

**WEST VIRGINIA LEGISLATURE**  
**Joint Committee on Government and Finance**

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**Memorandum**

**To: Joint Committee on Government and Finance - Post Audits Subcommittee Members**

**From: Stacy L. Sneed, Acting Director, Legislative Post Audit Division** *ALS*

**Jean Ann Krebs, Acting Assistant Director, Legislative Post Audit Division** *JK*

**Amy J. Swain, Legislative Post Auditor III** *ajs*

**Date: January 7, 2008**

**Subject: FOLLOW-UP REVIEW OF THE AUDIT REPORT OF THE WEST VIRGINIA DIVISION OF FORESTRY FOR THE PERIOD JULY 1, 2002 THROUGH JUNE 30, 2005**

In accordance with your instructions at the interim meeting of the Post Audits Subcommittee on Saturday, July 28, 2007, we conducted a follow-up review to examine the implementation of recommendations contained with the audit report of the West Virginia Division of Forestry (WVDOF) for the period July 1, 2002 through June 30, 2005. In conducting this follow-up, we met with Mr. Charles Randy Dye, Director/State Forester, and various members of the WVDOF staff during the period November 13, 2007 through December 17, 2007, to discuss the implementation of procedures to satisfy the recommendations made in our report.

As part of the follow-up process, we conducted interviews with WVDOF personnel, reviewed internally developed written procedures, and examined documents to determine if the procedural changes had been implemented by the WVDOF. We then evaluated these procedures and ascertained if such procedural changes would resolve the internal control weaknesses noted in the aforementioned report. Our review determined that the WVDOF has complied with the recommendations for eight of the 12 findings and are implementing procedures to comply with the recommendations relating to the three of the remaining four findings. The finding relating to equipment inventory (#7) has been partially complied with.

Additionally, the WVDOF located the "missing" fiscal year 2003 records (see Finding #2 a.) As part of the follow-up, we have reviewed documentation and performed various procedures on financial transactions selected for review that occurred during the period July 1, 2002 through June 30, 2003.



In the following pages of this review, each finding included in the audit report of the WVDOF for the period July 1, 2002 through June 30, 2005 are set out individually with a short synopsis of the corrective actions taken thus far.

**Finding #1 - Lack of Effective System of Internal Controls**

During the course of our post audit, it became apparent to us, based upon the observed noncompliance with the West Virginia Code and other rules and regulations, the WVDOF did not have an effective system of internal controls in place to ensure compliance with State laws, rules and regulations.

We recommended:

The WVDOF comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and establish an effective system of internal controls that will serve to alert management to areas of noncompliance with the West Virginia Code and other applicable rules and regulations.

**Division's Corrective Action:**

The WVDOF is implementing our recommendation. The WVDOF is in the process of developing a Financial Procedure Manual. The current version of the manual consists of two large three ring binders. As stated in the WVDOF's written responses included in the audit report, the new procedures will officially become effective on December 31, 2007. Specific corrective actions taken by the WVDOF in response to the audit recommendations are discussed in the findings below.

**Finding #2 - Lack of Supporting Documentation**

We were unable to audit fiscal year 2003 transactions because the WVDOF was unable to locate the supporting documentation for \$4,932,664.90 and \$7,554,969.19 of receipts and disbursements, respectively. Also, the WVDOF did not maintain time sheets to support six months of personal services and the corresponding employee benefits expenditures totaling \$2,593,217.40 during the fiscal year ended June 30, 2004. Further, lack of accounting records precluded us from determining that receipts due the West Virginia Division of Forestry were collected for fire suppression recoveries, patroller wage reimbursements, civil penalties for violations of forestry statutes, and fees for timer and logger licenses for the years ended June 30, 2005 and June 30, 2004. Finally, we noted lack of supporting documentation for 10 transactions selected for testing totaling \$5,933.38 and the WVDOF does not require the Chief Financial Officer to prepare time sheets. Without supporting documentation, we were unable to determine if the above transactions were made in accordance with the laws, rules and regulations that govern them. We qualified our "Independent Auditor's Report" to reflect our inability to provide an opinion on the above transactions for the two-year period ended June 30, 2005.

We recommended:

The WVDOF comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code and maintain supporting documentation for transactions.

**Division's Corrective Action:**

a.) Missing Fiscal Year 2003 Records and 02004 Time Sheets

The WVDOF has complied with our recommendation. Since the release of the Audit Report for the period July 1, 2002 to June 30, 2005, the WVDOF stated that they have located and/or reconstructed the majority of the fiscal year 2003 missing documentation that was cited in the report. According to a Memorandum from Mr. Dye dated November 9, 2007, *"all of the supporting documentation for fiscal year 2003 expenditures, totaling \$7,554,969.19 is available."* Mr. Dye's Memorandum also stated that two WVDOF employees have performed an "audit" of the invoices to verify that the records are complete. According to Mr. Dye, WVDOF staff have verified that there is a time sheet available for every employee during the two fiscal year 2004 quarters that were cited in the audit report for lack of employee time sheets. We have reviewed documentation and performed various testing procedures relating to financial transactions that occurred during the period July 1, 2002 through June 30, 2003. The WVDOF was able to provide the majority of the documentation that was requested. These records are currently being stored in the locked Conference Room at the WVDOF's Charleston Office.

