

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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Memorandum

To: Joint Committee on Government and Finance –
Post Audit Subcommittee Members

From: Stacy Sneed, CPA, Director, Legislative Post Audit Division *djs*
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William Spencer, CPA, Legislative Auditor III, Legislative Post Audit Division
Ron Ash, Legislative Auditor I, Legislative Post Audit Division

Date: September 8, 2008

Subject: FOLLOW-UP REVIEW OF THE AUDIT REPORT OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION (DOA), PURCHASING DIVISION,
SURPLUS PROPERTY, FOR THE PERIOD APRIL 1, 2008 - JUNE 30, 2008

In accordance with your instructions, we conducted a follow-up review to examine the implementation of recommendations contained within the audit report of Surplus Property for the period July 1, 2003 – December 31, 2006. As part of the follow-up process we interviewed Mr. Ken Frye, Surplus Property Manager on July 22, 2008. We reviewed supporting documents to determine the actions taken to satisfy the recommendations made in our report. In addition, we documented the business procedures and performed tests related to State Surplus Property receipts including those receipts obtained from internet sales of surplus property.

1. Lack of Surplus Property Inventory

As reported in prior audits conducted by us for the periods of July 1, 2001 through June 30, 2003 and July 1, 2003 through December 31, 2006, the West Virginia State Agency for Surplus Property (WVSASP or Surplus Property) has not maintained an inventory of all surplus property acquired by State agencies that had an acquisition value of \$1,000 or more in noncompliance with Title 148, Series 4, Section 4 of the Legislative Rules.

We recommended:

The WVSASP maintain an inventory in compliance with Title 148, Series 4, Section 4 of the Legislative Rule.

Spending Unit’s Prior Audit Finding Response:

“WVSASP contracted with the Office of Technology in April 2007 to design an inventory system. The estimated completion date for the system was September, 2007; the inventory system is not yet complete. WVSASP is currently working with the Chief Technology Officer to complete and implement the inventory system...”

...The Purchasing Division agrees with this finding.

WVSASP will continue to work with the Office of Technology to assure timely completion of the automated system; however, in the event the Office of Technology cannot complete the system timely, the Purchasing Division will request to add staff and purchase an off-the-shelf inventory system in order to comply with Legislative Rule, Title 148, Series 4, Article 4.”

Spending Unit’s Action:

The WVSASP has complied with this finding recommendation as follows:

On July 21, 2008, the Surplus Property Manager provided us with a copy of the “Surplus Property Inventory Project Projected Timeline As of June 16, 2008” that shows a projected start date of June 16, 2008 and a projected completion date of December 1, 2008. In addition, the Surplus Property Manager stated he conducts a weekly meeting with the IS&C Development Center to update the projected timeline. In addition, the Performance Evaluation Research & Division (PERD) surveyed DOA employees to determine if state agencies would benefit if Surplus Property’s inventory listing was available to view on-line. In PERD’s survey of DOA, 76% of respondents stated that they would find benefit from an online inventory of available surplus items. Thus, surplus property should not only have an inventory, but it should also be published online.

2. No Inventory of Vehicles Purchased from the U.S. General Services Administration (GSA)

The WVSASP purchased 33 used vehicles from the GSA on behalf of and subsequent sale to state agencies and other eligible organizations but did not place the vehicles on the WVFIMS Fixed Asset Inventory.

We recommended:

The WVSASP maintain an inventory of all vehicles in accordance with the WV Department of Administration, Purchasing Division, Program Services Section, Surplus Property Unit, Section 3.6.

Spending Unit's Prior Audit Finding Response:

The vehicles were not entered into the inventory system because they were considered merchandise for resale. In most cases, customers were identified prior to the vehicles being purchased from the U.S. General Services Administration. Any vehicles purchased through this program in the future will be entered into the WVSASP fixed asset inventory.

The Purchasing Division agrees with this finding.

Spending Unit's Action:

The WVSASP has complied with this finding recommendation as follows:

The Surplus Property Manager stated Surplus Property has not acquired any vehicles through this program since the last audit, however, any vehicles purchased through this program will be entered into the Fixed Assets Inventory System. In addition, we reviewed Surplus Property's Financial Information Management System (FIMS) transactions and determined that no vehicles were purchased from the GSA.

