

LEGISLATIVE AUDIT REPORT

WEST VIRGINIA DEVELOPMENT OFFICE

FOR THE PERIOD JULY 1, 2009 - JUNE 30, 2010

Audit Scope

Purchases, Travel and Purchase Card Expenditures

Audit Overview

- Vagueness of Code Regarding Hiring of Retired State Employees
- Use of Unregistered Vendors
- Noncompliance with State Purchasing Card Policies



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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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The Joint Committee on Government and Finance:

In compliance with the provisions of the W. Va. Code, §4-2, as amended, we have conducted a limited scope audit of the West Virginia Development Office (WVDO) for the period of July 1, 2009 through June 30, 2010.

Our limited scope audit was conducted at the behest of the Legislative Auditor following receipt of an anonymous letter regarding irregularities in the process of bidding contracts. We limited our review to Purchases, Travel and Purchase Card expenditures.

We have conducted our audit in accordance with Generally Accepted Government Auditing Standards except for the organizational independence impairment discussed in the Objectives and Methodologies section. Our audit disclosed certain findings, which are detailed in this report. WVDO management responded to the audit findings; we have included the responses at the end of the report.

Respectfully submitted,

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

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

SLS/cdo

**WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010**

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WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010

EXECUTIVE SUMMARY

Informational Item Vagueness of Code Regarding Hiring of Retired State Employees

- ◆ W. Va. Code §5-10-48 places limitations on individuals who are drawing an annuity from the State of West Virginia Consolidated Retirement Board if employed by a participating public employer. It is the belief of the Legislative Auditor there is a “loophole” which allows state agencies to circumvent the existing restrictions by hiring retired state employees as independent contractors.

Auditor’s Recommendation

The Legislative Auditor recommends the elimination of limitations for all retired state employees, amend West Virginia Code to specifically limit contracted retired state employees, or require CPRB to investigate contractor relationships in order to eliminate those contractors that should be classified as employees.

Spending Unit’s Response

“We agree with the Auditor that there is currently vagueness in the West Virginia Code regarding the hiring of retired employees participating in the Public Employees Retirement System.” See Appendix B, page 33.

Finding 1 Use of Unregistered Vendors

- ◆ We noted in our review of general purchases the WVDO made use of unregistered vendors for some purchases.

Auditor’s Recommendation

We recommend the WVDO comply with the WV Purchasing Division Procedures Handbook and use the TEAM ordering system for all future orders; include a printout of the TEAM screen showing the vendor is registered with and in good standing with the state within each transaction’s documentation.

Spending Unit’s Response

“The WVDO will comply with the Auditor’s recommendation.” See Appendix B, page 34.

Finding 2 Noncompliance with State Purchasing Card Policies

- ◆ WVDO has not developed a written set of internal controls with regard to purchasing cards (p-cards), nor submitted those controls to the WV Auditor’s Office for approval and record keeping.
- ◆ WVDO does not perform an electronic reconciliation process for their p-cards.

- ◆ A p-card reconciliation log sheet was not signed. A signature, both of the cardholder and the person responsible for reconciliation, verifying listed transactions were received and reconciled to the cardholder statement, is required by WVDO policy.

Auditor's Recommendation

We recommend the WVDO comply with the WV State Auditor's Office State Purchasing Card Policies and Procedures and document and submit their internal controls and electronic reconciliation process to the State Auditor's Office for approval.

Spending Unit's Response

"The WVDO will comply with the Auditor's recommendation." See Appendix B, page 34.

Finding 3 Same Person Entered and Approved Transactions in WV FIMS

- ◆ Several instances were noted in our review of non p-card transactions entered into the WVFIMS system, whereby, the same person entered and approved the transactions, indicating segregation of duties inadequacies.

Auditor's Recommendation

We recommend the WVDO comply with best accounting practices and ensure a proper segregation of duties by having one person enter and another approve payments into WVFIMS. For adequate segregation of duties, management should ensure responsibility for certifying/authorizing transactions, recording transactions, and approving transactions are assigned to different personnel.

Spending Unit's Response

"The WVDO will evaluate possibilities for realigning duties or seeking additional personnel funding." See Appendix B, page 34.

Finding 4 Untimely Payments for Telecommunications Cellular Invoices

- ◆ We noted payments for the cellular services monthly invoices were paid on average 3.11 months after the month of the invoice; although, one invoice from 2010 was paid 11 months late.

Auditor's Recommendation

We recommend the WVDO strengthen internal control by ensuring bills are paid timely.

Spending Unit's Response

"The WVDO will comply with the Auditor's recommendation." See Appendix B, page 34.

Finding 5 Lack of Receipt Logs and Untimely Deposits

- ◆ We noted multiple instances during our review of expenditures/disbursements, in which the WVDO did not maintain a daily itemized log of receipts and/or did not deposit receipts in a timely manner.

Auditor's Recommendation

We recommend the WVDO comply with W. Va. Code §12-2-2 and keep an itemized daily log of all receipts; depositing all monies within 24 hours of receipt.

Spending Unit's Response

"The WVDO will comply with the Auditor's recommendation." See Appendix B, page 35.

Finding 6

Misclassified Expenditures/Reimbursements

- ◆ We noted multiple instances during our review of expenditures/disbursements where the WVDO misclassified transactions by the use of an incorrect object code.

Auditor's Recommendation

We recommend the WVDO consult the State Expenditure Schedule for correct object code identification, and if an ambiguity exists, we suggest consulting the State Auditor's Office for guidance.

Spending Unit's Response

"The WVDO will comply with the recommendation of the Auditor." See Appendix B, page 35.

Finding 7

Lack of Purchasing Documentation

- ◆ We reviewed purchasing files for expenditures in excess of \$2,500 and noted some files did not contain all of the required documentation.

Auditor's Recommendation

We recommend the WVDO comply with the WV Purchasing Handbook by securing and maintaining the required documentation for purchases in excess of \$2,500. Further, we suggest WVDO make use of the TEAM purchasing system for all future purchases ensuring the required documentation is gathered.

Spending Unit's Response

"The WVDO will comply with the Auditor's recommendation." See Appendix B, page 35.

Finding 8

Travel Expense Settlement Submitted Late

- ◆ We noted not all travel expense settlements were being submitted to either the WVDO Travel Coordinator or to the State Auditor's Office within the time limits created by both the WVDO Travel Policies and the State of WV Travel Rules.

Auditor's Recommendation

We recommend the WVDO comply with their travel policy ensuring all travel settlement forms are submitted to the coordinator by the 10th day and submitted for payment by the 15th day after the last day of travel. We suggest the travel coordinator date stamp all travel expense documents upon receipt.

