

**JOINT COMMITTEE ON
GOVERNMENT AND FINANCE**

Materials Distributed

January 8, 2002

Tuesday, December 11, 2001

3:00 - 4:00 p.m.

Joint Committee on Government and Finance

Senate

Tomblin, Chair
Chafin (absent)
Craig
Sharpe
Wooton
Deem
Sprouse

House

Kiss, Chair
Amores (absent)
Mezzatesta
Michael
Staton (absent)
Hall
Trump

Speaker Kiss, Cochair, presided.

1. **Approval of Minutes.**

Upon motion by Delegate Hall, properly seconded and adopted, the minutes of the November 13, 2001, meeting were approved.

2. **Public Employees Insurance Agency.**

Mr. Tom Susman, Executive Director of the Public Employees Insurance Agency, distributed the following information: (1) PEIA Claims Processed; (2) PEIA Monthly Management Report Per Capita Utilization , October 2001, FY 2002; (3) PEIA Monthly Management Report Total Claims, October 2001, FY 2002; (4) PEIA Monthly Management Report Per Capita Claims, October 2001, FY 2002; (5) A Look At Increases In Health Insurance Premiums; (6) Current Tiers, Proposed Tiers Based on Current Premiums for Single Premium, Employee and Child Premium, and Family Premium; (7) State Fund - Employer/Employee Split; (8) Scenario B, Tobacco Premium Differential Increases, Board Decisions - Financial Plans 2003-2006 and Scenario C, Tobacco Premium & Drug Changes: \$2,000/\$4,000 Indexed MOOP \$5/\$15/\$30 Formulary, Board Decisions - Financial Plans 2003-2006.

Mr. Susman responded to questions from members of the Committee.

Mr. Susman reported that in September 2001 PEIA had requested by letter to WVU and CAMC information on money PEIA gives to the medical schools. He said that PEIA has not received a response to this inquiry. Speaker Kiss requested that Mr. Susman forward a copy of this letter to Mr. Allred.

3. State Road Audit.

The audit conducted by Suttle & Stalnaker, CPAs, entitled "West Virginia Department of Transportation, Division of Highways, Audited Financial Statements, Year Ended June 30, 2001, And Independent Auditors' Reports," along with a letter to Management of the West Virginia Department of Transportation, Division of Highways, and Management's audit response were distributed to the Committee. Mr. Horace Emery of Suttle & Stalnaker, CPAs, presented and briefly discussed the audit.

Upon motion by Senator Sharpe, properly seconded and adopted, further discussion of the audit was delayed until the Committee's January meeting.

Upon motion by President Tomblin, properly seconded and adopted, the highways audit contract was extended for one year.

4. Mountaintop Mining Studies.

Distributed to members was a copy of a letter from West Virginia University Research Corporation to Mr. Allred requesting no-cost extensions to December 31, 2001, of the following Mountaintop Mining studies: (1) Economic Impact Study - Dr. Tom Witt (\$185,000); (2) Study of Fugitive Dust and Fumes - Dr. Lloyd English (\$63,000); (3) Post Mining Land Use Study - Dr. Charles Yuill (\$45,000); (4) Impact on Terrestrial Habitats - Dr. Petra Wood (\$182,480).

Upon motion by President Tomblin, properly seconded and adopted, the requested no-cost extensions to December 31, 2001, were approved.

5. **Lottery.**

Distributed to members of the Committee was the Lottery Operations report for month ended October 2001 with an attached analysis prepared by legislative staff.

6. **General Revenue Report.**

Distributed to members was a report on the status of the state's general revenue as of November 30, 2001.

7. **Department of Health and Human Resources Monthly Reports.**

Distributed to members of the Committee were the following: Medicaid Report for month of October 2001; Welfare Reform Report for month of November 2001; and Colin Anderson Center Report for month of November 2001.

Cabinet Secretary Paul L. Nusbaum, Department of Health and Human Resources, and Mr. Eric Cole, Chief Financial Officer, Bureau for Medical Services, responded to questions from members of the Committee.

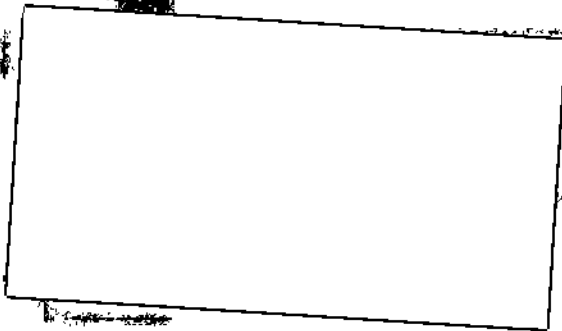
8. **Debt Capacity Report 2001.**

Distributed to members was a report entitled "State of West Virginia Debt Capacity 2001" from the West Virginia State Treasurer's Office.

7. **Interim Meeting Dates.**

The next regular interim meetings will be held on January 6 - 8, 2002.

The meeting was adjourned.



Joint Committee on Government and Finance

January 8, 2002

Department of Health and Human Resources

MEDICAID REPORT

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAID CASH REPORT
 SFY2002

MONTH OF NOV 2001

	ACTUALS 07/01/01 THRU	PROJECTED 12/01/01 THRU	TOTAL SFY2002
REVENUE SOURCES			
BEG. BAL. 7/01/01	\$17,934,047		\$17,934,047
MATCHING FUNDS			
GENERAL REVENUE	66,391,237	114,116,350	180,507,587
LOTTERY - WAIVER	5,066,666	7,533,334	12,600,000
LOTTERY - TRANSFER	4,333,333	5,966,667	10,300,000
TRUST FUND APPROPRIATION	8,191,181	23,747,749	31,938,930
TRUST FUND BACKLOG	0	0	0
PROVIDER TAX	60,600,000	86,900,000	147,500,000
MCH TRANSFER	236,111	1,863,889	2,100,000
OTHER FUNDS	81,674	2,018,326	2,100,000
TOTAL MATCHING FUNDS	162,834,249	242,146,315	404,980,564
FEDERAL FUNDS	473,864,598	722,005,218	1,195,869,816
TOTAL REVENUE SOURCES	\$636,698,847	\$964,151,533	\$1,600,850,380
TOTAL EXPENDITURES:			
PROVIDER PAYMENTS	\$607,825,304	\$959,544,954	\$1,567,370,258
SUB - TOTAL	\$28,873,543		\$33,480,122
ACCOUNTS PAYABLE 11/30/01			(\$35,331,915)
BALANCE	\$28,873,543		(\$1,851,793)

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DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MONTHLY FINANCIAL SUMMARY
 MONTH OF November 2001
 FISCAL YEAR 2001-2002

CATEGORY OF EXPENDITURES	ACTUALS SFY 2001	ORIGINAL ESTIMATE SFY 2002	CURRENT ESTIMATE SFY 2002	ESTIMATE NOVEMBER 2001	ACTUAL NOVEMBER 2001	ESTIMATE YEAR TO DATE NOVEMBER 2001	ACTUAL YEAR TO DATE NOVEMBER 2001	Incr/(Dec) Over ESTIMATE	PERCENT
INPATIENT HOSPITALS	\$146,711,093	\$154,744,686	150,697,925	\$11,747,048	\$15,760,120	\$61,484,088	\$56,467,312	(\$5,016,784)	-8.16%
MENTAL HEALTH HOSPITALS	38,154,352	30,634,361	31,481,266	2,278,596	\$2,597,748	12,077,954	\$13,195,708	1,117,754	9.25%
OUTPATIENT HOSPITALS	65,545,731	74,159,061	76,864,288	5,952,016	3,174,866	30,208,717	\$30,056,269	(149,448)	-0.49%
CLINICS	18,570,680	20,507,263	16,938,352	1,307,091	1,462,016	7,657,884	\$8,437,402	(1,220,482)	-15.94%
PHYSICIANS	121,231,871	133,881,464	128,503,496	8,900,214	10,165,989	52,721,873	\$49,363,002	(3,358,871)	-6.37%
LABS	8,084,464	8,147,295	8,308,305	475,382	491,916	2,472,282	\$2,453,149	(19,133)	-0.77%
DRUGS	248,498,703	286,730,491	277,095,740	20,507,252	21,690,267	108,839,342	\$106,772,297	(3,067,045)	-2.79%
OTHER PRACTITIONERS	15,275,872	11,555,088	12,004,525	755,610	1,307,485	4,299,102	\$6,155,769	1,859,667	43.19%
DENTIST	22,917,233	28,343,470	27,834,068	2,128,507	2,457,023	11,462,406	\$11,560,787	98,381	0.86%
NURSING HOMES	281,627,475	292,075,715	287,801,948	22,434,150	23,051,766	116,949,012	\$121,445,886	4,497,874	3.65%
GROUP HOMES	47,442,066	50,112,045	50,019,438	3,918,260	3,671,787	20,223,497	\$19,484,579	(738,918)	-3.65%
OTHER CARE	119,559,800	119,288,088	122,897,422	9,272,657	8,254,063	47,836,163	\$47,313,260	(524,903)	-1.10%
EPSDT	4,084,361	4,177,766	4,342,323	325,881	378,939	1,698,204	\$1,751,367	55,163	3.25%
MEDICARE BUY-IN	40,262,943	42,931,601	42,311,012	3,577,825	3,437,438	17,888,125	\$17,127,450	(760,675)	-4.25%
FAMILY PLANNING	2,197,462	2,308,971	2,173,702	194,670	105,318	966,558	\$693,170	(273,388)	-28.28%
HOME HEALTH	20,853,348	22,212,981	23,937,807	1,796,509	1,696,361	9,146,263	\$9,428,184	281,921	3.08%
RURAL HEALTH	24,447,227	24,883,231	22,621,516	1,700,653	2,026,902	9,622,113	\$9,681,731	59,618	0.62%
HOME & COMMUNITY - AGED/DISABLED	40,239,220	46,684,016	52,217,838	4,078,394	3,653,873	19,561,941	\$19,116,731	(445,210)	-2.28%
HOME & COMMUNITY - MR/DD	97,574,478	113,153,706	125,778,512	8,889,539	8,784,480	47,434,866	\$45,132,071	(1,302,895)	-2.75%
PASARR	10,780	253,606	171,299	21,099	385	105,599	\$3,280	(102,319)	-96.89%
PERSONAL CARE	24,841,977	26,429,712	25,036,916	2,003,121	1,348,022	10,460,377	\$8,375,879	(2,084,498)	-19.93%
HOSPICE	1,347,397	1,832,860	2,306,911	197,242	51,424	852,650	\$635,854	(216,796)	-25.43%
TARGETED CASE MANAGEMENT	12,279,989	14,623,622	11,531,104	967,174	737,660	5,534,443	\$3,551,213	(1,983,230)	-35.63%
GROUP HEALTH PLAN	10,239	0	6,121	0	3,465	0	\$9,586	9,586	100.00%
MANAGED CARE	56,598,694	58,242,703	60,559,509	4,853,559	4,137,493	24,267,793	\$25,868,530	1,600,737	6.60%
SUB-TOTAL	1,452,342,485	1,568,903,628	1,574,441,341	120,282,223	120,246,155	624,770,360	\$613,083,466	(11,686,894)	-1.87%
LESS: DRUG REBATES	(44,602,150)	(53,052,739)	(57,086,201)	(3,784,365)	(130,186)	(20,323,189)	(\$23,080,923)	(2,757,734)	13.57%
DSH PAYMENTS PRIVATE INSTITUTIONS	58,558,131	60,478,526	58,704,055	0	0	15,119,631	\$14,658,403	(461,228)	-3.05%
DSH PAYMENTS STATE INSTITUTIONS	17,114,495	28,501,839	26,652,978	0	0	6,375,460	\$11,608,210	5,232,750	82.08%
TOTAL	\$1,481,412,961	\$1,599,831,254	\$1,602,702,173	\$116,487,838	\$120,115,969	\$625,942,262	\$616,268,156	(\$9,673,106)	-1.55%

NOTE: This report is based on estimates of approved claims to be received during the year.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAL SERVICES TRUST FUND AND INTEREST REPORT
 FOR THE MONTH OF NOVEMBER 2001
 SFY 2002

TRANSFER DATE	ACTIVITY	DESCRIPTION	DEPOSIT (WITHDRAWAL) PRINCIPAL	INTEREST & DSH DEPOSITS (WITHDRAWAL)	TRUST FUND BALANCE
07/01/01	DEPOSIT	BEG. BAL.	5,358,862.34		5,358,862.34
07/01/01	WITHDRAWAL	Eligibility Expansion		(106,171.34)	5,252,691.00
07/01/01	WITHDRAWAL	Facilities DSH Match	(1,455,834.00)		3,796,857.00
07/01/01	WITHDRAWAL	Private DSH Backlog	(323,846.00)		3,473,011.00
07/31/01	INTEREST	Rate AT 4.92 %		17,080.17	3,490,091.17
08/01/01	DEPOSIT	Facilities DSH Payment		9,577,580.50	13,067,671.67
08/01/01	WITHDRAWAL	Facilities DSH Match	(1,425,436.00)		11,642,235.67
08/31/01	INTEREST	Rate AT 4.2 %		26,435.36	11,668,671.03
09/01/01	WITHDRAWAL	Private DSH Backlog	(3,290,917.00)		8,377,754.03
09/01/01	DEPOSIT	DSH Cost Settlement		284,388.00	8,662,142.03
09/30/01	INTEREST	Rate AT 4.2 %		33,171.86	8,695,313.89
10/01/01	DEPOSIT	Special Appropriation	366,667.00		9,061,980.89
10/31/01	INTEREST	Rate AT 3.1 %		23,117.83	9,085,098.72
11/01/01	WITHDRAWAL	Facilities DSH Match	(1,317,248.60)		7,767,850.12
11/01/01	WITHDRAWAL	Private DSH Backlog	(271,728.00)		7,496,122.12
11/01/01	DEPOSIT	Special Appropriation	366,667.00		7,862,789.12
11/30/01	INTEREST	Rate AT 3.1 %		21,090.58	7,883,879.70
12/01/01	DEPOSIT	Facilities DSH Payment		5,326,517.50	13,210,397.20
12/01/01	WITHDRAWAL	Match Drop	(5,236,000.00)		7,974,397.20
12/01/01	DEPOSIT	Special Appropriation	366,667.00		8,341,064.20
12/01/01	WITHDRAWAL	Private DSH Backlog	(3,393,717.00)		4,947,347.20
12/31/01	INTEREST	Rate AT 3.1 %		13,270.41	4,960,617.61
01/01/02	DEPOSIT	Special Appropriation	600,000.00		5,560,617.61
01/31/02	INTEREST	Rate AT 3.1 %		14,915.40	5,575,533.01
02/01/02	WITHDRAWAL	Facilities DSH Match	(1,183,918.00)		4,391,615.01
02/01/02	WITHDRAWAL	Private DSH Backlog	(3,626,377.00)		765,238.01
02/01/02	DEPOSIT	Special Appropriation	600,000.00		1,365,238.01
02/28/02	INTEREST	Rate AT 3.1 %		3,662.02	1,368,900.03
03/01/02	DEPOSIT	Facilities DSH Payment		7,236,666.00	8,605,566.03
03/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		5,987,566.03
03/01/02	WITHDRAWAL	Hospice		(171,487.50)	5,816,078.53
03/01/02	DEPOSIT	Special Appropriation	600,000.00		6,416,078.53
03/31/02	INTEREST	Rate AT 3.1 %		17,210.03	6,433,288.56
04/01/02	DEPOSIT	Special Appropriation	700,000.00		7,133,288.56
04/30/02	INTEREST	Rate AT 3.1 %		19,133.82	7,152,422.38
05/01/02	WITHDRAWAL	Facilities DSH Match	(1,183,918.00)		5,968,504.38
05/01/02	WITHDRAWAL	Private DSH Backlog	(3,651,015.00)		2,317,489.38
05/01/02	DEPOSIT	Special Appropriation	700,000.00		3,017,489.38
05/31/02	INTEREST	Rate AT 3.1 %		8,093.90	3,025,583.28
06/01/02	WITHDRAWAL	Facilities DSH Payment		7,236,666.00	10,262,249.28
06/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		7,644,249.28
06/01/02	WITHDRAWAL	Hospice		(171,487.50)	7,472,761.78
06/01/02	WITHDRAWAL	Special Appropriation	700,000.00		8,172,761.78
06/30/02	INTEREST	Rate AT 3.1 %		21,922.03	8,194,683.81
TOTALS			(21,237,091.26)	29,431,775.07	8,194,683.81

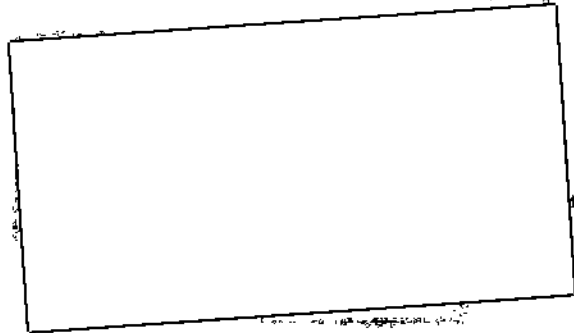
DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MOUNTAIN HEALTH TRUST

DECEMBER 2001

HMO	PAYMENT	RECIPIENTS ENROLLED	AVERAGE COST PER RECIPIENT
THE HEALTH PLAN	\$2,785,560	30,863	\$90.26
CARELINK	\$1,490,902	16,592	\$89.86
TOTAL	\$4,276,462	47,455	\$90.12
ESTIMATED COMPOSITE ACTUARY RATE (THE 95% RATE IS \$92.08)			\$96.92
PERCENT ESTIMATED SAVINGS			7.02%

MONTHLYSAV.123

12/06/01



Joint Committee on Government and Finance

January 8, 2002

Department of Health and Human Resources

WELFARE REFORM REPORT

WV WORKS Caseload

2001

COUNTY	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	Nov	DEC
Barbour (01)	178	176	192	191	184	191	187	184	188	195	198	203
Berkeley (02)	347	368	372	379	378	372	409	435	425	439	431	416
Boone (03)	282	301	290	273	284	288	307	315	319	332	359	368
Braxton (04)	130	128	130	125	122	123	122	127	129	139	143	143
Brooke (05)	85	86	95	95	92	100	91	86	88	86	93	99
Cabell (06)	625	632	660	648	624	621	632	646	643	676	711	699
Calhoun (07)	65	69	77	75	73	75	75	83	90	81	82	91
Clay (08)	112	109	108	97	91	90	94	101	95	97	105	111
Doddridge (09)	58	56	60	66	71	66	71	74	68	71	67	62
Fayette (10)	581	561	566	521	500	511	522	522	519	516	504	505
Gilmer (11)	56	54	51	52	52	49	56	53	49	49	50	53
Grant (12)	45	49	45	44	44	48	55	52	50	44	46	48
Greenbrier (13)	158	155	153	148	136	136	137	134	134	138	153	165
Hampshire (14)	91	87	91	88	94	103	99	105	105	104	95	95
Hancock (15)	134	131	142	135	140	143	150	152	154	162	170	186
Hardy (16)	60	57	63	64	64	69	67	61	55	51	50	46
Harrison (17)	543	537	550	537	533	563	583	597	576	613	613	613

COUNTY	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
Jackson (18)	97	92	103	110	109	121	125	135	143	139	137	143
Jefferson (19)	119	124	127	128	130	128	136	147	140	150	151	156
Kanawha (20)	838	834	858	865	884	923	949	1,078	1,093	1,137	1,198	1,221
Lewis (21)	161	162	154	162	157	158	155	155	152	167	171	168
Lincoln (22)	290	292	285	284	307	298	330	325	322	337	339	348
Logan (23)	397	402	392	367	376	382	373	394	399	418	409	410
Marion (24)	232	229	242	234	246	250	255	264	268	282	283	279
Marshall (25)	253	249	249	245	238	257	275	287	281	281	282	283
Mason (26)	257	260	259	260	273	264	246	258	255	250	251	254
Mercer (27)	762	757	765	775	776	795	810	849	849	868	880	883
Mineral (28)	103	106	104	106	104	96	106	109	114	112	102	100
Mingo (29)	590	576	571	572	563	543	568	604	578	581	589	579
Monongalia (30)	103	103	105	100	92	90	87	101	96	105	110	107
Monroe (31)	97	88	93	93	88	97	98	97	97	94	90	81
Morgan (32)	76	74	76	82	86	84	92	94	80	85	89	76
McDowell (33)	1,027	1,030	1,027	1,009	997	976	978	991	962	954	951	904
Nicholas (34)	153	151	146	138	140	143	138	146	143	155	157	154
Ohio (35)	305	295	296	289	273	272	280	298	310	301	302	300
Pendleton (36)	40	37	37	39	35	37	37	36	34	34	38	38
Pleasants (37)	45	46	42	43	47	48	52	55	50	54	50	48
Pocahontas (38)	31	34	31	28	27	27	29	26	27	31	28	7

