POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

Bluefield State College - Budget Process

Legislative Auditor: Aaron Allred
Post Audit Division Director: Justin Robinson
GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS STATEMENT

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

POST AUDIT DIVISION
Justin Robinson, Director
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EXECUTIVE SUMMARY

The Legislative Auditor conducted this audit of Bluefield State College pursuant to W.Va. Code §4-2-5. The objective of this review was to determine the extent to which Bluefield State College has established and maintained a comprehensive budgetary process and the extent to which the school has utilized this process in its financial planning decisions.

Frequently Used Acronyms in This Report

BSC: Bluefield State College

Report Highlights


- BSC lacks formal written policies and procedures detailing the school’s budgeting process. While some budgetary documentation was presented, a comprehensive written policy outlining the budgetary process from start to finish was not clearly presented.

- Formal communication is not provided to the departments/divisions advising them to align their budgets with strategic and operating objectives of both BSC central administration, and the individual divisions. Absent this alignment, management may make budgetary decisions without the full understanding of strategic and operating objectives.

- BSC lacks budgetary control and review processes. No clear process was identified which detailed BSC’s method for reporting and addressing budget variances.

Recommendations

1. The Legislative Auditor recommends BSC develop formal written budgetary policies and procedures that address the following objectives:
   - Clearly define organizational objectives and goals.
• Require departments to provide and present documentation that demonstrates how their individual budgets align with the strategic and operating objectives for their respective areas, as well as the College as a whole.
• Enable management to accurately forecast the resources necessary to achieve organizational goals as well as the most efficient way to allocate such resources between departments and programs.
• Outline the formal budgetary control and review processes. This process should detail BSC’s method for reporting and addressing budget variances.
• Ensure all procedures related to the budgeting process are documented and communicated to those involved in the budgetary decision-making process.

Post Audit’s Response to the Agency’s Written Response

The Legislative Auditor transmitted a draft copy of the report to BSC on December 9, 2020. On January 20, 2021, BSC provided its written response to the report (Appendix C). In its response, BSC’s President indicates that the report “confirms my concerns and provides valuable information to augment and enhance the financial directives I have already implemented and will further expand at the College.” Specifically, BSC has hired a new Executive Vice President and placed him over a Financial Operations Task Force, with the goal of identifying and implementing best practices for the College’s internal budgeting process and the financial operations of the College overall.

Issue Summary

In 2019, then-Interim President Robin Capehart made the Legislative Auditor aware of potential deficiencies within the budgeting process of Bluefield State College (BSC). Specifically, concerns were raised about the processes and informal manner by which BSC formulates its internal institutional budget. Based on this information, the Legislative Auditor conducted an analysis that sought to assess the effectiveness of the school’s governance and control processes over budget planning and implementation, as well as to evaluate the various aspects of these processes in comparison to best practices and other higher education institutions.

Through various requests, the Legislative Auditor sought to obtain BSC’s internal institutional budgets for fiscal years 2014 through 2018. However, BSC was unable to provide these documents and instead could only provide the Legislative Auditor with copies of various financial documents, many of which contained informal, handwritten notes and calculations on them. Therefore, the Legislative Auditor determined that BSC has not implemented a formal budgetary process for its internal institutional budget. As such, a complete audit could not be performed. The Legislative Auditor did, however, perform a general review of BSC’s budgetary process from the information available, and noted the following issues:

- BSC lacks formal written policies and procedures detailing the school’s budgeting process. While some budgetary documentation was presented, a comprehensive written policy outlining the budgetary process from start to finish was not clearly presented.
- Formal communication is not provided to the departments/divisions advising them to align their budgets with strategic and operating objectives of both BSC central administration, and the individual divisions. Absent this alignment, management may make budgetary decisions without the full understanding of strategic and operating objectives.
- BSC lacks budgetary control and review processes. No clear process was identified which detailed BSC’s method for reporting and addressing budget variances.

