

# STATE OF WEST VIRGINIA

## AUDIT REPORT

OF

*WEST VIRGINIA DIVISION OF  
REHABILITATION SERVICES*

*REHABILITATION CENTER PHARMACY  
REHABILITATION STUDENT UNION FUND  
HOT LUNCH PROGRAM FUND  
CASE SERVICES PROGRAM  
SALES TAX CLEARING FUND*

FOR THE PERIOD

JULY 1, 2001 - JUNE 30, 2003



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**REHABILITATION CENTER PHARMACY  
REHABILITATION STUDENT UNION FUND  
HOT LUNCH PROGRAM FUND  
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SALES TAX CLEARING FUND**

**FOR THE PERIOD**

**JULY 1, 2001 - JUNE 30, 2003**

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

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CHARLESTON, WEST VIRGINIA 25305-0610

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 general revenue accounts of the West Virginia Division of Rehabilitation Services.

Our examination covers the period July 1, 2001 through June 30, 2003. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

  
Theodore L. Shanklin, CPA, Director  
Legislative Post Audit Division

TLS/ela

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

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## **WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

### **EXIT CONFERENCE**

We held an exit conference on July 15, 2004 with the Senior Fiscal Services Manager and other representatives of the West Virginia Division of Rehabilitation Services and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

## **WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

### **INTRODUCTION**

The West Virginia Division of Rehabilitation Services (known formerly as the West Virginia State Board of Rehabilitation, Division of Rehabilitation Services) was established by the 1945 Legislature. The Division is governed by Chapter 18, Article 10A of the West Virginia Code. As such it is authorized and directed to cooperate with the Federal Rehabilitation Services Administration to provide rehabilitation services to West Virginians with disabilities.

The Governor appoints the Director of the Division, who recommends necessary personnel and establishes appropriate administrative units throughout the State. In order to observe the spirit and intent of the Federal Rehabilitation Act of 1973 and its amendments, the Director makes regulations, submits an annual report to governing bodies, and ensures disbursements of rehabilitation funds comply with the Federal act, governing laws, and other rules and regulations.

Under the oversight of the Secretary of Education, the Director operates the Division under plans approved by the Rehabilitation Services Administration and the Social Security Administration through its two primary services units: the Client Services Section and the Disability Determination Service Section. The Director is authorized by law to receive gifts, determine eligibility for services, operate rehabilitation centers and workshops, promulgate rules for operation of such facilities in the by public or voluntary agencies; to certify workshops as eligible to sell products to the State; and to receive Federal vocational rehabilitation aid.

The wide variety of rehabilitation services provided by the Division can be grouped into one of four categories: (1) Medical; (2) Evaluative; (3) Independent Living, and (4) Vocational.

The rehabilitative services offered by the Division requires a coordinated effort of numerous professional and support personnel including physicians, psychologists, therapists, social workers, counselors, teachers and aids.

In addition to its headquarters located in Institute, West Virginia, the Division has 31 field offices throughout the State. The field offices are divided into seven districts each having a designated manager and a staff of rehabilitation counselors and support personnel.

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**ADMINISTRATIVE OFFICERS AND STAFF**

**JUNE 30, 2003**

Janice A. Holland ..... Interim Director

Donna Ashworth ..... Interim Assistant Director,  
Information Technology Services Senior Manager

Michael K. Meadows ..... Client Services Assistant Director

S. Jane Johnstone ..... Disability Determination Services Assistant Director

William L. Tanzey ..... Center Services Assistant Director

Daniel Greene ..... Fiscal Services Senior Manager

Brenda B. King ..... Program and Policy Administration Senior Manager

Charles S. Lovely ..... Field Services Senior Manager

William L. Tanzey ..... Center Services Senior Manager

Charles Farmer ..... Facilities Services Manager

David N. Gardner ..... Administrative Services Manager

James P. Quarles ..... Human Resources Manager

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**  
**SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES**

**Lack of Effective System of Internal Controls**

1. During the course of our examination, it became apparent to us, based on observed noncompliance with the West Virginia Code and other applicable rules and regulations, the Division of Rehabilitation Services did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

**Auditor's Recommendation**

We recommend the agency comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish a system of internal controls.

**Agency's Response**

*See responses to individual findings.*

**CENTER PHARMACY:**

**Pharmacy Inventory**

2. We noted the Division's Center Pharmacy does not account for certain "controlled substances" in its possession and the Division's pharmacist disposes of some of these medications without any record of the disposition, or witness to the disposal.

**Auditor's Recommendation**

We recommend the Division comply with Title 15, Series 2, Section 6.3.1 of Board of Pharmacy's Legislative Rules.

**Agency's Response**

*The Division has hired a new pharmacist. To comply with the finding, the new pharmacist will document how a patient's medication was obtained, continue to log medications as they are used or received, and document medication disposition upon a client's discharge. (See pages 27 - 29)*

**Disposition of Controlled Substances**

3. The control drug records maintained by Clinic or Treatment Unit nursing staff for two agency patients did not indicate the disposition of the medications at the patients' discharge.

**Auditor's Recommendation**

We recommend the Division comply with Section 4.2.1 of Title 15, Series 2 of the Board of Pharmacy's Legislative Rule.

**Agency's Response**

*To comply with this finding, the new pharmacist will document the name, strength, and quantity of the controlled substance on a Board of Pharmacy standardized form and store it with other medications to be destroyed. These medications will be destroyed in the presence of a Pharmacy Board inspector. (See pages 30 and 31)*

**Medication Purchases Using Purchasing Card**

4. We found an agency staff member approves invoices for medication purchasing card purchases, without knowing who ordered the medications, if the medications have been received, or who received them.

**Auditor's Recommendation**

We recommend the Division comply with Section 8.1 of the West Virginia Purchasing Division Policies and Procedures Handbook.

**Agency's Response**

*All Division pcard holders have been instructed that the receiver must complete a receiving report and forward it to the pcard holder. If the pcard holder is the receiver, they will complete the receiving report.*

*We are doing periodic reviews to ensure that this rule is being followed and receiving reports are attached to the pcard holder's documentation. (See pages 31 and 33)*

**REHABILITATION STUDENT UNION FUND:**

**Local Account and Petty Cash Fund Established Without Authorization**

5. During our examination of the Rehabilitation Student Union Fund - Fund 8656, we discovered the Division's recreational staff maintain a local bank account and petty cash fund for the agency's various student organizations; however, the local account was opened and the petty cash fund was set up without the State Treasurer's authority. The Division deposited \$13,000.00 of the recreational facility rentals into the local account although these cash receipts should have been credited to the aforementioned Student Union Fund.

**Auditor's Recommendation**

We recommend the Division comply with Chapter 12, Article 2, Sections 3 and 2 of the West Virginia Code, as amended, and obtain authorization for the local bank account and imprest fund or close them.

**Agency's Response**

*a. Local Bank Account- Unless a local bank account contains an agency's name or federal identification number, the State Treasurer's Office would not consider the local account an outside bank account. Therefore, the local bank account will not contain the Division's name or federal identification number.*

*All cash receipts will be deposited to the account intact by the center cashier. A detailed record of the receipts will be kept, and controls will be established.*

*b. Petty Cash Fund - The Division will request permission from the State Treasurer to have an imprest petty cash fund and controls will be put in place.*

*c. Policy and procedures relating to the local bank account and petty cash will be incorporated into the Divisions' new fiscal policy manual. (See pages 33 - 38)*

**Payments To Agency Staff**

6. We determined agency staff members received cash payments totaling \$10,920.00 for chaperoning overnight "lock-in" events for various high schools and youth groups between July 1, 2001 and June 30, 2003; however, these payments were not reported to the individuals as wages or non-employee compensation.

**Auditor's Recommendation**

We recommend the agency comply with Chapter 11, Article 21, Section 12 of the West Virginia Code and Internal Revenue requirements.

**Agency's Response**

*The Division no longer provides chaperones or lifeguards for any organization renting the facilities. The organization renting the facilities is responsible for bringing its own chaperones and lifeguards. (See pages 38 and 39)*

### **Fees Charged Without Statutory Authority**

7. We found the Division of Rehabilitation Services collected rental revenues totaling \$39,094.14 for leasing its recreational facilities to the public even though the agency does not have specific statutory authority for making such collections.

#### **Auditor's Recommendation**

We recommend the Division cease charging and collecting such fees until such time as the Division receives legislative approval through law or approved rules and regulations authorizing such fees.

#### **Agency's Response**

*The Division is currently seeking legislative approval through law or approved rules and regulations authorizing such fees. (See pages 39 and 40)*

### **HOT LUNCH PROGRAM:**

#### **Ineligible Students Claimed for Program Reimbursements**

8. Our audit of School Breakfast and School Lunch Programs (hot lunch program) revealed the Division of Rehabilitation Services could have received as much as \$37,581.60 in program meal reimbursements for "students" that did not meet program eligibility requirements.

#### **Auditor's Recommendation**

We recommend the Division comply with Section G-3 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition. We also recommend the Division follow 7CFR, Part 210, Subpart A, Section 210.2 and 7CFR, Part 220, Subpart A, Section 220.2 to

determine if a student meets hot lunch program eligibility criteria before including the student's meal on the monthly reimbursement form.

**Agency's Response**

***Since March 2004 only students under the age of 21 have been and are being counted as eligible for program benefits. (See pages 40 - 44)***

**Reconciliation of Hot Lunch Program Receipts to Agency Billings**

9. The agency does not reconcile program receipts deposited into the Hot Lunch Program Fund - Fund 8658 to the monthly "meal reimbursement" claim forms filed with the West Virginia Department of Education's Child Nutrition Office. As a result, we noted the Division received a \$4,645.37 overpayment and could have been additionally overpaid by as much as \$2,767.78 in other program reimbursements.

**Auditor's Recommendation**

We recommend the Division comply with Section A-11 of the Policies of Operation Manual issued by the West Virginia Department of Education's Office of Child Nutrition for Residential Child Care Institutions and develop a reconciliation process.

**Agency's Response**

***Beginning with fiscal year 2005, the Division will reconcile hot lunch program receipts to the monthly "meal reimbursement" claim forms. Changes are currently being made in our tracking system to more accurately report meal counts. (See pages 44 - 47)***

**Program Meal Counts**

10. We discovered a School Breakfast and School Lunch Program check list was not completed at the time the students went through the cafeteria line. Consequently, Program meal counts may not be based on the actual number of meals served daily.

**Auditor's Recommendation**

We recommend the Division comply with Section B-7 and Section G-4 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition.

**Agency's Response**

*We will have in place a system for recording the actual number of meals served. (See pages 47 - 49)*

**Failure To Follow Program Inventory Requirements**

11. The agency reported to the Department of Education's Child Nutrition Office that its food and milk purchases totaled \$386,306.66 for the period July 1, 2001 - June 30, 2003; however, the Division does not maintain perpetual inventory records for foods purchased with Hot Lunch Program Fund - Fund 8658 monies as required by hot lunch program policies.

**Auditor's Recommendation**

We recommend the Division comply with Section G-18 of the Policies of Operation Manual (Policies Manual) for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education's Office of Child Nutrition.

**Agency's Response**

*The Division will enhance its current inventory system by developing a perpetual inventory system. The system should be in place by January 2005. (See pages 49 - 51)*

### **Cafeteria Cash Collections**

12. We found the Division's cafeteria personnel held cash receipts totaling \$3,602.69 and entered the collections in the cash register "after" the normal meal service instead of at the actual point-of-sale. We also noted several cash register overages and shortages.

#### **Auditor's Recommendation**

We recommend the agency comply with Chapter 12, Article 2, Section 2 of the West Virginia Code.

#### **Agency's Response**

*We will have a staff person available at every meal, seven days a week to collect cash from staff and visitors and enter these collections at the time of sale to guard against loss of cash collected. Staff will be trained, when necessary; to operate the cash register so that coverage will be guaranteed. (See pages 51 and 52)*

### **Employee Emoluments**

13. Our examination of the Hot Lunch Program revealed cafeteria employees are furnished free meals during their appointed work hours which is an unauthorized and unreported employee benefit.

#### **Auditor's Recommendation**

We recommend the Division comply with Chapter 27, Article 2, Section 2 and Chapter 28, Article 5, Section 23 of the West Virginia Code.

#### **Agency's Response**

*As of July 14, 2004 cafeteria staff will be charged for all meals eaten in order to comply with the West Virginia Code. (See pages 53 and 54)*

**Hot Lunch Program Expenditures**

14. We noted the Division charged 30.4 pounds of “Beef Prime Rib Supreme” to the Hot Lunch Program Fund - Fund 8658 although prime rib is never provided to students participating in the federal School Breakfast and School Lunch programs.

**Auditor’s Recommendation**

We recommend the Division comply with Section G-6 of the Policies of Operation Manual for Residential Child Care Institutions.

**Agency’s Response**

*We will special order any food that is going to be used in the catering function. The requisition will note that the food is for a catering function and not to be charged to the hot lunch fund. (See pages 54 and 55)*

**ACCOUNTING:**

**Revenues Classified As Expenditure Reductions**

15. Cafeteria cash collections totaling \$55,477.76 for meals sold to Division staff and visitors were deposited into the Consolidated Federal Funds General Administrative Fund - Fund 8734 as expenditure reductions instead of being deposited into the Rehabilitation Center Special Account Fund - Fund 8664 as revenue. The Division was using the money to reduce federal fund expenses instead of depositing the collections into the special account as a revenue subject to appropriation.

**Auditor’s Recommendation**

We recommend the Division comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code.

**Agency's Response**

***In January 2004, the Division began depositing the cafeteria cash receipts as revenue in the center special revenue account. (See pages 55 and 56)***

**Late Payment**

16. During our examination of Case Service Program expenditures, we found the Division of Rehabilitation Services failed to pay 269 uncontested invoices totaling \$271,727.53 within 60 days of receipt as required by the West Virginia Code.

**Auditor's Recommendation**

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

**Agency's Response**

***A checklist is attached to each invoice and any payment problem will be noted on the checklist. Any payment in excess of 60 days will be investigated. (See pages 56 - 58)***

**Payments From Wrong Funds**

17. The Division charged six expenditures totaling \$83,785.52 to the Hot Lunch Program Fund - Fund 8658 during our audit period although these expenditures should have been paid from other funds. Our examination of subsequent events revealed four additional expenditures totaling \$19,000.00 that should have been paid from other funds were also charged to the Hot Lunch Program Fund - Fund 8658.

