



A REPORT TO THE WEST VIRGINIA LEGISLATURE

Post Audits Subcommittee

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The Honorable Mike Hall
The Honorable Jeffrey V. Kessler

House Members

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The Honorable Eric Nelson, Jr.
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The Honorable William Cole III, President
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Post Audits Subcommittee, Co-Chair
Room 229 M, Building 1
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Charleston, WV 25306

The Honorable Timothy Armstead, Speaker
West Virginia House of Delegates
Post Audits Subcommittee, Co-Chair
Room 228 M, Building 1
State Capitol Complex
Charleston, WV 25306

Dear Mr. President and Mr. Speaker:

In compliance with the provisions of the *West Virginia Code, Chapter 4, Article 2*, as amended, the Legislative Auditor conducted a compliance audit of the Purchasing Card Program at Shepherd University for the period of July 1, 2012 through June 30, 2013. Additionally, a compliance audit was conducted of Inventory Management and Travel Management at Shepherd University for the period of July 1, 2014 through June 30, 2015.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit disclosed certain findings, which are detailed in this report. Shepherd University's management response to the audit findings is included at the end of the report.

Respectfully submitted,

Denny Rhodes

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OBJECTIVES and CONCLUSIONS

OBJECTIVE ONE

Has Shepherd University developed and documented internal control and accounting procedures that ensure P-Card usage is consistent with the *WV State Auditor's Office Purchasing Card Policy and Procedures Manual* and developed guidelines for distribution to cardholders? If yes, have these procedures been submitted in writing to the State Auditor's Office P-Card Division?

Conclusion

Yes, Shepherd University has developed and documented internal control and accounting procedures that, if followed, could ensure P-Card usage is consistent with the *WV State Auditor's Office Purchasing Card Policies and Procedures Manual*. These procedures were submitted to the State Auditor's Office P-Card Division on August 27, 2012 in response to a letter from Glen B. Gainer, III, former State Auditor, requesting Shepherd make modifications to its internal controls and accounting procedures to bring the University into compliance and demonstrate proper program oversight.

Related Findings and Recommendations

No Finding

OBJECTIVE TWO

Were Shepherd University P-Card purchases made in compliance with the policies and procedures of the University, Higher Education Policy Commission, and the State Auditor's Office?

Conclusion

Transactions reviewed have revealed that issues with Shepherd University's P-Card program continued to exist and purchases were not always made in compliance with the above mentioned policies and procedures. Issues noted include unallowable purchases, purchases that appear to be for personal use, evidence of circumventing P-Card transaction limits, possible P-Card delegation and failure to follow established procedures such as obtaining employee verification of transactions and supervisor/P-Card coordinator/sub-coordinator approval.

Related Finding and Recommendation

Finding 1: Approximately \$400,000 of Purchases Not in Compliance with Established Guidelines

- 1.1 The Legislative Auditor recommends Shepherd University comply with the policies and procedures of the University, Higher Education Policy Commission, and the State Auditor's Office by closely monitoring P-Card purchases to ensure compliance and the legitimacy of expenditures.
- 1.2 The Legislative Auditor recommends Shepherd University attempt to recoup \$17,199.66 in overpayments to vendors.

OBJECTIVE THREE

Has Shepherd University maintained all required documentation for each P-Card transaction as required by the *WV State Auditor's Office Purchasing Card Policy and Procedures Manual*?

Conclusion

Shepherd University has not maintained all required documentation for each P-Card transaction as required by the *WV State Auditor's Office Purchasing Card Policy and Procedures Manual*. Approximately 5% of required documentation to be reviewed was missing; however, this is an improvement over the 19% reported to the Post Audits Subcommittee in October 2015.

Related Finding and Recommendation

Finding 2: Missing Documentation

- 2-1. The Legislative Auditor recommends Shepherd University monitor cardholder documentation submissions to ensure that all supporting documentation is present, complete, and legible and that Shepherd University retain proper supporting documentation as outlined by the *WV State Auditor's Office Purchasing Card Policies and Procedures Manual* and *Shepherd University Purchasing Card Internal Controls and Policies & Procedures*.

OBJECTIVE FOUR

Were inventory records properly maintained and documented, including the timely documentation of transferred and disposed assets?

Conclusion

Shepherd University does properly maintain inventory records, including the timely documentation of transferred and disposed assets. The review of inventory records revealed a few discrepancies in the records; however, the assets were accounted for. All discrepancies have been communicated to Shepherd University in a letter to management.

Related Finding and Recommendation

No Finding

OBJECTIVE FIVE

Were asset tags properly attached to fixed assets with a value over \$1,000 and all computers/tablets?

