

STATE OF WEST VIRGINIA
AUDIT REPORT
OF THE
WEST VIRGINIA
MOUNTAINEER CHALLENGE ACADEMY

FOR THE PERIOD
JULY 1, 2005 - JUNE 30, 2007



OFFICE OF THE LEGISLATIVE AUDITOR
CAPITOL BUILDING
CHARLESTON, WEST VIRGINIA 25305-0610

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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To the Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the West Virginia Mountaineer Challenge Academy.

Our examination covers the period July 1, 2005 through June 30, 2007. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, Director
Legislative Post Audit Division

SLS/cdo

July 24, 2008

Auditors: Ethelbert Scott, CPA, Audit Manager
Trent Morton, Audit Manager
Thomas Ward, CPA, Auditor –in-Charge
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Debra Burkhardt, Auditor II
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WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

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WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

EXIT CONFERENCE

We held an exit conference on August 18, 2008 with the Mountaineer Challenge Academy staff. All findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Executive Summary - Spending Unit's Responses, and, after our findings in the General Remarks section of this report.

WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

INTRODUCTION

The West Virginia Mountaineer Challenge Academy (the Academy) is a federal and state funded program established under Section 1091 of the Department of Defense Authorization Act, Public Law 102-484. The Academy is located at Camp Dawson in Kingwood, WV, and is one of the original Challenge programs in the United States with operations beginning in 1993. Chapter 15, Article 1B, Section 24 of the West Virginia Code, as amended, recognizes that the Academy is operated by the West Virginia Adjutant General's Office, is a valuable program, and states in part:

“The Mountaineer Challenge Academy, operated by the adjutant general at Camp Dawson, is hereby acknowledged to be a program of great value in meeting the educational needs of at-risk youth throughout the state. Further, the Mountaineer Challenge Academy is hereby designated as a special alternative education program.... It is, therefore, the intent of the Legislature that the Mountaineer Challenge Academy should enjoy the full cooperation of the executive agencies of state government in carrying out its program....”

The mission of the Academy, according to their web-site is

“...to train and mentor at-risk youth to become contributing members of society using the 8 Core Components in a quasi-military environment during a 22-week residential and one year follow-up program.”

The eight core components include job skills, life coping skills, academic excellence, physical fitness, etc. Applicants (prospective cadets) are **not** required to attend the program through court orders or other mandates; the program is voluntary and cadets may leave

the Academy at any time. Prospective cadets must be between 16 and 18 years of age upon acceptance into the Academy.

The state's relationship with the Academy is governed by the "Master Youth Programs Cooperative Agreement" (MYPCA or agreement) entered into by the Adjutant General on behalf of the State of West Virginia, and, the United States Property and Fiscal Officer (USPFO) for West Virginia on behalf of the National Guard Bureau (NGB). Article II, Section 201 of the agreement outlines the state's obligations in complying with the MYPCA terms. The agreement also requires the State of West Virginia to contribute a **minimum** of 40% of the combined state and federal funding amounts. The state appropriation, or 40% share, has been \$1,200,000 per year for the two years under audit.

WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

ADMINISTRATIVE OFFICERS AND STAFF

JULY 1, 2005 TO JUNE 30, 2007

Allen E. Tackett, Major General.....The Adjutant General
Martin F. Hayden.....Adjutant General Operations Officer
Rhonda L. Combs Adjutant General Accountant
Hugh P. Dopson Academy Director
Kathy L. Tasker Academy Deputy Director
Cheryl A. Sterling..... Academy Administrative/
Logistics Supervisor
June Ingram.....Academy Accounting Technician
Krystal D. Given.....Academy Accounting Technician

WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

EXECUTIVE SUMMARY

Cadet Living Allowances

1. **DESTRUCTION OF RECORDS.** Academy personnel destroyed (burned or shredded) records pertaining to cadet bank accounts, including: 1) each cadet's bank book, 2) supporting documents for expenses deducted from each bank account, and 3) monthly bank statements received from the bank for each cadet's account. **As a result, we were unable to audit the living allowances received by the cadets to determine if each cadet received the allowance he/she was entitled to at the end of the program or upon leaving the Academy early.**

Auditor's Recommendation

We recommend the Academy comply with Article VII, Section 711 of the Master Youth Programs Cooperative Agreement and maintain records that show accountability for cadet living allowances for at least three years after the termination of such agreement.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 19-22)

2. **UNACCOUNTED FOR CADET LIVING ALLOWANCES.** Academy personnel could not account for cadet living allowance monies that were forfeited to them, specifically, amounts of less than \$5.00 left in cadet bank accounts, and, monies mailed to the cadets in the form of a check that were not claimed by those cadets. These monies are due and owing the cadet and should be returned to them, or, accounted for as unclaimed property by the state.

Auditor's Recommendation

We recommend the Academy comply with Attachment A to Appendix 1, Section 1A. 104 b., Subsection 3(g) of the Master Youth Programs Cooperative Agreement to ensure cadets receive the balance of their living allowance, or, comply with Chapter 36, Article 8, Section 2(a), Subsection (15) or Subsection (17)(c) of the West Virginia Code concerning unclaimed property.

Spending Unit's Response

The Academy has set up a non profit Account under the Adjutant General's Family Support 501(c)3. It has been divided into two sections one being academy Support and the other being Scholarships. They were initially separate accounts, but were later combined when we realized that through automation they could be combined and controlled separately. To meet the requirements of the 501(c)3 this account has been audited yearly by a local CPA company. (See pages 22-25)

3. **MONIES COLLECTED NOT BEING DEPOSITED INTO A FINANCIAL INSTITUTION.** Academy personnel collect \$20 from each cadet upon entry into the program if the cadet is financially able to do so to offset incidental expenses until the cadet receives his/her first living allowance check. These monies are kept in locked cabinet at the Academy instead of in a trustee account at a financial institution.

The Academy also has cadets "cash out" their cadet living allowance bank accounts approximately two weeks before graduation and, as with the \$20 fund, also keeps these monies in a locked cabinet

Auditor's Recommendation

We recommend the Academy comply with Chapter 5, Article 25, Section 1 of the West Virginia Code and deposit these monies into a federally insured account.

Spending Unit's Response

...Corrective actions are now being put into place to address this issue. Beginning with class 1-09, incoming Cadets will not bring in cash funds. (See pages 25-26)

4. **DIFFERENCES IN CADET LIVING ALLOWANCE CASH COUNT AND CHECK BOOK REVIEW.** We conducted a cash count for each of the 75 graduating cadets in the Class of December 2007 and noted **differences** from what was counted to what was compared to each cadet's ending balance in his/her checking account book/check register. The cash counted should have equaled the ending balance in the check book/register and is what the cadet should have received at the end of the program (or leaving the program early).

Auditor's Recommendation

We recommend the Academy maintain supporting documentation for transactions in accordance with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

Spending Unit's Response

The Academy represents the differences are due to outstanding checks. (See pages 26-27)

Two Local Bank Accounts

5. **BANK ACCOUNT NOT AUTHORIZED BY THE STATE TREASURER.** The Academy did not receive written authorization from the State Treasurer to open and maintain a local bank account.

Auditor's Recommendation

We recommend that the Academy comply with West Virginia Code Chapter 12, Article 2, Section 3, as amended, by obtaining an authorization for this account from the State Treasurer.

Spending Unit's Response

The bank accounts are part of the West Virginia National Guard Foundation 501(c)3. (See pages 28-29)

6. **NO SEGREGATION OF DUTIES.** The Academy did not maintain adequate segregation of duties for two local bank accounts.

Auditor's Recommendation

We recommend the Academy maintain adequate segregation of duties in accounting for local bank account monies, as well as maintain supporting documentation for their respective transactions, all in accordance with Chapter 5A, Article 8, Section 9 of the West Virginia Code. We also recommend they follow their own policies concerning authorizations for disbursements for the two accounts.

Spending Unit's Response

...Corrective actions are now being put into place to address this issue. (See pages 29-31)

Personal Services – Termination Pay

7. **INCORRECT TERMINATION PAY.** We tested all employees (a total of 20) who terminated employment with the agency during the audit period and noted that **six**

former employees were **overpaid** a total of **\$3,578.73** and **four** were **underpaid** a total of **\$5,013.27**.

Auditor's Recommendation

We recommend the Academy comply with: the Title 143, Series 1 of the State of West Virginia Division of Personnel Administrative Rule; Chapter 5, Article 5, Section 2 of the West Virginia Code, as amended; and the West Virginia Division of Personnel's (DOP) Annual Increment Policy, Section III, Subsection B as it pertains to pro-rated annual increment for terminating employees. We also recommend the Academy pursue collection of the overpayments and make payments due and owing former employees, including any applicable interest.

Additionally, we recommend the Academy review/audit the payroll records for employees who terminated during fiscal years prior to our audit period.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 31-35)

8. **RETIREMENT CONTRIBUTIONS INCORRECTLY DEDUCTED.** Out of the 20 employees tested for termination pay, there were 13 former employees who had retirement contributions totaling \$1,074.39 incorrectly deducted from their terminal pay.

Auditor's Recommendation

We recommend the Academy comply with Title 143, Series 1 of the West Virginia Division of Personnel Administrative Rule. We also recommend the Academy work with the Consolidated Public Retirement Board (CPRB) to correct the deductions in error as well as implement controls in the Academy's accounting system to help prevent these deductions in the future.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 35-37)

9. **INCORRECT SICK LEAVE ACCRUAL.** Out of the 20 employees tested for termination pay, the Academy incorrectly accrued a total of 64 hours of sick leave for seven of those employees after their date of separation from employment was determined.

Auditor's Recommendation

We recommend the Academy comply with Title 143, Series 1 of the West Virginia Division of Personnel Administrative Rule, as amended. We also recommend the Academy take the necessary steps in assuring that these terminated employees do not benefit from the incorrect sick leave accrual.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 37-39)

Personal Services – Regular Payroll

10. **INCORRECT PAYMENTS OF OVERTIME.** After auditing payroll records for ten out of 67 employees on the Academy payroll during the audit period, we found four who were overpaid a total of **\$1,576.80** for time and a half overtime as indicated on the employee timesheets and payroll records. There were also four employees who were underpaid a total of **\$1,234.03** for time and a half overtime.

Auditor's Recommendation

We recommend the Academy comply with The Fair Labor Standard Act of 1938 as amended. We further recommend the Academy comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended as well as The Division of Personnel, Fair Labor Standards Act, Interpretive Bulletin, effective October 1, 2004. We also recommend the Academy pursue collection of overpayments and pay overtime underpayments and interest due, if any, to employees who were underpaid time and a half overtime pay.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 39-42)

11. **INCORRECT GROSS PAY.** One employee was overpaid **\$170.50** and another was underpaid **\$60.33**.

Auditor's Recommendation

We recommend the Academy comply with The Fair Labor Standards Act of 1938, as amended. We also recommend the Academy pursue collection of the overpayment and pay the underpayment with interest due, if any.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 42-43)

Personal Services – Sick and Annual Leave

12. **INCORRECT ACCRUAL OF ANNUAL AND SICK LEAVE.** The Academy overstated and understated the end of audit period annual leave balance (in hours) for four and three employees, respectively, in their manually kept leave system. If the employees were to withdraw (upon resignation of their employment) their annual leave balances at these incorrect accruals, the overstatement would be equivalent to **\$1,367.55** and the understatement would be equivalent to **\$159.37**.

The Academy also overstated and understated the sick leave balance (in hours) for three employees and one employee, respectively. The sick leave does not have a withdraw value; however, the overstatement is equivalent to **\$289.12** and the understatement would be **\$32.96**.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A, Article 8, Section 9(b), of the West Virginia Code. We also recommend the Academy make entries in their manual leave system to correct the over and under statements as well as consider implementing the Department of Administration's On-Line Leave System. This system may help in reducing errors in accounting for annual and sick leave.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 43-45)

13. **COMPENSATORY TIME OFF GIVEN IN ERROR.** Two Academy employees charged Compensatory time off (Comp. time in hours) to the Academy equivalent to **\$802.45**; however, the Academy does not give Comp Time to its employees as a matter of its own policy.

Auditor's Recommendation

We recommend the Academy comply with: Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and Chapter 12, Article 3, Section 13, of the West Virginia Code, as amended; the Employee Handbook of the Office of the Adjutant General's Office; and, the Memo from the Adjutant General's Operations Officer dated February 22, 2008 as it relates to payment of Compensatory Time for Academy employees. We also recommend the Academy make the necessary adjustments to the employee's

annual leave records in the amount of the Comp. time taken, or, pursue collection of the monies equivalent to the Comp. time given.

Spending Unit's Response

...Mistakes by management should not hurt the employees. The Academy maintains that the employees did work and the Academy received their services. (See pages 45-47)

- 14. INACCURATE RECORDKEEPING OF SICK AND ANNUAL LEAVE RECORDS IN ACADEMY'S MANUALLY KEPT LEAVE SYSTEM.** We noted the following inaccuracies in the Academy's sick and annual leave records: **1)** There were two instances where employees were allowed to take more leave than they had accrued in their leave balance which resulted in a temporary negative leave balance for each employee. **2)** The beginning annual/sick leave balances of pay periods for six Academy employees do not match the ending balance of the prior pay period. There were 14 occurrences of these balances not being carried over accurately to the next pay period. This resulted in temporary inaccuracies in Academy leave records. **3)** There were three occurrences of annual and sick leave amounts indicated on leave slips not matching the amounts that should have been indicated on the respective timesheet for three employees. **4)** There were also four exceptions for four employees out of the 11 tested where the amount of leave used was not properly accrued and/or deducted from the employees balance. The incorrect entries in 3 and 4 above could result in an accounts receivable or a liability that will have to be collected or paid, respectively.

Auditor's Recommendation

We recommend the Academy comply with: Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended; Chapter 14, Article 143, Sections 3a and 4a of the West Virginia Code; and, the Annual Leave Section of the Employee Handbook of the Office of the Adjutant General's Office. We also recommend the Academy consider implementing the Department of Administration's On-Line Leave System to help ensure that employees do not generate negative leave balances, as well as to help keep the agency from creating accounts receivables or incurring liabilities. Additionally, this system may help the Academy maintain more accurate leave records.

Spending Unit's Response

...The Academy has adopted an automated payroll system implemented by the Military Authority. (See pages 47-52)

15. **LACK OF AUTHORIZATION.** There were 19 employee timesheets and leave slips with either no supervisor's signature indicating approval or no employee signature of the respective record. As a result, we were unable to assure ourselves the leave taken was authorized. This could result in the employee(s) having their pay docked as a disciplinary action.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and The Division of Personnel's Administrative Rule Title 143, Series 1, Section 14.6 as it pertains to taking unauthorized leave.

Spending Unit's Response

...Verbal approval of director's leave should be sufficient. (See pages 52-55)

16. **MISSING DOCUMENTS.** The Academy did not have 11 sick and/or annual leave applications on file for five employees.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and maintain adequate records of their sick and annual leave accounting system.

Spending Unit's Response

The Academy has taken measures to follow our recommendations. (See pages 55-56)

Equipment – Inventory

INADEQUATE INVENTORY CONTROLS. During our preliminary planning and accounting procedures interviews of Academy personnel, it became apparent there are weak controls over entering assets into the WVFIMS Fixed Asset System as noted in the following findings.

17. **ASSETS NOT ENTERED INTO THE FIMS FIXED ASSET LISTING.** The Academy did not enter four assets totaling \$39,318.00 into the FIMS Fixed Asset Listing as required by State Purchasing Division procedures.

Auditor's Recommendation

We recommend the Academy comply with Section 3.6 of the West Virginia Purchasing Division Policies and Procedures Handbook and the Academy's inventory procedures as described to us.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 56-59)

18. **FIREARMS NOT ENTERED INTO THE WVFIMS FIXED ASSET SYSTEM.** The Academy maintains 20 M-1 rifles that have **not** been entered into the FIMS Fixed Asset System as required by State Purchasing Division procedures; however, they were entered into the Academy's internal inventory records and classified as "demilitarized" (modified to be rendered non-operational or cannot fire live ammunition) in that inventory.

Auditor's Recommendation

We recommend the Academy comply with Appendix G, Section 3.6.1 of the West Virginia Purchasing Division Policies and Procedures Handbook and enter their firearms into the FIMS Fixed Asset System.

Spending Unit's Response

The Academy will not comply with the recommendation. (See pages 59-60)

19. **UNTAGGED INVENTORY.** The Academy did not affix inventory tags to assets costing \$1,000 or more each as required by State Purchasing Division policies. Specifically, five assets totaling \$26,397.57 did not have inventory tags affixed to them.

Auditor's Recommendation

We recommend the Academy comply with Section 3.11, Appendix G of the West Virginia Purchasing Division Policies and Procedures Handbook.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 60-61)

20. **UNACCOUNTED FOR ASSETS.** Academy personnel could not locate seven assets having a total acquisition cost of \$6,169.96.

Auditor's Recommendation

We recommend the Academy comply with Appendix G, Section 3.3 of the West Virginia Purchasing Division Policies and Procedures Handbook which assigns asset responsibility to respective agencies.