**Auditor's Recommendation**

We recommend the agency comply with Section G-6 of West Virginia Department of Education's Office of Child Nutrition Policies of Operation Manual for Residential Child Care Instructions and Chapter 12, Article 3, Section 9 of the West Virginia Code.

**Agency's Response**

*During the prepayment audit, if the accounting technician thinks that the wrong fund is being used, he/she will forward the transaction to the supervisor for guidance. Also, before the transaction is approved to the auditor's office, the approver will review all supporting documentation to ensure that the proper accounting classification is assigned. (See pages 58 - 61)*

**Payment of Employee Benefits from an Account**

**With No Expenditure Schedule**

18. We noted the agency did not prepare an expenditure schedule for a Hot Lunch Program Fund - Fund 8658 employee benefits expenditure totaling \$10,000.00 made during the 2003 fiscal year.

**Auditor's Recommendation**

We recommend the agency comply with the General Provisions of the State Budget Bill of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code.

**Agency's Response**

*When we learned about this provision, we stopped paying employee benefits from an account with no expenditure schedule. All payments of employee benefits must be approved by the Director. (See pages 61 - 63)*

**Late Deposits**

19. The agency did not deposit 88 cafeteria receipts totaling \$9,479.23 and five Rehabilitation Student Union Fund - Fund 8656 receipts totaling \$2,650.00 within 24 hours of receipt.

**Auditor's Recommendation**

We recommend the Division comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

**Agency's Response**

*Beginning with the week of July 19, 2004, we will make daily deposits of cafeteria receipts as required by the Code. We will also ensure that other deposits are made within 24 hours of receipt. (See pages 63 and 64)*

**Underpayment to Outside Vendors**

20. Two Case Services Program vendors were underpaid a net total of \$53.83 during the 2003 fiscal year.

**Auditor's Recommendation**

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

**Agency's Response**

*The Fiscal Services section is using a checklist to ensure that the accounting technician matches the cover sheet total to the invoice total. Also, before the transaction is approved for payment to the auditor, the approver will check all supporting documentation to ensure that the transaction is correct. (See pages 64 and 65)*

**CASE SERVICES PROGRAM:**

**Financial Aid and Educational Eligibility**

21. During our audit period, we found the Division made tuition and fee payments for 36 students totaling \$37,312.79; however, the agency was unable to provide us with

documentation showing four of the students were academically qualified to pursue higher education courses or that 34 students even applied for financial aid benefits before the Division obligated Case Services Program funds.

**Auditor's Recommendation**

We recommend the Division comply with Sections 3606.6.A and 3606.6.B of its Case Services Manual.

**Agency's Response**

*In place of the FASFA, we will accept Form 87, which contains the information necessary to comply with the WVDRS case service manual. To ensure compliance with the WVDRS case services manual, the case service quality control team will continue to review college cases and report any deviations to management for appropriate action.*

*(See pages 66 and 67)*

**Certification of Program Eligibility**

22. We found Case Services Program counselors failed to sign "certificates of eligibility" certifying that 22 of the 63 Division clients tested were eligible to participate in the rehabilitation program. Case service payments totaling \$25,771.26 were made to or on behalf of the 22 agency clients during our audit period.

**Auditor's Recommendation**

We recommend the agency comply with Section 2501.8 of the Case Services Manual.

**Agency's Response**

*Our electronic case management system will not allow a counselor to proceed with a case until the certificate of eligibility is completed. (See pages 68 - 70)*

**ADMINISTRATIVE:**

**Improperly Authorizing Expenditure of Funds**

23. We discovered a number of payments were made without being properly authorized.

These instances are detailed below under individual headings:

**a. \$54,000 Case Services Program Payment**

The Division of Rehabilitation paid Cook and Reeves Superior Conversions \$54,000.00 to have a passenger van modified and automated for a disabled agency client; however, the Case Services Program expenditure was not properly authorized.

**Auditor's Recommendation**

We recommend the agency comply with Section 9301 of their own Case Services Manual.

**Agency's Response**

*We are currently working in conjunction with IS&C to develop a new case service system. This system should be finished by January 2005. Until the new system is available, we will emphasize that any case service purchase greater than \$1,000 must be processed through our procurement department. Any deviations will be reported to management. (See pages 70 and 71)*

**b. Lease of Temporary Space Authorized After The Fact**

The agency did not obtain authorization from the Leasing Section of the Department of Administration's Purchasing Division or from its own staff within the Division's Procurement Unit prior to having an employee conference in August 2001 at Canaan Valley Resorts Inc., for which the Division was invoiced and paid \$34,155.52 from the Hot Lunch Program Fund - Fund 8658.

**Auditor's Recommendation**

We recommend the Division comply with Legislative Rule Title 148, Series 2, Section 9 of the Department of Administration Purchasing Division's Leasing Section.

**Agency's Response**

***We will remind all staff that no purchase can be made without an approved requisition.***

**(See pages 71 - 73)**

**c. Purchasing Card Purchases**

We noticed log sheets supporting a \$1,118.54 purchasing card payment from the Hot Lunch Program Fund - Fund 8658 were incomplete and not signed by the cardholder or the Division's purchasing card coordinator.

**Auditor's Recommendation**

We recommend the Division comply with Section 7.2 of the State Auditor's Office Policies and Procedures Manual for the State Purchasing Card Program.

**Agency's Response**

**The pcard coordinator has met with each cardholder and reviewed the rules and regulations pertaining to the pcard. We are presently following all pcard rules and regulations. (See pages 73 - 75)**

**Missing and/or Inadequate Documentation**

24. We noted several instances of missing and/or inadequate documentation. These instances are detailed below under individual headings:

**a. Documentation Supporting Federal**

**Hot Lunch Program Reimbursements**

The Division could not provide us with certain documentation supporting federal hot lunch program reimbursements totaling \$37,094.57. In addition, the agency was unable to provide us with documentation showing two students claimed on other meal time report checklists were actually agency clients.

**Auditor's Recommendation**

We recommend the agency comply with Sections B-7 and A-11 of the Policies of Operation Manual (Policies Manual) for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education's Office of Child Nutrition by further developing its accounting system and maintaining adequate accounting records to adequately support the financial activity of the agency.

**Agency's Response**

*The managers responsible for the hot lunch program will be informed of the documentation requirements. Fiscal Services will do periodic checks. (See pages 75 - 78)*

**b. Cafeteria Cash Collections**

The Division could not provide us with 37 of 106 cash register tapes supporting \$1,582.75 in cafeteria cash collections and a "daily cash report" supporting the March 17, 2003 cafeteria sales of \$129.00.

**Auditor's Recommendation**

We recommend the Division comply with Chapter 12 Article 2, Section 2 of the West Virginia Code.

**Agency's Response**

*The managers responsible for the hot lunch program will be informed of the documentation requirements. The Fiscal Services section will do periodic checks to ensure that the documentation is kept. (See page 78)*

**Purchasing Procedures**

25. The Division purchased an automatic chlorination system for its pool costing \$5,163.75; however, the agency did not obtain three written bids as required by the Department of Administration's Purchasing Division for purchases exceeding \$5,000.00.

**Auditor's Recommendation**

We recommend the Division comply with Section 6.1.3. of the Department of Administration–Purchasing Division's *Agency Purchasing Manual*, as amended.

**Agency's Response**

*We checked with State Purchasing to see what to do about a situation when you can only get two written bids since the regulations require three and a no bid is not considered a bid. We were told that in this situation the best you can do is to document that there are no other bids available and award to the lowest bidder. (See page 78 and 79)*

## **SALES TAX CLEARING FUND:**

### **Controls Over Sales Tax Collections and Remittances**

26. During our examination of the Sales Tax Clearing Fund - Fund 8653, we discovered the Division does not have controls in place to determine if the correct amount of sales tax was collected by its various departments and units. We also noted the agency does not reconcile the actual sales tax collections to the amount of sales tax that should have been collected and remitted to the State Tax Department. As a result of these disparities over the years, the Sales Tax Clearing Fund - Fund 8653 had an unencumbered June 30, 2003 fund balance of \$542.26.

### **Auditor's Recommendation**

We recommend Rehabilitation Services comply with Title 110, Series 15, Section 4.6.2.1 and Section 5.1 of the Department of Tax and Revenues Legislative Rule and transfer the Sales Tax Clearing Fund - Fund 8653 unencumbered June 30, 2003 fund balance of \$542.26 to the Department of Tax and Revenue.

### **Agency's Response**

*Beginning with the month of July 2004, the Fiscal Services section will ensure that the correct sales tax is collected by calculating the sales tax as recommended in Title 110, Series 15, Section 4.6.2.1 of the Department of Tax and Revenue's Legislative rule. We will also reconcile the sales tax collected to the amount remitted each month.*

*We will also transfer the \$542.26 to the Department of Tax and Revenue as recommended. (See pages 80 and 81)*

## **WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

### **GENERAL REMARKS**

#### **INTRODUCTION**

We have completed a post audit of the West Virginia Division of Rehabilitation Services' Pharmacy Operations, Rehabilitation Student Union Fund - Fund 8656, Hot Lunch Program Fund - Fund 8658, Case Services Program (General Administrative Fund - Case Services - Fund 0310-162 and Rehabilitation Center Special Account Fund - Unclassified - Fund 8664-099), and the Sales Tax Clearing Fund - Fund 8653. The examination covers the period July 1, 2001 through June 30, 2003.

#### **COMPLIANCE MATTERS**

We tested applicable sections of the West Virginia Code, plus the Division's legislatively approved rules and regulations, as well as, other rules, regulations, policies, and procedures as they pertain to fiscal matters. Our findings are discussed below.

#### **Lack of Effective System of Internal Controls**

During the course of our examination, it became apparent to us, based on the observed noncompliance with the West Virginia Code and other rules and regulations, the Division of Rehabilitation Services (the Division) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, 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...."

This law requires the head of each agency to have in place an effective system of internal controls in the form of policies and procedures to ensure the agency is in compliance with the laws, rules and regulations which govern it.

During the post audit of the Division of Rehabilitation Services, we found the following noncompliance with State laws and other rules and regulations: (1) The Division's Center Pharmacy does not account for certain "controlled substances" in its possession. The possibility exists if these controlled substances are not properly accounted for, they could be used to cover shortages or be retained by agency staff. (2) Control drug records for two agency clients did not indicate the disposition of the medications after the patients were discharged. The problem is compounded by the fact that the Division's pharmacist does not account for controlled substances returned to him or in his possession. (3) Invoices supporting purchasing card purchases for certain medications obtained from local outside pharmacies are approved by the cardholder without the individual knowing who placed the orders, if the orders were received, or who received the order. (4) The agency opened a local bank account and established a petty cash fund without obtaining the State Treasurer's authorization. (5) Members of the Division's staff received cash payments totaling \$10,920.00 for chaperoning overnight "lock-ins" for various high school and other youth groups; however, these payments were not reported to the staff as wages or non-employee compensation. (6) The Division collected rental revenues totaling \$39,094.14 without specific statutory authority. (7) Our audit of the School Breakfast and School Programs (hot lunch program) revealed the Division could have received as much as \$37,581.60 in program meal reimbursements for "students"

that did not meet program eligibility requirements. (8) The agency does not reconcile Hot Lunch Program meal reimbursements to the amounts claimed for reimbursement on the Division's internal records. (9) Hot Lunch Program meal counts may not be based on actual observation of students receiving their meals as required by the Department of Education's Office of Child Nutrition policies. We were unable to determine how many check lists may have been completed after the fact. (10) The Division's cafeteria staff do not maintain the food inventory on a perpetual basis as required by the Office of Child Nutrition. (11) Cafeteria personnel held cash receipts totaling \$3,602.69 and entered the collections in the cash register "after" the normal meal service instead of at the actual point-of-sale. We also noted the cafeteria had several cash overages and shortages. (12) We noted the agency inappropriately charged a \$179.36 beef prime rib purchase to the Hot Lunch Program Fund - Fund 8658. We found the prime rib had been served to an outside group at a catered function. (13) Cafeteria cash receipts totaling \$55,477.76 were deposited into the Federal Funds General Administrative Fund - Fund 8734 as expenditure reductions instead of depositing the receipts into the Rehabilitation Center Special Account Fund - Fund 8664 as revenues. (14) We found the Division failed to pay two hundred sixty-nine uncontested invoices totaling \$271,727.53 within 60 days of receipt as required by the West Virginia Code. (15) The agency improperly charged six expenditures totaling \$83,785.52 to the Hot Lunch Program Fund - Fund 8658 although these expenditures should have been paid from other funds. Our examination of subsequent events revealed four additional expenditures totaling \$19,000.00 that should have been paid from other funds were also charged to the Hot Lunch Program Fund - Fund 8658. (16) We noted the Division did not prepare an expenditure schedule for a Hot Lunch Program Fund - Fund 8658, but paid employee benefits totaling \$10,000.00 from that fund during the 2003 fiscal year. (17) The agency

did not deposit numerous cafeteria receipts totaling \$9,479.23 and five Rehabilitation Student Union Fund - Fund 8656 receipts totaling \$2,650.00 within 24 hours of receipt. (18) Two Case Services Program vendors were underpaid a net total of \$53.83 during the 2003 fiscal year. (19) We found the Division made tuition and fee payments for 36 students totaling \$37,312.79; however, the agency was unable to provide us with documentation showing the students met educational and financial aid requirements. (20) Case Services Program counselors failed to sign "certificates of eligibility" certifying 22 agency clients were eligible to participate in the rehabilitation program. (21) Our audit revealed a number of payments were made without being properly authorized. (a) A \$54,000.00 passenger van modification was not approved by the agency's Purchasing Division. (b) The agency did not obtain authorization from the Leasing Section of the Department of Administration's Purchasing Division or from its own staff within the Division's Procurement Unit prior to having and paying \$34,155.52 for an employee conference at Canaan Valley Resorts. (c) We noticed log sheets supporting a \$1,118.54 purchasing card payment were incomplete and not signed by the cardholder or the Division's purchasing card coordinator. In addition, log sheets supporting September 2002 purchasing card purchases were not properly reconciled by the cardholder. (22) We found several instances of missing and/or inadequate documentation. (a) The agency was unable to provide us certain documentation supporting Hot Lunch Program reimbursements totaling \$37,094.57. Furthermore, the Division was unable to provide us with documentation showing two students claimed for Hot Lunch Program reimbursements were actually agency clients. (b) The Division could not provide us with 37 of 106 cash register tapes supporting \$1,582.75 in cafeteria cash collections and a "daily cash report" supporting the March 17, 2003 cafeteria sales of \$129.00. (23) The agency purchased an automatic chlorination system for its pool costing \$5,163.75. The

Division did not receive three written bids as required by the Department of Administration's Purchasing Division. (24) During our examination of the Sales Tax Clearing Fund - Fund 8653, we noted the Division does not have controls in place to determine if the correct amount of sales tax was collected by its various departments and units. As a result of the disparities over the years, the Sales Tax Clearing Fund - Fund 8653 had an unencumbered June 30, 2003 fund balance of \$542.26.