Conclusion

Asset tags were properly attached to the fixed assets with a value over \$1,000 and all computers/tablets with only a few discrepancies. All assets were accounted for. Any discrepancies have been communicated to Shepherd University in a letter to management.

Related Finding and Recommendation

No Finding

OBJECTIVE SIX

Was an annual physical inventory count conducted?

Conclusion

Shepherd University divides its inventory listing into three sections. These sections are comprised of groups of buildings on campus. On a rotating three year cycle the chief procurement officer emails an inventory listing to the department heads and asks them to update inventory. Allowing department heads to confirm the accuracy of inventory and to make adjustments to the inventory records does not allow for an objective audit of inventory; therefore Shepherd should consider having the procurement office complete the inventory audit. Specific issues have been communicated to Shepherd University in a letter to management.

Related Finding and Recommendation

No Finding

OBJECTIVE SEVEN

Were the firearms currently utilized by the Shepherd University Police Department properly accounted for?

Conclusion

Yes, Shepherd University does properly account for the firearms currently utilized.

Related Finding and Recommendation

No Finding

OBJECTIVE EIGHT

Did Shepherd University follow Higher Education Policy Commission, Shepherd University, and State travel policies and procedures for payment and reimbursement of travel expenses, including P-Card travel transactions?

Conclusion

Shepherd University has followed WVHEPC, Shepherd University and State travel policies and procedures relating to the payment and reimbursement of travel expenses.

Related Finding and Recommendation

No Finding

FINDINGS and RECOMMENDATIONS

FINDING 1: APPROXIMATELY \$400,000 OF PURCHASES NOT IN COMPLIANCE WITH ESTABLISHED GUIDELINES

Shepherd University was not in compliance with established guidelines for approximately 25% of P-Card transactions reviewed for FY 2013. Issues included:

- approximately \$302,000 in purchases that had no evidence of cardholder verification or supervisory/P-Card coordinator approval¹;
- over \$49,000 in purchases that were missing required documentation;
- purchases of over \$1,200 that were not allowed or were for personal use;
- over \$17,000 of purchases that were duplicate payments;
- almost \$4,000 in purchases that appear to have been made by someone other than the cardholder;
- approximately \$27,000 of purchases that circumvented the P-Card transaction limits by more than \$9,000; and
- approximately \$32,000 in purchases that included \$2,000 in unrecovered WV sales taxes.

Verification and Approval

Over 81% of missing approval signatures are those of the P-Card coordinator.

The Legislative Auditor noted 898 purchases totaling approximately \$302,000 had no evidence of cardholder verification and/or supervisory/P-Card coordinator review. Shepherd policy requires a cardholder to review and sign his/her individual log sheet to verify all charges are legitimate and approved for payment. The log sheet with supporting documentation is then submitted to the supervisor of the cardholder, who subsequently must review and sign off on the log sheet. The log sheet and supporting documentation is then submitted to Procurement Services for review. After a review is complete and all documentation is approved, the coordinator/sub-coordinator² must sign the log sheet as verification of compliance. Over 81% of the missing approval signatures are those of the P-Card coordinator. A breakdown of the missing signatures is as follows:

¹ Includes \$11,103.07 of the missing documentation, unallowable purchases, delegated purchases, and/or unrecovered taxes.

² There is one P-Card coordinator and two sub-coordinators, any one of which is authorized to review and sign the log sheets.

Table 1.

Type of Missing Signature	Number of Transactions	Total Dollar Amount of Transactions
Coordinator's Signature*	728	\$180,614.11
Supervisor's Signature*	106	\$25,437.59
Cardholder's Signature	21	\$87,739.27
Multiple Signatures Missing	43	\$8,269.90
Totals	898	\$302,060.87

*July and August 2012 P-Card logs required supervisor OR coordinator signature approval; the remaining months required supervisor AND coordinator signature approval. An exception was made for the month of September 2012 to allow for implementation and adjustment to the new requirements; therefore, those transactions were not noted as being out of compliance with the requirement.

Additionally, adequate supporting documentation was missing in relation to over \$49,000 in purchases. Itemized receipts are required for all transactions and hospitality forms are required for specific types of transactions; however, purchases were approved and paid without the correct supporting documentation in at least 196 instances.

Unallowable and Personal Use

Shepherd employees made P-Card purchases for items not allowed and for items that appear to be for personal use. Items noted include flight/travel insurance, text books for class, grocery items, personal meals, a payment for a seat change on a flight, a limited edition copy of Vogue magazine and sexual enhancers.³ Although the dollar amounts per purchase could be considered immaterial, ranging from \$1.00 to \$258.10, the responses from Shepherd University management about the purchases are of concern, which are as follows:

Travel Insurance

Concerning travel insurance, Shepherd has stated:

The University is not clear on why the strategic use of flight insurance is presumed by the Legislative Auditor to be a bad idea. We have found no rule which prohibits purchase of flight insurance.