COUNTY	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
Preston (39)	109	114	113	108	108	110	122	124	130	132	123	132
Putnam (40)	95	105	103	96	110	134	127	144	151	156	166	164
Raleigh (41)	607	605	614	614	604	604	618	648	664	669	690	711
Randolph (42)	122	120	118	126	128	128	119	113	116	114	114	108
Ritchie (43)	65	71	67	67	62	58	62	59	57	57	58	57
Roane (44)	67	71	81	82	91	102	98	115	101	112	108	116
Summers (45)	181	184	193	181	183	185	171	179	165	163	162	167
Taylor (46)	106	98	97	100	93	90	95	91	91	84	89	93
Tucker (47)	20	20	20	21	21	20	19	22	25	24	27	29
Tyler (48)	38	36	37	35	35	34	28	28	33	28	35	33
Upshur (49)	266	264	278	282	282	286	289	307	312	308	315	309
Wayne (50)	502	496	499	509	482	486	514	535	548	572	595	585
Webster (51)	189	193	190	181	173	177	178	193	191	194	192	195
Wetzel (52)	105	105	100	101	95	93	98	103	106	106	105	105
Wirt (53)	49	51	55	51	55	61	59	56	58	51	49	43
Wood (54)	711	704	704	675	700	712	727	775	778	796	805	766
Wyoming (55)	496	491	504	503	488	511	495	490	453	444	414	403
Total	13,254	13,225	13,380	13,199	13,140	13,328	13,595	14,158	14,059	14,338	14,525	14,478

Characteristics of the Current WV WORKS Caseload

- ✓ **4,455 Child Only Cases—parents are not in the home and children are living with a relative, or parents are in the home, receive SSI and are excluded from the WV WORKS payment.**
- ✓ **599 cases currently receiving WV WORKS received TANF in another state before moving to West Virginia.**
- ✓ **101 cases in which the parents are excluded from the payment because they were convicted of a drug related felony after August 22, 1996.**
- ✓ **499 cases receive Medicaid but do not receive Food Stamps.**
- ✓ **1,484 cases receive Food Stamps but adults do not receive Medicaid.**
- ✓ **1,768 cases receive the Marriage Incentive. The incentive was increased to \$100 monthly effective July 1, 2000.**
- ✓ **2,466 adults receiving WV WORKS are employed.**

12/01

Supportive Services Payments: Types and Amounts
December 2001

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Clothing: Work or dress clothing when there is a verified offer of employment or short term training. <i>\$600 year</i>	\$83,973	\$25,779	660	\$166	\$109,752
Collateral: Items include grooming expenses, test fees and other expenses related to employment. <i>\$300 year</i>	\$14,170	\$3,267	198	\$88	\$17,437
Car Repair: For personally owned vehicles; includes tires, mufflers, or brakes necessary to pass state inspection, state inspection stickers, license plates, vehicle insurance, and driver's education classes. Funds cannot be used to purchase a vehicle. <i>\$1,500 lifetime</i>	\$186,682	\$67,380	480	\$529	\$254,042
Contract Training: A training contract may be written when training is not available on a no-cost basis and the training will be provided to an individual or a group of participants. There is an expectation that the individuals will be able to find employment when they successfully complete the training course. <i>\$5,000 year</i>	\$3,605	\$1,068	15	\$311	\$4,673
Commercial Driver's License: Payment to purchase license. <i>\$600 lifetime</i>	\$0	\$0	0	\$0	\$0
Driver/Chauffeurs License: Does not include payment for test required due to traffic violations or classes required for DUI convictions. <i>\$120 lifetime</i>	\$100	\$0	5	\$20	\$100
Employer Incentive: Agreements between employers and local DHHR offices placing WV WORKS recipients in jobs. Employers are reimbursed 1/2 of the employee's wages for the first 200-800 work hours under these contracts.	\$3,214	\$0	7	\$459	\$3,214
Professional License: When the cost of the license is not paid by the employer or is not included in the cost of a training course, and obtaining the license is part of the course completion. <i>\$600 lifetime</i>	\$350	\$180	5	\$108	\$530

or

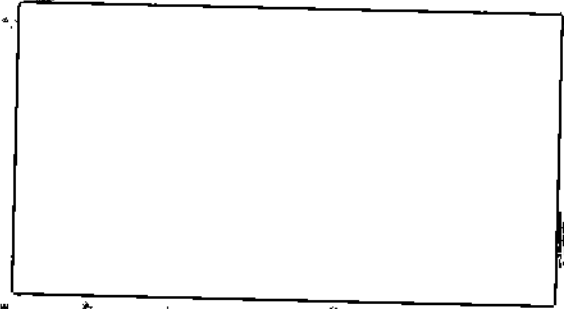
Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Relocation: When there is a verified offer of employment, the family can be relocated to a different state, a different area of the state, or to the same area if the move reduces travel time to one hour or less. <i>\$1,500 year</i>	\$3,261	\$2,800	7	\$886	\$6,061
Tools/Equipment: When needed for a verified offer of employment or for specialized training. <i>\$1,000 year</i>	\$5,821	\$8,923	28	\$527	\$14,744
Transportation: Payments are made based on miles traveled to employment or a work activity when there is a cost involved. Public transportation is reimbursed at actual cost. <i>(2-10 miles-\$10 day; 40+ -\$16) \$400 month limit</i>	\$819,781	\$280,919	5,730	\$157	\$900,700
Vehicle Insurance: Payment for vehicle insurance premium. Does not include vehicle insurance premium for vehicles leased through WV WHEELS as vendor is responsible for payment as part of the lease. <i>\$500 lifetime</i>	\$38,798	\$10,808	178	\$279	\$49,606
DUI offenses: Costs related to reinstatement of driver's license which have been revoked due to substance abuse. Includes DUI classes, license reinstatement fees, new license, ignition interlock system. Does not include fines, treatment programs or tests for drug and alcohol use. <i>\$500 lifetime</i>	\$250	\$0	1	\$250	\$250
Total	\$960,005	\$401,104	7,314	\$186	\$1,361,109

Length of Time on Assistance

Number of Months	Number of Cases
12 months or less	3,688
13-24	2,868
25-36	1,705
37-48	977
49-60	563
Total	9,801

Does not include child only cases.

12/01



Joint Committee on Government and Finance

January 2002

Department of Health and Human Resources

COLIN ANDERSON CENTER REPORT

Colin Anderson Center Report

January 2002

**West Virginia Department of Health
and Human Resources**

Paul L. Nusbaum, Secretary

Colin Anderson Center Summary Report – January 2002

The Colin Anderson Center (Center) was successfully closed on April 3, 1998. The Department of Health and Human Resources (Department) continues to monitor the persons who left the Center, and this report summarizes the status of those individuals to date.

Seventy-eight people were discharged from the Center into community settings in West Virginia, and one person was discharged from Ruby Memorial Hospital to Lakin Hospital. The individual who was discharged to Lakin Hospital expired four months after admission.

Two people were discharged to out-of-state placements at the request of their legal representatives. One of those individuals returned to West Virginia and resides at Pinecrest Hospital at the request of their legal representative.

Twelve people have died (all due to natural causes) since being discharged from the Center.

Therefore, sixty-six people continue to receive services and supports in West Virginia communities. Twenty people receive residential services in an ICF/MR facility. The ICF/MR facilities are between six and eight bed homes. Forty-six people receive residential services through the Home and Community-Based MR/DD Waiver Program. Home and Community-Based residential services are between one and four bed homes.

All those discharged from the Center receive day habilitation services from day programs, community-based day programs, volunteering, senior centers, supported employment and competitive employment.

Sixty-five people have had compliance clocks successfully completed. The compliance clock is the list of services identified prior to discharge by Center staff and community staff as needed services for the individual. Each compliance clock service is required to complete eighteen consecutive months of service. One compliance clock continues to remain active. The most frequent reason for out-of-compliance status is noted as lack of appropriate documentation and missed/cancelled appointments. The Department continues to monitor the one person who has an active compliance clock. The Department reports on the compliance clock status to the Hartley Court Monitor.

**Colin Anderson Center
 Summary Report - January 2002
 Department of Health and Human Resources
 Bureau for Behavioral Health and Health Facilities
 Office of Behavioral Health Services
 Division of Developmental Disabilities**

Date of Closure: April 3, 1998

Status	Total
Number Discharged in Community Settings	78
Number Discharged in Medical Settings	1
Total Number of Individuals Discharged	79

Total Number of Individuals Deceased Since Discharge (all due to natural causes)	12
---	-----------

Number in ICF/MF Group Homes (6-8 Beds)	20
Number in MR/DD Waiver Residences (1-4 beds)	46
Total Currently in Community Settings	66

Number of Individuals with Compliance Clocks* Closed	65
Number of Individuals with Compliance Clocks* Open	1
Total Number of Individuals with Compliance Clocks*	66

*A compliance clock is a list of services an individual's treatment team identified prior to discharge as needed services for the individual. In order for a compliance clock to be closed, all of the identified services must be provided for a period of eighteen consecutive months. DHHR staff continue to monitor the one individual with an open compliance clock.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

MEMORANDUM

To: Joint Committee on Government and Finance
Honorable Senator Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House

From: Ellen Clark, CPA
Director Budget Division
Legislative Auditor's Office

Date: January 3, 2002

Re: Review of West Virginia Lottery Financial Information
As of November 2001 (FY 2002)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the period ended November 30, 2001 from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. The results are as follows:

Lottery Revenues:

Gross lottery revenues are receipts from on-line games, instant games and video lottery. These gross receipts were 41.50% ABOVE the preceding July - November of fiscal year 2000-2001. This number does not include commission and prize deductions. Gross profit for July-November 2001 was \$123,007,000.00; for the previous fiscal year, July - November 2000 it was \$83,478,000.00. Expressed as a percentage, gross profit is **47.35% higher** in 2001-2002 than in fiscal year 2000-2001.

Joint Committee on Government and Finance

Net Income:

Net income for months of July - November 2001 was \$ 113,505,000.00; the previous fiscal year it was \$76,719,000.00 This is an increase of 47.95%.

Operating Transfers to the State of West Virginia:

A total of \$ 113,505,000.00 has been accrued to the state of West Virginia for fiscal year 2001-2002. This is on an accrual basis and may not correspond to the actual cash transfers made during the same time period. (Amounts owed to the different accounts according to the Lottery Act are calculated monthly and accrued to the state; actual cash transfers are often made based upon actual cash flow needs of the day-to-day operation of the lottery.)

A schedule of cash transfers follows:

Bureau of Senior Services	\$ 35,955,000.00
Department of Education	\$ 30,720,000.00
Educational Broadcasting Authority	\$ 2,600,000.00
Library Commission	\$ 9,752,000.00
Higher Education-Central Office	\$ 39,575,000.00
Tourism	\$ 11,829,000.00
Department of Natural Resources	\$ 6,503,000.00
Division of Culture and History	\$ 7,531,000.00
Department of Education and Arts	\$ 6,965,000.00
State Building Commission	\$ 5,000,000.00
School Building Authority	\$ 9,000,000.00
SUBTOTAL BUDGETARY TRANSFERS	\$165,430,000.00

Excess Lottery Fund General Revenue 725,000.00

Veterans Instant Ticket Fund 501,000.00

VIDEO LOTTERY TRANSFERS:	
Tourism Promotion Fund	\$7,929,000.00
Veterans Memorial Archives	\$100,000.00
John F. "Jack" Bennett Fund	\$20,000.00
Department of Administration	\$2,524,000.00
SUBTOTAL VIDEO LOTTERY TRANSFERS:	\$10,573,000.00
TOTAL TRANSFERS	*\$177,229,000.00

* CASH BASIS

Actual accrual based accounting FY 2002: \$113,505,000.00



P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
FAX: 304-558-3321

Bob Wise
Governor

John C. Musgrave
Director

MEMORANDUM

TO: Joint Committee on Government and Finance

FROM: John C. Musgrave, Director 

RE: Monthly Report on Lottery Operations
Month Ending November 30, 2001



DATE: December 20, 2001

This report of the Lottery operations is provided pursuant to the State Lottery Act.

Financial statements of the Lottery for the month ending November 30, 2001 are attached. Lottery revenue, which includes on-line, instant and video lottery sales, was \$59,347,405 for the month of November.

Transfers of lottery revenue totaling \$18,645,572 were made for the month of November to the designated state agencies per House Bill 101 and the Racetrack Video Lottery Act (§29-22A-10). The amount transferred to each agency is shown in Note 8 on page 12 of the attached statements.

The number of active retailers as of November 30, 2001, was 1610.

A listing of the names and amounts of prize winners has been provided to the Clerk of the Senate, the Clerk of the House and Legislative Services.

If any member of the Committee has questions concerning the Lottery, please call me. Also if any members of the Legislature wish to visit the Lottery offices, I would be pleased to show them our facilities and discuss the Lottery with them.

JCM/jt
Attachment

pc: Honorable Bob Wise
Brian Kastick, Cabinet Secretary - Tax & Revenue
John Perdue, Treasurer
Glen B. Gainer III, Auditor
Members of the West Virginia Lottery Commission



WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

FINANCIAL STATEMENTS

NOVEMBER 30, 2001

WEST VIRGINIA LOTTERY

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WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE FIVE MONTH PERIOD ENDED NOVEMBER 30, 2001
(Expressed in Thousands)

	CURRENT MONTH		YEAR TO DATE	
	2001	2000	2001	2000
Lottery revenues				
On-line games	\$ 6,410	\$ 11,586	\$ 63,028	\$ 35,668
Instant games	7,508	5,972	35,154	27,688
Racetrack video lottery	45,429	32,302	236,636	173,258
	<u>59,347</u>	<u>49,860</u>	<u>334,818</u>	<u>236,614</u>
Direct Costs				
Commissions				
On-line games	401	724	3,940	2,230
Instant games	469	373	2,199	1,730
Racetrack video lottery	28,784	20,466	149,933	112,039
	<u>29,654</u>	<u>21,563</u>	<u>156,072</u>	<u>115,999</u>
Prizes				
On-line prizes	3,162	5,756	30,886	17,746
Instant prizes	5,187	4,101	24,133	18,790
	<u>8,349</u>	<u>9,857</u>	<u>55,019</u>	<u>36,536</u>
Ticket Costs	<u>144</u>	<u>133</u>	<u>720</u>	<u>601</u>
Total Direct Costs	<u>38,147</u>	<u>31,553</u>	<u>211,811</u>	<u>153,136</u>
Gross profit	21,200	18,307	123,007	83,478
Operating expenses				
Vendor fees and costs	594	709	3,860	2,550
Advertising and promotions	1,190	376	3,939	2,631
Wages and related benefits	263	181	1,211	959
Telecommunications	371	171	1,160	920
Contractual and professional	241	55	748	493
Rental	48	29	231	152
Depreciation and amortization	56	13	254	64
Other general expenses	95	44	305	211
	<u>2,858</u>	<u>1,578</u>	<u>11,708</u>	<u>7,980</u>
Other Operating Income	<u>62</u>	<u>30</u>	<u>1,504</u>	<u>272</u>
Operating Income	<u>18,404</u>	<u>16,759</u>	<u>112,803</u>	<u>75,770</u>
Nonoperating income(expense)				
Investment income	36	235	905	1,178
Interest expense	105	(44)	(203)	(229)
	<u>141</u>	<u>191</u>	<u>702</u>	<u>949</u>
Income before nonoperating distributions	18,545	16,950	113,505	76,719
Nonoperating distributions to the State of West Virginia	<u>18,545</u>	<u>16,950</u>	<u>113,505</u>	<u>76,719</u>
Net income	-	-	-	-
Retained earnings, beginning of period	250	250	250	250
Retained earnings, end of period	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>

The accompanying notes are an integral
part of these financial statements.

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FIVE MONTH PERIOD ENDED NOVEMBER 30, 2001
(Expressed in Thousands)

	2001	2000
Cash received from customers	\$ 338,995	\$ 236,413
Cash paid to employees	(1,214)	(970)
Cash paid to suppliers	(18,192)	(6,885)
Other operating cash payments	<u>(211,175)</u>	<u>(156,376)</u>
Net cash provided by (used for) operating activities	<u>108,414</u>	<u>72,182</u>
Cash flows from noncapital financing activities		
Transfers to the State of West Virginia	(177,229)	(108,268)
Deferred jackpot prize obligations and related interest paid	<u>(538)</u>	<u>(513)</u>
Cash used in noncapital financing activities	<u>(177,767)</u>	<u>(108,781)</u>
Cash flows from capital and related financing activities		
Purchase of fixed assets	<u>(372)</u>	<u>(24)</u>
Cash flows from investing activities		
Maturities of investments held in trust	826	826
Investment earnings received	<u>829</u>	<u>885</u>
Cash provided by investing activities	<u>1,655</u>	<u>1,711</u>
Increase (Decrease) in cash and cash equivalents	(68,070)	(34,912)
Cash and Cash Equivalents - beginning of period	<u>101,966</u>	<u>62,630</u>
Cash and Cash Equivalents - end of period	<u>\$ 33,896</u>	<u>\$ 27,718</u>

The accompanying notes are an integral
part of these financial statements.

WEST VIRGINIA LOTTERY
BALANCE SHEETS
(Expressed in Thousands)

	November 30, 2001	June 30, 2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,896	\$ 101,966
Accounts receivable	5,401	8,118
Ticket Inventory	539	692
Other assets	837	1,169
Total current assets	<u>40,673</u>	<u>111,945</u>
Leasehold improvements and equipment	4,592	4,213
Less accumulated depreciation and amortization	(2,562)	(2,308)
	<u>2,030</u>	<u>1,905</u>
Investments held in trust	6,043	6,568
Total assets	<u>\$ 48,746</u>	<u>\$ 120,418</u>
 LIABILITIES AND FUND EQUITY		
Current liabilities		
Accrued transfers to the State of West Virginia	\$ 17,089	\$ 86,972
Estimated prize claims	12,003	9,907
Accounts payable	2,140	1,532
Other accrued liabilities	11,579	15,737
Total current liabilities	<u>42,811</u>	<u>114,148</u>
Deferred jackpot prize obligations	5,685	6,020
Fund equity		
Retained earnings	250	250
Total liabilities and fund equity	<u>\$ 48,746</u>	<u>\$ 120,418</u>

The accompanying notes are an integral
part of these financial statements.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. LEGISLATIVE ENACTMENT

The West Virginia Lottery (Lottery) was established by the State Lottery Act (Act) passed April 13, 1985, which created a special fund in the State Treasury designated as the "State Lottery Fund," a component unit of the State of West Virginia. The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (Commission) and a director. The Commission, consisting of seven members, and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games and to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45 percent of the gross amount received from each lottery shall be allocated for prizes and provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be transferred to the State of West Virginia. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are discretely presented in the comprehensive annual financial report of the State.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below. These policies were applied on a basis consistent with that of the preceding year.

BASIS OF PRESENTATION – The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary type enterprise fund. In accordance with generally accepted accounting principles, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 unless the GASB specifically adopts such FASB statements or interpretations.

USE OF ESTIMATES – The preparation of the financial statements requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

LOTTERY GAME OPERATIONS – The West Virginia Lottery derives its revenues from three basic types of lottery games: instant, on-line, and video type games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. Retailers and bonded agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL, a multi-state "jackpot" game, ROLLDOWN, a multi-state "lotto" game, Cash25 "lotto" game, Daily 3 and 4 "numbers" games, and Travel, a daily "keno" game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of six and one quarter percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent's on-line terminal may be rendered inactive if payment is not received each week. No one retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The keyboard operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The coin operated games allow a player to use coins or tokens to place bets for the chance to receive coin or token awards which may be redeemed for cash or used for replay in the coin operated games. The video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as video lottery revenue "gross terminal income" equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to the private and local government entities are reported as commissions.

