities and unit prices/hourly rates prior to remitting payment. If errors or omission are noted, invoices should not be paid until the corrections acceptable to WVSU are made by the vendor.

Spending Unit’s Response

See Appendix A

Finding 19

Lack of Policies and Procedures on Calculating Daily Rate of Separation Pay

Condition:

1. Lump Sum Payment for Annual Leave

When a separating employee has accrued and unused annual leave, they have the option to be paid in a lump sum or to remain on payroll until all annual leave is exhausted. No policies are in place detailing specific information on how Higher Education agencies should calculate a lump sum payment. However West Virginia Division of Personnel rules state lump sum payments should be calculated as though the employee were remaining on payroll. If the lump sum payment is calculated solely based on the daily rate of the last pay period, the payment could differ from remaining on payroll for those employees whose leave balance would carry into multiple pay periods because the daily rate changes based on the number of workdays in each pay period.

We noted one employee whose lump sum payment for annual leave differs based on the way it was calculated. The agency calculated the daily rate of pay using the average number of work days in each pay period for March (11.5 days) and then multiplied it by the balance of annual leave; equaling a total lump sum payment of \$5,975.98. Had the agency calculated payment as though the employee remained on payroll until annual leave was exhausted, the average daily rate of pay would have been higher because payments would have continued into April, May, and the first day of June. Each pay period within those months had less than 11.5 days. The sum of all payments would have equaled \$6,444.83; a difference of \$468.85.

The agency now calculates lump sum payments differently. The daily rate is calculated by dividing the gross pay by 52 weeks in year, then dividing by 37.5 hours a week, and lastly multiplying by 7.5 hours a day. Had the University used this calculation, the lump sum payment would have equaled \$6,410.43; a difference of \$34 from the audited amount.

| Daily Rate of Pay | |
|------------------------------|----------|
| Agency (During Audit Period) | \$125.81 |
| Agency (Current Practice) | \$133.55 |
| Audited ¹⁷ | \$134.27 |

2. Separating in the Middle of a Pay Period

We noted one employee whose final paycheck differed based on how the daily rate was calculated. The employee was on catastrophic sick leave donations which stopped prior to the end of the pay period. The agency calculated the daily rate by dividing the semi-monthly pay by the average number of work days in each pay period for the final pay month. However, if the daily rate was calculated using the number of work days in the final pay period, the employee would have received an additional \$22.

¹⁷ This daily rate of pay is an average because the actual daily rates fluctuate corresponding to the number of work days in each pay period.

Criteria:

WV Code §5-5-3, states in part:

“Every eligible employee, as defined in section one of this article, at the time his or her active employment ends due to resignation, death, retirement or otherwise, may be paid in a lump sum amount, at his or her option, for accrued and unused annual leave at the employee's usual rate of pay at the time...”

WVSU Board of Governors Policy 18 states in part:

“3.5 An employee is entitled to accumulated leave at termination of service...”

Neither the Higher Education Policy Commission nor WVSU has a policy instructing higher education institutions on how to calculate separation pay for terminating employees. Therefore, we recommend WVSU and other higher education institutions elect to follow the method prescribed by the Division of Personnel’s Legislative Rule Title 143, Series 1, 14.3(f) which states in part:

“1. An employee may elect to be paid in semi-monthly installments at his or her usual rate of pay as if employment were continuing until the pay period during which the accrued annual leave is exhausted. If the last day for which leave payment is due falls before the day on which the pay period ends, terminal annual leave payment for those days within that pay period shall be calculated using the daily rate for the half-month in which the last day on payroll occurs.”

“2...Terminal annual leave payment for an employee who selects a lump sum payment shall be calculated as if employment were continuing until the pay period during which the accrued annual leave is exhausted in accordance with paragraph one of this subdivision...”

Cause:

WVSU and the Higher Education Policy Commission has no formal written policy instructing institutions on how payments for unused annual leave for a terminating employees should be calculated. As a result, institutions have been left to their own devices and inconsistencies in the methodology between and even within individual institutions. Calculating the lump sum payment by multiplying the daily rate of pay for the last payroll month in which the employee worked by the annual leave balance was common practice for the agency. However, after complaints from employees, the payroll department re-evaluated the calculation of lump sum payments and resolved the issue by utilizing a new computation. However, this new method is also inconsistent with the method prescribed by the WV Division of Personnel (DOP). Even though the Division of Personnel has no authority over Higher Education institutions, we believe higher education should adopt the DOP method so as to ensure consistent treatment for all separating employees of the State.

