

STATE OF WEST VIRGINIA

SPECIAL REPORT

OF

WEST VIRGINIA DEPARTMENT OF EDUCATION

INTERNAL CONTROL STUDY OF THE

STATE PURCHASING CARD PROGRAM

FOR THE PERIOD

JULY 1, 2002 – NOVEMBER 30, 2003



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

WEST VIRGINIA DEPARTMENT OF EDUCATION
INTERNAL CONTROL STUDY OF THE
STATE PURCHASING CARD PROGRAM
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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., E.
Charleston, West Virginia 25305-0610



Area Code (304)
Phone: 347-4880
Fax: 347-4889

To the Joint Committee on Government and Finance:

The objectives of this internal control study were to obtain an understanding of the West Virginia Department of Education's internal control policies and procedures for the State Purchasing Card Program; to review cardholder transactions for compliance with such internal control policies and procedures; and, to determine whether these procedures assured compliance with the State Auditor's "State Purchasing Card Program Policies and Procedures." Our report of the Department covered the period July 1, 2002 through November 30, 2003.

To achieve the above objectives, we performed the following:

- a. Obtained a listing from the State Auditor's Office of all Department cardholders, coordinators and cardholder transactions for the study period;
- b. Obtained an understanding of the Department's internal controls policies and procedures for the State Purchasing Card Program;
- c. Reviewed a sample of cardholders to determine whether cardholders were eligible to be assigned a purchasing card, whether transaction limits assigned to cardholders were adhered to, and the purchasing card assigned to each cardholder was properly safeguarded from unauthorized use of disposition; and,
- d. Reviewed a sample of purchasing card transactions to determine compliance with the Department's internal control policies and procedures, State Auditor's "State Purchasing Card Program Policies and Procedures," and applicable State laws or other rules and regulations.

The results of our work are contained in the General Remarks section of this internal control study.

Respectfully submitted,

A handwritten signature in black ink that reads "Theford L. Shanklin".

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

Auditors: Michael A. House, CPA, Supervisor
Charles L. Lunsford
Eric B. Ammons

WEST VIRGINIA DEPARTMENT OF EDUCATION
INTERNAL CONTROL STUDY OF THE STATE PURCHASING CARD PROGRAM

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EXIT CONFERENCE

We held an exit conference on May 6, 2004 with the Executive Director of the Office of Internal Operations and the State Purchasing Card Coordinator and the findings and recommendations were reviewed and discussed. The Department's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks sections of this report.

WEST VIRGINIA DEPARTMENT OF EDUCATION

INTERNAL CONTROL STUDY OF THE STATE PURCHASING CARD PROGRAM

INTRODUCTION

The Department of Education's constitutional mission is to provide supervision of the K-12 education system. In cooperation with the Governor, Legislature, county school systems, parents, and others, the Department helps all West Virginians participate in the support and use and management of their schools, attain their potential by providing public education opportunities for lifelong learning, and acquire and share knowledge that will improve their quality of life and promote economic development.

The Department of Education is organized into the following division/sections:

State Board and State Superintendent

The State Board and State Superintendent ensure the complete executive delivery and maintenance of a thorough and efficient system of free schools in West Virginia.

Research, Technology, and Professional Services

The mission of the Division of Research, Technology and Professional Services is to ensure that West Virginia's public schools will be supported by having access to current research on best practices and evaluation strategies, having use of technology and information systems, having prepared and licensed personnel, and having quality professional growth activities.

Administrative Services

The Division of Administrative Services provides support and assistance to county school systems in the areas of child nutrition, pupil transportation, facilities, teacher

preparation and certification, and school finance, as well as providing accounting and budgeting services for the Department of Education to safeguard the financial resources of the State.

Instructional and Student Services

The Division of Instructional and Student Services provides leadership, technical assistance, and support that assists county school districts, schools, and institutional education programs to develop, improve, and deliver educational programs that enable all students to achieve at a high level, and initiates programs that promote parental involvement.

Technical and Adult Education Services

The mission of Technical and Adult Education Services is to facilitate the delivery of high-quality technical and adult education statewide through leadership and coordination activities focused on instruction, program improvement, professional development, technical assistance, planning, evaluation, fiscal management, and accountability.

Office of Education Performance Audits

The mission of the Office of Education Performance Audits is to assist the West Virginia Board of Education, the Legislature and the Governor in establishing and maintaining a system of education performance audits that measure the quality of education and the preparation of students based on standards and measures of student, school, and school system performance and progress and the processes necessary in providing a thorough and efficient system of education in West Virginia.