According to the Higher Education Policy Commission procedural rule and the Shepherd University Board of Governors' policy, flight insurance is not a reimbursable travel expense⁴; thus, it can be assumed that if an employee purchasing flight insurance cannot request reimbursement from the State for such a purchase then it would also not be appropriate to charge to a P-Card.

³ Referenced in a letter to Post Audits Subcommittee presented on October 18, 2015. The report can be found at http://www.legis.state.wv.us/legisdocs/reports/agency/PA/PA_2015_560.pdf.

⁴ Procedural Rule Title 133, Series 29, Section 9.2 and Shepherd University Board of Governors Policy 14, Section 9.1.2

Personal Meals

During the October 2015 interim meeting, the Legislative Auditor reported that one specific employee charged personal meals on his P-Card. A list of 36 transactions was provided to Shepherd. Shepherd University's General Council responded in a letter dated November 2, 2015, as follows:

Of the 36 transactions, we have confirmed that all 36 were specifically for team travel...

However, documentation acquired from Shepherd contradicts this statement showing that the employee in question was required to pay back at least nine of the charges due to being for personal use. The same employee had his P-Card revoked in June 2013 and was required to redo all of the P-Card training before being issued a new one. Therefore, all 36 transactions apparently were not for team travel.

Sexually Related Items

During the above mentioned interim meeting, the Legislative Auditor reported that condoms, *K-Y Jelly*, and *Vital Erotic Shots* (a sexual enhancer) were purchased under the description "RA Program" and approved for payment. Shepherd responded in a letter, as follows:

We have identified 11 student programs that were conducted proximate to the two purchases, and we have student participation lists for those programs, all provided as Exhibit D. The University has a strong confidence level that these items were not for personal use of the cardholder. The University believes that the procurement and distribution of both condoms and k-y jelly are of a personal hygiene nature and are appropriate. The University believes that the procurement or distribution of any "sexual enhancement" item by anyone other than a medical professional was poor judgment, but not unlawful. Staff has been directed to not repeat that practice.

The Legislative Auditor reviewed "Exhibit D" provided by Shepherd University officials. The programs listed did not appear to be associated with any topic that might include a discussion of "sexually related personal hygiene items"; however, an article on Shepherd University's student newspaper webpage, "The Picket," quotes Shepherd University's Acting Vice President for Enrollment Management as stating:

We use (condoms), it's a good thing. It is not unusual for the program to use K-Y Jelly. What did stand out was that the program also included something called, wait for it, Vital Erotic shot for \$2.87...two of them, so I imagine that was probably a give away.

Although Shepherd believes the procurement and distribution of condoms are appropriate, the assertion that the purchase and distribution of three 2-ounce tubes of *K-Y Jelly*, 3.5 ounces of *Wet Kiwi Strawberry Lubricant*, an ounce of *Mandelay Gel*, and two *Vital Erotic Shots* are beneficial to the Shepherd RA program or the State of WV is questionable. **The Legislative Auditor is aware that the dollar amounts expended for these items are minimal; however, this is an example of Shepherd’s lack of oversight over the P-Card program and what is considered to be appropriate expenditures of State money.**

P-Card was used by someone other than the authorized cardholder allowing access to State funds by unauthorized users.

Evidence of P-Card Delegation

“P-Card delegation is the practice of allowing an individual other than the cardholder whose name 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.” This quote is taken directly from the *State Auditor’s Office Purchasing Card Policies and Procedures*, which also states “P-Card delegation is prohibited.” However, Shepherd University had fourteen instances of improper P-Card delegation totaling \$3,795.14. In three instances it appears that a cardholder’s spouse made online purchases totaling \$307.36. The confirmations for the purchases were sent to the spouse’s work email (spouse is not an employee of Shepherd University). These emails were then forwarded to the cardholder. The items purchased were also shipped to a residential address. The remaining eleven instances consisted of what appears to be online purchases totaling \$3,487.78 made by other Shepherd University employees who do not have P-Cards.

Evidence of Circumventing P-Card Transaction Limits

On July 1, 2012, a cardholder purchased a total of \$6,444.97 from Best Buy, consisting of three separate charges of \$2,486.76, \$2,486.76, and \$1,471.45. The cardholder’s transaction limit was \$2,500.00. Stringing was used to circumvent the transaction limit. Stringing is the action of taking a single purchase that exceeds the P-Card’s transaction limit and breaking it up into smaller, multiple purchases that are lower than the assigned limit.