Spending Unit's Response

The Academy contends that all assets have been accounted for. (See pages 61-63)

21. **NO SUPPLY REQUESTS, SUPPORTING INVOICES, PURCHASE ORDERS, AND BIDS.** The Academy did not have on file numerous supporting documents including supply requests, purchase orders, invoices, and bids. The transactions for which there were no bids totaled \$42,504.60.

Auditor's Recommendation

We recommend the Academy comply with the recordkeeping requirements of Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, Section 3.2 of the West Virginia Purchasing Division's Procedures Handbook, and their own Standard Operating Procedures as they pertain to purchasing and the bidding process.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 63-65)

Purchase Card Disbursements

22. **THE ACADEMY PAID \$140.15 BEFORE SERVICES WERE RENDERED.** A vendor was paid \$140.15 (26 days) before services were rendered.

Auditor's Recommendation

We recommend the Academy comply Chapter 12, Article 3, Section 9 of the West Virginia Code, as amended, and pay vendors **after** services have been rendered.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 65-66)

23. **PURCHASING CARD DELEGATION.** There were ten transactions in which card delegation totaling \$5,840.65 occurred.

Auditor's Recommendation

We recommend the Academy comply with the State Auditor's State Purchasing Card Program Policies and Procedures, Sections 4.4 and 3.4, effective August 2006 and July 2004, respectively.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 66-69)

24. **INVOICE "SPLITTING" OR STRINGING.** A purchase totaling \$7,659.88 was split into five purchase card transactions so as to not exceed the \$2,500 purchase card transaction limit.

Auditor's Recommendation

We recommend the Academy comply with the State Auditor's Section 6.3 of the State Purchasing Card Program Policies and Procedures and the Standing Operating Procedures of the Academy, specifically, obtaining bids for purchases of this dollar amount.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 69-70)

Travel Expense Reimbursements

25. **THE ACADEMY DIRECTOR MAY BE ELIGIBLE FOR A REIMBURSEMENT.** There were receipts totaling \$21.70 that were not claimed for reimbursement by the Academy's Director.

Auditor's Recommendation

We recommend that the Academy Director consider pursuing reimbursement for the unclaimed travel expenses.

Spending Unit's Response

...No claim will be made by the Director for reimbursement for the amount of \$21.70, because of the cost to the State to issue a check in such a small amount. (See pages 70-71)

Contract and Lease Disbursements

26. **AMOUNTS NOT SUPPORTED BY AGREED UPON PRICES.** From 24 transactions tested totaling \$100,065.15 out of a total population of 366 transactions totaling \$808,800.14, the Academy could not verify the lease agreement prices for two disbursement transactions totaling \$6,635.77. Additionally, they could not support expenditures that were reimbursed to the agency in the amount of \$31,631.18 with an agreed upon price list or agreement.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A, Article 8, Section 9b of the West Virginia Code and maintain adequate records so as to pay the proper amount due, as well as receive their entitled reimbursements. We also recommend the Academy comply with Chapter 12, Article 3, Section 9 of the West Virginia Code, as amended, and ensure that the expenditure they are paying for is what was supposed to be paid.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 71-73)

Miscellaneous Items Noted

27. **INVOICES NOT PROCESSED TIMELY.** During our audit field work, we noted a total of six invoices that were not processed within ten days of receipt.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A, Article 3, Section 54 (d), (e) of the West Virginia Code and process their invoices in a more timely manner.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 73-75)

28. **LACK OF DOCUMENTATION.** During our audit field work, we documented numerous instances of missing supporting documents.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A Article 8 Section 9(b) of the West Virginia Code, the West Virginia Expenditure Schedule Instructions, the State

Purchasing Division Travel Rules, and the Academy's own Standard Operating Procedures.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 75-84)

29. **UNAUTHORIZED DOCUMENTS.** During our audit field work, we found numerous unauthorized documents.

Auditor's Recommendation

We recommend the Academy comply with Chapter 5A Article 8 Section 9(b) of the West Virginia Code, the State Purchasing Division Travel Rules, the State Purchasing Card Program Policies & Procedures, and the Academy's own Standard Operating Procedures.

Spending Unit's Response

The Academy will comply with the recommendation. (See pages 84-90)

30. **Incorrect Object Codes.** During our audit field work, we noted numerous transactions that were charged to incorrect object codes.

Auditor's Recommendation

We recommend the Academy comply with The State of West Virginia Expenditure Schedule Instructions.

Spending Unit's Response

...greater care will be taken in our review of the object codes being used by our agency in the future." (See Pages 90-97)

WEST VIRGINIA MOUNTAINEER CHALLENGE ACADEMY

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the West Virginia Mountaineer Challenge Academy (the Academy). The audit covered the period July 1, 2005 through June 30, 2007.

GENERAL REVENUE ACCOUNTS

The Academy was appropriated funds for general operations in the following general revenue accounts:

<u>Fund Number</u>	<u>Description</u>
0433-709	Mountaineer Challenge Academy

FEDERAL REVENUE ACCOUNTS

During the audit period, the Academy operated the following federal revenue accounts:

<u>Fund Number</u>	<u>Description</u>
8726-7126	Mountaineer Challenge Academy

COMPLIANCE MATTERS

The Master Youth Programs Cooperative Agreement governs the State of West Virginia's relationship with the Academy. The two parties entering into this agreement are the West Virginia Adjutant General on behalf of the State of West Virginia and the United States Property and Fiscal Officer (USPFO) on behalf of the National Guard Bureau.

We tested applicable sections of the West Virginia Code, as well as rules and regulations that pertain to fiscal matters. Our findings are discussed below.

LACK OF INTERNAL CONTROLS FOR CADET LIVING ALLOWANCES

1. Destruction of Records. During the procedural interview portion of our audit of the Academy, we discovered that financial records were not being held for future review, but instead were destroyed by Academy staff. The below mentioned financial records are necessary to account for the state appropriated living allowances cadets receive during their 22 week training program at the Challenge Academy at Camp Dawson in Kingwood, WV. Each cadet receives a total of \$330 in living allowances for the duration of the program. As part of a banking course, the cadets are required to open a regular checking account at a local bank during the beginning of the program to keep track of his/her living allowance receipts and disbursements, as well as learn basic banking skills as part of their training.

Specifically, the cadet's last monthly bank statements are not returned to cadets upon graduating from the Challenge Academy program or after leaving the program early. These statements (and possibly other bank statements) are shredded by the banking class instructor prior to the start of the next class. Cadet checkbooks are also destroyed (burned) at some point before the start of the next class by the banking class instructor. There are two cadet classes per calendar year; one graduating in June and the other in December.

Due to the above circumstances and using professional judgment, we performed a cash count of cadet monies as well as conducted other audit procedures on December 12, 2007 (as noted in the following findings) on the bank records for the Cadet Class graduating December 14,

2007. The records we reviewed were for transactions occurring after our audit period; however, they had not yet been destroyed by agency personnel.

As a result of the lack of records, we were unable to verify the amount of money received by each cadet at the end of the program because those records were not available, i.e., we could not determine the amount of money received by the cadet in the form of state appropriated living allowances and money cadets receive through the mail, less expenses paid from those monies with the remaining balance reverting to the cadet upon graduation or after leaving the program early. These records are necessary for the audit procedures we would have performed to prove the cadet did receive the balance of those monies. The total cadet living allowances, State Object Code 002 - Personal Services, expended for the fiscal years under audit are \$61,286.85 and \$51,540.00 for fiscal years 2006 and 2007, respectively, for a grand total of \$112,826.85.

According to the Academy's Deputy Director, Academy personnel determine which documents are kept and which are to be destroyed as detailed in the Academy's own policies and procedures. Those procedures require that financial records pertaining to cadet expenses are to be destroyed. There were no policies concerning the destruction of bank records in those policies. Additionally, the cadet's banking class instructor stated that she did not know that the banking records should have been retained for auditing purposes and destroyed them accordingly.

We recommend the Academy comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, which provides for adequate recordkeeping and states, in part:

“The head of each agency shall:...

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.”

We recommend the agency retain records by complying with Article VII, Section 711 of the Master Youth Programs Cooperative Agreement, which states in part:

“The state shall afford any authorized representative of NGB, the Department of Defense, or the Comptroller General access to and the right to examine all records, books, papers, and documents (“Records”) that are within the State’s custody or control and that relate to its performance under this MYPCA. The State shall retain all such records intact in a form, if not original documents, as may be approved by NGB for at least three (3) years following termination of this MYPCA.”

Spending Unit’s Response

Cadets open a regular checking account as part of the Life Coping Curriculum.

This account is not intended to serve as a tracking mechanism for their living allowance funds but is a personal account. The Living Allowance Funds are a stipend to assist with personal needs and the account is part of the NGB Youth ChalleNGe Program curriculum.

To clarify the content of paragraph 2, page 3 of 66; The MCA Staff determined which documents to keep and which to destroy for the Cadet’s permanent record – fashioned after a school student’s permanent record. Payroll Reports – Living Allowance forms with original signatures and supporting FIMS documents are maintained at Coonskin. Original Cadet Financial Statements and Lost/Stolen/ Damage reports will be maintained as part of the class record.

The practice of destroying checking account statements and checkbooks for individual cadet checking accounts has ceased.

Since cadets are not allowed to receive money in the mail, if money is sent to the cadet in mail (cash, check or money order) it is returned to the sender along with the Cadet Money Management Memo stating that cadets are not to receive money in the mail. A copy of all the paperwork including money, check or money order is made and is now kept. Previously this documentation was destroyed in six months; this practice has ceased. Corrective measures are being put into place to better document these actions.

Corrective measures are being taken now regarding the voluntary \$20.00 collected from cadets to cover incidental expense until Living Allowances are paid up to and including discontinuance with the first class of cadets in January 2009.

2. Unaccounted for Cadet Living Allowances. There were unaccounted for monies owed to cadets who had either left the Academy early or had graduated and had a balance remaining in his/her checking account. Academy personnel stated that at the beginning of the banking course, students are required to provide the banking instructor with two signed, blank checks. These blank checks are used by Academy personnel to close the student's bank account. Academy personnel stated they deposit these monies, which are considered forfeited to the Academy and are typically \$5.00 or less per cadet, or, are monies not claimed by the cadet, into one of their two local bank accounts. We noted that internal documents indicated that the Academy was unable to return a total of \$55.75 to six students. However, we further noted that the bank statements of the two local bank accounts did not show that the unreturned monies had

been deposited in accordance with Academy procedures. Academy personnel were unable to provide an explanation for the status of the monies.

The two local bank accounts are under the control of the Academy and are typically used to receive charitable donations as well as monies cadets earn from fundraising events, e.g., car washes. These donations and fundraising monies are to be used for the benefit of the cadets. The two local accounts are discussed in more detail in a finding within this report. We reviewed the bank records for the two local bank accounts and determined there were no deposits to either account for cadet monies that were forfeited to the Academy during the audit period. As a result, we could not determine if all funds owed to cadets upon graduation or leaving the Academy early were returned to those cadets or were processed as unclaimed property according to the West Virginia Code as noted below.

According to Academy personnel, there are many instances where the Academy is unable to contact cadets who have left the Academy. They added the cadet bank account must be closed, and, because agency staff did not know what else to do with the monies, they were supposed to be transferred into one of the two local bank accounts. Agency personnel added that it was not cost or time effective to continue attempts at contacting former cadets to forward them their remaining living allowance. However, contrary to the agency's explanation, we did not see any indication this process was in effect.

We recommend the agency comply with the Master Youth Programs Cooperative Agreement, Attachment A to Appendix 1, Section 1A.104, Subsection b.3, (g), which states in part:

“If a terminated cadet has a remaining weekly living allowance balance from funds already issued, than **that balance will be paid to the terminated cadet upon departing the program.** If upon graduation, a cadet has a remaining weekly living allowance balance from funds issued during the class cycle, then **that balance will be paid to the cadet.**” (Emphasis Added)

If it is not possible to forward the remaining living allowances to the cadet(s), we then recommend the agency comply with Chapter 36, Article 8, Section 2(a)(15) of the West Virginia State Code, which governs the disposition of those monies and states in part:

“**Property is presumed abandoned if it is unclaimed by the apparent owner** during the time set forth below for the particular property...All other property, five years after the owner’s right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.” (Emphasis Added)

Additionally, Chapter 36, Article 8, Section 2(a)(17)(c) of the West Virginia Code states in part:

“**Property is unclaimed if, for the applicable period set forth in subsection (a) of this section, the apparent owner has not communicated in writing or by other means** reflected in a contemporaneous record prepared by or on behalf of the holder, with the holder concerning the property or the account in which the property is held, and has not otherwise indicated an interest in the property....” (Emphasis Added)

Spending Unit’s Response

The Academy has set up a non profit Account under the Adjutant General’s Family Support 501(c)3. It has been divided into two sections one being academy Support and the other being Scholarships. They were initially separate accounts, but were later combined when we realized that through automation they could be combined and controlled separately.

To meet the requirements of the 501(c)3 this account has been audited yearly by a local CPA company.

3. Monies Collected Not Being Deposited Into a Financial Institution.

Academy personnel collect \$20.00 from each cadet upon entry into the program, if the cadet is financially able, to help offset incidental expenses until the cadet receives his/her first living allowance check. This \$20.00 fund is voluntary, not mandatory, and is not required for entry into the Challenge Academy program. These monies are kept in a locked cabinet at the Academy instead of in a trustee account at a financial institution and, at any given time, can total to \$1,500.00, which is equivalent to an average class of 75 cadets times \$20.00 each.

According to Academy personnel, the \$20.00 is used to cover incidental expenses the cadets may incur prior to receiving their first living allowance check. If there are no incidental expenses incurred, the entire \$20.00 amount is returned to the cadet. The money is kept onsite in the event there are immediate required expenditures so as to save time. Maintaining these funds in a local bank account would cause substantial inefficiencies according to Academy personnel.

The cadets also withdraw the balance of their cadet living allowance bank accounts approximately two weeks before graduation and, as with the \$20.00 fund, store these monies in a locked cabinet. The allowances are withdrawn early so that checks written on cadet accounts can have time to be processed by the bank according to Academy personnel. After performing the cash count discussed in the next finding, we determined the total cadet living allowance cash kept in the locked cabinet for the December 2007 graduating class to be \$7,839.98 for 75 cadets. Agency personnel stated that this was an “average” of what is usually cashed out for every class with two classes graduating per calendar year.

As a result of the above, controls over the safeguarding of cash have been weakened. This is mainly due to the inherent risk of cash, i.e., it is more susceptible to theft. Additionally, the opportunity to earn interest if the monies were deposited with a financial institution has been forgone.

We recommend the Academy comply with Chapter 5, Article 25, Section 1 of the West Virginia Code, which provides for the custodianship of the \$20.00 fund and cadet living allowance bank account and states in part:

“All state institutions...which provide custodial care for any person for any purpose whatsoever shall establish resident trustee accounts for all persons resident at the institution....The administrator in charge of the institution shall take possession of all money or other valuables on the person of or sent to each resident for whom a trustee account has been established:

The administrator shall deposit such fiduciary funds received into federally insured account approved by the director of the department....”

Spending Unit's Response

Corrective actions are now being put into place to address this issue. Beginning with class 1-09, incoming Cadets will not bring in cash funds.

4. Differences in Cadet Living Allowance Cash Count and Checkbook Review.

Due to the recordkeeping issues for cadet living allowances as noted above, we performed a cash count for the December 2007 graduating class (75 cadets). The purpose for this count was to determine what each cadet should have received upon graduation (or leaving the program early) and consisted of a comparison of the ending balance in each cadet's checkbook to the amount counted. Each cadet's cash was kept in an envelope and filed in a locked cabinet. Specifically,

there were 11 cadets who had differences ranging as low as \$.01 to as high as \$55.37 for a net difference of \$36.32. The cash count totaled \$7,839.98 and ending balances indicated in the 75 check books totaled \$7,803.66 for the \$36.32 difference. The agency was unable to reconcile these differences or provide any supporting documents to that effect.

After reviewing entries in 13 checkbooks, we found differences from as low as \$.16 to as high as \$139.57 in six of those check books for a net difference of \$53.14. The Academy was also unable to reconcile these differences.

By not keeping accurate records for cash, the risk for theft is increased. As a remedy, we recommend the Academy maintain records to the extent outlined in Chapter 5A, Article 8, Section 9b of the West Virginia Code, which 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....”

Spending Unit’s Response

Even though the Cadets checkbooks are collected several weeks before the cadets go to the bank to close the accounts; there are instances when there are still outstanding checks. When this happens these accounts are not closed. The cadet leaves enough money in the account to cover the outstanding checks and receives the rest of the account funds in cash. This would account for differences in cash in designated envelop and the balance in the cadets check register.

UNAUTHORIZED LOCAL BANK ACCOUNTS

5. Bank Account Not Authorized by the State Treasurer. The Academy maintains two local bank accounts, known as the Scholarship Fund and the Support Fund, of which the Scholarship Fund was not authorized through the State Treasurer's Office as required. The purpose of the Scholarship Fund is to receive monies from private and public donors to be disbursed for higher educational expenses, along with various other expenditures. The purpose of the Support Fund is to help offset expenses not covered by program funds.

West Virginia Code Chapter 12, Article 2, Section 3, as amended, states:

“Deposit of moneys not due the state.