1 The internal institutional budget refers to a budget document that establishes how operating funds are to be distributed among the various units, divisions, offices, programs, etc. within the College itself (i.e. President’s Office, Student Affairs, School of Business, etc.)
Bluefield State College was unable to provide the Legislative Auditor with its internal institutional budgets for fiscal years 2014-2018.

Bluefield State College is one of 11 public four-year institutions of higher education in the State of West Virginia. Between academic years 2013 and 2017, BSC had a total enrollment between 1,762 and 1,384 students. In addition, the College’s average annual expenditures between fiscal years 2014 and 2018 totaled approximately $22 million. Figure 1 below provides full details.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>$27,595,024</td>
<td>$23,365,647</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$25,820,398</td>
<td>$22,787,756</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$25,277,202</td>
<td>$22,087,495</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$25,101,629</td>
<td>$20,791,119</td>
</tr>
<tr>
<td>FY 2018</td>
<td>$26,020,037</td>
<td>$21,047,696</td>
</tr>
</tbody>
</table>


After being informed of concerns regarding BSC’s internal institutional budgeting and spending processes, the Legislative Auditor initiated an audit to evaluate these processes. In a letter dated August 6, 2019, the Legislative Auditor requested information regarding the establishment and governance of BSC’s budgetary system in general, as well as copies of the College’s internal institutional budget for fiscal years 2014-2018.

In response, on August 23, 2019, BSC provided the Legislative Auditor with information it purported to be the institution’s internal budgets for the years requested. However, upon an analysis of these documents, the Legislative Auditor determined that these documents did not constitute a budget document. The documents submitted to the Legislative Auditor included:

1. Five years of the school’s expenditure data, by fund, from wvOASIS;
2. An 'Estimate of Revenues' and an 'Estimate of Disbursements', by fund; and

While the documents submitted by BSC were not the internal institutional budgets requested by the Legislative Auditor, BSC’s written correspondence provided some detail, albeit broad and somewhat vague, regarding its budgetary process. BSC indicated that it uses financial information from prior years to estimate the future costs for each department, and that a department’s budget is based on its size and program operations. In addition, BSC indicated that each department is charged with the responsibility to create an annual budget based upon the prior year’s expenses and to operate within those budgets or request revisions accordingly. However, as has been noted, these internal department budgets were not transmitted to the Legislative Auditor.

Questions remain regarding the type of financial information and special requests used in estimating future departmental cost, as well as the methodology used by the College’s departments.
when establishing their individual budgets ahead of each school year. BSC did not provide policies
outlining the responsibility of central administration regarding the review, approval and oversight
of departmental budgets or methods employed by the school to ensure these budgets were aligned
with organizational objectives and goals.

On December 15, 2019, the Legislative Auditor sent a follow-up request letter to BSC
seeking clarification and additional detail regarding the processes described in BSC’s initial
response. In addition, this second request letter again asked for BSC’s internal institutional
budgets for FY 2014-2018 and specified that a complete institutional budget would comprise
“individual departmental budgets submitted to central administration and/or individual budgets
submitted to central administration by each component unit of BSC.”

In early February of 2020, The Legislative Auditor received a response from BSC
comprising a box of financial documents, consisting of at least several hundreds of pages. The
Legislative Auditor’s review of these documents determined that they consist mainly of BSC’s
internal accounts, various wvOASIS reports, handwritten memos and notes, and various other
financial information from institutional departments. These documents do not constitute an
institutional budget. Moreover, for several reasons outlined below, the Legislative Auditor
determined that this box of information is unintelligible and unauditable.

The first significant issue with the information provided by BSC in response to this second
request is that the vast majority of these documents are for Fiscal Year 2020 and not the five years
requested (FY 2014-2018). While there are various individual documents from prior fiscal years,
the Legislative Auditor did not identify any information for the first year in the audit’s scope, FY
2014, and only a couple of standalone documents for fiscal years 2015 and 2016.

