

LEGISLATIVE POST AUDIT REPORT

WEST VIRGINIA ATTORNEY GENERAL'S OFFICE

For the Period: July 1, 2011 - January 14, 2013

AUDIT SUMMARY

- Lack of Internal Controls over Purchasing Card
- Lack of Internal Controls over Fuel Card Purchases
- Non-Compliance with Internal Travel Policies and Tax Exemptions
- Improper Reporting of Employee Income
- Lack of Adequate Supporting Documentation
- Lack of Supporting Documentation
- Non-Compliance with WV Code § 12-2-2
- Lack of Internal Control Over Collection of Revenues
- Lack of Controls Over Receiving Procedures
- Expenditure Misclassification



WEST VIRGINIA LEGISLATIVE AUDITOR POST AUDIT DIVISION



**Aaron Allred - Legislative Auditor
Denny Rhodes - Director**

**Building 1, Room W-329
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305
Phone: (304) 347-4880**

LEGISLATIVE POST AUDITS SUBCOMMITTEE

Senate

President Jeff Kessler, Chairman
Roman Prezioso
Mike Hall

House

Speaker Tim Miley, Chairman
Harry Keith White
Tim Armstead

WEST VIRGINIA LEGISLATIVE AUDITOR LEGISLATIVE POST AUDIT DIVISION

Legislative Auditor

Aaron Allred

Director

Denny Rhodes

Audit Manager

Melissa Bishop, CPA

Auditors-in-Charge

Staci Shumate

Joshua Potter, CPA

Staff Auditors

Diana Humphreys

Bobbi Smith

K. Michelle Hodge, CICA

Jessica Bunner

Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., East
Charleston, WV 25305-0610
(304) 347-4880

Post audit reports are available on-line at
www.legis.state.wv.us/Joint/postaudit/reports.cfm.

For more information about the Legislative Post Audit Division, please visit our website at
www.legis.state.wv.us/Joint/postaudit/postaudit.cfm.

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Denny Rhodes, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., E.
Charleston, West Virginia 25305-0610



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

The Joint Committee on Government and Finance:

In compliance with the provisions of the WV Code, §4-2, as amended, we conducted a post audit of the West Virginia Attorney General's Office (WVAGO) for the period July 1, 2011 through January 14, 2013, with the exception of the Consumer Protection Recovery Fund (Fund 1509) for the period of July 1, 2011 to June 30, 2012, pertaining to areas for which a post audit was recently completed.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Our audit disclosed certain findings, which are detailed in this report. Findings deemed inconsequential to the financial operations of the agency were discussed with management. WVAGO management has responded to the audit findings; we have included the responses at the end of the report.

Respectfully submitted,

A handwritten signature in blue ink that reads "Denny Rhodes".

Denny Rhodes, Director
Legislative Post Audit Division

WEST VIRGINIA ATTORNEY GENERAL'S OFFICE
JULY 1, 2011 – JANUARY 14, 2013

TABLE OF CONTENTS

INTRODUCTION	- 1 -
SPENDING UNIT CONTACTS	- 3 -
AUDIT SCOPE	- 4 -
OBJECTIVES AND CONCLUSIONS	- 5 -
FINDINGS AND RECOMMENDATIONS	- 9 -
Finding 1 Lack of Internal Controls over Purchasing Card	- 10 -
Finding 2 Lack of Internal Controls over Fuel Card Purchases.....	- 14 -
Finding 3 Non-Compliance with Internal Travel Policies and Tax Exemptions.....	- 16 -
Finding 4 Improper Reporting of Employee Income	- 19 -
Finding 5 Lack of Adequate Supporting Documentation.....	- 22 -
Finding 6 Lack of Supporting Documentation	- 23 -
Finding 7 Non-Compliance with WV Code §12-2-2	- 24 -
Finding 8 Lack of Internal Control Over Collection of Revenues	- 25 -
Finding 9 Lack of Controls Over Receiving Procedures.....	- 27 -
Finding 10 Expenditure Misclassification	- 29 -
APPENDIX A	- 32 -
SUPPLEMENTAL INFORMATION FUND LISTING.....	- 33 -
METHODOLOGIES	- 34 -
APPENDIX B	- 41 -
ATTORNEY GENERAL'S OFFICE AUDIT RESPONSE	

INTRODUCTION

POST AUDIT AUTHORITY

The audit was conducted pursuant to §4-2, as amended, of the WV Code, which requires the Legislative Auditor to “make post audits of the revenues and funds of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of the state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the State and of the organization and functions of the State and its spending units.” The Post Audit Division of the Office of the Legislative Auditor is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audits Subcommittee. Therefore, the Division has historically been organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State.

This communication is intended solely for the information and use of the Post Audits Subcommittee, the members of the WV Legislature, and management of WVAGO. However, once presented to the Post Audits Subcommittee, this report is a matter of public record and its distribution is not limited. Our reports are designed to assist the Post Audits Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations.

BACKGROUND¹

The WV Attorney General speaks for the legal interests of the state; gives his written opinions and advice upon questions of law to state officials, heads of state institutions, and prosecuting attorneys; handles legal matters and all litigation on behalf of the state government and any department or agency thereof; represents the state in all claims processed by the Court of Claims; prosecutes civil actions as authorized by law; enforces the states consumer, antitrust and preneed burial statutes; enforces the WV Human Rights Act and the WV Fair Housing Act; is a member of the Board of Public Works, Council of Finance and Administration, Public Land Corporation, WV Housing Fund, WV Sherriff's Bureau, Department of Public Safety and Retirement Board, Bid Suspension Review Board, State Building Commission, Multistate Compact Advisory Committee, Records Management and Preservation Advisory Committee.

PRIOR AUDIT FOR CONSUMER PROTECTION FUND

A Post Audit was conducted of the WVAGO's Consumer Protection Fund (Fund 1509). The audit period for the prior audit was July 1, 2011 to June 30, 2012 and was released to the public on June 19, 2013. A copy of the report can be found on the Legislature's website under Post Audit reports or at http://www.legis.state.wv.us/Joint/Postaudit/PA_Reports/audit_docs/PA_2013_515.pdf.

¹ Background information was obtained from the 2012 West Virginia Blue Book.

EXIT CONFERENCE

We provided the agency with a copy of all findings and offered the opportunity to meet for an exit conference to discuss the report in more detail. The agency responded to all findings but did not deem it necessary to have an exit conference. Management's response has been included at the end of the report in Appendix B.

WEST VIRGINIA ATTORNEY GENERAL'S OFFICE
JULY 1, 2011 – JANUARY 14, 2013

SPENDING UNIT CONTACTS

Current Attorney General and Staff:

Patrick Morrisey(January 14, 2013-Present) Attorney General

Dan Greear(January 14, 2013-Present) Chief Counsel

Marty Wright..... (January 14, 2013-Present) Deputy Attorney General

Jamion Wolford.....(May 13, 2013-Present) Chief Financial Officer

Christina Dalton (July 19, 2010-Present) Assistant Comptroller

Previous Attorney General and Staff:

Darrell McGraw(January 1993-January 14, 2013) Attorney General

Jerome Clay (September 23, 2002-October 1, 2013) Comptroller

AUDIT SCOPE

We audited the West Virginia Attorney General's Office (WVAGO) for the period July 1, 2011 through January 14, 2013, with the exception of the Consumer Protection Recovery Fund (Fund 1509), for the period of July 1, 2011 to June 30, 2012, pertaining to areas for which a post audit was recently completed. Our audit scope included a review of applicable internal controls and compliance with the WV Code, Purchasing Division's Procedure Handbook, State Auditor's Office P-card Policy, Expenditure Schedule Instructions, Legislative Rules, WV State Treasurer's Office Cash Receipt Handbook, Statewide Contracts, IRS Publications, and WVAGO internal policies and procedures applicable to the audit period necessary to answer the audit objectives. We conducted this audit, which is a performance audit, in accordance with Generally Accepted Government Auditing Standards (GAGAS).

WVAGO's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The scope over internal controls involved only assessing those controls that were significant to the objectives listed in this report. To conclude on the adequacy of internal controls regarding WVAGO as a whole was not a specific objective of this audit. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. Any internal control weaknesses discovered have been reported in findings if they were significant to our audit objectives.

OBJECTIVES AND CONCLUSIONS

OBJECTIVE 1:

Determine if the WVAGO complied with audit finding recommendations made in the previous audit report over WVAGO Fund 1509 "Consumer Protection Recovery Fund" for the audit period of July 1, 2011 through June 30, 2012 (Issued June 19, 2013).