“All officials and employees of the state authorized to accept moneys that the State Treasurer determines or that this code specifies are not funds due the state pursuant to the provisions of section two [§12-2-2] of this article shall deposit the moneys, as soon as practicable, in the manner and in the depository specified by the State Treasurer. The State Treasurer shall prescribe the forms and procedures for depositing the moneys.

Notwithstanding any provision of this code to the contrary, including provisions stating funds collected are not state funds and provisions authorizing a spending unit to have one or more accounts outside the Treasury, a spending unit shall comply with the State Treasurer's procedures for the receipt and disbursement of moneys not due the state **and obtain written authorization from the State Treasurer before depositing any moneys in an account outside the Treasury.** Upon the State Treasurer's written revocation of the authorization, the spending unit shall deposit funds deposited in an account outside the Treasury into the Treasury in the manner and in the depository specified by the State Treasurer. The State Treasurer is the final determining authority as to whether these funds are funds due or not due the state pursuant to section two of this article. The State Treasurer shall on a quarterly basis provide the Legislative Auditor with a report of all accounts authorized under this section.”
(Emphasis Added)

Bank accounts which are not authorized by the State Treasurer's Office are more susceptible to misappropriations of the accounts' assets. The Administrative/Logistics Supervisor of The Academy indicated that she was not aware that the Scholarship Fund local bank account was required to be authorized by the State Treasurer.

We recommend that the Academy comply with West Virginia Code Chapter 12, Article 2, Section 3, as amended, by obtaining an authorization for this account from the State Treasurer.

Spending Unit's Response

The bank accounts are part of the West Virginia National Guard Foundation 501(c)3.

6. No Segregation of Duties. During the audit period, the Academy did not maintain adequate segregation of duties for the two above local bank accounts. One employee handles all of the recordkeeping, maintains custody of the assets (monies) until they are deposited into one of the two bank accounts, and authorizes the disbursements from the two accounts.

The beginning and ending balances for the Scholarship Fund for the audit period were \$3,653.00 and \$1,958.71, respectively. The beginning and ending balances for the Support Fund for the audit period were \$33,049.91 and \$62,491.77, respectively.

Academy personnel stated that only checks and money orders, i.e., no cash or currency, were deposited into these accounts. After performing a "proof of cash" of the two accounts and a "review" of their supporting documents, we found four disbursement checks that only had one of the two required authorizing signatures as indicated in their accounting procedures. Three of these checks were from the Scholarship Fund account and totaled

\$2,119.29. There were a total of five disbursements totaling \$2,794.29 from this account during the audit period. The fourth check was from the Support Fund account in the amount of \$5,366.90. There were a total of six disbursements totaling \$19,257.40 from this account during the audit period. We also found one disbursement in the amount of \$2,000.00 from the Support Fund that had no supporting invoice attached to the supporting documents.

By not maintaining adequate segregation of duties over the accounting of local bank account monies, the risk of deposits not entering the accounting system, or theft of cash by “skimming”, may increase. Furthermore, the risk of asset defalcation in the form of unauthorized disbursements from the local accounts may also increase. The Academy’s own accounting process for the two local accounts which does not require segregation of duties is the cause.

Not maintaining adequate segregation of duties and supporting documents are in noncompliance with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code. We recommend the Academy comply with this Code section, which 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.”

Additionally, the lack of two authorizing signatures for disbursements from the local accounts is contrary to the Academy’s own policies, which states in part:

“The disbursements from the local accounts are also made by... and require two of the following three authorizing signatures:....”

Finally, keeping the recordkeeping, custody of assets, and authorization duties properly segregated is necessary to maintain effective internal control over an accounting system. This basic principle is widely recognized in Generally Accepted Auditing Standards (GAAS), Generally Accepted Governmental Auditing Standards (GAGAS), college level auditing texts, treatises and a multitude of other sources on the subject.

We also recommend the Academy adopt sound practices as to adequate segregation of duties including, but not limited to: (1) having more than one employee help process the mail receipts, (2) having another employee who does not have access to the accounting records or custody of the assets perform the “bank to books” reconciliations and any other relevant reconciliations/reviews, and (3) not allowing employees who authorize disbursements have access to the records or custody of the assets before they are deposited into the bank account(s). Finally, we recommend the Academy contact us for further guidance concerning internal controls if necessary.

Spending Unit's Response

Corrective actions are now being put into place to address this issue. The account will be transferred from the West Virginia National Guard Foundation 501(c)3 to a newly created “Friends of the MCA” 501(c)3. The new foundation will create an advisory board that will handle all financial transactions.

INCORRECT PAY UPON RETIREMENT/RESIGNATION

7. Incorrect Termination Pay. We tested all 20 employees who resigned or retired during the audit period and noted exceptions in ten of them. Differences in the spending unit's terminal pay were calculated by totaling the **agency** terminal value of: 1.) regular pay, 2.)

annual leave lump sum pay, and 3.) prorated annual increment and compared to the Audited Amount Paid terminal value of each. The differences between the two are listed in the below table:

<u>Employee</u>	<u>Payment Date</u>	<u>Payment Type</u>	<u>Actual Amount Paid</u>	<u>Audited Amount Paid</u>	<u>Difference Over/(Under)</u>
Employee #1	07/14/06	Regular Pay	\$ 5,335.05	\$ 3,801.36	\$1,533.69
Employee #1	07/14/06	Prorated Annual Increment	0.00	498.65	(498.65)
Employee #2	07/15/05	Annual Increment	2,671.41	500.00	2,171.41▶
Employee #3	04/28/06	Regular Pay	3,639.66	3,595.42	44.24
Employee #4	07/15/05	Regular Pay	3,273.12	3,393.50	(120.38)
Employee #4	07/15/05	Regular Pay	0.00	350.00	(350.00)
Employee #5	02/28/06	Regular Pay	2,806.52	2,080.33	726.19
Employee #5	02/28/06	Prorated Annual Increment	0.00	160.99	(160.99)
Employee #6	07/15/05	Regular Pay	802.31	712.80	89.51
Employee #7	02/28/07	Regular Pay	0.00	549.55	(549.55)
Employee #7	02/28/07	Regular Pay	0.00	560.85	(560.85)
Employee #8	08/16/06	Overtime Regular Pay	464.72	323.28	141.44
Employee #8	08/16/06	Annual Leave Lump Sum	855.62	1,097.38	(241.76)
Employee #9	07/16/07	Regular Pay	424.36	384.37	39.99
Employee #9	07/16/07	Annual Leave Lump Sum	0.00	1,096.55	(1,096.55)
Employee #10	10/16/06	Regular Pay	533.60	266.80	266.80
			<u>\$20,806.37</u>	<u>\$19,371.83</u>	<u>\$1,434.54</u>

▶ *This amount was charged to the Annual Increment Object Code in the Payroll System. We did not see any documentation that would support this as a regular pay, overtime pay, annual leave lump sum pay or prorated annual increment pay.*

As a result of the above, the Academy created a liability by underpaying former employees in the amount of \$3,578.73 and also created a receivable by overpaying former employees in the amount of \$5,013.27.

The Academy payroll supervisor stated the over and underpayments occurred due to human error and added they will pursue collection of all overpayments and pay all employees who were underpaid. Our audit procedures determined possible causes of those errors as follows:

- 1) The above “Regular Pay” differences occurred due simply to paying the employee part of the last regular paycheck for regular and overtime hours worked, as well as paying one employee exactly the same regular pay twice, or, a duplicate payment.
- 2) The “Annual Leave” differences occurred due simply to over/underpaying the terminating employee his/her annual leave, as well as incorrectly accruing and crediting annual leave to the employee “after” his/her date of separation from the agency, as well as incorrectly charging annual leave taken to the employee that should have not been charged.
- 3) The “Annual Increment” differences occurred by simply either not paying the full annual increment pay or paying too much annual increment.
- 4) The “Pro-rated Annual Increment” differences occurred due to the agency simply not paying the pro-rated annual increment, or, not following the calculations as outlined in the West Virginia Division of Personnel’s Annual Increment Policy as it pertains to pro-rated annual increment.

We recommend the Academy review their processes for calculating terminal pay and make necessary adjustments so as to comply with applicable criteria. To start, Title 143, Series 1, Section 3.25 of the West Virginia Division of Personnel’s Administrative Rule defines date of separation as:

“...Last day of work of employees separating due to dismissal, voluntary resignation, voluntary retirement, layoff, or sudden death; the date of death of employees who die while on paid or unpaid leave; or the date of notification by employees resigning or retiring due to disability as verified by a physician.”

Title 143, Series 1, Section 3.53 of the West Virginia Division of Personnel’s Administrative Rule Chapter defines the last date of work as:

“The last calendar date and hour an employee is physically on the job.”

Title 143, Series 1, section 14 (d) requires employees to charge annual leave to holidays after he/she has been separated from employment with:

“(d) An employee must either work or be on approved paid leave for either the full scheduled workday before or the full scheduled workday after the holiday and either work or be on approved paid leave for any fraction of the scheduled workday before or the scheduled workday after the holiday to receive pay for the holiday. **No employee is entitled to payment for any holiday that occurs prior to the first day of work or after the date of separation (sub-section 3.25).” (Emphasis Added)**

The Division of Personnel’s Administrative Rule Title 143, Series1, 14.3(f) states in part:

“(f) Separation from Employment - The appointing authority shall pay an employee who separates from employment for any reason for all accrued and unused annual leave. An employee does not accrue annual leave after his or her date of separation.”

Chapter 5, Article 5, Section 2 of the West Virginia Code addresses annual increment and states in part:

“(a) Every eligible employee with three or more years of service shall receive an annual salary increase equal to fifty dollars times the employees’ years of service...”In each fiscal year and on the first day of July, each eligible employee shall receive an annual increment increase of fifty dollars for that fiscal year....”

The West Virginia Division of Personnel’s (DOP) Annual Increment Policy, Section III, Subsection B, outlines the rules and calculations necessary to determine pro-rated annual increment pay for terminating employees. Due to the volume of that data, we decided not to include it in this finding, but instead recommend the Academy access the DOP’s web-site for those rules and to use the prorate annual increment calculator on that web-site.

We also recommend the Academy pursue collection of the overpayments and make payments due and owing former employees, including any applicable interest. Additionally, we recommend the Academy review/audit the payroll records for employees who terminated during the fiscal years prior to the audit period. We further recommend the Academy pursue collection

of the overpayments, as well as make payments due and owing former employees (including applicable interest) who were underpaid terminal pay.

Spending Units' Response

Concur with the findings. Records will be corrected and this office will pursue collection of overpayments, as well as make payments due former employees.

8. Retirement Contributions Incorrectly Deducted. We tested all 20 employees who resigned or retired during the audit period and noted exceptions in 13 of them. Employee members of the West Virginia Public Employee's Retirement System (PERS) contribute 4.5% of their gross pay to the PERS. However, after a date of separation has been determined for a terminating employee, those contributions should cease immediately. The agency incorrectly deducted retirement contributions totaling \$1,074.39 from the terminal annual leave pay of 13 employee's pay as follows:

<u>Employee</u>	<u>Retirement Contribution</u>
Employee #1	\$ 240.08
Employee #2	135.45
Employee #3	178.54
Employee #4	147.29
Employee #5	126.29
Employee #6	36.10
Employee #7	16.90
Employee #8	48.65
Employee #9	38.74
Employee #10	4.50
Employee #11	22.84
Employee #12	16.58
Employee #13	<u>62.43</u>
Total:	<u>\$1,074.39</u>

Deductions from terminal annual leave pay for retirement contributions will overstate the employee's retirement contribution, and as a result, could increase the former employee's retirement annuity should he/she remain in the PERS until eligible for retirement. Additionally, the employee could be temporarily underpaid for the contributed amount until he/she withdraws his/her contributions, and consequently, could then be paid interest that accrues on retirement contributions. The payroll supervisor stated the incorrect withholding of retirement contributions occurred due to human error caused by the great volume and speed required to process the WVMCA payroll.

We recommend the agency observe the requirements outlined in Title 143, Series 1, section 3.25 of the West Virginia Division of Personnel Administrative Rule, which defines date of separation as:

“...Last day of work of employees separating due to dismissal, voluntary resignation, voluntary retirement, layoff, or sudden death; the date of death of employees who die while on paid or unpaid leave; or the date of notification by employees resigning or retiring due to disability as verified by a physician.”

Additionally, Title 143, Series 1, section 3.53 of the West Virginia Division of Personnel Administrative Rule defines the last date of work as:

“...The last calendar date and hour an employee is physically on the job.”

Title 143, Series 1, section 14.3(d), subsections (f) 1. and 2. of the West Virginia Division of Personnel Administrative Rule addresses retirement contributions for employees receiving terminal annual leave payments whether the employee remains on payroll or receives a lump sum payment with:

“1. An employee may elect to be paid in semi-monthly installments at his or her usual rate of pay as if employment were continuing until the pay period during which the accrued annual leave is exhausted. **...No deductions may be made for contributions toward retirement from the payment for terminal leave.” (Emphasis Added)**

“2. Any eligible employee...may be paid in a lump sum, at his or her option, for accrued and unused annual leave. **...No deductions may be made for contributions toward retirement from the lump sum payment; ...” (Emphasis Added)**

We also recommend the Academy work with the Consolidated Public Retirement Board (CPRB) to correct the deductions in error as well as implement controls in the Academy’s accounting system to help prevent these deductions in the future.

Spending Unit’s Response

Concur with the findings. Retirement Board will be contacted and correction of records will be made.

9. Incorrect Sick Leave Accrual. We tested all 20 employees who resigned or retired during the audit period and noted exceptions in seven of them. Sick leave is not allowed to accrue after the employee’s date of separation. Academy accounting personnel allowed employees to accrue a total of 64 hours of sick leave after the date of separation for the following seven employees:

<u>Employee</u>	<u>Sick Leave Hours</u>
Employee #1	19
Employee #2	5
Employee #3	14
Employee #4	13
Employee #5	9
Employee #6	3
Employee #7	<u>1</u>
Total:	<u>64</u>

Accruing sick leave after the date of separation will overstate the employee's sick leave balance, and as a result, could mistakenly increase the former employee's sick leave balance should that employee return to eligible employment and have his/her sick leave restored. Additionally, extended insurance coverage could be purchased with the overstated sick leave accrual should the employee be eligible to apply the unused sick leave for the purchase of extended insurance coverage upon retirement. The Academy's payroll supervisor stated the accrual of sick leave after the date of separation was simply a bookkeeping oversight.

We recommend the Academy comply with Title 143, Series 1, Section 3.25 of the West Virginia Division of Personnel's Administrative Rule which defines date of separation as:

“...Last day of work of employees separating due to dismissal, voluntary resignation, voluntary retirement, layoff, or sudden death; the date of death of employees who die while on paid or unpaid leave; or the date of notification by employees resigning or retiring due to disability as verified by a physician.”

Title 143, Series 1, Section 3.53 of the West Virginia Division of Personnel's Administrative Rule defines the last date of work as:

“The last calendar date and hour an employee is physically on the job.”

Title 143, Series 1, Section 14.4(e), subsections 1 and 2 of the West Virginia Division of Personnel's Administrative Rule addresses the accrual of sick leave after date of separation with:

“(e) Separation from Employment - Sick leave does not accrue after the date of separation as defined in this rule.

1. Retirement - An employee eligible to retire at the time of separation from employment may use unused sick leave to purchase extended insurance coverage

upon retirement under guidelines established by the Public Employees Insurance Agency or upon retirement to acquire additional credited service in the state retirement system under guidelines established by the Consolidated Public Retirement Board.

2. All Other Separations - **All accumulated sick leave shall be cancelled as of the date of separation.** If an employee returns to eligible employment, as provided in subdivision (b) of this subsection, within twelve (12) calendar months, including the first working day the reinstatement could be accomplished, all cancelled sick leave shall be restored. However, if the employee returns to eligible employment after more than twelve (12) calendar months from the effective date of separation of employment, no more than thirty (30) days of cancelled sick leave shall be restored. If an employee is recalled from a layoff all cancelled sick leave shall be restored.”

We also recommend the Academy take the necessary steps to ensure these terminated employees do not benefit from the incorrect sick leave accrual.

Spending Unit's Response

Concur with the findings. Sick Leave Accruals will be reviewed and corrected.

PERSONAL SERVICES – REGULAR PAYROLL

10. Incorrect Payments of Overtime. Out of ten employees tested from a population of 67 employees on the payroll for the audit period, we noted five employees that were under and or overpaid time and a half (OT) pay. There were five instances totaling \$1,576.80 where the Spending Unit paid employees for more hours of overtime than timesheets indicated resulting in overpayments. Also, there were nine instances totaling \$1,234.03 where employees

were paid for fewer hours of OT worked than timesheets indicated resulting in underpayments as shown in the below table.