West Virginia Schools for the Deaf and Blind

The West Virginia Schools for the Deaf and the Blind provides a high-quality education and related programs for the deaf, the blind, and deaf/blind multi-handicapped

students of West Virginia that will enable those students to become contributing members of society and to progress to their maximum individual ability.

School Building Authority

The School Building Authority facilitates and provides State funds for the construction and maintenance of public school facilities so as to meet the educational needs of the people of West Virginia in an efficient and economical manner.

Based on a review of information provided to us from the State Auditor's Office, the State Purchasing Cards are used by the Department of Education for the purchasing of commodities and services in carrying out the missions of the above Divisions.

WEST VIRGINIA DEPARTMENT OF EDUCATION

INTERNAL CONTROL STUDY OF THE STATE PURCHASING CARD PROGRAM

ADMINISTRATIVE OFFICERS AND STAFF

Dr. David Stewart..... State Superintendent of Schools

Dr. Stanley HopkinsAssistant Superintendent, Division of
Technical and Adult Education Services

Jack McClanahanAssistant Superintendent Division of
Administrative
Services

Mike McKown Executive Director
Office of Internal
Operations

Joe Panetta..... Executive Director
Office of School
Finance

Ron Grimes..... Executive Director
Cedar Lakes Conference
Center

Philip Uy.....State Purchasing Card Coordinator

WEST VIRGINIA DEPARTMENT OF EDUCATION
INTERNAL CONTROL STUDY OF THE STATE PURCHASING CARD PROGRAM
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our study, it became apparent to us, based on the observed noncompliance with the West Virginia Code and the State Auditor’s “State Purchasing Card Program Policies and Procedures,” the Department of Education (DOE) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulation. We believe an effective system of internal controls would have alerted management of these violations at an earlier date and allowed more timely corrective action.

Auditors’ Recommendation

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish a system of internal controls.

Agency’s Response

See Agency’s response after each finding. (See pages 12 and 13.)

Coordinator Not Reconciling Master Statement

2. The master statements for the DOE are not being reconciled by the card coordinator. For the Central Office the statement is being reconciled by the DOE’s Executive

Director of the Office of Internal Operations and the statement for the DOE's Cedar Lakes (Conference Center) is being reconciled by the Center's Executive Secretary.

Auditors' Recommendation

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 2 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

The Agency's master statement has always been reconciled by our Chief Fiscal Officer, the Executive Director of the Office of Internal Operations. Please find attached a copy of a properly completed Coordinator Authorization form for this individual.

Also find attached a second additional Coordinator Authorization form for the staff at Cedar Lakes Conference Center.

(See pages 13-16.)

Log Sheets

3. The DOE's Central Office maintains their log sheets electronically and does not print the sheets for signatures, certifying the log sheet had been reconciled to the master statement. The DOE's Conference Center is not including all the required information on their log sheets.

Auditors' Recommendation

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with

Sections 2.2, 7.2 and 8.1 of the State Auditor’s “State Purchasing Card Program Policies and Procedures.”

Agency’s Response

While log sheets were being maintained, due to misunderstandings of guidance provided at various seminars attended by the Agency Card Coordinator, the log sheets had not been properly authorized.

As of the date of fieldwork discrepancies related to the log sheets are now being properly completed, printed, and authorized by the appropriate individuals. (See pages 16-19.)

Cardholder Training

4. The DOE does not have a control in place to ensure that all cardholders receive proper training. We were unable to determine whether seven of the eleven employees who were cardholders during the audit period had received cardholder training from the State Auditor’s Office or any other source.

Auditors’ Recommendation

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish controls to ensure compliance with the State Auditor’s “State Purchasing Card Policies and Procedures.”

Agency’s Response

Cardholder and Card Coordinator trainings have been held for all staff members of the Agency, except for the newest cardholder at the Cedar Lakes Conference Center. Training sessions will be scheduled as soon as possible to strengthen the Agency’s

existing internal controls and review the most current version of the Purchasing Card Policies and Procedures Manual. (See pages 19-22.)

All Receiving Reports Prepared by One Individual

5. The DOE's Conference Center has not been following the State Auditor's Office policies governing receiving reports for commodities received. Our testing revealed that the receiving reports at the Conference Center were being prepared by one individual whether or not that person actually received the goods.

Auditors' Recommendation

We recommend the DOE comply with Chapter 5A, Article 8 Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 8.1.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

Staff at Cedar Lakes who are appropriate to the receiving function have been identified and will be authorized to complete the receiving reports in full compliance with HB3034.

The additional staff designated as receivers will strengthen the Agency's internal controls to adequately comply with both WV Code 5A-8-9 and Section 8.1.1 of the State Purchasing Card Program Policies and Procedures. (See pages 22-24.)