CONCLUSION:

The WVAGO reported they have and are working to improve issues found in the previous audit and have hired additional staff to improve Internal Controls and Segregation of Duties. They have improved oversight of Consumer Protection Settlement monies and hope to further improve oversight and internal controls over these monies with the creation of an additional fund to mitigate commingling of settlement fund monies due to the State and due to consumers. Additionally, a checklist has been instituted, which is completed for each purchase, to ensure the office complies with WV Purchasing Division Rules.

OBJECTIVE 2:

Evaluate internal controls over the collection and deposit of revenues and the following expenditure procedures: travel, p-card, accounts payable, procurement and contractual.

CONCLUSION:

We determined there was a lack of internal controls and management oversight concerning revenue, travel, purchasing card, and accounts payable transactions made by the WVAGO during our audit period.

RELATED FINDINGS:

Finding 1	Lack of Internal Controls over Purchasing Card
Finding 3	Non-Compliance with Internal Travel Policies and Tax Exemptions
Finding 8	Lack of Internal Controls over Collection of Revenues
Finding 9	Lack of Controls Over Receiving Procedures

OBJECTIVE 3:

Select a random sample of collections for all AG funds for review. Determine if the revenues were collected and deposited in the proper fund and in accordance with the following respective WV Code Sections: §47-18-19 (Fund 1507), §46A-7-111 (Fund 1509), §5-3-1 (Fund 1511), §47-14-3 (Fund 1513), §47-14-8 (Fund 1514). In addition, review revenue receipts for compliance with §12-2-2 and WV State Treasures Office's Cash Receipts Handbook for West Virginia Spending Units.

CONCLUSION:

Based on the testing of revenues, \$189,311.22 out of \$233,281.22 tested, (81%), were not deposited within 24 hours as required by WV Code §12-2-2. However, all funds appear to have been deposited in the appropriate fund in accordance with WV Code.

RELATED FINDING:

Finding 7	Noncompliance with WV Code §12-2-2
Finding 8	Lack of Internal Controls over Collection of Revenues

OBJECTIVE 4:

Determine if expenditures made for legal services, food products, miscellaneous commodities and services, office supplies, training and development, computer services, vehicle operating, energy expense (motor vehicles and Aircraft) services, and contractual and professional services were beneficial to the agency and made in accordance with Legislative Rule, Purchasing Division, Title 148, Series 12, Sections: 6.1.6, 6.2, 6.3.3, 6.4, 7.2 through 7.6, and 7.8.1 and the WV Purchasing Division’s Purchasing Handbook² Sections: 3, 4.6.1, 6.2.3, and 9, applicable sections of the WV FY 12 and 13 Expenditure Schedule and WV Code §12-3-10f and §5A-3-10.

- a. For contractual and professional expenses verify compliance with applicable contract or agreement.
- b. For any purchases required to be included in the fixed assets system, obtain a sample, verify inclusion and physically observe asset.
- c. For training and development expenses verify services are provided to state employees.

CONCLUSION:

We noted a lack of internal controls over expenditures for vehicle operating (fleet) expenditures including lack of documentation and management oversight. We further noted noncompliance with WV §12-3-10f and approximately \$82,000 in expenditure misclassifications.

RELATED FINDINGS:

Finding 2	Lack of Internal Controls over Fuel Card Purchases ³
Finding 6	Lack of Supporting Documentation
Finding 9	Lack of Controls over Receiving Procedures
Finding 10	Expenditure Misclassification

OBJECTIVE 5:

Determine if the WVAGO developed internal policies and procedures for travel expenditures in accordance with WV Code §12-3-11. If internal policies are available, perform audit procedures to

² According to WV Code §5A-3-1, the Purchasing Division was created for the purpose of establishing centralized offices to provide purchasing and travel services to the various state agencies.

³ Information on fleet procedures and internal controls was obtained from the current Chief Financial Officer, due to the departure of the previous administration.

determine compliance of travel. If internal policies are not available, determine compliance with Federal mileage and per diem rates and if the expenditure was for the benefit of the agency.

CONCLUSION:

We noted the WVAGO did have internal policies in accordance with WV Code §12-3-11 however, they did not comply with these policies. We also noted instances where travel reimbursements appeared to be excessive.

RELATED FINDINGS:

Finding 3 Non-Compliance with Internal Travel Policies and Tax Exemptions

OBJECTIVE 6:

Examine purchases made on the WV Purchasing Card (P-card) to determine if they were made in accordance with §12-3-10a, with Legislative Rule, Purchasing Division, Title 148, Series 7 and WV State Auditor’s Office P-card Policies and Procedures Handbook Sections 4.4, 6, and 7 and if they were beneficial to the agency.

CONCLUSION:

We concluded the purchasing card program was not performed in accordance with the WVAGO’s Internal Controls, the WV State Auditor’s Office “Purchasing Card Policies and Procedures, or the observed purchasing card procedures.

RELATED FINDINGS:

Finding 1 Lack of Internal Controls over Purchasing Card

OBJECTIVE 7:

Determine the appropriateness of tuition and fee reimbursements made for a WVAGO employee.⁴

CONCLUSION:

In our attempt to ascertain the appropriateness of tuition and fee reimbursements for one WVAGO employee, we discovered others for which tuition assistance was provided. We found the WVAGO reimbursed educational expenses for multiple employees, without having any type of agreement in place, as far back as 1999. The employee assistance was not reported as a taxable fringe benefit on the employees’ W-2 Wage and Tax Statement which could have resulted in the failure to pay appropriate taxes by the agency and the employees’.

RELATED FINDING:

Finding 4 Improper Reporting of Employee Income

⁴ During the preliminary phase of our audit, two invoices for fiscal year 2012 came to our attention for tuition and fees reimbursements for a WVAGO employee.

OBJECTIVE 8:

Perform a review of all vendors paid during the audit period for any unusual merchants. Pay particular attention to advertising and hospitality expenditures.

CONCLUSION:

During our review of vendor payments, the WVAGO was unable to provide us with documentation to support \$6,115.76 for hospitality. However, no issues were noted for advertising expenditures tested.

RELATED FINDING:

Finding 5 Lack of Adequate Supporting Documentation

FINDINGS AND RECOMMENDATIONS

Finding 1

Lack of Internal Controls over Purchasing Card

Condition:

We determined there was a lack of internal controls and management oversight over the purchasing card transactions made by the WVAGO. After conducting a test of purchasing card transactions we concluded that the WVAGO was not following their internal policies and procedures, the purchasing card policies and procedures, or the procedures observed by our auditors during interviews. After further examination, the WVAGO's observed procedures and internal controls for purchasing card transactions were contradictory to those in writing and to the WV State Auditor's Office "Purchasing Card Policies and Procedures." Internal policies stated the cardholder must obtain pre-approval from the CFO or Purchasing Coordinator; however, we were informed this was not the practice during our audit period.

We tested 343 transactions totaling \$55,690.60, out of 429 transactions totaling \$68,198.29, or 82%. The lack of internal controls is described in greater detail as follows:

- There were 10 transactions, totaling \$2,452.63, appearing to be instances of purchasing card delegation. There were 56 transactions, totaling \$6,987.21, we were unable to determine if the purchasing cardholder used the purchasing card or if it was purchasing card delegation;
- There were 19 transactions, totaling \$4,460.86, with no supporting documentation. Vendors included, but were not limited to, Sensel Signs, Tiger Direct, Lowe's, Amazon, Xyron, and Wal-Mart⁵;
- There were 17 transactions, totaling \$4,024.12, that had a non itemized receipt or a card receipt without detail; therefore we could not determine what was purchased. The vendors included, but were not limited to, Nuway Cleaners, Pennington's Auto Care, The Paint Shop, Classic Chocolates, and Young's Flowers⁵;
- There were 10 transactions, totaling \$1,429.25, which had an illegible receipt or improper documentation; therefore we could not determine what was purchased. The purchases were from vendors such as Wal-Mart, Office Max, Tiger Direct, Dick's Sporting Goods and Amazon;
- There were 2 transactions for flowers⁶, costing a total of \$594.55, appearing to be either extravagant spending or unallowable;
- There was a transaction for office supplies, totaling \$157.29, made in Steubenville, OH; however, the cardholder did not have travel to and/or from the location where the purchasing card was used;
- There were 2 transactions, totaling 58.77, where sales tax of \$3.33 was paid to an in-state vendor; and

⁵ These purchases could have been legitimate; however, without proper documentation, this could not be verified.

⁶ Flower purchases included \$487.60 spent on 5/21/2012 for the Martinsburg Office and \$106.95 spent on 8/31/2012 for a funeral arrangement.

- There were 2 transactions, totaling \$696.09, that did not have prior approval for hospitality or the hospitality form was unsigned.

Additionally, we inquired about items we considered to be unusual purchases or higher priced. The WVAGO was unable to determine why 2 catalytic converters or 2 copies of Rosetta Stone had been purchased during our audit period. They were also unable to locate a Canon EOS Rebel T2I DSLR Camera that was purchased for \$579.99.