We recommend the Division of Rehabilitation Services comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish a system of internal controls.

### **CENTER PHARMACY:**

#### **Pharmacy Inventory**

We noted the Division's Center Pharmacy does not account for certain "controlled substances" for which they have a responsibility. The Division's pharmacist inventories controlled drugs purchased from wholesalers and stocked in the Center Pharmacy, but does not inventory "scheduled" medications received from local pharmacies or returned to him by Clinic and Treatment Unit nursing staff. A drug is considered a scheduled medication if it is listed by the Federal Drug Enforcement Administration as a controlled substance.

Periodically, the Division's pharmacist will order medications from local outside pharmacies. These orders are primarily placed for Medicaid patients. The local pharmacy will bill Medicaid for the prescription and the Division will pay the clients' required co-pay. Although the medications ordered from the local pharmacies are delivered to and in the possession of the Center Pharmacy, and medications may also be returned to the Center Pharmacy when patients are discharged from the agency's Clinic or Treatment Unit, the Division's pharmacist does not account for these medications on any controlled substance inventory.

Controlled substances administered by Clinic or Treatment Unit nursing staff are stocked on a medicine cart and tracked by the nurses on controlled drug records and on "medication administration records." The drug records are used to account for controlled substances by medication and by patient. All medications entered as additions to the drug record are listed as "Received From Center Pharmacy" whether the drugs came from a local pharmacy, were carried in by a patient, or were dispensed by the Center Pharmacy. Medications remaining on the cart at the time of a client's discharge are either prescribed by the attending physician to be sent home with the patient or the medication is to be returned to the Center Pharmacy. In either case, the nursing staff make the appropriate entry on the control drug record. The controlled drugs returned to the Center Pharmacy are not tracked or inventoried by the Division's pharmacist even when, according to the nurses' control drug records, the medications have been returned to the pharmacist's possession. More importantly, the Division's pharmacist reportedly disposes of the returned medications without any record of the disposition, or witness to the disposal.

Section 6.3.1 of the Board of Pharmacy's Legislative Rule Title 15, Series 2 states:

**"Each inventory shall contain a complete and accurate record of all controlled substances on hand on the date the inventory is taken. Controlled substances are considered to be "On Hand" if they are in the possession of or under the control of the registrant, including substances returned by a customer, substances ordered by a customer but not yet invoiced, substances stored in a warehouse on behalf of the registrant and substances in the possession of employees of the registrant and intended for distribution as complimentary samples."**  
**(Emphasis Added)**

Since the Division's pharmacist failed to inventory or account for all of the controlled substances in his possession, we are unable to determine what quantity of controlled substances should have been on hand or whether all of the medications recorded on the control drug records as

being returned to the Center Pharmacy actually ever made it to the Pharmacy. In addition, by failing to inventory or account for all scheduled medications under his control, the Center pharmacist was unable to provide us an accurate count of the scheduled drugs which should have been in his possession.

The Division's pharmacist acknowledged the controlled drugs received from the local pharmacies and the medications returned from the nursing staff were in his possession; however, he does not believe these medications need to be accounted for because they are not part of the Center Pharmacy's "inventory". The pharmacist stated he considers the controlled drugs received from the local pharmacies to be the individual patient's medication and not part of his stock. In addition, the pharmacist stated he will not inventory returned medications because once they have been dispensed, they cannot legally be dispensed again. Nonetheless, the possibility exists if these controlled substances are not properly accounted for, they could be used to cover shortages or be retained by the pharmacist or the nursing staff for other purposes.

We recommend the Division comply with Title 15, Series 2, Section 6.3.1 of Board of Pharmacy's Legislative Rules.

**Agency's Response**

***Since the audit was performed, the Division has hired a new pharmacist. To correct this finding the pharmacist will do the following:***

***a. Document on first line of patient controlled substance record how medication was obtained (i.e., Loop Pharmacy, WVRC, or patient supplied);***

***b. Continue to log medications when used/received as previously documented; and***

***c. Document medication disposition upon client discharge (i.e., sent home with client or returned to pharmacy).***

### Disposition of Controlled Substances

The control drug record for two agency patients did not indicate the disposition of the medications at the patients' discharge. Controlled substances administered by Clinic or Treatment Unit nursing staff are stocked on a medicine cart and tracked by the nurses on controlled drug records and on "medication administration records." A control drug record is maintained for each agency patient who is medicated with controlled substances. The balance of the controlled drug record is updated every time medication is administered to the patient or restocked on the cart by the Division's pharmacist. Medications remaining on the cart at the time of a client's discharge are either prescribed by the attending physician to be sent home with the patient or the medication is to be returned to the Center Pharmacy. In either case, the nursing staff are to make the appropriate entry on the control drug record.

We noted two control drug records that did not reflect the disposition of the medications at the time of the client's discharge. According to the first patient's control drug record, the first client received her last dose of medication on October 7, 2002 at 9:00 p.m. and was discharged on October 08, 2002. However, the patient's record did not reflect if the eight Tylox pills that should have been remaining on the medication cart were prescribed by the attending physician to be sent home with the patient or if the medication was returned to the Center Pharmacy. Tylox contains "Oxycodone Hydrochloride Acetaminophen" and is generally used for pain management. According to the second patient's control drug record, the client received his last medication on June 19, 2002 at 8:00 a.m. and the client was discharged on June 20, 2002. The client's record did not reflect the disposition of the 13 Alprazolam pills remaining at the time of the patient's discharge. Alprazolam is sold under the brand name Xanax which is a form of tranquilizer.

In addition, the Division's pharmacist does not account for controlled substances returned to him or in his possession; consequently, the medications could be subject to theft or misuse.

Section 4.2.1 of the Board of Pharmacy's Legislative Rule Title 15, Series 2 states in part,

"All registrants shall provide effective controls and procedures to guard against theft and diversion of controlled substances . . . ."

Agency personnel stated the nursing staff must have forgotten to document the disposition of the medication on the control drug records.

We recommend the Division comply with Section 4.2.1 of Title 15, Series 2 of the Board of Pharmacy's Legislative Rule.

#### **Agency's Responses**

***To correct this finding the pharmacist will document name of controlled substance, strength, and quantity on standardized form from West Virginia Board of Pharmacy and store it with other medications previously written up. These medications will then be destroyed during a witnessed visitation from an inspector from the West Virginia Board of Pharmacy.***

#### **Medication Purchases Using Purchasing Card**

While documenting Center Pharmacy procedures, we found an agency staff member who approves invoices for medication purchases without knowing who ordered the medications, who supposedly received them, or if the medications were actually received. The staff member uses her purchasing card to make the co-payment for the Division's Medicaid patient prescriptions. The medication orders are generally placed by the Division's pharmacist or nursing staff; however, the individual receiving the orders does not prepare a receiving report when the prescriptions are

delivered. The cardholder stated she reviews pharmacy invoices to determine that all of the prescriptions billed were for Division clients. Once she has reviewed the invoices, she stamps the vendor invoice with a certification stamp and pays the amount listed on the invoice with her purchasing card.

Section 8.1 of the State Auditor's Purchasing Card Policies and Procedures, states in part:

**"8.1.1 Receiving Reports:  
West Virginia State Auditor's Office Purchasing Card  
Procedures for the implementation of HB 3034 . . .**

If the cardholder orders and pays for commodities and an individual other than the cardholder receives the commodities, the individual receiving the commodities is responsible for completing a receiving report. The report can be printed from the electronic reconciling software (STARS) and signed by the person receiving the commodities or a manual receiving report may be prepared. After signing the receiving report, the person receiving the commodities must forward it to the cardholder who will place the receiving report with the invoice or receipt for the commodities received."

The agency has no control in place to require the receiver to complete a receiving report before the card holder approves invoices for payment. The card holder is authorizing payments for goods that she does not know were actually received. The staff member stated that she does not have any way of knowing who ordered the medications for which she is invoiced, if the medications have been received, or who received them. The agency could be paying for goods not received or not used for the intended purpose.

We recommend the Division comply with Section 8.1 of the West Virginia Purchasing Division Policies and Procedures Handbook.

**Agency's Response**

*All Division pcard holders have been instructed that if someone other than the pcard holder receives the merchandise, the receiver must complete a receiving report and forward it to the pcard holder. The receiving report will be attached to the pcard holder's supporting documentation. If the pcard holder receives the merchandise, he/she will complete the STARS receiving report.*

*We are doing periodic reviews to ensure that this rule is being followed.*

**REHABILITATION STUDENT UNION FUND:**

**Local Account and Petty Cash Fund Established Without Authorization**

We discovered during our examination of the Rehabilitation Student Union Fund - Fund 8656 that the Division's recreational staff maintain a local bank account and petty cash fund for the agency's various student organizations; however, the local account was opened and the petty cash fund was set up without the written authorization of the State Treasurer. The funds deposited into the account are obtained by renting the Division's recreational facilities. Chapter 12, Article 2, Section 3, as amended, states in part:

"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 of this article shall deposit the moneys, as soon as practicable, in the manner and in the depository specified by the treasurer. ... A spending unit shall obtain written authorization from the state treasurer before depositing the funds in an account outside the treasury.... The 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."

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

part:

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state board of investments all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . .

. . . (d) The state treasurer shall have authority to establish an imprest fund or funds in the office of any state agency or institution making proper application to the board.”

The Division’s recreational staff consider the local bank account and the petty cash to be the private funds of the various student activity organizations. The local account was opened as a depository for fund raisers and donations and the petty cash fund was set up to have cash available for student activities. On occasion, the Division leases its recreational facilities to the public. Various high schools and other youth groups lease the recreational facilities for overnight chaperoned “lock-ins.” These facilities include a pool, a gymnasium, a bowling alley, and an auditorium. Most of the revenues derived from recreational facility rentals are deposited into the Division’s Rehabilitation Student Union Fund - Fund 8656; however, some receipts derived from these facility rentals are deposited into the local account. Our test of local bank account disbursements revealed weaknesses in the controls over the local account and the petty cash fund maintained by the Division’s recreational staff. Our test of Rehabilitation Student Union Fund - Fund 8656 cash receipts revealed the Division deposited \$13,000.00 of the recreational facility rentals into the local account. This was the amount collected by the agency for the 2003 and 2002 overnight chaperoned “lock-in” events. Interviews with agency personnel revealed a cashiering

function is not utilized by the Division to process all cash receipts. In the case of the local bank account and petty cash fund controlled by the recreational services staff, the same individual who is generally responsible for making deposits has signature authority over the local account and has control over the assets and record keeping responsibilities.

As part of our examination, we attempted to trace cash receipts (including those mentioned above) to the local account; however, we were unable to trace the receipts because the recreation staff responsible for the account did not keep detailed deposit records. Specifically, we noted several larger deposits ranging between \$3,790.00 and \$9,808.00 were credited to the local account; however, we were unable to trace these deposit amounts back to the Division's ledgers. We were also told receipts, reimbursements, and refunds may not have been deposited into the local account at all, but were added to the petty cash balance instead. In another instance, we noted a December 16, 2002 deposit was not processed through the local bank account intact. The deposit ticket reflected \$1,075.00 was to be deposited, but the individual making the deposit received \$375.00 in cash and the net deposit was \$700.00.

Additionally, the agency was unable to provide us with documentation supporting 47 additional disbursements totaling \$1,742.02, as well as, any ledgers, vendor invoices, or receipt information for the first six months of our audit period. Also, the Division was unable to provide us with eight voided checks and consequently, we were unable to determine if these checks were ever utilized by the agency.

The petty cash fund was not established as an imprest fund with a reconcilable balance. The recreation staff stated they like to keep the petty cash balance around \$1,000.00; however, on the day we conducted our cash count, the fund had a balance of \$1,795.42 including

personal checks cashed for agency staff and I.O.U.'s. We found checks written to replenish the petty cash fund ranging from \$500.00 to \$4,000.00. Secondly, we noted a \$3,000.00 "counter check" made payable to cash was written by one of the recreation staff to supposedly replenish the petty cash fund. Furthermore, checks written against the local bank account only require one authorizing signature.

According to Division staff, the local account and the petty cash fund are reconciled; however, these "reconciliations" are not documented. We noted the various student organizations had combined receipts and disbursements during the period July 1, 2001 through June 30, 2003 totaling \$34,040.64 and \$33,951.00, respectively. In light of the significant dollars involved, we believe timely reconciliations and cash counts should be performed and documented.

The staff told us they were unaware they needed to obtain the State Treasurer's authorization to establish the local account or petty cash fund. This has resulted in the establishment of funds which are unknown to the State Treasurer and, are therefore, not subject to the State Treasurer's oversight. In relation to the facility rental revenues being deposited into the local account, recreational services staff stated the former Rehabilitation Center Administrator decided to have these "lock in" revenues deposited into the Student Council local bank account. Consequently, revenues totaling \$13,000.00 were not available to defray the operating cost of the Student Union. As noted above, the various receipts deposited into this account are not processed through a cashiering function. The Division should consider processing all receipts, regardless of source, through a cashiering function and receipts should also be deposited intact whether or not they are processed through a cashiering function.

Documentation unavailable for our review prevented us from determining if vendor payments were made for the benefit of the various student organizations. Similarly, since the reconciliations of the local bank account and petty cash fund were not documented, we could not determine if all payments from this account and this fund were legitimate and made for the purposes for which they were intended.

We recommend the Division comply with Chapter 12, Article 2, Sections 3 and 2 of the West Virginia Code, as amended, and obtain authorization for the local bank account and imprest fund or close them. If the agency chooses to obtain authorization, it should strengthen controls over the local bank account operations. Also, the Division should establish an imprest fund balance and the fund should only be replenished in the amount of supporting vendor invoices or receipts. The use of counter checks should also be prohibited.