Table 2.

Cardholder 1			
\$2,500 Daily Transaction Limit			
Date	Vendor	Items	Total of Purchase
7/1/12 at 15:24	Best Buy	Large Screen Televisions & Wall Mounts	\$2,486.76
7/1/12 at 15:26	Best Buy	Large Screen Televisions & Wall Mounts	\$2,486.76
7/1/12 at 15:31	Best Buy	Miscellaneous Installation Items	\$1,471.45
Total			\$6,444.97
Excess Amount Over Limit			\$3,944.97

An additional cardholder made purchases on December 7, 2012 and April 1, 2013 from Weiss Brothers. In both instances the P-Card transaction limit of \$7,500 was circumvented. On December 7, 2012 two purchases were made in the amounts of \$6,522 and \$4,822. On April 1, 2013 two purchases were made in the amounts of \$6,879 and \$2,299.

Table 3.

Cardholder 2		\$7,500 Daily Transaction Limit	
Date & Time	Vendor	Items	Total of Purchase
12/7/12 12:30:45	Weiss Brothers	Janitorial Supplies	\$6,522.14
12/7/12 12:32:13	Weiss Brothers	Janitorial Supplies	\$4,822.10
Total			\$11,344.24
Excess Amount Over Limit			\$3,844.24

Table 4.

Cardholder 2		\$7,500 Daily Transaction Limit	
Date	Vendor	Items	Total of Purchase
3/28/13*	Weiss Brothers	Janitorial Supplies	\$6,878.72
3/28/13*	Weiss Brothers	Janitorial Supplies	\$2,299.05
Total			\$9,177.77
Excess Amount Over Limit			\$1,677.77

*Time stamp was not available; however, order numbers are 074544 and 07545, respectively.

It should be noted the instance of P-Card circumvention involving Cardholder 1 at Best Buy had no evidence of supervisory approval. The two instances involving Cardholder 2 at Weiss Brothers were approved by the supervisor and P-Card coordinator.

Duplicate Payments

Shepherd University overpaid vendors in the amount of \$17,199.66 by inadvertently paying invoices more than once for the same purchases. (*see Table 5*) By overpaying these vendors, these funds were not available for actual University expenses. Therefore, Shepherd should attempt to recoup the money from the vendors.

Table 5.

Duplicate Payments		
Vendor	University Department	Total of Purchase
CDW Government	Facilities Management	\$17,022.84
PayPal Techmethods	Wellness Center	124.92
On Stage Dance Wear	Art	51.90
Total Amount of Overpayments		\$17,199.66

WV Sales Tax

Additional instances of non-compliance included 161 purchases resulting in \$1,851.35⁵ in unrecovered WV Sales Tax. Although the dollar amount is not substantial and the money returns to the State as tax revenue, this is still a loss of funding to the University.

Conclusion

Insufficient monitoring of P-Card transactions provides the opportunity for fraudulent, unethical, and frivolous spending behaviors.

Shepherd University management did not monitor or enforce the policies and procedures developed for P-Card usage. The *State Auditor's Office P-Card Policies and Procedures* were either misunderstood or ignored. Safeguards against fraud and misuse submitted by Shepherd University to the State Auditor appear to have not been consistently followed. By not having the proper oversight of P-Card transactions there is a risk that Shepherd employees could still be making unallowable purchases and not efficiently spending state dollars as was the situation with the previous Dean of Student Affairs.⁶ Insufficient monitoring of P-Card transactions provides the opportunity for fraudulent, unethical, and frivolous spending behaviors.

Recommendation

- 1.1 The Legislative Auditor recommends Shepherd University comply with the policies and procedures of the University, Higher Education Policy Commission, and the State Auditor's Office by closely monitoring P-Card purchases to ensure compliance and the legitimacy of expenditures.
- 1.2 The Legislative Auditor recommends Shepherd University attempt to recoup \$17,199.66 in overpayments to vendors.

⁵ Sales tax was derived from P-Card transactions totaling \$31,732.88.

⁶ Former Shepherd University Dean of Student Affairs was convicted for fraudulent use of state funds in December 2015. She accrued over \$85,000 in fraudulent expenses. She was sentenced to five years of probation and must pay \$6,246.43.

FINDING 2: MISSING DOCUMENTATION DOWN FROM 19% TO 5%

Over \$53,000 of purchases reviewed were missing required documentation.