Criteria:

WV Code §5A-8-9 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....”

Management is responsible for establishing and maintaining effective internal controls. A fundamental concept of internal control is adequate segregation of incompatible duties. For adequate segregation of duties, management should ensure responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets are assigned to different employees.

WV Code §4-2-4, as amended, states in part:

“(a) It is the duty of the legislative auditor... to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit...”

WV Code §4-2-6, as amended, states in part:

"The legislative auditor shall... also report to the committee any misapplication of state funds and any erroneous, extravagant or unlawful expenditures by any spending unit, together with such other findings and reports as the committee shall require.”

WV Code §12-3-10a, as amended, states in part:

“...The Purchasing Card Program shall be conducted so that procedures and controls for the procurement and payment of goods and services are made more efficient. The program shall permit spending units to use a purchasing card to pay for goods and services. Notwithstanding any other provision of this code to the contrary, a purchasing card may be used to make any payment authorized by the Auditor, including regular routine payments and travel and emergency payments, and such payments shall be set at an amount to be determined by the Auditor...”

The West Virginia Purchasing Division Procedures Handbook states in part:

“4.4 P-Card Delegation

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

P-Card delegation includes allowing an individual other than the cardholder to:

- have physical possession of the P-Card to make payments to point of sale vendors;
- have access to the P-Card number and expiration date to make payments via telephone, internet, or in person;
- have access to receipts or invoices that display the P-Card number and expiration date.

With the exception of ghost, fleet, or other card accounts as approved by the State Auditor’s Office P-Card Division, P-Cards are issued in an individual’s name. Only the individual named on the P-Card is authorized to use it.”

“7.1 Receipts & Receiving Reports

Except where otherwise exempted by statute or rule, an itemized receipt must be obtained for each transaction placed on the P-Card. The receipt must be legible, itemized (reflecting the goods or services purchased), and contain the vendor name, date of purchase and price of items. Receipt documentation may be paper or electronic and shall be retained by the Spending Unit. A receipt description, which only states “Miscellaneous”, or “Merchandise”, or only includes a vendor’s stock or item number, is not acceptable.”

“6.7 Tax Exempt Status

The State of West Virginia is tax exempt and should not pay tax to in-state vendors.”

“6.8 Hospitality

Hospitality expenses may be paid using the P-Card. Specific documentation requirements exist for hospitality expenditures and that documentation must remain consistent regardless of the method of payment. Any hospitality documentation must be available to the State Auditor’s Office P-Card Division for inspection.”

Cause: There was a lack of internal control over purchasing card procedures compliance and a lack of management oversight to ensure all purchasing card procedures are followed.

Effect: Due to inadequate internal controls over purchasing card procedures, there was an increased risk that purchases could be made by purchasing card and not have

been in compliance with policies and procedures. These purchases could have gone undetected and increased the cost to the state.

Recommendation: We recommend the WVAGO comply with WV Code, their internal control policies and procedures, and WV Purchasing Division Procedures Handbook and increase oversight of the use of the purchasing card.

**Spending Unit's
Response:** See Appendix B

Finding 2

Lack of Internal Controls over Fuel Card Purchases

Condition:

During our audit period, we noted the following lack of internal controls over \$35,270.42 of fuel purchases placed on Exxon and Superfleet fuel cards:

- Fuel cards were not assigned to individual employees or to vehicles. Rather, they were kept by the WVAGO Division Office Managers to be given to an employee on an as needed basis.
- Vehicle logs [detailing the date, reason for travel, the name of the employee that used the card and the respective beginning and ending mileage] were not consistently completed.
- Management did not reconcile the fuel card statements to the vehicle logs. Instead, the former CFO reviewed transactions for reasonableness (i.e., fuel was purchased in expected areas of travel, fuel was not purchased too often, and transactions were made during expected travel hours).
- The fuel card statements [or any other documentation] did not detail for which agency vehicle the fuel purchase was made; the respective employee that made the fuel purchase; or the beginning and ending trip mileage.

The Chief Financial Officer (CFO) informed us the WVAGO is now using Wright Express (WEX) fuel cards and the internal control issues detailed above have been corrected; however, we did not verify this.

Criteria:

WV Code §5A-8-9 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....”

The Government Auditing Standards Appendix I A1.08 states in part,

“...Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for...

- d. establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported....”

Cause: During our audit period, there was a lack of management oversight over the WVAGO's vehicles and Fleet expenditures.

Effect: We were unable to determine if fleet expenditures totaling over \$35,000 were legitimate State expenditures for the benefit of the WVAGO. The possibility exists that the fuel cards and/or vehicles could have been misused.

Recommendation: We recommend the WVAGO comply with WV Code §5A-8-9 and continue good internal control practices by ensuring proper management oversight over vehicles and fuel card purchases.

**Spending Unit's
Response:** See Appendix B

Finding 3

Non-Compliance with Internal Travel Policies and Tax Exemptions

Condition:

During the audit of travel expenses we noted 18 transactions totaling \$45,803.35⁷ out of 36 transactions totaling \$53,370.61 (86%) tested did not comply with West Virginia Attorney General's Office (WVAGO) Travel Regulations on file with the WV Secretary of State. The transactions are described in greater detail below:

- Six instances of hotel stays, totaling \$6,292.83, did not include sufficient documentation to validate if charges were reasonable;⁸
- One transaction, in the amount of \$1,130.56, was an instance of the travel form with the incorrect mileage rate being signed by both the employee and the agency head/designee, but neither signed the corrected form with the proper mileage rate;
- Two transactions, totaling \$777.48, were instances of the travel form not being properly signed;
- Ten transactions included sales tax paid to an in-state vendor in the amount of \$694.00;
- One transaction for a hotel stay⁹, in the amount of \$283.40, did not include a legible receipt or invoice;
- Two transactions, totaling \$183.50, were instances of the travel form not being included in the documentation;
- Six transactions, totaling \$143.13, where mileage reimbursement appears to have been overpaid or the request for reimbursement did not contain sufficient documentation to validate if mileage was reasonable; and
- Four transactions, totaling overpayments of \$77.15, using the incorrect per diem rate.

Criteria:

WV Code §12-3-11(a), as amended, states in part:

"The Legislature, Supreme Court of Appeals, Attorney General, Auditor, Secretary of State, Treasurer, Board of Investments, Commissioner of Agriculture, Higher Education Policy Commission and the higher education governing boards shall promulgate rules concerning out-of-state travel for their respective branches and departments of state government. Copies of the rules shall be filed with the Auditor and the secretary of state."

⁷ Amount signifies total transaction amount processed by the State Auditor's Office for payment.

⁸ The hotels included the General Lewis Inn and Snowshoe Mountain Resort. Receipts for Snowshoe included \$337 in "Other Charges." These charges could have been legitimate, but without itemized receipts, we were unable to determine this.

⁹ Could not determine the name of the hotel. The receipt was handwritten and no hotel name was provided.

The WVAGO Travel Regulations Section III, states in part:

“...(a) An actual itemized expense account must be completed and submitted, along with travel, hotel, telephone, parking and other necessary and reasonable expense receipts. Only the original receipts or certified copies will be acceptable.

(b) Daily allowances for in-state travel shall be subject to:

(1) Meals: Reimbursement for the actual cost of meals incurred while absent from official stations is limited to the maximum of the GSA rate for Charleston, West Virginia, which includes gratuities. First and last day travel shall be at 75% of the GSA rate. Partial days travel must exceed twelve hours and will be reimbursed at 75% of the GSA rate...”

“... (3) Lodging: Employees traveling on State business will be reimbursed in the amount equal to their actual hotel bills for lodging. No reimbursement will be made for hotel charges for radio, movies, television or laundry. An itemized receipt for the amount paid for the hotel room must be submitted with the expense account.

(4) Registration Fees: Registration fees at meetings or conferences must be supported by a receipt. Registration fees may be directly billed for payment in advance.”

The WVAGO Travel Regulations Section V, states in part:

“...(a) An actual itemized expense account must be completed and submitted, along with travel, hotel, telephone, parking and other necessary and reasonable expense receipts. Only the original receipts or certified copies will be acceptable.

(b) Daily allowances for out-of-state travel shall be subject to:

(1) Meals: Reimbursement for the actual cost of meals incurred while absent from official stations is limited to the per diem rate for that zip code. First and last day travel will be at 75% of the per diem rate. Reimbursement for alcoholic beverages is excluded.

(2) Transportation: Reimbursement will be made for the actual cost of bus, rail or air travel. The mileage allowance for use of privately-owned vehicles (POVs) engaged in State business is set at the GSA rate for POVs, plus tolls, parking and garage fees, when applicable.