Racetrack video lottery legislation has established specific requirements for video lottery and imposed certain restrictions limiting the licensing for operation of video lottery games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

The Lottery has contracted with a private vendor to manufacture, distribute and provide data processing support for instant and on-line lottery games. Under the terms of the agreement the Lottery pays a percentage of gross revenues for the processing and maintenance of the games.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consist of interest-earning deposits with the West Virginia Investment Management Board (IMB) and are recorded at fair value.

INVENTORY – Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost.

OTHER ASSETS – Other assets consist primarily of deposits restricted for payment of certain Multi-State Lottery Association activities, and promotional items for which re-sale is not intended.

LEASEHOLD IMPROVEMENTS AND EQUIPMENT – The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. A portion of these facilities are subleased to the Lottery's game vendors. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the five months ended November 30, 2001 and November 30, 2000 approximated \$231,105 and \$151,786, respectively. Sublease rental income for the five months ended November 30, 2001 and November 30, 2000 approximated \$43,220 and \$8,479, respectively.

Leasehold improvements and purchased equipment, comprised principally of office furnishings and equipment necessary to administer lottery games, are carried at cost. Depreciation is computed by the straight-line method using three to ten year lives.

COMPENSATED ABSENCES – The Lottery has accrued \$404,000 and \$351,000 for fiscal years 2001 and 2000, respectively, for estimated obligations that may arise in connection with compensated absences for vacation and sick leave at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits.

NOTE 3. ACCOUNTING PRONOUNCEMENT

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This statement establishes financial reporting standards for state and local governments by revising the basic financial statement requirements and also requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities. The Lottery intends to adopt the provisions of this statement for the fiscal year ending June 30, 2002, which is consistent with the State of West Virginia's planned adoption period. Because the Lottery is an enterprise fund, the adoption of GASB Statement No. 34 is not expected to have a material effect on the financial statements.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. LEGISLATIVE ENACTMENT

During the fiscal year ended June 30, 2001 the West Virginia Legislature approve House Bill 102, which included the Limited Video Lottery Act. Under this bill, up to 9000 video lottery terminals will be placed in limited licensed retailer areas restricted for adult amusement. These licensed retailers must hold a qualifying permit for the sale on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The addition of these responsibilities in future years is expected to generate a substantial increase in video lottery revenues and related expenses, including commission, personnel and administrative.

House Bill 102 also contains language that changes, for fiscal years beginning on or after July 1, 2001, the State's share of racetrack video lottery revenue as well as the distribution percentage paid to racetracks and one other private entity associated with the racing industry (See Note 7) after the gross terminal income benchmark amount for fiscal year ending June 30, 2001 has been met.

NOTE 5. CASH AND CASH EQUIVALENTS

A summary of the amount on deposit with the West Virginia Investment Management Board (IMB) follows (in thousands):

	<u>November 30, 2001</u>	<u>June 30, 2001</u>
Amount on deposit with the IMB	<u>\$33,896</u>	<u>\$101,966</u>

The deposits with the IMB are part of the State of West Virginia's consolidated investment cash liquidity pool and are not separately identifiable as to specific types of securities. Investment income is pro-rated to the Lottery at rates specified by the IMB based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

NOTE 6. PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL jackpot lotto game and the three day a week ROLLDOWN game, on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL, and ROLLDOWN is 50% of each drawing period's sales, with minimum jackpot levels.

Revenues derived from the Lottery's participation in the MUSL POWERBALL jackpot game for the month and year-to-date periods ended November 30, 2001 were \$3,591,096 and \$48,657,806 while related prize costs for the same periods were \$1,721,425 and \$24,201,445.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 6. PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)

Revenues derived from the Lottery's participation in the ROLLDOWN game for the month and year-to-date periods ended November 30, 2001 were \$67,270 and \$370,539 while related prize costs for the same periods were \$33,875 and \$184,857.

MUSL places 2% of each POWERBALL drawing period's sales in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. Currently, the MUSL Board of Directors has placed a \$52,000,000 limit on the POWERBALL prize reserve fund. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. At November 30, 2001 the POWERBALL prize reserve funds had a balance of \$77,000,000 of which the Lottery's share was \$2,979,140. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

NOTE 7. RACETRACK VIDEO LOTTERY

The Racetrack Video Lottery legislation stipulates that sixty-six percent (66%) of racetrack video lottery revenues, net of prizes (gross terminal income) and lottery administrative costs (such costs limited to 4% of revenues), shall be allocated, in lieu of commissions, to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county governments (2%). The remaining income (34% of gross terminal revenues less administrative costs) from racetrack video lottery shall be made available for transfers to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 8 titled "Nonoperating Distributions to the State of West Virginia."

The Racetrack Video Lottery Act was amended in 1999 and requires for fiscal years beginning July 1, 1999 the local county government share (2%) be split 50-50 with incorporated municipalities for certain tracks after the effected tracks have met their fiscal year 1999 net terminal revenue benchmark.

The Racetrack Video Lottery Act was further also amended in 2001 and requires for fiscal years beginning July 1, 2001 that each tracks share be reduced to 42% as well as a 2% to one of the private entities associated with the racing industry after each tracks net terminal revenue has reached the fiscal year 2001 net terminal revenue benchmark. In addition, after the fiscal year 2001 benchmark is met, the 4% for administrative costs is to be transferred to the excess lottery revenue fund; a 10% surcharge is deducted (58% will be transferred to the state excess lottery revenue fund and 42% will be held by the Lottery in a separate capital reinvestment fund) from gross terminal revenue. Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. A summary of racetrack video lottery revenues for the month ended November 30, 2001 and year-to-date follows (in thousands):

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 7. RACETRACK VIDEO LOTTERY (continued)

	<u>Current</u> <u>2001</u>	<u>Month</u> <u>2000</u>	<u>Year- to -Date</u> <u>2001</u>	<u>2000</u>
Total credits played	\$534,919	\$373,394	\$2,760,286	\$2,022,376
Credits (prizes) won	(489,490)	(341,092)	(2,523,650)	(1,849,118)
Gross terminal income	<u>\$45,429</u>	<u>\$32,302</u>	<u>\$236,636</u>	<u>\$173,258</u>
Administrative costs	(1,817)	(1,292)	(9,465)	(3,503)
Net Terminal Income	<u>\$43,612</u>	<u>\$31,010</u>	<u>\$227,171</u>	<u>\$169,755</u>
Less distribution to agents	(28,784)	(20,467)	(149,933)	(112,038)
Video lottery revenues	<u>\$14,828</u>	<u>\$10,543</u>	<u>\$77,238</u>	<u>\$57,717</u>

A summary of video lottery revenues accrued or deferred for certain state funds to conform with the legislation follows (in thousands):

	<u>November 30, 2001</u>	<u>Year-to Date</u>
Lottery Fund	\$13,084	\$68,151
Tourism Promotion Fund	1,308	6,815
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	436	2,152
Total transfers	<u>\$14,828</u>	<u>\$77,238</u>

NOTE 8. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

As required under its enabling legislation, retained earnings of the Lottery may not exceed \$250,000. Therefore, the Lottery periodically transfers surplus funds, exclusive of amounts derived from racetrack video lottery, to the State of West Virginia in accordance with the legislation. For the year ending June 30, 2002 the State Legislature budgeted \$186,562,158 of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. The enabling legislation specifies that required payments to the West Virginia State Building Commission and School Building Authority for debt service have priority for payment in instances when estimated profits are not sufficient to provide for payment of all budgeted distributions. During the month ended November 30, 2001 the Lottery made such distributions and accrued additional distributions of \$16,800,860. The Lottery does not have a legally adopted annual budget.

Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 7. As of November 30, 2001 the Lottery accrued additional distributions relating to racetrack video lottery operations of \$287,434.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)**

The Racetrack Video Lottery Act stipulates that video lottery revenue will be distributed as follows: Lottery Fund distributions as specified in the State budget (30%); Tourism Promotion Fund (3%); and the Veterans Memorial Fund, the Veterans Memorial Archives, the John F. "Jack" Bennett Fund, or the Department of Administration (1%). A summary of the cash distributions made to certain state agencies to conform with the legislation follows (in thousands):

<u>BUDGETARY DISTRIBUTIONS</u>	<u>November 30, 2001</u>	<u>Year-to-Date</u>
<u>Lottery Fund:</u>		
Bureau of Senior Services	\$3,623	\$35,955
Department of Education	3,288	30,720
Educational Broadcasting Authority	318	2,600
Library Commission	774	9,752
Higher Education-Central Office	3,720	39,575
Tourism	1,208	11,829
Natural Resources	-	6,503
Division of Culture & History	440	7,531
Department of Education & Arts	729	6,965
Building Commission	1,000	5,000
School Building Authority	1,800	9,000
Total Lottery Fund	\$16,900	\$165,430
 <u>Excess Lottery Fund:</u>		
General Revenue Fund	-	725
Total Excess Lottery Fund	-	725
Total Budgetary distributions:	\$16,900	\$166,155
Veterans Instant Ticket Fund	\$92	\$501
 <u>Racetrack Video Lottery distributions:</u>		
Tourism Promotion Fund	1,240	7,929
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	414	2,524
Total	1,654	10,573
Total nonoperating distributions to the State of West Virginia (cash basis)	18,646	177,229
Accrued nonoperating distributions, beginning	(23,349)	(86,972)
Accrued nonoperating distributions, end	23,248	23,248
Total nonoperating distributions to the State of West Virginia	\$18,545	\$113,505

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 9. DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST

Prior to becoming a member of the Multi-State Lottery in 1988, the prize structure of certain games operated solely by the Lottery included jackpot prizes. The Lottery, at its discretion, could choose to award such prizes in the form of either a lump sum payment or in equal installments over a period of 10 or 20 years, through November 30, 2001, the Lottery has awarded twenty-one deferred jackpot prizes totaling approximately \$28,868,786. Deferred prize awards were recognized as prize liabilities equivalent to the present value of future prize payments discounted at interest rates for government securities in effect on the date prizes were won. The imputed interest portion of the deferred prize awards is calculated using the effective interest method at rates ranging from 7.11% to 9.13%. A summary of the present value of the remaining obligations for deferred jackpot prize awards follows (in thousands):

	<u>November 30, 2001</u>	<u>June 30, 2001</u>
Present value of deferred prize award obligations:		
Discounted obligations outstanding	\$5,452	\$5,784
Imputed interest accrued	<u>233</u>	<u>236</u>
Total Deferred Jackpot Prize Award Obligations	<u>\$5,685</u>	<u>\$6,020</u>

The Lottery has purchased long-term investments consisting principally of zero coupon government securities to fund deferred jackpot prize award obligations. Such investments are maintained in a separate trust fund administered by the West Virginia Investment Management Board on behalf of the Lottery and the jackpot prize winners, with investment maturities approximating deferred prize obligation installment dates. Investments are carried at fair value determined by quoted market prices for the specific obligation or for similar obligations. Changes in fair value are included as part of investment income. In accordance with Statement No. 3 of the Government Accounting Standards Board, these investments are classified as to level of risk in Category 1, which includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

NOTE 10. RETIREMENT BENEFITS

All full-time Lottery employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements covering all retirement systems it administers, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 10. RETIREMENT BENEFITS (continued)

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service are eligible for retirement benefits as established by state statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 9.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are actuarially determined; however actuarial valuations are performed to assist the Legislature in determining appropriate values. The Lottery and employees contributions, for the period ending November 30, 2001 are as follows (in thousands) :

	<u>November 30, 2001</u>	<u>Year-to Date</u>
Lottery contributions (9.5%)	\$18	\$86
Employee contributions (4.5%)	9	42
Total contributions	\$27	\$128

NOTE 11. RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia. Each of these risk pools have issued separate audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

WORKERS' COMPENSATION FUND (WCF)

West Virginia operates an exclusive state-managed Workers' Compensation Insurance Fund (WCF), which means that private insurance companies cannot offer coverage to employers. In accordance with Chapter 23 of the Workers' Compensation Law (the Law), generally, every employer who has a payroll must have coverage except for employers in the agricultural industry with five or fewer employees, volunteer organizations, domestic workers and employers qualifying for territorial coverage. WCF's general objective is to provide a prompt and equitable system for compensation for injury sustained in the course of and growing out of employment. West Virginia Code §21A-3 established the Compensation Programs Performance Council (the Performance Council) to oversee the unemployment compensation system and the workers' compensation system. The Performance Council is responsible for recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of WCF; approval of base premium rates and analyzing

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 11. RISK MANAGEMENT (continued)

opportunities for internal operational improvements. The WCF risk pool retains all risk related to the compensation of injured employees under the program.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PEIA)

The Lottery participates in the Public Employees' Insurance Agency which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher educations, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees. Coverage under these programs is limited to \$1 million lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage to the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

BOARD OF RISK AND INSURANCE MANAGEMENT (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage, through an outside insurer, under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

NOTE 12. SUBSEQUENT EVENT

The Lottery was named, among other parties, in a civil action filed on July 19, 2001, whereby a request for a preliminary injunction was made by a group of plaintiffs which requested the Lottery discontinue all video lottery operations as a result of the passage of House Bill 102, which included the Limited Video Lottery Act (see Note 4), which was enacted and became effective April 21, 2001. The United States District Court of Southern West Virginia, by order dated August 31, 2001, dismissed the case for

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 12. SUBSEQUENT EVENT (continued)

lack of jurisdiction. On September 24, 2001, the plaintiffs appealed this order in the United States Court of Appeals for the Fourth Circuit. The financial statements of the Lottery have not been adjusted for the effect of this matter, if any, as the likelihood of an unfavorable outcome is not determinable.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

To: Honorable Earl Ray Tomblin, Senate President
Honorable Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government
and Finance

From: Ellen Clark, C.P.A.
Director Budget Division
Legislative Auditor's Office

Date: January 3, 2002 *E*

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the monthly reports of the Unemployment Compensation Trust Fund we received from the Bureau of Employment Programs.

For the fifth month(November 2001) of year 2001-2002, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2001	\$237,250,143.78
Receipts July 1, 2001 thro November 30, 2001	\$58,461,209.97
Disbursements July 1 thro November 30, 2001	\$49,405,750.04
Balance November 30, 2001	\$246,305,603.71

(This balance is \$ 18,272,630.29 higher than at same time period in the last fiscal year.)

Joint Committee on Government and Finance

ITEMS OF NOTE:

Regular benefits paid for July - November 2001 are \$ 8,558,829.09 more than the preceding July - November 2000.

Receipts are \$ 531,028.93 more than the previous July- November. Overall disbursements are \$8,678,506.48 MORE than July - November 2000.

UNEMPLOYMENT RATES:

West Virginia's unemployment rate for the month of November 2001 was 4.3 percent. The national unemployment rate for November 2001 was 5.3 percent. Seasonally adjusted unemployment rates were 4.6 percent for West Virginia and 5.7 percent nationally.

During the past year West Virginia's economy has declined by 4,400 jobs. The gains were 3,400 jobs in services, 1,300 in mining and 200 in finance, insurance and real estate. Losses include 3,800 in manufacturing, 2,600 in trade, 1,300 in construction, 900 in government and 700 in transportation and public utilities.

During the past year, the national economy has declined by 1,394,000 jobs. The losses included 134,000 in transportation and public utilities, 1,221,000 in manufacturing and 116,000 in trade. The gains were 19,000 in mining, 71,000 in construction, 283,000 in service producing, 61,000 in finance, insurance and real estate, and 404,000 in government.

**FINANCIAL CONDITION OF THE UNEMPLOYMENT COMPENSATION TRUST FUND
MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING NOVEMBER 2000 AND NOVEMBER 2001**

	SEPTEMBER 00	OCTOBER 00	NOVEMBER 00	SEPTEMBER 01	OCTOBER 01	NOVEMBER 01	THREE MONTH TOTAL VARIANCE *
Balance Forward	\$224,929,918.67	\$222,044,368.55	\$222,487,845.89	\$249,272,110.48	\$243,683,531.82	\$244,677,671.98	\$65,171,091.37
Add Receipts:							
Bond Assessment	\$2,461.64	\$1,033.49	\$870.74	\$4,084.04	\$458.85	\$140.19	\$317.21
Regular Contributions	\$899,628.75	\$7,491,161.97	\$12,506,191.84	\$1,135,002.20	\$8,334,168.55	\$12,556,553.81	\$1,128,739.70
Extended Benefit Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Unemployme	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
UCFE (Federal Agencies)	\$50,000.00	\$75,000.00	\$125,000.00	\$50,000.00	\$50,000.00	\$50,000.00	(\$100,000.00)
Reduced Tax Credits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reed Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$581,018.00	\$0.00	\$581,018.00
Treasury Interest Credits	\$3,640,708.04	\$594,707.00	\$0.00	\$3,903,138.12	\$0.00	\$14,212.00	(\$318,064.92)
UCX (Military Agencies)	\$100,000.00	\$150,000.00	\$100,000.00	\$100,000.00	\$150,000.00	\$150,000.00	\$50,000.00
Total Monthly Receipts	\$4,692,798.43	\$8,311,902.46	\$12,732,082.68	\$5,192,224.36	\$9,115,843.40	\$12,770,905.80	\$1,342,009.99
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	NA
Regular Benefits	\$7,416,952.51	\$7,676,824.62	\$6,952,572.48	\$7,617,758.89	\$7,876,913.68	\$10,947,993.92	\$4,398,316.78
Extended Benefits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Benefits	(\$928.00)	(\$849.00)	(\$690.00)	(\$295.00)	(\$345.00)	(\$2,018.00)	(\$391.00)
UCFE (Federal Workers)	\$51,178.19	\$85,187.88	\$96,720.27	\$54,347.20	\$59,572.00	\$58,895.37	(\$80,271.87)
UCX (Military Workers)B	\$111,155.85	\$126,951.72	\$118,432.20	\$128,991.93	\$185,362.86	\$138,102.78	\$75,917.60
Reed Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Adjustments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Monthly Disbursements	\$7,578,358.55	\$7,888,315.32	\$7,167,034.95	\$7,800,803.02	\$8,101,503.24	\$11,142,974.07	\$4,411,571.51
Trust Fund Balance	\$222,044,368.55	\$222,487,845.89	\$228,032,973.42	\$243,683,531.82	\$244,677,671.98	\$246,305,603.71	\$62,101,628.85

* Three month total variance column is the difference between the sum of the previous year's three months data for each category and the current year's three months data. The purpose of the report is to show significant changes in receipts, disbursements, or balances.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

MEMORANDUM

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and Finance

From: Ellen Clark, CPA
Director Budget Division
Legislative Auditor's Office

Date: January 3, 2002

Re: Workers' Compensation Trust Fund

We have reviewed the monthly report of receipts and disbursements for the Workers' Compensation Trust Fund for the month ended November 30, 2001. (FY 2001-2002)

Total receipts through the fifth month of the fiscal year are \$ 209,842,708.78. This amount is \$ 119,666,290.52 LESS than the receipts reported for the July - November period of fiscal year 2000- 2001.

Disbursements paid out for the five months are \$ 309,732,443.04. This amount is \$ 45,781,987.69 HIGHER than July - November of the last fiscal year.

Total administrative expenses for the five months are \$ 20,483,146.18; which is \$358,082.78 MORE than July - November of the previous fiscal year.

The ending trust fund balance as of November 30, 2001 was \$ 1,002,695,537.40. At the same date the previous fiscal year the trust fund balance was \$ 1,202,626,172.08 The difference is a \$199,930,634.68 DECREASE in ending trust fund balance.

These calculations are based upon cash received and cash disbursed, (i.e. similar to a checkbook register). Accrual based calculations would change the financial data significantly.