Documentation for approximately 5% of P-Card transactions selected for review⁷, totaling \$53,329.01, was not maintained as required by the policies and procedures of the State Auditor’s Office and/or Shepherd University. Items missing included itemized receipts, hospitality forms, and P-Card logs. In October 2015, the Legislative Auditor reported Shepherd University was missing documentation for approximately 19% of the P-Card transactions reviewed prior to that date. Shepherd was given the opportunity to provide further documentation and was able to produce documents previously reported as unavailable; therefore, reducing the number to 5%.

Missing Documentation

Shepherd’s policy requires documents to be scanned into the State Auditor’s Office imaging system. The original documentation is to be destroyed only after verification that the file is complete and correct in WVFIMS/WVOASIS. When documentation was not found to be on the State Auditor’s Office imaging system the Legislative Auditor requested the supporting documentation from Shepherd University. Shepherd University personnel were unable to provide documentation regarding the transactions in question (*see Table 6*).

Table 6.

Type of Documentation Missing	Number of Transactions	Total Dollar Amount of Transactions
Hospitality Forms	112	\$28,168.88
Itemized Receipts	47	\$8,187.15
P-Card Logs	23	\$3,605.33
Multiple Missing Documents	37	\$13,367.65
Total	219	\$53,329.01

Hospitality Forms and Itemized Receipts

Hospitality forms and itemized receipts are a vital part of the approval process. There is no verification these documents were ever submitted to the P-Card Coordinator and/or the State Auditor’s Office. Items that were not in compliance with WV Code, Rules, etc. could have easily been charged to a P-Card and paid by the University. (*Refer to Finding 1*)

P-Card Logs

The Legislative Auditor also reviewed P-Card logs in reference to transactions selected for review. There were 23 logs that could not be located by Shepherd;

⁷ The Legislative Auditor reviewed 4,572 purchases for FY 2013.

therefore, no verification could be made that purchases related to those logs received proper approval by supervisors and P-Card coordinators.

Recommendation

- 2-1. The Legislative Auditor recommends Shepherd University monitor cardholder documentation submissions to ensure that all supporting documentation is present, complete, and legible and that Shepherd University retain proper supporting documentation as outlined by the *WV State Auditor's Office Purchasing Card Policies and Procedures Manual* and *Shepherd University Purchasing Card Internal Controls and Policies & Procedures*.

INFORMATIONAL ITEM: APPROXIMATELY 28% OF SHEPHERD UNIVERSITY EMPLOYEES HAVE P-CARDS

Shepherd University had 122 P-Cards assigned to employees as of February 2016, per the State Auditor’s Office P-Card Division.⁸ Per the State Auditor’s Employee Notification of Deposit System, there were 435 Shepherd employees issued “regular pay” on February 12, 2016, meaning 28% of regular/full-time employees had a P-Card at that time.⁹ When compared to the percentage of P-Cards to employees of nine other institutions, Shepherd ranked 5th highest.

Additionally, the aggregate P-Card spending limits were compared for the ten State colleges and universities. Shepherd University ranked 4th with an aggregate card limit of \$2,576,001. Table 7 below lists the unaudited information of the ten institutions.

Table 7.

College or University	# of Cards	# of Employees	% of Cards to Employees	Aggregate Card Limit
Fairmont State University	214	416	51%	\$3,949,802
West Liberty University	128	285	45%	\$876,002
WVU	3023	7072	43%	\$27,931,152
School of Osteopathic Medicine	104	264	39%	\$2,322,502
Shepherd University	122	435	28%	\$2,576,001
Bluefield State College	51	190	27%	\$1,251,000
Glenville State College	49	200	25%	\$587,000
WV State University	71	296	24%	\$801,501
Concord University	52	304	17%	\$1,043,002
Marshall University	298	2048	15%	\$9,031,002

When ranked with other institutions, Shepherd University falls within the median range of 27-28%.

Recommendation

- II-1. The Legislative Auditor recommends Shepherd University assess whether or not it is necessary for all current P-Cardholders to have a State issued P-Card.

⁸ These numbers were provided by the State Auditor’s Office and are unaudited.

⁹ Student Assistant, Work Study, and other Part Time or Temporary pay types were eliminated.

APPENDIX A – AUDIT INFORMATION

AUTHORITY

The audit was conducted pursuant to WV Code §4-2, as amended, which 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.”

The Post Audit Division of the Office of the Legislative Auditor is organized under the Legislative Branch of the State and the audits are reported to the Legislative Post Audits Subcommittee. This organizational structure has historically allowed the Division to be organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State.