Receipts and Invoices

6. The DOE has no internal controls in place to ensure that proper receipts are received and maintained by the purchasing card user, or to ensure that proper invoices are required of and received from the vendor. Of the 80 transactions tested for the DOE's Central

Office, 38 transactions did not have receipts in compliance with the policies and procedures prescribed by the State Auditor's Office. Of the 80 transactions tested for the DOE Conference Center, 19 were not in compliance.

Auditors' Recommendation

We recommend the DOE comply with Chapter 5A, Article 8 Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 7.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

The Agency attempts to get proper receipt information from the vendors. However, due to the nature of a credit card charge, vendors are not always compliant and because receipt of documentation does not occur until subsequent to the charge, sometimes the invoices are not noted as paid.

If proper documentation cannot be produced by the vendor, any subsequent payments will be processed as invoices with a paper check issued. The Auditor's Office will be notified and a request will be made that the vendor not be allowed to participate in the Purchasing Card Program, statewide. (See pages 24-26.)

Stringing of Invoices

7. The DOE does not have a control in place to prevent cardholders from circumventing the dollar limitation for purchasing by stringing invoices. Through our testing of 80 purchasing card transactions, we noted six instances of "stringing of invoices" totaling \$9,336.94.

Auditors' Recommendation

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 6.3 of the State Auditor’s “ State Purchasing Card Program Policies and Procedures.

Agency’s Response

As described in the audit report, we believe the occurrences defined from the sample to be due to the willful neglect of former staff members. The Agency has removed that staff member, instituted more stringent policies and procedures, required additional, properly approved documentation for each purchase, and held discussions with appropriate staff requiring they immediately report any suspicious activity to the Agency’s Chief Financial Officer. (See pages 26-28.)

Purchasing Section’s Authorization for Temporary Space Not Obtained

8. Through our testing of the purchasing card transactions, we determined the control to ensure cardholders are knowledgeable of the Department of Administration’s Purchasing Division’s Rules and Regulations were not functioning properly because we noted nine instances of leasing of temporary space that did not have the required authorization of the Leasing Section.

Auditors’ Recommendation

We recommend the DOE comply with Chapter 5A, Article 8 Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Sections 1.3 and 6.1 of the State Auditor’s “State Purchasing Card Program Policies and Procedure.”

Agency's Response

Additional steps in the Agency's approval process will be instituted to screen all Hospitality forms containing charges for temporary space and route them to the attention of the Leasing Section of the Department of Administration for approval.

(See pages 28-30.)

WEST VIRGINIA DEPARTMENT OF EDUCATION

INTERNAL CONTROL STUDY OF THE STATE PURCHASING CARD PROGRAM

GENERAL REMARKS

INTRODUCTION

We have completed an internal control study of the West Virginia Department of Education's purchasing card program. The study covered the period July 1, 2002 through November 30, 2003.

Lack of Effective System of Internal Controls

During the course of our study, it became apparent to us, based on the observed noncompliance with the West Virginia Code and the State Auditor's "Purchasing Card Policies and Procedures Manual," the West Virginia Department of Education (DOE) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, 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. . . ."

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our internal control study of the DOE's purchasing card program, we found the following noncompliance with State laws or other rules and regulations: **(1)** An

individual other than the DOE's designated card coordinator was reconciling the master statements. (2) Log sheets were not being signed by the cardholder and card coordinator. The DOE's Cedar Lakes Conference Center (Conference Center) was not including the expenditure object code on their log sheets. (3) Of the 11 cardholders in the DOE, we were unable to determine whether seven cardholders had received cardholder training from the State Auditor's Office. (4) Receiving reports were not being properly prepared by the DOE's Conference Center. (5) We included in our sample for testing 80 transactions for the DOE's Central Office and 80 transactions for the Conference Center, 38 and 19 transactions, respectively, did not have receipts that complied with the State Auditor's "State Purchasing Card Program Policies and Procedures." (6) Of the 80 transactions included in our test of purchases of the Conference Center, there were six instances of stringing of invoices totaling \$9,336.94. (7) We noted nine instances of leasing of temporary space that did not have the required authorization of the Leasing Section.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish an effective system of internal controls.

Agency's Response

In order to strengthen the seven weaknesses of internal controls as assessed by the Legislative Post Audit Division, our Agency will implement corrective action plans as outlined in the responses to the individual findings. While many of the corrective action plans have already been implemented, it is anticipated that all remaining tasks will be in place by July 2004.

