

STATE OF WEST VIRGINIA

UPDATE OF THE
FULL PERFORMANCE EVALUATION
OF THE

DIVISION OF PERSONNEL

Follow-up on DOP's \$2 Million Reserve

OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation and Research Division
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PE 07-08-79

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September 1997

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Antonio E. Jones, Ph.D.
Director

September 9, 1997

The Honorable Larry Wiedebusch
State Senate
403 Fern Drive
Glen Dale, West Virginia 26038-1005

The Honorable Vicki Douglas
House of Delegates
Building 1, Room E-213 1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting an Update of the Full Performance Evaluation of the Division of Personnel, which will be reported to the Joint Committee on Government Operations on Sunday, September 14, 1997. The issue covered herein is "Follow-up on DOP's \$2 Million Reserve."

Let me know if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Antonio Jones".

Antonio Jones

AEJ/wsc

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Executive Summary

This report is an update on the performance evaluation that was reported on during the December 1995 Interim. The West Virginia Division of Personnel is the state's personnel agency. One of the primary responsibilities of the Division is to maintain a Human Resource Information System (HRIS).

ISSUE AREA 1: Follow-up on \$2 Million Reserve.

West Virginia Code §29-6-23 authorizes the Division of Personnel "to charge each agency, department, division, or unit of state or local government served by the DOP...for personnel services rendered." The DOP's budget is established by assessing fees based on the number of Full-Time Equivalents (FTEs) in each state agency. The DOP is charging agencies a flat \$155 per FTE annually whether the position needs DOP's full services or limited services.

The Legislative Auditor reported in December of 1995 that the DOP had accumulated a surplus balance of approximately \$2 million, as of June 30, 1995. The DOP had a cash balance of \$1.3 million and had \$787,475 in accounts receivable. According to the Division of Personnel, of the \$787,475 in accounts receivable, \$507,809 was a credit for over-billing to the Department of Education, \$125,589 was for temporaries employed by the defunct Division of Tourism and Parks, and \$59,020 was deferred for various County Health Departments.

The Division of Personnel has a June 30, 1997 cash balance and accounts receivable of \$1,235,103. A new Human Resource Information System (HRIS) is in the planning stage. The DOP's Director believes that the Division can purchase a basic system with a minimum of modifications for approximately \$650,000 in initial costs. The DOP has allocated the \$650,000 from the June 30, 1997 balance (approximate \$1.1 million) for the purchase of a HRIS. In addition, the DOP budgets two months of expenditures which is maintained in the balance of the account. According to the DOP, this amount is approximately 460,000 which cover personal services, benefits, operational expenses and increment pay. The HRIS reserve and two-month budget reserve totals approximately \$1.1 million.

Review Objective, Scope and Methodology

This report is an update of the 1995 West Virginia Division of Personnel performance evaluation and is conducted in accordance with the West Virginia Sunset Law, West Virginia Code, Chapter 4, Article 10.

The objective of this review was to determine how much of the Division's reserve balance currently remains and how much of the reserve the Division plans to allocate for a Human Resource Information System.

The methodology included conducting an analytical review of the Division of Personnel financial information for fiscal year 1996 and fiscal year 1997, an analysis of the accounts receivables for both fiscal years and meeting with the Director and Assistant Director in order to obtain their comments. This performance evaluation complied with **Generally Accepted Government Auditing Standards (GAGAS)**.

Introduction & Background

The Performance Evaluation and Research Division conducted a full performance audit on the Division of Personnel and reported it to the Joint Committee on Government Operations in December of 1995. One of the issues that we reported on was: **The DOP as of June 30, 1995 Accumulated a Surplus Balance of Approximately \$2 Million by Assessing Agencies for Classified-Exempt and Vacant Positions and Neglecting to Reduce the Fee to Reflect the Cost of its Operations.**

An update of the performance audit was presented to the Joint Committee on Government Operations in February of 1997. The purpose of this update was to determine the level of compliance of the recommendations in the performance audit. The “surplus balance” issue that we focused on required Legislative action and therefore, the level of compliance was not applicable.

ISSUE AREA 1: Follow-up on \$2 Million Reserve.

The Legislative Auditor's Office is conducting this update of the Division of Personnel as a result of West Virginia Code §4-10A, which states, "...no agency may be terminated under this section unless a compliance monitoring and further inquiry update has been completed on the agency subsequent to the prior completion of a full performance evaluation.

West Virginia Code §29-6-23 authorizes the Division of Personnel "to charge each agency, department, division, or unit of state or local government served by the DOP... for personnel services rendered." The DOP's budget is established by assessing fees based on the number of FTEs in each state agency. The DOP is charging agencies a flat \$155 per FTE annually whether the position needs DOP's full services or limited services.