This communication is intended solely for the information and use of the Post Audits Subcommittee, the members of the WV Legislature, management of Shepherd University, and WV taxpayers. Once presented to the Post Audits Subcommittee this report is a matter of public record and its distribution is not limited. The reports are designed to assist the Post Audits Subcommittee in exercising its legislative oversight function, to provide constructive recommendations for improving State operations, and as a report of agency activities to the WV taxpayers.

SCOPE

The audit of Shepherd University included the period of July 1, 2012 through June 30, 2015. The audit scope focused on Shepherd University’s Purchasing Card program for fiscal year 2013; travel management for fiscal year 2015; and inventory management for fiscal year 2015. Included was a review of applicable internal control policies and procedures, compliance with the WV Code, *WV State Auditor’s Office Purchasing Card Policy and Procedures Manual*, WV Higher Education Policy Commission Policies, Procedural Rules, Shepherd University Board of Governors’ policies and the University’s internal policies and procedures applicable to the audit period necessary to answer the audit objectives.

The audit included examining, on a test basis, evidence of compliance with those requirements referred to above and performing other procedures, as necessary. The audit does not provide a legal determination of Shepherd University’s compliance with those requirements.

Shepherd University management is responsible for accurately and efficiently performing all duties mandated under applicable WV Code, the Code of State Rules, Higher Education Policy Commission policies, and its own internal policies. To achieve this Shepherd University must create and maintain policies and procedures to ensure all duties mandated are performed. Additionally, it is the duty of Shepherd University to accurately track and account for all State monies.

Shepherd University management is also responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance 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.

The scope over internal controls involved only assessing those controls that were significant to the audit objectives listed in this report. To conclude on the adequacy of internal controls regarding Shepherd University as a whole was not a specific objective of this audit. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. Any internal control weaknesses discovered have been reported in findings if they were significant to our audit objectives.

This report includes findings regarding significant instances of noncompliance with applicable laws, rules and regulations as related to the objectives. Instances of noncompliance deemed insignificant to warrant inclusion in the report or instances outside the scope of the audit but still meriting attention were communicated in a letter to Shepherd University management.

EXIT CONFERENCE

A draft of the report was sent to management on June 7, 2016 with a request to schedule an exit conference on or before July 31, 2016. The agency did not request a conference.

OVERALL SUFFICIENCY OF EVIDENCE

All testimonial evidence obtained by the audit team was evaluated for objectivity, credibility, and reliability and was obtained under conditions in which the employee was able to speak freely without intimidation. The employees had direct knowledge of their working area and there was no evidence employees were biased. Additionally, we assessed the sufficiency and appropriateness of computer processed information regardless of whether the information was provided to us or was independently extracted by using an Internal Control Questionnaire, assessing the reliability and integrity of data, performing analytical reconciliations, and testing the supporting documentation.

The auditors performed and documented an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence, according to Section 6.69 of the Yellow Book, by documenting internal controls, and performing tests of an appropriate size.

The overall evidence obtained was relevant to the objectives and findings. All evidence supported the findings, giving validity in having a reasonable basis for measuring what was being evaluated. The overall evidence was reliable when tested and can be verified and supported. In establishing the appropriateness of the evidence as a whole, the auditors tested reliability by obtaining supporting documentation, used original documents when available, verified the credibility of testimonial evidence, evaluated analytical review, assessed risk through an analytical risk assessment, and applied auditor judgment on the overall evidence.

When assessing the sufficiency and appropriateness of evidence, the auditors evaluated the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk as described in Section 6.71 of the Yellow Book, by using professional judgment and statistical sampling to determine a sufficient quantity for the testing and to determine the type of evidence needed based on the audit objectives.

The auditors did not identify any limitations or uncertainties in evidence that were significant to the audit findings and conclusions. The evidence obtained in the course of the audit provides a reasonable basis for the findings and conclusions based on the audit objectives.

METHODOLOGY

The audit team gained a comprehensive understanding of the organizational structure, internal control environment, and information systems controls through conducting interviews with relevant University personnel and observing control procedures. Previous audits conducted by Legislative Post Audit and the West Virginia State Auditor's Office were examined and corrective actions reviewed to identify potential ongoing risk areas. The audit objectives for this audit were selected subsequent to assessing the audit risk and significance of Shepherd University's operations. The areas of assessment included:

- Nature and profile of Shepherd University and the legal and regulatory requirements applicable to the agency.
- Internal control environment of Shepherd University.
- The information systems controls of Shepherd University.
- Previous audits of Shepherd University by Legislative Post Audits and corrective actions taken by the agency.
- Potential for fraud and/or abuse.