<u>Employee</u>	<u>Overtime Worked</u>	<u>Number of Overtime Hours Worked</u>	<u>Number of Overtime Hours Paid</u>	<u>Difference of Hours</u>	<u>Overtime Rate</u>	<u>Amount of (Under)/Over Payments</u>
Employee #1	Jan 16-31, 2006	41.50	40.75	(0.75)	\$20.21	(\$15.16)
Employee #2	July 16 – 31, 2005	15.50	13.50	(2.00)	24.39	(48.78)
Employee #2	January 16-31, 2006	32.50	16.50	(16.00)	25.04	(400.64)
Employee #2	Feb 1-14, 2006	0.00	21.50	21.5	25.04	538.36
Employee #2	July 15.5 – July 31, 2006	6.50	22.00	15.5	25.08	388.74
Employee #2	Jan 1- 15.5, 2007	38.50	30.00	(8.50)	25.08	(213.18)
Employee #3	July 16 – 30, 2005	33.50	32.00	(1.00)	29.55	(44.33)
Employee #3	Jan 16-31, 2006	41.50	40.75	(0.75)	30.19	(22.64)
Employee #3	July 1-16.5, 2006	26.75	32.00	5.25	30.23	158.71
Employee #3	Feb 14-28, 2007	40.75	32.00	(8.75)	30.23	(264.51)
Employee #4	Jan 16-31, 2006	25.00	33.00	8.00	26.52	212.16
Employee #5	July 16-31, 2005	34.00	33.00	(1.00)	23.08	(23.08)
Employee #5	Jan 16- Jan 31, 2006	29.00	40.75	(11.75)	23.73	278.83
Employee #5	Jan 16-Jan 31, 2007	40.25	31.75	(8.50)	23.73	<u>(201.71)</u>
Net Total:						<u>\$342.77</u>

Underpayments of overtime to employees create a liability for the Academy, as well as create inaccurate books of record. Overpayments of overtime to employees creates a receivable, or amounts due the Academy, which also creates inaccurate books of record, as well as deprives the Academy the use of those funds for other budgeted expenditures.

According to the payroll supervisor, there is sometimes an unavoidable delay in receiving employee timesheets due to them being mailed from Kingwood, WV to Charleston, WV for processing. There are times when the supervisor estimates the amount of hours the employee is to be paid – this is based on previous payrolls and is used to help process the payment of overtime quickly. The Supervisor stated that he/she does this as a courtesy for the employees and tries to make sure that when the employees are owed overtime, it is processed as quickly as possible. Any adjustments that are necessary are made on the following payroll after the timesheets for the above mentioned overtime have been received. There are times when this causes an employee to experience a delay in being paid for the total amount of hours worked, including overtime, in a pay period.

We recommend the Academy comply with the Fair Labor Standard Act (FLSA) of 1938, as amended, Section §778.200, which states in part:

“The “regular rate” at which an employee is employed shall be deemed to include all remuneration for employment paid to, or on behalf of, the employee.....”

Additionally, section §778.223, of The FLSA, as amended, states in part:

“...Under the Act an employee must be compensated for all hours worked. As a general rule the term “hours worked” will include (a) all time during which an employee is required to be on duty or to be on the employer’s premises or at a prescribed workplace and (b) all time during which an employee is suffered or permitted to work whether or not he is required to do so....”

We also recommend that the Academy not “overpay” employees by observing the requirements of Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, which states in part:

“...No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered...”

Additionally, we recommend the Academy pursue collection from the overpaid employees and make payments to the underpaid employees as soon as possible so as to avoid any possible interest charges.

Spending Unit's Response

Concur with the findings. Correction of overtime pay will be made immediately.

11. Incorrect gross pay. Out of ten employees tested from a population of 67 employees on the payroll for the audit period, there were two employees who had their gross pay miscalculated. One employee was overpaid in the amount of \$170.50 and another employee was underpaid on two separate pay checks with both underpayments totaling \$60.33. The over and under payments were differences between the pay the employee was entitled to as indicated on a state form WV-11 and the money actually paid. The WV-11 is a form completed upon the hiring of an employee and shows the gross salary/wages the employee is to be paid. The over and under payment are shown in the following table:

<u>Employee</u>	<u>Payroll Date</u>	<u>Net Difference</u>
		<u>Over/(Under)</u>
Employee #1	1/15/2006	\$170.50
Employee #2	8/16/2005	(17.24)
Employee #2	8/31/2005	<u>(43.09)</u>
	Total Overpayment	<u>\$110.17</u>

The Academy gave no reason for the difference in the amount of gross pay. The payroll supervisor told us that EPICS automatically calculates that pay based on information already in the system for which the Academy is not responsible.

We recommend the Academy observe The Fair Labor Standard Act of 1938, as amended, Section §778.200, which states in part:

“The “regular rate” at which an employee is employed shall be deemed to include all remuneration for employment paid to, or on behalf of, the employee.....”

We also recommend the Academy pursue collection of overpayments and pay the employee who was underpaid as soon as possible to avoid any possible interest charges.

Spending Unit’s Response

Concur with the findings. This finding will be corrected immediately.

PERSONAL SERVICES – SICK AND ANNUAL LEAVE

12. Incorrect Sick and Annual Leave Accrual. Out of 11 employees tested, ten from the regular payroll test and one additional employee, four employee’s annual leave balances were overstated as follows:

<u>Employee</u>	<u>Audited Hours Accrued</u>	<u>Actual Hours Accrued</u>	<u>Difference in Hours</u>	<u>Hourly Rate of Pay</u>	<u>Equivalent Amount</u>
#1	146.00	178.00	32.00	\$19.96	\$ 638.72
#2	233.00	234.00	1.00	29.90	29.90
#3	292.50	320.00	27.50	20.70	569.25
#4	316.00	324.00	8.00	19.96	129.68
		TOTAL	68.50		<u>\$1,367.55</u>

Additionally, the following three employee's annual leave balances were understated:

<u>Employee</u>	<u>Audited Hours Accrued</u>	<u>Actual Hours Accrued</u>	<u>Difference in Hours</u>	<u>Hourly Rate of Pay</u>	<u>Equivalent Amount</u>
#1	118.50	117.50	(1.00)	\$16.48	(\$ 6.48)
#2	22.00	21.00	(1.00)	16.33	(16.33)
#3	94.25	86.25	<u>(8.00)</u>	15.82	<u>(126.56)</u>
		Total	<u>(10.00)</u>		<u>(\$159.37)</u>

The following three employee's sick leave balances were overstated:

<u>Employee</u>	<u>Audited Hours Accrued</u>	<u>Actual Hours Accrued</u>	<u>Difference in Hours</u>	<u>Hourly Rate of Pay</u>	<u>Equivalent Amount</u>
#1	478.00	480.00	2.00	\$29.90	\$ 59.80
#2	1189.50	1196.50	7.00	20.70	144.90
#3	24.00	30.00	<u>6.00</u>	14.07	<u>84.42</u>
		Total	<u>15.00</u>		<u>\$289.12</u>

Finally, we found where one employees' sick leave balance was understated:

<u>Employee</u>	<u>Audited Hours Accrued</u>	<u>Actual Hours Accrued</u>	<u>Difference in Hours</u>	<u>Hourly Rate of Pay</u>	<u>Equivalent Amount</u>
#1	1341.00	1339.00	<u>(2.00)</u>	\$16.48	<u>\$32.96</u>
Total			<u>(2.00)</u>		<u>\$32.96</u>

If these employees were to terminate employment with the Academy, the under/overstated sick and annual leave balances could become due/owing to the Academy, respectively.

According to Academy personnel, the differences in end of audit period sick and annual leave balances were caused by bookkeeping errors, the use of incorrect accrual rates, and the issuance of Compensation Time (Comp. time). The issuance of Comp time is not within Academy policy. All of these findings and related causes are addressed in other findings noted in this test.

We recommend the Academy comply with Chapter 5A, Article 8, Section 9(b), of the West Virginia Code, as amended. We also recommend the Academy consider implementing the Department of Administration's On-Line Leave System. This system may help in reducing errors in accounting for annual and sick leave.

Spending Unit's Response

Concur with the findings. Corrections will be made and an automated system is being reviewed to install.

13. Compensatory Time Off Given in Error. Out of 11 employees tested, ten from the regular payroll test and one additional employee, there were three separate charges to Compensatory (Comp.) Time for two Academy employees; however, the Academy does not give Comp. Time to its employees as a matter of policy. We noted that although the leave taken was charged to Comp. time, the times and dates originally worked by the employee to earn the Comp. time were not documented. Therefore, we were unable to assure ourselves that the Comp. time

was actually earned. The Comp. time is equivalent to “paid time-off” or “annual leave” and the charges to Comp. time are shown below:

<u>Employee</u>	<u>Type of Leave</u>	<u>Leave Taken</u>	<u>Date of Leave</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
#1	Comp Time	32.00	12/27-12/30	\$20.15	\$644.80
#2	Comp Time	4.00	11/15/2005	15.38	61.52
#2	Comp Time	<u>6.25</u>	05/22/2006	15.38	<u>96.13</u>
	TOTAL	<u>42.25</u>			<u>\$802.45</u>

The employees were allowed to take unsupported leave totaling 42.25 hours at a cost of \$802.45 to the Academy. The 42.25 hours were not deducted from the employees annual leave balance.

According to the payroll supervisor, the Academy does not have a Comp. time policy and the charges to Comp. time were oversights on the part of the employee’s supervisor and timekeeper.

We could not determine if the employee actually worked for The Comp. time granted; however, in the future we recommend the Academy comply with Section 3.6 of The Division of Personnel’s Administrative Rule, effective July 1, 2005, which states:

“3.6 Annual leave: An **[earned]** employee benefit of paid time off from work with prior approval of the appointing authority or designee.” **(Emphasis Added)**

We also recommend the Academy comply with, Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, which states in part:

“...No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered....”

We made a written inquiry to the Academy’s Operations Manager on February 22, 2008 concerning Comp. time. That manager stated in writing the following:

“The Mountaineer Challenge Academy does not have a policy on Compensatory Time as the Adjutant General’s Office does not authorize Compensatory Time for State employees.”

We also recommend the Academy pursue collection of the Comp. time paid, or, make the necessary adjustments to the employee’s annual leave balances provided they are still employed with the Academy and have adequate annual leave balances to charge the Comp. time against.

Spending Unit’s Response

Mistakes by management should not hurt the employees. The Academy maintains that the employees did work and the Academy received their services.

14. Inaccurate Recordkeeping of Sick and Annual Leave Records in Agency’s Manually Kept Leave System. 1. Out of 11 employees tested, ten from the regular payroll test and one additional employee, we found two employees who were allowed to take more leave than they had accrued in their leave balance which resulted in a temporary negative leave balance for each employee as shown below:

<u>Employee</u>	<u>Type of Leave</u>	<u>Beginning Balance</u>	<u>Amount of Leave</u>	<u>Difference</u>	<u>Date Employee went Negative</u>	<u>Amount That Should Have Been Docked</u>
#1	Annual Leave	20.00	24.00	4.00	09/27/2005	\$ 53.86
#2	Sick Leave	10.00	16.00	<u>6.00</u>	04/06/2007	<u>84.39</u>
			TOTAL	<u>10.00</u>		<u>\$138.25</u>

Employees have been allowed to use more leave than they have accrued. As a result, the spending unit is paying employees before services are rendered.

According to the payroll supervisor, the Academy did not consider the employees balance to be negative because the leave accrual the employee was due to receive for the upcoming month or pay period.

We recommend the Academy follow the guidelines set forth in the following criteria.

Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, states in part:

“...No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered....”

The Code of State Rules for the Division of Personnel, Title 143, Series 1, Section 14.3(a) “Annual Leave” states in part:

“Annual leave is accrued at the end of each pay period....”

The Code of State Rules relating to the Division of Personnel, Title 143, Series 1, Section 14.4a “Sick Leave” states in part:

“Sick leave is accrued at the end of each pay period or on the last workday for separating employees.”

The Employee Handbook of the Office of the Adjutant General, section for Annual Leave states in part:

“Annual leave cannot be taken before it is earned.”

We also recommend the Academy consider implementing the Department of Administration's On-Line Leave System to help ensure that employees do not generate negative leave balances.

2. There were also four manual entries for three employees in the leave section of the employee timesheets where the beginning balance in annual leave for a pay period did not match the ending balance of the prior pay period. There would typically be such an entry for each pay period and 24 pay periods in a year per employee. The three employees are:

<u>Employee</u>	<u>Payroll Date</u>	<u>Ending Balance in Annual Leave</u>	<u>Beginning Balance in Annual Leave</u>	<u>Difference</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
#1	11/1-11/15/2005	206.75 hrs	205.75 hrs	-1 hr	\$16.55	(\$ 16.55)
#2	8/01-8/15/2005	77.5 hrs	78.5 hrs	1 hr	16.26	16.26
#2	3/01-3/15/2006	62.5 hrs	61.5 hrs	-1 hr	16.26	(16.26)
#3	5/16-5/31/2006	307 hrs	334.5 hrs	<u>27.5 hrs</u>	20.07	<u>551.93</u>
TOTAL				<u>26.5 hrs</u>		<u>\$535.38</u>

We also noted ten more manual entries for five employees where the beginning balance in Sick Leave did not match the ending balance of the prior pay period as follows:

<u>Employee</u>	<u>Payroll Date</u>	<u>Ending Balance in Sick Leave</u>	<u>Beginning Balance in Sick Leave</u>	<u>Difference</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
#1	9/1-9/15/2005	20 hrs	24 hrs	4 hrs	\$13.47	\$ 53.88
#1	6/15-6/30/2005	106 hrs	112 hrs	6 hrs	13.47	80.82
#1	11/1-11/15/2005	42 hrs	48 hrs	6 hrs	13.47	80.82
#2	6/15-6/30/2005	664.5 hrs	664 hrs	-.5 hrs	19.70	(9.85)
#2	9/15-9/30/2005	700.5 hrs	700 hrs	-.5 hrs	19.70	(9.85)

<u>Employee</u>	<u>Payroll Date</u>	<u>Ending Balance in Sick Leave</u>	<u>Beginning Balance in Sick Leave</u>	<u>Difference</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
#2	12/16-12/31/2005	720.5 hrs	720 hrs	-.5 hrs	19.70	(9.85)
#2	7/1-7/15/2005	670 hrs	664 hrs	-6 hrs	19.70	(118.20)
#3	4/16-4/30/2006	692.25 hrs	698.25	6 hrs	16.55	99.30
#4	5/16-5/31/2006	1149.5 hrs	1159.5 hrs	10 hrs	20.07	200.70
#5	6/1-6/15/2007	18 hrs	24 hrs	6 hrs	14.07	<u>84.42</u>
Totals:				30.5 hrs		<u>\$452.19</u>

The balance in sick and annual leave at the end of one pay period should be the beginning balance in sick and annual leave in the following pay period. Making manual errors to the ending balances in an employee's leave balance can lead to an employee's balance in sick or annual leave to be over/understated, thus causing the employee to gain leave hours which have not been earned or to lose leave hours they are entitled.

According to the payroll supervisor, some of the balances had been corrected, but the corrections failed to be carried forward to successive months. There were other instances where the mistake was made due to an oversight of those keeping the leave records, e.g., the payroll or logistics supervisor.

We recommend the Academy consider implementing the Department of Administration's On-Line Leave System. This system may help reduce manual errors in accounting for sick and annual leave.

3. We noted three exceptions for three employees out of the 11 tested where leave indicated on the Application for Leave With Pay did not match the amount of leave recorded on

the employee's Time and Attendance Sheet. One was for annual leave and two were for sick leave as follows:

<u>Employee</u>	<u>Type of Leave</u>	<u>Amount on Timesheet</u>	<u>Amount on Leave Slip</u>	<u>Difference</u>	<u>Dollar Amount</u>
#1	Annual Leave	10.5 hrs	11 hrs	.5 hrs	\$ 9.82
#2	Sick Leave	2.5 hrs	2 hrs	.5 hrs	8.13
#3	Sick Leave	<u>0 hrs</u>	<u>8 hrs</u>	<u>8 hrs</u>	<u>123.09</u>
	TOTAL	<u>13 hrs</u>	<u>21 hrs</u>	<u>9 hrs</u>	<u>\$141.04</u>

4. There were also four exceptions for four employees out of the 11 tested where the amount of leave used was not properly accrued and/or deducted from the employees balance; two for annual leave and two for sick leave as shown in the following tables:

<u>Employee</u>	<u>Type of Leave</u>	<u>Amount on Timesheet</u>	<u>Amount Deducted from Balance</u>	<u>Difference</u>	<u>Dollar Amount</u>
#1	Annual Leave	1.5 hrs.	6.5 hrs	5 hrs	\$150.92
#2	Annual Leave	8 hrs	0 hrs	8 hrs	161.62
#3	Sick Leave	1.5 hrs	3 hrs	1.5 hrs	24.39
#4	Sick Leave	<u>0 hrs</u>	<u>6 hrs</u>	<u>6 hrs</u>	<u>92.34</u>
	TOTAL	<u>11 hrs</u>	<u>15.5 hrs</u>	<u>20.5 hrs</u>	<u>\$429.28</u>

Incorrect sick/annual leave balances could lead to a liability or accounts receivable to the Academy if the employee terminated employment with the Academy and his/her balance was incorrect at the time of termination. Upon retirement, an employee could also use his/her sick leave balance to pay for health insurance, that is, the sick leave does have a cash value.

According to the payroll supervisor, the sick and annual leave errors were due to oversights by those responsible for recording and keeping the leave balances.