(3) Lodging: Employees traveling on State business will be reimbursed in the amount equal to their actual hotel bills for lodging. No reimbursement will be made for hotel charges for radio, movies, television or laundry. An itemized receipt for the amount paid for the hotel room must be submitted with the expense account.

(4) Registration Fees: Registration fees at meetings or conferences must be supported by a receipt. Registration fees may be directly billed for payment in advance...”

WV Code §11-15-9, as amended, states in part:

“The following sales of tangible personal property and services are exempt as provided in this subsection: (3) Sales of property or services to this state, its institutions or subdivisions ...”

Legislative Rule Title 148-1, Section 6.3.8 states:

“All sales to the State of West Virginia are exempt from Consumer Sales Tax or Excise Tax by blanket state exemption and blanket federal exemption”

The WV State Tax Department Publication TSD-300 states in part:

“...Purchases by the United States government or the State of West Virginia, including their institutions or subdivisions and county and municipal governments of West Virginia are exempt from sales tax....”

WV Code §7-18-1. Hotel Occupancy Tax.

WV Code §7-18-5 states in part:

... (b) **Hotel room occupancy billed directly to this state** or its political subdivisions **shall be exempt from this tax...** (Emphasis Added)

Cause: There was a lack of internal control over purchasing procedures compliance and a lack of management oversight to ensure all travel policies were followed.

Effect: The WVAGO could have paid an excessive amount or incorrect amount for travel expenditures, which could have lead to expensing state funds unnecessarily.

Recommendation: We recommend the WVAGO comply with Travel Regulations and properly maintain adequate documentation for travel reimbursements. We also recommend the WVAGO comply with WV Code and not pay sales tax or occupancy tax.

Spending Unit's Response: See Appendix B

Finding 4 Improper Reporting of Employee Income

Condition: In our attempt to ascertain the appropriateness of tuition and fee reimbursements for one WVAGO employee, we discovered others for which tuition assistance was provided. We found the WVAGO reimbursed educational expenses for multiple employees without having any type of agreement in place. WVFIMS transactions indicate this occurred at least as far back as 1999. Educational expenses of \$20,946 were paid for one employee to an out-of-state university in a period of less than 3 months for graduate classes. Another employee was reimbursed for tuition in the amount of \$26,524 over 2 years. The most recent employee was reimbursed \$6,698.69 in fiscal year (FY) 2012 for tuition and fees for attending an in-state university. The employee assistance was not reported as a taxable fringe benefit on the employees' W-2 Wage and Tax Statement as far back as 2004. However, we were unable to determine if the educational expenses were included as a taxable fringe benefit for the employee from 1999. Therefore, it is possible the agency did not pay the required employment taxes on the wages and the employees may have under paid their Federal and State taxes.

The Internal Revenue Service (IRS) Publication 15-B Employer's Tax Guide to Fringe Benefits (2012)¹⁰ allows an employer to exclude up to \$5,250 of education assistance provided to an employer under an educational assistance program from employee's wages each year. However, the WVAGO did not have a written educational assistance program available for [all eligible] employees; therefore, the education assistance provided to the aforementioned employees did not meet the program qualification tests mandated by the IRS and should have been reported as a taxable fringe benefit on the employees' W-2 Wage and Tax Statement.

Criteria: **Internal Revenue Service (2012) Publication 15-B Employer's Tax Guide to Fringe Benefits¹¹:**

Educational Assistance

"...This exclusion applies to educational assistance you provide to employees under an educational assistance program...."

Educational assistance means amounts you pay or incur for your employees' education expenses. These expenses generally include the cost of books, equipment, fees, supplies, and tuition. However, these expenses do not include the cost of a course or other education involving sports, games, or hobbies, unless the education:

¹⁰ We traced the Internal Revenue Code as far back as 1986 and found the educational assistance requirements were consistent with 2012 with the exception that prior to December 31, 2001, only undergraduate courses were allowable for the tax benefit.

¹¹ The excludable amount for educational assistance was increased from \$5,000 to \$5,250 in 1986; however, this only covered undergraduate classes. Graduate classes were not included until December 31, 2001.

- Has a reasonable relationship to your business, or
- Is required as part of a degree program.

Education expenses do not include the cost of tools or supplies (other than textbooks) your employee is allowed to keep at the end of the course. Nor do they include the cost of lodging, meals, or transportation.

Educational assistance program. An educational assistance program is a **separate written plan that provides educational assistance only to your employees.** The program qualifies only if all of the following tests are met.

- The program benefits employees who qualify under rules set up by you that do not favor highly compensated employees. To determine whether your program meets this test, do not consider employees excluded from your program who are covered by a collective bargaining agreement if there is evidence that educational assistance was a subject of good-faith bargaining.
- The program does not provide more than 5% of its benefits during the year for shareholders or owners. A shareholder or owner is someone who owns (on any day of the year) more than 5% of the stock or of the capital or profits interest of your business.
- The program does not allow employees to choose to receive cash or other benefits that must be included in gross income instead of educational assistance.
- **You give reasonable notice of the program to eligible employees....**

Exclusion from wages. You can exclude up to \$5,250 of educational assistance you **provide to an employee under an educational assistance program** from the employee's wages each year...." (**Emphasis Added**).

Internal Revenue Service (2012) Publication 970 2012 Tax Benefits for Education, states in part:

No Double Benefit Allowed

You cannot do any of the following.

Deduct higher education expenses on your income tax return (as, for example, a business expense) and also claim an American opportunity credit based on those same expenses.

Claim an American opportunity credit in the same year that you are claiming a tuition and fees deduction for the same student.

Claim an American opportunity credit for any student and use any of that student's expenses in figuring your lifetime learning credit.

Figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or qualified tuition program (QTP) using the same expenses you used to figure the American opportunity credit. See *Coordination With American Opportunity and Lifetime Learning Credits* in chapter 7, *Coverdell Education Savings Account*, and *Coordination With American Opportunity and Lifetime Learning Credits* in chapter 8, *Qualified Tuition Program*.

Claim a credit based on qualified education expenses paid with tax-free educational assistance, such as a scholarship, grant, or assistance provided by an employer. See *Adjustments to Qualified Education Expenses*, next....”

- Cause:** Educational Assistance was provided with no regard for Internal Revenue Code.
- Effect:** The WVAGO did not report the fringe benefits for educational assistance as taxable income on the employees’ W-2. Therefore, they did not pay the required Social Security and Medicare taxes due the federal government.
- Recommendation:** We recommend the WVAGO comply with the IRS publications by (1) electing to implement a [written] employee educational assistance program and exclude up to \$5,250 of educational assistance from employees’ earnings each year; or (2) reporting all employee educational assistance on employees’ W-2 Wage and Tax Statements that do not meet the requirements of the IRS Publication 15-B. We also recommend the WVAGO issue a corrected W-2 (W-2C) to each employee receiving educational assistance for 2011, 2012, and 2013 tax years.
- Spending Unit’s Response:** See Appendix B

Finding 5 Lack of Adequate Supporting Documentation

Condition: During our review of vendor payments, the WVAGO was unable to provide documentation to support \$6,115.76 of the \$6,995.89 (87%) tested for hospitality and travel. Therefore, we were unable to determine if these expenditures were for the benefit of the agency and if they were in agreement with all purchasing policies. These transactions are detailed in the table below.

<u>WVFIMS Document Number</u>	<u>Payment Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
I012639597	1/9/12	Bridge Road Bistro	Christmas Lunch ¹²	\$4,836.00
I012359781	8/26/11	Employee*	Travel	\$642.60
I013358464	5/17/12	Employee*	Dinner	\$637.16
Total				\$6,115.76

* Name of employee being reimbursed has been removed due to privacy.

Criteria: **WV Code §5A-8-9 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....”

Cause: There was a lack of management oversight over the retention of documentation.

Effect: We were unable to determine if the payment was for the benefit of the WVAGO. Without itemized receipts, purchases could include items not permitted to be paid for with state monies, such as alcoholic beverages.

Recommendation: We recommend the WVAGO strengthen internal controls over the retention of documentation to ensure compliance with WV Code §5A-8-9.

Spending Unit’s Response: See Appendix B

¹² Luncheon occurred in December, 2011. Upon further review, it appears the WVAGO paid for an “End of Year Planning Lunch” during previous years as well.

Finding 6 **Lack of Supporting Documentation**

Condition: During our test of Fleet expenditures, the WVAGO was unable to provide receipts and/or invoices for fuel purchases, totaling \$2,295.23, to support 3 transactions of 64 transactions tested. (Approximately 5% of the \$44,787.15 tested).

Criteria: **WV Code §5A-8-9 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....”

Cause: There was a lack of management oversight over the retention of documentation.

Effect: Without proper and complete documentation expenditures could have been made that were not beneficial to WVAGO.