To gain an understanding of the nature and profile of Shepherd University, the audit team studied the following applicable rules and regulations:

- WV Code §18-B
- WV Code of State Rules Title 133
- Higher Education Policy Commission Policies and Procedures (HEPC)
- WV Budget Office 2012 Expenditure Schedule Instructions
- Shepherd University's Internal Policies and Procedures

Subsequent to the aforementioned actions, the auditors utilized the knowledge gained to identify high risk areas of potential fraud and abuse to develop the following audit objectives.

OBJECTIVE ONE

Has Shepherd University developed and documented internal control and accounting procedures that ensure P-Card usage is consistent with the WV State Auditor's Office Purchasing Card Policy and Procedures Manual and developed guidelines for distribution to cardholders? If yes, have these procedures been submitted in writing to the State Auditor's Office P-Card Division?

We requested a copy of Shepherd University's P-Card policies and procedures. We reviewed the policies and procedures to determine if Shepherd University had developed and documented internal control and accounting procedures in response to the State Auditor's Office examination of the University's P-Card program in mid-2012. The State Auditor's Office noted the following areas of concern:

- Concern about the time that Shepherd University let pass prior to any action being taken regarding questionable purchases;
- Issues with the review and reconciliation process for P-Card purchases;
- Missing and/or inadequate documentation;
- No requirement for managers/supervisors to review transactions of subordinates;

- Absence of procedures for how the CFO and P-Card Coordinator responsibilities are to be performed and documented; and
- A recommendation to develop guidelines for student giveaways, including a dollar limit, and forward to the State Ethics Commission for comment.

We also obtained a listing from the State Auditor’s Office of current P-Cardholders as of February 2016 for all State colleges and universities. This was compared to the number of “Regular Pay” employees obtained from the State Auditor’s Employee Notification of Deposit System for February 12, 2016 to determine a percentage of cardholders per institution.

OBJECTIVE TWO

Were Shepherd University P-Card purchases made in compliance with the policies and procedures of the University, Higher Education Policy Commission, and the State Auditor’s Office?

The population of all P-Card transactions (17,146 total transactions totaling \$9,196,253.74) from FY 13 were obtained. Utilizing auditor judgement, we selected a sample (4,873 transactions totaling \$2,484,876.10) for review. Factors considered were the seasonal spending habits of the agency and the months in which the auditors believed fraud was most likely to occur, in particular, the beginning and ending of a semester; types of vendors; unusual purchases; risk of fraud, etc. We further eliminated transactions that were credits and the corresponding charges and foreign transaction fees. The remaining sample size included 4,572 transactions totaling \$4,971,760.88, or 27% of the total number of transactions.

During review we asked the following questions about each purchase:

- Was the purchase allowable per applicable guidelines?
- Does the purchase appear to be for personal use?
- Is there evidence of P-Card delegation?
- Were WV sales taxes paid and not recovered?
- Was an itemized receipt provided?
- Was a hospitality form provided where applicable?
- Was supervisory approval received (and P-Card Coordinator approval when applicable)?
- Was all supporting documentation provided?
- Does the purchase appear to be extravagant?

After review, we determined that the audit risk was reduced to an acceptable level and that no further work was necessary.

OBJECTIVE THREE

Has Shepherd University maintained all required documentation for each P-Card transaction as required by the WV State Auditor’s Office Purchasing Card Policy and Procedures Manual?

The population of all P-Card transactions (17,146 total transactions totaling \$9,196,253.74) from FY 13 were obtained. Utilizing auditor judgement, we selected a sample (4,873 transactions totaling \$2,484,876.10) for review. Factors considered were the seasonal spending habits of the agency and the months in which the auditors believed fraud was most likely to occur, in particular, the beginning and ending of a semester; types of vendors; unusual purchases; risk of fraud, etc. We further eliminated transactions that were credits and the corresponding charges and foreign transaction fees. The remaining sample size included 4,572 transactions totaling \$4,971,760.88, or 27% of the total number of transactions.

During review we asked the following questions about each purchase:

- Was an itemized receipt provided?
- Was a hospitality form provided where applicable?
- Was all supporting documentation provided?

After review, we determined that the audit risk was reduced to an acceptable level and that no further work was necessary.

OBJECTIVE FOUR

Were inventory records properly maintained and documented, including the timely documentation of transferred and disposed assets?

A sample of 48 fixed assets, with an original cost of \$377,541.78, from FY 15 was selected for review. A sample of 23 vehicles was selected from the vehicle listing for FY 15. All selected items were traced to their location and verified. In addition to tracing inventory and vehicle items to their physical location, we also selected 5 assets and 5 vehicles to be traced from the physical location to the inventory listings. We then selected 5 retired fixed assets and 5 retired vehicles to be reviewed. The samples were selected using auditor judgement. Factors considered were the value of the asset and the risk of theft.