We recommend the Academy consider implementing the Department of Administration's On-Line Leave System to help reduce manual errors in accounting for sick and annual leave.

Spending Unit's Response

The Academy has adopted an automated payroll system implemented by the Military Authority

15. Lack of Authorization. Out of 11 employees tested, ten from the regular payroll test and one additional employee, we noted multiple instances where Leave With Pay Applications (leave slips) and Time and Attendance sheets (time sheets) were not signed by the respective supervisor indicating approval, or, were not signed by the respective employee. The following 13 leave slips for six employees were not signed by the employee's supervisor:

<u>Employee #</u>	<u>Type of Leave</u>	<u>Leave Taken</u>	<u>Date of Leave</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
1	Annual Leave	8 hrs	09/12/2005	\$19.70	\$157.60
2	Annual Leave	.5 hrs	10/26/2005	16.26	8.13
*3	Annual Leave	2 hrs	7/11/2005	29.73	59.46
*3	Annual Leave	2 hrs	07/15/2005	29.73	59.46
*3	Sick Leave	6 hrs	07/05/2005	29.73	178.38
*3	Sick Leave	8 hrs	2/02/2006	30.16	241.28
*3	Sick Leave	8 hrs	02/03/2006	30.16	241.28
*3	Sick Leave	44 hrs	02/06/ - 02/13/2006	30.16	1,327.04
4 (Employee did not sign)	Sick Leave	8 hrs	06/12/2006	13.47	107.76

<u>Employee #</u>	<u>Type of Leave</u>	<u>Leave Taken</u>	<u>Date of Leave</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>	
4	Sick Leave	8 hrs	05/11/2007	13.47	107.76	
5 (Employee did not sign)	Annual Leave	73.75 hrs	6/16-6/30/2006	15.82	1,166.73	
5 (Employee did not sign)	Annual Leave	28 hrs	07/03-07/07/2006	15.82	442.96	
6	Sick Leave	<u>2 hrs</u>	11/27/2006	14.07	<u>28.14</u>	
TOTAL					<u>198.25 hrs</u>	<u>\$4,125.98</u>

**None of the leave slips for either sick or annual leave for the audit period have an immediate supervisor's signature indicating approval. Due to the volume of leave slips, we did not include all of them in this finding.*

There were also two employee timesheets for one employee that was not signed by the employee's supervisor as follows:

<u>Employee</u>	<u>Timesheet Date</u>	<u>Hours in the Period</u>	<u>Dollar Amount</u>
#1	Dec 1-16.5, 2005	92 hrs	\$2,774.72
#1	Nov 1-15, 2006	<u>88 hrs</u>	<u>2,655.84</u>
TOTAL		<u>180 hrs</u>	<u>\$5,430.56</u>

Finally, four employees did not sign their own timesheets as follows:

<u>Employee</u>	<u>Timesheet Date</u>	<u>Hours in the Period</u>	<u>Dollar Amount</u>
#1	Oct 16.5-31, 2006	92 hrs	\$2,776.56
#2	Dec 1-15.5, 2006	88 hrs	1,471.36
#3	Jan 1-16.5, 2007	92 hrs	2,776.56
#4	June 16-30, 2006	<u>88 hrs</u>	<u>1,392.16</u>
TOTAL		<u>360 hrs</u>	<u>\$8,416.64</u>

We are unable to assure ourselves that the leave taken was properly authorized due to leave slips with no signatures. Additionally, we were unable to determine if the timesheets were accurate due to the lack of employee and/or supervisor authorization. Because authorizing

signatures indicate approval as to the **accuracy** of data, the risk of the Academy not knowing if the correct pay due employees was paid may increase. Employees could have been over or underpaid, as well as have accrued incorrect sick leave balances. The sick leave can be used upon retirement to help pay for health insurance, that is, it does have a cash value for that purpose.

The payroll supervisor stated the unsigned leave slips and timesheets were an oversight. She said technically, the Operations Manager is the Director's supervisor, and due to the distance between Charleston and Kingwood, WV, (the location of the Academy) it is not possible for the Operations Manager to sign the Director's leave slips prior to leave being taken. However, the Operations Manager is aware when the Director takes leave and verbal approval is given by that Manager to the Director before the leave is taken.

In cases where the Academy determines that the leave taken was unauthorized according to The Division of Personnel's Administrative Rule, Title 143, Series1, Section 14.6., we recommend the Academy follow the guidelines set forth in that criteria, as well as Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, which states in part:

“...No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered....”

The Division of Personnel's Administrative Rule Title 143, Series1, 14.6, states:

“Unauthorized Leave - When an employee is absent from work without authorization for sick or annual leave, the appointing authority shall dock the employee's pay in the next pay period for an equal amount of time paid during which no work was performed. The appointing authority shall notify the employee in writing that his or her pay is being docked and that the unauthorized leave is misconduct for which discipline is being imposed. The appointing authority shall use unauthorized leave only in cases when the employee fails to obtain the appropriate approval, according to agency policy, for the absence. The appointing authority shall transmit notice of the action in writing to the Director of Personnel.”

Spending Unit's Response

Verbal approval of director's leave should be sufficient.

16. Missing Documents. Out of 11 employees tested, ten from the regular payroll test and one additional employee, a total of four employees did not submit seven Request for Leave with Pay applications (annual leave slips) for a total of 152 hours of annual leave taken as shown below:

<u>Employee #</u>	<u>Type of Leave</u>	<u>Leave Taken</u>	<u>Date of Leave</u>	<u>Hourly Rate</u>	<u>Dollar Amount</u>
1			5/21-5/25/05		
	Annual Leave	64 hrs	5/29-5/31/05	\$13.47	\$ 862.08
2	Annual Leave	8 hrs	10/03/2005	\$19.70	157.60
3	Annual Leave	8 hrs	04/28/2006	\$20.18	161.44
2	Annual Leave	16 hrs	05/24 & 05/25 2007	\$19.96	319.36
4	Annual Leave	32 hrs	01/03/05-01/06/05	\$15.38	492.16
4	Annual Leave	16 hrs	10/7/2005-10/11/2005	\$15.38	246.08
4	Annual Leave	<u>8 hrs</u>	4/5/2006	\$15.82	<u>126.56</u>
	Totals	<u>152 hrs</u>			<u>\$2,365.28</u>

There were also three employees out of the 11 tested who did not submit four Requests for Leave With Pay (sick leave slips) for 26.5 hours of sick leave taken as follows:

<u>Employee</u>	<u>Type of Leave</u>	<u>Hours Taken</u>	<u>Date of Leave</u>	<u>Hourly Rate</u>	<u>Dollar Difference</u>
#1	Sick Leave	8 hrs	10/06/2005	\$19.70	\$157.60
#2	Sick Leave	2.5 hrs	12/20/2005	\$15.82	39.55
#3	Family Sick Leave	8 hrs	01/29/2007	\$14.07	112.56
#3	Sick Leave	<u>8 hrs</u>	02/16/2007	\$14.07	<u>112.56</u>
	Totals	<u>26.5 hrs</u>			<u>\$422.27</u>

We are unable to verify authorizations given for approximately 178.5 hours sick and annual leave taken by employees because no leave slips were available to support the leave indicated on the employee's time sheet. Additionally, the Academy may increase the risk of not being able to prove that sick and annual leave was/was not taken.

The payroll supervisor is responsible for verifying that signed leave slips support any sick/annual leave documented on the employee's timesheet. The supervisor stated it is possible he/she overlooked the leave slips when recording the time from the employee timesheet, or, the leave slip was separated from the employee timesheet and became lost.

We recommend the Academy comply with recordkeeping guidelines as outlined in Chapter 5A, Article 8, Section 9 of the West Virginia Code, which 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....”

Spending Unit's Response

A new employee dedicated to Time and Attendance issues for the Military Authority will reduce errors. An automated time and attendance electronic system is being considered to eliminate these errors. All records will be reviewed for errors.

EQUIPMENT - INVENTORY

During our preliminary planning and accounting procedures interviews of Academy personnel, it became apparent there are insufficient controls over entering assets into the

WVFIMS Fixed Asset System as well as the Academy's internal inventory system. Specifically, excerpts from the accounting interviews we conducted with agency personnel read as follows:

“Ms.... Accounting Technician III, was responsible for entering items into the WVFIMS Fixed Asset System. Ms....retired on September 30, 2006. From October 2006 through June 30, 2007, Ms...., Administrative Assistant III, sporadically entered items into the WVFIMS Fixed Asset system on an as needed basis; however, according to..., no one was officially responsible for handling the responsibility of entering items into the WVFIMS system from October of 2006 until Mr. ...was hired to be the Property Manager in September 2007. However Ms. ..., Office Manager for the Armory Board, was given the responsibility for entering items into the internal assets listing known as the Back Track System from October 2006 through September 2007.

According to Ms...., the Charleston Office receives a Request for a State ID Number Form (**EXHIBIT 1**) and the purchase invoice for the item purchased from Ms... , Logistics Supervisor. She further stated that items are listed in the WVFIMS Fixed Asset System approximately a month after they are paid for. Ms.... also reiterated what was told to us by Ms. ... that she only entered items into the WVFIMS Fixed Asset System on an “as needed basis”.

We were told by the staff of the Armory Board that in preparation for the current Legislative Audit, the MCA submitted approximately 200 invoices, some dating as far back as 2004, to be processed and entered into the State's Fixed Asset System

***NOTE:** Ms. ... informed us that Mr. ..., Property Manager verified that “there were only 34 of the 300 items that were valued over \$1,000 and the earliest date is May 2005.”

The above excerpt was referring to the threshold cost of \$1,000. Any assets costing \$1,000 or more are “required” by the State Purchasing Division to be entered into the FAL.

It also became apparent to us that Academy personnel also believed that the controls over entering assets into their respective inventories were weak with the following quote from another accounting interview:

“According to ..., the current inventory system is “broken” (refer to issues noted in this memo), but the WVMCA is in the process of correcting the problems that exist.”

After considering the above accounting procedures, we tested all 41 of the Academy’s equipment/asset inventory transactions that occurred during the audit period, as well as spot checked assets already included in the FIMS Fixed Asset Listing in addition to assets located at the Academy and noted the following:

17. Assets not entered into the FIMS Fixed Asset Listing. The Academy did not enter four assets costing \$39,318.00 into the FIMS Fixed Asset Listing (FAL) as required by State Purchasing Division procedures. These assets were acquired between June 2000 and June 2007. However, we did locate them at the Academy’s Camp Dawson headquarters. The assets are:

<u>Description</u>	<u>FIMS Doc #</u>	<u>Location</u>	<u>Model #</u>	<u>Serial #</u>	<u>Amount</u>
Digital Camera	I006170457	Bldg. 210	D100	2207146	\$ 1,969.40
ATV	I007944765	Bldg. 209	Rhino ATV 450	5y4AJ19y67A013329	11,747.00
Sound Mixer	I004383129	Chapel	EMH	0Y022282	1,633.00
Storage Cabinets	I007892134	cnbd	cnbd	Cnbd	<u>23,968.60</u>
				Total	<u>\$39,318.00</u>

cnbd = Could not be determined.

Equipment not properly entered into an inventory system is at a greater risk of being stolen or misplaced. The Academy’s Logistics Supervisor stated equipment/assets were supposed to be assigned tag numbers and entered into FIMS Fixed Asset System at the Adjutant General’s Office in Charleston and added it would be useful to have access to WVFIMS Fixed Asset System at the Academy in Kingwood, WV in order to verify equipment transactions.

We recommend the Academy comply with Appendix G, Section 3.6 of the West Virginia Purchasing Division Policies and Procedures Handbook which states:

“Reportable Property: The Purchasing Division has established a capitalization figure of \$1,000 and a useful life of one (1) year or more as reportable property. This means that any item which has an original acquisition cost of \$1,000 or more and a useful life of one (1) year or more are required to be entered into the WVFIMS Fixed Asset System.”

Spending Unit's Response

Concur with findings. The Academy will comply with Appendix G, Section 3.6 of the West Virginia Division Policies and Procedures Handbook. Records will be search to ensure all items over \$1,000 are reported in FIMS Fixed Asset Listing.

18. Firearms not entered into the WVFIMS Fixed Asset System (FAS). All firearms, regardless of cost, are required to be entered into the FAS. The Academy maintains 20 M-1 rifles that have **not** been entered into the FAS; however, they were entered into the Academy's internal inventory records and classified as “demilitarized” (modified to be rendered non-operational or cannot fire live ammunition) in that inventory. The cost indicated in the internal inventory was \$52.41; however, Academy personnel did not know if this was the “total” cost or cost “per rifle.”

An inventory count and inspection conducted by us in the presence of Academy personnel showed that each rifle's chamber was plugged with what appeared to be lead or other metal. Also, the rear section of the “receiver” or “action” was welded or soldered to the extent the charging handle or “bolt” could not extend fully backwards. However, the muzzle end of the barrel appeared to be unobstructed and the barrel “rifling” or “twists” were visible. After Academy personnel pulled the bolt back and released it, the weapon did “cock” and the trigger “clicked” when depressed for each of the 20 rifles. **We were unable to determine if these**

modifications could be reversed rendering the firearm operational, or, able to fire live ammunition.

Firearms not entered into the FAS cannot be tracked and accounted for to the extent the risk of being stolen or misplaced is sufficiently reduced. Also, the firearms may not be able to be traced if they were used illegally after being rendered operational. The Academy stated the rifles are demilitarized, are for ceremonial use only, and are **not** required to be entered into the FAS.

Not entering firearms into the FAS is in non compliance with Appendix G, Section 3.6.1 of the West Virginia Purchasing Division Policies and Procedures Handbook, which states:

“Exception: It is mandatory for firearms to be entered into the WVFIMS Fixed Asset System **Regardless of the cost**, making sure serial numbers are entered correctly.”

We presented the question of whether these firearms should be entered into the FAS to the State of West Virginia Purchasing Division’s Surplus Property Unit (Surplus). After describing the above information to them, Surplus **agreed** that the rifles should be entered into the FAS. Therefore, we also recommend the Academy follow the Surplus Property Unit’s decision that their M1 Rifles should be entered into the FIMS Fixed Asset System.

Spending Unit’s Response

These demilitarized firearms are federal property. They are on loan to the MCA and when they are no longer needed they are required to be turned in through the Army Supply System. The demilitarized firearms are going to be added to the Federal property listing.

19. Untagged inventory. After testing all 41 equipment/inventory transactions that occurred during the audit period, the Academy did not affix inventory tags to assets costing

\$1,000 or more each as required by State Purchasing Division policies. Specifically, five assets totaling \$26,397.57 did not have inventory tags affixed to them.

Equipment not identified with a proper tag attached is at a greater risk of being stolen or misplaced. The resulting risk of recovering that asset also increases. The Academy's Logistics Supervisor stated equipment/assets were supposed to be assigned tag numbers and entered into FIMS Fixed Asset System at the Adjutant General's Office in Charleston and added it would be useful to have access to WVFIMS Fixed Asset System at the Academy in Kingwood, WV in order to verify equipment transactions.

We recommend the Academy observe the requirements of Section 3.11, Appendix G of the West Virginia Purchasing Division Policies and Procedures Handbook, which states:

“Identification Tags: All equipment over \$1,000 will have a numbered equipment identification tag and that equipment will be entered into the WVFIMS Fixed Asset System. Agency's will be responsible for obtaining and placing the proper tags on all equipment under their jurisdiction. Tags are to be placed on all items of property/equipment in such a manner that it may be easily seen and read.”

Spending Unit's Response

Concur with findings. All assets with a value of \$1,000 or more are in the process of being tagged by the Officer Manager in the Armory Board.

20. Unaccounted for assets. After testing all 41 equipment/inventory transactions that occurred during the audit period, the Academy could not locate the following seven assets:

<u>Description</u>	<u>FIMS Document #</u>	<u>Document Date</u>	<u>Model Number</u>	<u>Serial Number</u>	<u>Amount</u>
CCTV Camera	I007822011	4/2/2007	XS-SWX451037	Cnbd	\$ 436.49
CCTV Camera	I007822011	4/2/2007	XS-SWX451037	Cnbd	436.49
CCTV Camera	I007822011	4/2/2007	XS-SWX451037	Cnbd	436.49
CCTV Camera	I007822011	4/2/2007	XS-SWX451037	Cnbd	436.49
Portable Radio	I007400777	5/30/2006	TK272GK1SK	Cnbd	297.50
Olympus Camera	I007924307	7/27/2007	Photo Pointe Package	JT2056866	1,071.00
Color Duplex Printer	I007924307	7/27/2007	CP60 Full Color	Q10579	<u>3,055.50</u>
				Total	<u>\$6,169.96</u>

***cnbd** = Could not be determined.*

By not knowing the whereabouts of their own equipment, the Academy will not be able to account for these assets in their own financial statements and records. They may also jeopardize their own operations by not having adequate assets/resources to achieve their mission, as well as be subject to legal action if the assets are not eventually accounted for. Finally, the assets are at higher risk for fraud, namely, theft or misappropriation. Academy personnel did not provide us with an explanation as to the whereabouts of these assets other than the following:

- 1) The CCTV Camera's were installed and it was impractical to locate and disassemble the equipment to inspect serial numbers.
- 2) The Olympus Camera with serial number J26037745 and a color printer located by Academy personnel did not match the serial number JT2056866 documented on the vendor invoice and internal inventory. Those personnel stated the camera may have been replaced due to a malfunction. The engineering report provided by the Academy with serial # J62204432 was inconclusive as to the identification of the asset.
- 3) Radio was not available to inspect; an Academy employee had the radio in his/her possession and was on leave and unavailable to verify the serial number. However we could identify a radio with the matching serial number # 80101258 from the radio inventory list and the Staff Equipment Issue form.