Joint Committee on Government and Finance

WORKERS' COMPENSATION FUND
UNAUDITED STATEMENT OF RECEIPTS AND DISBURSEMENTS (CASH BASIS)
FOR THE THREE MONTHS STARTING SEPTEMBER 2000 AND SEPTEMBER 2001

RECEIPTS AND DISBURSEMENTS				BENEFITS			ADMINISTRATIVE EXPENSE
MONTH	RECEIPTS	DISBURSEMENTS	ENDING BALANCE	WCF	SELF-INSURERS	TOTAL	
BALANCE FORWARD *			\$1,214,111,203.98				
SEP 2000	\$ 47,461,616.75	\$ 50,738,426.45	\$1,210,834,384.28	\$ 48,872,842.78	\$ 8,805,188.80	\$55,778,038.68	\$ 3,865,582.87
OCT 2000	49,497,281.39	52,338,465.40	\$1,207,983,220.27	48,082,887.51	7,475,920.69	55,558,808.20	4,255,567.89
NOV 2000	50,083,288.86	55,450,317.05	\$1,202,826,172.08	51,250,528.38	8,112,781.72	59,363,308.10	4,199,780.87
TOTALS	\$147,042,186.00	\$158,527,197.80	N/A	\$146,208,258.67	\$24,493,899.31	\$170,700,155.98	\$12,320,941.23

RECEIPTS AND DISBURSEMENTS				BENEFITS			ADMINISTRATIVE EXPENSE
MONTH	RECEIPTS	DISBURSEMENTS	ENDING BALANCE	WCF	SELF-INSURERS	TOTAL	
BALANCE FORWARD *			\$1,101,711,077.44				
SEP 2001	\$ (11,483,223.27)	\$ 56,966,852.49	1,033,261,001.88	\$ 53,090,591.31	\$ 9,988,394.00	\$63,078,985.31	\$ 3,878,281.18
OCT 2001	2,854,914.61	63,952,046.87	871,863,869.42	60,289,648.82	9,778,108.78	70,045,758.61	3,682,397.06
NOV 2001	88,007,277.81	58,275,609.83	1,002,695,537.40	53,791,912.23	9,541,310.53	63,333,222.76	4,483,697.70
TOTALS	\$80,178,868.25	\$178,194,509.29	N/A	\$187,152,153.36	\$28,305,813.32	\$186,457,966.68	\$12,042,355.93

* Balance forward amount includes \$210,000,000 transferred from the Coal-Workers' Pneumoconiosis Fund in December 1990

Notes: Accrual basis financial information could significantly change the data provided.

This report includes the Workers' Compensation Fund and the Disabled Workers' Relief Fund. It does not include the Employers' Excess Liability Fund or the Coal-Workers' Pneumoconiosis Fund.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

Memorandum

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and
Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: January 3, 2002

Re: Status of General Revenue Fund December 31, 2001

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month of December 2001. The status of the fund collections are as follows:

The net year-to-date collections are **103.43%** of the estimate for the fiscal year as of December 31, 2001. **The amount over estimate is \$ 43,144,101.87 for the year.**

Consumer sales tax collections are \$793,545.57 BELOW the estimate for the year. Collections of consumer sales tax were 99.82% of the yearly estimate.

Corporate net income tax collections are at 110.15% of the estimate.

Personal income tax collections for July - December are at 104.45% of the estimate.

Joint Committee on Government and Finance

The general revenue collections for the first six months of this fiscal year (2001-2002), compare to previous fiscal years as follows:

<u>Date:</u>	<u>Percent of Yearly Estimate Collected:</u>
December 31, 1993	99.90%
December 31, 1994	105.70%
December 31, 1995	100.84%
December 31, 1996	102.80%
December 31, 1997	102.24%
December 31, 1998	101.24%
December 31, 1999	98.75%
December 31, 2000	98.91%
December 31, 2001	103.43%

The Special Income Tax Reserve Fund had a cash balance of \$23,625,035.96 as of December 31, 2001.

Balance July 1, 2001	26,625,035.96
Revenues July-December 2001	00,000,000.00
Disbursements July-December 2001	00,000,000.00
Other adjustments	00,000,000.00
Balance December 31, 2001	23,625,035.96

The Rainy Day Fund (Revenue Shortfall Reserve Fund) had a cash balance of \$63,178,308.63 as of December 31, 2001.

Balance July 1, 2001	79,085,243.86
Revenues July 1-June 30, 2002 Surplus from 2001 (transferred 8-1-2001)	+ 15,755,064.77
Disbursements July 1-June 30, 2002 Loan to General Revenue (transferred 7-6-2001) Loan repaid on September 27, 2001	- 40,000,000.00 + 40,000,000.00
Legislative Appropriation for flood relief (House Bill 402) Passed August 8, 2001.	- 30,162,000.00

Legislative Appropriation for flood relief (House Bill 512) to Governors Civil Contingent Fund October 1, 2001 (signed by Governor 9-25-01)	- 1,500,000.00
Balance December 31, 2001	63,178,308.63

State Road Fund

The collections in the state road fund are at 101.07% of the yearly estimate as of December 31, 2001. This translates to a \$3,160,107.37 excess over the estimate.

The category over the estimate is the privilege tax which is collected on the certificate of title at the time a vehicle is purchased. This category is \$ 8,608,194.28 over the estimate.

At this same time last fiscal year, collections were at 96.32% of the estimate.

Final

GENERAL REVENUE FUND FY 2001-2002

Monthly Revenue Estimates, July 2001
as of December 28, 2001 WVFIMS

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY OVER/ UNDER ESTIMATES		NET YTD COLLECTIONS	YEARLY OVER/ UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS
			VS ACTUAL COLLECTIONS	YTD ESTIMATES		
Business & Occupation Tax	16,100,000	16,753,057.06	653,057.06	76,200,000	80,516,284.63	4,316,284.63
Consumer Sales Tax	72,200,000	73,834,047.39	1,634,047.39	436,100,000	435,305,454.43	-794,545.57
Personal Income Tax	71,320,000	75,426,066.48	4,106,066.48	452,480,000	472,610,309.83	20,130,309.83
Liquor Profit Transfers	0	0.00	0.00	3,600,000	3,637,593.08	37,593.08
Racing Fees	0	0.00	0.00	625,000	450,000.00	-175,000.00
Beer Tax and Licenses	520,000	517,196.82	-2,803.18	3,600,000	3,767,901.13	167,901.13
Cigarette Tax	2,370,000	1,708,288.00	-661,712.00	16,050,000	16,315,868.82	265,868.82
Estate and Inheritance Tax	1,900,000	2,197,694.85	297,694.85	9,350,000	8,704,877.06	-645,122.94
Business Franchise Fees	10,000	17,007.40	7,007.40	400,000	597,674.16	197,674.16
Charter Tax	50,000	50,112.11	112.11	2,100,000	2,588,184.23	488,184.23
Use Tax	6,000,000	4,614,130.82	-1,385,869.18	40,200,000	38,676,983.97	-1,523,016.03
Property Transfer Tax	560,000	622,374.10	62,374.10	3,750,000	3,917,317.68	167,317.68
Property Tax	100,000	69,921.49	-30,078.51	2,150,000	2,079,031.65	-70,968.35
Cash Flow Transfer	0	0.00	0.00	0	0.00	0.00
Insurance Tax	100,000	58,019.89	-41,980.11	27,900,000	29,218,951.19	1,318,951.19
Departmental Collections	650,000	412,843.86	-237,156.14	3,780,000	2,611,879.41	-1,168,120.59
Corporate net Income Tax	17,500,000	15,438,534.00	-2,061,466.00	49,300,000	54,305,836.50	5,005,836.50
Carrier Income Tax	0	0.00	0.00	0	0.00	0.00
Miscellaneous Receipts	200,000	106,359.85	-93,640.15	800,000	1,799,288.36	999,288.36
Miscellaneous Transfers	0	0.00	0.00	500,000	251,436.55	-248,563.45
Interest Income	1,920,000	909,034.76	-1,010,965.24	11,500,000	13,756,183.36	2,256,183.36
Video Lottery Transfers	0	139,036.54	139,036.54	0	519,064.04	519,064.04
Severance Tax	18,500,000	16,778,853.98	-1,721,146.02	62,400,000	70,804,505.74	8,404,505.74
Business Franchise Tax	15,800,000	16,813,579.48	1,013,579.48	40,900,000	51,423,824.12	10,523,824.12
Telecommunications Tax	2,000,000	2,412,339.10	412,339.10	5,900,000	7,127,362.93	1,227,362.93
Smokeless Tobacco Tax	0	0.00	0.00	0	0.00	0.00
HB 102 - Lottery Transfers	0	18,600.00	18,600.00	9,000,000	743,289.00	734,289.00
TOTALS	227,800,000	228,897,097.98	1,097,097.98	1,258,585,000	1,301,729,101.87	43,144,101.87
Minus Cash Flow Transfer		0.00	0.00		-0.00	0.00
TOTALS	227,800,000	228,897,097.98	1,097,097.98	1,258,585,000	1,301,729,101.87	43,144,101.87
Percent of Estimates		100.48%			103.43%	
Collections this day		\$24,668,030.23				

Prepared by Legislative Auditor's Office, Budget Division

GENERAL REVENUE FUND FY 2001-2002
 Monthly Revenue Estimates, July 1, 2001
 as of December 28, 2001

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	PERCENTAGE MONTHLY ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	PERCENTAGE YEARLY ESTIMATE COLLECTED
Business and Occupation Tax	16,100,000.00	16,753,057.06	104.06%	76,200,000.00	80,516,284.63	105.66%
Consumer's Sales Tax	72,200,000.00	73,834,047.39	102.26%	436,100,000.00	435,306,454.43	99.82%
Personal Income Tax	71,320,000.00	75,426,066.48	105.76%	452,480,000.00	472,610,309.63	104.45%
Liquor Profit Transfers	0.00	0.00		3,600,000.00	3,637,593.08	101.04%
Racing Fees	0.00	0.00		625,000.00	450,000.00	72.00%
Beer Tax and Licenses	520,000.00	517,198.82	99.46%	3,600,000.00	3,787,901.13	104.88%
Cigarette Tax	2,370,000.00	1,708,288.00	72.08%	16,060,000.00	16,315,868.82	101.66%
Estate and Inheritance Tax	1,900,000.00	2,197,694.86	115.67%	9,350,000.00	8,704,877.06	93.10%
Business Franchise Registration	10,000.00	17,007.40	170.07%	400,000.00	597,674.16	148.42%
Charter Tax	50,000.00	50,112.11	100.22%	2,100,000.00	2,588,184.23	123.25%
Use Tax	6,000,000.00	4,614,130.82	76.90%	40,200,000.00	38,676,983.97	96.21%
Property Transfer Tax	580,000.00	622,374.10	111.14%	3,760,000.00	3,917,317.88	104.46%
Property Tax	100,000.00	69,921.49	69.92%	2,160,000.00	2,079,031.65	96.70%
Cash Flow Transfer	0.00	0.00		0.00	0.00	
Insurance Tax	100,000.00	58,019.89	58.02%	27,900,000.00	29,218,951.19	104.73%
Departmental Collections	650,000.00	412,843.86	63.51%	3,780,000.00	2,611,879.41	69.10%
Corporate Net Income Tax	17,500,000.00	15,438,634.00	88.22%	49,300,000.00	54,305,836.50	110.15%
Carrier Income Tax	0.00	0.00		0.00	0.00	
Miscellaneous Receipts	200,000.00	106,359.85	53.18%	800,000.00	1,799,288.38	224.91%
Miscellaneous Transfers	0.00	0.00		500,000.00	251,436.55	50.29%
Interest Income	1,920,000.00	909,034.76	47.35%	11,600,000.00	13,758,183.38	119.62%
Video Lottery Transfers	0.00	139,036.54		0.00	519,084.04	
Severance Tax	16,600,000.00	16,778,853.98	90.70%	62,400,000.00	70,604,505.74	113.47%
Business Franchise Tax	15,800,000.00	16,613,579.48	106.42%	40,900,000.00	51,423,824.12	125.73%
Telecommunications Tax	2,000,000.00	2,412,339.10	120.62%	6,900,000.00	7,127,362.93	120.80%
Smokeless Tobacco Tax	0.00	0.00		0.00	0.00	
H.B. 102- Lottery Transfers	0.00	16,600.00		8,000,000.00	743,289.00	8.26%
TOTALS	227,800,000.00	228,697,097.98	100.48%	1,268,585,000.00	1,301,729,101.87	103.43%
Minus Cash Flow Transfers						
TOTALS	227,800,000.00	228,697,097.98	100.48%	1,268,585,000.00	1,301,729,101.87	103.43%
Percent of Estimates		100.48%			103.43%	

Collections this day 24,658,030.23
 Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2001- 2002
Monthly REVENUE ESTIMATES, July 2001
as of December 28, 2001 WVFIMS

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY OVER/ UNDER ESTIMATES VS ACTUAL COLLECTIONS	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY OVER/UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS
Licenses & Registration	5,300,000	4,981,776.59	-318,223.41	36,700,000	36,602,279.23	-97,720.77
Privilege Tax	11,400,000	11,234,438.37	-165,561.63	78,250,000	86,858,194.28	8,608,194.28
Gasoline & Motor Carrier Rd Tax	18,950,000	17,257,583.88	-1,692,416.12	116,250,000	112,284,831.58	-3,965,168.42
Wholesale Fuel & Use Tax	5,879,000	4,930,568.80	-948,431.20	37,700,000	36,343,770.16	-1,356,229.84
Highway Litter Control Fund	115,000	107,421.12	-7,578.88	787,000	758,032.12	-28,967.88
TOTALS	41,644,000	38,511,788.76	-3,132,211.24	269,687,000	272,847,107.37	3,160,107.37
Percent of Estimates		92.48%			101.17%	
Collections this day		\$13,364,978.16				

REVENUE SHORTFALL RESERVE FUND as of January 2, 2002: \$63,178,308.63

SPECIAL INCOME TAX REFUND RESERVE FUND as of January 2, 2002: \$23,625,035.96

STATE ROAD FUND FY 2001-2002
 Revenue Estimates: July 1, 2001
 as of December 28, 2001

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	PERCENTAGE OF MONTHLY ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	PERCENTAGE OF YEARLY ESTIMATE COLLECTED
Licenses & Registration	5,300,000	4,981,778.59	94.00%	38,700,000	36,802,279.23	98.73%
Privilege Tax	11,400,000	11,234,438.37	98.55%	78,250,000	88,858,184.28	111.00%
Gasoline & Motor Carrier Rd Tx	18,950,000	17,257,583.88	91.07%	118,250,000	112,284,831.58	96.59%
Wholesale Fuel & Use Tax	5,879,000	4,930,588.80	83.87%	37,700,000	38,343,770.18	96.40%
Highway Litter Control Fund	115,000	107,421.12	93.41%	787,000	758,032.12	96.32%
TOTALS	41,644,000	38,511,788.76	92.48%	289,687,000	272,847,107.37	101.17%

Collections this day: 13,384,978.18

Percent collected: 92.48% 101.17%

REVENUE SHORTFALL RESERVE FUND as of December 28, 2001: \$ 83,178,308.83

SPECIAL INCOME TAX REFUND RESERVE FUND as of December 28, 2001: \$ 23,625,035.98

Prepared by Legislative Auditor's Office, Budget Division

State of West Virginia
Public Employees Insurance Agency
Balance Sheets

November 30, 2001 and 2000
Accrual Basis
(Unaudited-For Internal Use Only)

Assets	November 2001	November 2000	Increase <Decrease>
Cash and cash equivalents	\$ 111,032,478	\$ 111,379,138	\$ (346,660)
Deposits with third-party administrators	4,638,896	4,659,454	(20,558)
Premium accounts receivable-net of allowance for doubtful accounts	11,594,915	17,518,714	(5,923,799)
Other accounts receivable	3,550,365	1,199,741	2,350,624
Total current assets	<u>130,816,654</u>	<u>134,757,047</u>	<u>(3,940,393)</u>
Furniture and equipment, net of accumulated depreciation	185,470	241,293	(55,823)
Restricted cash-premium stabilization life insurance	3,607,595	2,025,863	1,581,732
Total assets	<u>\$ 134,609,719</u>	<u>\$ 137,024,203</u>	<u>\$ (2,414,484)</u>
Liabilities and Retained Earnings			
Claims payable	\$ 49,520,000	\$ 41,966,795	\$ 7,553,205
Premium deficiency reserve	7,242,000	7,242,000	7,242,000
Unearned revenue	5,857,292	7,750,897	(1,893,405)
Current claims payable	8,171,528	2,750,000	5,421,528
Accounts payable	7,878,509	524,752	7,353,757
Other accrued liabilities	714,207	585,122	129,085
Total liabilities	<u>79,383,536</u>	<u>53,577,366</u>	<u>25,806,170</u>
Retained earnings	55,226,183	83,446,837	(28,220,654)
Total liabilities and retained earnings	<u>\$ 134,609,719</u>	<u>\$ 137,024,203</u>	<u>\$ (2,414,484)</u>

For internal use only. See financial comments.
Prepared December 12, 2001

State of West Virginia
Public Employees Insurance Agency
Statement of Revenues, Expenses and
Changes in Retained Earnings
November 30, 2001 and 2000
Accrual Basis
(Unaudited-For Internal Use Only)

	Budgeted Five Months Ended Nov 30, 2001	Actual Five Months Ended Nov 30, 2001	Budget Variance Percent	Actual Five Months Ended Nov 30, 2000	This Year vs Last Year Increase <u>Decrease</u>	This Year vs Last Year Variance Percent
Operating Revenue						
Premiums						
Employer	\$ 144,000,341	\$ 143,075,819	-0.64%	\$ 137,994,766	\$ 5,081,053	3.68%
Employee	30,440,389	30,124,640	-1.04%	26,905,884	3,218,756	11.96%
Total Premiums	174,440,730	173,200,459	-0.71%	164,900,650	8,299,809	5.03%
Less:						
Payments to managed care organizations	(20,000,000)	(19,416,358)	-2.92%	(29,664,295)	10,247,937	-34.55%
Life insurance premiums-basic	(2,208,210)	(2,127,541)	-3.65%	(1,898,954)	(228,587)	12.04%
Net premium revenue	152,232,520	151,656,560	-0.38%	133,337,401	18,319,159	13.74%
Administrative fees, net of refunds	1,458,335	1,402,615	-3.82%	1,395,623	6,992	0.50%
Net operating revenue	153,690,855	153,059,175	-0.41%	134,733,024	18,326,151	13.60%
Operating Expenses						
Claims expense-medical	108,820,858	114,593,659	5.30%	72,638,711	41,954,948	57.76%
Claims expense-drugs	35,044,713	37,500,057	7.01%	27,898,404	9,611,653	34.46%
Administrative service fees	5,114,155	5,028,671	-1.67%	5,277,946	(249,275)	-4.72%
Other operating expenses	2,116,435	2,299,806	8.66%	1,942,220	357,586	18.41%
Total operating expense	151,096,161	159,422,193	5.51%	107,747,281	51,674,912	47.96%
Operating (deficit) surplus	2,594,695	(6,363,018)	-345.22%	28,085,743	(33,348,761)	-121.58%
Nonoperating Revenues						
Interest income, net of fees	1,666,665	1,651,439	-0.91%	2,565,673	(914,234)	-35.63%
Operating transfers in	2,083,330	2,166,667	4.00%	4,167,000	(2,000,333)	-48.00%
Total nonoperating revenues	3,749,995	3,818,106	1.82%	6,732,673	(2,914,567)	-43.29%
Net Surplus	\$ 6,344,690	(2,544,912)	-140.11%	\$ 33,718,416	(36,263,328)	-107.55%
Retained Earnings, (deficiency) beginning of period		57,771,094		49,728,421	8,042,673	
Retained Earnings, end of period		\$ 55,226,182		\$ 83,446,837	\$ (28,220,655)	

For internal use only. See financial comments.
Prepared December 12, 2001

**State of West Virginia
Public Employees Insurance Agency
Statement of Revenues, Expenses and
Net Income (Loss)
Month of November 2001 and 2000
Accrual Basis
(Unaudited-For Internal Use Only)**

	Actual Month of November 2001	Actual Month of November 2000	Increase (Decrease)
Operating Revenue			
Premiums			
Employer	\$ 28,572,403	\$ 27,685,673	\$ 886,730
Employee	6,045,600	5,425,805	619,795
Total Premium	34,618,003	33,111,478	1,506,525
Less:			
Payments to managed care organizations	(3,888,263)	(5,954,630)	2,066,367
Life insurance premiums-basic	(426,999)	(381,637)	(45,362)
Net premium revenue	30,302,741	26,775,211	3,527,530
Administrative fees, net of refunds	293,200	299,796	(6,596)
Net operating revenue	30,595,941	27,075,007	3,520,934
Operating Expenses			
Claims expense-medical	22,544,480	17,688,378	4,856,102
Claims expense-drugs	8,623,123	6,386,433	2,236,690
Administrative service fees	999,625	1,150,755	(151,130)
Other operating expenses	353,852	288,497	65,355
Total operating expense	32,521,080	25,514,063	7,007,017
Operating surplus	(1,925,139)	1,560,944	(3,486,083)
Nonoperating Revenues			
Interest income, net of fees	288,031	582,421	(294,390)
Operating transfers in	499,667	834,000	(334,333)
Total nonoperating revenues	787,698	1,416,421	(628,723)
Net Income (Loss)	\$ (1,137,441)	\$ 2,977,365	\$ (4,114,806)

For internal use only. See financial comments.
Prepared December 12, 2001

**State of West Virginia
Public Employees Insurance Agency
Financial Comments**

**Month of November 2001 and 2000
Accrual Basis
(Unaudited-For Internal Use Only)**

- 1) Effective July 1, 2000, the PEIA changed third party administrators. The process of medical claims adjudication and payment was taken over by Acordia National from Mountain State Blue Cross Blue Shield. Merck-Medco through its subsidiary, Paid Prescriptions Plus, took over the adjudication and payment of prescription drug claims. Because of the many complexities involved in the adjudication and payment of medical and drug claims, it took the new third party administrators quite some time to begin paying these claims on a timely basis.
- 2) The new third party administrators also had difficulty adjusting their systems of reporting to the PEIA's actuary. Consequently the actuary was unable to develop credible estimates of claims which had been incurred but not yet paid, claims payable, until late in the spring of year 2001.
- 3) Because of the difficulties discussed above, the amounts reported in these financial statements may not accurately reflect the PEIA's financial position and the results of its operations for the periods indicated.
- 4) Because these financial statements were prepared very shortly after the end of the month, there may be some unknown expenses attributable to these periods.
- 5) The PEIA's actuary has not yet re-estimated the liability for claims payable or the related effect on claims expenses for the period ended November 30, 2001. To the extent that the ultimate claims payable liability differs from the amount reported in these statements the results of operations and the financial condition of the Agency will be impacted.
- 6) At the plan year end June 30, 2001 approximately 6,800 health policyholders transferred from managed care coverage to the preferred provider benefit plan. This resulted in total enrollment increase of approximately 10% from the prior year and is expected to produce a similar increase in claims expense in the year ending in 2002.