We provided Mr. Dye with a copy of Title 148, Series 13 of the Legislative Rule which pertains to records management and preservation. He stated that the WVDOF is working to develop a Records Management Plan. He also stated that, in the future, the records of the WVDOF will be maintained in a secure location. Ms. Regina Bays, Accounting Technician II, will be appointed the WVDOF's Records Manager.

b.) Accounting Records for Receipts

The WVDOF has complied with our recommendation. Regarding the lack of accounts receivable records and an accurate accounting of licenses issued during the period, we spoke with Chief Financial Officer and several other staff members. According to the written responses to the audit finding that were provided for inclusion in the audit report, the WVDOF plans to develop a formal accounts receivable system by December 31, 2007, *"to ensure accurate collection of fire suppression cost, fire patroller wage reimbursement, seedling sales, timber sale receipts, timbering and logger licenses and civil penalties for violation of the Logging Sediment Control Act."* Based upon our discussions with Mr. Dye and our review of documentation, we have determined that the following corrective actions have been taken:

- **Fire Suppression Cost Collections**

Fire Suppression billings originate from a Wildfire Report. A consecutively numbered Wildfire Report is prepared by the WVDOF for every wildfire that occurs. If the WVDOF notified the landowner of the fire and the landowner failed to attempt to extinguish it, the landowner can be billed for the costs of extinguishing the fire. When fire suppression costs are assessed and billed by each of the three Regional Offices, the information is recorded on that Region's West Virginia Division of Forestry Cost Collections spreadsheet. The Region enters the specific information from the Wildfire Report including the amount billed and the date billed. When amounts are collected by the Regions, the date received, amount received, and check number are recorded on the spreadsheet. The amounts received are deposited at the remote depository established for the applicable Region/Office. According to the Chief Financial Officer, in the future, each Region will periodically email their spreadsheet to the Charleston Office where it will be stored on the Division's network server. The accounting staff will review the spreadsheet and enter the Deposit 'D' document number once the deposit is complete the updated spreadsheets will then be emailed to the respective Regional Office. The Chief Financial Officer stated that he is unsure why the Regional Offices do not have access to the WVDOF's network server; however, if such access is established in the future it will no longer be necessary to email the spreadsheets between the Charleston Office and the Regional Offices. On November 20, 2007, we requested electronic copies of the spreadsheets for each of the three Regional Offices. The Chief Financial Officer provided copies, via email, of each of the three Region's spreadsheets on November 20, 2007.

We also discussed the accounting for amounts receivable for fire suppression cost collections that are the result of individuals making periodic payments toward a balance due the WVDOF. The Chief Financial Officer stated that such agreements with the responsible parties are made and accounted for at the Regional level. Each Region's spreadsheet for each fiscal year will show the total amount due the WVDOF for that fiscal year.

- **Patroller Wage Reimbursements**

Based upon agreements with various companies (coal companies, lumber companies, etc.) negotiated at the Regional level, a Memorandum of Understanding is prepared for the reimbursement of costs associated with the patrolman to be sponsored by the company. At the end of each of the two annual fire seasons (Spring and Fall), a spreadsheet for Patroller Wages is compiled by the Personnel Assistant. The spreadsheet includes the gross wages and employee benefits of each seasonal fire patrolman. The spreadsheet prepared by the Personnel Assistant is forwarded to the Regional Offices where a letter (billing) is prepared and forwarded to the sponsoring company to invoice for each patrolman. A spreadsheet is maintained by each Region where the amounts billed to the

sponsoring companies are recorded. When amounts are collected by the Regions, the date received, amount received, and check number are recorded on the spreadsheet. The amounts received are deposited at the remote depository established for the applicable Region/Office. According to the Chief Financial Officer, in the future, each Region will periodically email their spreadsheet to the Charleston Office where it will be stored on the Division's network server. The accounting staff will review the spreadsheet and enter the Deposit 'D' document number once the deposit is complete. The updated spreadsheets will then be emailed to the respective Regional Office. The Chief Financial Officer stated that he is unsure why the Regional Offices do not have access to the WVDOF's network server; however, if such access is established in the future it will no longer be necessary to email the spreadsheets between the Charleston Office and the Regional Offices. On November 20, 2007, we requested electronic copies of the spreadsheets for each of the three Regional Offices. The Chief Financial Officer provided copies, via email, of each of the three Regions' spreadsheets on November 20, 2007.

- **Timber and Logger Licenses**

The Office Assistant III that is responsible for timber and logger license issuance and record-keeping has created a listing of licenses issued for fiscal years 2003 and 2007 by reviewing deposit documentation and application files for those fiscal years. She stated that in July 2007 she began maintaining a listing of the licenses issued. On November 19, 2007 we requested a listing of timber and logger licenses issued for fiscal year 2008 to date. The Office Assistant III provided the two files via email on November 20, 2007. Our audit finding indicated the WVDOF does not use pre-numbered forms for timber and logger licenses issued. Pre-numbered forms would provide the WVDOF with a means for accounting for every license issued. Mr. Dye stated that he plans to implement a procedure for the use of pre-numbered forms for timber and logger licenses.

- **Civil Penalties**

The WVDOF has developed a procedure for and performed a review of the civil penalties that have been awarded as the result of violations of the Logging Sediment Control Act (§19-1B). On November 19, 2007 a listing was provided of eight cases initiated during the period 1994 to 2001 that resulted in a judgement. Of the eight judgements totaling \$320,200.00, the WVDOF has collected \$500.00. Two of these judgements totaling \$31,000.00 have been "closed" due to the statute of limitations (the WVDOF cited §38-3-8) because there has been no action or attempt to collect in more than ten years. Three of the judgements totaling \$124,500.00 have been "closed" due to various reasons including a bankruptcy, a plea agreement, and a defendant's conviction of a felony which barred any

collection attempts. According to the WVDOF's Director, the three active judgements totaling \$164,700.00 have been forwarded to the WVDOF's counsel with the Attorney General's Office.

c.) No Time Sheets Required

The WVDOF has complied with our recommendation. During testing procedures relating to Proper Pay and Overtime for the period July 1, 2002 through June 30, 2003, we noted that, in addition to the Chief Financial Officer, the Deputy State Forester was not required to complete time sheets. Mr. Dye was not aware that these employees were not completing time sheets prior to our audit report nor was he able to determine why these employees did not complete time sheets. Mr. Dye stated that he is the only WVDOF employee who is currently not required to prepare a time sheet.