We recommend the Academy refer to the West Virginia Purchasing Division Policies and Procedures Handbook Appendix G, section 3.3, concerning responsibility for property, which states in part:

“Agencies are responsible for all property, regardless of its state (removable or fixed), origin, or acquisition cost.”

Spending Unit’s Response

Corrective actions are now being put into place to address this issue. The CCTV Cameras are mounted in the ceiling and the system would have to be disassembled to verify serial numbers. The Academy will develop a schematic diagram of the locations of each camera.

Corrective actions are now being put into place to address this issue. The Portable Radio’s holder was not available at the time of audit but the Academy conducted 100% radio audit during staff training.

The Olympus Camera was switched by the vendor at shipping. The correct supporting documents have already been received and forwarded to auditor....

The Color Duplex Printer is located in Building 305 (Mrs. Burnside’s desk) and was there at the time of the audit. Serial numbers have been verified.

21. No Supply Requests, Supporting Invoices, Purchase Orders, and Bids.

All 41 equipment/inventory transactions tested, totaling \$214,625.98, did not have an Academy generated Supply Request form. This document is a requisition form and usually starts the purchasing process. There were also three transactions with no supporting invoices totaling \$7,786.38. There were 2 transactions totaling \$4,707.80 that had no accompanying purchase orders. Finally, there were three transactions with no accompanying bids as follows:

<u>Document Number</u>	<u>Document Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
I007479665	07/27/2006	Hooten Equipment	Air Conditioning Unit	\$ 5,940.00
I007914040	07/11/2007	Newtech Systems	Dvr Hard Drive Upgrades	12,596.00
I007892134	06/22/2007	Alfax Wholesale Furniture	Wardrobe/Storage Cabinets	<u>23,968.60</u>
Total:				<u>\$42,504.60</u>

Academy personnel could not explain the whereabouts of the missing documents, and without them, the Academy cannot support its financial transactions or assure itself that those transactions were properly authorized. Without bidding documents, the Academy cannot assure itself that the best market price for the best product/service was attained.

We recommend the Academy comply with the recordkeeping requirements as outlined in Chapter 5A, Article 8, Section 9 of the West Virginia Code, which 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...”

We recommend the Academy comply with the new bid procedures as outlined in the West Virginia Purchasing Division Procedures Handbook, Section 3.2, which states in part:

“3.2 Agency Delegated Acquisitions (\$25,000 or Less): ...

Commodities and services that are expected to cost \$2,500 or less require **no bids**; however, competition is always encouraged.

For purchases \$2,500.01 to \$5,000, three (3) **verbal** bids are required, where possible, and the lowest bid meeting specifications must be awarded the purchase order/contract. All bids should be documented on a **Verbal Bid Quotation Summary (WV-49)**. A “no bid” is not considered a bid.

Purchases \$5,000.01 to \$25,000 require three (3) **written** bids, where possible, and the lowest bid meeting specifications must be awarded the purchase order/contract. Agencies should use the ***Request for Quotation (WV-43)*** to document those vendors solicited and their responses. Signed fax or electronic bids are acceptable. A vendor choosing to submit a bid or a written change to a bid by electronic transmission accepts full responsibility for transmission and receipt of the bid or written change to a bid. The state accepts no responsibility for the unsuccessful and/or incomplete transmission of bids by electronic transmission. Bids submitted via facsimile may not be sealed until receipt by the Purchasing Division. The Purchasing Division makes no guarantee of confidentiality and accepts no responsibility for completeness of bids or transmission.

A “no bid” is not considered a bid. All efforts to obtain bids must be documented and maintained in the file.”

Spending Unit's Response

Corrective actions are now being put into place to address this issue. Supply requests are an internal document and are only used for inter office tracking. Purchase Orders are generated when we purchase equipment.

PURCHASE CARD DISBURSEMENTS

22. Agency paid for services before they were rendered. There was one payment that was made for copying services before they were rendered in the amount of \$140.15 on P Card transaction # S003894810 from the vendor Lanier Worldwide. The invoice due date was 11/15/06 and the date paid was 10/05/06 for a net total of 26 days paid too early with weekends and holidays being subtracted to arrive at the net days' paid early. The Academy did receive these services, however. This transaction was governed by statewide contract DIGCOP 04B. When projecting this rate of error to the population of 965 purchase card transactions totaling \$212,617.36, the number of exceptions projected is nine for a total of \$1,261.35.

The Academy is unsure why the vendor was paid for services approximately 26 days before the services were received.

We recommend the Academy comply with Chapter 12, Article 3, Section 9 of the West Virginia Code concerning paying invoices too early, which states:

“Every board or officer authorized by law to issue requisitions upon the auditor for payment of money out of the state treasury, shall, before any such money is paid out of the state treasury, certify to the auditor that the money for which such requisition is made is needed for present use for the purposes for which it was appropriated; and the auditor shall not issue his warrant to pay any money out of the state treasury unless he is satisfied that the same is needed for present use for such purposes.”

We recommend the Academy check and note any other remaining transactions to Lanier Worldwide for early payment and take measures to ensure those services were received, as well as ensure that appropriate accounting controls are effected to help ensure early payments are detected before they are actually made.

Spending Unit's Response

Corrective actions are now being put into place to address this issue. The Academy shows payment for \$48.40 for partial shipment to Unifirst Mat with no credits needed. The \$140.15 is a monthly maintenance contract to Lanier Worldwide. This contract was not renewed for this year.

23. Purchasing Card Delegation. A requirement in the State Auditor's "State Purchasing Card Program Policies and Procedures" handbook is that card delegation is to be prohibited. Among other things, delegation occurs when the full purchase card number is visible to anyone other than the purchase card (p-card) holder and someone with a legitimate reason to

have access to the number (i.e. a vendor processing a transaction). There were six occurrences of p-card delegation a shown in the following table:

<u>P-Card Transaction #</u>	<u>Vendor</u>	<u>Good/Service Purchased</u>	<u>Bank Statement Transaction Date</u>	<u>Amount</u>
S003486822	Neopost Poc	Software upgrade	01/11/2006	\$100.00
S004176677	Winners Choice - Fairmont	Magnetic nametag	04/09/2007	8.50
S003978856	Peerless Laundries Inc	Dry clean/Laundry	11/16/2006	105.00
S003819032	Ufirst Unifirst Corp	Rug rental	05/15/2006	106.17
S004074803	All Season Linen And Mat	Dry cleaning	02/06/2007	28.70
S004113593	Ufirst Unifirst Corp	Rug rental	03/01/2007	<u>221.40</u>
				<u>\$569.77</u>

During our review of purchase card invoice stringing, we found four (4) additional occurrences of card delegation as follows:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>Good/Service Purchased</u>	<u>Bank Statement Transaction Date</u>	<u>Amount</u>
I007770174	Superior Products	Kitchen Proofing/Holding Cabinet	02/15/07	\$1,918.00
I007770174	Superior Products	Beverage Dispenser and a Mixer	02/15/07	1,380.00
I007770174	Superior Products	Kitchen Ware/Utensils	02/15/07	1,097.88
I007770174	Superior Products	Gas fryer	02/15/07	<u>875.00</u>
			TOTAL:	<u>\$5,270.88</u>

Allowing employees other than the p-card holder to have access to documents with p-card account numbers may result in unauthorized purchases being charged to their card. Card delegation increases the chance for fraud and unauthorized purchases to occur. When projecting this rate of error to the population of 965 purchase card transactions totaling \$212,617.36, the number of exceptions projected is 95 for a total of \$55,486.18.

Academy personnel stated they are aware that they are to keep the full credit card number and expiration date confidential; however, there are times when this is overlooked. The Academy Accounting Tech. IV stated that he/she would remind the appropriate personnel at the Academy of the importance of keeping credit card information confidential.

We recommend the Academy follow The State Purchasing Card Program Policies & Procedures, Section 4.4 Card Delegation, which states:

“4.4 Card Delegation

Card delegation is prohibited. Card delegation is the practice of allowing an individual other than the cardholder whose name appears on the front of the Pcard to have access to the card or card number to initiate or complete a transaction. Card delegation increases the risk of fraud and cardholder liability.

Card Delegation includes allowing an individual other than the cardholder to:

have physical possession of the card to make payments to point of sale vendors;

have access to the card number and expiration date to make payments via telephone, internet, or in person;

have access to receipts or invoices that display the card number and expiration date.

Pcards are issued in an individual employee’s name. Only that person named on the card is the authorized user.” (**Emphasis Added**)

The above policies are from the August 2006 revised version. The below

Purchasing Card Policies and Procedures, July 2004, Section 3.4, states in part:

“...Card delegation is prohibited.”

The remaining criterion for the 2004 version has the same meaning as the 2006 version. For purposes of brevity and conciseness they are not included it here.

Spending Unit's Response

Corrective actions are now being put into place to address this issue. In the future, credit card numbers will be marked out before forwarding paperwork.

24. Invoice “splitting” or stringing. The following purchase was split across five invoices. The items purchased were from the same vendor, similar in nature, purchased on the same date, and paid for with the same p-card. We believe this is an instance of stringing as noted in the table below:

<u>FIMS ID Number</u>	<u>Goods/Service Purchased</u>	<u>Posted Credit Card Date</u>	<u>Vendor</u>	<u>Amount</u>
I007770174	Kitchen Ware/Utensils	02/16/2007	Superior Products	\$2,094.00
I007770174	Kitchen Ware/Utensils	02/16/2007	Superior Products	1,097.88
I007770174	Beverage Dispenser and a Mixer	02/16/2007	Superior Products	1,675.00*
I007770174	Kitchen Proofing/Holding Cabinet	02/16/2007	Superior Products	1,918.00
I007770174	Gas Fryer	02/16/2007	Superior Products	875.00
			TOTAL	<u>\$7,659.88</u>

**This amount represents two separate invoices totaling \$1,675.00 0 (\$295.00 + \$1,380.00); however, they were paid on one p-card transaction.*

Splitting an invoice over more than one payment allows the Academy the opportunity to circumvent the State Auditor’s P-Card Policies and Procedures. This may increase the risk for making unauthorized purchases. It also can allow other policies to be circumvented, e.g., not using vendors with statewide contracts, not attaining bids, etc.

The Academy’s Logistic Supervisor gave no reason for the invoice splitting other than the purpose of the items ordered, i.e., cooking utensils/grills. The supervisor added there was nothing from the vendor indicating that there should be separate orders/invoices, or, no justification from the vendor to split up the purchase into separate invoices.

We recommend the Academy follow the West Virginia State Auditor's Office P-Card Policies and Procedures Section 6.0, Subsection 6.3 Stringing, which states in part:

“Stringing is the intentional manipulation of the ordering, billing, or payment process in order to circumvent the transaction limit. Stringing includes: splitting an invoice exceeding the transaction limit into more than one transaction.... Stringing of payments is prohibited”

Spending Unit's Response

Corrective actions are now being put into place to address this issue. The order from Superior Products was just one order. The billing came from the vendor for separate items possibly because items were shipped from the individual manufactures. This will be handled differently the next time by doing a Purchase Order for each large item so that there will be one bill.

TRAVEL EXPENSE REIMBURSEMENTS

25. The Academy Director may be eligible for a reimbursement. There were receipts totaling \$21.70 that were not claimed for reimbursement by the Academy's Director. The amounts were indicated in the “Other Expenses” section of the State of West Virginia Travel Expense Account Settlement (the Form); however, they were not entered on the appropriate line of that form to claim reimbursement. Specifically, a gasoline purchase of \$18.70 and two (2) ATM/bank fees @ \$1.50 each. One of ATM fees is not supported by a receipt even though it is eligible for reimbursement per the State of West Virginia Travel Regulations. It may, however, be in violation of Academy documentation policies if the Director claims reimbursement for that fee.

The above amount was indicated on the Form for travel occurring from 10/03/2005 through 10/07/2005. The FIMS document number for that reimbursement is I007115204 and is in the amount of \$645.18.

The State may have received a benefit of \$20.20, i.e., the \$21.70 minus the unsupported \$1.50 ATM/bank fee. This exception is not in violation of any known criteria.

We recommend that the Academy Director consider pursuing reimbursement for the unclaimed travel expenses.

Spending Unit's Response

No claim will be made by the Director for reimbursement for the amount of \$21.70, because of the cost to the State to issue a check in such a small amount.

CONTRACT AND LEASE DISBURSEMENTS

26. Amounts not supported by agreed upon prices. The Academy has an agreement with the Federal GSA (General Services Administration) Fleet Service to provide monthly rental of vehicles for the Academy use. The spending unit could not reconcile the following transactions to the GSA agreement:

<u>Vendor</u>	<u>Document ID #</u>	<u>Date</u>	<u>Description</u>	<u>VendorAmount</u>
US Treasury	I007642278	12/04/2006	GSA OCT 06 MCA	\$2,781.27
US Treasury	I007506501	08/16/2006	GSA JULY 06 MCA	<u>3,854.50</u>
Total:				<u>\$6,635.77</u>

The Academy also has an agreement with the West Virginia Department of Education Office of Child Nutrition for reimbursement for meals served to children at the Academy. The spending unit could not reconcile the following reimbursements to the Office of Child Nutrition agreement:

<u>Vendor</u>	<u>Document ID #</u>	<u>Date</u>	<u>Description</u>	<u>Vendor Amount</u>
Office Of Child Nutrition	D001178399	10/18/2005	Nutrition Reimbursement For 08/05	(\$12,433.39)
Office Of Child Nutrition	D001232801	05/05/2006	Child Nutrition Program 03/06	(11,061.05)
Office Of Child Nutrition	D001294065	12/14/2006	Reimbursement For 10/06	(8,136.74)
Total:				<u>(\$31,631.18)</u>

The Academy cannot show they are paying the correct amounts for contractual obligations nor can they show they are receiving their entitled reimbursements. After projecting these errors to the population and performing a review of the same, we estimated 41 exceptions totaling \$230,601.88 in that population. This estimate is based on 21 lease payments (including the two above) totaling \$61,856.08 and 20 reimbursements (including the three above) totaling \$168,756.00, both during the audit period. According to the Academy's Accounting Tech. IV, monthly invoices are reviewed; however, proper documentation is not maintained in order to reconcile charges to the invoice.

Not reconciling transactions to the source agreements are not in compliance with Chapter 5A-8-9b of the West Virginia Code, which 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.”

We also recommend the Academy comply with Chapter 12, Article 3, Section 9 of the West Virginia Code which states:

“Every board or officer authorized by law to issue requisitions upon the auditor for payment of money out of the state treasury, shall,

before any such money is paid out of the state treasury, certify to the auditor that the money for which such requisition is made is needed for present use for the purposes for which it was appropriated; and the auditor shall not issue his warrant to pay any money out of the state treasury unless he is satisfied that the same is needed for present use for such purposes.”

Spending Unit’s Response

Documentation for contract and lease disbursements will be maintained and all transactions will be reconciled to the source agreements.

MISCELLANEOUS ITEMS NOTED

27. Invoices not processed timely. During our audit field work, we noted several instance of invoices not being processed within ten days of receipt. We included the detail from each area tested as follows:

There were four transactions out of 102 purchase card transactions tested in which the Academy took longer than ten days from receipt of the invoice before processing it for payment as shown in the following table:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>Invoice Received Date</u>	<u>Date Processed/Paid</u>	<u># of Days Late</u>	<u>Amount</u>
I007658017	Camp Dawson Px	10/06/2006	11/13/2006	23	\$ 94.11
I007929054	Neopost	04/20/2007	06/15/2007	31	219.47
I007546095	Neopost	07/25/2006	08/24/2006	22	98.17
I007658017	Camp Dawson Px	10/02/2006	11/13/2006	27	<u>371.21</u>
TOTAL					<u>\$782.96</u>

We subtracted the weekends and holidays in between the “Invoice Date Received” and the “Date Processed” to arrive at the “# of Days’ Late.” The effect of not processing and paying invoices in a timely manner may result in the Academy being required to pay interest,

penalties, and late fees to vendors. When projecting this rate of error to the population of 965 purchase card transactions totaling \$212,617.36, the number of exceptions projected is 38 for a total of \$7,438.12. Academy personnel stated the delay in payment processing was simply a bookkeeping oversight.

The following invoices were not processed within ten days of its receipt:

<u>Document ID</u>	<u>Vendor</u>	<u>Date Received</u>	<u>Date Processed</u>	<u>Amount</u>	<u># Number of Days Late</u>
I007480120	Am. Red Cross River Valley	06/28/06	07/27/06	\$ 20.00	20
I007578481	Aladdin Food Management	10/05/06	11/20/06	<u>168.00</u>	29
			Total	<u>\$188.00</u>	49

Processing invoices late could result in the Academy accruing being charged interest on late payments. Further, after projecting this rate of error, we estimate 11 such exceptions totaling \$1,034.00 in the population of 501 other disbursement transactions totaling \$615,114.89. The Academy’s Accounting Tech. IV stated that processing payments may be delayed due to the time lag in receiving the purchase/payment documents from the Academy at Camp Dawson in Kingwood, WV, as well as the reliance on the West Virginia Adjutant General’s Office to help process the payment. This Adjutant General’s Office oversees the operations of the Academy.