Recommendation: We recommend the WVAGO strengthen internal controls over the retention of documentation to ensure compliance with WV Code §5A-8-9.

**Spending Unit’s
Response:** See Appendix B

Finding 8**Lack of Internal Control over Collection of Revenues¹³****Condition:**

During our preliminary review and testing of revenues, we noted the WVAGO has deficiencies regarding internal controls and management oversight of the collection of revenues.

There are inadequate controls for the safeguarding of cash/cash equivalents. The lack of internal controls is described in greater detail as follows:

- There is a lack of segregation of duties due to one person opening the mail in both the Consumer Protection Division and the Preneed Funeral Unit. This person also fills out the deposit form and delivers it to the Assistant Controller in the business office.
- There is also a lack of segregation of duties due to the Assistant Controller receiving the monies from the two sources and then preparing the deposit for transfer to the State Treasurer's Office.
- There are no reconciliations performed for any funds.

Criteria:**WV Code §5A-8-9 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...."

West Virginia State Treasurer's Office Cash Receipts Handbook for West Virginia Spending Units, 3.3 states:

"The individual taking the payment should not also prepare the deposit and/or make the deposit at the bank."

West Virginia State Treasurer's Office Cash Receipts Handbook for West Virginia Spending Units, 5.5 states in part:

"An employee other than the staff member that made the bank deposit must perform a reconciliation of the supporting documentation (itemized record) to the bank validated deposit tickets daily. The employee must sign and date the reconciliation to reflect who performed the reconciliation and when. Any differences should be investigated."

¹³ We found a lack of internal controls over revenues collected for our audit period; however, we also found those weaknesses have not been corrected by the current administration at this time. We were informed by management they are working toward that goal.

Cause: Ineffective oversight by management and staff limitations created inadequate internal “management” controls for the safeguarding of assets in the overall revenue collection process.

Effect: Without strong internal control policies and procedures regarding the collection of revenues, the state could be shorted monies owed. Lack of internal controls also increases the risk of fraud, theft, misappropriation, etc. which could go unnoticed by management.

Recommendation: We recommend the WVAGO comply with WV Code §5A-8-9 and West Virginia State Treasurer’s Office Cash Receipts Handbook for West Virginia Spending Units. Further, we recommend WVAGO segregate responsibilities for recording, reviewing, processing transactions and handling state assets.

**Spending Unit’s
Response:** See Appendix B

Finding 9

Lack of Controls Over Receiving Procedures

Condition:

During the cash disbursements test, we noted the receiving reports were not prepared in accordance with WV Code §12-3-10f for 18 of 70 transactions tested (26%). These instances are detailed below.

- The date on the receiving reports for 16 transactions, amounting to \$3,705.27, indicated the receiving reports were signed by the former Chief Financial Officer (CFO) prior to the shipment date.
 - Two of these transactions, for office supplies totaling \$110.10, were shipped to an employee's home address (the employee worked from home), but the receiving report still had the signature of the former CFO.¹⁴
 - One of these transactions, totaling \$145.79, the receiving report was dated but not signed.
- One transaction's receiving report was signed by the former CFO but was not dated.
- We were not provided with a receiving report for one transaction, in the amount of \$4,191.79, for office supplies and toner.

All 18 of these transactions were cash disbursements made to OfficeMax. Total cash disbursements to Office Max by the WVAGO during our audit period was approximately \$134,000 (\$93,715.72 and \$40,415.30, respectively, for fiscal year 2012 and up to January 14th of fiscal year 2013).

Criteria:

WV Code §12-3-10f, states in part:

"...A receiving report shall be submitted to the state auditor verifying the receipt of commodities by a state spending unit...."

The state officer or employee acting as head of each spending unit is responsible for the completion and timely submission of the receiving reports, which **shall be prepared at the original point of receipt of the commodities** at the spending unit by employees designated by the head of the spending unit to receive the commodities and prepare the receiving reports. The receiving reports shall include, but not be limited to, the following information: Vendor name, description and quantity of commodities received, **date commodities are received**, whether commodities are acceptable for payment, **and a signed acknowledgment of receipt by the employees receiving the commodities**. The receiving reports required by this section shall be prepared within twenty-four hours of the receipt of the commodities...." **(Emphasis Added)**

¹⁴ The employee worked from home, therefore receiving office supplies at home was not unusual; however, the CFO signed the receiving report even though he was not the person receiving the items.

Cause: The receiving reports were not prepared at the time of receipt by the persons receiving the commodities.

Effect: We were unable to determine who received the items, if the items were actually received and if the items were used for the benefit of the WVAGO. The risk of loss, theft or fraud of the items purchased from OfficeMax was greatly increased.

Recommendation: We recommend the WVAGO comply with WV Code §12-3-10f to ensure a receiving report is completed at the original point of receipt of commodities by the person who receives the purchases. Also, we recommend the WVAGO ensure the person receiving the purchases is the employee designated by the head of the spending unit to receive the commodities and prepare the receiving reports.

**Spending Unit's
Response:** See Appendix B

Finding 10**Expenditure Misclassification****Condition:**

During the cash disbursements test, we noted the West Virginia Attorney General’s Office (WVAGO) classified parking rental expenditures, totaling \$70,518, to the City of Charleston as Object Code 051-Miscellaneous instead of Object Code 022-Rental Expense.

We also noted an additional seven transactions totaling \$11,732.76 out of the remaining sample (excluding payments to the City of Charleston) of 63 totaling \$243,740.82 did not comply with the West Virginia Expenditure Schedule Instructions. These expenditures are detailed in the table below.

WVFIMS Document Number	Vendor	Description of Transactions	Amount	Misclassified Object Code	Suggested Object Code
I012933635	Cornerstone Records Management	Records Management	\$2,951.16	051	020
I012596209	Encore Discovery Solutions	Tobacco Arbitration	\$158.00	051	027
I012924319	Nigh Reporting Service LLC	Transcripts	\$1,363.70	051	025
I012479500	Thomas Reuters West	Subscription	\$1,493.09	020	054
I013700211	Thomas Reuters West	Subscription	\$1,868.81	051	054
I013482290	Thomas Reuters West	Subscription	\$3,858.00	051	054
I013368976	Veritext Chicago Reporting Co	NPM Litigation Tax	<u>\$40.00</u>	051	025
Total			\$11,732.76		

Criteria:

The WV Expenditure Schedule Instructions, states in part:

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

“022 – Rental Expense: Rental or lease of real estate, buildings, office space, meeting rooms and parking spaces. Lease or rental agreements covered by this object code must have prior approval by the Real Estate Division, Department of Administration. (Not lease purchase).”

“025-Contractual and Professional: Services performed by individuals or firms considered to be professional or semiprofessional in nature. A written agreement (WV-48 or equivalent) is required except for indigent burial payments, and for transportation of bodies for chief medical examiner.

Note: DO NOT use Object Code 025 for professional or contractual payments related to support services for computers and software. Use Object Code 027 to report those expenses. Object Code 025 shall only be used when contractual or professional services are purchased and a service is received by the agency. DO NOT use if goods or services are not received (see Object Code 083)....

B. Professional: Services performed by state agency attorneys, engineers, architects, CPAs, performers, artists, guest speakers and process servers. Expenses incurred by judges and other legal officers in holding court such as court reporters, stenographic services, juror fees, witness fees or any other expense for holding court or preparation for holding court.

Note: DO NOT use Object Code 025 for payments to consultants, engineers or architects who are performing design work for capital asset projects. Use Object Code 122 to report those expenses. DO NOT use Object Code 025 for payments for Attorney Legal Service Payments (see Object Code 056) or Attorney Reimbursable Expenses (see Object Code 057) which are external to state government....”

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

“051 - Miscellaneous: Allowable employee recognition awards, except those paid from personal services and benefits, and those supplies or services which cannot be classified under any other object code....”

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

Cause:

There was a lack of management oversight over the classification of transactions being entered into WVFIMS.

Effect: The WVAGO was not in compliance with the WV State Expenditure Schedule Instructions.

Recommendation: We recommend the WVAGO strengthen internal controls over the classification of expenditures to ensure transactions comply with the WV State Expenditure Schedule Instructions.

**Spending Unit's
Response:** See Appendix B

APPENDIX A

SUPPLEMENTAL INFORMATION FUND LISTING AND METHODOLOGIES

SUPPLEMENTAL INFORMATION FUND LISTING

The examination covers the period of July 1, 2011 through January 14, 2013, with the exception of the Consumer Protection Recovery Fund (Fund 1509) for the period of July 1, 2011 to June 30, 2012, pertaining to areas for which a post audit was recently completed.