**Finding #3 - Compensatory Leave Used to Extend Retirement Service Credit**

Because of a clerical error, the WVDOF included 33 hours of compensatory leave time in the balance of sick and annual leave reported to the West Virginia Consolidated Public Retirement Board (CPRB) which was used to extend service credit for a retiring employee. The inclusion of the compensatory leave in the reported balances resulted in the extension of the retiree's service credit by one month and increased his monthly annuity by \$7.76. The retiree also was compensated \$800.61 for the 33 hours of compensatory leave at his retirement date.

We recommended:

The WVDOF comply with Chapter 5, Article 10, Section 15a of the West Virginia Code, notify the CPRB of the reporting error, and strengthen internal controls over personal services.

**Division's Corrective Action:**

The WVDOF has complied with our recommendation. However, we found an additional area of noncompliance during follow-up testing – the Division does not calculate the amount for termination pay in accordance with the law. The Division concurred with our finding and will implement procedures to ensure termination pay is correctly calculated in the future.

Based upon the recommendation included in the audit report, the WVDOF contacted the Consolidated Public Retirement Board (CPRB) on August 1, 2007, via letter, to notify them of the error in the calculation of the employee's leave balance.

Further, the Personnel Assistant told us she has performed a review of the 11 retirements that occurred during fiscal years 2003 through 2005 and has not noted any other instances where compensatory time was included in the calculation of a separating employees leave balance. We reviewed three separations (2 retirements and 1 resignation) out of 11 that occurred during the period

July 1, 2002 through June 30, 2003. These three employees did not have any accrued compensatory time on the date of their separation from employment with the WVDOF; however, we noted errors in the calculation of each of the three employees' final compensation. The errors noted are detailed as follows:

<b>Employee #1</b>			
<b><u>Description</u></b>	<b><u>WVDOF</u></b>	<b><u>Recalculated</u></b>	<b><u>Difference</u></b>
Lump Sum Annual Leave	\$6,608.35	\$6,775.98	(\$167.63)
Pro Rata Annual Increment	<u>387.55</u>	<u>428.40</u>	<u>(40.85)</u>
Total	<u>\$6,995.90</u>	<u>\$7,204.38</u>	<u>(\$208.48)</u>

<b>Employee #2</b>			
<b><u>Description</u></b>	<b><u>WVDOF</u></b>	<b><u>Recalculated</u></b>	<b><u>Difference</u></b>
Pro Rata Annual Increment	\$ 554.17	\$593.75	(\$39.58)
Total	<u>\$554.17</u>	<u>\$593.75</u>	<u>(\$39.58)</u>

\*Employee #2 elected to remain on the payroll until his annual leave balance was exhausted; therefore, he did not receive a lump sum payment for his annual leave.

For Employee #3, we were unable to recalculate the pro rata annual increment as the result of the lack of supporting documentation regarding the employee's prior service. However, we did recalculate the employee's lump sum annual leave and determined that it was miscalculated as detailed in the following schedule:

<b>Employee #3</b>			
<b><u>Description</u></b>	<b><u>WVDOF</u></b>	<b><u>Recalculated</u></b>	<b><u>Difference</u></b>
Lump Sum Annual Leave	\$322.19	\$344.66	(\$22.47)
Total	<u>\$322.19</u>	<u>\$344.66</u>	<u>(\$22.47)</u>

Additionally, since the release of the audit report in July 2007, one employee has retired from the WVDOF. We reviewed the documentation regarding his compensation and found that, although the employee did not have any accrued compensatory leave at the date of retirement, there were several errors in the calculation of the retiree's separation pay. These errors, which resulted in a total underpayment of \$978.32, are detailed in the following schedule:

<u>Description</u>	<u>WVDOF</u>	<u>Recalculated</u>	<u>Difference</u>
Lump Sum Annual Leave	\$4,268.30	\$4,996.36	(\$728.06)
Pro Rata Annual Increment	<u>533.33</u>	<u>783.59</u>	<u>(250.26)</u>
Total	<u>\$4,801.63</u>	<u>\$5,779.95</u>	<u>(\$978.32)</u>

The WVDOF's written procedures relating to Retirement/Resignation Calculations (as of November 14, 2007) require that calculations for separation pay be reviewed by the Deputy State Forester; however, the procedures lack detail regarding how final regular pay, compensation for lump sum annual leave, and pro rata annual increment will be calculated. We spoke with Mr. Dye and the Personnel Assistant regarding the errors noted in the calculation of this employee's retirement. The Personnel Assistant was not aware that the tenure value of any balance of annual leave is to be included in the calculation of pro rata annual increment. Additionally, the Personnel Assistant was not aware that lump sum annual leave is to be calculated by determining what the employee's compensation would have been had he/she remained on the payroll until the leave was exhausted.

We believe that the WVDOF needs to develop detailed procedures regarding the calculation of the compensation for separating employees to ensure compliance with Chapter 5, Article 5, Section 3 of the West Virginia Code, the State Attorney General's Opinion dated June 27, 1990, and Attorney General's Opinion Number 3 dated August 17, 1988. The Director stated that procedures will be developed to ensure the correct calculation of termination pay.

**Finding #4 - Inaccurate Leave Records**

Our sick and annual leave test revealed 10 instances of inaccurate leave postings to the leave records for five of 20 employees selected for testing during the two-year period ended June 30, 2005 resulting in a cumulative total of 13.25 hours of leave taken per the time sheets that was not recorded on the leave accrual records. Based on our test, we estimate approximately 30 of the total 118 employees (25%) may have sick and annual leave accrual record errors. The WVDOF does not have a procedure in place that compares leave time taken on the employee time sheets to leave accrual records.

We recommended:

The WVDOF comply with Section 14.14 of the Administrative Rule of the Division of Personnel and strengthen internal controls over annual and sick leave records.