We recommend the Academy comply with Chapter 5A Section 3 Subsection 54 (d), (e) of the West Virginia State Code, which addresses prompt payment invoices with:

“5A-3-54. Payment of legitimate uncontested invoices;”

“(d) The state agency initially receiving a legitimate uncontested invoice shall process such invoice for payment within ten days from its receipt....

(e) Any other state agency charged by law with processing a state agency's requisition for payment of a legitimate uncontested invoice shall either process the claim or reject it for good cause within ten days after such state agency receives it. Failure to comply with the requirements of this subsection shall render such state agency liable for payment of the interest mandated by this section when there is a failure to promptly pay a legitimate uncontested invoice: Provided, That no such state agency shall be liable for payment of interest owed by another state agency under this section."

Spending Unit's Response

Corrective actions are now being put into place to address this issue. Payment of 219.47 to Neopost was faxed May 8th. Camp Dawson PX invoices are received in bulk (monthly) and are paid when received. Future invoices will be processed with 10 working days of receipt.

28. Lack of documentation. During our audit field work, we documented numerous instances of missing supporting documents. We included the detail from each area tested as follows:

The Academy did not have a WV-48 Agreement in place to support charges for nine p-card transactions for laundry services with Camp Dawson as follows:

<u>WVFIMS#</u>	<u>Vendor</u>	<u>Date Paid</u>	<u>Amount</u>
I007546095	Camp Dawson Px	08/02/2006	\$ 75.35
I007587800	Camp Dawson Px	09/25/2006	137.38
I007587800	Camp Dawson Px	09/25/2006	250.33
I007658017	Camp Dawson Px	11/13/2006	371.21
I007587800	Camp Dawson Px	09/25/2006	254.90
I007658017	Camp Dawson Px	11/27/2006	86.54
I007272298	Camp Dawson Px	01/05/2006	119.00
I007813276	Camp Dawson Px	03/02/2007	168.04
I007354542	Camp Dawson Px	03/16/2006	627.45
			<u>\$2,090.20</u>

In addition to the above transactions taken from the p-card test of controls, we found 53 more exceptions in the p-card population from which we drew our sample where the Academy paid Camp Dawson for laundry services in an amount totaling \$11,862.56. The net amount paid by the Academy to Camp Dawson for laundry services is \$13,952.76 (\$2,090.20 + \$11,862.56).

The state requires a contract or a WV-48 for the purchase of goods or services to ensure that the state receives the benefit of the lowest possible price and/or best quality for the item or service purchased. When goods or services are purchased without a contract or agreement in place, the state may not receive those expected benefits.

Academy personnel stated there was a WV-48 Agreement in place for the laundry services provided by another vendor before those services were moved to Camp Dawson. Once Camp Dawson started to provide those services, the spending unit was not aware they needed a separate agreement for the laundry services since there was a contract in place for the use of the facilities and other services provided by Camp Dawson. The spending unit believed that the existing contract for the use of the facilities at Camp Dawson in Kingwood, West Virginia extended to laundry services as well. However, Academy personnel stated the lack of the WV-48 agreement was an oversight on the part of the spending unit and they will take steps to make sure a WV-48 agreement is put into effect for these services.

In the future, we recommend the Academy follow the State of West Virginia Expenditure Schedule Instructions for object code 025, which states in part:

“...**025 - Contractual and Professional**: Services performed by individuals or firms considered to be professional or

semiprofessional in nature. A written agreement (WV-48 or equivalent) is required.....”

“**A. Contractual:** Charges for services performed on a continuing basis (weekly, monthly, etc.), e.g....laundry service....”

We also recommend the Academy follow through with their response and have a WV-48 agreement signed by both parties for the laundry services.

There were also 50 p-card transactions (out of 102 tested totaling \$28,432.36) totaling \$15,801.43 for which the Academy had no Supply Request Form on file. This request is an Academy generated document that starts the purchasing process.

The Academy also did not have Purchase Orders on file for the following eight transactions:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>Good/Service Purchased</u>	<u>Date</u>	<u>Amount</u>
I007466962	American Hotel Re01 Of 01	Sheets/Pillowcases	06/15/06	\$ 869.73
I007699263	Officemax Ct In#035457	Office Supplies	12/29/06	418.08
I007699263	Amazon.Com	Books	12/05/06	8.14
I007852195	Naylor's Hardware	Copies of Door Keys	04/03/07	27.48
I007587800	Naylor's Hardware	Thermometer	09/07/06	87.92
I007736050	Cornerstone Ph01092485	Cadet Prescriptions	01/08/07	401.05
I007770174	Cdw Government	10 Printers	02/12/07	1,531.27
I007770174	Cellularone-Web Selfcare	Cell Phone		
		Headsets/Equipment	02/15/07	<u>1,409.89</u>
		Total		<u>\$4,753.56</u>

Without Supply Requests, we were unable to determine that the charges noted were valid and that there was a legitimate purpose for goods/services ordered by way of authorizations that would be indicated on those requests, respectively. According to the Academy Accounting Tech. IV, the personnel at the Academy in Kingwood, WV is aware of the requirement to maintain

Supply Request forms, along with other documents including purchase orders. The Accounting Tech. further stated that the failure to maintain/file these required processes/documents is an oversight on the part of the Academy staff.

We recommend the Academy follow The State of West Virginia Purchasing Card Policies and Procedures For Use of the State Purchasing Card Adjutant General, State of West Virginia, Section Documentation, Reconciliation and Payment Procedures, which states in part:

“Documentation, such as, detailed cash register receipts, invoices, receiving reports, copies of order forms, detailed purchasing card charge slips and credit slips must be attached to the purchase log sheets.”

We also recommend the Academy follow their own procedures they acknowledged verbally and in writing concerning the Supply Request forms as noted in our written accounting procedures:

“...the Academy employee making the request fills out a Supply Request Form indicating the item description and quantity needed. The request is signed by the person making the request, their supervisor, (if applicable), the Academy Director... and the Logistics Supervisor.”

“The original copies of the vendor invoice, receiving report, purchase order, and any other supporting documents are then forwarded to the Academy’s Charleston office for payment processing.”

The Supply Request Form (MCA Form 102) effective 8/31/2005, revised 2/21/2007 states in part:

“Complete form and give to Supervisor for approval.Keep a copy for your records.”

Academy personnel also stated they use an “Order From via Fax and State of WV Purchasing Card” purchase order for p card purchases in their accounting procedures with “There is a separate order form used when using the P-card to purchase items such as fuel...”

From a population of 194 travel expense transactions for the audit period, we tested a total of 49 transactions. There were 11 that did not have 15 supporting documents. The four types and number of missing documents are:

1. WVTMP 1.0 Travel Authorizations – **five**. These documents are State of West Virginia authorizations that state the purpose/justification for the travel, as well as, itemize estimated travel costs.
2. MCA Form 124 – **two**. Is an internal form used by the agency to summarize travel costs incurred.
3. MCA Form 125 – **three**. Is an internal form used by the agency as a request for travel.
4. Invoices & Receipts – **five**. Used to support travel expenses, which are mainly lodging, meals, and mileage if the traveler used his/her own vehicle . The dollar amount indicated in the below table represents what is not supported by invoices/receipts.

MISSING? Y or n

<u>Employee#/ Vendor</u>	<u>WVTMP 1.0</u>	<u>MCA Form 124</u>	<u>MCA Form 125</u>	<u>Invoices/ Receipts</u>	<u>FIMS #</u>	<u>Amount</u>
1	Y	n	n	n	I007115204	\$ 645.18
2	n	Y	Y	n	I007852457	1,200.00
United Bank Card	n	n	n	Y	I007680544	2,730.42
United Bank Card	n	n	n	Y	I007870028	1,137.30
United Bank Card	n	n	n	Y	I007611864	435.40
3	n	n	n	Y	I007627667	2,000.00
4	Y	n	Y	n	I007438340	1,604.79
5	Y	n	n	n	I007024540	321.68
6	Y	n	n	Y	I007445395	22.50
7	Y	n	Y	n	D001333966	81.40
7	n	Y	n	n	I007454297	880.87
Totals:	5	2	3	5		<u>\$11,059.54</u>

Without invoices, we were unable to determine if the Academy received the benefit of the expenditure. Without the MCA forms 124, 125, and form WVTMP 1.0, we could not determine whether approvals for travel were made, the purpose of travel, and, the estimated travel costs, as outlined in the agency's Standard Operating Procedures for Staff Travel. After projecting this rate of error to the population of 194 transactions totaling \$143,563.25, we estimate the number of exceptions to be 44 reimbursements totaling \$44,238.16 for which there would be missing support documents. The Academy's Accounting Tech. IV, is unsure why there is no documentation to support the above noted exceptions.

The West Virginia Purchasing Division Travel Rules provides for invoices and receipts that must be presented for reimbursement with:

“SECTION 4. Transportation

4.1 Air Transportation

4.1.1.3 In order to receive reimbursement, the traveler must submit the original invoice from the travel service vendor.”

The above refers to airline tickets. Furthermore, the Travel Rules also provide:

“5.2 Receipts

5.2.1 Receipts are required for lodging reimbursement. The hotel/motel invoice or folio shall be the official document utilized for reimbursement to the traveler.”

The Academy also did not provide us with the following documents from the contracts and leases test:

<u>WVFIMS #</u>	<u>Missing Document</u>	<u>Vendor</u>	<u>Purpose</u>	<u>Amount</u>
E00661858	Supply Request	Adjutant General	Rental of Camp Dawson	\$ 5,000.00
E00707645	Supply Request	Adjutant General	Rental of Camp Dawson	5,000.00
E00698848	Supply Request	Adjutant General	Rental of Camp Dawson	5,000.00
I007627808	WV-48	Aladdin Food Management Services	Food Snacks	<u>28.00</u>
Total:				<u>\$15,028.00</u>

The WV-48 is a State issued form that serves as a written agreement between the agency and the vendor and specifies what is to be purchased, cost, etc. The Supply Request is an Academy generated form that specifies the goods/services requested as well as provides authorization for that request. Without Supply Request forms, the Academy cannot assure itself the goods/services purchased were actually needed. With no signed WV-48, the agency assure itself the goods/services agreed upon were provided/received and the agreed upon price was paid. After projecting this rate of error to the population of 366 contract and lease transactions totaling \$808,800.14, we estimate 66 exceptions totaling \$170,896.00 in that population.

The administrative/logistics supervisor of the Academy stated he/she could not provide us with the above documentation and added that Supply Requisition forms are not required for recurring monthly transactions; however, Academy personnel stated that "...every expenditure (equipment, supplies, etc.) requires prior authorization regardless of the dollar amount." The Supply Request form is the means by which that authorization would take place.

The state of West Virginia Expenditure Schedule Instructions requires a WV-48 agreement be used for professional services and states in part:

“025 – **Contractual and Professional:** Services performed by individuals or firms considered to be professional or semiprofessional in nature. A written agreement (WV-48) or equivalent is required....”

There were also two (2) transactions that were not supported by a proper invoice or receipt as follows:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>FIMS Date Prepared</u>	<u>Amount</u>
I007020787	Us Postmaster	08/05/2005	\$3,000.00
D001196546	Mountaineer Challenge Academy	12/27/2005	-\$11.00
	Total		<u>\$2,989.00</u>

The payment to the U.S. Postmaster was for metered postage and the payment to the Academy was a reimbursement for a cadet’s medical expenses. There were also 16 transactions which were not supported by an Academy generated “Supply Request” form as follows:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>FIMS Date Prepared</u>	<u>Amount</u>
E000604316	Division Of Motor Vehicles	08/02/05	\$ 10.00
I007020787	US Postmaster	08/05/05	3,000.00
E000657027	Central Mail Invoice	07/13/06	178.81
I007143384	Verizon	11/07/05	981.38
I007217462	Verizon	01/10/06	1,073.14
I007301266	AT&T	03/14/06	843.36
I007378863	Verizon	05/11/06	1,020.55
E000643473	Division Of Motor Vehicles	05/03/06	55.00
I007572759	Verizon	10/10/06	975.30
I007651386	Verizon	12/12/06	926.85
I007696009	AT&T	01/18/07	569.02
I007252676	Blackstone Consulting Inc	02/17/06	727.12
I007102821	United Bankcard Center	10/06/05	873.29
I007832124	Verizon	05/07/07	916.98
I007176307	Verizon	12/07/05	1,223.62
I007239370	US Postmaster	01/26/06	\$ 1,500.00
	Total		<u>\$14,874.42</u>

There were also ten transactions that were not supported by a receiving report or receiving date stamp as follows:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>FIMS Date Prepared</u>	<u>Amount</u>
I007217462	Verizon	01/10/06	\$1,073.14
I007301266	AT&T	03/16/06	843.36
I007378863	Verizon	05/11/06	1,020.55
I007572759	Verizon	10/10/06	975.30
I007651386	Verizon	12/12/06	926.85
I007696009	AT&T	01/18/07	569.02
D001282671	Deposit Check 3179 Lost Items	10/31/06	-35.35
D001196546	Mountaineer Challenge Academy	12/27/05	-11.00
I007176307	Verizon	12/07/05	1,223.62
I007422851	Jostens	06/15/06	33.47
Total			<u>\$6,618.96</u>

Without receiving reports or receiving stamps on file, the agency has no way of showing that the goods paid for were actually received. With no Supply Request forms on file, the agency has no way of proving that its own requisition process was followed.

Academy personnel did not know the whereabouts of the missing documents. However, in a letter from the Academy dated March 13, 2008, the Admin./Logistics Supervisor stated that Supply Requests will be attached to the purchase/payment documents so they "...can keep better track of the purchases."

We recommend the Academy incorporate the procedures mentioned in their letter dated March 13, 2008 into their standard operating procedures.

Finally, we recommend the agency follow the record keeping requirements as outlined in Chapter 5A, Article 8, Section 9 of the West Virginia Code, which 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."

Spending Unit's Response

A WV-48 will be obtained from Camp Dawson Px immediately. Supply request forms will be used and filed as noted in the Academy's written procedures. While there were missing travel expense documents, it is believed that these documents were not copied. The travel was paid by the Auditor's Office and documentation would have to have been with the voucher. In the future, all documents will be kept on file with the office copy.

WV-48's will be prepared for Camp Dawson rental. Supply Request forms will be used for all transactions as stated by the Academy as part of their internal controls. Receiving reports will be kept on file with the voucher for items purchased. The record keeping requirements as outlined in Chapter 5A, Article 8, Section 9 of the West Virginia Code will be followed.

29. Unauthorized Documents. During our audit field work, we documented numerous unauthorized documents. We included the detail from each area tested as follows:

The P-Card Coordinator did not sign eight P-Card Log Sheets indicating the Coordinator had reconciled the Log Sheets. The missing authorizations are detailed in the following table:

<u>WV FIMS #</u>	<u>Billing Cycle</u>	<u>Total on Log Sheet</u>
I007466962	June 2006	\$ 3,850.43
I007429363	May 2006	3,684.76
I007389867	April 2006	7,508.00
I007354542	March 2006	2,209.48

<u>WV FIMS #</u>	<u>Billing Cycle</u>	<u>Total on Log Sheet</u>
I007272298	January 2006	9,555.95
I007311119	February 2006	4,197.57
I007699263	December 2006	3,697.56
I007699263	December 2007	<u>2,535.36</u>
	TOTAL	<u>\$37,239.11</u>

Three p-card holders did not sign the following P-Card Log Sheets verifying the entries were reconciled and correct as listed below:

<u>WV FIMS #</u>	<u>Billing Cycle</u>	<u>Amount</u>
I007429363	May 2006	\$12,722.41
I007699263	December 2006	3,697.56
I007699263	December 2007	<u>2,535.36</u>
		<u>\$18,955.33</u>

There was also one P-Card holder who did not sign the p-card receipt for the purchase on his/her card as follows:

<u>WV FIMS #</u>	<u>Vendor</u>	<u>Date</u>	<u>Amount</u>
I007658017	Camp Dawson Px	11/27/2006	<u>\$86.54</u>

Due to the nature of the first 11 transactions lacking authorizations, we could not project the rate of this error to the population of 965 transactions totaling \$212,617.36. Projecting the receipt exception of \$86.54 from the sample of 102 transactions tested to the population of 965 purchase card transactions, we estimate nine exceptions in the population totaling \$778.86.

Concerning the lack of P-Card Coordinator signatures, we were unable to assure ourselves that the P-Card Coordinator reconciled the p-card holders log sheet. We were also unable to determine if the cardholders knew the items were received because of a lack of p-card holder's signature on the three log sheets. Finally, we were unable to determine if the cardholder knew of purchases made using their card because the cardholder failed to sign a p-card receipt acknowledging the purchase on their card.

According to the Academy’s Accounting Tech. IV, it is an oversight on the part of agency personnel for Log Sheets and p-card receipts to be unsigned. There was no explanation why the p-card holder would not sign his/her p-card receipt.