Bob Wise
Governor



Tom Susman
Director

WV Toll-free: 1-888-680-PEIA • Phone: 1-304-558-7850 • Fax: 1-304-558-2516 • Internet: www.peia.state.wv.us

January 7, 2002

The Earl Ray Tomblin
President, West Virginia Senate
Chair, Joint Committee on Government and Finance

The Honorable Robert Kiss
Speaker, West Virginia House of Delegates
Chair, Joint Committee on Government and Finance



Dear Sirs:

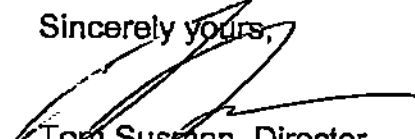
We have received information from the various hospitals that the Public Employees Insurance Agency reimburses for Direct Medical Education. This office received the final information on January 2, 2002. As we compile this information, we will share it with your staff.

In terms of the plan year 2003 that starts July 1, 2002, it is the intent of the agency to continue the program. However, in conjunction with our annual review of the state payors payment methodology, a further evaluation will take place. This process is an annual occurrence.

In addition, as PEIA considers additional provider payment reductions in the near future these payments to hospitals could be reduced in an amount less than 10%. Any reduction would be effective July 1, 2002. As we attempt to balance this plan, all participants will have to share in the effort.

Again as we proceed with our compilation, we will share our findings.

Sincerely yours,



Tom Susman, Director
West Virginia PEIA

cc: Members, Joint Committee on Government and Finance

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Bob Wise
Governor



Tom Susman
Director

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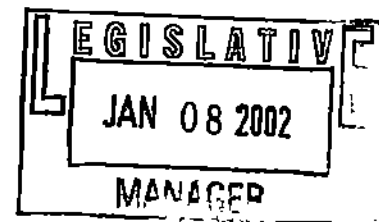
Memo

To: Joint Committee on Government and Finance

From: Tom Susman, Director
Public Employees Insurance Agency

Date: January 7, 2002

Re: Retiree Programs



During last month's meeting, Senator Deem inquired about various programs and funding streams used for retiree health insurance. The following information is submitted in an attempt to provide an overview.

Currently in aggregate PEIA retiree premiums only cover about 30% of the health care costs associated with this demographic. Active employee and employer premiums make up the difference and this amount is known as 'The Retiree Subsidy.' In addition, premiums paid by retirees are based on years of service. Exhibit A is from the 2001 Shoppers Guide and details the retiree premium schedule.

The Retiree Subsidy for 2003 plan year, which begins July 1, 2003, will be \$97,975,093. For the 2006 plan year, which begins July 1, 2005, the amount of the subsidy will grow to \$168,253,017.

In addition, for those retirees who are below 250% of the poverty level we offer a reduction in premiums and pharmacy co-payments. Attached are the applications for these offerings.

TS/jt

Attachments: 2

3:52 Director's memo 11-30-01.doc

Retiree Premiums

PEIA PPB Plan premiums for employees who retire on or after July 1, 1997, are based on years of service, the tier of coverage (single or family), and Medicare status.

Premiums for all employees who retired through a qualifying state retirement system before July 1, 1997, are the same as those shown for "25 or more years of service" on the premium chart.

The premiums shown in this Shopper's Guide are for health coverage only. Life insurance premiums are deducted from your annuity or paid separately.

Non-Medicare Premiums

PEIA PPB Plan Retired Employee and Surviving Dependent Premiums						
Non-Medicare Premiums						
	Non-Medicare Retired Policyholder Only		Non-Medicare Retired Policyholder with non-Medicare Dependents		Non-Medicare Retired Policyholder with Medicare Dependents	
	Standard (tobacco user)	Preferred (tobacco free)	Standard (tobacco user)	Preferred (tobacco free)	Standard (tobacco user)	Preferred (tobacco free)
Under 5 years of service	\$600.00	\$595.00	\$1,453.00	\$1,443.00	\$1,033.00	\$1,023.00
5 to 9 years of service	\$485.00	\$480.00	\$1,161.00	\$1,151.00	\$820.00	\$810.00
10 to 14 years of service	\$371.00	\$366.00	\$869.00	\$859.00	\$608.00	\$598.00
15 to 19 years of service	\$256.00	\$251.00	\$577.00	\$567.00	\$396.00	\$386.00
20 to 24 years of service	\$187.00	\$182.00	\$402.00	\$392.00	\$269.00	\$259.00
25 or more years of service or retired prior to 7/1/97 or any surviving dependents	\$142.00	\$137.00	\$285.00	\$275.00	\$184.00	\$174.00

Premiums for managed care plans are not based on years of service; they are the same regardless of when you retire. Managed care plan rates for retired employee are shown on the chart below.

Non-Medicare Retiree and Surviving Dependent Monthly Premiums for Managed Care Plans			
	Carelink HMO Plan B	The Health Plan HMO Plan A	The Health Plan HMO Plan B
Non-Medicare Retired Policyholder Only	\$235.00	\$228.00	\$171.00
Non-Medicare Retired Policyholder and Family	\$611.00	\$441.00	\$350.00

Medicare Premiums

PEIA PPB Plan Retired Employee and Surviving Dependent Premiums						
Medicare Premiums						
	Medicare Retired Policyholder Only		Medicare Retired Policyholder with non-Medicare Dependents		Medicare Retired Policyholder with Medicare Dependents	
	Standard (tobacco user)	Preferred (tobacco free)	Standard (tobacco user)	Preferred (tobacco free)	Standard (tobacco user)	Preferred (tobacco free)
Under 5 years of service	\$311.00	\$306.00	\$1,012.00	\$1,002.00	\$646.00	\$636.00
5 to 9 years of service	\$246.00	\$241.00	\$809.00	\$799.00	\$506.00	\$496.00
10 to 14 years of service	\$182.00	\$177.00	\$606.00	\$596.00	\$367.00	\$357.00
15 to 19 years of service	\$117.00	\$112.00	\$402.00	\$392.00	\$228.00	\$218.00
20 to 24 years of service	\$78.00	\$73.00	\$280.00	\$270.00	\$144.00	\$134.00
25 or more years of service or retired prior to 7/1/97 or any surviving dependents	\$52.00	\$47.00	\$199.00	\$189.00	\$89.00	\$79.00

Cost-Sharing

In addition to monthly premiums, retirees, like active employees, pay a portion of the cost of your care. This share includes the medical deductible, the prescription deductible, copayments for office visits, and coinsurance on most other services. As you pay coinsurance, PEIA keeps track of the amounts you pay. Those coinsurance amounts add up to your annual out-of-pocket maximum; that's the most you'll pay in coinsurance in one plan year. Your cost shares are listed below.

PEIA PPB Plan Retired Employee Cost Sharing				
	Annual Deductible In-network	Annual Deductible Out-of-Network	Annual Out-of-Pocket Maximum In-network	Annual Out-of-Pocket Maximum Out-of-Network
Non-Medicare Retired Policyholder Only	\$150.00	\$300.00	\$1,000.00	\$2,000.00
Non-Medicare Retired Policyholder and Family	\$300.00	\$600.00	\$1,000.00	\$2,000.00
Medicare Retired Policyholder Only	\$150.00	\$150.00	\$1,000.00	\$1,000.00
Medicare Retired Policyholder and Family	\$300.00	\$300.00	\$1,000.00	\$1,000.00

Bob Wise
Governor




Tom Susman
Director

WV Toll-free: 1-888-680-PEIA • Phone: 1-304-558-7850 • Fax: 1-304-558-2516 • Internet: www.peia.state.wv.us

MEMORANDUM



TO: Retired Employees and Surviving Dependents
FROM: Tom Susman, Director 
DATE: May 1, 2001

SUBJECT: Premium and Drug Copay Assistance Programs -- Fiscal Year 2002

Each year at this time, the PEIA offers premium assistance and drug copay assistance to retired employees and surviving dependents who qualify. The premium assistance pays part of your health insurance premium if your gross income is less than 250% of Federal Poverty Level. The drug copay assistance reduces your prescriptions drug copayments. If you qualify for premium assistance, you are automatically enrolled in the drug copay assistance program.

Qualifications

To qualify for assistance for July 1, 2001, through June 30, 2002, your total income from January through December 2000 must have been \$21,475 or less for one person, or \$29,025 or less for two people. If you have more dependents, you can report more income and still qualify. Check the chart below for the income limits. If you have more than six (6) members in your household, add \$7,550 for each additional household member.

PLAN YEAR 2002 INCOME LIMITS	
Number of People in Household	250% of Federal Poverty Level
1	\$21,475
2	\$29,025
3	\$36,575
4	\$44,125
5	\$51,675
6	\$59,225

Also, you must have health coverage with the PEIA Preferred Provider Benefit (PPB) Plan. If you are in one of the HMCs offered by PEIA, you cannot receive premium assistance. All Surviving Dependents, whether on Medicare or not, are eligible to apply.

Applying for Assistance

To apply for assistance, simply fill out the application form inside and send it to PEIA. Please read and follow the instructions very carefully!

Years of Service

The amount of premium assistance you can receive is based on years of active service for retired employees. For surviving dependents, it is based on years of service earned by the deceased policyholder. For example, those with 20 or more years of service are eligible for 100% of the base assistance amount. Retirees with 10-14 years are eligible for only 60% of the base

assistance amount. These figures are verified by the appropriate state retirement system. The chart below shows the premium assistance available based on years of active service. Remember, even at the 100% level, this assistance pays only a portion of the total health insurance premium.

Years of active service	Percentage of assistance available
20 or more	100
15-19	80
10-14	60
5-9	30
fewer than 5	0

Sick and Annual Leave or Years of Service

If you are using sick or annual leave or years of service to get free or reduced premiums, please do not fill out this form – unless you will run out of credits before June 30, 2002. If your credits will run out before June 30, 2002, you may apply now. If your application is approved, premium assistance will begin when your credits end. You should have received a separate Drug Copay Assistance Application in the mail; use it if you want to apply for Drug Copay Assistance while using your credits.

Drug Copay Assistance

If you qualify for assistance, PEIA will reduce your prescription copays based on your years of service following the same rules as stated above. The reduced copays are shown on the chart below:

Years of active service	New Brand-Preferred Copayment		New Brand Non-preferred Copayment	
	30-day supply at a Retail pharmacy	Up to 90-day supply by mail order or at a Retail Maintenance Network Pharmacy	30-day supply at a Retail pharmacy	Up to 90-day supply by mail order or at a Retail Maintenance Network Pharmacy
20 or more	\$6	\$12	\$16	\$32
10 through 19	\$9	\$18	\$24	\$48
5 through 9	\$12	\$24	\$35	\$50
less than 5	\$15	\$30	\$35	\$50

How Can You Save the Most on Drugs?

To take full advantage of the Drug Copay Assistance Program, get your maintenance medications in 90-day supplies. When you fill a 90-day prescription through mail order or at a retail maintenance network pharmacy, you'll only pay for two thirty-day supplies -- you get one thirty-day supply for no copay! It's like buy 2 get 1 free! See the chart above.

If you're taking a maintenance medication, but buying it 30 days at a time, this program could save you lots of money. To take advantage of this program, simply ask your physician to write your annual maintenance medication prescription for four 90-day supplies, rather than twelve 30-day supplies. There are some restrictions on what drugs can be purchased in 90-day supplies. The following list shows the drugs and conditions that are considered for maintenance medications. If you're not sure whether your drug qualifies, call Merck-Medco toll-free at 1-800-711-3808.

- | | |
|--|---------------------------------|
| alendronate sodium (Fosamax) | cardiovascular agents |
| antiarthritics | copaxone |
| anticoagulants | corticosteroids, bronchial |
| anticonvulsants | cromolyn sodium (Intal) |
| antineoplastics | cytostatic agents |
| antiparkinsonism agents | diabetic therapies |
| antispasmodics: urinary tract | digestants |
| benign prostatic hypertrophy/micturation | disposable needles and syringes |
| bronchodilators | diuretics |

**STATE OF WEST VIRGINIA
PUBLIC EMPLOYEES INSURANCE AGENCY
FISCAL YEAR 2002
RETIRED EMPLOYEES PREMIUM ASSISTANCE PROGRAM
- APPLICATION FORM -**

PLEASE PRINT OR TYPE

SECTION I - RETIREE/SURVIVING DEPENDENT

Name (First, Middle Initial, Last) _____ Social Security Number _____

Address (If New Address Check Box)

City _____ State _____ Zip _____ County _____

Phone Number (Including Area Code) _____ Marital Status (Check One)
() Married Single
 Widowed

Years of Service at the Time of Retirement _____ Retirement Date _____

SECTION II - SPOUSE INFORMATION

Name (First, Middle Initial, Last) _____ Social Security Number _____

SECTION III - GROSS ANNUAL INCOME FOR 2000

	Retiree/Surviving Dep.	Spouse	Dependents
State Pension	\$ _____	\$ _____	\$ _____
Other Pension (if any)	\$ _____	\$ _____	\$ _____
Social Security	\$ _____	\$ _____	\$ _____
Wages (if any)	\$ _____	\$ _____	\$ _____
Other Income	\$ _____	\$ _____	\$ _____
Subtotal	\$ _____	\$ _____	\$ _____
		Grand Total	\$ _____

I understand that if, as a result of withholding information or providing inaccurate information, I receive assistance to which I am not entitled, such assistance will be subject to recovery by the Public Employees Insurance Agency and I may be subject to legal action. I declare that I have examined my responses, and to the best of my knowledge, believe they are true, correct and complete.

Retiree's Signature _____

Date _____

MAIL COMPLETED FORM TO:

FOR OFFICE USE ONLY:

PEIA Premium Assistance Program
State Capitol Complex
Building 5, Room 1001
1900 Kanawha Blvd., East
Charleston, WV 25305-0710

Approved: _____ Disapproved: _____
Effective Date _____
Account Number: _____
New Premium:
Health _____
Life _____
Total: _____
Number of Dependents _____

FY-2002 PREMIUM ASSISTANCE PROGRAM

APPLICATION INSTRUCTIONS

Please read all instructions carefully BEFORE completing the application.

SECTION I - RETIREE/SURVIVING DEPENDENT

- **Name** – Use your full name, including middle initial.
- **Social Security Number (SSN)** – Fill in the correct SSN or we cannot process your application.
- **Address** – Provide your complete mailing address. (If address has changed, please check the box on the address line so we may update our records.)
- **Phone Number** (include area code)
- **Marital Status** – please check appropriate box. If separated please check married.
- **Years of Service at the Time of Retirement/Retirement Date** – Applications without this information cannot be processed. Surviving Dependents must report the Years of Service of the deceased policyholder. If the policyholder was retired at the time of death, report years of service and retirement date. If death occurred while an active employee, then give years of service and the month and year of death.

SECTION II – SPOUSE

If **married** you must complete spouse's name and Social Security number.

SECTION III – GROSS ANNUAL INCOME FOR 2000

This section must include All Household Income from 2000, before any deductions. Everyone in the household who has an income must report that information on the application.

Income: (Complete the sections that apply to you.)

- **State Pension** – Yearly amount you receive from the WV Consolidated Public Retirement Board.
- **Other Pension** – Yearly amount of pension you receive from other sources. (Example: TIAA/CREF).
- **Social Security** – Yearly amount.
- **Wages** – Total amount of any income earned during 2000.
- **Other Income** – Total amounts of any other income received during 2000. (Example: Rent, Dividends, Royalties, Interest, Alimony, etc.)
- **Subtotal** – Total each column.
- **Grand Total** – All subtotal amounts.

THIS APPLICATION MUST BE SIGNED AND DATED! Applications without a signature and date will be returned without processing.

ATTACHMENTS

- If you have copies of W2s, 1099s or any official year-end statements, you must attach these to verify your income.
- If you file taxes, a copy of your 2000 Federal tax return (first page) is acceptable. All income must be reported on the tax return.
- If you file taxes and your Social Security benefit amount is not on the form, then you must provide a copy of your SSA-1099.

SUBMITTING YOUR APPLICATION

Please separate this form, and return only the application to PEIA. Keep the other information for your records.

enzymes, systemic
estrogens & progestins
gastrointestinal, colitis
glaucoma agents
hormones, misc.
immunosuppressive agents
interferon beta (i.e. Avonex, Betaseron)
lancets
legend vitamins (including legend hematin-
ics, vitamin K)

leukotriene receptor antagonists (asthma
agents)
lipotropics (cholesterol lowering agents)
lung surfactant
mucolytics (pulmonary agents)
oral contraceptives
penicillamine
legend potassium
thyroid medications
tuberculosis medications
xanthines (asthma agents)

Mail Service

To use the Mail Service pharmacy, simply complete a mail service application form and send a prescription for a 90-day supply of your maintenance medication along with your copay to the address on the form. Merck-Medco can send you the form if you call 1-800-711-3808. Your medication will be mailed to your home, saving you a trip to the drug store.

Retail Maintenance Network

To use the Retail Maintenance Network, just refer to the participating pharmacy list below, and take your prescription for a 90-day supply to the pharmacy. You'll get the same savings, but still get to your local pharmacy.