Effect: The employee received less money by calculating the lump sum payment based on the daily rate of the last payroll month as opposed to calculating the lump sum as though the employee were remaining on payroll. When the two calculations result in different amounts, it creates inconsistency amongst employees' payouts. By calculating the daily rate using the average number of work days in each pay period for a month, the employee received less money than if the daily rate is calculated using the number of work days in the pay period.

Recommendation: Although there are no specific rules regarding how WVSU should calculate lump sum payments or payments for working part of a pay period, we recommend the agency voluntarily elect to follow Division of Personnel rules. While the new computation resulted in a substantially less difference, the DOP rules for calculating a lump sum payment assure all payments for terminal annual leave are treated the same for all separating State employees.

Spending Unit's Response

See Appendix A

**WEST VIRGINIA STATE UNIVERSITY
EXPENDITURES JULY 1, 2010 – JUNE 30, 2011
& SELECT CASH COLLECTION POINTS
JULY 1, 2008 – JUNE 30, 2009**

APPENDIX A

Finding 1 Lack of Internal Controls - Child Development, Student Union and Testing Ctr.

Response: WVSU will comply with WV Code Sections 5A-8-9b and 12-2-2. WVSU has strengthened the cash handling procedures across campus by implementing internal cash handling procedures. These procedures are in line with the *WV State Treasurer's Cash Receipts Handbook* and institute internal controls over cash collections for all University cash collection points.

We will also comply with the recommendation to establish procedures from record retention.

Finding 2 P-Card – Inadequate Oversight and Adherence to Policies for One P-Card

Response: WVSU will comply with all sections of the West Virginia State Auditor's Office Purchasing Card Policies and Procedures Handbook. We will also ensure that P-card holders undergo proper training and have stronger management oversight of their transactions.

The Physical Facilities Dept. has updated their policies and procedures over purchases. All Physical Facilities P-card transactions are recorded and assigned a "PC" tracking number. The employee in question no longer works at WVSU.

Finding 3 Inadequate Equipment Inventory Management System

Response: WVSU will comply with both recommendations made by the auditors. We have established an internal control process designed to secure and safeguard vulnerable assets as reflected in the updated policies and procedures for Physical Facilities.

Also, we will maintain a complete, composite and up-to-date inventory listing. The University is working towards a comprehensive computer inventory this year. Finally, fixed assets over \$5,000 are inventoried annually by University personnel to verify location.

Finding 4 Missing Equipment

Response: WVSU will comply with the WV Higher Education Purchasing Procedures Manual, Section 9.3.1. The Physical Facilities Dept. has updated their policies and procedures. Also, fixed assets over \$5,000 are inventoried annually by University personnel to verify location.

Finding 5 Lack of Adequate Policies and Procedures over University Travel Cards

Response: WVSU will comply with the recommendation to implement policies and procedures over travel cards. We have updated our internal travel card policies and procedures. Also, the Athletic Dept. will assume a more active review of all team related expenditures. The Athletic Dept. is in the process of developing a

Team Travel Procedural Manual. Also, travel rosters are now submitted to the Athletic Dept. by the individual sports prior to the team's departure.

Finding 6 Inappropriate Travel Expenses

Response: WVSU will comply with both recommendations to follow the WVSU BOG Policy #5 and implement policies and procedures over travel cards. We have updated our internal travel card policies and procedures. Also, the Athletic Dept. will assume a more active review of all team related expenditures. The Athletic Dept. is in the process of developing a Team Travel Procedural Manual.

Finding 7 Travel Per Diem Incorrectly Calculated

Response: WVSU will comply with the recommendation to follow the WVSU BOG Policy #5, Travel Regulations, Sections 4.6, 4.7, and 4.12. We have updated our internal travel card policies and procedures.