In addition, it is difficult to discern what many of these documents purport to show. Several
of these documents lack crucial information necessary to understand them, such as fiscal years,
descriptive column or row headers, information regarding the source from which the data is
derived, and table headers. Figure 2 below provides an example.

Figure 2
Moreover, the Legislative Auditor determined that many of the submitted printouts were heavily annotated with handwritten notes and calculations. The Legislative Auditor was unable to discern the meaning or context of most of these annotations. Figure 3 below provides examples.

**Figure 3**

Source: Financial and budget documentation submitted to the Legislative Auditor by Bluefield State College.
Interspersed throughout the submitted financial documentation were interoffice memorandums outlining budget proposals by central administration, as well as the related responses to these proposals by individual department heads. In some instances, department heads and the central administration negotiated back and forth over the proposed allocations to various line-items, discussing proposed increases or decreases. While referenced, actual budget proposals were not included in the submitted documentation. Had BSC included the referenced material as part of the school’s budgetary process, a more definitive conclusion regarding the adequacy and effectiveness of this (informal) process may have been drawn.

After reviewing the budgetary documentation submitted by BSC, the Legislative Auditor concludes the College’s budgetary process for its internal institutional budget lacks the formal structure needed to ensure:

1. Funds are allocated to departments in the most efficient manner.
2. Departmental budgets are aligned with organizational goals and objectives.
3. Future financial forecasts and budgetary planning decisions are based on current and historic budgetary data.

Further, based on the information submitted, the Legislative Auditor determines that BSC has not established formal written policies governing the budgetary planning and implementation process for its internal institutional budget. From a review of the correspondence between central administration and department heads, the Legislative Auditor notes that some degree of budgetary planning, while perhaps informal in nature, is carried out within the college. However, nothing in the information obtained by the Legislative Auditor indicates a formal process of efficiently allocating funds to the College’s departments. Generally, a lack of formal, written policies and procedures over budgeting creates a heightened risk of fraud because of the inherent lack of controls for detecting and preventing such frauds that are often established by policies. With respect to BSC, and based on the information received, the Legislative Auditor has serious concerns about the internal budgeting and financial processes of the College.

**Bluefield State College Should Rely on Best Practices and Examples From Other Institutions of Higher Education to Formalize a Process for Internal Budgeting and for the Development of Policies and Procedures.**

The Legislative Auditor reviewed audits conducted regarding the budgeting processes of other institutions of higher education, private non-profits, and other governmental entities to determine the best practices for budgetary processes. The following section provides an overview of the benchmarks and best practices common throughout audits of budgetary processes:

- Institutional budgets should have clear goals and objectives, and organizations should incorporate both long-term and short-term budget plans.
- All departments should prepare budget plans prior to the budget year; when budgeting, outcome goals and objectives are linked to programs and activities.
- The budget should cover all the aspects of the organization’s mission and department managers should set priorities for the coming year at budget conference/committees.
- The budget should be adopted at the proper level of budgetary control which is the fund/department level (i.e., expenditures may not exceed the total appropriation for any department within a fund without approval from central administration).
- The budget policy should establish the parameters of budget amendments and adjustments:
  - Central administration should authorize funding sources increases and decreases as well as associated changes in the expenditure budget at the departmental level.
  - The budget is a dynamic rather than static revenue and spending plan which requires adjustment from time to time as circumstances change. Approval of the Board (or individuals charged with institutional decision-making responsibilities) is required for increases in total department or fund, increases in the level of authorized positions, or changes to capital outlay.
- Budget policy should set contingency goals.
• Central administration should include a contingency amount in the General Fund budget for emergency type expenditures which cannot be foreseen when the budget is adopted. The goal of the contingency should be approximately 5% of the total General Fund budget and should be subject to annual appropriation.

• Appropriate monitoring is performed on budget variances.

• Budget restrictions are documented and communicated with university personnel.