**Agency's Responses**

***a. Local Bank Account- It is the Division's understanding that if the local bank account does not contain the Division's name and the Division's federal identification number, the treasurer's office would not consider it an outside bank account. Therefore, the local bank account will not contain the Division's name or federal identification number.***

***All cash receipts will be deposited to the account intact by the center cashier. A detailed record of the receipts will be kept, and the account will be reconciled monthly by a staff member not having signature authority or record keeping responsibility. Counter checks will be prohibited and a second signature will be required on the account.***

***b. Petty Cash Fund: The Division will request permission from the State Treasurer to have an imprest petty cash fund. This fund will require all expenditures to be***

*documented and the fund will be reimbursed based on the supporting documentation. No cashing of checks or IOUs will be allowed. No checks will be written for cash.*

*c. Policy and procedures relating to the local bank account and petty cash will be incorporated into the Divisions' new fiscal policy manual. This section of the manual will be finished and become policy no later than August 15, 2004.*

#### Payments To Agency Staff

On occasion, the Division leases its recreational facilities to the public. These facilities include a pool, a gymnasium, a bowling alley, and an auditorium. Various high schools and youth groups lease the recreational facilities for overnight chaperoned "lock-ins." According to the rental agreements pertaining to the "lock-ins," the groups are charged \$840.00 per event to pay seven agency staff members as chaperones. Based on the contracts we reviewed, we determined **agency staff members received cash payments totaling \$10,920.00** for chaperoning these "lock-in" events between July 1, 2001 and June 30, 2003. Nonetheless, these payments were not included on the staff's W-2's as wages or reported to the individuals as non-employee compensation on "Form 1099-MISC." The agency's lifeguards may have also been paid in a similar manner; however, we were unable to quantify the amount of the payments. Additionally, checks received from the high schools and youth groups were taken to the bank by one of the recreation staff members and cashed so the chaperones could be paid cash. However, the Division was unable to provide us with any documentation showing who was paid for chaperoning or life guarding services at these events.

These payments should have been reflected as agency staff income, but the services were paid with cash. Regardless of the method of payment, Internal Revenue requirements call for all non-employee compensation over \$600.00 to be reported to the individuals receiving such

payment on Form 1099-MISC. Furthermore, Chapter 11, Article 21, Section 12 of the West Virginia Code states in part,

“(a) General. - The West Virginia adjusted gross income of a resident individual means his federal adjusted gross income as defined in the laws of the United States for the taxable year...”

The cause for the aforementioned conditions could not adequately be determined.

Not reflecting the payments of staff as income could result in the underpayment of taxes.

We recommend the agency comply with Chapter 11, Article 21, Section 12 of the West Virginia Code and Internal Revenue requirements.

**Agency's Response**

***The Division no longer provides chaperones or lifeguards for any organization renting the facilities. The organization renting the facilities is responsible for bringing its own chaperones and lifeguards.***

**Fees Charged Without Statutory Authority**

As noted in the aforementioned finding, the Division leases its recreational facilities to the public. During our examination of the Rehabilitation Student Union Fund - Fund - 8656 (the Student Union fund), it came to our attention the Division of Rehabilitation Services (the Division) collected rental revenues totaling \$39,094.14. Of the total collected, \$13,000.00 was collected from high school and other youth groups for overnight lock-in events. The remaining \$26,094.14 was collected for leasing recreational facilities to schools, churches, seniors, and other groups. The money collected from the lock-ins was deposited into the local bank account maintained by the Division's recreation staff for the benefit of the agency's various student organizations. The \$26,094.14 was deposited into the Rehabilitation Student Union Fund - Fund - 8656.

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

part:

“(b)...All moneys, other than federal funds, ... shall be credited to the state fund and treated by the auditor and treasurer as part of the general revenue of the state except the following funds which shall be recorded in separate accounts: ...(10) All moneys collected or received under any act of the Legislature providing that funds collected or received thereunder shall be used for specific purposes.”

According to the Senior Fiscal Services Manager, this fund was established and fees were charged for the purpose of defraying the cost, maintenance, and replacement of recreational equipment and facilities. Notwithstanding the agency’s intent, the Division still collected \$39,094.14 without specific statutory authority.

We recommend the Division cease charging and collecting such fees until such time as the Division receives legislative approval through law or approved rules and regulations authorizing such fees.

**Agency’s Response**

*The Division is currently seeking legislative approval through law or approved rules and regulations authorizing such fees.*

**HOT LUNCH PROGRAM:**

**Ineligible Students Claimed for Program Reimbursements**

Our audit of School Breakfast and School Lunch Programs (hot lunch program) revealed the Division of Rehabilitation Services may have received as much as \$37,581.60 in program meal reimbursements for “students” that did not meet program eligibility requirements. Each month, Division staff submit claim forms to the West Virginia Department of Education’s Child Nutrition Office requesting meal reimbursements for breakfasts and lunches served to

qualified students. The Division considers three factors when determining if a student is eligible to be claimed for program reimbursements. The individual must: reside in the agency's dormitories, receive their breakfast and/or lunch in the agency's cafeteria, and be under 23 years of age. However, according to operational policies issued by the Department of Education's Child Nutrition Office, meal reimbursements cannot be claimed for any "child" that has reached his or her 21<sup>st</sup> birthday.

The Division maintains a master list of students the agency deems as program eligible. The master list of program eligible students (meal time report checklist) is utilized to track the number of meals served to each student and contains a column for each meal period and for every day of the month. As students receive their meals, cafeteria staff will determine if the individual is on the master list and place a check mark in the appropriate column beside of the student's name. After each meal period, the total number of check marks are counted and transferred to a Daily Record of Program Operations Form. This form is later used by cafeteria staff to compile the monthly claim forms provided to the Child Nutrition Office. We audited five of 24 monthly reimbursements received between July 1, 2001 and June 30, 2003 and discovered the Division was reimbursed approximately \$7,829.51 for meals provided to students who did not meet program eligibility guidelines (the student was over the age of 21):

<u>Month / Year</u>	<u>Number of Ineligible Children Included on Master List</u>	<u>Amount Received for Reimbursement for Meals Provided to Students Over the Age of 21</u>		
		<u>Total Breakfast</u>	<u>Total Lunch</u>	<u>Breakfast and Lunch Total</u>
October 2001	37	\$ 487.72	\$1,009.47	\$1,497.19
January 2002	41	357.57	758.67	1,116.24
July 2002	39	544.60	1,153.44	1,698.04
February 2003	32	425.60	1,058.40	1,484.00
March 2003	<u>45</u>	<u>578.20</u>	<u>1,455.84</u>	<u>2,034.04</u>
<b>Totals</b>	<b><u>194</u></b>	<b><u>\$2,393.69</u></b>	<b><u>\$5,435.82</u></b>	<b><u>\$7,829.51</u></b>

Section G-3 of the Policies of Operation Manual for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education's Office of Child Nutrition states in part:

"The West Virginia Department of Education (WVDE) shall make reimbursement payments to RCCI's only in connection with meals meeting the requirements of a reimbursable breakfast or lunch. . . ."

7CFR, Part 210, Subpart A, Section 210.2 (School Lunch Program) and 7CFR Part 220, Subpart A, Section 220.2 (School Breakfast Program) defines a "Child" and "School" as:

"*Child* means . . . a person under 21 chronological years of age who is enrolled in an institution or center as described in . . . the definition of "School;" . . ."

"*School* means . . . any public or nonprofit private residential child care institution, or distinct part of such institution, which operates principally for the care of children . . ."

A reimbursable meal under the School Lunch Program is defined in 7CFR, Part 210,

Subpart A, Section 210.2 as:

**“ . . . Federal cash assistance including advances paid or payable to participating schools for lunches meeting the requirements of §210.10 and served to eligible children.” (Emphasis Added).**

A reimbursable meal under the School Breakfast Program is defined in 7CFR, Part 220, Subpart A, Section 220.2 as:

**“ . . . financial assistance paid or payable to participating schools for breakfasts . . . served to eligible children . . . ” (Emphasis Added).**

As shown above, the Division received a \$7,829.51 in hot lunch program benefits for meals claimed for reimbursement that had been provided to students 21 and older. If the months tested are representative of the total time period, we estimate the Division could have received \$37,581.60 in program benefits during our audit period which it was not entitled to receive. Cafeteria staff stated that it has been the Division’s long standing practice to claim program meals reimbursements for any residing student under the age of 23.

We recommend the Division comply with Section G-3 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education’s Office of Child Nutrition. We also recommend the Division follow 7CFR, Part 210, Subpart A, Section 210.2 and 7CFR, Part 220, Subpart A, Section 220.2 to determine if a student meets hot lunch program eligibility criteria before including the student’s meal on the monthly reimbursement form.

**Agency's Response**

***During March 2004 is when we learned that only students under the age of 21 were eligible for program reimbursement. Since then only students under the age of 21 have been and are being counted as eligible for program benefits.***

**Reconciliation of Hot Lunch Program Receipts to Agency Billings**

We noted the agency does not reconcile program receipts deposited into the Hot Lunch Program Fund - Fund 8658 to the monthly "meal reimbursement" claim forms filed with the West Virginia Department of Education's Child Nutrition Office. Consequently, we found the Division received a \$4,645.37 overpayment with its June 2002 program reimbursement and could have been overpaid by as much as \$2,767.78 in other program reimbursements.

During the 2002 and 2003 fiscal years, the Division received program reimbursements in the amounts of \$54,923.47 and \$60,398.18, respectively. The amount of funds the Division receives each month under this program is based on the number of breakfasts and lunches served to students meeting program eligibility requirements. Our audit of hot lunch program reimbursements revealed program receipts for the 2003 fiscal year included an overpayment of \$4,645.37 the Division had received on July 17, 2002 for its June 2002 reimbursement.

While documenting the accounting procedures for the meal reimbursement process, we noted the meal reimbursement amount reflected on the monthly claim form for February 2003 did not match the amount of program funds received by the Division. We found that cafeteria staff had not used the current reimbursement rates and the error had been corrected by the Child Nutrition Office. After speaking with Division staff, we found that they were unaware the Child Nutrition Office had corrected the reimbursement rates on the Division's claim form. We compared five of

the 24 program reimbursements received by the agency during our audit period to the program participation records provided to us by agency personnel. Based on the number of eligible program meals that should have been claimed for reimbursement by the Division, we found the agency was reimbursed amounts exceeding what it should have been paid. Specifically, we found the Division received an additional \$576.62 for meals that we could not reconcile to the agency's records for the five months tested. We project the Division would have received additional reimbursements totaling \$2,767.78 if this trend continued through out the entire audit period.

<u>Month/Year</u>	<u>Amount Received</u>	<u>Amount Supported by Agency Records</u>	<u>Unsupported Amount</u>
October 2001	\$ 4,098.62	\$ 4,053.24	\$ 45.38
January 2002	3,915.88	3,715.92	199.96
July 2002	5,248.00	5,193.12	54.88
February 2003	5,183.76	5,086.16	97.60
March 2003	<u>6,241.00</u>	<u>6,062.20</u>	<u>178.80</u>
<b>Totals:</b>	<b><u>\$24,687.26</u></b>	<b><u>\$24,110.64</u></b>	<b><u>\$576.62</u></b>

Section A-11 of the Policies of Operation Manual (Policies Manual) issued by the West Virginia Department of Education's Office of Child Nutrition for Residential Child Care Institutions (RCCI) define responsibilities of the program administrator to include:

"The administrator is responsible for . . .

Records and Reports:

- establish a procedure for obtaining accurate meal counts at the time of meal service so that accurate reports of daily meal participation by category are entered on the daily reporting form; . . .
- submit complete and accurate reports of daily participation . . ."

In relation to staff training, Section A-11 also states in part,

“. . . Training . . . encourage food service and clerical personnel to participate in training programs; remain informed concerning federal and state regulations and policies concerning the various child nutrition programs . . .”

Should mistakes occur in the reimbursements transferred into the Program Fund, Division staff would not be made aware of them under its current accounting routine. As stated above, this deficiency resulted in the Division receiving a \$4,645.37 overpayment in July 2002 for which Division management was unaware until we brought it to their attention. The Senior Fiscal Services Manager stated Division staff do not reconcile the monthly reimbursement claims to the amount received from the Child Nutrition Office. In relation to the incorrect reimbursement rates utilized by the cafeteria personnel, the staff stated the reimbursement rates listed on their copy of the electronic claim form had been obtained from the computer program “SMASTER,” which had been provided to the agency by the Child Nutrition Office. Furthermore, the cafeteria staff stated they did not know the rates in SMASTER had to be manually updated at the beginning of each fiscal year. If the monthly reimbursement claims had been reconciled to amount received from the Child Nutrition Office, we believe the Division would have discovered these discrepancies.

We recommend the Division comply with Section A-11 of the Policies of Operation Manual issued by the West Virginia Department of Education’s Office of Child Nutrition for Residential Child Care Institutions and develop a reconciliation process.

**Agency’s Response**

***Beginning with fiscal year 2005, the Division will reconcile hot lunch program receipts to the monthly “meal reimbursement” claim forms. These reconciliations will be done by the Fiscal Services section and the records will be maintained in that section.***

*Changes are currently being made in our tracking system to more accurately report meal counts. On the weekend, a staff member or weekend supervisor will be responsible for checking breakfast and lunch for meal participation at the time of service.*

*We are also contacting RESA III to see if any training is available regarding federal and state regulations related to the child nutrition program for our mangers.*

### **Program Meal Counts**

As part of our Hot Lunch Program Fund - Fund 8658 examination, we attempted to determine if Division students claimed for School Breakfast and School Lunch Programs (program) reimbursement were existing Division clients eligible to participate in the program. In order to determine if those individuals claimed for program reimbursement were currently Division students, we chose to randomly select a day to compare the clients claimed on the Program reimbursement student checklists with the Division's dormitory records. The student checklists are maintained by cafeteria staff to support the number of clients claimed on the monthly Program reimbursement forms submitted to the West Virginia Department of Education's Office of Child Nutrition. The checklists are maintained on a weekly basis.