Pharmacy Name	City	State
K-Mart	All	Any
Kroger	All	Any
Rite-Aid	All	Any
Continuum Care Pharmacy	Bechtelsville	WV
Medical Associates Pharmacy	Bechtelsville	WV
Thrift Acres Pharmacy	Beckley	WV
Bunswick Drug Store	Burnsville	WV
Health Care Pharmacy	Charmersville	WV
Medical Center Pharmacy	Charleston	WV
Pharmacy Express Inc	Charleston	WV
Brard Merck Pharmacy Inc	Clarksburg	WV
Home Care Of W V North	Clarksburg	WV
Clevidence Pharmacy	Danbarn	WV
Fairmont Family Pharmacy	Fairmont	WV
Pharmhouse #517	Fredricksburg	VA
Pharmhouse #516	Hampdenburg	VA
Big Four Drugstore Inc	Hixon	WV
Vader Health Pharmacy	Huntington	WV
Physicians Choice LLC	Humbane	WV
Patterson's Drug Store	Inwood	WV
Bay Pitt	Kemil	WV
Larry's Drive-In Pharmacy	Madison	WV
Family Discount Pharmacy	Man	WV
The Towne Pharmacy Inc	Man	WV
Patterson's Drug Store	Marlinton	WV
Maib Pharmacy	Maxsonton	WV
Montgomery General Hospital	Montgomery	WV
Chert Linn Pharmacy	Morgantown	WV

Pharmacy Name	City	State
Chertfarm Pharmacy	Morgantown	WV
Suncrest Pharmacy	Morgantown	WV
Family Disc Pharmacy	Mount Gay	WV
Country Corner Pharmacy	New Manchester	WV
Phar-Mor #001	Niles	OH
Home Care Pharmacy Of WV	Nitro	WV
Horns Pharmacy	Pine Grove	WV
Four Seasons Pharmacy	Princeton	WV
Princeton Pharmacy	Princeton	WV
Rainelle Medical Center Pharmacy	Rainelle	WV
Phis #0002	Ravenswood	WV
People Drug Store Inc	S. Williamson	KY
St. Marys Oracle Pleasants County Leader	Saint Marys	WV
Shinnston Pharmacy Inc	Shinnston	WV
Family Discount Pharmacy	Setlings	WV
Gregg's Pharmacy Inc	Terra Alta	WV
Van Professional Pharmacy	Van	WV
McDowell Pharmacy	War	WV
Bonds Drug Store Inc	Washington	WV
Marland Heights Pharmacy	Weirton	WV
Flat Iron Drug Store Inc	Welch	WV
Trauberts Pharmacy	Wellsburg	WV
Gompers Pharmacy Inc	Wheeling	WV
Jays Pharmacy	Wheeling	WV
Partan Pharmacy	Wheeling	WV
Hurley Drug	Williamson	WV
Pharmhouse #513	Winchester	VA

Deadline for Applications

If you want your assistance to begin on July 1, 2001, we must receive your form before June 15, 2001. The forms will be processed in the order received. You may apply for assistance at any time during the year, but if we receive your application after June 15, 2001, we will process it as quickly as possible, and modify your premium going forward, if approved. PEIA will not issue credits for previous months' premiums. As soon as your application is processed, you will receive a letter informing you of the Agency's decision. It will take about one month to process your form and send you back a letter.

If you have questions about the premium assistance program or the drug copay assistance program, call Gary Reed at (304) 558-7850, ext. 258, or 1-888-680-7342.



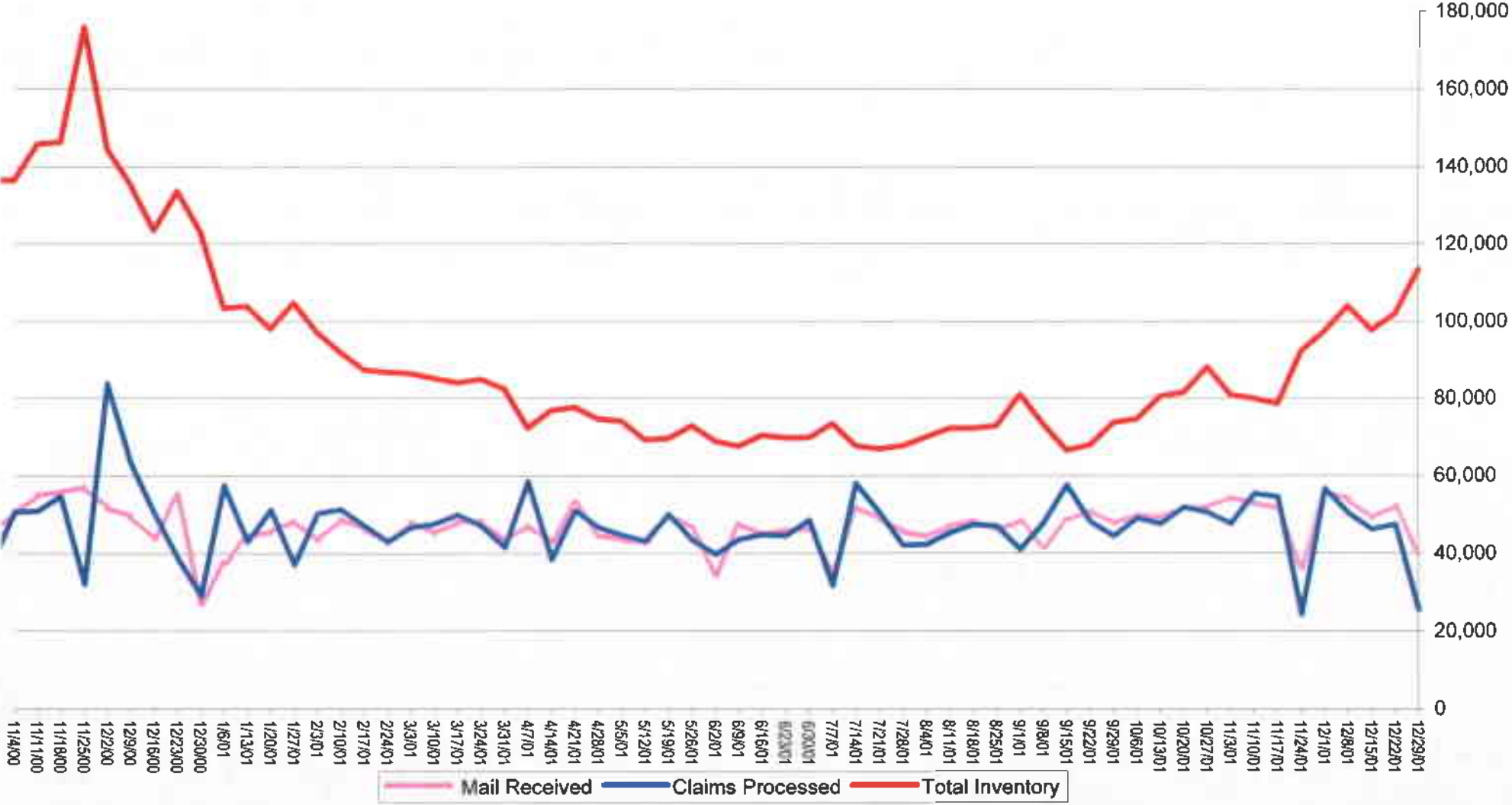
West Virginia Public Employees Insurance Agency
State Capitol Complex, Building 5, Room 1001
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0710

PRST STD
US Postage
PAID
Charleston, WV
Permit #65

**Retired Employee
Premium Assistance Application**

**Dated Material
Open at Once**

PEIA Claims Processed



PEIA

Monthly Management Report

Per Capita Claims

November 2001

FY 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
 NOVEMBER 2001

Page: 1

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
		Current Period PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments		
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.8955	1.0146	.7407	.8012	4.5204	3.4851
	MATERNITY	.9662	.7482	.6565	.6912	3.5734	3.0740
	MEDICAL AND SURGICAL	38.9922	33.5908	18.6273	26.5509	170.3087	111.3041
	NEONATAL COMPLICATIONS	.1291	.3071	.1001	.4145	1.1743	1.3877
*****		-----					
sum		40.9831	35.6606	20.1246	28.4579	179.5768	119.2509
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.1100	.0893	.1211	.0924	.3821	.4737
	EMERGENCY ROOM	.8072	.8829	.5705	.4494	4.4340	2.2776
	MATERNITY	.0977	.1031	.0524	.0750	.4142	.3126
	MEDICAL AND SURGICAL	17.9901	18.1673	11.6391	16.1951	89.3019	66.9296
*****		-----					
sum		19.0050	19.2427	12.3830	16.8119	94.5323	69.9935
PHARMACY	PRESCRIPTION DRUGS	47.5459	47.3100	40.7589	36.1025	229.5327	160.3682
*****		-----					
sum		47.5459	47.3100	40.7589	36.1025	229.5327	160.3682
PROFESSIONAL SERVICES	ADVANCED IMAGING	3.5491	3.8287	3.4778	2.9547	16.3812	13.5689
	AMBULANCE	.0822	.6723	.7953	.8841	.5397	4.1501
	ANESTHESIA	2.8811	3.0950	2.3659	2.2519	14.9948	10.0689
	CARDIOVASCULAR MEDICINE	1.1208	1.2025	1.1086	.8727	5.1975	4.2160
	CERVICAL CANCER SCREENING	.1986	.1796	.1338	.1035	.9325	.5329
	DME	1.9360	2.0784	1.2870	1.4757	9.0504	6.1063
	EVALULATION AND MANAGEMENT	17.6269	18.7726	17.2497	14.9956	83.4110	71.3945
	IMMUNIZATION	.4058	.5141	.4822	.3616	2.2723	1.8220
	INJECTION	2.2203	3.1277	1.9562	2.2630	14.6111	9.4561
	LAB AND PATHOLOGY	4.1503	4.2573	3.1501	2.9929	18.0156	12.6708

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
 NOVEMBER 2001

Page: 2

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
		Current Period PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments		
PROFESSIONAL SERVICES	MAMMOGRAPHY	.8069	.9116	.9058	.6821	4.2893	3.6906
	OTHER	2.3300	2.7957	1.1640	1.4315	15.8980	5.5990
	OTHER IMAGING	5.6885	6.2555	5.8826	4.1702	26.3126	19.8246
	OTHER MEDICINE	6.6214	6.7512	5.7805	5.3964	29.1347	23.9613
	PHYSICAL MEDICINE	1.9820	1.8618	1.6799	1.2458	8.3792	5.8845
	PROSTATE CANCER SCREENING	.0648	.0997	.0745	.0667	.3698	.2846
	SURGICAL	10.7844	11.1433	9.5907	8.9545	50.0982	43.0309

sum		62.4492	67.5471	57.0849	51.1031	299.8881	236.2621
sum		169.9832	169.7604	130.3514	132.4754	803.5299	585.8746

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

6 rows selected.

PEIA

Monthly Management Report

Per Capita Utilization

November 2001

FY 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
NOVEMBER 2001

Page: 1

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0008	.0004	.0031	.0027
	MATERNITY	.0007	.0005	.0030	.0023
	MEDICAL AND SURGICAL	.0175	.0116	.0757	.0616
	NEONATAL COMPLICATIONS	.0001	.0001	.0005	.0007

sum		.0192	.0125	.0823	.0673
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0007	.0005	.0035	.0031
	EMERGENCY ROOM	.0235	.0194	.1059	.0890
	MATERNITY	.0005	.0004	.0023	.0019
	MEDICAL AND SURGICAL	.0758	.0487	.3325	.2857

sum		.1005	.0689	.4443	.3796
PHARMACY	PRESCRIPTION DRUGS	.8655	.8279	4.4931	3.7007

sum		.8655	.8279	4.4931	3.7007
PROFESSIONAL SERVICES	ADVANCED IMAGING	.0274	.0222	.1203	.0930
	AMBULANCE	.0019	.0054	.0149	.0310
	ANESTHESIA	.0148	.0095	.0640	.0463
	CARDIOVASCULAR MEDICINE	.0098	.0068	.0411	.0340
	CERVICAL CANCER SCREENING	.0119	.0177	.0813	.0818
	DME	.0308	.0241	.1383	.1182
	EVALULATION AND MANAGEMENT	.5586	.4801	2.4103	2.1850
	IMMUNIZATION	.0232	.0167	.0573	.0509
	INJECTION	.0222	.0202	.1143	.1024
	LAB AND PATHOLOGY	.1724	.1608	.8258	.6875
	MAMMOGRAPHY	.0249	.0311	.1374	.1274

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
 NOVEMBER 2001

Page: 2

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
PROFESSIONAL SERVICES	OTHER	.0494	.0283	.2054	.1473
	OTHER IMAGING	.1501	.1378	.6735	.5738
	OTHER MEDICINE	.2152	.1781	.9288	.8032
	PHYSICAL MEDICINE	.0871	.0706	.3647	.2891
	PROSTATE CANCER SCREENING	.0051	.0060	.0289	.0256
	SURGICAL	.0918	.0817	.4049	.3901

sum		1.4967	1.2973	6.6111	5.7867
sum		2.4819	2.2067	11.6309	9.9344

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

26 rows selected.

PEIA

Monthly Management Report

Total Claims

November 2001

FY 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS

NOVEMBER 2001

Page: 1

Reporting Category	Type of Service	Current Period	Current	12 Months Prior	12 Months Prior	Current Fiscal Yr	Previous Fiscal Yr
		PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	PEIA Payments
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	162,534.27	173,406.44	122,929.73	130,649.87	818,370.80	575,774.88
	MATERNITY	175,368.23	127,793.64	108,948.12	112,719.96	646,937.39	507,853.14
	MEDICAL AND SURGICAL	7,076,931.11	5,755,610.38	3,091,308.45	4,329,070.19	30,832,779.44	18,388,605.34
	NEONATAL COMPLICATIONS	23,432.39	52,436.64	16,610.81	67,547.29	212,590.15	229,261.42

sum		7,438,266.00	6,109,247.10	3,339,797.11	4,639,987.31	32,510,677.78	19,701,494.78
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	19,959.13	15,205.75	20,091.22	15,070.25	69,182.32	78,254.59
	EMERGENCY ROOM	146,505.92	151,446.36	94,672.42	73,314.80	802,742.55	376,286.84
	MATERNITY	17,737.21	17,568.64	8,692.66	12,230.31	74,981.10	51,642.77
	MEDICAL AND SURGICAL	3,265,134.27	3,112,602.83	1,931,579.87	2,640,159.16	16,167,268.59	11,057,479.60

sum		3,449,336.53	3,296,823.58	2,055,036.17	2,740,774.52	17,114,174.56	11,563,663.80
PHARMACY	PRESCRIPTION DRUGS	8,629,392.18	8,099,990.94	6,764,185.43	5,886,328.76	41,554,706.49	26,494,504.40

sum		8,629,392.18	8,099,990.94	6,764,185.43	5,886,328.76	41,554,706.49	26,494,504.40
PROFESSIONAL SERVICES	ADVANCED IMAGING	644,148.89	653,262.12	577,162.09	481,811.46	2,965,663.31	2,241,718.44
	AMBULANCE	14,920.96	112,509.33	131,987.11	144,214.42	97,711.86	685,642.73
	ANESTHESIA	522,912.76	530,123.65	392,632.79	367,194.91	2,714,668.53	1,663,491.05
	CARDIOVASCULAR MEDICINE	203,427.79	205,225.79	183,983.11	142,319.22	940,957.54	696,532.89
	CERVICAL CANCER SCREENING	36,041.60	30,814.42	22,202.32	16,881.82	168,825.34	88,043.37
	DME	351,384.62	354,888.99	213,589.05	240,509.79	1,638,489.64	1,008,825.34
	EVALULATION AND MANAGEMENT	3,199,207.13	3,206,405.15	2,862,697.42	2,445,974.90	15,100,777.51	11,795,123.91
	IMMUNIZATION	73,660.01	87,857.14	80,024.91	58,982.32	411,385.10	301,006.36
	INJECTION	402,968.03	536,078.50	324,641.99	368,968.56	2,645,194.29	1,562,252.96
	LAB AND PATHOLOGY	753,269.95	726,047.22	522,773.97	487,822.51	3,261,544.76	2,093,350.96

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS
 NOVEMBER 2001

Page: 2

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr		Previous Fiscal Yr	
		Current Period PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
PROFESSIONAL SERVICES	MAMMOGRAPHY	146,453.60	156,032.32	150,324.28	111,333.93	776,536.81	609,726.31	609,726.31	609,726.31
	OTHER	422,880.11	482,072.17	193,180.64	233,292.24	2,878,178.99	925,016.36	925,016.36	925,016.36
	OTHER IMAGING	1,032,431.90	1,066,966.35	976,258.85	679,917.08	4,763,654.28	3,275,224.33	3,275,224.33	3,275,224.33
	OTHER-MEDICINE	1,201,756.45	1,151,880.19	959,311.44	879,807.70	5,274,565.36	3,958,666.40	3,958,666.40	3,958,666.40
	PHYSICAL MEDICINE	359,730.57	317,861.17	278,793.89	203,125.77	1,516,975.32	972,180.76	972,180.76	972,180.76
	PROSTATE CANCER SCREENING	11,760.36	16,977.33	12,370.30	10,872.06	66,956.29	47,022.98	47,022.98	47,022.98
	SURGICAL	1,957,321.11	1,903,688.91	1,591,641.68	1,460,577.16	9,069,804.43	7,109,152.58	7,109,152.58	7,109,152.58
*****		11,334,275.84	11,538,690.74	9,473,575.84	8,333,605.49	54,291,889.36	39,032,977.73	39,032,977.73	39,032,977.73
SUM									
		30,851,270.55	29,044,752.36	21,632,594.55	21,600,696.04	145,471,448.19	96,792,640.71	96,792,640.71	96,792,640.71

SOURCE: MOUNTAIN STATE, ACCORDIA NATIONAL, PCS HEALTH, AND MERCER-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

26 rows selected.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001
AND
INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying general purpose financial statements of the West Virginia Department of Transportation, Division of Highways as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the West Virginia Department of Transportation, Division of Highway's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Department of Transportation, Division of Highways as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2001, on our consideration of the West Virginia Department of Transportation, Division of Highways' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the West Virginia Department of Transportation, Division of Highways taken as a whole. The accompanying information on pages 23 through 31 are presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

Spittle & Stalraker, P.L.L.C.