Coordinator Not Reconciling Master Statement

The DOE does not have an internal control procedure in place to ensure that the Department's designated purchasing card coordinator's duties are being performed as required by the State Auditor's "State Purchasing Card Program Policies and Procedures." As evidenced through our interviews and testing, the card coordinator is not reconciling the Department's master statements. The master statement for the DOE's Central Office is being reconciled by the DOE's Executive Director of the Office of Internal Operations. We were told that on occasion, in the absence of the Executive Director, the card coordinator would reconcile the master statements. The master statement reconciliation for the DOE's Conference Center is being done by the Conference Center's Executive Secretary. We were not provided with any authorization forms designating either of the aforementioned individuals as a card coordinator.

Section 2 of the State Auditor's Office "State Purchasing Card Program Policies and Procedures" states in part:

- "2.1 Designation of Agency Coordinator: Each agency's chief fiscal officer or designee will serve as the agency purchasing card coordinator. An agency may have multiple coordinators. Any change in agency coordinators must be preceded by a Coordinator Authorization Form (See Appendix 1) to the Purchasing Card Program.
- 2.2 **Coordinator Responsibilities:** The agency purchasing card coordinator will administer the Purchasing Card Program within his or her agency. Coordinator responsibilities include, but are not limited to, the following:
- Monitoring and overseeing an agency's purchasing card program to ensure that key controls are in place to prevent misuse. . . .
 - **Reconciling master statements.** . . . (Emphasis added)

- The agency card coordinator is responsible for charges appearing on the master statement.”

The individuals reportedly reconciling the master statements do not have a Coordinator Authorization Form on file designating them as coordinators, and we found no evidence those individuals had received training to perform the functions of a purchasing card coordinator. These functions would include understanding the responsibilities of the card coordinator and would require signing an agreement to adhere to the State Auditor’s “State Purchasing Card Program Policies and Procedures.” Not understanding the responsibilities or agreeing to the adherence could result in incurring unauthorized charges or charges for items not for the benefit of the State.

Furthermore, our testing indicated that the individual reconciling the master statement for the DOE Conference Center may not have been properly trained. The master statements for the DOE’s Conference Center were being forwarded to the DOE’s Central Office for payment processing without being reconciled. We noted that some log sheets used for reconciling the master statements were received many months after payments had been processed. In several instances the individual reconciling the master statement did not receive the corresponding log sheets until nine to twelve months after the payments were processed, as shown below:

<u>Billing Cycle Month/Year</u>	<u>Date Received</u>
7/2002	8/13/2002
8/2002	6/05/2003
9/2002	9/15/2003
10/2002	6/22/2003
11/2002	6/22/2003

<u>Billing Cycle Month/Year</u>	<u>Date Received</u>
12/2002	6/22/2003
1/2003	6/22/2003
2/2003	6/22/2003
3/2003	6/05/2003
4/2003	6/22/2003
5/2003	9/15/2003
6/2003	9/15/2003
7/2003	9/15/2003
8/2003	9/15/2003

Since the log sheets with receipts attached were not received by the individual reconciling the master statement and authorizing the statement for payment until several months after the payment was processed, the DOE could have been paying for unauthorized or restricted charges.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 2 of the State Auditor’s “State Purchasing Card Program Policies and Procedure.”

Agency’s Response

In accordance with Section 2.1 of the current Purchasing Card Policies and Procedures Manual, the Agency’s master statement has always been reconciled by our Chief Fiscal Officer, the Executive Director of the Office of Internal Operations. Please find attached a copy of a properly completed Coordinator Authorization form for this individual.

Also find attached a second additional Coordinator Authorization form for the staff at Cedar Lakes Conference Center. Due to the distance involved, the volume of

transactions processed, the uniqueness of the operations at the facility and the need to keep records on-site, the Agency will designate an additional coordinator who will be responsible for reconciling the transactions at the Conference Center.

Effective immediately, the Agency will maintain three Purchasing Card Coordinators.

Also see response to finding number three for corrective actions to be implemented related to training.

Log Sheets

The DOE does not have internal controls in place to ensure cardholders are completing, reconciling and signing log sheets as required, nor to ensure card coordinators are signing log sheets as required.

The DOE's Central Office maintains their log sheets electronically and does not print the sheet for the signatures of the cardholder and card coordinator. The DOE's Conference Center is not including all the required information on the log sheets, specifically the object code. Also, the Conference Center's log sheets are not signed by the card coordinator.

Section 2.2 of the State Auditor's "State Purchasing Card Program Policies and Procedures" states in part:

Coordinator Responsibilities: The agency purchasing card coordinator will administer the Purchasing Card Program within his or her agency. Coordinator responsibilities include, but are not limited to, the following: . . .

- Reconciling master statements.
- Ensuring agency cardholder follow all Purchasing Card Policies and Procedures."