Spending Unit's Response

"The WVDO will comply with the Auditor's recommendation." See Appendix B, page 35.

INTRODUCTION

POST AUDIT AUTHORITY

This is the report on the post audit of WVDO. This audit was conducted pursuant to Chapter 4, Article 2, as amended, of the West Virginia 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 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.”

BACKGROUND¹

The WVDO is located under the West Virginia Department of Commerce, which underwent a major reorganization in the 2005 Special Session of the West Virginia Legislature (SB 1001).

The WVDO is comprised of five different sections: Business and Industrial Development; Research and Strategic Planning Group; Community Development; International Development; and Small Business Development.

These divisions work together to accomplish the WVDO’s mission: to improve the quality of life for all West Virginians by strengthening our communities and expanding the state’s economy to create more and better jobs, by providing support for existing businesses, attracting new businesses, generating new leads and prospects for potential investors, diversifying West Virginia’s economy by marketing to targeted industries, providing comprehensive development assistance, providing research, planning and technical support, working with local governments and economic developers to improve the quality of life in communities, and marketing West Virginia at primary and secondary target industry trade shows.

¹ Information obtained from West Virginia Development Office website
<http://www.wvcommerce.org/info/aboutcommerce/developmentoffice/default.aspx>

**WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010**

**SPENDING UNIT CONTACTS
FOR PERIOD OF JULY 1, 2009 THROUGH JUNE 30, 2010**

Kelley Goes..... Secretary of Commerce
To December 31, 2010

Keith Burdette..... Cabinet Secretary, Department of Commerce
Executive Director, WV Development Office
January 2011 to the present

Mark R. Julian..... Deputy Executive Director
Director, Business & Industrial Development

Carl D. Smith Procurement Officer

Steve Meester..... Chief of Fiscal Management

Lu Ann Phillips..... Accounting Technician

WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010

AUDIT SCOPE

We have audited WVDO for the period of July 1, 2009 through June 30, 2010. Our scope included an audit of internal control and compliance with the West Virginia Code, applicable State rules, West Virginia Purchasing Rules, West Virginia Purchasing Card Policies & Procedures, WV Travel Regulations, and internal WVDO policies applicable for fiscal year 2010. Areas of audit included the Purchases, Travel, and P-card Expenditures for Funds 0256, 3002, 3157, 3160, 3171, 3172, 3174, 8705, and 8746 as well as Fund Transfers made during FY2010. Personnel Services, Employee Benefit and Grant expenditures were not included in the scope of this audit. We conducted this post audit, which is a performance audit, in accordance with the standards applicable to performance audits contained in Generally Accepted Government Auditing Standards, except for the organizational independence impairment described in the section below.

OBJECTIVES AND METHODOLOGIES

The objectives of our post audit were to audit WVDO expenditures related to Purchases, Travel, and P-card for Funds 0256, 3002, 3157, 3160, 3171, 3172, 3174, 8705, and 8746; to report any misapplication of State funds or erroneous, extravagant, or unlawful expenditures by WVDO that we find; to ascertain facts, and to make recommendations to the Legislature concerning audit findings, the expenditures of the state and of the organization, and functions of the state and its spending units. This audit was undertaken after an anonymous letter was delivered to the Legislative Auditor, alleging irregularities in the contract bidding process. Additionally, we were to examine WVDO records and internal control over transactions and to evaluate its compliance with the applicable laws, rules, regulations, and provisions of contracts referred to in the Audit Scope of this report.

Except for the organizational impairment described in the following paragraph, we conducted this post audit, which is a performance audit², in accordance with the standards applicable to performance audits contained in generally accepted government auditing standards. 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 WVDO 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 WVDO compliance with those requirements.

In accordance with W. Va. Code §4-2, the Post Audit Division is required to conduct post audits of the revenues and expenditures of the spending units of the state government. The Post Audit Division is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audit 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. However, this organizational independence was impaired when the President of the Senate became acting Governor of the State on November 15, 2010, in accordance with W.Va. Code §3-10-2. Audits conducted or completed after this date, but before November 13, 2011, will not comply with Generally Accepted Governmental Auditing Standards sections 3.12 – 3.15. These sections of the auditing

² Refer to WV Code §4-2-2 and 4-2-4(a).

standards assert that the ability of an audit organization to perform work and report the results objectively can be affected by placement within the governmental organizational structure. Since the President of the Senate was acting Governor, the Executive Branch had the ability to influence the initiation, scope, timing, and completion of any audit. The Executive Branch could also obstruct audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports.

To achieve our audit objectives, we studied WV Code sections 4, 5B, 6B, 11, 12, and 31; WV Legislative Rule Title 145; and other applicable rules, regulations, and policies of WVDO. We also reviewed West Virginia Purchasing Rules, West Virginia Purchasing Card Policies & Procedures, and WV Travel Regulations. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observations of WVDO operations, and through inspections of documents and records. We obtained the financial information recorded in WVFIMS for the audit period and conducted audit procedures. We tested transactions and performed other auditing procedures we considered necessary to achieve our objectives. Additionally, we reviewed the budget, studied financial trends, and interviewed WVDO personnel to obtain an understanding of the programs and the internal controls respective to the scope of our audit. In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk.

We did not audit WVDO federal financial assistance programs for compliance with federal laws and regulations because the State of West Virginia engages an independent accounting firm to annually review such programs administered by State agencies.

To select transactions for testing, a mixture of both statistical and non-statistical sampling approaches was used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Transactions were either randomly selected for testing or by using professional judgment to yield a more representative sample. Professional judgment was used in pulling transactions with the highest dollar amounts due to the increased risk of loss to the state for those types of transactions.

WVDO written responses to the deficiencies identified in our audit have not been subject to the auditing procedures applied in the audit of WVDO and, accordingly, we express no opinion.

WVDO 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. 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.

We did not disclose any identifying information concerning employees or vendors within this report in an effort to protect the privacy and interests of all parties. This lack of disclosure is not significant to the understanding of this report and should have no impact on the usefulness of the information provided. All information pertinent to the report has been disclosed.

This communication is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, and management of WVDO. However, once presented to the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited. Our reports are designed to assist the Post Audit Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

CONCLUSIONS

WVDO generally had adequate internal controls over its major non-grant related procurement activities. For the items tested, WVDO did not comply with some parts of the following: W. Va. Code §12-2-2; applicable State of West Virginia rules, Expenditure Schedule Instructions; West Virginia Purchasing Policies; West Virginia Travel Rules; West Virginia Purchasing Card Policies; and internal WVDO policies relevant for fiscal year 2010. Noncompliance with the aforementioned related to procurement, travel expenditures, expense contracts, purchase card program policies, and expenditure classification. We did not find any instances of irregularities in the bidding process as alleged in the anonymous letter. Many of the findings in this report were due either to a lack of internal controls, or weak internal controls. Had the internal controls been put into place or strengthened, we believe most of the findings would have been avoided.