• Processes exist to ensure the accuracy of enrollment estimates, budget adjustments (e.g. capital outlays, debt service transfer), and reserves.

• Final budget approval by executive management is evidenced.

• The Vice President and/or Controller of Budget and Finance has a process in place to communicate and review budget performance with executive management (President of Bluefield State College).

As part of audits of other institutions of higher education, the Legislative Auditor has obtained and analyzed complete internal institutional budgets which reflect the best practices delineated above. As just one example, at the beginning of Southern West Virginia Community and Technical College’s budget planning process, the budget officer works with each department head in creating a budget proposal document. Each division or VP level administrator submits to the budget office a spreadsheet of the previous year’s budget, the proposed increase or decrease, along with details specifying the total requested amount for each line item. The spreadsheet is broken down further by divisions (each department consists of several divisions). For example, the Communications department has three divisions: Advertising and Marketing, Graphics Design Specialists, and Educational Media Services.

The documentation submitted by BSC lacked the level of financial detail described above. Budgetary review and approval processes seemed to primarily entail general, top-level correspondence between central administration and department heads involving organizational-level budget increases or decreases. In some instances, department heads were encouraged to decrease upcoming year budget amounts by a certain percentage, but details regarding specific line-item expenditures or alignment with organizational objectives were missing.

**Having a Comprehensive Budgetary Process Will Help Ensure That Bluefield State College Is Able to Effectively Manage Its Operations and Respond Appropriately to Changes, Such as Declining Enrollment.**

A lack of a comprehensive internal budget impairs the school’s ability to effectively plan for the financial needs of each department as well as the ability to determine the overall spending decisions that are of the greatest benefit to the school. Key areas of need may go unnoticed while unnecessary costs go unchecked. Based on a review of relevant literature concerning budgeting and internal controls, it is the opinion of the Legislative Auditor that the following potential negative effects can result from a lack of comprehensive budgetary policies, procedures, and formal processes:

1. Executive management may make budgetary decisions without a full understanding of strategic and operating objectives.
2. Funds may be misallocated between the departments resulting in a critical lack of funding for departments that have the greatest need and/or departments that (in a given year) could leverage the limited amount of funds for the greatest benefit of the school and for the students enrolled.

3. The institutional budgets for schools are not representative of actual revenues, expenditures, and personnel requirements. Future spending and personnel (hiring) decisions, based on this erroneous data, result in an ever-widening gap between the budget and actual revenues/expenditures/personnel needs.

4. The school may invest in the wrong programs and ultimately fail to serve the community (prospective students miss out on the most useful and relevant educational opportunities).

5. Incentivizes personnel (at all levels of the organization) to request more supplies/resources than necessary to maintain the status quo appropriation level.

6. May have a negative impact on fiscal sustainability; shortsighted policies often cannot be maintained in the long term. Alternatively, a lack of planning means imminent problems or recurrent consequences of capital spending are not foreseen.

7. Procedures for prioritization are especially important for meeting deficit targets or spending targets. If priorities are not communicated in a top-down approach early in the budget preparation process, overspending relative to budget is a likely outcome.

The resources of an organization should be managed effectively and efficiently to achieve its goals and objectives. Thus, for colleges and universities such as BSC, the budgeting process occupies an important place among techniques used in financial planning and control.

Essentially, an effective budgetary process enables an organization to accurately plan, coordinate, control and evaluate its activities. Budgetary systems facilitate greater organizational efficiency in the following ways:

1. Defines goals that realistically reflect the resources available in the organization.
2. Ensures the organization uses funds efficiently by placing necessary constraints and limitations on individual departments/divisions.
3. Provides accurate information for evaluating programs and activities.
4. Enables informed decision-making.
5. Provides a historical reference to be used for future planning.