Section 7.2 states in part:

“**Log Sheets:** Each cardholder is required to maintain a log sheet (See Appendix 9) containing the date, vendor name, and an item description, as well as the appropriate object code for each expenditure.

Log sheets can be computerized or manual and must be signed by both the cardholder and the agency coordinator to indicate that all entries have been reconciled and are legitimate. . . .” (Emphasis added)

Section 8.1 states in part:

“**Purchasing Card Reconciliation:** Each cardholder is responsible for reconciling his or her statement every month. The agency card coordinator is responsible for reconciling the master statement.

. . . This includes reviewing all transactions to ensure that they are legitimate and for official state business, and that all required documentation is present.”

Since the DOE does not maintained signed log sheets, we were unable to determine if reconciliations were completed by the cardholder and if the master statement was reconciled by the purchasing card coordinator. We also were unable to determine if transactions were reviewed for accuracy and whether items purchased were for official State business. Also, not indicating the object code on the log sheet, increases the possibility of unauthorized purchases (such as restricted items) being charged to the purchasing card.

Staff in the DOE’s Central Office stated that since their log sheets were maintained electronically, they did not think they were required to print them for signatures. They also stated they had been told this during the State Auditor’s Office purchasing card seminars, however during our audit they asked the State Auditor’s Office about signature requirements and were told the electronic logs must be printed and signed by the cardholder and card coordinator.

Staff at the DOE's Conference Center stated they did not know they had to include the object code on the log sheets. We believe this was a result of most staff members at the Conference Center not having proper training on the use of the purchasing card.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Sections 2.2, 7.2 and 8.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

While log sheets were being maintained, due to misunderstandings of guidance provided at various seminars attended by the Agency Card Coordinator, the log sheets had not been properly authorized. As a result of questions raised during fieldwork, the Auditor's Office was consulted to clarify proper procedures. As of the date of fieldwork discrepancies related to the log sheets have been corrected and the log sheets are now being properly completed, printed, and authorized by the appropriate individuals.

Furthermore, except for Cedar Lakes, internal controls consisting of pre-approved purchase orders with the appropriate object coding are currently and have always been in place to assure that the expenditures on the Purchasing Card were for official State of West Virginia business. Also see response to finding number one for corrective actions to be implemented related to the Agency's Card Coordinator.

Due to a staffing change, which immediately preceded fieldwork, the Cedar Lakes Conference Center has now initiated the use of purchase orders and will also be connected to the same FIMS system as utilized by the central office.

Cardholder Training

We were told by the P - Card coordinator, that cardholders and the coordinator have received training in the proper use of the purchasing card either through attending the State Auditor's Office training seminars or from DOE personnel. However, based on our study, cardholders and the coordinator have not been properly trained as evidenced by our findings. We also found the DOE has no control in place to ensure all cardholders receive proper training. We were unable to find any record of seven of the eleven cardholders having received cardholder training from the State Auditor's Office. Five of the seven cardholders for whom we could find no record of training are assigned to the DOE's Conference Center. The DOE does not maintain a record of which cardholders have attended training sessions conducted by the State Auditor's Office, however, we were provided a listing by the State Auditor's Office of all cardholders who have received training since November 2001. Only four of the eleven cardholders from the DOE were included in this listing. There was no indication on the State Auditor's listing that the DOE's card coordinator had attended the coordinator training.

Section 11 of the State Auditor's "State Purchasing Card Program Policies and Procedures" addresses training as follows:

"The Purchasing Card Program is available to provide training to all cardholders and coordinators. Training provided by the Purchasing Card Program is mandatory for all new applicants. It is the agency coordinator's responsibility to ensure that cardholders have received the proper training."

Further, Section 11.1 states:

Coordinator Training Coordinator training is held once per year and focuses on the responsibilities of the coordinator, including master statement reconciliation, dissemination of information, and card issuance."

Also, Section 11.3 states:

Monthly Training: Cardholder training is conducted monthly and is open to existing cardholders and new purchasing card applicants. These training sessions offer basic instruction on the Purchasing Card Policies and Procedures. Contact the Purchasing Card Program to enroll in training.”

Staff at the DOE’s Conference Center said that an individual from the DOE’s Central Office had come to the Conference Center one time and offered training on the proper use of the purchasing card, however this had been prior to 2002. We saw no evidence on the State Auditor’s training attendance listing that the individual who reportedly conducted that training had ever attended a training session. Without proper training, cardholders may use their purchasing card for purposes not authorized by the State Auditor’s “State Purchasing Card Program Policies and Procedures” and the coordinator may not be aware of the misuse.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 11 of the State Auditor’s “State Purchasing Card Program Policies and Procedures.”