On December 9, 2003, at approximately 10:30 a.m., we asked the cafeteria's office assistant to provide us with the current "student check list" for those individuals who were provided program meals for the week ending with breakfast served on December 9<sup>th</sup>. The cafeteria's office assistant stated a "student check list" was not completed for breakfast that morning. According to Program policy, procedures for obtaining accurate meal counts are to be established so that accurate reports of daily meal participation by category are entered on the daily reporting form.

Section B-7 of the Policies of Operation Manual for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education's Office of Child Nutrition states in part:

"In order for a breakfast to be considered a reimbursable meal, 1) the four required food items must be offered to all clients and 2) the serving sizes offered must be consistent with the minimum quantities. Additionally, clients must select a minimum of three of four items, if offer versus serve is practiced . . . Reimbursement for only one breakfast per day may be claimed for a student who is

- enrolled in the educational program of the RCCI;
- in attendance at the time of meal service; and
- claimed by eligibility category established by currently and updated master list . . ."

Section G-4 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition states in part:

"Since participation data is the basis for reimbursement claims, it is imperative that the daily record of program operations reflects complete and accurate information. The system used to obtain participation data (including all types of computer systems) must guarantee an accurate daily count concerning the following:

- actual number of meals served daily by category;
- meals served to all adults (program and nonprogram);
- meals served as "second meals" and/or other non-reimbursable meal service; . . ."

The check list was not completed by cafeteria staff at the time the students went through the cafeteria line and the staff decided to not claim any student breakfast reimbursement on December 9, 2003. We were unable to determine how many check lists had been previously completed after the fact and we do not know if the noted occurrence was an isolated incident. The cafeteria staff was able to provide us with the breakfast checklists we requested on subsequent

occasions. Nonetheless, meal counts may not be based on actual observation of students receiving their meals.

We recommend the Division comply with Section B-7 and Section G-4 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition.

**Agency's Response**

*To comply with Section B-7, we are presently offering the required food items and staff are responsible for checking that the eligible student has chosen at least three of these in order to meet the reimbursement criteria.*

*To comply with section G-4, we have in place a system for recording the actual number of meals served daily by category and meals served to all adults (program and non program). We are currently developing a system to record meals served as second meals and /or other non-reimbursable meal service.*

*As a possible better way to track meal costs, we are investigating the installation of an electronic "scanning" system like those employed by many public schools and other facilities.*

**Failure To Follow Program Inventory Requirements**

Our audit revealed the Division does not maintain perpetual inventory records for foods purchased with Hot Lunch Program Fund - Fund 8658 monies. Part of the Division's program participation requirements dictate, the agency is to maintain perpetual inventory records to account for food and supply costs. The agency reported to the Department of Education's Child Nutrition Office that its food and milk purchases totaled \$386,306.66 for the period July 1, 2001 - June 30,

2003; however, the Division did not maintain perpetual inventory records to account for these purchases.

Section G-18 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition states in part:

"The physical and perpetual inventory is necessary to document food and supply costs as required on the Monthly Financial Report . . ."

The Division could enhance its current inventory method by developing a perpetual inventory system to be used in conjunction with its current periodic inventory system which would be in compliance with School Breakfast and School Lunch program requirements established by the Child Nutrition Office. The cafeteria supervisor acknowledged the Division does not maintain a perpetual inventory. Instead, the cafeteria staff determine the quantities of all food and milk on hand at the end of each month (periodic inventory) and "back into" the food and milk inventory usage to determine the monthly product cost.

All the same, the Division's current inventory system does not enable the agency to know what the ending inventory should be each month and would not provide the agency with a mechanism to effectively identify and monitor inventory spoilage, damage, shortage, and unauthorized use.

We recommend the Division comply with Section G-18 of the Policies of Operation Manual for Residential Child Care Institutions issued by the West Virginia Department of Education's Office of Child Nutrition.

**Agency's Response**

*The Division will enhance its current inventory system by developing a perpetual inventory system. The Division is currently in the process of adding three additional accountants to its fiscal staff. One of these accountants will be responsible for developing and implementing the inventory system. The system should be in place by January 2005.*

**Cafeteria Cash Collections**

We found the Division's cafeteria personnel held cash receipts totaling \$3,602.69 and entered the collections in the cash register "after" the normal meal service instead of at the actual point-of-sale. We also noted several cash overages and shortages mostly in the \$3.00 to \$6.00 range. These overages and shortages are equal to the cost of one or two lunches and may be due to "timing differences" between when cash was collected and when it was entered into the cash register.

During our examination of the Hot Lunch Program Fund - Fund-8656, we observed cash collections for meals sold to visitors and staff during regular meal periods were not entered into the cafeteria's cash register at the point-of-sale. As part of our cash receipts examination, we determined how often the cafeteria staff recorded cash collections after the normal hours of operation. We selected a sample of 25 deposits which included cash collections associated with 318 meal periods for testing. We noted 105 instances totaling \$3,602.69 where cafeteria personnel entered cash collections in the cash register after the cafeteria's normal meal service. We were later told that cafeteria staff, in some instances, collected cash during regular meal hours and entered the receipts into the register as one sale after the meal service ended. Based on a review of the cafeteria's register tapes, we found collections ranging from as low as \$1.19 to as high as \$164.00 were entered into the register after the normal meal periods. If this trend continued over the entire

audit period, we believe as much as \$16,883.84 could have been held over by cafeteria staff instead of being entered at the point-of-sale.

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

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state board of investments all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . ”

The cafeteria’s office assistant explained the practice of entering the cash collections as a single sale saves time and labor. In addition, the office assistant stated at least one member of the cafeteria staff responsible for collecting cash from staff and visitors did not know how to operate the cash register and would leave the cash they collected for other staff members to enter after normal mealtimes.

Not recording sales at the point of sale allows for the possibility of cash being lost or misplaced without detection, since there is no reliable record of sales or monies collected.

We recommend the agency comply with Chapter 12, Article 2, Section 2 of the West Virginia Code.

**Agency’s Response**

***To Comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, we will have a staff person available at every meal, seven days a week to collect cash from staff and visitors and enter these collections at the time of sale to guard against loss of cash collected. There will no longer be register entries after the point of sale. Staff will be trained, when necessary; to operate the cash register so that coverage will be guaranteed.***

## Employee Emoluments

Our examination of the Hot Lunch Program revealed cafeteria employees are furnished free meals during their appointed work hours. These meals were provided using State and Federal funds by the Division of Rehabilitation Services. The issue of State employees receiving additional compensation in the form of emoluments above and beyond such compensation as they are entitled to under State law is discussed regarding Division of Health employees in Chapter 27, Article 2, Section 2, of the West Virginia Code which states in part,

..."The superintendents and other officers and employees of each state hospital or center shall be paid salaries commensurate with their duties and responsibilities, but no meals or other emoluments of any kind shall be furnished, given or paid to such superintendents, officers or employees as all or part of their salary..."

In addition, Chapter 28, Article 5, Section 23, of the West Virginia Code regarding Division of Corrections' employees states in part,

"No officer or employee shall receive, directly or indirectly, any other compensation for his services than that provided by law, or the state commissioner of public institutions..."

The agency's cafeteria staff are receiving an unauthorized and unreported employee benefit although the aforementioned sections of State law establish the precedent that State employees are not authorized to be provided meals, given gifts, or receive other items of value above and beyond their compensation.

We recommend the Division comply with Chapter 27, Article 2, Section 2 and Chapter 28, Article 5, Section 23 of the West Virginia Code.

### Agency's Response

*As of July 14, 2004 cafeteria staff will be charged for all meals eaten in order to comply with the West Virginia Code related to compensation beyond that entitled to employees under State law.*

### Hot Lunch Program Expenditures

We noted the Division charged 30.4 pounds of "Beef Prime Rib Supreme" to the Hot Lunch Program Fund - Fund 8658 although prime rib is never provided to students participating in the Federal School Breakfast and School Lunch programs. The Federal funds received through the West Virginia Department of Education's Child Nutrition Office are to be spent for program purposes; however, we noted a Brown Foodservice, Inc., December 2002 invoice included prime rib costing \$179.36 was charged to the Hot Lunch Program Fund - Fund 8658. The cafeteria supervisor explained the agency will occasionally purchase prime rib for catering functions to outside groups. The Division's Fiscal Office bills the groups for the services and deposits the catering receipts into the Rehabilitation Center Special Account Fund - Fund 8664. We found the prime rib had subsequently been served through the cafeteria's catering operation.

Section G-6 of the Policies of Operation Manual for Residential Child Care Institutions (RCCI), states in part:

" . . . USDA regulations require that the RCCI maintain effective control over, and accountability for, all funds, property and other child nutrition programs' assets to assure that they are safeguarded and used solely for authorized purposes. . . . Income accruing from operation of the child nutrition program may be used for program purposes. . . ."

The Senior Fiscal Services Manager stated the prime rib purchase was unintentionally charged to the Hot Lunch Program Fund - Fund 8658 since the item was included with other program

related foods on the Brown Foodservice invoice. As a result of the mistake, funds spent on catering supplies are unavailable to defray the operating costs of the program.

We recommend the Division comply with Section G-6 of the Policies of Operation Manual for Residential Child Care Institutions.

**Agency's Response**

*To comply with section G-6 of the Policies of Operation Manual for Residential Child Care Institutions, we will special order any food that is going to be used in the catering function. The requisition will note that the food is for a catering function and not to be charged to the hot lunch fund. Therefore, the hot lunch purchases will not be commingled with the other purchases.*

**ACCOUNTING:**

**Revenues Classified As Expenditure Reductions**

The Division deposited cafeteria cash receipts totaling \$55,477.76 into the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal fund) as expenditure reductions instead of depositing the receipts into the Rehabilitation Center Special Account Fund - Fund 8664 - (the special account) as revenue. During our examination of the Division's Hot Lunch Program Fund - Fund 8658, it came to our attention that cafeteria cash collections for meals sold to Division staff and visitors were deposited into the Federal fund. Based on information provided to us by agency personnel, we determined cafeteria cash receipts totaling \$27,774.98 for fiscal year 2002 and totaling \$27,702.78 for fiscal year 2003 were credited to the Federal fund as expenditure reductions.

Chapter 18, Article 10A, Section 6a of the West Virginia Code, states in part:

“There is hereby established in the state treasury a separate account which shall be designated the “West Virginia rehabilitation services special account”. The director of rehabilitation services shall deposit promptly into the account all fees received for services provided by the West Virginia rehabilitation center from whatever source, including the federal government, state government, or from other third-party payers or personal payments.”

Division staff stated the agency deposited the collections to the Federal fund to offset cafeteria related expenditures. In fact, the Division was using the money to reduce Federal fund expenses instead of depositing the collections into the special account as a revenue subject to appropriation. By depositing the cash collections into the Federal fund as expenditure reductions, the agency increased its spending authority without legislative approval. Starting in January 2004, the agency began recording the cafeteria cash receipts as revenues of the special account.

We recommend the Division comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code.

**Agency's Response**

*In January 2004, the Division began depositing the cafeteria cash receipts as revenue in the center special revenue account. Therefore, we are currently in compliance with Chapter 18, Article 10A, Section 6a of the West Virginia Code.*

**Late Payment**

During our examination of Case Service Program expenditures, we found the Division of Rehabilitation Services failed to pay 269 uncontested invoices totaling \$271,727.53 within 60 days of receipt as required by the West Virginia Code. Consequently, the Division could be liable for up to \$3,190.60 in interest charges regarding the late invoice payments. Throughout

the 2002 fiscal year, 156 invoices ranging from \$50.00 to \$4,935.00 were paid nine to 210 days late. We also noted 113 invoices ranging from \$50.00 to \$3,258.90 were paid 60 to 333 days late during the 2003 fiscal year.

Similarly, out of the 18 hot lunch program expenditures tested, we found the Division failed to pay seven Hot Lunch Program Fund - Fund 8658 invoices totaling \$12,268.29 to outside vendors within 60 days. The individual payments are listed in the following table:

<b>FIMS Document ID</b>	<b>Vendor</b>	<b>Invoice Date Received</b>	<b>Date Paid</b>	<b>Days to Pay Invoice</b>	<b>Amount</b>
I005005644	WV NURSE ASSISTANT EDUCATION INSTITUTE	04/05/2001	09/12/2001	160	\$ 2,730.00
I005005653	WV NURSE ASSISTANT EDUCATION INSTITUTE	04/18/2001	09/12/2001	147	2,730.00
I005241340	CLINGENPEEL MCBRAYER & ASSOCIATES INC	08/17/2001	03/11/2002	206	2,210.61
I004975564	CLINGENPEEL MCBRAYER & ASSOCIATES INC	06/08/2001	11/15/2001	160	1,317.78
I005005659	WV NURSE ASSISTANT EDUCATION INSTITUTE	05/02/2001	09/12/2001	133	1,170.00
I004975568	CLINGENPEEL MCBRAYER & ASSOCIATES INC	07/13/2001	11/15/2001	125	1,108.20
I005241384	CLINGENPEEL MCBRAYER & ASSOCIATES INC	09/20/2001	03/11/2002	172	<u>1,001.70</u>
<b>TOTAL</b>					<b><u>\$12,268.29</u></b>

Chapter 5A, Article 3, Section 54 of the West Virginia Code, as amended, states in part:

“ . . .(b)(1) Except as provided in subdivision (2) of this subsection, for purchases of services or commodities made on or after the first day of July, one thousand nine hundred ninety-one, a state check shall be issued in payment thereof within sixty days after a legitimate uncontested invoice is received by the state agency receiving the services or commodities. Any state check issued after such sixty days shall include interest at the current rate, as determined by the state tax commissioner under the provisions of section seventeen-a [§ 11-10-17a], article ten, chapter eleven of this code, which interest shall be calculated from the sixty-first day after such invoice was received by

the state agency until the date on which the state check is mailed to the vendor.”

We were unable to determine why the invoices were not paid within 60 days as required by law; nonetheless, the agency could be liable for interest related to these late payments.