EXIT CONFERENCE

We discussed this report with management of WVDO on January 27, 2012. All findings and recommendations were reviewed and discussed. Management's response has been included at the end of this report.

**WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010**

FUND LISTING

We have completed a post audit of WVDO. The examination covers the period of July 1, 2009 through June 30, 2010.

GENERAL REVENUE ACCOUNTS

WVDO maintained the following account:

<u>Fund Number</u>	<u>Fund Name</u>
0256	General Administration

SPECIAL REVENUE ACCOUNTS

WVDO maintained the following special revenue accounts. These accounts represent 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>
3002	Marketing and Communications Operating Fund
3157	Neighborhood Investment (CAP) Fund
3160	Gifts, Grants & Donations
3171	Development Office Promotion Fund
3172	Broadband Deployment Fund
3174	Broadband Deployment Fund

Marketing and Communications Operating Fund

This fund is comprised of other collections, fees, and income to provide services in marketing & communications to other agencies in the Department of Commerce (governed by W.Va. Code §5B-1-1a).

Neighborhood Investment (CAP) Fund

This fund is comprised of a three percent project certification fee collected by the WVDO to help indigent, economically disadvantaged citizens or organizations (governed by W.Va. Code §11-13J-48).

Gifts, Grants & Donations

This fund is comprised of gifts, grants & donations to fund welfare to work program between small businesses willing to hire welfare recipients (governed by Section 11 Senate Bill 150 (Budget Bill)).

Development Office Promotion Fund

This fund is comprised of Video Lottery proceeds to provide funding for the WVDO (governed by W. Va. Code §5B-2-3b).

Broadband Deployment Fund

This fund is comprised of all monies collected by the Broadband Deployment Council, in addition to appropriations; includes gifts, bequests, or donations to promote broadband expansion in WV (governed by W. Va. Code§31-15C-5)

Broadband Deployment Fund

This fund is comprised of all monies collected by the Broadband Deployment Council, in addition to appropriations; includes gifts, bequests, or donations to promote broadband expansion in WV (governed by W. Va. Code§31-15C-5)

FEDERAL ACCOUNT

WVDO maintained the following accounts that were funded with Federal sources:

<u>Fund Number</u>	<u>Fund Name</u>
8705	Consolidated Federal Funds General Operating Fund
8746	Federal Block Grant Community Development Fund

Consolidated Federal Funds General Operating Fund

This fund is a Federal fund to account for federal funds to provide for community & industrial development in WV (governed by W. Va. Code§4-11-3).

Federal Block Grant Community Development Fund

This fund is a Federal fund to account for federal block grants to assist small cities in community development projects (governed by W. Va. Code§4-11-3).

WEST VIRGINIA DEVELOPMENT OFFICE
JULY 1, 2009 – JUNE 30, 2010

FINDINGS AND RECOMMENDATIONS

Informational Item Vagueness of Code Regarding Hiring of Retired State Employees

Condition: W. Va. Code §5-10-48 places limitations on individuals who are drawing an annuity from the State of West Virginia Consolidated Retirement Board if employed by a participating public employer. It is the belief of the Legislative Auditor there is a “loophole” which allows state agencies to circumvent the existing restrictions by hiring retired state employees as independent contractors. The restrictions are as follows:

<u>Employment Status</u>	<u>Limitation</u>
Full-time basis	Payment of his or her annuity shall be suspended during the period of reemployment and he or she shall become a contributing member of the retirement system.
Temporary full-time or temporary part-time	Annuity is not affected until he or she receives annual compensation in excess of \$15,000. (Unless employed by the Legislature on a per diem basis if annual compensation does not exceed \$20,000)
Holds public office or was a former employee of the Legislature on a per diem basis	May elect to either continue to receive or suspend the payment and become a contributing member of the retirement system.

The Consolidated Public Retirement Board provides the payroll clerks of participating public employers with a flow chart to help assist in the determination of the proper course of action when an individual’s status with the PERS system is in question. The flow chart states if the individual is an independent contractor who is issued a 1099 for personal services rendered no action is needed and the annuity is not affected. However, according to the IRS, “although a contract may state that the worker is an employee or an independent contractor, this is not sufficient to determine the worker’s status.” Publication 1779, available on irs.gov, provides guidance on whether a worker is to be considered an independent contractor or an employee.

The WVDO hired three retired state employees as independent consultants. The Table below shows the retirement date of each employee, the date of their first contract with the WVDO, the contractual pay for 2011 and the amount of their retirement annuity paid in excess after earnings reached \$15,000. All contracts are currently active.

Background Information				
<u>Employee</u>	<u>Retirement Date</u>	<u>Beginning Date of Contract</u>	<u>2011 Contractual Pay⁺</u>	<u>Excess Retirement Paid⁺</u>
1	06/01/2009	07/01/2009	\$18,686	\$3,982
2	11/01/2010	11/01/2010	\$26,165	\$9,964
3	04/01/2011	04/01/2011	\$21,420	\$1,448
* Refer to Appendix A for more detail, including excess retirement paid in Calendar Year 2010 for Employee 1.				
⁺ All amounts are rounded to the nearest dollar.				

Upon review of the information provided in Publication 1779, Publication 15-A, and various other articles listed on irs.gov, we believe the possibility exists that these workers should be classified as employees based on the following facts:

1. The individuals were listed on the WVDO Staff Directory and website after their retirement date and during the period of their contract.
2. The WVDO provided the individuals with equipment, e.g. state cell phones.
3. These individuals had a wv.gov email address and listed the WVDO in their digital signature at the bottom of the emails.
4. The individuals were performing similar job duties as WVDO employees, with the only exception being the contracts were limited in scope and they served in a different geographical area than those served by employees.

Although the classification of these employees is a judgment based on many factors provided by the IRS, we believe this is an example of how state agencies and retired state employees could circumvent the intended purpose of W. Va. Code §5-10-48. We also believe agencies are utilizing this “loophole” to rehire retirees through contracts so the worker’s retirement annuity will not be affected.

Criteria:

W.Va. Code §5-10-48, subsection (a) states in part that:

“The Legislature finds that a compelling state interest exists in maintaining an actuarially sound retirement system and that this interest necessitates that certain limitations be placed upon an individual’s ability to retire from the system and to then later return to state employment as an employee with a participating public employer while contemporaneously drawing an annuity from the system.”