Agency’s Response

Cardholder and Card Coordinator trainings have been held for all staff members of the Agency, except for the newest cardholder at the Cedar Lakes Conference Center. With the exception of the two most recent Card Coordinator seminars the Agency’s Card Coordinator has attended all required training sessions. These sessions included the following: “State Purchasing Card” session at the 1999 Purchasing Conference held September 29, 1999, in Canaan Valley; the 2000 Purchasing Card Coordinator’s Seminar held July 13-14, 2000, in Parkersburg; a follow-up in-house training session at Cedar Lakes Conference Center for staff of both offices during FY2001; “The Value of the P-Card” session at the 2001 Payment Processing Seminar held October 16, 2001, in Canaan Valley;

FY2002 monthly training conducted on campus by Geneva Bell and Robin Righter of the Purchasing Card Staff; “Purchasing Card Program” session at the 2003 Payment Processing Seminar held September 29, 2003, in Pipestem. Proof of attendance at these meetings can be evidenced by certificates of completion, notes in the materials, registration documents and attendance logs. Whenever possible the Agency will request from the Auditor’s Office that certificates of completion be issued for all new cardholders upon completion of the training which, since November 2001, has been required before any card can be issued.

Due to the relative static nature of the Purchasing Card policies since the cards inception, the standard method of communicating changes in the program has been via emails or verbal. As a result of the auditor’s assumption that cardholders “have not been properly trained as evidenced by their findings”, training sessions will be scheduled as soon as possible to strengthen the Agency’s existing internal controls and review the most current version of the Purchasing Card Policies and Procedures Manual. Attendance will be required for all three Agency Coordinators and all Purchasing Cardholders.

All Receiving Reports Prepared by One Individual

The DOE has no internal controls in place to ensure that receiving reports are properly completed for items which are paid for with the purchasing card. The DOE utilizes an internally generated receiving report which is used for the receipt of all goods. However, our testing revealed that the State Auditor’s Office policies governing receiving reports for commodities were not being followed by the DOE’s Conference Center. All receiving reports at the Conference Center are being prepared by one individual, whether or not that individual actually received the goods.

Section 8.1.1 of the State Auditor's "State Purchasing Card Programs Policies and Procedures" states:

"8.1.1 Receiving Reports:

West Virginia State Auditor's Office Purchasing Card Procedures for the implementation of HB 3034:

When paying for items using the purchasing card, a receiving report must be provided. The receiving report may be electronic or manual and must contain the vendor name, description and quantity of the commodities received, and a signed acknowledgment of receipts by the cardholder or employee receiving the commodities.

If the cardholder orders, pays for, and receives the commodities, the purchasing card log sheet will constitute a receiving report. The cardholder will sign the invoice or receipt acknowledging receipt of the commodities and place the date received in the appropriate column on the log sheet. If the cardholder is reconciling electronically, the receiving report may be in an electronic format. However, the cardholder will still be responsible for signing the invoice or receipt.

If the cardholder orders and pays for commodities and an individual other than the cardholder receives the commodities, the individual receiving the commodities is responsible for completing a receiving report. The report can be printed from the electronic reconciling software (STARS) and signed by the person receiving the commodities or a manual receiving report may be prepared. After signing the receiving report, the person receiving the commodities must forward it to the cardholder who will place the receiving report with the invoice or receipt for the commodities received."

The Conference Center was under the impression that the individual who has been designated as the official receiver with a user profile established in FIMS should be completing the receiving reports. The Conference Center also stated that in most cases the receiving reports are prepared from a bill of lading or packing slip signed by the individual actually receiving the goods. With purchasing card payments being authorized by a receiving report prepared by someone other than the person physically receiving the goods, the

DOE's Conference Center could be paying vendors for goods not actually received or for goods misrepresented on the receiving reports.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 8.1.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

Due to a staffing change, which immediately preceded fieldwork, the Cedar Lakes Conference Center has, since the dates of fieldwork, initiated the use of purchase orders automated to generate our internally-developed and Auditor's Office approved receiving report. Staff at Cedar Lakes who are appropriate to the receiving function have been identified and will be authorized to complete the receiving reports in full compliance with HB 3034. A single staff person will no longer complete the receiving report for all purchases at the facility. However, this staff person will continue to be the properly authorized person for the receiving function in the main office of the facility.

The additional staff designated as receivers will strengthen the Agency's internal controls to adequately comply with both WV Code 5A-8-9 and Section 8.1.1 of the State Purchasing Card Program Policies and Procedures.