**Division's Corrective Action:**

The WVDOP has complied with our recommendation. As a result of our recommendation, the WVDOP has developed new Annual and Sick Leave Procedures. The new procedures require that each Application for Leave submitted by WVDOP's employees be maintained by the employee's supervisor (for example, regional forester) until the end of the semimonthly pay period. The employee's supervisor must compare the leave requested to the leave taken according to that employee's time sheet at the end of each semimonthly period. When the Applications for Leave are submitted to the Personnel Assistant, a copy of the supporting time sheet will be attached so that the Personnel Assistant can verify the amount of leave taken prior to entering the leave usage on the Leave Accrual Spreadsheet. Each quarter, leave balance information will be forwarded to each employee for his or her review. Employees will be asked to initial the documentation once they agree with the official leave balances.

Mr. Dye stated that the WVDOP has plans to automate the Division's leave records using the Department of Environmental Protection's system as detailed in the written response that was provided for inclusion in the audit report; however, other issues have delayed the conversion of the WVDOP's leave tracking to the automated system. Once implemented, this system will be used to complete time sheets and track leave for all WVDOP employees. The WVDOP is working with the Office of Technology to establish the necessary network connections with the field offices; however, they are unsure when the system will be implemented. Mr. Dye stated that he plans to maintain the current system for time sheets and leave for several months after implementation of the DEP's system in order to verify that the new system is operating as they expect it to.

The Personnel Assistant has performed a nine-month "audit" of all WVDOP employee sick and annual leave for January 1, 2007 through September 30, 2007. She compared the employees' time sheets to the leave records and noted any discrepancies. On November 20, 2007 the Personnel Assistant provided us with a summary of her findings for the leave audit. During her review, she noted errors in the sick and/or annual leave records relating to 29 WVDOP employees during the nine month period. The errors noted are summarized in the following schedule:

<u>Description of Errors</u>	<u>Amount (Hours)</u>
Annual Leave taken that was not deducted from the employees' balances	239.50
Sick Leave taken that was not deducted from the employees' balances	141.25
Annual Leave that was not taken but was deducted from the employees' balances	30.50
Sick Leave that was not taken but was deducted from the employees' balances	21.00

The Personnel Assistant provided us with an example of a letter that will be sent to all WVDOF employees detailing the errors noted in the employee's leave (even if no errors were noted) along with a copy of that employee's leave record. Each employee will be asked to either sign the letter certifying that they agree with the balances or to contact the Personnel Assistant and resolve the discrepancies. Adjustments will be made to the employees' leave balances for the errors that were noted.

We performed a review of the annual and sick leave records for two employees for the period July 1, 2002 through June 30, 2003. We noted differences that are similar to those errors included in the audit report for fiscal years 2004 and 2005. Regarding the correction of leave errors during periods prior to calendar year 2007, the WVDOF is seeking advice from the Division of Personnel.

**Finding #5 - Overtime Compensation Not Paid In a Timely Manner**

We noted an employee did not receive timely payment for \$520.20 of overtime compensation earned. For the week ending October 10, 2003, the employee earned 24 hours of overtime which was paid on December 16, 2003. The Federal "Fair Labor Standards Act of 1938" requires payment not be delayed for a period longer than is reasonably necessary for the employer to compute and arrange for payment of the amount due and in no event may payment be delayed beyond the next payday after such computation can be made. The WVDOF received the above employee's time sheet on October 27, 2003.

We recommended:

The WVDOF comply with Section 778.106 of the "Fair Labor Standards Act of 1938", as amended, and strengthen internal controls over the timely payment of overtime compensation.

**Division's Corrective Action:**

The WVDOF has complied with our recommendation. The WVDOF has developed Overtime Procedures that require any overtime earned to be paid in the next available payroll period following receipt of the overtime documentation by the Personnel Assistant. Mr. Dye stated that, although there is no documented explanation, the late payment cited in the Audit Report resulted from the WVDOF's "questioning" of the employee's overtime.

We performed testing procedures relating to payments of overtime compensation during the period July 1, 2002 through June 30, 2003 which totaled \$47,291.96. Our procedures included the review of the overtime paid to seven of the 67 WVDOF employees who received overtime during the period. These seven employees received a total of 16 overtime payments totaling \$5,772.55 (approximately 12.2% of the population value). During our review, we noted two instances where overtime was not paid to two employees in a timely manner. The first employee's time records were received at the Charleston Office on January 24, 2003; however, he

did not receive payment for his overtime until March 14, 2003. The second employee's time records were received on May 19, 2003 and his overtime was not paid until June 13, 2003.

We also performed a review of two of the 13 overtime transactions totaling \$2,076.88 that occurred in October 2007. These two transactions, totaling \$173.69, comprise approximately 8.4% of the population value. Both employees were compensated in compliance with Section 778.106 of the "Fair Labor Standards Act of 1938."

### **Finding #6 - Vehicles**

During our audit period, each of the 126 WVDOF vehicles were issued three different gasoline service station credit cards, as well as a Division of Highway's gas card. The WVDOF did not have a system in place to monitor employee purchases made on these cards. Subsequent to the date of our audit, the WVDOF ceased using the above mentioned service station cards and currently makes purchases for fuel and other accessories from the Department of Administration Fleet Management Office's vendor. Secondly, the WVDOF did not obtain motor vehicle records (MVR) of employees bi-annually in noncompliance with the WVDOF's internal vehicle policy.

We recommended:

The WVDOF implement a system of internal control to effectively monitor vehicle expenses and obtain MVR's in compliance with the "Driver Evaluation" section of the WVDOF's "Vehicle Operation Policy."

### **Division's Corrective Action:**

The WVDOF is implementing our recommendation. As a result of this finding, the WVDOF has developed the 'Vehicle Management Policy' and has distributed the policy to all division employees. Regarding fuel purchases, the WVDOF now purchases fuel using only the Division of Highways fuel card or the ARI (Automotive Resources Inc.) fleet card. They have developed a Monthly Vehicle Report (Excel Spreadsheet with instructions for completion) that is to be completed for each WVDOF vehicle beginning on October 1, 2007. The Monthly Vehicle Report includes all fuel and other purchases relating to the vehicle (and vehicle fuel card purchases made for equipment such as blowers, etc.) The monthly operating cost is calculated by the spreadsheet program for each vehicle. When the Monthly Vehicle Reports are submitted, employees are required to attach receipts for all fuel and other purchases for the vehicle to the left side of the form and all equipment fuel purchases made with the vehicle's fuel cards to the right side of the form. At the end of the month, these reports are used to prepare a quarterly report for each location (Regions, Nursery, Charleston Office, etc.) that includes the operating cost for all vehicles assigned to that location. Each vehicle will have a Vehicle Log that will be used by employees to track purchases made in order to complete the Monthly Vehicle Report for that vehicle.