Cause:

Although the Code appears clear in its intent to limit the income of retired state employees who return to work for an agency, it does not address retired state employees who contract with the state. Granting the WV Code does not limit the income of contract employees, the Legislative Auditor believes this is the kind of activity that was meant to be curtailed; however, there are currently no mechanisms in place to prevent it.

Effect:

At a minimum, these contracts could violate the intention of the Legislature to limit pay for retired individuals returning to work for the sake of an actuarially sound retirement system. The Legislative Auditor is of the opinion that this is the type of relationship the Legislature was trying to restrict with W.Va. Code

§5-10-48. The possibility exists that a contract relationship can be created to circumvent the compensation limitations created by the Legislature to maintain a stable retirement system. Multiple incomes from state sources could be obtained without statutory limitations.

Recommendation: The Legislative Auditor recommends the following options as an opportunity for the Legislature to clarify its intent regarding the pay of retired state employees:

- Eliminate limitations for all retired state employees – By eliminating all of the restrictions outlined in W.Va. Code §5-10-48, all ambiguity regarding employment status and earning limitations is removed. This would expressly allow the practice known as “double dipping.”
- Amend West Virginia Code to specifically limit contracted retired state employees - Adding contractors drawing a state annuity to the list of employment statuses and corresponding limitations would provide clarification.
- Require the CPRB to investigate contractor relationships in order to eliminate those contractors that should be classified as employees – This would allow for further analysis in determining whether work could or should be done by an individual of a different employment status and what corresponding action should be taken regarding the individual’s retirement annuity.

**Spending Unit
Response:**

See agency’s response on page 33.

Finding 1 Use of Unregistered Vendors

Condition: During our test of general purchases for the WVDO, we noted three out of 54 transactions tested, in the amount of approximately \$17,185, in which purchases were made to non-registered vendors. The total amount tested was approximately \$340,291 out of a population of 188 transactions, totaling approximately \$563,495.

Criteria: West Virginia Purchasing Division Procedures Handbook, Revised July 1, 2009, states, in part:

"5.1 Requirements: Vendors doing business with the state of West Virginia must be registered by having a **Vendor Registration and Disclosure Statement (WV-1 or WV-1A)** form) on file with the Purchasing Division in accordance with **West Virginia Code §5A-3-12**. The **Legislative Rule and Regulation, CSR148**, states that, except for purchasing card vendors providing travel-related services or receiving an aggregate total yearly payment less than \$25,000 from a spending unit, all vendors are required to register with the Purchasing Division. It is the agency’s responsibility to make sure vendors are properly registered with the Purchasing Division prior to issuing a purchase order either verbally or in writing. Agencies must retain proof of verification of registration with each Purchase Order file. This is usually accomplished by taking a screen print from TEAM prior to issuance of the purchase order.”

Cause: The WVDO offers no explanation for the use of the vendors, other than it was an error on their part.

Effect: By failing to use a vendor who has registered with the state, the WVDO runs the risk of providing revenue to an organization or company which is not compliant with state labor laws. Upon review of the WV Transparency website, we were able to determine the total payments made by the entire state to the unregistered vendors. The results are summarized in the table below.

<u>Vendor</u>	<u>Before FY 2010*</u>	<u>FY 2010*</u>	<u>After FY 2010*</u>	<u>Total</u>
1	\$36,620	\$ 7,735	\$ 0	\$44,355
2	24,400	7,650	0	32,050
3	<u>16,200</u>	<u>1,800</u>	<u>1,800</u>	<u>19,800</u>
Total	\$77,220	\$17,185	\$1,800	\$96,205

* Source of the information was WV Transparency website as of December 19, 2011.

Recommendation: We recommend the WVDO comply with the West Virginia Purchasing Division Procedures Handbook and use the TEAM ordering system for all future orders, and to include a printout of the TEAM screen showing the vendor is registered and in good standing with the state within each of the transaction documentation files.

Spending Unit’s Response: The WVDO will comply with the Auditor’s recommendation and the Purchasing Division’s Procedures by ensuring that all vendors are registered and retaining documentation as proof of verification of registration with each purchase order file.

Finding 2**Noncompliance with State Purchasing Card Policies****Condition:**

The WVDO made purchases of approximately \$252,488 using State Purchasing Cards during Fiscal Year 2010; purchasing, on average, approximately \$21,000 per month. We noted the following internal control weaknesses and noncompliance with State Auditor's Office Purchasing Card Policies and Procedures:

- The WVDO has not developed written internal controls regarding state purchasing cards (p-cards) to be submitted to the West Virginia Auditor's Office for approval and record keeping.
- The WVDO does not perform an electronic reconciliation process for their p-cards. The State Auditor's Office has not approved the reconciliation process used by the WVDO.
- A p-card reconciliation log sheet was not signed. WVDO requires log sheets be signed by the p-card coordinator and the cardholder documenting and verifying listed transactions were received and reconciled to the cardholder statement.

Criteria:

West Virginia State Auditor's Purchasing Card Policies and Procedures, September 2008 revision, states in part:

"Section 1.3...Each Spending Unit is required to develop and document appropriate internal control procedures to ensure that P-Card usage is consistent with this manual, and to develop guidelines for distribution to cardholders. Sufficient internal controls must be in place to ensure compliance with P-Card Policies and Procedures and documentation of these controls must be submitted in writing to the State Auditor's Office P-Card Division. In those cases where it is determined that internal controls are not adequate, the State Auditor's Office, P-Card Division has the authority to request policy improvements and/or place card restrictions on the Spending Unit until such controls are established, documented, and implemented. . ."

"Section 2.4 . . .Sufficient internal controls must be in place at each Spending Unit to ensure compliance with applicable laws, rules and regulations, P-Card Policies and Procedures, and other governing instruments. Each Spending Unit is required to develop and document internal control procedures that ensure P-Card usage is consistent with this manual and to develop guidelines for distribution to cardholders. These procedures must be submitted in writing to the State Auditor's Office P-Card Division. . ."

"Section 7.2. . . Each cardholder is responsible for ensuring that his or her statement is reconciled every month. The Spending Unit P-Card coordinator or chief financial officer is responsible for ensuring the reconciliation of the master account(s). Cardholders must review all transactions to ensure that they are legitimate, for official State business, and that all required documentation is included."