The Legislative Auditor reported in December of 1995 that the DOP had accumulated a surplus balance of approximately \$2 million, as of June 30, 1995. The DOP had a cash balance of \$1.3 million and had \$787,475 in accounts receivable, which is money owed to DOP by other agencies that has not been collected. The DOP surplus was a result of agencies paying for classified-exempt positions, vacant positions and the DOP's failure to evaluate its fiscal operations to determine how much of a fee reduction could have been given to state agencies.

Two-Year Analysis of the Accounts Receivable

The DOP began fiscal year 1996 with an accounts receivable balance of \$787,475. Adjustments were made to the accounts receivable ledger for deferred or write-offs of balances that exceeded the 180 days and are deemed uncollectible or errors in the billings. The adjustments and write-offs for fiscal year 1996 and fiscal year 1997 totaled \$758,874. As indicated in **TABLE ONE**, \$533,232 was deferred during Fiscal Year 1996 and \$225,642 was deferred during fiscal year 1997.

Major Reasons for Adjustments

According to the Division of Personnel, the Department of Education's (DOE) account was deferred in the amount of \$507,809 because DOP deemed it to be uncollectible. During FY 1996, DOP deferred accounts receivable in the amount of \$304,376 which had been billed to the Department of Education through FY 1994. An additional \$203,433 was credited to Education's account because appropriations were not made to DOE beginning in FY 1995 to pay these fees. DOP considered this amount uncollectible as the Department of Education contended it was a "constitutional" office and thus it was exempt from DOP's fee.

DOP also wrote off \$125,589 which had been billed to the Division of Tourism during the period fiscal year 1991 through fiscal year 1994 for temporary employees. An internal dispute between the Division of Tourism and the Division of the State Parks system existed as to who employed the temporaries and who was responsible for the fees. This was considered uncollectible due to lack of funds in the Division of Tourism. The cabinet secretary recommended the amount

be deferred because DOP could not resolve the dispute and the Division of Tourism and the Division of Parks were to split their operations. In December 1994 the state parks were transferred to the Division of Natural Resources.

An additional \$59,020 was deferred for several county health departments mainly due to reductions in Full-time Equivalents, the basis for DOP's fee. **Table One** depicts an analysis of the accounts receivable ledger beginning July 1, 1995 through June 30, 1997.

TABLE ONE
Analysis of Division of Personnel's Accounts Receivable

	Fiscal Year 1997	Fiscal Year 1996
Beginning Balance as of July 1	\$269,329	\$787,475
Additions: Fees Billed to Agencies	3,514,910	3,515,063
Total Accounts Receivables To Account For	<u>3,784,239</u>	<u>4,302,538</u>
Deductions: Fees Collected from Agencies	3,425,966	3,499,977
Deferred Accounts or Write-Offs:		
Department of Education	203,433	304,376
Division of Tourism	0	125,589
County Public Health Departments	0	59,020
Other (Various Agencies)	22,209	44,247
Total Fees Collected and Write-Offs	3,651,608	4,033,209
Ending Balance as of June 30	132,631	269,329
Total Accounts Receivable Accounted For	\$3,784,239	\$4,302,538

DOP's Plans \$650,000 of the Reserve for an Automated HRIS

DOP's cash balance as of June 30, 1997 is \$1,102,472 and has \$132,631 in accounts receivables for a total of \$1,235,103. DOP has allocated \$650,000 of the cash balance for the purpose of purchasing a Human Resource Information System as part of a coordinated effort with the State Auditor's Office. This is a basic system with minimum modifications for collecting, analyzing and disseminating data required to support the various human resource management functions. DOP has allocated funds annually for the HRIS and the money has remained in the account. The DOP's Director states that, "...the Division of Personnel is firmly committed to

the implementation of an automated human resource information system (HRIS). At this time, we are coordinating our efforts with the Auditor's efforts to upgrade his payroll system."

The cost of a HRIS can vary tremendously. As reported in the December 1995 performance evaluation, the anticipated cost for the system was to cost anywhere from \$5 million to \$8.7 million. DOP spent \$160,500 of the reserve for this system that was discontinued by the Secretary of Administration. The DOP's current Director believes that the Division can purchase a basic system with a minimum of modifications for approximately \$650,000 in initial costs. Beyond the initial costs, there would be annual maintenance fees for the software which would include any standard upgrades. The Director also anticipates that enhancements would be made to the basic system on an ongoing basis which would be a cost beyond the annual maintenance fees.

DOP also retains a cash reserve adequate to meet payroll and benefits costs for two months. The cost, as projected by DOP, is approximately \$460,000. The cost of the two months of budget combined with the HRIS initial cost totals \$1,110,000 leaving a remaining balance of \$125,103. **TABLE TWO** indicates the analysis of the beginning reserve as of July 1, 1995 through June 30, 1997.