3. Accounts Payable

As reported in prior audits conducted by us for the periods of July 1, 2001 through June 30, 2003 and July 1, 2003 through December 31, 2006, the WVSASP owes the Fleet Management Office \$1,278,863.45 as of December 31, 2006 for vehicles sold by the WVSASP since May 1999. Our review of the accounts payable records maintained by the Finance Division indicates total payments made to Fleet for the above period totaled \$92,419 with the last payment made on November 16, 2004.

We recommended:

The WVSASP comply with Chapter 5A, Article 3, Section 45 of the West Virginia Code and reimburse Fleet Management the proceeds of vehicles sales less the WVSASP handling fees.

Spending Unit's Prior Audit Finding Response:

The debt was not paid due to a shortage in funds for WVSASP. Beginning with calendar year 2008, WVSASP has paid current invoices which are due to the Fleet Management Office. WVSASP has also implemented a plan to pay the old debt at \$60,000 per quarter beginning in July, 2008. This will allow WVSASP to pay this debt within approximately six (6) years. If WVSASP's financial position changes, these quarterly payments will increase accordingly. By addressing this matter, requests for additional funding will not likely be necessary.

The Purchasing Division agrees with this finding.

In conjunction with the Finance Division, a payment plan has been established to reimburse Fleet management for vehicles sold in accordance with Chapter 5A, Article 3, Section 45 of the West Virginia Code.

Spending Unit's Action:

The WVSASP has complied with this finding recommendation as follows:

On July 31, 2008, we spoke with the Purchasing Division Chief Financial Officer, regarding the payment of the debt owed to Fleet Management. The Chief Financial Officer stated as of January 1, 2008 all of the invoices from Fleet Management are being paid as they are received. She also stated all past due invoices that has accumulated prior to January 1, 2008 are going to be paid at approximately \$60,000.00 per quarter beginning in July, 2008. In addition, she stated instead of paying a flat rate of \$60,000.00, she will total up past due invoices that are approximately \$60,000.00 to pay off the old debt. She has provided us with a copy of the first quarterly payment that is comprised of two paid past date invoices received prior to January 1, 2008 amounting to \$60,035.57. In addition, she provided us a copy of the Excel database file of the SurplusDuetoTMOupdatedFY2009.xls as of 07/22/08 which shows all invoices from January 1, 2008 owed to Fleet Management have been paid. As of July 20, 2008 Surplus Property has accumulated an accounts payable balance due to the Travel Management Office of \$1,367,472.15.

4. Uncollectible Accounts Receivable

The WVSASP has not consigned \$57,733.91 of uncollectible amounts due to a debt collection agency as provided for by statute. Since our last audit, the WVSASP has discontinued allowing State agencies and other eligible organizations to purchase surplus property on credit.

We recommended:

We recommend the WVSASP comply with Chapter 14, Article 1, Section 18a of the West Virginia Code.

Spending Unit's Prior Audit Finding Response:

It was the opinion of the State Comptroller/ Finance Director that the majority of the uncollectible balances were owed by State agencies, counties or cities and that collection of these debts would not have provided an overall cost benefit to the state. We note that the exact language of Chapter 14, Article 1, Section 18a of the West Virginia Code states that delinquent accounts "may be referred to the Commissioner of finance and administration for consignment".

The Purchasing Division agrees with this finding.

There will be no future uncollectible debts because the WVSASP has ceased the practice of extending credit as a result of a previous legislative audit finding.

Spending Unit's Action:

The WVSASP has partially complied with this finding recommendation as follows:

The WVSASP provided us with a copy of the Surplus Property Aged Receivables As of July 22, 2008, which shows all of the previous accounts payable balances have been written off. In addition, the Aged Receivables file indicates no further accounts receivable balances have accumulated since the last audit.

5. Lack of Supporting Documentation for Personal Services

For the six employees selected for testing, the WVSASP could not provide time sheets to support an estimated 38% of their compensation paid during our review period. We further noted the WVSASP does not reconcile the amount paid on the payroll to time worked on the semi-monthly times sheets or leave taken per the time sheets to the leave accrual records.