The WVDOF's Chief Financial Officer (Accounting Technician in the future) will complete a Summary Spreadsheet of the quarterly operating cost for all WVDOF vehicles. The WVDOF will reconcile the operating expenses to the Division of Highways expenditures, the ARI

expenditures, and Purchasing Card purchases for the vehicles beginning with the quarter ended December 31, 2007. Although no reconciliation has been performed yet, we verified that the reports were being completed by obtaining the Reports for October 2007.

The daily activities of foresters vary by season and geographical area of assignment but generally include various logging inspections, fire suppression activities, and landowner assistance. Mr. Dye stated that each employee's direct supervisor is responsible for monitoring the employee's vehicle operating expense (mileage) based upon the employee's assignment(s) during the period. All field foresters are required to have their assigned vehicle available at all times for emergency response (fire); therefore, those employees drive the vehicles home each day. The direct supervisor of each employee is responsible for ensuring (by general observation) that there is no personal use of the WVDOP vehicles.

### **Finding #7 - Equipment Inventory**

During our test of equipment, we found 26 reportable assets totaling approximately \$73,000 were not included on the WVFIMS Fixed Assets System. Further, the vehicle inventory was overstated by approximately \$63,000 because two vehicles were recorded twice in the inventory and one vehicle which was "totaled" in an accident was not removed from the inventory. Finally, we noted no inventory tags were affixed to three trailers.

We recommended:

The WVDOP maintain equipment inventory in compliance with Section 3, Subparts 11, 12 and 15 of the Purchasing Division's Inventory Management and Surplus Property Disposition Policies and Guidelines.

### **Division's Corrective Action:**

The WVDOP has partially complied with our recommendation. The WVDOP completed a physical inventory of all equipment as of mid-October, 2007 and identified 87 items with an acquisition cost of approximately \$82,000 that were recorded on the inventory but the equipment could not be located – most of the equipment was purchased in the 1990's and less than \$1,000 and were not required to be inventoried initially. We found during our follow-up five transactions that included \$193,008 of reportable property but the equipment was not added to the State's inventory system. Of this amount, \$156,300 was paid in July 2007 for 120 hand-held radios and a receiving report was included in the supporting documentation indicating the radios were received on June 29, 2007; however, we were told the radios were received by an employee from the vendor in October, 2007.

The WVDOP has developed internal procedures for accounting for inventory (effective date September 4, 2007). The procedures require the Chief Financial Officer to affix a tag to reportable property and add the property to the WVFIMS Fixed Assets System within one week of the final payment for such property. Additionally, these procedures require a physical inventory

(in compliance with the Surplus Property Unit's Inventory Management Surplus Property Disposition Manual) every three years and also require that this inventory be completed by the Chief Financial Officer.

As a result of the audit finding, Greg Cook, the Deputy State Forester, has performed a physical inventory of the items included on the WVFIMS Fixed Assets System. According to Mr. Cook, this physical inventory was completed on approximately October 15, 2007; however, WVDOF staff continued searching for inventory items relating to documentation that was requested during our review. In order to perform the physical inventory, a listing of items assigned to each location was forwarded to the appropriate location for physical inspection by the staff. Additionally, members of the staff were instructed to notify the Deputy State Forester of any equipment with an acquisition cost of \$1,000 or more that were not included on the WVFIMS Fixed Assets System. On November 21, 2007, a listing of 24 reportable items that were identified during the physical inventory but were not included on Fixed Assets was provided. According to the Deputy State Forester, there were several items (including three or four computers, blowers, radios, etc.) that have not been located at this time. One laptop computer was stolen from an employee's personal vehicle. The WVDOF provided a copy of the police report relating to the incident and is working to retire the stolen computer from Fixed Assets. Also, a repeater with an acquisition cost of approximately \$13,000 was destroyed in a fire but has not been removed from Fixed Assets. They are working to obtain the justification needed to retire the destroyed repeater from Fixed Assets.

We obtained a listing from the Surplus Property Division of all reportable assets that have been added to the WVFIMS Fixed Assets System by the WVDOF since July 1, 2007. In July and August 2007, the WVDOF added 121 reportable assets that were acquired in prior years.

Mr. Dye is not certain when the last physical inventory was completed by the WVDOF. The Chief Financial Officer has located a copy of the fiscal year 2004 Fixed Assets Inventory that was certified by the Director; however, he has been unable to locate the fiscal year 2003 inventory as cited in the finding. The WVDOF is still unable to determine why the inventory was not maintained.

During our testing procedures for cash disbursements and purchasing card transactions that occurred during the period July 1, 2002 to June 30, 2003, we noted one transaction where the WVDOF purchased a telephone system for the Charleston Office totaling \$7,672.00. This reportable item was not added to the Fixed Assets System until after we had requested the supporting documentation for this transaction.

We also performed a review of reportable items purchased from July 1, 2005 through November 12, 2007. We noted five transactions that included reportable items (equipment with an individual cost of \$1,000 or more) where the items were not added to the Fixed Assets System. These five transactions are as follows:

<u>Date</u>	<u>Document I.D. #</u>	<u>Transaction Amount</u>	<u>Description</u>
4/24/06	I007316759	\$ 3,480.00	Phone system for Parkersburg Office
7/26/06	I002503783	27,688.00	5 HP Printers @ \$1,232.00 each
3/14/07	I007760644	2,800.00	Phone system for Milton Office
7/25/07	I007926884	156,300.00	120 Hand-held Radios and Accessories @ \$1,302.50 each
11/5/07	I008051333	<u>2,740.00</u>	Banner Stand Package
	<b>Total</b>	<b><u>\$193,008.00</u></b>	

During our review of the above transactions, we met with agency personnel in order to determine why these items had not been added to Fixed Assets. The Chief Financial Officer stated that he does not believe the phone systems and the banner stand package are reportable items. Regarding the five HP Printers, he stated that they were not identified during the physical inventory because no one thought the printers had an acquisition cost greater than \$1,000.