Finding 8 Purchasing Procedures not Followed - Travel Expenditures

Response: WVSU will comply with all of the auditor's recommendations. We have updated our internal travel card policies and procedures. Also, the Athletic Dept. will assume a more active review of all team related expenditures. The Athletic Dept. is in the process of developing a Team Travel Procedural Manual.

Finding 9 Purchasing Procedures not Followed - P-Card Transactions

Response: WVSU will comply with all of the auditor's recommendations. We will also ensure that P-card holders undergo proper training and have stronger management oversight of their transactions.

The Physical Facilities Dept. has updated their policies and procedures over purchases. All Physical Facilities P-card transactions are recorded and assigned a "PC" tracking number

Finding 10 Inaccurate Bookstore Inventory Records

Response: WVSU will comply with all of the auditor's recommendations. We have a new policy over Bookstore inventory that includes all of the recommendations as well as a new point-of-sale system.

Finding 11 Incorrect Annual Increment

Response: The WVSU Payroll Office will become familiar with and comply with WV Code 5-5-1 and WVHEP Rule Title 133, Series 8 when calculating increment. Temporary service will no longer be used to calculate years of service for increment purposes. In addition, the payroll office will begin tracking leaves of absence more efficiently.

Finding 12 **Errors in Termination Pay**

Response: The WVSU Payroll Office will become familiar with and comply with WV Code 5-5-2 and 12-3-12. When calculating employee payouts, the payroll office will give closer attention to annual increment and annual leave details. The human resources office and the payroll office will communicate more effectively to assure proper payout.

On August 30, 2013, the payroll office paid the one employee for the eight days of sick leave not paid prior to retirement.

Finding 13 **Improper Use of Change Order**

Response: WVSU will comply with WV Code §5G-1-3, as amended. In the future, the Purchasing Office will bid out stand-alone projects in excess of \$250,000.

Finding 14 **Higher Education Purchasing Procedures not Followed - Fixed Assets**

Response: WVSU will comply with the auditor's recommendations. The Physical Facilities Dept. has updated their policies and procedures over purchases. Fixed assets over \$5,000 are inventoried annually by University personnel. The itemization of the \$11,178 was provided to the auditors after the report was drafted.

Finding 15 **Noncompliance with Leave Procedures**

Response: WVSU will comply with HEPC Procedural Rule Title 133, Series 38, Section 5.5. Training of supervisors to ensure proper oversight of employees leave will be provided.

Finding 16 **Errors in Student Employee Pay**

Response: The WVSU Payroll Office will become familiar with and comply with WV Code 12-3-13, 21-5-3 and 21-5C-5. The payroll office will more closely watch student payouts to eliminate FICA/Medicare deductions, overpayments and underpayments.

Errors in scanning to our newly acquired document imaging equipment caused the inability to produce some of the documentation requested as the hard copies of the documents had been shredded.

Finding 17 **Lack of Itemized Records**

Response: WVSU will comply with the auditor's recommendations. Procedures are now in place where Capital Center personnel verify monthly parking invoices prior to Accounts Payable processing the invoice.

Finding 18 **Improperly Calculated Repair Invoice**

Response: WVSU will comply with the auditor's recommendations. The vendor acknowledged their invoice contained a calculation error and the University was under-charged. Documentation was provided to the auditors after the report was drafted.

Finding 19 **Lack of Policies and Procedures on Calculating Daily Rate of Separation Pay**

Response: The WVSU Payroll Office will adopt the Department of Personnel method of calculating daily rate to ensure consistent treatment for all separating employees.

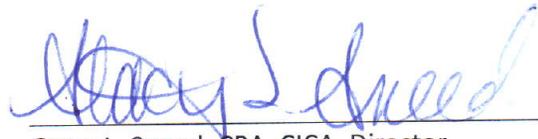
CERTIFICATE OF DIRECTOR, LEGISLATIVE POST AUDIT DIVISION

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Stacy L. Sneed, CPA, CICA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 24th day of September 2013.



Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

Notification of when the report was released and the location of the report on our website was sent to the Secretary of the Department of Administration to be filed as a public record. Report release notifications were also sent to the West Virginia Higher Education Policy Commission; West Virginia State University; Governor; Attorney General; West Virginia State University Governing Board; and the State Auditor.