We recommended:

The WVSASP comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, §516.2 of Title 29 of the Code of Federal Regulations and Legislative Rule, Title 42, Series 8. We also recommend the WVSASP strengthen internal controls over personal services by maintaining time sheets and performing reconciliations pertaining to time worked, amounts paid, and leave accruals.

Spending Unit's Prior Audit Finding Response:

In response to this finding, the responsibility to properly account for and reconcile all time sheets has been officially assigned to a specific individual.

The Purchasing Division agrees with this finding.

As described above, the Purchasing Division will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, §516.2 of Title 29 of the Code of Federal Regulations and Legislative Rule, Title 42, Series 8.

Spending Unit's Action:

The WVSASP has partially complied with this finding recommendation as follows:

Surplus Property Manager stated timesheets are being completed and will be retained for three years. In addition, he stated he assigned the duties of reconciling timesheets to a specific individual. The assigned employee verifies all the required signatures are recorded on the timesheets, all sick and annual leave hours are recorded on the timesheet, however, overtime hours are not verified. During our test of overtime, we noted a difference in the hours recorded on an employee's timesheet and the compensation paid to the employee in the amount of \$218.54 for one out of six or 17% of the overtime transactions tested. The employee submitted a request to pay for overtime and was properly paid for the additional overtime hours. However, we believe this is a weakness in internal controls over personal services because the employee's additional overtime hours are not verified to their timesheets. An employee could submit an overtime request form without ever working the additional hours and still be compensated. We recommend the employee's timesheet is also reconciled to verify any approved overtime and further comply with our previous audit recommendation that the WVSASP perform reconciliations pertaining to time worked and amounts paid. In addition, we recommend timesheets be submitted to the payroll department (Finance Division) when overtime requests are submitted.

6. Invoices Not Date Stamped

We found in our review of transactions 90 invoices that were not stamped with the date received by the WVSASP. Without date stamps, we are unable to determine if transactions were processed and paid timely in accordance with statute.

We recommended:

The WVSASP comply with Legislative Rule, Title 155, Section 1, Section 3.9 and date-stamp invoices upon receipt.

Spending Unit's Prior Audit Finding Response:

It was routine practice for the envelopes to be stamped upon receipt, but not the invoice directly. In the future, all invoices will be stamped upon receipt.

The Purchasing Division agrees with this finding.

As described above, the Purchasing Division will comply with Legislative Rule, Title 155, Series 1, Section 3.9 and date-stamp invoices upon receipt.

Spending Unit's Action:

The WVSASP has complied with this finding recommendation as follows:

The Surplus Property Manager stated the employee responsible for accounts payable has been instructed in writing to date stamp all invoices and is doing so. He also stated the Purchasing Division's Chief Financial Officer spot checks to make sure this is being done. We also selected a sample of expenditures to verify all invoices were being date stamped and found no exceptions while performing our test.

**7. Informational – Special Revenue Accounts
Not Explicitly Authorized by Statute**

As reported in prior audits conducted by us for the periods of July 1, 2001 through June 30, 2003 and July 1, 2003 through December 31, 2006, we were unable to locate authorization for the special revenue accounts used by the WVSASP and requested legal assistance from Legislative Services who concluded the "...operation of the accounts is lawful, yet would recommend that, as the better management practice, the Legislature *explicitly authorize the special revenue accounts* in order to avoid difficulties in being properly recognized by the State Auditor."

We recommended:

We recommend the WVSASP request the Legislature to amend Chapter 5A, Article 3 to include explicit authorization to operate special revenue accounts.

Spending Unit's Prior Audit Finding Response:

The WVSASP will recommend to the Department of Administration to amend Chapter 5A, Article 3 to include explicit language providing authorization to operate special revenue accounts.

The Purchasing Division agrees with this finding.

Spending Unit's Action:

The WVSASP has partially complied with this finding recommendation as follows:

The Purchasing Division Director sent an email dated July 11, 2008 to the Finance Division Director to requests explicit authorization to operate special revenue accounts at Surplus Property, however, the revisions have not been made.