In addition, the Legislative Auditor notes that BSC has experienced a decline in enrollment in recent years, which invariably impacts one of the school’s most significant sources of revenue: tuition. In the face of steadily declining enrollment, it is the opinion of the Legislative Auditor that sound internal financial management and budgeting is of heightened importance to ensure efficient operations.
Conclusion

The Legislative Auditor concludes that BSC’s budgetary process, as currently implemented and based on the documentation submitted, does not include the level of detail necessary to determine the specific governance and control processes over budget planning, implementation, and monitoring. Moreover, the Legislative Auditor notes that BSC was unable, upon multiple requests, to submit its annual internal institutional budgets. The information submitted to the Legislative Auditor was primarily for FY 2020 and not the years requested. Moreover, the box of financial documents submitted were in such a state of disarray that the Legislative Auditor concludes they are unauditable.

Moreover, the financial documents obtained and reviewed by the Legislative Auditor provide only nominal base-level financial information regarding the College’s financial health but provide little, if any, insight into the methodology behind BSC’s budgetary process. Based upon the results of this review, the Legislative Auditor concludes that the lack of a detailed budgetary system creates an atmosphere of uncertainty regarding current and future financial planning and decision-making.

The Legislative Auditor notes that an informal or deficient budgetary process heightens the risk of misappropriation or fraud, deprives the College of flexibility in responding to challenges that arise, may lead to inefficiencies allocating resources amongst the College’s departments, and inhibits the College’s ability to financially plan for changes in enrollment.

Recommendation

1. The Legislative Auditor recommends BSC develop formal written budgetary policies and procedures that address the following objectives:
   - Clearly define organizational objectives and goals.
   - Require departments to provide and present documentation that demonstrates how their individual budgets align with the strategic and operating objectives for their respective areas, as well as the College as a whole.
   - Enable management to accurately forecast the resources necessary to achieve organizational goals as well as the most efficient way to allocate such resources between departments and programs.
   - Outline the formal budgetary control and review processes. This process should detail BSC’s method for reporting and addressing budget variances.
   - Ensure all procedures related to the budgeting process are documented and communicated to those involved in the budgetary decision-making process.
December 9, 2020

Robin Capehart, President
Bluefield State College
219 Rock St.
Bluefield, WV 24701

President Capehart:

This is to transmit a draft copy of our report on Bluefield State College. As a result of COVID-19, at this time there are no scheduled interim meetings of the Post Audits Subcommittee where the report would typically be presented and released. Rather, the report is planned to be released to the members of the Subcommittee and the public through our website at a date not yet specified, after BSC’s review and comment on the enclosed draft report. Once this date is determined, we will notify you. After the report is released, please be prepared to respond to inquiries from members of the Post Audits Subcommittee regarding the report.

If you would like to schedule an exit conference to discuss the draft, please contact Adam R. Fridley, CGAP, Audit Manager, at 304-347-4880 or adam.fridley@wvlegislature.gov at your earliest convenience to schedule this meeting prior to the release of the report. This meeting will be held virtually, and arrangements can be made to accommodate this meeting through an available application such as Microsoft Teams or Zoom. If you desire to provide a written response to this report, we will need your written comments no later than noon on Friday, December 18, 2020. Thank you for your cooperation and assistance.

Sincerely,

Justin Robinson

Enclosure
Appendix B
Objective, Scope, and Methodology

The Post Audit Division within the Office of the Legislative Auditor conducted this review as pursuant to Chapter 4 Article 2, Section 5 of the West Virginia Code, as amended.

Objectives

The objective of this review was “To determine the extent to which Bluefield State College has established and maintained a comprehensive budgetary process and the extent to which the school has utilized this process in its financial planning decisions.”

Scope

The scope of this review consists of all internal institutional budgets from FY 2016-2020, including all final budgets, communications between the institution’s administration and the individual departments, and any policy or procedure documents that formally establish the school’s budget process. The scope will not include any determinations as to the appropriateness of any budgetary decisions.