Receipts and Invoices

The DOE has no internal controls in place to ensure that proper receipts are received and maintained by the purchasing card user or to ensure that proper invoices are required of, and received from the vendor. We noted the DOE permits payment of invoices that show outstanding balances; however, applicable rules and regulations require invoices issued by the vendor to indicate a zero balance or contain a notation that the invoice was paid by credit

card. As policy, we noted the DOE's personnel - not the vendor - will mark invoices that do not show zero balances as being paid by credit card. Of the 80 transactions tested for the DOE's Central Office, 38 transactions did not have receipts in compliance with the policies and procedures prescribed by the State Auditor's Office. Of the 80 transactions tested for the DOE's Conference Center, 19 receipts were not in compliance with the State Auditor's "State Purchasing Card Program Policies and Procedures."

Section 7.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures" states:

Receipts: An itemized receipt must be obtained for each transaction placed on the card. A receipt must contain certain specific information and meet certain conditions:

- Receipts must be itemized and include a description, unit cost, quantity, and total cost for each item. Use of "Miscellaneous" or "Merchandise" is not acceptable.
- Receipts must show no balance due or be marked "Paid".
- Receipts must be totaled.
- The following may serve as a receipt: detailed cash register receipt which states the name of the vendor, an itemized invoice indicating that it was paid by credit card, or an itemized receiving report that indicates price per item and total amount paid.
- A receipt must have an indication that the payment was by credit card. A reference on the receipt such as "credit card" or "purchasing card" is acceptable.
- All receipts should be kept in chronological order by date of purchase."

By requiring and not maintaining proper receipts to support purchasing card transactions, the DOE may be unable to demonstrate purchases made were for official State business. Cardholders are not requiring vendors to provide them with appropriate receipts which meets the aforementioned criteria when making purchases with their purchasing card.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 7.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

The Agency attempts to get proper receipt information from the vendors. However, due to the nature of a credit card charge, vendors are not always compliant and because receipt of documentation does not occur until subsequent to the charge, sometimes the invoices are not noted as paid. In these instances, the Agency has no option but to note on the receipt that it has been paid, thus preventing the invoice from being processed as a duplicate payment. Receipts will continue to be marked "Paid by Credit Card" upon charging by respective cardholders.

If proper documentation cannot be produced by the vendor, any subsequent payments will be processed as invoices with a paper check issued. The Auditor's Office will be notified and a request will be made that the vendor not be allowed to participate in the Purchasing Card Program, statewide.

The Agency would like to respectfully request that the specific instances of the sample be shared in order that any other instances of non-compliance be identified to allow for correction of any weak internal controls.

Stringing of Invoices

The DOE has no controls in place to prevent a cardholder from circumventing the dollar limitation for purchases by stringing purchases. Through our testing of 80 purchasing card transactions, we noted six instances of "stringing of invoices" totaling \$9,336.94 by

cardholders at the DOE’s Conference Center. Ten of the 80 transactions in our sample were included in the six instances of stringing.

Section 6.3 of the State Auditor’s “State Purchasing Card Program Policies and Procedures” prohibits the “stringing of invoices” and states:

“**Stringing:** Stringing is the intentional manipulation of the ordering, billing, or payment process in order to circumvent the transactions limit. Stringing includes:

- Splitting an invoice for more than the individual transaction limit into more than one transaction.
- Collusion with a vendor to split an order into separate invoices.
- Stringing of payments is prohibited.”

These instances of stringing are detailed in the following table:

<u>No.</u>	<u>Vendor</u>	<u>Trans. Date</u>	<u>Description</u>	<u>Amount</u>	<u>Total</u>
1.	Harris Oil Co., Inc.	12/26/02	Gasoline	\$1,000.00	
	Harris Oil Co., Inc.	12/26/02	Gasoline	194.10	\$1,194.10*
2.	American Hotel Reg. Co.	12/20/02	Stack Chair Glides	770.00	
	American Hotel Reg. Co.	12/20/02	Stack Chair Glides	770.00	1,440.00*
3.	Harris Oil Co., Inc.	10/20/03	Gasoline	665.61	
	Harris Oil Co., Inc.	10/20/03	Gasoline	665.61	1,331.22*
4.	Coca-Cola Bottling Co.	03/28/03	Soda For Machines	783.47	
	Coca-Cola Bottling Co.	03/28/03	Soda For Machines	783.48	1,566.95*
5.	Coca-Cola Bottling Co.	06/18/03	Soda For Machines	926.25	
	Coca-Cola Bottling Co.	06/18/03	Soda For Machines	926.25	1,852.50*
6.	Electronic Speciality	08/08/03	Fire Alarms	650.89	
	Electronic Speciality	08/08/03	Fire Alarms	650.89	

<u>No.</u>	<u>Vendor</u>	<u>Trans. Date</u>	<u>Description</u>	<u>Amount</u>	<u>Total</u>
	Electronic Speciality	08/08/03	Fire Alarms	650.89	<u>1,952.67*</u>
	Total				<u>\$9,336.94</u>

* Total transaction amount exceeded individual cardholder's single transaction limit of \$1,000.00.