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

**Agency’s Response**

*To comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code, the Division has developed an invoice tracking system. A checklist is attached to each invoice and any payment problem will be noted on the checklist. Management will also view a quarterly report which will show invoice receipt date and invoice payment date. Any payment in excess of 60 days will be investigated.*

**Payments From Wrong Funds**

We examined eighteen hot lunch program expenditures to determine if they were charged to the proper fund. Our examination revealed the Division charged six expenditures totaling \$83,785.52 to the Hot Lunch Program Fund - Fund 8658 although these expenditures should have been paid from other funds. The expenditures were as follows:

<b><u>FIMS Document ID</u></b>	<b><u>Vendor’s Name</u></b>	<b><u>FIMS Date</u></b>	<b><u>Amount Paid</u></b>
I005918024	WV STATE REHABILITATION COUNCIL INC	06/12/2003	\$40,000.00
I005095371	CANAAN VALLEY RESORTS INC	11/26/2001	34,155.52
I005148206	MCCOY HOME IMPROVEMENT	12/21/2001	3,000.00
I005005644	WV NURSING ASSISTANT EDUC INST	09/12/2001	2,730.00
I005005653	WV NURSING ASSISTANT EDUC INST	09/12/2001	2,730.00
I005005659	WV NURSING ASSISTANT EDUC INST	09/12/2001	<u>1,170.00</u>
	<b>TOTAL</b>		<b><u>\$83,785.52</u></b>

The West Virginia State Rehabilitation Council, Inc. expenditure related to a \$40,000.00 grant payment. The grant should have been funded from the Consolidated Federal Funds General Administrative Fund - Fund 8734 through the Division's "Federal Basic Support Grant." The Division paid \$34,155.52 to Canaan Valley Resorts, Inc. for the State Rehabilitation Conference, paid the West Virginia Nursing Assistant Education Institute \$6,630.00 for providing a state certified instructor for the Nursing Assistant and the Home Health Aid programs, and paid \$3,000.00 to McCoy Home Improvement for an agency client's bathroom renovation. We also found the actual amount paid to McCoy Home Improvement was \$4,749.00. The remaining \$1,749.00 was charged to the Rehabilitation Student Union Fund - Fund 8656. We noted \$45,534.52 paid to outside vendors should have been charged to either the Consolidated Federal Funds General Administrative Fund - Fund 8734, the Rehabilitation Center Special Account Fund - Fund 8664, or the General Administrative Account Fund - Fund 0310.

Our examination of subsequent events revealed four expenditures totaling \$19,000.00 that should have been paid from other funds were also charged to the Hot Lunch Program Fund - Fund 8658. The expenditures were as follows:

<u>FIMS Document ID</u>	<u>Vendor's Name</u>	<u>FIMS Date</u>	<u>Amount Paid</u>
I006005322	National Federation of the Blind	08/08/2003	5,000.00
I006005342	National Federation of the Blind	08/08/2003	5,000.00
I006005347	National Federation of the Blind	08/08/2003	5,000.00
I006051860	Statewide Independent Living Council	09/10/2003	<u>4,000.00</u>
<b>TOTAL</b>			<b><u>\$19,000.00</u></b>

The National Federation of the Blind and the Statewide Independent Living Council expenditures related to grant payments. The grants should have been funded from the Consolidated Federal Funds General Administrative Fund - Fund 8734 through the Division's "Federal Basic Support Grant."

Section G-6 of the West Virginia Department of Education's Office of Child Nutrition Policies of Operation Manual for Residential Child Care Instructions, states in part:

"USDA regulations require that the RCCI (resident child care institution) maintain effective control over, and accountability for, all funds, property and other child nutrition programs' assets to assure that they are safeguarded and used solely for authorized purposes...."

West Virginia Code Chapter 12, Article 3, Section 9 states in part:

"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."

According to the Fiscal Services Senior Manager, the majority of the cafeteria's operational costs (including hot lunch program operational costs) are paid from the Federal General Administrative Fund - Fund 8734. Instead of allocating specific program costs back to the Hot Lunch Program Fund - Fund 8658, the expenditures relating to other funds were charged to the program fund. We were unable to determine why the case services payment was charged to the wrong fund. According to our documented procedures, Student Union Fund - Fund 8656 revenues are generally utilized to maintain the recreational facilities and pay for Recreation employee travel. Nonetheless, expenditures totaling \$102,785.52 were improperly charged to the Hot Lunch Program Fund - Fund 8658 and expenditures totaling \$1,749.00 were improperly charged to the Rehabilitation

Student Union Fund - Fund 8656. As a result, these monies were not available to defray the operating expenses of the hot lunch program or the student union.

We recommend the agency comply with Section G-6 of West Virginia Department of Education's Office of Child Nutrition Policies of Operation Manual for Residential Child Care Instructions and Chapter 12, Article 3, Section 9 of the West Virginia Code.

**Agency's Response**

*We are educating our accounting staff on what payments can be made from a fund. During the prepayment audit, if the accounting technician thinks that the wrong fund is being used, he/she will forward the transaction to the supervisor for guidance. Also, before the transaction is approved to the auditor's office, the approver will review all supporting documentation to ensure that the proper accounting classification is assigned.*

*We also will have an internal audit committee who will review transactions for accuracy.*

*These steps should ensure that we comply with Section G-6 of the West Virginia Department of Education's Office of Child Nutrition Policies of Operation Manual for Residential Child Care Instructions and Chapter 12, Article 3, Section 9, of the West Virginia Code.*

**Payment of Employee Benefits from an Account**

**With No Expenditure Schedule**

We noted the agency did not prepare an expenditure schedule for a Hot Lunch Program Fund - Fund 8658, but paid employee benefits totaling \$10,000.00 from the fund during the 2003 fiscal year.

Title I, "General Provisions" of the State's Budget Bill (Senate Bill Number 100) for the 2003 fiscal year, which authorized spending of public money out of the treasury states in part:

" . . . If there is no appropriation for "employee benefits," such costs shall be paid by each spending unit from its "personal services" line item, its "unclassified" line item or other appropriate line item. . . . the secretary of each department and the director, commissioner, executive secretary, superintendent, chairman or any other agency head not governed by a departmental secretary as established by chapter five-f of the code shall have the authority to transfer funds appropriated to "personal services" and "employee benefits" to other lines within the same account and no funds from other lines shall be transferred to the "personal services" line. . . ."

The Expenditure Schedule Instructions of the State Budget Office in reference to Transfer Intra-Agency Fund (Form ES-6), as amended, state in part:

" . . . This form can only be used to 1.) transfer Personal Services and Employee Benefits to other lines of appropriations within the same WVFIMS account, or 2.) transfer Personal Services or Unclassified to Employee Benefits. **Funds may not be transferred to Personal Services. . . .**" (Emphasis Added).

Chapter 5A, Article 2, Section 12 of the West Virginia Code, states in part:

"Prior to the beginning of each fiscal year, the spending officer of a spending unit shall submit to the secretary detailed expenditure schedule for the ensuing fiscal year. The schedule shall be submitted in such form and at such time as the secretary may require.

The schedule shall show:

(1) A proposed monthly rate of expenditure for amounts appropriated for personal services;

(2) Each and every position budgeted under personal services for the next ensuing fiscal year, with the monthly salary or compensation of each such position; . . ."

The agency had only filed expenditure schedule for Employee Benefits to be paid from the following appropriated funds: the General Administrative Fund - Fund 0310; and the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal fund). Because the Division did not use authorized funding sources to process its employee benefits transactions, monies that were reserved for these expenditures in the agency's Federal fund may have been used for purposes other than those intended.

We recommend the agency comply with the General Provisions of the State Budget Bill of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code.

#### Agency's Response

*The Division was unaware of this provision when this transaction was completed. When we learned about this provision, we stopped paying employee benefits from an account with no expenditure schedule. All payments of employee benefits must be approved by the Director.*

#### Late Deposits

The agency did not deposit 88 cafeteria receipts totaling \$9,479.23 and five Rehabilitation Student Union Fund - Fund 8656 receipts totaling \$2,650.00 within 24 hours of receipt. We found the Division's cashier holds cafeteria collections in her office safe and only deposits the collections once a week. The Rehabilitation Student Union receipts were deposited from four to six days after the agency had received them.

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

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state

board of investments all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . ."

We believe the above instances of late deposits indicate the Division has not established an accounting routine for cash receipts that will ensure deposits are made timely. The agency's cashier stated it was more efficient to hold the daily receipts and deposit them on a weekly basis due to the low volume of cash receipt business the cafeteria conducted on a daily basis. We were unable to adequately determine why the Rehabilitation Student Union receipts were not deposited within 24 hours. By not making timely deposits, the State has lost an indeterminable amount of interest.

We recommend the Division comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

**Agency's Response**

*Beginning with the week of July 19, 2004, we will make daily deposits of cafeteria receipts as required by the Code. We will also ensure that other deposits are made within 24 hours of receipt by requiring that money received today be deposited tomorrow. The check stubs will be date stamped, and during our monthly reconciliation, we will check to see that the checks were deposited within 24 hours.*

**Underpayment to Outside Vendors**

We noted two Case Services Program vendors were underpaid a net total of \$53.83 during the 2003 fiscal year. Our review of the Division's accounting records found Stars of Appalachia, a Supported Employment Program vendor, was underpaid \$33.83 for client services. According to the supporting documentation attached to the vendor invoice, the vendor should have been paid \$889.58 (25.42 hours at \$35.00 per hour). The vendor was only paid \$855.75 for 24.45 hours. We also found Fairmont State College was underpaid \$20.00 in tuition and fees for a

Division client. The college was paid \$1,533.00 although the attached documentation reflected that \$1,553.00 was to be paid.

Chapter 5A, Article 3, Section 54 of the West Virginia Code, as amended, states in part:

“(b)(1) Except as provided in subdivision (2) of this subsection, for purchases of services or commodities made on or after the first day of July, one thousand nine hundred ninety-one, a state check shall be issued in payment thereof within sixty days after a legitimate uncontested invoice is received by the state agency receiving the services or commodities. Any state check issued after such sixty days shall include interest at the current rate, as determined by the state tax commissioner under the provisions of section seventeen-a [§ 11-10-17a], article ten, chapter eleven of this code, which interest shall be calculated from the sixty-first day after such invoice was received by the state agency until the date on which the state check is mailed to the vendor.”

According to agency staff the incorrect amounts were processed due to bookkeeping errors. These errors resulted in two outside vendors being underpaid. Although the Senior Fiscal Services Manager stated he would make the appropriate entries into FIMS and pay the vendors accordingly, the Division could still be liable for interest relating the unpaid portion of these uncontested invoices.

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

**Agency's Response**

***To comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code the Fiscal Services section is using a checklist to ensure that the accounting technician matches the cover sheet total to the invoice total. Also, before the transaction is approved for payment to the auditor, the approver will check all supporting documentation to ensure that the transaction is correct.***

## **CASE SERVICES PROGRAM:**

### **Financial Aid and Educational Eligibility**

Some agency clients take college courses as part of their overall rehabilitation plan. According to agency policy, each rehabilitation plan involving higher education requires the client (student) to meet certain academic requirements and apply for any available third-party financial aid benefits. During our audit period, we found the Division made tuition and fee payments for 36 students totaling \$37,312.79; however, the agency was unable to provide us with high school grades or ACT/SAT for four of the 36 students showing the clients were academically qualified to pursue higher education courses. In addition, Division staff could not locate Student Aid Reports indicating that the clients applied for financial aid benefits for 34 of the 36 students. The agency utilizes high school grades and ACT or SAT scores to ascertain if a client has the academic qualifications to pursue a college education. In addition, the Division utilizes "Student Aid Reports" when determining a client's financial aid eligibility. College students applying for financial aid are required to complete a "Financial Aid Form for Student Aid" (FAFSA) each year and submit the form to the U.S. Department of Education for evaluation. In turn, the Department of Education issues a Student Aid Report to the applicant summarizing the financial aid programs in which the student is qualified to participate.

Section 3606.6.B of the agency's Case Service Manual provides for minimum educational requirements and states in part:

**"a. Minimum Requirements.** Sponsorship for a baccalaureate degree program will not be provided unless the individual scores a minimum of 17 on the ACT or 830 on the SAT and has a high school GPA of 2.0. The ACT or SAT will be required for Division sponsorship whether or not these entrance tests are required for admission into the college in which the student plans to enroll."

Furthermore, Section 3606.6.A of the agency's Case Services Manual provides for financial aid requirements and states in part:

**"3.Financial Aid Requirement. No Division Funds may be authorized until all third-party benefits have been explored. Each individual shall apply for federal financial aid and all applicable state and private financial aid on a year-by-year basis. A copy of the Student Aid Report (SAR) and all attachments required by the financial aid office of the educational institution will be required each year for sponsorship by the Division. Failure of the student to provide a copy of the SAR prior to the beginning of the school year will result in withdrawal of the Division's financial support for the first semester."**

Although Case Service counselors are to determine each client's academic qualifications and financial eligibility before obligating Division resources, the agency was unable to provide us with the documentation showing these evaluations were performed. Consequently, tuition and fee payments may have been made for unqualified students or for students who were eligible to receive third party financial aid benefits.

We recommend the Division comply with Sections 3606.6.A and 3606.6.B of its Case Services Manual.

#### **Agency's Response**

***When students began completing the FASFA online, we began having trouble getting copies of the FASFA. In place of the FASFA, we will accept Form 87, which contains the information necessary to comply with the WVDRS case service manual. This information comes from the financial aid office of the college and is reliable.***

***To ensure compliance with the WVDRS case services manual, the case service quality control team will continue to review college cases and report any deviations to management for appropriate action.***

**Certification of Program Eligibility**

During our examination, we found Case Services Program counselors failed to sign “certificates of eligibility” certifying that 22 of the 63 Division clients tested were eligible to participate in the rehabilitation program. Case service payments totaling \$25,771.26 were made to or on behalf of the 22 agency clients during our audit period. These payments are detailed below:

<u>Client</u>	<u>Fiscal Year</u>	<u>Amount</u>
1	2003	\$ 916.00
2	2003	1,363.00
3	2003	850.65
4	2003	1,383.00
5	2003	1,276.00
6	2003	1,612.00
7	2003	602.00
8	2003	<u>512.43</u>
<b>TOTAL</b>	<b>2003</b>	<b><u>\$8,515.08</u></b>

<u>Client</u>	<u>Fiscal Year</u>	<u>Amount</u>
9	2002	\$ 1,462.00
10	2002	1,200.00
11	2002	869.00
12	2002	2,500.00
13	2002	679.00
14	2002	424.00
15	2002	241.55
16	2002	1,362.00

<u>Client</u>	<u>Fiscal Year</u>	<u>Amount</u>
17	2002	807.00
18	2002	1,474.00
19	2002	439.00
20	2002	2,390.00
21	2002	878.00
22	2002	<u>2,530.63</u>
<b>TOTAL</b>	<b>2002</b>	<b><u>\$17,256.18</u></b>

According to the Division of Rehabilitation’s Case Services Manual, counselors are to complete and sign the certificate of eligibility for all individuals seeking to participate in the Case Services Program. In many cases, the program counselors are the only persons making these eligibility determinations. Prior to October 2001, counselors were required to obtain medical / professional certifications for all disabilities claimed by their clients. Beginning October 2001, in an effort to reduce costs, and to expedite services, the agency allowed their counselors to use “professional judgment” in determining if a medical certification was required to support a disability claim. Under the new policy, counselors may qualify clients having an “observable” disability without obtaining additional certifications.