November 30, 2001

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2001

ASSETS AND OTHER DEBITS	Governmental Fund Types			General Account Groups		Combined Totals (Memorandum Only)	
	State Road (General)	Capital Projects	Debt Service	Fixed Assets	Long-Term Debt	2001	2000
ASSETS							
Cash and cash equivalents	\$ 100,191,522	\$ 56,281,941	\$ 831,736	\$ -	\$ -	\$ 157,325,199	\$ 249,653,601
Receivables	57,550,577	2,947,296	-	-	-	60,497,873	76,330,246
Taxes receivable	52,416,465	-	-	-	-	52,416,465	46,962,652
Due from other State of West Virginia agencies	3,566,675	-	-	-	-	3,566,675	2,652,876
Due from other funds	1,006,680	-	-	-	-	1,006,680	729,280
Inventories	32,382,932	-	-	-	-	32,382,932	33,563,637
Fixed assets	-	-	-	262,644,131	-	262,644,131	250,282,779
Other assets	1,990,004	-	83,793	-	-	2,073,797	2,698,721
OTHER DEBITS							
Amount available in Debt Service Fund	-	-	-	-	935,217	935,217	1,149,348
Amount to be provided in future years for retirement of long-term obligations	-	-	-	-	526,879,147	526,879,147	436,057,543
Total assets and other debits	\$ 249,104,855	\$ 59,229,237	\$ 937,529	\$ 262,644,131	\$ 527,814,364	\$ 1,099,730,116	\$ 1,100,080,683
LIABILITIES, FUND BALANCES AND OTHER CREDITS							
LIABILITIES							
Accounts payable	\$ 59,777,630	\$ 11,787,327	\$ 2,312	\$ -	\$ -	\$ 71,567,269	\$ 79,132,011
Retainages payable	10,835,707	1,822,432	-	-	-	12,658,139	14,307,985
Accrued payroll and related liabilities	18,646,165	-	-	-	-	18,646,165	21,888,364
Due to other State of West Virginia agencies	2,431,207	-	-	-	-	2,431,207	1,162,264
Due to other funds	-	1,006,680	-	-	-	1,006,680	729,281
Arbitrage rebate liability	-	1,531,000	-	-	-	1,531,000	828,800
Long-term debt obligations	-	-	-	-	451,025,000	451,025,000	361,690,000
Compensated absences	-	-	-	-	65,589,364	65,589,364	66,216,861
Claims and judgments	-	-	-	-	11,200,000	11,200,000	9,300,000
Total liabilities	91,690,709	16,147,439	2,312	-	527,814,364	635,634,824	555,255,566
COMMITMENTS AND CONTINGENCIES							
FUND BALANCES AND OTHER CREDITS							
Investment in general fixed assets	-	-	-	262,644,131	-	262,644,131	250,282,779
Fund balances							
Reserved for capital projects	-	43,081,798	-	-	-	43,081,798	115,318,765
Reserved for debt service	-	-	935,217	-	-	935,217	1,149,348
Reserved for inventories	32,382,932	-	-	-	-	32,382,932	33,563,637
Unreserved, undesignated	125,031,214	-	-	-	-	125,031,214	144,510,588
Total fund balances and other credits	157,414,146	43,081,798	935,217	262,644,131	-	464,075,292	544,825,117
Total liabilities, fund balances and other credits	\$ 249,104,855	\$ 59,229,237	\$ 937,529	\$ 262,644,131	\$ 527,814,364	\$ 1,099,730,116	\$ 1,100,080,683

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

6

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended June 30, 2001

	Governmental Fund Types			Combined Totals (Memorandum Only)	
	State Road (General)	Capital Projects	Debt Service	2001	2000
Revenues:					
Taxes:					
Gasoline and motor carrier	\$ 225,946,119	\$ -	\$ -	\$ 225,946,119	\$ 224,028,834
Wholesale motor fuel	71,521,133	-	-	71,521,133	68,372,435
Automobile privilege	155,622,632	-	-	155,622,632	153,926,527
Licenses, fees and permits:					
Motor vehicle registrations and licenses	78,744,780	-	-	78,744,780	85,221,647
Special fees and permits	4,062,575	-	-	4,062,575	3,984,315
Federal Aid					
Interstate highways	44,760,729	5,633,719	-	50,394,448	75,926,384
Appalachian highways	135,009,799	-	-	135,009,799	81,119,342
Other federal aid programs	195,831,890	30,168,314	-	226,000,204	197,034,164
Investment and interest income, net of arbitrage rebate	5,360,226	7,244,606	807,971	13,412,803	18,305,709
Miscellaneous revenues	19,042,393	-	-	19,042,393	19,242,333
	<u>936,902,276</u>	<u>43,046,639</u>	<u>807,971</u>	<u>980,756,886</u>	<u>927,161,690</u>
Expenditures:					
Current:					
Road maintenance					
Expressway, trunkline and feeder	55,920,698	-	-	55,920,698	80,921,668
State local services	171,380,254	-	-	171,380,254	147,313,220
Contract paving and secondary roads	54,499,114	-	-	54,499,114	56,041,802
Small bridge repair and replacement	23,921,719	-	-	23,921,719	24,948,561
Litter control program	1,485,408	-	-	1,485,408	1,559,656
Support and administrative operations	61,573,972	-	-	61,573,972	57,278,996
Division of Motor Vehicles operations	29,736,360	-	-	29,736,360	25,694,607
Claims	76,807	-	-	76,807	279,775
Capital outlay:					
Road construction					
Interstate highways	52,045,947	12,269,241	-	64,315,188	87,968,307
Appalachian highways	170,452,496	-	-	170,452,496	113,863,551
Other federal aid programs	262,997,490	44,568,790	-	307,566,280	257,009,936
Nonfederal aid construction	28,725,748	167,547,367	-	196,273,115	194,817,631
Bond issue costs	-	-	843,715	843,715	629,661
Debt service	-	-	44,924,699	44,924,699	47,326,408
	<u>912,816,013</u>	<u>224,385,398</u>	<u>45,768,414</u>	<u>1,182,969,825</u>	<u>1,095,853,779</u>
Excess (deficiency) of revenues over expenditures	24,086,263	(181,338,759)	(44,960,443)	(202,212,939)	(168,692,089)
Other financing sources (uses):					
Proceeds from issuance of long term debt	-	109,101,792	-	109,101,792	111,567,430
Operating transfers in	-	-	44,746,312	44,746,312	46,412,832
Operating transfers out	(44,746,312)	-	-	(44,746,312)	(46,412,832)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(20,660,049)	(72,236,967)	(214,131)	(93,111,147)	(57,124,639)
Fund balance, beginning of year	<u>178,074,195</u>	<u>115,318,765</u>	<u>1,149,348</u>	<u>294,542,308</u>	<u>351,666,967</u>
Fund balance, end of year	<u>\$ 157,414,146</u>	<u>\$ 43,081,798</u>	<u>\$ 935,217</u>	<u>\$ 201,431,161</u>	<u>\$ 294,542,308</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (BUDGETARY BASIS) – STATE ROAD FUND

Year Ended June 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes:			
Gasoline and motor carrier	\$ 225,378,000	\$ 222,552,965	\$ (2,825,035)
Wholesale motor fuel	71,720,000	70,731,961	(988,039)
Automobile privilege	158,200,000	153,095,033	(5,104,967)
Motor vehicle registrations and licenses	77,000,000	76,788,337	(211,663)
Federal Aid	448,000,000	384,791,916	(63,208,084)
Miscellaneous revenues	12,090,000	13,240,530	1,150,530
	<u>992,388,000</u>	<u>921,200,742</u>	<u>(71,187,258)</u>
Expenditures:			
Road construction:			
Interstate highways	70,000,000	52,427,930	17,572,070
Appalachian highways	162,500,000	161,415,170	1,084,830
Other federal aid programs	287,500,000	259,041,745	28,458,255
Nonfederal aid construction	35,000,000	24,747,960	10,252,040
Road maintenance:			
Maintenance	241,100,000	240,253,217	846,783
Contract paving and secondary roads	55,000,000	54,997,936	2,064
Small bridge repair and replacement	32,000,000	23,954,478	8,045,522
Litter control program	1,490,000	1,490,000	-
Support and administrative operations			
General operations	41,711,995	38,946,353	2,765,642
Equipment revolving	10,000,000	4,211,477	5,788,523
Inventory revolving	2,000,000	607,251	1,392,749
Debt service	45,111,000	44,792,965	318,035
Division of Motor Vehicles operations	34,456,707	29,736,362	4,720,345
Claims	103,890	85,699	18,191
ARC assessment	344,000	344,000	-
Board of Risk Management	4,737,674	4,737,674	-
	<u>1,023,055,266</u>	<u>941,790,217</u>	<u>81,265,049</u>
Deficiency of revenues under expenditures	(30,667,266)	(20,589,475)	10,077,791
Fund balance, beginning of year	<u>62,554,603</u>	<u>115,414,234</u>	<u>52,859,631</u>
Fund balance, end of year	<u>\$ 31,887,337</u>	<u>\$ 94,824,759</u>	<u>\$ 62,937,422</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Division's significant accounting policies are described below.

REPORTING ENTITY - The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the State) that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the State Legislature. The Division is considered a component unit of the State and its financial statements are blended with the financial statements of the primary government in the State's comprehensive annual financial report.

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation, which collects certain revenues for expenditure by the Division of Highways. The expenditures related to the collection of these revenues are recorded in the State Road Fund of the Division.

FUND ACCOUNTING - The Division uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in funds because they do not directly affect net expendable available financial resources.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following categories of governmental fund types and account groups are presented in the accompanying financial statements:

Governmental Funds

- State Road (General) Fund - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- Capital Projects Fund - This fund accounts for financial resources to be used for road construction or reconstruction financed by intergovernmental revenue from the West Virginia Parkways, Economic Development and Tourism Authority, proceeds from the sale of the State Road bonds, and matching federal highway funds.
- Debt Service Fund - This fund accounts for financial resources accumulated to repay long-term obligations and interest thereon.

Account Groups

- General Fixed Assets Account Group - This account group is used to account for all general fixed assets of the Division, other than infrastructure assets (roads, bridges, and similar structures and related rights-of-way).
- General Long-Term Debt Account Group - This account group is used to account for the long-term debt of the Division, including general obligations of the State of West Virginia providing proceeds designated for the Division, accrued leave time, post retirement health insurance benefits, and estimated claims and judgments.

BASIS OF ACCOUNTING - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payments to be made early in the following year.

Significant revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

Licenses, fees, and permits (principally motor vehicle operators' license and registration fees) are considered measurable based upon collection and processing by the collecting agent (Division of Motor Vehicles) and are generally recognized on the cash basis.

BUDGETARY ACCOUNTING - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year end to allow for payment of invoices up to 31 days after year end for goods or services received prior to year end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each Division as a whole must be approved by the State Legislature.

The Division's State Road Fund has a legislatively approved budget. However, the capital projects fund, debt service fund and certain special revenue monies, reported within the State Road Fund for GAAP purposes, are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2001, on the budgetary basis to the GAAP basis for the State Road Fund follows:

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deficiency of revenues under expenditures-budgetary basis	\$ (20,589,475)
Basis of accounting differences (budgetary to GAAP)	(2,915,714)
Unbudgeted funds	<u>2,845,140</u>
Deficiency of revenues under expenditures-GAAP basis	<u>\$ (20,660,049)</u>

The Department monitors fiscal data throughout the year. The original appropriated budgeted expenditures and legislatively enacted amendments are as follows:

Original budget	\$1,014,734,266
Amendments	<u>8,321,000</u>
Revised budget	<u>\$1,023,055,266</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). In addition, the Division makes interest-earning deposits in certain investment pools maintained by IMB that are available to the Division with overnight notice. Interest income from these investments is prorated to the Division at rates specified by IMB based on the balance of the Division's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Because these deposits are held in the IMB investment pools, no other disclosures related to safekeeping, credit or market risk, or GASB 3 risk are required. However, market risk exists as the value of the investment pools underlying investment assets may decline because of an increase in interest rates or a decline in stock prices. The carrying value of the deposits reflected in the financial statements approximates fair value and approximates the value of the shares in the external investment pool.

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the IMB for investment in accordance with the West Virginia Code, policies set by the IMB, and provisions of bond indentures and trust agreements when applicable. The IMB is governed by a thirteen-member Board of Trustees. The Governor, the State Auditor and the State Treasurer are members of the Board and the other members are appointed by the Governor. The Board was formed in 1997 to serve as the Trustee to hold certain public pension funds and insurance funds, as well as to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES - Inventories are stated at weighted average cost generally using the "consumption method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserved for inventories".

FIXED ASSETS - All fixed assets acquired for operation of the Division are reported as expenditures in the fund that finances the asset acquisition and are capitalized in the General Fixed Assets Account Group. Infrastructure assets, constructed under the auspices of the Division, are reported as "Road Construction" expenditures in the appropriate governmental fund but are not capitalized as fixed assets. Accordingly, interest costs associated with borrowings to finance infrastructure expenditures are recognized as period costs and not capitalized. Depreciation is not recognized as an expenditure in any governmental fund.

The carrying values for capitalized fixed assets have been determined as follows:

Land	Actual or estimated historical cost
Buildings	Actual or estimated historical cost
Construction-in-progress	Actual expenditures at historical cost
Furniture and fixtures	Actual or estimated historical cost
Shop equipment	Actual or estimated historical cost
Rolling equipment	Historical cost
Scientific equipment	Historical cost

Estimated costs of buildings and land were compiled in 1983. Building and land additions have been recorded at cost since 1983.

CLAIMS - Claims awarded against the Division in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature.

A liability for unfunded claims is recorded in the General Long-Term Debt Account Group when management and the Division's legal section determines that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at employee retirement vests to the employee which may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plan prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred. The obligation for accumulated vested vacation leave, the estimated obligation for anticipated termination payments to current employees for conversion of unused vacation and sick leave to post-retirement health insurance premiums and the obligation for post-retirement employee health insurance premiums are presented in the General Long-Term Debt Account Group.

RETIREMENT BENEFITS - The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division, with employer contributions prescribed by PERS as a percentage of covered payroll.

INTERFUND TRANSACTIONS - During the normal course of operations of the Division, certain transactions, including expenditures and transfers of resources to provide services and service debt, take place between funds. Interfund transactions are recorded as operating transfers or advances as determined by Division management.

RESERVES - Portions of fund equity are segregated for future use and are, therefore, not available for future appropriation or expenditures.

COMBINED TOTAL COLUMNS - Combined total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NO. 34 - In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement established financial reporting standards for state and local governments by revising the basic financial statement requirements and also requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities. The Department intends to adopt the provisions of this statement for the fiscal year ending June 30, 2002, which is consistent with the State of West Virginia's planned adoption period. The Division has not completed its analysis and thus is unable to estimate the impact of the adoption of this pronouncement.

NOTE 2 - RECEIVABLES

Receivables at June 30, 2001 consisted of the following:

Federal aid billed and not paid	\$ 13,724,244
Federal aid earned but not billed	<u>43,720,109</u>
Total federal aid receivable	57,444,353
Other receivables	<u>3,053,520</u>
Combined total receivables	<u>\$ 60,497,873</u>

Receivables representing federal aid earned but not billed relate principally to the Federal Highway Administration's (FHWA) participating share of expenditures on highway projects.

NOTE 3 - TAXES RECEIVABLE

Taxes receivable at June 30, 2001 consisted of the following:

Automobile privilege taxes	\$ 19,763,963
Gasoline and motor fuel taxes	<u>32,652,502</u>
	<u>\$ 52,416,465</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 4 - DUE FROM (TO) OTHER STATE OF WEST VIRGINIA AGENCIES

Amounts due from other State of West Virginia agencies at June 30, 2001 consisted of the following:

The Department of Administration	\$ 142,216
Bureau of Employment Programs	27,227
Office of Emergency Services	85,931
The Department of Transportation	2,679,510
The Governor's Office	259,324
West Virginia State Police	73,435
West Virginia Building Commission	40,238
Adjutant Generals Office	47,613
Other agencies	<u>211,181</u>
	<u>\$ 3,566,675</u>

Amounts due to other State of West Virginia agencies at June 30, 2001 consisted of the following:

The Department of Administration	\$ 186,908
Bureau of Employment Programs	6,300
The Department of Tax and Revenue	30,850
Workers Compensation Fund	1,877,877
The Governor's Office	12,324
Department of Natural Resources	108,327
West Virginia State Police	106,695
West Virginia State Auditors Office	12,575
Division of Corrections	75,953
Other agencies	<u>13,398</u>
	<u>\$ 2,431,207</u>

NOTE 5 - INVENTORIES

Inventories at June 30, 2001 consisted of the following:

Materials and supplies	\$ 21,379,312
Equipment repair parts	9,670,217
Gas and lubrication supplies	<u>1,333,403</u>
	<u>\$ 32,382,932</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 6 - FIXED ASSETS

A summary of changes in fixed asset accounts in the General Fixed Assets Account Group follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2001</u>
Land	\$ 15,425,043	\$ 1,077,258	\$ 2,288,740	\$ 14,213,561
Buildings	49,864,143	12,171,730	3,201,610	58,834,263
Construction-in-progress	1,602,106	-	1,382,643	219,463
Furniture and fixtures	13,881,776	2,307,318	957,647	15,231,447
Rolling stock and shop equipment	166,587,885	8,903,291	4,277,678	171,213,498
Scientific equipment	<u>2,921,826</u>	<u>101,722</u>	<u>91,649</u>	<u>2,931,899</u>
	<u>\$ 250,282,779</u>	<u>\$ 24,561,319</u>	<u>\$ 12,199,967</u>	<u>\$ 262,644,131</u>

NOTE 7 - RETAINAGES PAYABLE

The Division has entered into an arrangement with the West Virginia Investment Management Board whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2001, retainages payable on contracts had been reduced by these amounts on deposit in such accounts by approximately \$14,872,000.

NOTE 8 - DUE TO/FROM OTHER FUNDS

The State Road Fund has a balance of \$1,006,680 due from the Capital Projects Fund as of June 30, 2001.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS

The following is a summary of changes in the long-term debt obligations of the Division:

	<u>July 1, 2000</u>	<u>Bonds Issued</u>	<u>Payments</u>	<u>June 30, 2001</u>
General obligation bonds	\$361,690,000	\$110,000,000	\$ (20,665,000)	\$451,025,000

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments requires that debt service on the bonds be paid from the State Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding as follows:

	Original Issue <u>Amount</u>	Outstanding at <u>June 30, 2001</u>
Better Highways Bonds, 2.75% to 8.70%, maturing through February 1, 2006	\$ 500,000,000	\$ 30,620,000
State Road Bonds, 4.00% to 5.75%, maturing through June 1, 2025	<u>440,000,000</u>	<u>420,405,000</u>
	<u>\$ 940,000,000</u>	<u>\$ 451,025,000</u>

Debt service expenditures for debt service funds included interest of \$24,214,824 for the year ended June 30, 2001. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable through debt service funds, are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 13,265,000	\$ 23,717,145	\$ 36,982,145
2003	13,925,000	23,058,035	36,983,035
2004	14,640,000	22,344,314	36,984,314
2005	15,370,000	21,615,866	36,985,866
2006	16,100,000	20,884,429	36,984,429
Thereafter	<u>377,725,000</u>	<u>203,771,137</u>	<u>581,496,137</u>
	<u>\$ 451,025,000</u>	<u>\$ 315,390,926</u>	<u>\$ 766,415,926</u>

During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue \$550,000,000 of general obligation bonds to fund highway and road construction projects. These bonds will be repaid from revenues of the State Road Fund. Bonds of \$220,000,000 were issued during the fiscal year ended June 30, 1999, \$110,000,000 of these bonds were issued during July 1999, and an additional \$110,000,000 was issued during July 2000. As discussed in Note 15, the Division issued the remaining \$110,000,000 of these bonds during July 2001.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

The Division's State Road Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code, which requires 90% of interest earnings in excess of interest expended to be paid to the Internal Revenue Service. The Division has calculated an arbitrage rebate liability of \$1,531,000 as of June 30, 2001, which has been recorded as a liability and as a reduction of interest income in the Capital Projects Fund.

NOTE 10 - CLAIMS, JUDGMENTS, AND COMPENSATED ABSENCES

The following is a summary of claims, judgments, and compensated absences reported in the General Long-Term Debt Account Group:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2001</u>
Estimated claims	\$ 9,300,000	\$ 1,900,000	\$ 11,200,000
Accrued vacation leave time and related costs	31,881,861	(62,190)	31,819,671
Cost of sick leave estimated to be converted to health insurance coverage at retirement	33,991,000	(542,000)	33,449,000
Expenses to be paid in subsequent fiscal year	<u>344,000</u>	<u>(23,307)</u>	<u>320,693</u>
	<u>\$ 75,516,861</u>	<u>\$ 1,272,503</u>	<u>\$ 76,789,364</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2001

NOTE 10 - CLAIMS, JUDGMENTS, AND COMPENSATED ABSENCES (Continued)

The following summarizes the claims liability for the current year and that of the preceding year.

Estimated claims liability, July 1, 2000	\$ 9,300,000
Additions for claims incurred during the year	1,585,350
Changes in estimates for claims of prior periods	415,146
Payments on claims	<u>(100,496)</u>
Estimated claims liability, June 30, 2001	<u>\$ 11,200,000</u>

At June 30, 2001, approximately \$39,627,000 of tort claims and \$6,340,000 of construction claims were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$11,200,000, recorded in the General Long-Term Debt Account Group, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. During the normal course of operations, the Division may become subject to other litigation. Management is of the opinion that no material obligations will arise from unasserted claims as of June 30, 2001. Accordingly, no provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and is determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Division's unfunded obligation of approximately \$3,567,000 arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under the West Virginia Public Employees Retirement System.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 11 - TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Division leases from the Department of Administration substantially all of the State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire December 31, 2001 for rental payments of approximately \$1,016,170. Management expects the leases to be renewed upon expiration.

During the year ended June 30, 2001 the Division incurred payroll related expenditures of approximately \$27,785,000 for employee health insurance benefits and approximately \$8,570,000 for employee workers' compensation benefits, which are paid into funds administered by the West Virginia Public Employees Insurance Agency and Workers' Compensation Fund, respectively.