ADDITIONAL SCOPE OF FOLLOW-UP

In addition to verifying what internal controls were put in place by Surplus Property to implement our audit recommendations, we were instructed to conduct procedural interviews and perform tests on Surplus Property's receipts procedures as well as the new programs (eBay sales and direct purchases) that were implemented after our audit period but during our follow-up period. Our findings to the aforementioned are detailed below:

8. Lack of Controls Over Internet Sales

During our follow-up review of Surplus Property, we were unable to determine if all receipts due from internet sales were received for two out of the five (40%) settlement statements received in the amount of \$16,910.00 because of the WVSASP's lack of internal controls over internet sales. In addition, we noted all accounting functions are the responsibility of the marketing agent and no formal reconciliation procedures have been developed for payments received in the amount of \$56,828.00 for property sold on behalf of Surplus Property.

Chapter 5A, Article 3, Section 45, Subsection 7 of the West Virginia Code permits the WVSASP to perform internet sales of State surplus property as follows:

“(7) Selling the commodities to the highest bidder by means of an Internet auction site approved by the director, as set forth in an emergency rule pursuant to the provisions of chapter twenty-nine-a of this code.”

We noted the marketing agent sets the auction starting price for the equipment, receives the payment for the property and shipping fees from the buyers, pays the “eBay” selling fees and “PayPal” fees, retains their commission from the gross receipts, and provides WVSASP a check for the residual amount. Our review of the five receipt checks in the amount of

\$56,828.00 and corresponding settlement statements received from the WVSASP’s marketing agent indicates the settlement statement does not contain information necessary for an independent verification to determine contract compliance of the purchase price paid by the customer, eBay charges assessed, and any additional fees paid by the purchaser to the marketing agent. We requested independent verification from the WVSASP Manager to provide us correspondence directly from the “eBay” system to determine the amount received by the agent was correct. However, with the current accounting system in place, we were unable to go back to verify surplus property was properly paid for all internet sales because with the current accounting system it is impossible to perform an independent verification of receipts received from internet sales after 90 days from the date of sale.

From July 1, 2007 to August 26, 2008, the WVSASP received five checks from the marketing agent as follows:

<u>Number</u>	<u>DEPOSIT DATE</u>	<u>FIMS DEPOSIT #</u>	<u>AMOUNT</u>
1	08/14/2007	D001361191	\$13,635.00
2	12/17/2007	D001395237	3,275.00
3	06/18/2008	D001446098	5,707.57
4	08/11/2008	D001460822	7,539.06
5	08/21/2008	D001464195	<u>26,671.37</u>
		TOTAL	<u>\$56,828.00</u>

Chapter 5A, Article 8, Section 9 of the West Virginia Code, states in part:

“The head of each agency shall:...

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

Purchasing Division Chief Financial Officer stated if she does not print all of the supporting documentation from the two databases that accounts for internet sales of Surplus Property while performing a complete reconciliation of all of the monthly property sold through internet sales from the Settlement Statement received from Black Knight Trading Company (BKTC), then there would be no way to later go back and audit the payment after 90 days. Surplus Property Manager stated the WVSASP is currently in the process of developing internal control procedures to provide them assurance that the final sales price paid by the buyer is the amount recorded on the agent's settlement statement as well as their portion of the sale amount due to the WVSASP.

Based on our review of the settlement statement, we are unable to determine if Surplus Property was paid in accordance with the contract agreement between BKTC and the final sales price on the settlement statements received from the agent is the amount actually paid by the buyer. Also, one of the most fundamental elements of good internal controls is proper segregation of key accounting functions, such as: (1) receiving payments, (2) processing/filling orders, (3) recording payments in the accounting records, and (4) reconciling accounting records to deposits. Failure to segregate these duties increases the risk that management may not become aware of lost or stolen receipts and fraud. Internal controls are further compromised if accounting records are not reconciled (matched) to deposits. Also, without independent verification of the reliability of the sales price and associated fees, we are unable to determine if the final sales price paid by the buyer and the associated fees charged to Surplus Property is the amount recorded on the agent's settlement statement for internet sales after 90 days from the date of sale. In addition, by not generating competent and sufficient evidential matter supporting

payments of property sold on the internet, we would be unable to determine if the payment was in accordance with the contract.