We recommend the Academy follow the recordkeeping requirements found in the State Purchasing Card Program Policies & Procedures (July 2004) Section 7.2 states in part: (August 2006), which states in part:

State Purchasing Card Program Policies & Procedures (July 2004) Section 7.2 states in part:

“...Log sheets may be computerized or manual and must be signed by both the cardholder and the agency coordinator acknowledging that all entries have been reconciled and are legitimate. Log sheets **must** be completed as payments are initiated.”

State Purchasing Card Program Policies & Procedures (August 2006) Section 7.2 states in part:

“...The person receiving the goods shall sign the receipt and state in writing the date the goods or services were received. If the person receiving the goods is not the cardholder, the cardholder shall also acknowledge receipt of the merchandise by electronic or physical signature on the receipt or transaction statement”

There were a total of 17 authorizations missing from four different types of documents pertaining to in and out-of-state travel for nine employees as follows:

<u>Employee #</u>	<u>Missing Signature(s)</u>	<u>Document(s) not Authorized</u>	<u>FIMS #</u>	<u>Amount</u>
* 1	a. Supervisor	a. MCA 124 a. MCA 125	I007115204	\$ 645.18
* 1	a. Supervisor, b. Department Secretary	a. MCA 124 a. MCA 125		
* 1	a. Supervisor,	b. WVTMP 1.0 a. MCA 125,	I007709943	774.23

<u>Employee #</u>	<u>Missing Signature(s)</u>	<u>Document(s) not Authorized</u>	<u>FIMS #</u>	<u>Amount</u>
2	a. Supervisor Adjutant General Supervisor	a. MCA 124 Travel Expense Account Settlement Form	I007151069	136.93
3	Adjutant General Supervisor	Travel Expense Account Settlement Form	I007265872	944.36
4	Employee Traveler	MCA 125	I007852457	\$1,200.00
5	a. Employee Traveler, b. Department Secretary	a. MCA 125, b. WVTMP 1.0	I007219067	112.74
6	a. Employee Traveler, b. Department Secretary	a. MCA 125, b. WVTMP 1.0	I007336588	579.14
7	Employee Traveler	MCA 125	I007445395	1,144.95
8	Employee Traveler	MCA 125	I007454297	1,140.48
9	Department Secretary	WVTMP 1.0	I007438340	880.87
			Total:	<u>\$9,163.67</u>

** This employee's Supervisor is located in Charleston and the agency is located in Kingwood. As a result, the MCA Form 125 (Request for Travel), as well as other documents, are sometimes not forwarded to Charleston for supervisory approval.*

The MCA Form 124 is an agency internal travel settlement, i.e., it shows the dollar amount of the reimbursement. The Travel Expense Account Settlement Form is a State of West Virginia form that is forwarded to the State Auditor for the traveler's reimbursement. The WVTMP 1.0 form is a State of West Virginia Travel Authorization form and must be completed/properly authorized before travel begins. After projecting this rate of error to the population of 194 transactions totaling \$143,563.25, we estimate the number of exceptions to be 44 reimbursements totaling \$36,654.68 for which there would be missing authorizations.

Without proper authorizations, the likelihood is increased that travel expenses may be paid that are not in its best interest of the agency or the state. The agency's Accounting Tech. IV stated the forms without signatures indicating proper authorization are an oversight on the part of the agency and are not a typical occurrence. The Administrative/Logistics Supervisor added

that the agency forms 124 & 125 are completed by either by herself or an Administrative Assistant, not by the traveler; therefore, the traveler is not always available to sign the form.

We recommend the agency follow the Travel Management Regulations of the West Virginia Purchasing Division, Section 3.1.1, which states in part:

“ Approval to travel shall be secured in advance by the employee in accordance with these regulations and, if applicable, the administrative policies and procedures of the state agency. Under no circumstances should an employee travel without proper approval of the spending officer.”

We also recommend the agency follow their own Standing Operating Procedures for MCA Staff Travel, Section I- Procedures for Staff Travel, Subsection 1, which states in part:

“A Request for Travel (MCA Form 125) must be completed in detail and turned into (the) department supervisor. At that time it will be reviewed and signed off for approval and returned for employee to make travel reservations and arrangements. ...No travel will be made without this completed form and signed off by traveler, supervisor and director.”

Subsection 2 of those same procedures states in part:

“Once this form is completed it is given to LOG to complete state form WVTMP1.0. This will then be signed off by traveling employee and Director. It is then copied and original mailed to Charleston for approval.”

Finally subsection 3 of those same procedures adds:

“...a Travel Settlement Form (MCA Form 124) must be completed in full, and turned into supervisor for review.”

All purchase request orders (requests) must be authorized by the Academy Director or his designee. We found three requests that did not have that authorization in the other disbursements test as follows:

<u>WVFIMS #</u>	<u>Vendor</u>	<u>Fiscal Year</u>	<u>Amount</u>
E000631337	Information Services	2006	\$ 48.34
E000631339	Information Services	2006	47.98
E000638351	Information Services	2006	41.46
Total			<u>\$137.38</u>

Without proper authorizations, the Academy has no way of knowing that expenditures required to achieve the Academy’s mission were made, which in turn increases the risk for fraudulent purchases. Academy personnel said the lack of authorizations were simply bookkeeping errors. After projecting the rate of error to the population of 501 transactions totaling \$615,114.89, we estimate 16 exceptions totaling \$732.69 in that population.

We recommend the Academy maintain an accounting system that would minimize the risk of unauthorized transactions by following Chapter 5A, Article 8, Section 9 of the West Virginia Code, which 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....”

Spending Unit’s Response

The P-Card Coordinator has reviewed the eight Log Sheets that were not signed. They have been signed and found correct. The three Log Sheets not signed by the P-Card holder have now been signed. The P-Card holders are fully aware of the items purchased by them on their cards. These corrections have been made after the audit. The State Purchasing Card Policies and Procedures are being followed.

Travel authorizations are approved for both in and out-of-state travel by the Adjutant General's Office as well as the final travel expense voucher that is sent to the Auditor's office. MCA Forms 124 and 125 are not required for travel and are only used in the Academy as info forms. Travel is approved in advance by using WVTMP 1.0. Forms 124 and 125 will be discontinued and only WVTMP 1.0 will be used to request travel and approval.

It was an oversight that three purchase requests were not approved in the amount of \$137.38 in advance. The Academy does maintain an accounting system that minimizes the risk of unauthorized transactions as stated in Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

30. Incorrect Object Codes. After completing our audit field work, we documented numerous transactions that were charged to incorrect object codes.. We included the detail from each area tested as follows:

On FIMS document #I007885934, \$1,747.33 an equipment purchase was incorrectly charged to object code 054, Computer Supplies and Equipment. The correct object codes are 020-Office Expenses for \$225.33 and 058-, Miscellaneous Equipment Purchases for \$1,522.00 of this purchase. The \$1,522.00 consists of a shredder for \$1,319.60 and draper wall mount screen and brackets for \$202.40 with the balance of \$225.33 for paper jewel cases and disk pockets.

The incorrect coding of equipment may result in incorrect financial reports and statements, as well as cause erroneous estimates of future budgeted appropriations. Academy personnel stated the incorrect object code charges were simply bookkeeping oversights.

The State of West Virginia Expenditure Schedule Instructions for Fiscal Year 2007

states in part:

“**020 - Office Expenses:** Those supplies normally used in the operation of an office and are primarily considered expendable in nature, e.g., letterhead, copy machine paper, toner, typewriter cartridges, calculator ribbons, staplers, tape dispensers, microfilming supplies, photographic film, magazine subscriptions, books and periodicals, cassette tapes, etc. Storage charges for office file documents.”

“**058 - Miscellaneous Equipment Purchases:** All purchases of equipment, including firearms, and medical equipment with a dollar value less than \$5,000. Does not include computer related equipment (see Object Code 054). Refer to Asset Section (page 59) for assets over \$5,000.

There were five transactions from the purchase card test charged to the incorrect object codes as follows:

- 1) FIMS #I007813276, where cellular phone charges in the amount of \$1,000.22 were charged under Object Code 024 Telecommunications instead of Object Code 041 Cellular Charges.
- 2) WVFIMS # I007699263, for ice cream in the amount of \$59.74 for MCA Cadets and staff which was charged to Object Code 037 Research, Educational, and Medical Supplies. The purchase should have been charged to Object Code 059 Student Activities.
- 3) WVFIMS # I007272298, coded under Object Code 020 Office Supplies in the amount of \$856.16; however, part of this purchase including 20 units of Lysol, 24 units of sanitizing wipes, and 24 units of hand sanitizer totaling \$410.40 should have been charged to Object Code 034 – Clothing, Household, and Recreational Supplies.
- 4) A purchase totaling \$1,531.27 paid on FIMS # I007770174, for 10 printers which was charged under Object Code 070 – Office and Communication Equipment. The transaction should have

been charged under Object Code – 054 Computer Supplies and Equipment.

- 5) We noted a single purchase in the amount of \$349.00 paid on WVFIMS # I007852195, charged to Object Code 073 Household Equipment and Furnishings. The purchase was for a washer and dryer pump. The proper Object Code for this transaction was Object Code 058 Miscellaneous Equipment Purchases.

The total amount of purchases charged to the wrong object code amounted to \$3,350.63. By charging transactions to the improper object code, we determined that these amounts would not be appropriately classified in the Academy's and state's accounting records which would result in inaccurate bookkeeping, as well as possibly affecting future appropriations. Additionally, when projecting this rate of error to the population of 965 purchase card transactions totaling \$212,617.36, the estimated error rate would be 47 incorrect object codes totaling \$31,495.92.

According to the Academy's Accounting Tech. IV, the cellular phone charges were made under Object Code 024 Telecommunications instead of Object Code 041 Cellular Charges because the Academy does not have an internal object code that is comparable to 041 so they bill all cellular charges to Object Code 024 Telecommunications. The agency bills all items for the students under Object Code 037 Research, Educational and Medical Supplies because they have no internal object code equivalent to Object Code 059 Student Activities. All activities related to the cadets are considered educational activities. The items charged under Object Code 020 were all on an Office Max invoice and Academy personnel didn't read the entire invoice, which was an oversight on the Academy's part.

The Accounting Tech. also stated the printers were considered Office Equipment and thus were billed under Object Code 070 Office and Communication Equipment. They were not considered computer equipment so they were not billed under Object Code 054 Computer Supplies and Equipment and the Academy will bill printers under Object Code 070 in the future.

Finally, the purchase of a pump for the washing machine was billed under Object Code 073 Household Equipment and Furnishings because the washing machine is a household item. This is why the item was not charged under Object Code 058 Miscellaneous Equipment Purchases.

We recommend the Academy comply with State of West Virginia Expenditure Schedule Instructions, Fiscal Year 2006, which states in part:

“...**024 Telecommunications:** Monthly charges for the following services: Office telephones, teleconferencing, long distance charges, data circuits for computers, installations and moving charges, Internet charges/penalties covered by PSC, line charges for facsimile equipment and telephone pole rental.”

“...**041 Cellular Charges:** Monthly charges for the following services: Cell phones, pagers, Blackberries, cellular modems, PDA’s with cellular connectivity or any other device connected via a wireless connection where there is a monthly service charge assessed.”

“...**037 – Research, Educational, and Medical Supplies:**

Research: Material primarily used for a laboratory environment, e.g. beakers, test tubes, blood slides, lab mice, chemicals etc.

Educational: Material primarily used for, but not limited to classroom instruction, pencils, papers erasers. Included in this object code are interlibrary charges for Higher Education.

Medical: Personal hygiene/care products for patients and/or inmates and medications.”

“**059 - Student Activities:** Expenses relating to activities for students, including expenses for student group meetings.”

“...**020 - Office Expenses:** Those supplies normally used in the operation of an office and are primarily considered expendable in nature, e.g., letterhead, copy machine paper, toner, typewriter cartridges, calculator ribbons, staplers, tape dispensers, microfilming supplies, photographic film, magazine subscriptions, books and periodicals, cassette tapes, etc. Storage charges for office file documents.”

“...**034 - Clothing, Household and Recreational Supplies:** Articles of clothing purchased or rented for state employees, inmates and patients, such as uniforms, linens, blankets, and material purchased for repair and maintenance of the above. Household supplies include items purchased for cleaning, laundering, detergents, disinfectants, light bulbs, garbage cans, trash bags, etc....”

“...**070 - Office and Communication Equipment:** Any article that is purchased for use or is to be located within the office and any purchases of equipment used in the field of communications, e.g., desks, bookcases, two-way radios, copiers, printing equipment, etc.; includes vehicular two-way radios, copiers, printing equipment, etc.; includes vehicular two and the installation of the radios. (Value greater than \$5,000 for each item.)”

“...**054 - Computer Supplies and Equipment:** Lines, cable, connector, packaged computer software and licenses, computer hardware, modem, CD ROM, **printers**, scanners, computers (includes laptops), monitors, and other computer supplies or equipment (does not include computer publications) for use in the office or classroom. (Less than \$5,000 each.) (More than \$5,000 see Object Codes 170 and 171).” (emphasis added)

“...**073 - Household Equipment and Furnishings:** Equipment purchases for items normally found in the home or the operation of a home, e.g. dorm furniture, drapes, bedding, (not linens), carpeting, room air conditioning, etc. (Value greater than \$5,000 for each item.)”

“...**058 - Miscellaneous Equipment Purchases:** All purchases of equipment, including firearms and medical equipment with a dollar

value less than \$5,000. Does not include computer related equipment (see Object Code 054). Refer to Asset Section (page 59) for assets over \$5,000.”

The Academy charged two transactions to incorrect object codes in the other disbursements test of control. Both transactions were charged to Object Code 024, “Telecommunications” when they should have been coded to Object Code 27 “Computer Services” as shown in the below table:

<u>FIMS Document #</u>	<u>Vendor</u>	<u>FIMS Date</u>	<u>Amount</u>
E000610165	WVNet	09/29/05	\$41.64
E000613274	WVNet	10/19/05	41.64
		Total	<u>\$83.28</u>

Charging purchases to the incorrect object codes could misstate financial statements as well as cause erroneous estimates of future appropriations. After projecting this rate of error to the population of 501 transactions totaling \$615,114.89, we estimate a total of 11 exceptions in the amount of \$458.04 in that population. The Academy’s Accounting Tech. IV stated the charges for WVNET were incorrectly coded and added the spending unit currently codes WVNET to the correct object code.

The State of West Virginia Expenditure Schedule Instructions, Fiscal Year 2006 defines the correct object code with:

“027 - Computer Services: Charges for computer services by IS&C, WVNET, State Auditor’s Office, legislative computer system, or any other authorized entity for contractual or professional support services for computers and software, programming, machine time, transaction fees, and/or other related computer services. A written agreement (WV-48 or equivalent) is required for professional and contractual services.”

In the future, we recommend the Academy charge expenditures to the correct object code.

We tested all 20 employees who resigned or retired during the audit period and noted exceptions in one of them. The Academy charged one employee's terminal annual increment pay of \$359.41 to object code 001 "Personal Services" as indicated on the EPICS payroll dated 07/15/2005 and as also shown on the FIMS document ID number W 23073 dated 07/09/2005. The correct object code is 004, "Annual Increment." The incorrect coding of annual increment pay may result in incorrect financial reports and statements, as well as cause erroneous estimates of future budgeted appropriations.

The Academy's payroll supervisor stated the incorrect object coding was simply due to a bookkeeping error. We recommend the agency comply with the State of West Virginia Expenditure Schedule Instructions for Fiscal Year 2006, as well as correct this bookkeeping error if possible to do so. The Expenditure Schedule Instructions states in part:

"001 – Personal Services: Compensation paid to full-time, part-time, temporary, or intermittent employees with payroll deductions, e.g. Federal or State withholding, social security, retirement, etc."

"004 – Annual Increment: Annual Compensation to an eligible employee as defined in the state code (WV Code 5-5-1): The Annual Increment shall be paid from Activity 004 or from another appropriate activity from which salaries are paid, (e.g., Dam Safety, Activity 607; GAAP Project, Activity 125; Litter Control Conservation Officers, Activity 564) but never from Personal Services, Activity 001. Annual Increment shall always be paid using Object Code 004."

Spending Unit's Response

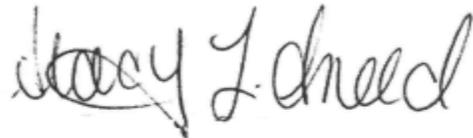
We believe items 1 through 4 and 8 really have no effect because the object codes we used and the object codes the Legislative auditors say we should have used are all "Current Expense" Category object codes. Our 8726 and 0433-709 budgets are "Unclassified" and these misclassifications really have no budgetary effect; however, greater care will be taken in our review of the object codes being used by our agency in the future.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

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

Given under my hand this 25th day of August, 2008.

A handwritten signature in black ink that reads "Stacy L. Sneed". The signature is written in a cursive style with a large initial "S".

Stacy L. Sneed, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the West Virginia Mountaineer Challenge Academy; West Virginia Adjunct Generals Office; Governor; Attorney General; State Auditor; and, Director of Finance Division, Department of Administration.