The Chief Financial Officer stated that the radios had not been added to Fixed Assets because it would be less time-consuming to add these 120 radios at the same time as another order of 87 radios. The Director also told us that the radios were not entered due to limited resources. All of the radios, as of January 4, 2008, have been added to the FIMS inventory.

We also noted the vendor was paid for the 120 radios on July 25, 2007; however, the radios were not received by WVDOF until October 17, 2007. The Director stated that they paid for the radios and "stored" the radios at the vendor's place of business pending the completion of information regarding frequencies that the vendor required for the programming of the radios. Although he did not receive or physically inspect the radios, a Receiving Report verifying receipt of the radios was completed on June 29, 2007 by an employee who is no longer employed with the WVDOF. We believe that the preparation of a Receiving Report and subsequent payment of the invoice for these radios prior to receipt is in noncompliance with Title 155, Series 1 of the Legislative Rule. We asked the Director why a receiving report was prepared before the radios were physically received, he stated "We took possession; accepted responsibility for; the radios at Miller Communications in Parkersburg on June 29th."

On November 21, 2007, the WVDOF provided a current Fixed Assets listing from WVFIMS. The listing includes 87 "unknown" items totaling \$81,798.00 that the WVDOF has been unable to physically locate. The majority of the "unknown" items are blowers, computer equipment, and various radios that were acquired in the 1990's. The Division is currently working with Surplus Property to determine the proper disposition of the "unknown" items as well as continuing internal efforts to locate the equipment at the WVDOF.

### **Finding #8 - Employee of the Year Award and Safe Driving Incentive**

The WVDOF bestowed a \$300 "Employee of the Year Award" to an employee and directed the employee to make \$300 of personal purchases on his State Purchasing Card. Also, the WVDOF paid a safe driving incentive of \$125 per year to certain employees who drove a WVDOF vehicle and were "accident free". We contacted the West Virginia Division of Personnel (DOP) and the DOP was unable to determine if the award had been approved by the State Personnel Board and found no approval by the DOP's Director for the safe driving incentive.

We recommended:

The WVDOF comply with Section 6.1 of the State Auditor's "Purchasing Card Policies and Procedures" and provide incentive programs developed by the Director of WV Division of Personnel in accordance with Chapter 29, Article 6, Section 7 of the West Virginia Code.

#### **Division's Corrective Action:**

The WVDOF has complied with our recommendation. The WVDOF has discontinued both incentive programs pending approval from the Department of Commerce Cabinet Secretary, the Governor's Office Chief of Staff, and the State Personnel Board. The WVDOF has developed written procedures regarding both programs to be implemented if they obtain the required approval. According to the Program Outline developed by the WVDOF for the Employee of the Year, the award will be a gift certificate in the amount of \$300.00. Further, the Vehicle Management Policy states that the safe driving incentive will be awarded in the amount of \$25.00 per employee per quarter for a total of \$100.00 per year.

During our review of personal services for the period July 1, 2002 through June 30, 2003, we noted that one employee received a \$250.00 cash award on August 26, 2002. According to Mr. Dye, this award resulted from a West Virginia Department of Commerce Employee of the Quarter Award Program. The WVDOF provided the West Virginia Bureau (Department) of Commerce Division of Tourism Employee Recognition Program Guidelines - Revised June 2005 that describes the program. Mr. Dye stated that this award has not been paid to any WVDOF employees since August 2002.

### **Finding #9 - No Record of Receipts Received and Late Deposits**

Seven of 50 deposits selected for testing (14%) contained receipts that were not deposited within 24 hours and the WVDOF did not make a daily itemized record of receipts received as required by Chapter 12, Article 2, Section 2 of the West Virginia Code. Thirteen receipts included in the above seven deposits were deposited one to 22 days late and totaled \$10,352.49.

We recommended:

The WVDOF comply with Chapter 12, Article 2, Section 2 of West Virginia Code, as amended, and strengthen internal controls over receipts.

**Division's Corrective Action:**

The WVDOF has complied with our recommendation. The WVDOF has developed new accounting procedures for receipts. June Mandel is responsible for opening the mail at the Charleston Office. Ms. Mandel maintains a register and photocopies of all checks received at the Charleston Office. Ms. Mandel records the payment information (check number, payor, amount, etc.) on the documentation (such as application for timber or logger license) prior to placing the checks in the locked closet at the WVDOF Headquarters. The employee who is currently acting as Accounting Technician (Reginia Bays) retrieves the checks from the vault, stamps the checks with an endorsement stamp, and prepares a deposit slip. The Chief Financial Officer enters the deposit in WVFIMS and approves the deposit. The deposit is placed in a locking bag and forwarded to the State Treasurer's Office via runner that afternoon (or the following morning). They are working on a plan for an independent reconciliation of the check register to the deposits for the Charleston Office. Currently, Robin Black will be performing the reconciliation for the Charleston Office. We observed the receipt and processing of three checks, in accordance with the new receipt processing procedures, at the Charleston Office on November 19, 2007.

For amounts received in the field (by the Regions, Nursery, etc.), the WVDOF has worked with the State Treasurer's Office to establish five remote deposit accounts throughout the state (they are also considering a sixth) to ensure compliance with the twenty-four hour deposit rule. At each location, the secretary receives the checks and enters them on a deposit log prior to depositing the checks in the bank. Currently, the deposit logs are not being forwarded to the Charleston Office for reconciliation with the deposit. The Chief Financial Officer is unsure who is reconciling the deposits to the log or if a reconciliation is being performed. However, in the future the WVDOF plans to have each location submit the deposit logs to the Charleston Office on a weekly basis so that they can be reconciled to the deposits.