"Section 7.3. . . Spending Units have several different products available to assist with the reconciliation process. STARS (Software for Transaction Accounting and Reporting System), is a sub-system of the State's accounting system, WVFIMS. The provider bank (currently Citi) also provides software reconciliation and reporting tools. **By January 1, 2009, all Spending Units must use one of the electronic reconciliation tools** available, which allows reconciliation and account coding at the transaction level. The choice of tool and the reconciliation process should be **documented in the Spending Unit's internal controls and approved by the State Auditor's Office P-Card Division.**" (Emphasis Added)

Cause: The WVDO Purchasing Card Coordinator stated the agency prefers to use the paper log system because not all employees with purchasing cards have access to the WVFIMS system. There is a lack of control in the procurement office due to management's decision not to utilize available electronic reconciliation and reporting systems.

Effect: The lack of documented internal controls, including the reconciliation process, creates ambiguity among division personnel as to the proper process of using, recording, and reconciling the state p-cards. By choosing not to use an electronic reconciling system for the state purchasing cards WVDO increases the risk transactions may be misclassified or paid from incorrect funds. In addition, WVDO risks having restrictions placed on the use of agency p-cards.

Recommendation: We recommend the WVDO comply with the West Virginia State Auditor's Office State Purchasing Card Policies and Procedures and document and submit their internal controls and electronic reconciliation process to the State Auditor's Office for approval.

Spending Unit's Response: The WVDO will comply with the Auditor's recommendation and State Purchasing Card Policies and Procedures by ensuring that all reconciliation log sheets are signed, by either seeking the State Auditor's Office approval of the reconciliation process used by the WVDO or adopt one of the State Auditor's Office's recommended procedures for reconciliation, and by developing and submitting written internal controls regarding P-cards.

and approving transactions are assigned to different personnel. A proper division of accounting responsibilities could alleviate the lag time between receiving and remitting payment of invoices for the WVDO. Increasing management oversight can also help to strengthen internal controls when segregation of duties becomes difficult due to staffing issues.

Spending Unit's

Response:

While we agree with the Auditor's assessment that best accounting practices would ensure a proper segregation of duties including one person certifying/authorizing payment, a second person for WVFIMS entry and a third for reviewing and approving the WVFIMS entry, we do not have an adequate amount of approved positions and personal services budget within the accounting unit to be able to segregate these duties at this time. The WVDO will evaluate possibilities for realigning duties or seeking additional personnel funding.

Finding 4: Untimely payments for telecommunications cellular invoices

Condition: During the period of July 1, 2009 – November 30, 2011, payments for the cellular services monthly billing invoices were paid, on average, 3.11 months after the month of the Invoice. The WVDO prepares two WVFIMS Documents for each invoice received for cellular service; one for the charges covered by the contract for the mobile communication units and one for the charges billed that are not covered by the contract. According to the WVDO Procurement Office, this split remittance is made per instructions from the WV Auditor’s Office. The WVDO received and paid 29 monthly cellular statements during this period. As of November 30, 2011, the WVDO has not paid any cellular bills for the months of October or November 2011. We found the WVDO paid 13 of the 29 bills at least three months after the month of the bill. Because the WVDO did not date stamp when the bills were actually received, we used the Month of the Bill as the month received and did not count that month when determining time held (e.g. April bill paid in June would count the months of May and June as time held). The schedule below is a list of the monthly billings which were held by the WVDO for at least three months after the month of the bill. The following table illustrates the length of time each invoice required for payment.

<u>Month Billed</u>	<u>Month Paid</u>	<u>Amount*</u>	<u>Months to pay</u>
August 2010	July 2011	\$2,468	11
September 2010 – Charges on State Contract	June 2011	\$2,340	9
September 2010 – Charges <i>not</i> on State Contract	May 2011	\$54	8
October 2010	May 2011	\$2,664	7
November 2010	May 2011	\$2,373	6
July 2011	November 2011	\$10,479	4
September 2009	January 2010	\$5,952	4
July 2009	November 2009	\$3,246	4
August 2011	November 2011	\$9,042	3
April 2011	July 2011	\$2,869	3
December 2010	March 2011	\$2,478	3
December 2009	March 2010	\$3,356	3
October 2009	January 2010	\$4,171	3
August 2009	November 2009	\$3,010	3
*Amounts are rounded to nearest dollar			

Criteria: W. Va. Code does not, at this time, address timeliness or prompt payment of outstanding invoices. However, best business practices recommends payment be made within a reasonable amount of time from date of invoice receipt, unless a payment schedule is part of the contract with the date of expected payment explicitly stated.

Cause: The Procurement Officer said, in reply to our inquiry about lateness in payment of the cellular communication invoice, “It takes a long time to sort out the billing.” We inquired if the WVDO pays the assessed late charges and the Procurement Officer replied, “No”.

Effect: West Virginia can be subject to late payment fees and/or interest payments when bills are not paid within a reasonable length of time. The State image and reputation is damaged by untimely payment for services rendered. Additionally, vendors could let the fact be known that the state is negligent when it comes to remittance of payments due; allowing other vendors to write that liability into future contracts with the state.

Recommendation: We recommend WVDO strengthen internal control by ensuring bills are paid timely. Presently, there is a lack of internal control policy in place ensuring bills are paid timely. Further, we suggest enhancing management oversight for invoice payment, by implementing a date stamping policy, whereby invoices are date stamped upon receipt.

Spending Unit Response: The WVDO will comply with the Auditor's recommendation to date stamp invoices upon receipt. We also agree that invoices need to be paid timely and will strive for a suitable solution within our limited personnel resources to ensure faster payment.

Finding 5 **Lack of Receipt Logs and Untimely Deposits**

Condition: During our testing of Reimbursements and Refunds, we found multiple instances where the WVDO did not keep a daily itemized log of monies received and/or did not deposit receipts in a timely manner. Most of the deposits were also not date stamped, or dated and initialed when received, to show date of receipt in lieu of keeping a daily itemized log. The table below shows our population, sample size and number of deposits which were not in compliance with W. Va. Code.

# Population	\$ Population	# in Sample	\$ in Sample	# Non-Compliance	\$ of Non-Compliance
48	\$59,612	21	\$57,000	13	\$55,216
The dollar amounts are rounded to the nearest dollar.					

Criteria: W. Va. Code §12-2-2 states, in part:

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

Cause: The WVDO states most of the monies received for the *Come Home Reunion* kits are directly deposited through the State Treasurer’s Office Commerce program, but those payments which are received in office do not have a cash receipts log indicating receipt. Money received in the regional offices is sent to the main WVDO office causing a delay for timely deposit. There is a lack of control for ensuring deposits are made in a timely manner.

Effect: Without timely deposits, the state may lose interest revenue. Also, the risk of fraud or theft increases the longer payments remain un-deposited.

