

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

Theford L. Shanklin, CPA, Director  
Legislative Post Audit Division  
Building 1, Room W- 329  
1900 Kanawha Blvd. E.



Area Code (304)  
Phone: 347-4880  
Fax: 347-4889

CHARLESTON, WEST VIRGINIA 25305-0844

**Memorandum**

**To:** Members of the Post Audit Subcommittee

**From:** Ms. Stacy Sneed, CPA, Acting Director *SS*  
Legislative Post Audit Division

**Date:** January 7, 2008

**Subject:** Office of the West Virginia Secretary of State (WVSOS) - Equipment Inventory

When conducting the field work of our post audit of the West Virginia Secretary of State's Office for the period July 1, 2003 through June 30, 2006 which was released to the Post Audit Committee on December 4, 2007 -- we found equipment in which no receiving reports were prepared as well as equipment not recorded on inventory. We have, since that time, conducted an in-depth review of equipment purchased during the audit period to ensure purchased equipment had been received and recorded on the West Virginia Fixed Asset Inventory System. The results of our work follow:

**Scope of Work Performed**

**a. Purchases Made with State Funds**

We selected *all* purchases that exceeded \$1,000 made for equipment items during the period under audit. Our population totaled \$445,396.42 which consisted of 99 transactions. Based on our review of the 99 transactions, 36 transactions totaling \$251,817.81 contained "reportable property" and are required to be recorded on the State's inventory system as defined and promulgated by the WV Department of Administration, Purchasing Division, Program Services Section, Inventory Management Surplus Property Disposition, Sections 3.6 and 3.12, which states in part:

**"3.6 Reportable Property:**

The Purchasing Division has established a capitalization figure of \$1,000 and a useful life of one (1) year or more as reportable property. This means that any item which has an original acquisition cost of

\$1,000 or more and useful life of one (1) year or more is required to be entered into the WVFIMS Fixed Asset system...

**3.12 Added Property:**

When an agency acquires new, reportable property/equipment, the item should be entered into the WVFIMS Fixed Asset system and labeled with a numbered identification tag. Agencies are responsible for adding new equipment into the WVFIMS Fixed Asset system as soon as the vendor's invoice has been paid and the FIMS 'I' document number has been established.

We traced the above 36 transactions with multiple equipment valued at approximately \$250,000 to the fixed asset inventory list as well as the actual piece of equipment to ensure compliance with the above statute. The results of our review follow:

1. We found four pieces of equipment costing approximately \$11,000 that were purchased under the Ireland Administration but not recorded on inventory:

	<u>Fund</u>	<u>FY</u>	<u>Amount</u>	<u>Date</u>	<u>Doc Id</u>	<u>St Obj</u>	<u>Vendor Name</u>	<u>Description</u>
1.	1612	2005	\$	4/18/2005	I006834452	058	Capitol	Credenza
2.	1612	2005	1,527.00	4/13/2005	I006836298	054	Pomeroy	Color Printer
3.	1612	2005	1,069.00	6/16/2005	I006936761	170	Ncompass	Desk Top
4.	1612	2005		6/21/2005	E00058681	075	Surplus	Used Vehicle
			<u>\$11,147.35</u>					

The WVSOS has subsequently recorded the equipment on inventory.

We recommend the WVSOS comply with the provisions of WV Department of Administration, Purchasing Division, Program Services Section, Inventory Management, Surplus Property Disposition, Sections 3.6 and 3.12 and report equipment on the fixed asset listing.

***Agency's Response***

***We agree that these four items were inadvertently omitted from the Fixed Assets Systems. However, they were included in our internal inventory with a numbered identification tag assigned. As indicated in the report, we have subsequently recorded the equipment in the Fixed Asset System.***

2. Our test of equipment purchases also revealed the WVSOS inaccurately

reported purchases of books totaling \$65,480.90 as “equipment” instead of “office expenses” or “merchandise for resale”. Of the five misclassified transactions identified by us, we noted three were for books purchased to be given to election candidates and the remaining two transactions were for purchases of books for (1) resale at cost to attorneys and public accountants as well as the general public; and (2) purchased for use by the Secretary of State’s Office and the WV Library Commission. These transactions are detailed below.