We recommend that Surplus Property comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. In addition, we recommend Surplus Property develop internal controls to verify the reliability of the amount due to the WVSASP for internet sales of State Surplus Property.

Spending Unit's Response

The Purchasing Division agrees with the finding.

We will suspend future sales of property through E-bay after those items currently in the system are processed. This action will remain in effect until an acceptable method of documenting all costs associated with E-bay sales is developed.

9. Monies Not Deposited Within 24 Hours of Receipt

During our test of State Surplus Property receipts obtained from a population of 274 receipts received during our follow-up period, we noted 12 out of 35 or 34% of receipts selected for testing totaling \$8,160.81 were deposited into the state account later than 24 hours from time of receipt. On average, deposits were made to Surplus Property's Sale of State Surplus Property Fund 2281 three days after the monies were received. During our test of eBay receipts, we tested one out of three payments in the amount of \$7,539.06 for sales of State Surplus Property by BKTC and noted one out of one instances or 100% of the payments selected for testing was deposited 17 days after receipt. The aforementioned instances are summarized in the following table:

<u>Test</u>	<u>Total Amount of Deposits Late</u>	<u>Number of Deposits Not Within 24 Hours</u>	<u>Total Number Tested or Reviewed</u>	<u>Percentage of Deposits Not Within 24 Hours</u>	<u>Average Number of Days Late</u>
Receipts	\$ 8,160.81	12	35	34%	3
eBay	<u>7,539.06</u>	<u>1</u>	<u>1</u>	<u>100%</u>	<u>17</u>
TOTALS	<u>\$15,699.87</u>	<u>13</u>	<u>36</u>	<u>36%</u>	<u>4</u>

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part:

“... All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia...**shall deposit within twenty-four hours with the state treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever.**” (Emphasis Added)

Surplus Property Manager stated all receipts are immediately forwarded to the Finance Division who performs the deposits for Surplus Property, however, the Finance Division fails to deposit these monies timely.

When monies are not deposited timely, there is a greater risk that they may be misplaced or stolen. In addition, by not depositing these monies timely, the WVSASP is losing interest it could be earning on these monies.

We recommend that Surplus Property comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended. In addition, we recommend Surplus Property perform their own deposits.

Spending Unit's Response

The Purchasing Division agrees with the finding.

Surplus Property will begin depositing checks daily at United National Bank in the same manner that funds generated from public auctions are currently handled.

10. Overtime Not Properly Documented

During our test of overtime obtained from a population of six overtime payments during our follow-up period, we noted one out of six instances, or 17 % of overtime tested where the employee failed to record their overtime hours on their timesheet for a payment in the amount of \$218.54.

Chapter 5A, Article 8, Section 9 of the West Virginia Code, states in part:

“The head of each agency shall:...

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

Title 29, Section 516.2 of the Code of Federal Regulations states in part...

“...(a) *Items required.* Every employer shall maintain and preserve payroll or other records containing the following information...Every employer shall maintain and preserve payroll records or other records containing the following information...

(7) Hours worked each workday and total hours worked each workweek (for purposes of this section, a “workday” is any fixed period of 24 consecutive hours and a “workweek” is any fixed and regularly recurring period of seven consecutive workdays)...”

The employee stated it was his error in not recording his overtime on his time sheet. Agency personnel stated the timesheets are not forwarded to the Finance Department for payment of employee compensation, however, since the employee submitted a request for overtime he was still paid for the additional overtime hours.

By not maintaining adequate payroll records and not using the timesheets to pay employee compensation may result in the overpayment or underpayment of employee compensation. Also, employee compensation cannot be reconciled to their timesheet. In

addition, employees are capable of submitting a request to pay overtime without ever working the additional overtime hours and still be compensated.

We recommend that Surplus Property comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended and Title 29, Section 516.2 of the Code of Federal Regulations. In addition, we recommend Surplus Property perform reconciliations pertaining to time worked and amounts paid.

Spending Unit's Response

The Purchasing Division agrees with the finding.

Surplus Property currently documents overtime on the forms required by the payroll section of the Finance Division. However, we will ensure that this information is also documented on the employees' time sheets, effective immediately.