Recommendation: We recommend the WVDO comply with W. Va. Code §12-2-2 and keep an itemized daily receipt log of all monies received which are to be deposited within the state treasury. We also recommend the WVDO strengthen internal controls and consult the Cash Receipts Handbook for West Virginia Spending Units provided by the WV State Treasurer’s Office.

Spending Unit’s Response: The WVDO will comply with the Auditor’s recommendation to keep an itemized daily receipt log and ensuring timely deposits.

Finding 6 Misclassified Expenditures/Reimbursements

Condition: During our tests of expenditures/reimbursements we noted several instances of misclassification. Table 1 shows our population, sample and the number of misclassified transactions identified during our testing of purchases. Table 2 lists the misclassified transaction(s) by the actual object code used and the object code we determined to be correct.

Table 1: Population, Sample and Number of Misclassified Transactions

<u># Population</u>	<u>\$ Population</u>	<u># in Sample</u>	<u>\$ in Sample</u>	<u># Misclassified</u>	<u>\$ Misclassified</u>
2,080	\$8,925,704	297	\$6,832,327	13	\$61,980

The dollar amounts are rounded to the nearest dollar.

Table 2: Identified Misclassifications by Object Code

<u>Description</u>	<u>Actual</u>	<u>Audited</u>	<u>Description</u>	<u>Amount</u>	<u># Misclassified</u>
Contractual & Professional	025	083	Grant Awards & Loans	\$ 11,258	1
Advertising / Promotional	035	053	Postal & Freight	(373)	3
Computer Supplies & Equip.	054	051	Misc / Ofc. Supplies	252	3
Miscellaneous	051	564	Prior Yr Expiring Funds	(50,000)	1
Lease / Building Rent	022	020	Office Supplies	92	5
Total				\$61,975*	13

***Total represents sum of the absolute value of amounts to better represent the amount misclassified.**

Criteria: The 2010 West Virginia Expenditure Schedule Instructions state, 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 Expenses: 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.”

“035 - Advertising and Promotional: Newspaper ads for legal public notice requirements, procurement bids, radio and television spots, special sponsorships, publicity advertising to include pamphlets, road maps, and bill boards. Expenditure by the Governor's Office, West Virginia Development Office, Lottery, Tourism and Division of Natural Resources - Parks for food,

nonalcoholic beverages, and related expenses for the entertainment of guests and authorized employees in surroundings conducive to business discussions for the purpose of economic development.”

“**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.”

“**053 - Postal and Freight**:

Postal: Those charges for postage, box rent, postage meter or any charges connected with the United States Postal System or charges by Central Mail.

Freight: Charges for either shipping or receiving material. This will include courier service charges, motor freight, air freight and other express charges, such as fuel surcharge. United Parcel Service or similar companies’ charges are to be considered freight charges.”

“**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.)”

“**083 - Grants, Awards, Scholarships, and Loans**: Disbursement of funds for the payment of grants such as grants, fairs and festivals for the Department of Agriculture and the Division of Culture and History; the payment of agricultural awards, awards for contests, educational scholarships, entitlement grants, financial aid for students, Upward Bound stipends, economic loans or other appropriate authorized expenditure. Agency must have granting authority and may determine the guidelines stating how the grant funds are to be expended (see Object Code 128).”

“**128 – Federal Sub-recipient Disbursement**: Disbursement of federal awards made to subrecipients to carry out a federal program. The definition of subrecipient is any nonfederal entity, not-for-profit organization, county or municipality that expends federal awards received from a pass through entity, (i.e., a state agency) to carry out a federal program, but does not include an individual who is a beneficiary of such a program. This object code should be used for federal awards only and is not to be used for processing vendor payments or payments made with state funds”

“**564 – Prior Year Expiring Funds**: Refunds to an appropriated Federal or Special Revenue account in the current fiscal year when the expenditure was made in a prior fiscal year. . .”

An email from the **West Virginia State Auditor’s Office** on May 12, 2010 stated:

“If the reimbursement is received in the same fiscal year as the expenditure was processed, the reimbursement should be deposited back to the same object code the expenditure was made from. If the reimbursement is received in a

different fiscal year than the expenditure was processed, the reimbursement should be deposited using Revenue Source 564 – Prior Year Expiring Funds”

Cause: Some of the misclassifications were due to keying errors. For others, the WVDO either did not know why they were misclassified or the object code used was deemed to be the most appropriate at the time of purchase.

Effect: Account balances will be overstated/understated and will not reflect a true representation of the types of expenditures the WVDO is making.

Recommendation: We recommend the WVDO consult the State Expenditure Schedules when applying object code numbers to transactions, and if any ambiguity exists, they seek out clarification from the State Auditor’s Office and document this information within the purchasing folder of the transaction in question.

Spending Unit’s Response: The WVDO will comply with the recommendation of the Auditor to consult the Expenditure Schedules when applying object codes and seeking further clarification if any ambiguity exists.

Finding 7 Lack of Purchasing Documentation

Condition: We reviewed various WVDO Purchasing Files for required purchasing documents and noted, within the files for purchases over \$2,500, some did not have all of the required documentation. We tested 48 out of a population of 167. The schedule below shows the number of missing forms noted during our testing.

<u>Type of Missing Documentation</u>	<u># of Missing Forms</u>
No Purchase Order	1
No Worker’s Compensation/Unemployment	3
No Certificate of Non-Conflict of Interest	2

Criteria: West Virginia State Purchasing Handbook, Revised July 1, 2009 states in part...

“Section 6.1.2 . . . **An Agency Purchase Order or TEAM-generated Purchase Order is required for purchases exceeding \$2,500. . .**” (Emphasis Added)

"6.2.3 Award Process: A public record of all purchasing transactions must be kept on file at the agency location, and subject to inspection at the discretion of the Purchasing Division. **This file must also include a Certificate of Non-Conflict of Interest, Unemployment/Workers' Compensation verification search,** specifications used for the bidding process, any and all attempts to obtain competitive bids and a TEAM screen print of the VOS screen indicating that the vendor is properly registered and not on “hold.” Agencies which use TEAM for delegated purchasing are exempt from this requirement.” (Emphasis Added)

Cause: The WVDO states the lack of a purchase order was an oversight on their part. For the non-conflict of interest and verification of worker’s comp/unemployment, the WVDO says they were unable to find the requirement in the purchasing handbooks before the April 11, 2011 revisions.

Effect: By not adhering to the State Purchasing Policies and not including the proper documentation within the files, the WVDO runs the risk of doing business with vendors who have not gone through the appropriate channels with the state to ensure they are in compliance with rules and regulations. The lack of a purchase order makes it impossible to determine if the goods received matched those that were initially ordered. The schedule below shows a projection of the results of our test across the total population of transactions which were greater than \$2,500.00.