GENERAL REVENUE ACCOUNTS

WVAGO maintained the following accounts:

<u>Fund Number</u>	<u>Fund Name</u>
0150	Attorney General Fund ¹⁵

SPECIAL REVENUE ACCOUNTS

WVAGO maintained the following special revenue accounts. These accounts represent specific funds from specific activities as required by law or administrative regulations. These funds were deposited with the State Treasurer in the following special revenue accounts:

<u>Fund Number</u>	<u>Fund Name</u>
1507	Antitrust Enforcement Fund ¹⁵
1509	Consumer Protection Fund
1511	Prepaid Expenses
1513	Preneed Burial Contract Regulation Fund ¹⁵
1514	Preneed Funeral Guarantee Fund ¹⁵

Antitrust Enforcement Fund

Fines and settlements to pay costs of administering antitrust enforcement.

Consumer Protection Fund

Civil action recoveries to make civil penalty awards to consumers.

Prepaid Expenses

Collections for expenses to be incurred at a later time.

Preneed Burial Contract Regulation Fund

Other collections, fee, licenses and income to fund the Antitrust Act.

Preneed Funeral Guarantee Fund

Other collections, fee, licenses and investment income to fund the Antitrust Act.

¹⁵ Appropriated Fund.

METHODOLOGIES

To achieve our objectives, we reviewed applicable WV Code sections, applicable rules and regulations, and policies of WVAGO. Provisions that we considered significant were documented and compliance with those requirements were verified by interview, observations of WVAGO's operations, and through inspections of documents and records. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Additionally, we reviewed the budget, studied financial trends, and interviewed WVAGO personnel to obtain an understanding of the programs and the internal controls respective to the scope of our audit.

Because this audit was, in essence, a continuance of the previous audit over Fund 1509 of the Attorney General's Office and all other revenues and expenditures are handled in the same manner and by the same employees, we utilized, amended where necessary, many of the prior audit work papers. Also, we asked the WVAGO if the prior audit recommendations have been implemented.

To select transactions for testing, a variation of non-statistical and statistical sampling was used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Some transactions for testing were selected randomly using RAT-STAT statistical software and other transactions were selected for testing using professional auditor judgment.

We conducted our post audit, which is a performance audit, in accordance with the standards applicable to performance audits contained in GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about WVAGO's compliance with those requirements referred to above and performing such other procedures, as we considered necessary in the circumstances. Our audit does not provide a legal determination of WVAGO's compliance with those requirements.

We have included a more detailed explanation of the methodology used to achieve each objective below.

OBJECTIVE 1:

Determine if the WVAGO complied with audit finding recommendations made in the previous audit report over WVAGO Fund 1509 “*Consumer Protection Recovery Fund*” for the period of July 1, 2011 through June 30, 2012.

METHODOLOGY:

In order to determine if the WVAGO complied with audit finding recommendations made in the previous audit report over WVAGO Fund 1509 “*Consumer Protection Recovery Fund*” for the period of July 1, 2011 through June 30, 2012, we requested of the WVAGO any steps and/or plans to implement the audit finding recommendations, reviewed the responses and determined if the WVAGO was in compliance with this objective.

OBJECTIVE 2:

Evaluate internal controls over the collection and deposit of revenues and the following expenditures procedures: travel, p-card, accounts payable, procurement, and contractual.

METHODOLOGY:

To achieve the objective, we reviewed WVAGO internal policies and procedures, reviewed the source documents, made inquiries with various department personnel, contacted outside agencies/businesses and exercised professional auditor judgment as necessary.

For the methodology concerning the collection and deposit of revenues refer to Objective 3. For the methodology concerning accounts payable, procurement, and contractual refer to Objective 4. For the methodology concerning travel refer to Objective 5. For the methodology concerning p-card, refer to Objective 6.

OBJECTIVE 3:

Select a random sample of collections for all AG funds for review. Determine if the revenues were collected and deposited in the proper fund and in accordance with the following respective WV Code Sections: §47-18-19 (Fund 1507), §46A-7-111 (Fund 1509), §5-3-1 (Fund 1511), §47-14-3 (Fund 1513), §47-14-8 (Fund 1514). In addition, review revenue receipts for compliance with §12-2-2 and WV State Treasures Office’s Cash Receipts Handbook for West Virginia Spending Units.

METHODOLOGY:

To achieve our objective, we reviewed applicable internal controls and compliance with the WV Code, WV State Treasures Office’s Cash Receipts Handbook for West Virginia Spending Units, and WVAGO internal policies and procedures and reviewed the source documents.

In order to account for adequate documentation of program results and adequate accounting of revenues, we designed and performed a test to determine if revenues were collected and deposited properly and in compliance with WV Code Sections: §12-2-2, §47-18-19 (Fund 1507), §46A-7-111 (Fund 1509), §5-3-1 (Fund 1511), §47-14-3 (Fund 1513), §47-14-8 (Fund 1514), and WV State Treasures Office's Cash Receipts Handbook for West Virginia Spending Units. The population consisted of 936 transactions totaling \$22,557,259.86. We created a Pivot Table to show each document available for testing. When Doc IDs were subtotaled, there were 555 items.

We then input the data into RATSTAT's Attribute Sample Size Determination function. Using 95% confidence levels, 10% anticipated rate of occurrence, 10% desired precision range, and 555 universe size the sample size to be tested should be 33. Using the RATSTAT random number generator, single stage random number function, we generated 33 random numbers to identify the items selected for testing in the population. Our sample consisted of 33 transactions totaling \$233,281.22. Next, we reviewed the revenues selected as our sample based on the supporting documentation present in accordance with the test designed.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- WV Code §47-18-19
- WV Code §46A-7-111
- WV Code §5-3-1
- WV Code §47-14-3
- WV Code §47-14-8
- WV Code §§12-2-2
- WV Code §5A-8-9
- WV State Treasures Office's Cash Receipts Handbook for West Virginia Spending Units

OBJECTIVE 4:

Determine if expenditures made for legal services, food products, miscellaneous commodities and services, office supplies, training and development, computer services, vehicle operating, energy expense (motor vehicles and Aircraft) services, and contractual and professional services were beneficial to the agency and made in accordance with Legislative Rule, Purchasing Division, Title 148, Series 12, Sections: 6.1.6, 6.2, 6.3.3, 6.4, 7.2 through 7.6, and 7.8.1 and the WV Purchasing Division's Purchasing Handbook2 Sections: 3, 4.6.1, 6.2.3, and 9, applicable sections of the WV FY 12 and 13 Expenditure Schedule and WV Code §12-3-10f and §5A-3-10.

- a. For contractual and professional expenses verify compliance with applicable contract or agreement.
- b. For any purchases required to be included in the fixed assets system, obtain a sample, verify inclusion and physically observe asset.
- c. For training and development expenses verify services are provided to state employees.

METHODOLOGY:

To achieve our objectives, we reviewed applicable internal controls and compliance with the WV Code, Expenditure Schedule Instructions, Legislative Rules, and WVAGO internal policies and

procedures, reviewed the source documents, made inquiries with various agency personnel, and exercised professional auditor judgment as necessary.

In order to account for adequate documentation of program results and adequate accounting of expenditures, we designed and performed a test to determine legal services, food products, miscellaneous commodities and services, office supplies, training and development, computer services, vehicle operating expenses (fleet), energy expense (motor vehicles and Aircraft) services, and contractual and professional services were beneficial to the agency, properly being documented and maintained by WVAGO, and in compliance with Legislative Rule, Purchasing Division, Title 148, Series 12, Sections: 6.1.6, 6.2, 6.3.3, 6.4, 7.2 through 7.6, and 7.8.1 and the WV Purchasing Division's Purchasing Handbook² Sections: 3, 4.6.1, 6.2.3, and 9, applicable sections of the WV FY 12 and 13 Expenditure Schedule and WV Code §12-3-10f and §5A-3-10.

The population for contractual and professional services consisted of 118 transactions totaling \$307,874.09. We used professional auditor judgment to determine the sample size of 15 transactions. We also decided to include the \$250,000 transaction in our sample. Using the RATSTAT random number generator, single stage random number function, we generated 15 random numbers to identify the items selected for testing in the population. Our sample consisted of 15 transactions totaling \$255,844.84. Next, we recalculated and reviewed the contractual and professional services expenditures selected as our sample based on the supporting documentation present and in accordance with the test designed.

The population for legal services, food products, miscellaneous commodities and services, office supplies, training and development, and computer services consisted of 2,244 transactions totaling \$1,429,888.71. We used professional auditor judgment for the sample size for stratum 1. We decided on a sample size of one for stratum 1 because all transactions in stratum 1 were monthly payments for the same amount paid to the same vendor. According to RATSTATs, at a confidence level of 95% and a precision level of 10% the sample size to be tested was 31 and 35 for strata 2 and 3, respectively. Using auditor judgment for the sample size we decided a sample size of three for stratum 4 because stratum population did not consist of any expenditure type, which makes this a low risk area. We used RATSTATs Single Stage Random Numbers function to generate random numbers for strata 1, 2, 3, and 4. We then used the random numbers generated to identify the items selected for testing in the population. Our sample consisted of 70 items totaling \$258,240.82. We recalculated and reviewed the expenditures selected as our sample based on the supporting documentation present and in accordance with the test designed.