For our trace from physical location to inventory listing, we selected an item or vehicle in its physical location and then verified that the inventory listing was up-to-date and accurate.

For the retired fixed assets and retired vehicles review, we took our selected items from the retired asset listing and then requested retirement documentation from Shepherd University for the items.

After review, we determined that the audit risk was reduced to an acceptable level and that no further work was necessary.

OBJECTIVE FIVE

Were asset tags properly attached to fixed assets with a value over \$1,000 and all computers/tablets?

As noted in OBJECTIVE FOUR, a sample of 48 fixed assets, with an original cost of \$377,541.78, from FY 15 was selected for review. A sample of 23 vehicles was selected from the vehicle listing for FY 15. During our trace from the inventory listings to the physical locations, we verified the asset tags were attached and correct.

After review, we determined that the audit risk was reduced to an acceptable level and that no further work was necessary.

OBJECTIVE SIX

Was an annual physical inventory count conducted?

We interviewed the Procurement Office personnel and were provided documentation of the process and examples of the most recent inventory counts.

OBJECTIVE SEVEN

Were the firearms currently utilized by the Shepherd University Police Department properly accounted for?

We obtained the firearm inventory list for FY 15. We reviewed all firearms by comparing the physical location and identifying information of each firearm with the firearm inventory listing. We verified that Make, Model, Serial Number, Location, and Asset Tag matched the listing.

OBJECTIVE EIGHT

Did Shepherd University follow Higher Education Policy Commission, Shepherd University, and State travel policies and procedures for payment and reimbursement of travel expenses, including P-Card travel transactions?

We obtained a population of all travel related expenses for FY 2015 from WVOASIS. After verification of the accuracy of the population, using RAT-STAT software, we determined a sample size of 35 out of 1,761 transactions, with an Anticipated Rate of Occurrence of 1%, a Desired Precision Rate of 10%, and a Confidence Level of 95%.

During review we asked the following questions about each transaction:

- Was written pre-approval obtained per Shepherd University Board of Governors policy?
- Was a cost analysis performed when applicable to obtain the cheapest mode of transportation?
- Was the GSA rate obtained for lodging?
- Was the Travel Settlement Form accurate?
- Did team travel settlements include a team roster?
- Were all required approval signatures present on the forms?
- Were the receipts proper?
- Was the travel for the benefit of the University?
- If the travel expense was a taxable benefit to the employee, was it reported correctly?
- Were cash advances settled timely and with proper documentation?

After review, we determined that the audit risk was reduced to an acceptable level and that no further work was necessary.

APPLICABLE LAWS, POLICIES, OR AGREEMENTS

West Virginia State Code §4-2-6 (Preparation of Budgets and Reports)

West Virginia State Code §5A-8-9(b) (Duties of Agency Heads)

West Virginia State Code §12-3-10a (Purchasing Card Program)

West Virginia State Code §18B-5-9 (Higher Education Fiscal Responsibility)

West Virginia State Auditor's Office purchasing Card Policies and Procedures manual, Section(s):

- 2.4 – Coordinator Responsibilities
- 2.5 – Internal Controls

- 2.5.2 – Proper Oversight
- 2.5.3 – Physical Controls
- 3.3 – Spending Unit Training
- 4.4 – P-Card Delegation
- 6.1 – General Instructions
- 6.2 – Transaction Limits
- 6.3 – Business-Related Travel
- 6.4 – Usage Restrictions
- 6.7 – Tax Exempt Status
- 6.8 – Hospitality
- 7.1 – Receipts and Receiving Reports
- 9.1 – Fraud
- 9.3 – Failure to Follow P-Card Policies and Procedures

Higher Education Policy Commission Procedural Rule, Title 133:

Series 29, Travel

- 4.1.2 (Employees)
- 9.2 (Other Expenses)
- 13.2 (Inventory Management)

Series 30, Purchasing

- 5.1.2 (Authority and Duties of the Vice Chancellor for Administration)
- 8.10.1(a) (Purchasing Card)

West Virginia Higher Education Policy Commission Purchasing Procedures Manual

Shepherd University Board of Governors Policies

Shepherd University Purchasing Card Policies and Procedures (August 2012)

Shepherd University Athletic Department Policies and Procedures Handbook for Coaches (* *The Shepherd University Athletic Department Policies and Procedures Handbook for Coaches has not been approved by the WV Legislature.*)

APPENDIX B – SHEPHERD UNIVERSITY’S MANAGEMENT RESPONSE

The Legislative Auditor provided Shepherd University management the opportunity to respond to the audit findings noted in this report. No response was received.