<u>Missing Form</u>	<u># of Transactions in Population</u>	<u>Projected # of Missing Documents</u>	<u>Projected Total Range of Missing Documents*</u>
Purchase Order	167	3	1-12
Worker’s Compensation/ Unemployment Verification	167	8	3-20
Certificate of Non-Conflict of Interest	167	5	2-16
*We are 95% confident the total number of transactions with missing documents will fall in this range.			

Recommendation: We recommend the WVDO comply with the West Virginia State Purchasing Handbook and include in the purchasing files for transactions of \$2,500 or more a copy of the Certificate of Non-Conflict of Interest, verification search screen for Worker's Compensation/Unemployment, and a Purchase Order. We suggest the WVDO use the TEAM purchasing system for all future purchases to ensure the required documentation is gathered.

Spending Unit's Response: The WVDO will comply with the Auditor's recommendation and State Purchasing Handbook by ensuring the inclusion of all required documentation including Purchase Orders, Certificates of Non-Conflict of Interest, and verification for Workers' Compensation and Unemployment Insurance.

Finding 8

Travel Expense Settlement Submitted Late

Condition:

During our test of the WVDO Travel Expenditures we found not all of the travel expense settlements were being submitted to either the WVDO Travel Coordinator or to the State Auditor’s Office within the time limits created by both the WVDO Travel Policies and the State of West Virginia Travel Rules. With the exception of one division, which has a history of late submissions, the Travel Coordinator does not date stamp or document when the travel expense settlement was received. Table 1 shows the number of exceptions, our sample size and the total population for Fiscal Year 2010 Travel Expenses which were paid to individuals. Table 2 lists the documents which were not submitted within the timeframes as well as the number of days from the last date of travel until submitted to either the Travel Coordinator or the WVDO. **Travel settlement forms must be submitted to the State Auditor’s office within 15 days after the last day of travel;** WVDO requires travel settlement forms be submitted within 10 days of the last day of travel to enable the travel coordinator to comply with the maximum 15 day timeline.

Table 1: Population, Sample, and Exceptions to Travel Rules

<u>Attribute Tested</u>	<u>Number in Population</u>	<u>Population Total*</u>	<u>Number in Sample</u>	<u>Sample Total*</u>	<u>Number of Exceptions</u>	<u>Exception Total*</u>
Travel Expense Form Submitted within 10 days to Travel Coordinator	475	\$127,884	49	\$18,026	7	\$1,325
Travel Expense Form submitted within 15 days to State Auditor’s Office	475	\$127,884	49	\$18,026	9	\$2,336
*Amounts are rounded to nearest dollar						

Table 2: Travel Expense Forms not Submitted Within Time Limits

<u>Travel Form</u>	<u>Ending Travel Date</u>	<u>Date Submitted</u>	<u>Date Entered WV FIMS</u>	<u>Days until submitted to Travel Coordinator*</u>	<u>Days Until Submitted to SAO for Payment*</u>
1	11/24/2009	12/9/2009	1/5/2010	9	24
2	10/22/2009	10/26/2009	11/18/2009	2	18
3	3/31/2010	4/15/2010	4/23/2010	11	17
4	1/15/2010	3/30/2010	4/2/2010	50	53
5	5/6/2010	5/7/2010	6/1/2010	1	16
6	9/24/2009	10/30/2009	11/3/2009	25	27
7	9/29/2009	11/5/2009	11/9/2009	26	28
8	9/4/2009	10/23/2009	11/9/2009	33	44
9	11/17/2009	12/9/2009	12/10/2009	14	15
10	3/26/2010	4/15/2010	4/23/2010	14	20
Total Forms untimely submitted				7	9
*Excludes weekends and holidays					

Criteria:

West Virginia Travel Policy states, in part:

“2.5 The responsibility to audit a traveler’s expense account settlement lies with the state agency. Approval of a traveler’s expense account settlement by the state agency means that the expense account settlement meets all criteria established by this rule for reimbursement. The state agency shall audit and submit an accurate expense account settlement for reimbursement to the State Auditor’s Office within 15 days after completion of travel.”

The West Virginia Development Office Travel Policy states, in part:

“2.5 To meet the State Auditor’s time frame of 15 days, all expense account settlements must be submitted to the Administration Division within 10 days after completion of travel. (Emphasis added by agency)

Cause:

According to the WVDO, some of the forms were submitted late due to employee error, some were submitted by habitual abusers of the time limit, and others were due to supervisors holding the forms until after the time limit.

Effect:

By not ensuring timely receipt of travel settlement forms, the WVDO is unable to pay employees on a timely basis; running the risk of paying an expense in another fiscal year as well. Management oversight is impacted and hindered when reports are not submitted within the required time allotted; valuable time is wasted as pertinent information must be researched once again prior to approval or certification.

Recommendation:

We recommend the WVDO comply with their travel policy to ensure all travel settlement forms are submitted to the coordinator by the 10th day and submitted to the Auditor’s Office for payment by the 15th day from the last day of travel. We also recommend a secondary proper management oversight control whereby, the travel coordinator date stamps all travel expense forms when they are received, thus providing documentation of when the travel forms are received by the Travel Coordinator.

Spending Unit

Response:

The WVDO will comply with the Auditor’s recommendation of date stamping all travel expense forms when received and ensuring timely processing of travel reimbursements.

**APPENDIX A: BACKGROUND INFORMATION
FOR INFORMATIONAL ITEM**

CALENDAR YEAR 2010

EMPLOYEE 1

(No Audit Procedures have been performed on this information: Retirement Information Obtained from the Consolidated Public Retirement Boards and Contractual Pay information obtained from WVFIMS)

<u>Year</u>	<u>Month</u>	<u>Amount Paid</u>	<u>Running Total for Year</u>	<u>Excess Retirement Annuity</u>
2010	Jan	\$0.00	\$0.00	
2010	Feb	\$1,192.11	\$1,192.11	
2010	Mar	\$2,015.02	\$3,207.13	
2010	Apr	\$1,780.13	\$4,987.26	
2010	May	\$1,383.81	\$6,371.07	
2010	Jun	\$3,158.77	\$9,529.84	
2010	Jul	\$3,535.93	\$13,065.77	
2010	Aug	\$3,318.95	\$16,384.72	
2010	Sep	\$2,189.85	\$18,574.57	3,981.78
2010	Oct	\$3,070.05	\$21,644.62	3,981.78
2010	Nov	\$0.00	\$21,644.62	3,981.78
2010	Dec	\$1,823.28	\$23,467.90	3,981.78
Total 2010		<u>\$23,467.90</u>		<u>\$15,927.12</u>