The population for vehicle operating expense and energy expense (motor vehicles and aircraft services) consisted of 409 transactions totaling \$64,994.85. We used professional auditor judgment to determine the number of strata and strata boundaries. We determined the use of two strata to separate the high dollar amounts and selected all 16 transactions in stratum 1 as the sample. RATSTATs was used to determine the sample size for stratum 2. According to RATSTATs, at a confidence level of 90% and a precision level of 5% the sample size to be tested was 48 for stratum 2. Excel Function "Randbetween" was utilized to generate random numbers for stratum 2. We then used the random numbers generated to identify the items selected from stratum 2 and all transactions in stratum 1 for testing in the population. Our sample consisted of 64 items totaling

\$44,787.15. We recalculated and reviewed the expenditures selected as our sample based on the supporting documentation present and in accordance with the test designed.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- Expenditure Schedule Instructions
- Legislative Rule, Purchasing Division, Title 148, Series 12, Sections: 6.1.6, 6.2, 6.3.3, 6.4, 7.2 through 7.6, and 7.8.1
- WV Purchasing Division’s Purchasing Handbook2 Sections: 3, 4.6.1, 6.2.3, and 9,
- WV Code §12-3-10f
- WV Code §5A-3-10
- WV Code §5A-8-9
- The Government Auditing Standards Appendix I A1.08

OBJECTIVE 5:

Determine if the WVAGO developed internal policies and procedures for travel expenditures in accordance with WV Code §12-3-11. If internal policies are available, perform audit procedures to determine compliance of travel. If internal policies are not available, determine compliance with Federal mileage and per diem rates and if the expenditure was for the benefit of the agency.

METHODOLOGY:

To achieve our objective, we reviewed applicable internal controls and compliance with the WV Code, WVAGO internal policies, and reviewed the source documents.

In order to account for adequate documentation of program results and adequate accounting of expenditures, we designed and performed a test to determine if travel expenditures were properly being documented and maintained by WVAGO, and in compliance with WV Code §12-3-11, and WVAGO Travel Regulations. This test population consists of all I-Documents because all D-Documents and E-Documents were separated out to check the I-Documents against, where applicable. The population consisted of 3,616 transactions totaling \$458,611.83. We created a Pivot Table to show each I-Document available for testing. When Doc IDs were subtotaled, there were 1,616 items.

We then input the absolute values of the population into an excel workbook specifically designed to calculate the stratification boundaries statistically based upon the Cumulative Frequency of the Square Root. We input the strata information into RATSTAT's Variable Sample Size Determination "Stratified" function to determine the sample size for each stratum.

According to RATSTATs, at a confidence level of 95% and a precision level of 5% the sample size to be tested was 34 items but due to rounding, the total stratified sample size calculated (36) does not equal the sample size requested (34). According to RATSTATs Variable Sample Size Determination 'Stratified' function at a confidence level of 95% and a precision level of 10% the sample size to be tested for each stratum was 4, 10, 3, 8, and 11 for strata 1, 2, 3, 4, and 5 respectively. We used RATSTATs Single Stage Random Numbers function to generate random numbers for strata 1, 2, 3, 4, and 5. We then used the random numbers generated to identify the items selected for testing in

the population. Our sample consisted of 34 items totaling \$53,370.61. We then recalculated and reviewed the travel expenditures selected as our sample based on the supporting documentation present and in accordance with the test designed.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- WV Code §12-3-11(a)
- WVAGO Travel Regulations
- WV Code §4-2-4
- WV Code §4-2-6
- WV Code §11-15-9
- WV Legislative Rule Title 148-1
- WV State Tax Department Publication TSD-300
- WV Code §7-18-1
- WV Code §7-18-5

OBJECTIVE 6:

Examine purchases made on the WV Purchasing Card (P-card) to determine if they were made in accordance with §12-3-10a, with Legislative Rule, Purchasing Division, Title 148, Series 7 and WV State Auditor’s Office P-card Policies and Procedures Handbook Sections 4.4, 6, and 7 and if they were beneficial to the agency.

METHODOLOGY:

To achieve our objective, we reviewed applicable internal controls and compliance with the WV Code, Legislative Rules, WV State Auditor’s Office P-card policy, and WVAGO internal policies and procedures and reviewed the source documents.

In order to account for adequate documentation of program results and adequate accounting of expenditures, we designed and performed a test to determine if P-card expenditures were properly being documented and maintained by WVAGO, purchases were made by authorized cardholders, purchases did not exceed transaction limits, expenditures were being reconciled, and the expenses were charged to the proper object code and fund in compliance with WV Code §12-3-10, Legislative Rule Title 148, Series, WV State Auditor’s Office P-card policy 4.4, 6, and 7. The test population consisted of all I-Documents. The population consisted of 111 transactions totaling \$68,173.29. We created a Pivot Table to show each I-Document available for testing. When Doc IDs were subtotaled, there were 19 items. The S-Document population consisted of 429 transactions totaling \$68,198.29¹⁶.

We then input the data into RATSTAT's Attribute Sample Size Determination function. Using 95% confidence levels, 0.5% anticipated rate of occurrence, 10% desired precision range, and 19 universe size the sample size to be tested should be 15. Using the RATSTAT random number generator, single stage random number function, we generated 15 random numbers to identify the items selected for

¹⁶ Difference of \$25 between I-Document population and S-Document population is a transaction in Activity Code 740.

testing in the population. Our sample consisted of 15 transactions totaling \$55,690.60. Next, we recalculated and reviewed the P-card expenditures selected as our sample based on the supporting documentation present and in accordance with the test designed.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- WV Code §12-3-10a
- WV Code §5A-8-9
- WV Code §4-2-4
- WV Code §4-2-6
- Legislative Rule Purchasing Division, Title 148, Series 7
- WV State Auditor’s Office P-card Policies and Procedures Handbook Sections 4.4, 6, and 7

OBJECTIVE 7:

Determine the appropriateness of tuition and fee reimbursements made for a WVAGO employee.

METHODOLOGY:

To achieve our objective, we reviewed "Employer’s Tax Guide to Fringe Benefits" section of IRS (2012) Publication 15-B, "Tax Benefits for Education" section of IRS (2012) Publication 970 2012, agency documentation, and used auditor observations and professional judgment to determine the appropriateness of tuition and fee reimbursements made for an WVAGO employee. We also reviewed expenditures made for tuition assistance of other employees as far back as 1999.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- Internal Revenue Service (2012) Publication 15-B “Employer’s Tax Guide to Fringe Benefits”
- Internal Revenue Service (2012) Publication 970 “Tax Benefits for Education”

OBJECTIVE 8:

Perform a review of all vendors paid during the audit period for any unusual merchants. Pay particular attention to advertising and hospitality expenditures.

METHODOLOGY:

To achieve our objective, we sorted and subtotaled the population by Vendor Name. Using professional auditor judgment we reviewed each vendor and selected any unusual vendors and vendors with high total transaction amounts for testing. Selected vendors and transactions served as the sample for testing. Next, we reviewed the vendors and transactions selected as our sample based on the supporting documentation present and in accordance with the test designed.

RELEVANT LAWS, POLICIES, OR AGREEMENTS:

- WV Vendor Contracts
- WV Code §5A-8-9

**WEST VIRGINIA ATTORNEY GENERAL'S OFFICE
JULY 1, 2011 – JANUARY 14, 2013**

APPENDIX B

WEST VIRGINIA ATTORNEY GENERAL'S OFFICE RESPONSE TO AUDIT FINDINGS



State of West Virginia
Office of the Attorney General

Patrick Morrissey
Attorney General

(304) 558-2021
Fax (304) 558-0410

May 15, 2014

Denny Rhodes
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., East
Charleston, WV 25305-0610

RE: WVAGO's responses to the audit findings related to the limited scope post audit
of the West Virginia Attorney General's Office

Dear Mr. Rhodes:

Enclosed please find our responses to the audit findings from the post audit of the West Virginia Attorney General's Office for the period of July 1, 2011 to January 14, 2013. The Attorney General's Office has taken steps to eliminate the causes of the findings and will continue to develop best practices that improve the integrity of monies we manage. We appreciate the service performed by the West Virginia Legislative Auditor's Office.

Sincerely,

A handwritten signature in blue ink that reads "Patrick Morrissey".