Section 2501.8 of the Division’s Case Services Manual states,

**“Certification of Eligibility.** When an individual has been determined eligible for rehabilitation services, a *Certificate of Eligibility* shall be completed, dated, and signed by the Rehabilitation Counselor.”

When we asked why the certificate of eligibility was not signed by the various counselors, the Rehabilitation Program Specialist stated that in order to integrate the certificates of

eligibility into the Internet Electronic Case Management System, the counselor's typed name had to be used on the certificates. Although the Case Services Manual was revised during January 2003 to utilize the "typed name," the Division was not requiring its staff to follow its own manual prior to the revision.

We recommend the agency comply with Section 2501.8 of the Case Services Manual.

**Agency's Response**

*Our electronic case management system will not allow a counselor to proceed with a case until the certificate of eligibility is completed. Therefore, we are confident that the certificate of eligibility was completed but was not printed and placed into the client's file.*

**ADMINISTRATIVE:**

**Improperly Authorizing Expenditure of Funds**

Our audit revealed a number of payments were made without being properly authorized. These instances are detailed below under individual headings:

**a. \$54,000 Case Services Program Payment**

During the 2002 fiscal year, the Division of Rehabilitation paid Cook and Reeves Superior Conversions \$54,000.00 to have a passenger van modified and automated for a disabled agency client; however, our examination revealed the Case Services Program expenditure was not properly authorized. Medical and adaption equipment purchases exceeding \$1,000.00 are to be processed on a "Case Services Requisition" - Form WVDRS17. This authorization form requires the approval of the agency's Purchasing Division. Nonetheless, the purchase request was processed on a "Division of Rehabilitation Services Authorization" - Form WVDRS16. Equipment purchases up to \$1,000.00 can be processed on this form and are not required to be approved by the agency's Purchasing Division.

Sections 9301 of the Case Services Manual "Fee Schedule" addresses the issue of

"Durable Medical/Adaptation Services" with:

**"General.** Durable medical and adaption equipment may be purchased utilizing WVDRS-16, *Authorization*, if the total amount of items to be purchased does not exceed \$1,000.00. This maximum applies to either single or multiple items authorized to a vendor. If the total exceeds \$1,000.00, the item(s) are to be submitted to the Procurement Office via a WVDRS-17, *Case Services Requisition*."

Although the expenditure was approved by the Field Services Senior Manager, we were unable to determine why the equipment purchase requisition was not processed through the agency's Purchasing Division. Since Purchasing Division approval was not obtained, we do not know if the equipment purchase would have been authorized or if the purchase was made at the lowest possible cost.

We recommend the agency comply with Section 9301 of their own Case Services Manual.

**b. Lease of Temporary Space Authorized After The Fact**

The West Virginia Division of Rehabilitation Services (the Division) did not obtain authorization from the Leasing Section of the Department of Administration's Purchasing Division or from its own staff within the Division's Procurement Unit prior to having an employee conference in August 2001 at Canaan Valley Resorts Inc., for which the Division was invoiced and paid \$34,155.52 from the Hot Lunch Program Fund - Fund 8658. We noted the Division entered into a contract with Canaan Valley Resorts Inc., on May 7, 2001 for the use of its facilities/services during the period August 27 - 30, 2001. While reviewing the \$34,155.52 vendor invoice, we found that both the Division's internal purchase requisition and a Department of Administration "Request For

Temporary Space” form (form WV-15) showed an approval date of November 1, 2001, which is two months after the Division had already held the conference.

Legislative Rule Title 148, Series 2, Section 9 of the Department of Administration’s Purchasing Division, Leasing Section, states in part:

“The Secretary of Administration may authorize spending units to lease temporary space, other than office space, including conference meeting rooms . . . If an agreement or contract must be executed to obtain the space, the agreement or contract must be approved by the Leasing Officer. **The spending unit shall utilize the form made available by the Leasing Officer to process payment.**” (*Emphasis Added*).

The “Request For Temporary Space” form (Form WV-15) utilized by the Leasing Section of the Department of Administration’s Purchasing Division, as amended, states:

“INSTRUCTIONS: If the answer is “yes” to any of the questions listed below, this form must be submitted at least one month prior to the requested date of use . . .”

Division staff had marked “yes” for two questions on the “Request For Temporary Space” form. The questions were worded as follows:

“. . . 3) Will the total rental amount exceed \$2,000.00 for the event or use during the fiscal year? 4) Is there any kind of rental agreement, contract, etc. to be signed by the agency? . . .”

In regards to the Division’s internal purchase requisition being approved after the conference had already taken place, we believe the Division’s system of internal controls did not function in a manner that would prevent its employees from making unauthorized payments and deter possible overspending of internal budgets. In addition, we believe it is possible the Division’s procurement-unit staff would have recognized the need for obtaining the Department of Administration’s approval prior to the conference had the internal requisition been provided to them before the conference.

The Senior Fiscal Services Manager stated that when accounts-payable staff reviewed the vendor invoice and other supporting documentation, they realized that neither the agency's internal purchase requisition nor the Department of Administration's "Request For Temporary Space" form had been prepared and/or approved. Consequently, approval was obtained after the fact from the Department of Administration in order to process the vendor invoice through the State Auditor's Office and the agency requisition was also approved in order to encumber funds in the agency's internal budget. Had the Department of Administration refused to approve the Division's temporary use of Canaan Valley Resorts, Inc., the Senior Fiscal Services Manager stated the State Auditor's Office would have probably refused to pay the vendor invoice thus requiring the vendor to seek payment through the Court of Claims.

We recommend the Division comply with Legislative Rule Title 148, Series 2, Section 9 of the Department of Administration Purchasing Division's Leasing Section.

**c. Purchasing Card Purchases**

We noticed log sheets, supporting a \$1,118.54 purchasing card payment from the Hot Lunch Program Fund - Fund 8658, were incomplete and not signed by the cardholder or the Division's purchasing card coordinator. Log sheets supporting September 2002 purchasing card purchases were not completely reconciled by the cardholder. Specifically, we noted the log sheets on file did not contain signatures of the cardholder, the Peard Coordinator or the billing cycle that was being reconciled. Furthermore, there were blank spaces in the "Reconciled, Disputed, and Carryover" column for some of the purchases that had been recorded on the log sheets.

Section 7.2 of the State Auditor's Office Policies and Procedures Manual for the State Purchasing Card Program, as amended, states in part:

“Log Sheets: Each cardholder is required to maintain a log sheet (see Appendix 9) containing the date, vendor name, and an item description, as well as the appropriate object code for each expenditure.

Log sheets can be computerized or manual and must be signed by both the cardholder and the agency coordinator to indicate that all entries have been reconciled and are legitimate. . . .”

We were unable to determine why the cardholder had not signed the log sheets because she is no longer employed by the Division. The Senior Fiscal Services Manager stated that during this period of time he was designated as the Division’s temporary Pcard coordinator that he did not review the individual cardholder log sheets. Instead, he reviewed the Pcard transactions in the WVFIMS Small Transaction Accounting and Reporting System (STARS) module for every cardholder before he would approve any master statement for payment. Since the log sheets were incomplete in some respects and they were unsigned by the cardholder and the Division’s coordinator, we were unable to determine: 1) whether the Pcard statement was reconciled to the cardholder’s log sheets; 2) the name of the individual who had performed the partial reconciliation; or 3) whether the Division’s Pcard coordinator had reviewed the log sheets prior to approving the payment of the master statement.

We recommend the Division comply with Section 7.2 of the State Auditor’s Office Policies and Procedures Manual for the State Purchasing Card Program.

**Agency’s Response**

**a. \$54,000 Case Service Program Payment**

***We are currently working in conjunction with IS&C to develop a new case service system. This system will follow our business rules and will not allow a purchase greater than***

*\$1,000 to be placed on a WVDRS case service requisition 16. .It will have to be on a WVDRS case service requisition 17 or the authorization will no be issued. This system should be finished by January 2005.*

*Until the new system is available, we will emphasize that any case service purchase greater than \$1,000 must be on a 17 and processed through our procurement department. Any deviations will be reported to management.*

*b. Lease of Temporary Space Authorized After the Fact*

*We will remind all staff that no purchase can be made without an approved requisition. Any deviations will be reported to management for appropriate action.*

*c. Purchasing Card Purchases*

*The pcard coordinator has met with each cardholder and reviewed the rules and regulations pertaining to the pcard. We are presently following all pcard rules and regulations.*

*During August 2003, the Auditor's office reviewed our pcard program and found us to be in good standing. We will continue to periodically examine our pcard records to ensure compliance.*

**Missing and/or Inadequate Documentation**

During the course of our audit, we noted several instances of missing and/or inadequate documentation. These instances are detailed below under individual headings.

**a. Documentation Supporting Federal**

**Hot Lunch Program Reimbursements**

The Division of Rehabilitation Services could not provide us with certain documentation supporting Federal School Breakfast/School Lunch Program (hot lunch program)

reimbursements totaling \$37,094.57. In addition, the Division was unable to provide us with documentation showing two students claimed on other meal time report checklists were actually agency clients.

The Division's cafeteria staff submit claim forms to the West Virginia Department of Education's Child Nutrition Office in order to receive meal reimbursements for breakfasts and lunches that it serves to students eligible to participate in the hot lunch program. To document the students participating in the program, the Division maintains a master list of program eligible students (meal time report checklist). These lists are used to track the number of meals that are claimed for program reimbursement. The agency was unable to locate the meal time report checklist for April, May, June, and December 2002 and April, May, and June 2003. Section B-7 of the Policies of Operation Manual (Policies Manual) for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education's Office of Child Nutrition states in part:

- “ . . . Reimbursement for only one breakfast per day may be claimed for a student who is
- enrolled in the educational program of the RCCI;
  - in attendance at the time of meal service; and
  - claimed by eligibility category established by currently and updated master list . . . .”

Similarly, Section C-14 of the Policies Manual states in part:

- “ . . . Only one lunch per day may be claimed for a resident who is:
- enrolled at the RCCI;
  - in attendance at the time of meal service; and
  - claimed by eligibility category established by a current and up dated master list . . . .”

Administrative responsibilities at the RCCI level is defined in Section A - 11 of the Policies Manual, which states in part:

**“ . . . Records And Reports . . . maintain all records pertaining to child nutrition programs (including applications for free and reduced price meals, participation records, invoices, bills, financial reports, equipment inventories and production records) for three years plus the current year of operation . . .” (Emphasis Added).**

According to agency staff, the April, May, and June 2003 checklists were shredded because the meal count information was transferred to the “daily record of program operations” and the staff did not believe the checklists were needed anymore; however, only the number of meals served is included on the daily records. The names of the individuals served is not reflected on those records. The staff could not locate the other missing meal time report checklists. Since the Division could not provide us with the meal time report checklists for the seven months in question, we were unable to determine if any of these meals had been provided to individuals meeting program guidelines. Regarding the two individuals included on the checklists for which the Division was unable to show us any record of these individuals ever being agency clients, we were unable to determine if these individuals existed or if they met program guidelines. We recommend the agency comply with Sections B-7 and A-11 of the Policies of Operation Manual (Policies Manual) for Residential Child Care Institutions (RCCI) issued by the West Virginia Department of Education’s Office of Child Nutrition by further developing its accounting system and maintaining adequate accounting records to adequately support the financial activity of the agency.

**b. Cafeteria Cash Collections**

The agency could not provide us with 37 of 106 cash register tapes supporting \$1,582.75 in cafeteria cash collections and a “daily cash report” supporting the March 17, 2003

cafeteria sales of \$129.00. The report shows the total daily cash collections, the total sales per the cash register tape, and the amount of any overage or shortage.

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

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state board of investments all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . .”

Agency personnel stated they were unable to locate the documentation. Consequently, we were unable to determine if cafeteria cash sales were recorded correctly.

We recommend the Division comply with Chapter 12 Article 2, Section 2 of the West Virginia Code.

**Agency's Response**

a. **Hot Lunch Program Reimbursements**

*The managers responsible for the hot lunch program will be informed of the documentation requirements. The Fiscal Services section will do periodic checks to ensure that the documentation is kept.*

b. **Cafeteria Cash Collections.**

*The managers responsible for the hot lunch program will be informed of the documentation requirements. The Fiscal Services section will do periodic checks to ensure that the documentation is kept.*

**Purchasing Procedures**

During the 2003 fiscal year, the Division of Rehabilitation Services purchased an automatic chlorination system for its pool costing \$5,163.75. The purchase was properly charged

to the Rehabilitation Student Union Fund - Fund 8656, but the agency received two written bids and a “no bid” instead of obtaining three written bids as required for purchases exceeding \$5,000.00.

Section 6.1.3. of the Department of Administration Purchasing Division’s *Agency Purchasing Manual*, as amended, states in part:

“\$5,001 to \$10,000: A minimum of three (3) *written* bids shall be obtained. A Request for Quotations form, WV-43, or TEAM-Generated RFP/RFQ (See Appendix A) should be used for documenting and making these requests. . . . A “no bid” is *not* considered a bid. . . .” (*Emphasis Added*).

According to the Recreation Director, only a few vendors carried the make and model of the automatic chlorination system needed for the agency’s pool. Nonetheless, the Division may not have received the most competitive price.

We recommend the Division comply with Section 6.1.3. of the Department of Administration–Purchasing Division’s *Agency Purchasing Manual*, as amended.