CALENDAR YEAR 2011

EMPLOYEE 1

EMPLOYEE 2

EMPLOYEE 3

<u>Year</u>	<u>Month</u>	<u>Amount Paid</u>	<u>Running Total for Year</u>	<u>Excess Retirement Annuity</u>	<u>Amount Paid</u>	<u>Running Total for Year</u>	<u>Excess Retirement Annuity</u>	<u>Amount Paid</u>	<u>Running Total for Year</u>	<u>Excess Retirement Annuity</u>
2011	Jan	\$3,881.27	\$3,881.27		\$3,568.20	\$3,568.20		\$ -	\$ -	
2011	Feb	\$1,312.60	\$5,193.87		\$3,065.25	\$6,633.45		\$ -	\$ -	
2011	Mar	\$1,702.40	\$6,896.27		\$2,860.00	\$9,493.45		\$ -	\$ -	
2011	Apr	\$0.00	\$6,896.27		\$2,540.00	\$12,033.45		\$ -	\$ -	
2011	May	\$4,021.40	\$10,917.67		\$2,520.00	\$14,553.45		\$ 2,688.00	\$ 2,688.00	
2011	Jun	\$0.00	\$10,917.67		\$2,760.00	\$17,313.45		\$ 2,866.50	\$ 5,554.50	
2011	Jul	\$3,680.20	\$14,597.87		\$2,580.00	\$19,893.45	1660.61	\$ 3,213.00	\$ 8,767.50	
2011	Aug	\$0.00	\$14,597.87		\$2,000.00	\$21,893.45	1660.61	\$ 2,961.00	\$11,728.50	
2011	Sep	\$0.00	\$14,597.87		\$2,360.00	\$24,253.45	1660.61	\$ 3,097.50	\$14,826.00	
2011	Oct	\$0.00	\$14,597.87		\$0.00	\$24,253.45	1660.61	\$ 2,646.00	\$17,472.00	
2011	Nov	\$7,969.22	\$22,567.09		\$3,319.69	\$27,573.14	1660.61	\$ 1,890.00	\$19,362.00	723.86
2011	Dec	\$0.00	\$22,567.09	3,981.78	\$2,160.00	\$29,733.14	1660.61	\$ 2,058.00	\$21,420.00	723.86
Total 2011		<u>\$18,685.82</u>		<u>\$3,981.78</u>	<u>\$26,164.94</u>		<u>\$9,963.66</u>	<u>\$ 21,420.00</u>		<u>\$1,447.72</u>

**APPENDIX B:
SPENDING UNIT'S RESPONSE**



WEST VIRGINIA DEVELOPMENT OFFICE

1900 Kanawha Boulevard East • Charleston, WV 25305-0311
(304) 558-2231 • (800) 982-3386 • WVDG.org

MEMORANDUM

TO: AARON ALLRED AND STACY L. SNEED, LEGISLATIVE SERVICES
FROM: J. KEITH BURDETTE 
DATE: MARCH 20, 2012
SUBJECT: RESPONSE TO INFORMATIONAL AUDIT ITEM FINDING

Thank you for the opportunity to respond to the informational audit finding which has been added to the audit for the West Virginia Development Office.

Please know that we agree with the Auditor that there is currently vagueness in the West Virginia Code regarding the hiring of retired employees participating in the Public Employees Retirement System (PERS). Although the West Virginia Legislature has not yet clarified their intent, we will begin phasing out the contracts in question. In addition, we will limit future contracts to \$15,000 when associated with retired employees of state agencies or other entities that participate in PERS.

We appreciate your advice on this matter.

KB/sm

January 27, 2012

Aaron Allred, Legislative Auditor
Stacy L. Sneed, Director, Legislative Post Audit
Building 1, Room W330
1900 Kanawha Boulevard East
Charleston, WV 25305

Mr. Allred and Ms. Sneed,

Thank you for the opportunity to provide responses to the Legislative Post Audit of the West Virginia Development Office (WVDO) for fiscal year 2010. I have included each finding below, in bold, followed by the spending unit response.

Finding 1 Use of Unregistered Vendors

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation and the Purchasing Division's Procedures by ensuring that all vendors are registered and retaining documentation as proof of verification of registration with each purchase order file.

Finding 2 Noncompliance with Sate Purchasing Card Policies

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation and State Purchasing Card Policies and Procedures by ensuring that all reconciliation log sheets are signed, by either seeking the State Auditor's Office approval of the reconciliation process used by the WVDO or adopt one of the State Auditor's Office's recommended procedures for reconciliation, and by developing and submitting written internal controls regarding P-cards.

Finding 3 Same Person Entered and Approved Transactions in WVFIMS

Spending Unit's

Response: While we agree with the Auditor's assessment that best accounting practices would ensure a proper segregation of duties including one person certifying/authorizing payment, a second person for WVFIMS entry and a third for reviewing and approving the WVFIMS entry, we do not have an adequate amount of approved positions and personal services budget within the accounting unit to be able to segregate these duties at this time. The WVDO will evaluate possibilities for realigning duties or seeking additional personnel funding.

Finding 4 Untimely payments for telecommunications cellular invoices

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation to date stamp invoices upon receipt. We also agree that invoices need to be paid timely and will strive for a suitable solution within our limited personnel resources to ensure faster payment.

Finding 5 Lack of Receipt Logs and Untimely Deposits

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation to keep an itemized daily receipt log and ensuring timely deposits.

Finding 6 Misclassified Expenditures/Reimbursements

Spending Unit's

Response: The WVDO will comply with the recommendation of the Auditor to consult the Expenditure Schedules when applying object codes and seeking further clarification if any ambiguity exists.

Finding 7 Lack of Purchasing Documentation

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation and State Purchasing Handbook by ensuring the inclusion of all required documentation including Purchase Orders, Certificates of Non-Conflict of Interest, and verification for Workers' Compensation and Unemployment Insurance.

Finding 8 Travel Expense Settlement Submitted Late

Spending Unit's

Response: The WVDO will comply with the Auditor's recommendation of date stamping all travel expense forms when received and ensuring timely processing of travel reimbursements.

Sincerely,

J. Keith Burdette
Executive Director

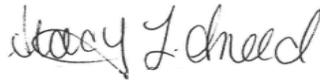
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STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

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

Given under my hand this 7th day of May 2012.



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

Notification of when the report was released and the location of the report on our website was sent to the Secretary of the Department of Administration to be filed as a public record. Report release notifications were also sent to the West Virginia Development Office; Governor; Attorney General; Department of Commerce; West Virginia Finance Division; and State Auditor.