Patrick Morrissey
Attorney General

Enclosure

State Capitol Building 1, Room E-26, 1900 Kanawha Boulevard East, Charleston, WV 25305



State of West Virginia
Office of the Attorney General

Patrick Morrissey
Attorney General

Audit Responses

(304) 558-2021
Fax (304) 558-0410

#1 Lack of Internal Controls over Purchasing Card

The Office is currently working on new purchasing card policies; however, the increased controls, around all purchasing within the Office, have significantly diminished the potential for improper or fraudulent purchases. We hired an experienced AP Clerk and an experienced Purchasing Officer early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent fraud and errors. An internal purchase request form has been implemented that requires a Division Director to sign off on all purchases, and all purchasing is being performed by the new Purchasing Officer. All invoices are then being sent to the AP Clerk for payment; once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be processed. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS. Moreover, we currently only have one purchasing card that can be used for general purchasing. This card is held by the AP Clerk and used mostly for payments that are required to be performed online. The Office will not add additional cards until the purchasing card policy has been completely updated.

#2 Lack of Internal Controls over Fuel Card Purchases

Prior to December 31, 2013, we cancelled the Exxon fuel cards and collected all of the Superfleet cards. The office is now using the Fleet Management fuel cards and the Auditor's fleet cards. These cards have each been assigned to a specific vehicle. The Fleet management fuel cards require a unique driver PIN and odometer reading to be entered before each fuel purchase. The Auditor's fleet cards are only being used on 3 vehicles that have undercover license plates for specific office business. Log books have been placed in each car to keep the reason for all travel, which includes driver name, date, odometer reading, locations traveled and reason for travel. All receipts are submitted to our AP Clerk at the end of each month, if not sooner, by each driver. The AP Clerk then reconciles the receipts to the monthly statement received from the respective credit company. After the statement is reconciled the payment goes through the same review process as all other payments. The statement is used for the invoice which is entered into WVFIMS by the AP Clerk; the batch is reviewed by the CFO for proper accounting. Any changes are sent back to the AP Clerk to be processed.

State Capitol Building 1, Room E-26, 1900 Kanawha Boulevard East, Charleston, WV 25305

The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS.

#3 Non-Compliance with Internal Travel Policies and Tax Exemptions

Our increased controls, around all purchasing within the Office, have significantly diminished the potential for errors in travel related expenses. We hired an experienced AP Clerk and an experienced Purchasing Officer early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent fraud and errors. An internal purchase request form has been implemented that requires a Division Director to sign off on all purchases, and all purchasing is being performed by the new Purchasing Officer. All invoices are then being sent to the AP Clerk for payment; once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be processed. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS. Specifically all travel forms are reviewed and signed by the individual's manager. The AP Clerk then checks the miles and per diem rates and reviews the travel reimbursement form for mathematical errors. The AP Clerk also follows up on any missing hotel folios or travel related receipts. If there are any changes to the form affecting the dollar amount of the reimbursement, the AP Clerk emails the employee to notify them of the change. Unless there is an emergency, hotel stays, airline tickets and rental cars are now booked by either the Purchasing Officer or a designated secretary who uses an office Travel Management account to pay for these purchases. These individuals either use the state wide travel contract or know to ensure state taxes are not included. Receipts are required to be submitted with travel reimbursement form, even though, most bookings are paid directly by the office. The AP Clerk reconciles the receipts to the statement each month.

#4 Improper Reporting of Employee Income

The current administration is not providing tuition reimbursement or tuition payments for any employee; therefore, the issue will not exist moving forward. However, in response to the audit finding, the CFO and an attorney with employment law experience will perform a review to determine whether or not corrected W-2's will need to be filed with the IRS.

#5 Lack of Adequate Supporting Documentation

The increased controls, around all purchasing within the Office, have significantly improved the quality of documentation maintained and required. We hired an experienced AP Clerk and an experienced Purchasing Officer early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent fraud and errors. An internal purchase request form has been implemented that requires a Division Director to sign off on all purchases, and all purchasing is being performed by the new Purchasing Officer. All invoices are then being sent to the AP Clerk for payment; once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be processed. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS. All original documentation, which includes contracts, invoices, reimbursement forms, receipts, hospitality forms and memos, are now scanned and sent to the Auditor's Office. These documents are available to view through MyApps at any time. We are also filing, by vendor, two years of original documentation in our files at the Capitol.

#6 Lack of Supporting Documentation

The increased controls, around all purchasing within the Office, have significantly improved the quality of documentation maintained and required. We hired an experienced AP Clerk and an experienced Purchasing Officer early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent fraud and errors. An internal purchase request form has been implemented that requires a Division Director to sign off on all purchases, and all purchasing is being performed by the new Purchasing Officer. All invoices are then being sent to the AP Clerk for payment; once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be processed. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS. All original documentation, which includes contracts, invoices, reimbursement forms, receipts, hospitality forms and memos, are now scanned and sent to the Auditor's Office. These documents are available to view through MyApps at any time. We are also filing by vendor two years have original paper versions in our files at the Capitol.

#7 Noncompliance with W.Va. Code 12-2-2

We have taken a number of steps to speed up the process by which payments are received at the Capitol. A new Runner was hired who carries mail between the Capitol and the other Charleston locations at least twice daily and is available to make other deliveries as needed. The Office has put in to place policies to expedite the processing and depositing of Consumer payments by ensuring the accounting department knows in advance that a payment is to be received and how the payment should be handled. Also, we have worked with the Pre-need Burial Services and Consumer divisions to ensure payments are prepared in a manner in which the deposit can be quickly reviewed and entered into WVFIMS by the Controller. If a payment is kept overnight, it is locked in a safe or lockbox until the Controller can make the deposit with the State Treasurer's Office.

#8 Lack of Internal Control over Collection of Revenues

Steps have been taken to increase controls around the collection of revenues. For Consumer revenue, new procedures have been put in place to accurately track settlement money as it is deposited and disbursed. Each settlement is assigned its own project number in WVFIMS, which allows us to track the money and ensure payments are made from the correct pool of money for each settlement. Along with each settlement being assigned a unique project number in WVFIMS, our Controller is maintaining a spreadsheet listing each settlement, the project number, the amount received, and a breakout of how the money is to be used. The spreadsheet is updated for each disbursement related to a specific settlement. The CFO is responsible for ensuring consumer funds are properly accounted, and the Controller has been designated as the individual who will perform the processing related to consumer settlement monies. Under the new procedures, the attorney associated with each settlement is required to keep a record of all monies received and disbursed. In addition to the step listed above for Consumer related revenue, we have also required that all checks received and being paid to the Attorney General's Office be stamped as "For Deposit Only" as soon as the mail is opened. The mail is being opened by designated individuals at each location and the individual then delivers the mail to the person handling the matter. The deposit information is prepared by the person handling the matter, and the deposit and support is then sent to the Controller. The Controller then reconciles the deposit to the supporting documentation, checks the deposit for accuracy, and enters the deposit into WVFIMS. The random audits performed each year of pre-need burial service providers also aids in the review of revenue collections.

#9 Lack of Controls Over Receiving Procedures

The increased controls implemented around all purchasing within the Office have helped to ensure purchases are properly received. We hired an experienced AP Clerk and an experienced Purchasing Officer early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent errors. An internal purchase request form has been implemented that requires a Division Director to sign off on all purchases, and all purchasing is being performed by the new Purchasing Officer. All invoices are then being sent to the AP Clerk for payment. While processing the invoices, the AP Clerk reviews the purchase to ensure a receiving report is completed when necessary.

Once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be processed. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, and amount; this is consistent with the procedure we presented in our audit response. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS. Moreover, most invoices are originally received by the Purchasing Officer and not sent to the AP Clerk until the confirmation of receipt of the purchase has been received. The receiving reports are included as supporting information that is scanned to the State Auditor's Office and is available for viewing through MyApps. Once wvOASIS is put into place, we will review our receiving process to ensure it is functioning effectively and efficiently with the new capabilities of wvOASIS.

#10 Expenditure Misclassification

The Office hired an experienced AP Clerk early in fiscal year 2014, which has enabled us to establish better segregation of duties and create safeguards to prevent coding errors. The AP Clerk has listed reoccurring charges and the proper account coding; which has increased consistency. All invoices are being sent to the AP Clerk for processing; once the AP Clerk enters the transaction into WVFIMS, a batch is reviewed by the CFO for proper accounting, including the use of the proper object codes, and approval. Any changes are sent back to the AP Clerk to be corrected. The CFO then creates a list of invoices to be paid that includes the vendor name, account code, transaction description, and amount. The list and supporting invoices are given to the COO for his review and approval, in consultation with the AG as appropriate. Once the COO and CFO have approved the invoices, the CFO manually approves the invoices in WVFIMS