On November 27, 2007, the Director provided copies of the deposit logs for each of the remote depositories. He stated that there have been no deposits to the Romney and Parkersburg locations. He also stated that the deposit logs for each of the locations are in a different format and that he intends to standardize the format for all locations.

**Finding #10 - Printing Services Not Purchased From Correctional Industries**

The WVDOF obtained approximately \$45,000 of printing services during the two-year period ended June 30, 2005 from the West Virginia Department of Agriculture's Print Shop rather than West Virginia Correctional Industries as required by Section 8.12 of the West Virginia Purchasing Division's "Policies and Procedures Handbook".

We recommended:

The WVDOF comply with Section 8.12 of the West Virginia Purchasing Division's "Policies and Procedures Handbook".

**Division's Corrective Action:**

The WVDOF has complied with our recommendation. As a result of the audit finding, on September 10, 2007, Mr. Dye forwarded a memorandum to his staff stating that the Division of Corrections must be used for printing and binding services unless a letter of refusal is obtained. If another vendor is used for printing and binding, the letter of refusal from the Division of Corrections must be included in the documentation supporting the transaction.

We performed a review of Printing and Binding (object code 021) transactions that have occurred from the date of Mr. Dye's memo through November 12, 2007. Based upon this review, it appears that the WVDOF is now using Correctional Industries for printing and binding services.

**Finding #11 - No Purchasing Division Approval for Agreements**

We noted four agreements for various services between the WVDOF and the West Virginia University (WVU) Research Corporation that did not have the prior approval of the Director of the West Virginia Purchasing Division as required by the West Virginia Purchasing Division's Policies and Procedures Handbook.

We recommended:

The WVDOF comply with Section 8.18 of the West Virginia Purchasing Division's Policies and Procedures Handbook by obtaining approval from the Purchasing Division for agreements with WVU Research Corporation.

**Division's Corrective Action:**

The WVDOF has complied with our recommendation. As a result of the audit finding, the WVDOF contacted the Purchasing Division to obtain advice regarding these agreements. Butch Chittum, Senior Buyer, Purchasing Division, explained, via email, that if the agreement is made with West Virginia University rather than the West Virginia University Research Corporation, it would be considered an interagency contract and would not require Purchasing Division approval. The WVDOF stated that such agreement will be made directly with WVU in the future.

We spoke with John Rowe, Assistant State Forester, Forest Management and Stewardship, regarding the current status of these agreements. He provided an Interagency contract for research on "the ecological and economic impact of professional forestry assistance on timber harvests from nonindustrial, private forest lands in West Virginia" which was made between the WVDOF and the West Virginia University Division of Forestry in May 2007.

## **Finding #12 - Taxable Wage Reporting for Fringe Benefits**

The WVDOF did not report federal taxable wages for a lodging fringe benefit provided to an employee residing at the WVDOF's "Prosperity Ranger Station" located in Raleigh County, WV. Based on the Director's assertion that it was not necessary for the home to be occupied by the employee, the lodging provided to the employee was "not a condition of employment" which is an Internal Revenue Service requirement for excluding the fair market value of the lodging from the employee's taxable wages.

We recommended:

The WVDOF comply with Internal Revenue Service Publication 15-B, the "Employer's Tax Guide to Fringe Benefits" and strengthen internal controls over wage reporting for employee fringe benefits.

### **Division's Corrective Action:**

The WVDOF has complied with our recommendation. Until our inquiries regarding the Prosperity Ranger Station home, Mr. Dye was not aware of its existence. Since the audit report was released, the WVDOF has worked with legal counsel to develop an agreement with the employee who resides at the Prosperity Ranger Station with his wife. On November 1, 2007, the employee (Robert McBride) signed the agreement. The agreement addresses the three conditions which would exempt the fair market value of the lodging from being reportable income to the employee for the purposes of state and local income tax as cited in the audit finding. The three conditions are addressed by the Agreement for Employee to Reside in a Dwelling Controlled by the Division of Forestry as follows:

**(1) The lodging is furnished on the WVDOF's business premises.**

The agreement states, in part:

*“ . . . WHEREAS the Division's primary purpose for entering into this Agreement is to maintain a dwelling on the Property for the purpose of fire suppression as required by the August 1939 Deed of the Property to the Division and to formalize the agreement with the Employee whom has resided in the dwelling on the Property for approximately 27 years . . . ”*

**(2) The lodging is furnished for the convenience of the WVDOF; and,  
(3) The employee must accept the lodging as a condition of employment.**

The agreement states, in part:

*“ . . . WHEREAS, the Employee accepts and the Division requires said Employee to reside in the dwelling on the Property operated by the*

*Division for the Divisions convenience located with the boundaries of  
Town District of Raleigh County . . .”*

The agreement also states that the “. . .*Employee’s residence in the dwelling is of a great benefit to the Property and the Division does not desire a monthly rental payment for use of the dwelling as a personal residence. . . .*” Additionally, the agreement requires that the employee assume the cost of maintaining telephone service and all utilities for the property. The WVDOF will pay the final utility bills for October 2007 and the employee will become responsible for the utilities as of November 1, 2007. The emolument (additional taxable income reported for the employee) of \$62.50 per month was discontinued as of October 31, 2007.

Mr. Dye stated that the house is located on a ridge overlooking Beckley, WV. The employee who resides at the home can observe forest fires and monitor the activities surrounding the fire using a radio that is installed in the home. The employee also provides security for the fire tools that are stored in a garage on the property. According to Mr. Dye, the employee believed that the “emolument” reflected on his pay check was actually rent.

Mr. Dye stated that he has done some research regarding this situation and that the Department of Natural Resources has many homes that are treated that same way as the Prosperity Ranger Station. He believes that the Prosperity Ranger Station was probably treated this way because the WVDOF was previously a division of the Department of Natural Resources.