<u>Document ID</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Amount</u>
I006060720	WV Campaign Finance Laws & Regulations	2,000	\$ 2.90	\$ 3,542.00
I007109487	WV Election Laws 2005 Ed	3,500	\$13.61	47,458.90
I007234191	WV Campaign Finance Laws & Regulations	2,000 500	\$ 3.14 \$ 0.50	6,530.00
I006087567	WV Corporation Laws Anno Supp	500	\$17.25	3,450.00
I007109495	WV Business & Licensing Laws 05 Ed	300	<u>\$15.00</u>	<u>4,500.00</u>
				<u>\$65,480.90</u>

Chapter 11B, Article 2, Section 12 of the West Virginia Code states in part:

“(a) Prior to the beginning of each fiscal year, the spending officer of a spending unit shall submit to the secretary a 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 Expenditure Schedule Instructions distributed by the State Budget Office include detailed definitions of object codes included under each category of expenditure. According to the State of West Virginia Expenditure Schedule Instructions:

“...Assets are of long-term character and are intended to be held or used, such as land, buildings, machinery, furniture, roads, bridges and other equipment. These items shall have an appreciable and calculable period of usefulness in excess of one year....”

Additionally, the State of West Virginia Expenditure Schedule Instructions defines object code 077 - Books and Periodicals as:

“...All books plus periodicals when bounded for permanent filing....”

Based upon our discussions with the Finance Director, we believe the above five transactions should not have been classified as an asset under object code 077 but as a current expense under object codes 020 and/or 040 as defined in the State of West Virginia Expenditure Schedule Instructions as follows:

“020 - *Office Expenses*: Those supplies normally used in the operation of an office and are primarily considered expendable in nature . . . books and periodicals . . . .

“040 - *Merchandise for Resale*: Those items purchased for the purpose of resale...”

We recommend the SOS comply with the State of West Virginia Expenditure Schedule Instructions by recording transactions in accordance with object code definitions.

### ***Agency’s Response***

***We agree that books specifically purchased for resale should have been coded 040 and books specifically purchased for the function of the office should have been coded 020.***

### **b. Purchases Made with Federal Funds**

During our review of purchases made with “Help America Vote Act” federal grant monies (HAVA), we noted the WVSOS purchased 4,267 voting machines and related upgrades, software, etc. on behalf of the State’s counties and for use by WVSOS from Election Systems and Software (ES&S) totaling \$17,859,886.26. WVSOS personnel told us the equipment was tested by the vendor at the vendor’s warehouse and the testing was performed by an ES&S representative and observed by a representative from the WVSOS and the county. The equipment was then shipped directly to the counties. The WVSOS did not require receiving reports to be prepared because the equipment belonged to the counties. We contacted a State Auditor’s Office representative who confirmed that receiving reports were not required for equipment purchased for the counties. Without documentation, we are unable to determine if the counties received the voting equipment as ordered and paid for by the WVSOS.

Of the purchases noted above, we found purchase orders indicating the WVSOS ordered 95 pieces of voting equipment for WVSOS use totaling \$272,500 which consisted of the following:

- a. 18 items were transferred to Mercer County according to WVSOS personnel;
- b. 52 items were returned to the voting machine vendor as supported by memorandum from the vendor;
- c. 20 items were observed by us; and,
- d. five items were in the field according to WVSOS personnel.

We noted no receiving reports prepared for the equipment purchased for WVSOS use; we further noted the WVSOS did not record the equipment on inventory. Chapter 12, Article 3, Section 10f

of the West Virginia Code requires receiving reports as follows:

§12-3-10f. Receiving report required for commodities received.  
A receiving report shall be submitted to the state auditor verifying  
the receipt of commodities by a state spending unit . . . .”

We recommend the WVSOS maintain receiving reports and inventory the equipment purchased for WVSOS use in accordance with Chapter 12, Article 3, Section 10f of the West Virginia Code as well as the WV Department of Administration Purchasing Division, Program Services Section, Inventory Management Surplus Property Disposition, Section 3.6.

**Agency's Response**

*We agree with the State Auditor's office position that no receiving reports were necessary for the voting equipment sent to the counties. After the 2006 elections, our office decided to keep 25 machines originally purchased for the counties to support future county training and back-up needs. We also agree with the State Auditor's office that we should have prepared a receiving report for the 25 machines we retained.*

*Our office has been in contact with the U.S. Election Assistance Commission regarding the safeguarding of used voting equipment. We originally believed to ensure the security of elections in our state, we could not follow normal state inventory and surplus procedures. As a result of this audit, we have learned from Surplus Property that we can include the 25 machines we kept for future county needs in the Fixed Assets System, and if it becomes necessary to remove these assets, it can be accomplished by submitting a change request to Surplus Property.*