TABLE TWO
Analysis and Obligation of Reserve Balance

	Cash	Accounts Receivable
Beginning Balance as of July 1, 1995	\$1,294,001	\$787,475
Add: Fees Assessed (7/1/95 - 6/30/97)	6,925,943	7,029,973
Less: Fees Collected (7/1/95 - 6/30/97)		(6,925,943)
SubTotal	8,219,944	891,505
Receivables Deferred\Written-off (7/1/95 - 6/30/97)		758,874
Less: Expenditures (7/1/95 - 6/30/97)	7,117,471	0
SubTotal	1,102,473	132,631
HRIS Allocation	(650,000)	
Two-Month Budget Cash Reserve	(460,000)	
Balance of Reserve as of June 30, 1997	(\$7,527)	\$132,631

Conclusion

The Division of Personnel has written-off\deferred approximately \$759,000 of the \$787,475 in accounts receivable as reported in the December 1995 performance evaluation. The cash balance reported in 1995 was \$1.3 million of which \$1.1 million remains in DOP's special revenue account as of June 30, 1997. Approximately \$160,000 of the \$200,000 difference was used to pay for services rendered on the contract that was canceled by the Secretary of Administration for the \$5 million HRIS.

Recommendation 1

DOP should continue to develop a Human Resource Information System as required by Chapter 29, Article 6, Section 7(b)(2) of the West Virginia Code which states the Director of DOP "Maintain a personnel management information system necessary to carry out the provisions of this article." The efforts by DOP should be coordinated with the efforts of the State Auditor's Office.

Appendix A

West Virginia Department of Administration		
Division of Personnel - Financial Statement		UNAUDITED
Description	FY 1997	FY 1996
Revenues: Fees	3,425,966	3,499,977
Personal Services (p\rDeductions)	1,912,698	1,951,477
Personal Services (Without p\rDeductions)	5,200	4,268
P\R Reimbursements	(2,811)	(2,385)
Annual Increment	60,100	42,408
Civil Service	1,582	1,458
Social Security Match	148,879	150,752
Public Employees Insurance	203,153	201,627
Workers Compensation	18,892	19,904
Unemployment Compensation	0	0
Pension & Retirement	183,199	186,292
Office, Postal, Freight	56,243	121,358
Printing and Binding	11,526	16,884
Rental (Building)	162,386	176,900
Utilities	663	2,338
Telephone	14,243	22,951
Contractual & Professional	177,938	388,390
Travel	30,172	30,559
IS & C	115,371	133,076
Consultants	0	7,600
Machine Rentals	15,461	20,037
Association Dues	2,644	2,617
Risk Management Insurance	5,000	2,500
Clothing & Household	32	309
Advertising	935	0
Research, Educational & Medical	535	0
Maintenance Contracts	22,933	21,776
Hospitality	8,444	11,570
Miscellaneous	620	11,622
Training & Development	15,608	41,868
Postal & Freight	54,294	0
Computer Expenses	10,436	0
Labor	0	5,611
Office Equipment	3,834	3,185
Building Household & Communication	919	2,589
Building	1,357	86,365
Other	273	0
Office Equipment	7,009	29,567
Medical	982	0
Household	4,541	8,946
Books & Periodicals	1,978	647
Other	64,305	8,258
Payment of Claims	789	1,025
Other Interest Expenses	0	279
Computer Equipment	545	0
Computer Software	3,827	0
Expenditures	3,326,732	3,714,625
Beginning: June Invoices Paid in July	155,150	154,773
Ending: June Invoices Paid in July	(78,658)	(155,150)
Total Expenditures	3,403,224	3,714,247
Revenues Over (Under) Expenditures	22,742	(214,271)
Beginning Balance as July 1,	1,079,730	1,294,001
Ending Cash Balance June 30,	1,102,472	1,079,730
Accounts Receivable June 30,	132,631	269,329
Cash and Accounts Receivable Balance June 30	1,235,103	1,349,059

Appendix B



West Virginia Division of Personnel

Edison L. Casto, Director

STATE PERSONNEL BOARD

Roger Morgan, Chairman

Rev. Paul J. Gilmer ♦ Elizabeth D. Harter

Sharon Lynch ♦ Eugene Stump

September 4, 1997

RECEIVED

SEP 5 1997

**RESEARCH AND PERFORMANCE
EVALUATION DIVISION**

Antonio E. Jones, Ph.D., Director
Performance Evaluation and Research Division
Building 5, Room 751
State Capitol Complex


Dear Dr. Jones:

Thank you for the opportunity to respond to the Performance Evaluation and Research Division's update of this Division's full performance evaluation.

I have reviewed the report with particular attention to the sections titled *Two-Year Analysis of the Accounts Receivable*, *Major Reasons for Adjustments*, *DOP Plans \$650,000 of the Reserve for an Automated HRIS*, and *Conclusion*. These sections appear to accurately reflect the status of our account as well as our plans for an automated HRIS. In addition, I have reviewed and concur with the recommendation that we continue the work we have initiated to obtain an automated HRIS.

Again, thank you for the opportunity to respond.

Sincerely,


Edison L. Casto, Director
Division of Personnel

ELC:TMC/