#### *Agency’s Response*

*We checked with State Purchasing to see what to do about a situation when you can only get two written bids since the regulations require three and a no bid is not considered a bid. We were told that in this situation the best you can do is to document that there are no other bids available and award to the lowest bidder.*

*We will do our best to secure three written bids when a purchase is between \$5,000 and \$10,000, but, if only two vendors will bid, we will document this and award the bid to the lowest bidder.*

**SALES TAX CLEARING FUND:**

**Controls Over Sales Tax Collections and Remittances**

Our examination of the Sales Tax Clearing Fund - Fund 8653 revealed that the Division of Rehabilitation Services (the Division) does not have controls in place to determine if the correct amount of sales tax was collected by its various departments and units. We also noted the agency does not reconcile the actual sales tax collections to the amount of sales tax that should have been collected and remitted to the State Tax Department. In some instances, we found the Division remitted an amount greater than the amount collected and, in other instances, the Division remitted less than the amount collected. As a result, the Division transferred \$201.88 more to the State Tax Department during our audit period than was actually collected. During the 2002 fiscal year, the Division collected \$3,700.07 in sales tax and remitted \$3,751.60. Based on the 2003 fiscal year collections, the Division should have transferred \$3,526.11 to the State Tax Department; however, according to agency records \$3,676.46 was remitted.

Cash receipts including sales tax are collected by the agency's various departments and units and forwarded to the Division's cashier for deposit. Fiscal Services staff calculate the sales tax to be remitted to the State Tax Department based on monthly revenue totals provided by the cashier. Neither the Fiscal Services staff nor the cashier ensures the correct sales tax was collected by the agency's departments and units. In addition, the Fiscal Services staff do not reconcile the sales tax actually collected to the amount remitted each month. As a result of these disparities over the years, the Sales Tax Clearing Fund - Fund 8653 had an unencumbered June 30, 2003 fund balance of \$542.26.

Title 110, Series 15, Section 4.6.2.1. of the Department of Tax and Revenues

Legislative Rule states in part,

“The method for determining the amount of consumers sales and service tax to be collected is to divide the total amount received by 1.06 and multiply that amount by .06 with the resulting amount rounded to the next higher cent being the amount collected on the sale....”

Further, Title 110, Series 15, Section 5.1 of the Department of Tax and Revenues Legislative Rule states,

“No profit shall accrue to any person as a result of the collection of the consumers sales and service tax regardless of the fact that the total amount of such taxes collected may be in excess of the amount for which such person would be liable by the application of the levy of six percent (6%) to the gross proceeds of his sales. The total of all consumers sales and service taxes collected by any such person shall be returned and remitted to the Tax Commissioner.”

We were unable to determine if the correct amount of sales tax was collected and remitted to the State Tax Department as required.

We recommend Rehabilitation Services comply with Title 110, Series 15, Section 4.6.2.1 and Section 5.1 of the Department of Tax and Revenues Legislative Rule and transfer the Sales Tax Clearing Fund - Fund 8653 unencumbered June 30, 2003 fund balance of \$542.26 to the Department of Tax and Revenue.

**Agency's Response**

***Beginning with the month of July 2004, the Fiscal Services section will ensure that the correct sales tax is collected by calculating the sales tax as recommended in Title 110, Series 15, Section 4.6.2.1 of the Department of Tax and Revenue's Legislative rule. We will also reconcile the sales tax collected to the amount remitted each month.***

***We will also transfer the \$542.26 to the Department of Tax and Revenue as recommended.***

## INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of appropriations/cash receipts, expenditures/disbursements and changes of fund balance of the West Virginia Division of Rehabilitation Services for the years ended June 30, 2003 and June 30, 2002. The financial statement is the responsibility of the management of West Virginia Division of Rehabilitation Services. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statement was prepared on the cash and modified cash basis of accounting, which are comprehensive bases of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid of West Virginia Division of Rehabilitation Services for the years ended June 30, 2003 and June 30, 2002, on the bases of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Respectfully submitted,

  
Theford L. Shanklin, CPA, Director  
Legislative Post Audit Division

April 22, 2004

Auditors: Michael A. House, CPA, Supervisor  
Timothy C. Butler, CPA, Auditor-in-Charge  
Noah E. Cochran, CPA  
Thomas F. Ward, CPA  
Brandy L. McNabb  
Sheela K. Francis

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES  
STATEMENT OF APPROPRIATIONS/CASH RECEIPTS,  
EXPENDITURES/DISBURSEMENTS AND CHANGES IN FUND BALANCE**

	<u>Year Ended June 30, 2003</u>		
	<u>General Revenue</u>	<u>Special Revenue</u>	<u>Combined Totals</u>
<b>Appropriations/Cash Receipts:</b>			
Appropriations	\$0.00	\$ 0.00	\$ 0.00
Supplemental Appropriations	0.00	0.00	0.00
Student Union	0.00	13,217.34	13,217.34
Bookstore Sales - Colleges and Universities	0.00	0.00	0.00
Timberland and Woodland Fees	0.00	0.00	0.00
Hospital Patient Care Collections	0.00	0.00	0.00
Other Collections, Fees, Licenses and Income	0.00	54,633.55	54,633.55
Inter-agency Federal Payments	0.00	9,290.74	9,290.74
Other Taxes	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	0.00	77,141.63	77,141.63
<b>Expenditures/Disbursements:</b>			
Personal Services	0.00	0.00	0.00
Employee Benefits	0.00	10,000.00	10,000.00
Current Expenses	0.00	89,591.63	89,591.63
Repairs and Alterations	0.00	3,473.00	3,473.00
Assets	0.00	5,631.73	5,631.73
Payment of Taxes	0.00	3,566.49	3,566.49
Grants, Awards, Scholarships, and Loans	0.00	0.00	0.00
Case Services	0.00	0.00	0.00
Other Interest and Penalties	0.00	0.00	0.00
Public Employees' Insurance Reserve Transfer	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	<u>0.00</u>	<u>112,262.85</u>	<u>112,262.85</u>
<b>Appropriations/Cash Receipts Over/(Under)</b>			
Expenditures/Disbursements	0.00	(35,121.22)	(35,121.22)
Expirations and Expenditures after June 30	0.00	0.00	0.00
Beginning Balance	<u>0.00</u>	<u>72,727.57</u>	<u>72,727.57</u>
Ending Balance	<u>\$0.00</u>	<u>\$ 37,606.35</u>	<u>\$ 37,606.35</u>

*See Notes to Financial Statement*

<u>Year Ended June 30, 2002</u>			<u>Year Ended June 30, 2001</u>		
<u>General Revenue</u>	<u>Special Revenue</u>	<u>Combined Totals</u>	<u>General Revenue</u>	<u>Special Revenue</u>	<u>Combined Totals</u>
\$2,220,603.00	\$ 0.00	\$2,220,603.00	\$2,499,267.00	\$ 0.00	\$2,499,267.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	9,924.34	9,924.34	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	6,578.11	6,578.11	0.00	7,234.72	7,234.72
0.00	54,923.47	54,923.47	0.00	53,126.47	53,126.47
0.00	74.42	74.42	0.00	0.00	0.00
<u>2,220,603.00</u>	<u>71,500.34</u>	<u>2,292,103.34</u>	<u>2,499,267.00</u>	<u>60,361.19</u>	<u>2,559,628.19</u>
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
69,444.06	87,160.64	156,604.70	97,412.49	80,847.68	178,260.17
0.00	0.00	0.00	0.00	0.00	0.00
0.00	3,081.39	3,081.39	0.00	284.94	284.94
0.00	3,681.02	3,681.02	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
2,150,733.24	6,019.96	2,156,753.20	2,131,572.46	9,348.00	2,140,920.46
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
<u>2,220,177.30</u>	<u>99,943.01</u>	<u>2,320,120.31</u>	<u>2,228,984.95</u>	<u>90,480.62</u>	<u>2,319,465.57</u>
425.70	(28,442.67)	(28,016.97)	270,282.05	(30,119.43)	240,162.62
(425.70)	0.00	(425.70)	(270,282.05)	3,037.93	(267,244.12)
0.00	101,170.24	101,170.24	0.00	128,251.74	128,251.74
<u>\$ 0.00</u>	<u>\$ 72,727.57</u>	<u>\$ 72,727.57</u>	<u>\$ 0.00</u>	<u>\$101,170.24</u>	<u>\$ 101,170.24</u>

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**NOTES TO FINANCIAL STATEMENT**

**Note A - Accounting Policy**

Accounting Method: The modified cash basis of accounting is followed for the General Revenue Fund. The major modification from the cash basis is that a 31-day carry-over period is provided at the end of each fiscal year for the payment of obligations incurred in that year. All balances of the General Revenue Fund appropriations for each fiscal year expire on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except that expenditures encumbered prior to the end of the fiscal year may be paid up to 31 days after the fiscal year-end; however, appropriations for buildings and land remain in effect until three years after the passage of the act by which such appropriations were made. The cash basis of accounting is followed by all other funds. Therefore, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Expenditures paid after June 30, in the carry-over period and expirations were as follows:

	<u>Expenditures</u>		<u>Expirations</u>	
	<u>Paid After June 30,</u>		<u>July 31,</u>	<u>July 31,</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General Administrative Fund:				
Case Services	\$ 0.00	\$425.70	\$ 0.00	\$ 0.00

**SUPPLEMENTAL INFORMATION**

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**STATEMENT OF APPROPRIATIONS AND EXPENDITURES**

**GENERAL REVENUE**

	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
<u>Case Services Fund 0310-162</u>		
Appropriations	\$0.00	\$2,220,603.00
Expenditures:		
Current Expenses	0.00	69,444.06
Case Services	<u>0.00</u>	<u>2,151,158.94</u>
	<u>0.00</u>	<u>2,220,603.00</u>
	0.00	0.00
Transmittals Paid After June 30	<u>0.00</u>	<u>425.70</u>
Balance	<u>\$0.00</u>	<u>\$ 425.70</u>

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND**

**CHANGES IN FUND BALANCE**

**SPECIAL REVENUE**

	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
<b><u>Consumer Sales Tax Clearing Fund - Fund 8653-640</u></b>		
Cash Receipts:		
Student Union	\$ 0.00	\$ 0.00
Bookstore Sales - Colleges and Universities	0.00	0.00
Timberland and Woodland Fees	0.00	0.00
Hospital Patient Care Collections	0.00	0.00
Other Collections, Fees, Licenses and Income	3,526.11	3,625.65
Inter-agency Federal Payments	0.00	0.00
Other Taxes	<u>0.00</u>	<u>74.42</u>
	3,526.11	3,700.07
Expenditures/Disbursements:		
Personal Services	0.00	0.00
Employee Benefits	0.00	0.00
Current Expenses	0.00	0.00
Repairs and Alterations	0.00	0.00
Assets	0.00	0.00
Payment of Taxes	3,566.49	3,681.02
Grants, Awards, Scholarships, and Loans	0.00	0.00
Case Services	0.00	0.00
Other Interest and Penalties	0.00	0.00
Public Employees' Insurance Reserve Transfer	<u>0.00</u>	<u>0.00</u>
	3,566.49	3,681.02
Cash Receipts (Under)/Over Disbursements	(40.38)	19.05
Beginning Balance	<u>844.01</u>	<u>824.96</u>
Ending Balance	<u>\$ 803.63</u>	<u>\$ 844.01</u>

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND**

**CHANGES IN FUND BALANCE**

**SPECIAL REVENUE**

	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
<b><u>Rehabilitation Student Union Fund - Fund 8656-640</u></b>		
Cash Receipts:		
Student Union	\$13,217.34	\$ 9,924.34
Bookstore Sales - Colleges and Universities	0.00	0.00
Timberland and Woodland Fees	0.00	0.00
Hospital Patient Care Collections	0.00	0.00
Other Collections, Fees, Licenses and Income	0.00	2,952.46
Inter-agency Federal Payments	0.00	0.00
Other Taxes	<u>0.00</u>	<u>0.00</u>
	13,217.34	12,876.80
Expenditures/Disbursements:		
Personal Services	0.00	0.00
Employee Benefits	0.00	0.00
Current Expenses	6,159.39	1,773.05
Repairs and Alterations	3,473.00	0.00
Assets	0.00	3,081.39
Payment of Taxes	0.00	0.00
Grants, Awards, Scholarships, and Loans	0.00	0.00
Case Services	0.00	1,749.00
Other Interest and Penalties	0.00	0.00
Public Employees' Insurance Reserve Transfer	<u>0.00</u>	<u>0.00</u>
	<u>9,632.39</u>	<u>6,603.44</u>
Cash Receipts Over Disbursements	3,584.95	6,273.36
Beginning Balance	<u>8,910.99</u>	<u>2,637.63</u>
Ending Balance	<u>\$12,495.94</u>	<u>\$ 8,910.99</u>

**WEST VIRGINIA DIVISION OF REHABILITATION SERVICES**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND**

**CHANGES IN FUND BALANCE**

**SPECIAL REVENUE**

	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
<b><u>Hot Lunch Program Fund - Fund 8658-640</u></b>		
Cash Receipts:		
Student Union	\$ 0.00	\$ 0.00
Bookstore Sales - Colleges and Universities	0.00	0.00
Timberland and Woodland Fees	0.00	0.00
Hospital Patient Care Collections	0.00	0.00
Other Collections, Fees, Licenses and Income	51,107.44	0.00
Inter-agency Federal Payments	9,290.74	54,923.47
Other Taxes	<u>0.00</u>	<u>0.00</u>
	60,398.18	54,923.47
Expenditures/Disbursements:		
Personal Services	0.00	0.00
Employee Benefits	10,000.00	0.00
Current Expenses	83,432.24	85,387.59
Repairs and Alterations	0.00	0.00
Assets	5,631.73	0.00
Payment of Taxes	0.00	0.00
Grants, Awards, Scholarships, and Loans	0.00	0.00
Case Services	0.00	4,270.96
Other Interest and Penalties	0.00	0.00
Public Employees' Insurance Reserve Transfer	<u>0.00</u>	<u>0.00</u>
	<u>99,063.97</u>	<u>89,658.55</u>
Cash Receipts (Under) Disbursements	(38,665.79)	(34,735.08)
Beginning Balance	<u>62,972.57</u>	<u>97,707.65</u>
Ending Balance	<u>\$24,306.78</u>	<u>\$62,972.57</u>

**STATE OF WEST VIRGINIA**

**OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:**

I, Thedford L. Shanklin, 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 22nd day of August 2004.

  
Thedford L. Shanklin, 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 Governor; Attorney General; State Auditor; and, Director of Finance, Department of Administrations.