## **OTHER ISSUES NOTED**

### **Rules Not Promulgated for Clements Nursery Operations**

The following issue was not presented in the Post Audit because no lack of compliance with the West Virginia Code was noted. However, we believe that rules should be promulgated for the operation of the Clements Nursery as follows:

Chapter 19, Article 1A, Section 4 of the West Virginia Code, as amended, provides the WVDOF Director the authority to promulgate rules and regulations as follows:

“...The division director may exercise all powers necessary or appropriate to carry out and effectuate the purposes of this section, including the following powers, in addition to other herein granted:...

(d) To promulgate rules and regulations, subject to the provisions of chapter twenty-nine-a of this code, for the management of state forests and to implement the programs and policies of this article.”

The Director has not exercised his power to promulgate rules and regulations to govern the operations of the Clements Nursery. Although the WVDOF currently maintains internal policies for nursery operations, we believe the WVDOF should promulgate rules and regulations

as provided for by the aforementioned statute to ensure that these programs are operated in accordance with legislative intent.

The WVDOF prepared internal nursery procedures entitled “Standard Operating Plans for the Nursery” after the period under audit; however, this plan does not address retail sales, seedling donations, inventories of tree seedlings, profit margins, pricing methodologies, preparation of financial statements, etc. Further, the WVDOF’s operating plan does not address seedling production and sales contracts with customers. Except for fiscal year 2005, the Nursery Superintendent provided us with the annual seedling production contracts between the WVDOF and Williams Forestry & Associates. According to these contracts, the WVDOF agreed to grow specific types and quantities of seedlings for a certain price, the customer agreed to the terms and provided some of the seed for the various tree seedlings to be produced. The contract stipulated the seedlings are not intended for resale and should be planted in the State of West Virginia. The growing period for the seedlings was approximately one to two years. The Assistant Nursery Superintendent told us that nearly one half of the Nursery’s seedling production is purchased by this customer. We found no statutory authority that provides for the Director to enter into such contracts for seedling production and sales.

Finally, the internal plan does not address the residency requirement of the Nursery Superintendent. The WVDOF requires the Nursery Superintendent, as a condition of his employment, to reside in the state-owned home on the Nursery property year-round. The Director told us the Superintendent must be available after normal works hours to protect the seedlings from weather issues such as frost, to receive after hours shipments and customer pick-ups, and to provide security for the Nursery. The Superintendent and his family reside rent-free at the Nursery home.

Without rules and regulations, we are unable to determine if the Nursery operations are being conducted as intended by the Legislature. Except for the following section noted in Chapter 19, Article 1A, Section 3 of the West Virginia Code, no mention of the WVDOF nursery was found in statute:

“ . . . All moneys collected from the sale of timber realized through management of the state-owned forests and *the sale of seedlings from the tree nurseries* shall be paid into the state treasury . . . .”  
*(Emphasis added)*

We spoke with the Director regarding the promulgation of rules. He stated that he has referred this issue to the Cabinet Secretary of the West Virginia Department of Commerce.

We recommend the WVDOF implement the provisions of Chapter 19, Article 1A, Section 4 of the West Virginia Code and promulgate rules and regulations to govern the operations of the Clements Nursery.

**Incorrect Hourly Rates**

The WVDOF is not calculating the hourly rate for part-time permanent employees in accordance with the Administrative Rule of the Division of Personnel.

We performed a review of the hourly rates paid to four part-time permanent employees for the November 15, 2007 payroll. We noted that the hourly rates for these four employees were incorrectly calculated by the WVDOF which resulted in a total underpayment of the employees in the amount of \$58.42 for the pay period. These four instances are detailed in the following schedule:

<b><u>Employee</u></b>	<b><u>Hourly Rate Paid</u></b>	<b><u>Recalculated Hourly Rate</u></b>	<b><u>Difference</u></b>
#1	\$7.81	\$8.45	(\$0.64)
#2	7.51	8.12	(0.61)
#3	7.21	7.79	(0.58)
#4	7.51	8.12	(0.61)

We also noted, during our review of retirements and resignations for the period July 1, 2002 through June 30, 2003, the hourly rate was improperly calculated for a part-time permanent employee. This error, which resulted in the employee being underpaid \$43.08 for her final pay, is detailed in the following schedule:

<b><u>Employee</u></b>	<b><u>Hourly Rate Paid</u></b>	<b><u>Recalculated Hourly Rate</u></b>	<b><u>Difference</u></b>
#5	\$7.15	\$7.72	(\$0.57)

We further noted, during our test of proper pay and overtime, the hourly rate used for three payroll transactions tested for one part-time permanent employee was improperly calculated. These errors, which resulted in the employee being underpaid a total of \$157.37, are detailed in the following schedule:

<b><u>Employee</u></b>	<b><u>Payroll Date</u></b>	<b><u>Hourly Rate Paid</u></b>	<b><u>Recalculated Hourly Rate</u></b>	<b><u>Difference</u></b>
#6	6/30/02	\$6.76	\$7.72	(\$0.96)
#6	12/16/02	7.15	7.72	(\$0.57)
#6	5/16/03	7.15	7.72	(\$0.57)

Section 3.42 of the Administrative Rule of the Division of Personnel states in part:

“Hourly Rate: The total annual salary (excluding annual increment) divided by 2,080 hours for full-time permanent and temporary salaried employees or divided by the actual number of hours worked annually for part-time permanent and temporary salaried employees. . . .”

The incorrect calculation of the hourly rate for these six employees in the aforementioned transactions resulted in the employees being underpaid a total of \$258.87.

We are unable to determine why the errors occurred. According to the Personnel Assistant, she performs the hourly wage rate calculation as noted above; however, differences are still noted.

We recommend the WVDOF comply with the Administrative Rule of the Division of Personnel by calculating the hourly rate for part-time permanent employees in accordance with Section 3.42. We further recommend the WVDOF perform a review of compensation paid to the five part-time permanent employees to ensure a correct hourly wage rate is being used and adjust compensation as necessary.