Stringing of invoices may result in the circumvention of the Department of Administration's purchasing procedures as well as the Department of Education's internal purchasing procedures. Also, stringing of invoices encourages and allows for unauthorized purchases being paid with the purchasing card.

We believe these instances of stringing occurred because the cardholders did not receive the proper training in the use of the purchasing card. Also, we were told that the Conference Center's former Executive Director told the cardholders to continue this practice of stringing even after the Conference Center was cited for stringing by the State Auditor's Office's Post Audit of purchasing card transactions.

We recommend the DOE comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Section 6.3 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

Contrary to the auditor's opinion related to stringing of invoices and their incorrect assumption that occurrences of stringing were due to lack of training, stringing has been properly defined, exemplified and prohibited on numerous occasions, beginning with the in-house training session held at Cedar Lakes Conference Center during FY2001. The issue

was again communicated to all Purchasing Cardholders after the results of the first Post-Audit was completed and instances of stringing were discovered. A copy of the response related to that finding is attached. As described in the audit report, we believe the occurrences defined from the sample to be due to the willful neglect of former staff members. The Agency has removed that staff member, instituted more stringent policies and procedures, required additional, properly approved documentation for each purchase, and held discussions with appropriate staff requiring they immediately report any suspicious activity to the Agency's Chief Financial Officer.

Purchasing Section's Authorization for Temporary Space Not Obtained

Through our testing of the purchasing card transactions, we determined there where no controls in place to ensure cardholders were knowledgeable of the Department of Administration's Purchasing Division's Rules and Regulations. We noted nine instances totaling \$14,075.29 where temporary space was leased without obtaining the required authorization of the Leasing Section.

Title 148, Series 2, Section 9 of the Department of Administration's Purchasing Division's Leasing Section Legislative Rules requires authorization of the Leasing Section when the rental and other costs exceed \$2,000.00 or if an agreement or contract must be executed to obtain the space. Title 148, Series 2, Section 9 states:

“The Secretary of Administration may authorize spending units to lease temporary space, other than office space, including conference meeting rooms, as well as for athletic events, seminars or other educational, recreational or social events, when the rental and other costs for that space do not exceed two thousand dollars (\$2,000.00) or when necessary to meet bona fide emergencies arising from unforeseen causes, unless an agreement or contract must be executed. Such leases shall not have a term exceeding six (6) months. If an agreement or contract must be executed to obtain the space, the agreement or contract must be approved by the Leasing

Officer. The spending unit shall utilize the form made available by the Leasing Officer to process payment.”

Also, Section 1.3 of the State Auditor’s Office “State Purchasing Card Program Policies and Procedures” states in part:

“Policy: . . . It is the cardholders responsibility to be knowledgeable of and follow all Purchasing Card Policies and Procedures, as well as all applicable purchasing laws and guidelines. . . .” (Emphasis added)

Further, Section 6.1 of the State Auditor’s Office “State Purchasing Card Program Policies and Procedures” states in part:

“General Instructions: The purchasing card is a method of payment for small dollar transactions. All current purchasing policies must be followed regardless of the method of payment. . . . (Emphasis added)

We believe these instances of purchasing without the proper authorization occurred as a result of the cardholders not being aware of the aforementioned requirement because they did not receiving adequate training in the use of the purchasing card.

We recommend the DOE comply with Chapter 5A, Article 8 Section 9 of the West Virginia Code, as amended, and establish internal controls to ensure compliance with Sections 1.3 and 6.1 of the State Auditor’s “State Purchasing Card Program Policies and Procedure.”

Agency’s Response

This finding was based upon the occurrence of a Hospitality form totaling less than \$5,000, which contained a meeting room (temporary space) rental. Because the temporary space charges were included among other costs and the form required in this situation is a TMO 3.0 (Hospitality form), the form had not been submitted for approval to the Leasing Section of the Department of Administration. Additional steps in the Agency’s

approval process will be instituted to screen all Hospitality forms containing charges for temporary space and route them to the attention of the Leasing Section of the Department of Administration for approval.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

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

Given under my hand this 17th day of May, 2004.



**Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division**

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Governor; Attorney General; State Auditor; and, Director of Finance Division, Department of Administration.