Methodology

Post Audit staff gathered and analyzed several sources of information and assessed the sufficiency and appropriateness of the information used as evidence. Testimonial evidence was gathered through interviews or email correspondence with various employees at Bluefield State College. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues, to confirm the existence or non-existence of a condition, or to understand the respective agency’s position on an issue. Such testimonial evidence was confirmed by either written statements or the receipt of corroborating or physical evidence.

Audit staff analyzed various source documents that were primarily provided to us by the Bluefield State College. In addition, the audit team accessed financial documentation from the wvOASIS system. Corroboration of some budgetary information was sought and obtained through the West Virginia Higher Education Policy Commission.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.
January 20, 2021

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

Re: Bluefield State College – 12/2020 Legislative Auditor’s Report

Dear Mr. Robinson:

As reflected in the Legislative Auditor’s Report, when I became Interim President of Bluefield State College in 2019, I perceived potential deficiencies within the College’s budgetary process. This prompted me to request that the Legislative Auditor conduct an analysis of the adequacy of Bluefield State’s then-existing internal institutional budget procedures and practices. I felt this to be necessary to ensure that Bluefield State has a sound Finance Department which uses accounting best practices to serve the College’s strategic and operating objectives. I appreciate the efforts of the Legislative Auditor’s Office in reviewing and analyzing Bluefield State College’s internal institutional budgets for fiscal years 2014 through 2018, and in preparing its report.

Your report confirms my concerns and provides valuable information to augment and enhance the financial directives which I have already implemented and will further expand at the College. I have previously directed the College’s Finance Department to implement new budget processes and practices in anticipation of your findings.

With the insights gained from your Report and my own observations, I have appointed former-Justice Brent Benjamin to form and lead a Financial Operations Task Force for Bluefield State. Justice Benjamin recently joined Bluefield State as its Executive Vice President and General Counsel. This Task Force will be charged with developing and implementing best practices not only for the College’s internal institutional budget, but for the College’s entire financial operations.

The Financial Operations Task Force will be comprised of Justice Benjamin, Provost Ted Lewis, at least one Certified Public Accountant, at least one individual with strong expertise in financial operations for businesses and/or state institutions with a focus on higher education (including wvOASIS, Banner Finance, KRONOS, etc.), and such other individuals/entities which Justice Benjamin believes may be necessary to ensure that the College achieves financial best practices. In anticipation of the formation of this Task Force, with my approval, Justice Benjamin has already created and posted two new positions for the College:
Justice Benjamin and the Financial Operations Task Force will focus on Bluefield State’s entire financial operations to develop a system which is appropriate to a public higher education institution and a modern business operation, and to meet the College’s anticipated future needs for growth and prosperity. The Task Force will develop such recommended changes for the College, including new policies and procedures, as are needed to achieve these objectives. The Task Force will begin by focusing on the deficiencies which I observed after beginning my tenure at Bluefield State -- conclusions which are confirmed in the Legislative Auditor’s Report. These include a lack of formal processes and procedures to ensure optimal fiscal governance, a lack of accountability for financial decisions and operations, a lack of formal review and verification of budgets (i.e., internal audits), a lack of adequate reporting and communications (especially with respect to the need to utilize the most up-to-date computerization of data), a lack of formal budgetary controls (for review, approval, oversight and planning), and a lack of formal processes to immediately address variances in budgets.

The Financial Operations Task Force will address these deficiencies and will develop formal procedures which ensure that the College’s comprehensive financial operations constitute best practices, that the College’s budgetary process aligns with the College’s strategic and operating objectives, that communications and reporting are optimal and technologically appropriate, that redundancy is ensured, that processes are formalized and followed, that sound fiscal decision-making is ensured, and that there is accountability at all levels. In this regard, we anticipate working with other higher education institutions and would very much appreciate the opportunity to continue to rely on the expertise and recommendations of the Legislative Auditor.

Very truly yours,

Robin C. Capehart
President
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