Monies were paid from the State Road Fund to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately \$5,466,000 during the year ended June 30, 2001.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$401,605,000 at June 30, 2001.

The Division participates in several federal programs which are subject to audit by the federal awarding agency. The Division records audit adjustments for questioned costs in the period the audit is finalized. Audits have been completed and accepted through June 30, 2000.

During the year ended June 30, 1989, the Division in-substance defeased Huntington Bridge Revenue Bonds dated January 1, 1965, by authorizing the West Virginia Municipal Bond Commission (MBC), the bond fiscal agent, to purchase U.S. government securities which will mature on dates to coincide with the remaining principal and interest payments. At June 30, 2001, \$2,460,000 of these bonds were outstanding and are considered defeased. Accordingly, the assets and liability for these defeased bonds have been excluded from the Division's financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 13 - RETIREMENT SYSTEM

PLAN DESCRIPTION - The Division contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 14% of annual covered payroll, including the Division's contribution of 9.5% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2001, 2000, and 1999 were \$25,571,062, \$21,300,804, and \$20,123,941, respectively, equal to the required contributions for each year.

NOTE 14 - RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM), the Public Employees Insurance Agency (PEIA), and the Workers' Compensation Fund (WCF) to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 14 - RISK MANAGEMENT (Continued)

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The WCF provides coverage for work related accidents and is considered an insurance enterprise fund. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. The Division has evaluated this potential risk of loss as discussed in Note 10.

Through its participation in the PEIA and WCF, the Division has obtained health coverage and coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and WCF, the Division has transferred its risks related to health coverage and job related injuries of employees.

NOTE 15 - SUBSEQUENT EVENTS

In July 2001 the State of West Virginia issued General Obligation State Road Bonds of \$110,000,000 to be repaid from revenues of the State Road Fund. These bonds were issued with an interest rate of 3.5% to 5.5% and mature through June 2013. During the year ending June 30, 2002, debt service expenditures associated with these bonds will include interest of \$4,791,147 and principal retirement of \$8,220,000.

In June and July 2001, the State experienced significant flooding. As a result, subsequent to year end, the Division incurred significant expenditures related to emergency work as a result of the floods. The expenditures approximated \$33,450,000 and the Division anticipates collecting approximately \$21,780,000 from the Federal Emergency Management Agency and the Federal Highway Administration.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF BUDGETED EXPENDITURES
 Year Ended June 30, 2001

	Allowable Expenditures Per Budget Bill	Amendments	Allowable Expenditures Per Budget Bills, as Amended
Maintenance	\$ 229,000,000	\$ 12,100,000	\$ 241,100,000
Maintenance, contract paving and secondary roads	50,000,000	5,000,000	55,000,000
Small bridge repair and replacement	36,000,000	(4,000,000)	32,000,000
Inventory revolving	2,000,000	-	2,000,000
Equipment revolving	15,000,000	(5,000,000)	10,000,000
General operations	41,711,995	-	41,711,995
Debt service	50,000,000	(4,889,000)	45,111,000
Interstate highways	70,000,000	-	70,000,000
Appalachian highways	150,000,000	12,500,000	162,500,000
Other federal aid programs	300,000,000	(12,500,000)	287,500,000
Nonfederal aid construction	30,000,000	5,000,000	35,000,000
Division of Motor Vehicles	34,456,707	-	34,456,707
Litter control program	1,380,000	110,000	1,490,000
Claims	103,890 *	-	103,890
Board of Risk Management	4,737,674	-	4,737,674
ARC assessment	344,000	-	344,000
	<u>\$ 1,014,734,266</u>	<u>\$ 8,321,000</u>	<u>\$ 1,023,055,266</u>

* FY01 Claims appropriated by H.B. 2817

See Independent Auditors' Report

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE I - SUMMARY OF SUPPORT AND ADMINISTRATIVE OPERATIONS -
REVOLVING FUND BASIS - STATE ROAD FUND
Year Ended June 30, 2001

General operations - Schedule II	\$ 57,922,835
Equipment - Schedule III	2,970,619
Inventory adjustments - Schedule IV	<u>336,518</u>
	61,229,972
ARC assessment	<u>344,000</u>
Support and administrative operations per Combined Statement of Revenues, Expenditures and Changes in Fund Balances -- All Governmental Fund Types	<u>\$ 61,573,972</u>

See Independent Auditors' Report.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
*SCHEDULE II - DETAILS OF GENERAL OPERATIONS -
REVOLVING FUND BASIS - STATE ROAD FUND*
Year Ended June 30, 2001

General operations expenditures:

Salaries and wages, including allocated employee benefits	\$ 18,504,365
Employee benefits, underallocated	3,421,093
Building repairs and maintenance	852,043
Furniture and fixture purchases	1,356,708
Purchases of new buildings and land	9,805,023
Cost of work done for outside agencies	4,376,420
Rentals, overallocated	(5,354,047)
General and administrative expenses	<u>24,961,230</u>
Total general operations expenditures	<u>\$ 57,922,835</u>

See Independent Auditors' Report.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE III - DETAILS OF EQUIPMENT - REVOLVING FUND BASIS -
STATE ROAD FUND
Year Ended June 30, 2001

Operating expenditures:	
Payroll	\$ 20,717,406
Inventory usage	12,727,412
Direct purchases of materials and supplies	10,290,513
Building and grounds	235,541
New equipment purchases	<u>8,419,787</u>
	52,390,659
Less equipment costs allocated to road projects and other operations	<u>(49,420,040)</u>
Total operating expenditures of Equipment Revolving Fund	<u>\$ 2,970,619</u>

See Independent Auditors' Report.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE IV - CHANGES IN INVENTORY - STATE ROAD FUND
Year Ended June 30, 2001

Inventory purchases	\$138,953,816
Inventory usage	<u>(140,471,039)</u>
Excess (deficiency) of inventory acquisitions over usage	<u>(1,517,223)</u>
Inventory adjustments:	
Physical inventory adjustment	162,124
Disposal of obsolete inventory	<u>174,394</u>
Total inventory adjustments	<u>336,518</u>
Net decrease in inventory	(1,180,705)
Inventory balance, beginning of year	<u>33,563,637</u>
Inventory balance, end of year	<u>\$ 32,382,932</u>

See Independent Auditors' Report.

To the Joint Committee on Government and Finance
West Virginia Legislature

and

Management of the West Virginia Department of
Transportation, Division of Highways

We have audited the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) for the year ended June 30, 2001, and have issued our report thereon dated November 30, 2001. Professional standards require that we provide you with the following information related to our audits.

**THE AUDITORS' RESPONSIBILITY UNDER GENERALLY
ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable assurance, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

**REPORTABLE CONDITIONS IN INTERNAL CONTROL AND REPORTABLE
COMPLIANCE FINDINGS**

In planning and performing our audit of the financial statements of the Division for the year ended June 30, 2001, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters described below involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described below are believed to be a material weakness.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Division's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions. However, the results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described below.

Independent Engineer's Cost Estimate (*Compliance and Internal Control*)

Section 157-1-7.7b of the Code of State Rules requires the director of the division initiating the request for service to be responsible for preparing an independent engineer's cost estimate prior to the receipt of the fee proposal from the consultant. We noted several instances in which the engineer's cost estimate was not prepared by the Division until after the consultant's price proposal was received.

We recommend that the Division devote the necessary resources to ensure that the Code of State Rules and its policies and procedures are followed and cost estimates are prepared in a timely manner.

Procurement of Architectural and Engineering Services (*Compliance and Internal Control*)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall 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." Further, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.

We noted the following during our review of documentation related to the procurement of architectural and engineering services:

- The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire and/or Consultant Cost Accounting Information Statement on file for three of the projects selected for review.
- For one of the projects reviewed, the members of the selection committee were not documented.
- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented.

We recommend that the Division strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services.

Information Systems Controls (*Internal Control*)

The management of the Division is responsible for establishing and maintaining adequate information systems internal controls.

The Division operates a wide variety of computer applications, many of which affect federal and state programs data. During our review of the information systems controls we noted the following:

- There are no formal policies and procedures for review and monitoring of the user account access maintenance.
- There were several user accounts that did not belong to current employees of the Division.
- There are no formal policies and procedures for review and monitoring of various information system security reports such as the "failed access report."

We recommend that the Division strengthen their policies and procedures related to information systems controls and ensure that controls are operating as designed. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of information system controls.

OTHER COMMENTS AND RECOMMENDATIONS

During our audit we became aware of several other matters that are opportunities for strengthening internal control and opportunities for improving operating efficiency. Our comments and suggestions follow. In addition, we became aware of immaterial instances of noncompliance which are also reported below. We have discussed these comments and suggestions with various Division personnel, and will be pleased to discuss them further at your convenience.

Internal, External, and Procedures Compliance Audit Group

Internal, External, and Procedures Compliance Audit - Policies and Procedures Manual

An audit policies and procedures manual provides personnel with written documentation of specific responsibilities and controls to be followed in their performance of audit work. These policies should be as standard as possible while allowing appropriate flexibility to address unique circumstances. Standardization of policies provides for fewer discrepancies, consistent identification and treatment of issues, consistent sampling methodologies, and consistent reporting. In addition to providing consistent information, a manual facilitates transitions when adopting new procedures or personnel change, and provides an overview for evaluating the current system. While reviewing the audit manuals for the audit groups, we noted that the manuals were not current.

We recommend that the Division update their audit policies and procedures manual, which documents the policies and procedures related to the audit groups. The manual should contain general policies as well as specific procedures performed in auditing information, identify personnel responsible for performing such procedures, and specify reporting requirements. In addition, the manual should include appropriate guidance related to how to handle issues identified and the appropriate reporting and follow up required. All personnel should have a thorough working knowledge of the manual and the manual should be updated as needed.

Internal Audit -- Information System Reviews

The Division operates a wide variety of computer applications and systems, many of which have a direct and material effect on federal and state award programs and are critical to the daily operations of the Division. Further, these applications and systems are significantly dependent upon controls and edit checks included within these systems. During our review of the internal audit functions and focus of fieldwork, we noted that the internal audit group did not devote time and resources to testing the general and application controls and edit checks which are applicable to the critical information systems of the Division.

We recommend that the internal audit group's work plan include adequate coverage and review of the significant information systems in place. This review should focus on identifying the significant information systems to be reviewed, reviewing general and application controls in place, reviewing edit checks for proper functioning, and other significant steps as identified in the review. Further, the internal audit group should consider hiring a person with a relevant information systems background to assist in the performance of the review. This position could also be outsourced through the use of an information systems audit specialist from a certified public accounting firm.

Internal Audit and Procedures Compliance - Audit Methodology and Rotation

Section 4.6 of *Government Auditing Standards* states in part that, "The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures." During our review, we determined that the internal audit group and the procedures compliance group did not have a formalized audit methodology and rotation for determining which areas of the Division would be reviewed. Therefore, some low risk areas appeared to be over audited and other higher risk areas were not considered for review.

We recommend that the internal audit group and the procedures compliance group consider developing a risk based audit methodology approach. Under this approach, the audit groups would annually review all operations of the Division and appropriately identify the significant risk areas where substantial resources and time should be devoted. Lower risk areas could be audited on a rotational basis and covered on a two to three year cycle. By applying audit risk concepts, the audit groups can enhance their ability to recognize opportunities for efficiency and effectiveness.

Procedures Compliance – Findings Follow Up

Section 4.7 of *Government Auditing Standards* states that, "Auditors should follow up on known material findings and recommendations from previous audits." During our review of the follow up procedures for the procedures compliance audit group, we noted that follow up appeared to be inconsistent. In addition, most follow up was not documented and resolved in a timely manner.

We recommend that the audit group strengthen its procedures regarding finding follow up and ensure that all material findings are resolved appropriately in a timely manner. Further, audit logs should include a column for audit follow up and final resolution to enhance the controls regarding finding follow up and resolution.

External Audit – Staffing Structure

During our review of the external audit group, we became aware of a significant backlog of external audits being performed. Further review revealed that significant amounts of internal audit staff time were used to assist the external audit function during the course of the fiscal year. This reduced the internal audit department's ability to complete internal audits in significant operations of the Division.

We recommend that management review the staffing structure and external audit procedures being performed to determine whether external audit procedures can be streamlined, whether additional personnel are needed, or whether various functions of the group should be outsourced.

Internal, External, and Procedures Compliance Audit - Data Extraction Software

The audit groups perform various audit related processes regarding controls and procedures in place; however, the audit groups do not utilize data extraction software to assist in their testing and analyses. Data extraction software, if used properly, helps to strengthen audit procedures performed and can be used to examine larger populations of data within a shorter time period. Further, data extraction software assists auditors with data inquiries, analyses, reporting, and various analytical procedures.

We recommend that the audit groups consider purchasing data extraction software and obtain the necessary training to enable the software to be used during their audits.

Information Systems

REMIS Login

There is no separate login to the Remote Entry Management Information System (REMIS) application. The only login required is through the infrastructure of the RACF security system. A layering of security, at both the application (REMIS) and IBM network level (RACF) would provide a security design that gives maximum deterrence to intruders.

We recommend that management consider establishing a user access requirement at both the infrastructure and application layers of the information system.

DMV Windows NT User Accounts

The Windows NT network domain for the Department of Motor Vehicles (DMV) Cash Remittance System has user accounts set up for generic, non-specific employees such as administrative temps and user information desks.

Each access account into the system is a potentially exploitable entry for an unauthorized user. Security at the infrastructure network level as well as the application level provides maximum deterrence to intruders.

We recommend that all user accounts for access to all systems be specific to employees. If additional user accounts are needed for special functions or vendor access, these should be documented by policy. In addition, if vendor accounts are needed occasionally, they should be deactivated when not in use.

DMV Windows NT System Generated User Accounts

The DMV domain uses the system generated administrator and guest accounts. In addition, the administrator account does not have a requirement to change the password periodically. The MS Windows NT 'administrator' and 'guest' accounts are automatically created with the installation of Windows NT. This makes the existence of these accounts universally known to intruders.

We recommend that the administrator and guest accounts be disabled and a user account for each administrative staff member be created with appropriate access rights.

DMV Windows NT Intruder Detection Settings

The Windows NT network has intruder detection settings, which reset intruder attempts after five minutes, and reset locked accounts after five minutes. Intruder detection locks a user out of an account after a set number of failed login attempts. If the count of attempts is reset too soon, it essentially allows an intruder an unlimited number of attempts to gain unauthorized access. If the lockout is reset too soon, the intruder who is locked out can wait a short time and re-attempt the unauthorized access with other passwords. In addition, the administrator may never have knowledge of the attempted intrusion.

We recommend that intruder attempts be retained for at least one day, and that lockout is maintained until the administrator resets the user account.

DMV Windows NT Network Backup

The backup tapes for the Windows NT network are not stored off site. In the event of damage due to fire or other disaster at the site, backup tapes would also be lost and restoration would be much more difficult.

We recommend that the DMV periodically store backup tapes in a different location off site.

DMV Cash Remittance System User Accounts

There are some cashier accounts in the DMV Cash Remittance (cash register) System that are not listed on the active or separated employee list. Each access account into systems is a potentially exploitable entry for an unauthorized user.

We recommend that all user accounts for access to the cash remittance system be specific to employees of the DMV.

West Virginia State Code Compliance

Contracts Procured Non-Competitively

During the course of our audit, we noted that the Division procured public relations services through a subcontract with an engineering firm and procured right of way services using the non-competitive selection methodology allowed under Chapter 5G of the West Virginia State Code. The Division obtained a legal opinion from their internal legal counsel and the federal grantor has granted permission if the procurement is allowable under West Virginia State Code.

In order to strengthen the Division's position regarding these types of procurements, before such arrangements are entered into in the future, we recommend that the Division obtain a legal opinion from the Attorney General's Office regarding the appropriateness of the non-competitive selection methodology for the services described above.

Advertising of Contracts

Chapter 59, Article 3, Section 2 of the West Virginia State Code requires that a Class II legal advertisement be published once a week for two successive weeks with at least an interval of six full days within such period between the date of the first publication and the date of the second publication.

During the fiscal year ended June 30, 2001, we noted two contracts for which advertisements could not be located and noted five state-wide contracts for which the advertisement interval was not in compliance with the West Virginia State Code.

We recommend that the Division strengthen policies and procedures and ensure that the advertisement of procured services are documented and in accordance with West Virginia State Code.

Scholarships for Highways Personnel

West Virginia State Code Section 17-2A-4b authorizes the Commissioner of Highways to award scholarships to competent persons and the Code of State Rules section 157-1-4 sets forth the eligibility and documentation requirements for issuance of the scholarships. During our review of the scholarship program, we noted that documentation of the selection and certain eligibility requirements were not maintained by the Division.

We recommend that the Division strengthen their policies and procedures and ensure that adequate documentation is maintained to ascertain compliance with the West Virginia State Code.

Subletting of Contracts

Title 157, Series 3, Section 10.1 of the Code of State Rules states in part that "a contractor will be permitted to sublet a portion thereof but shall perform, with his or her own organization, work amounting to not less than 50% of the total contract cost." Further, contractors are required to file a "Subcontractor Request" form (form OC-403) which accumulates the amount of the contract to sublet to the subcontractor.

During our review of two out of eight of these forms during the fiscal year ended June 30, 2001 we noted errors in the cumulative totals and percentage of subcontract work performed to date.

We recommend that the Division implement review procedures including math checks to ensure that forms filed with the Division are accurate and complete.

Other

Equipment Rental Rates

Currently the West Virginia State Rail Authority (the Authority) rents certain equipment from the West Virginia Division of Highways (the Division) which is used for performing routine maintenance and operations of the Authority. The Division bills the Authority for the equipment rental, based upon the equipment rental rates as established by the Division. However, the Authority has not paid the Division for all equipment used at the equipment rental rates, which has resulted in a dispute of the liability owed to the Division from the Authority.

We recommend that the Authority and the Division negotiate an agreement regarding the disputed amounts and equipment rental rates in a timely manner.

Property and Equipment

Management is responsible for establishing and maintaining adequate information to safeguard assets from misappropriation, theft, or loss. The Division maintains a listing of property and equipment; however, the listing did not agree to the general ledger balances and contained several assets which had been disposed of or abandoned. Further, the Division's capitalization threshold amount of \$500 has not been updated in several years.

We recommend that the Division reconcile the general ledger balances to the equipment master reports (listing) and ensure that differences are appropriately resolved. Further, the Division should consider an increase in the dollar threshold used to capitalize fixed assets.

Accounts Receivable Collection

The Division's accounts receivable policies and procedures state that entities with past due balances will have credit discontinued until the account is brought current. We noted that management of the Division continues to extend credit to entities that have accounts receivable balances that are past due. Thus, the Division significantly decreases their ability to collect these balances through the regular collection process.

We recommend that the Division suspend the extension of credit to entities with past due balances until the account is brought current. Also, we recommend that the Division evaluate accounts with balances outstanding to identify any entities that should not be granted credit due to a history of late payment. In addition, the Division should review its policies to determine if changes are needed.

External Audit - Accounts Receivable Follow Up

The External Audit Group of the Division's audit department is responsible for performing a final audit of all contracts before final payment is made. We noted that the external audit group and the accounts receivable department of the Division did not have policies and procedures in place to ensure that all amounts identified as overpayments to contractors were collected.

We recommend that the Division develop policies and procedures to ensure all amounts identified as overpayments to contractors are collected in a timely manner and reported to the External Audit Group as resolved.

Accounts Receivable - Monthly Reconciliation

During our review, we noted that the aged receivables report generated from the accounts receivable system did not reconcile to the accounts receivable as reported on the authorization system. The reconciliation of the accounts receivable system to the authorization system should be done on at least a monthly basis to ensure the proper reporting of accounts receivable.

We recommend that monthly reconciliations be performed to reconcile the accounts receivable system to the authorization system. Further, differences should be investigated and resolved in a timely manner.

Competitive Procurement - Internet Listing

Currently, the Division posts a "proposal planholders list" on the internet prior to the bid opening dates for construction projects. This list displays the contractors that have requested any or all proposal documents, construction plans, or cross sections of the project. In addition, beside each contractor's name is a column for either "Y" or "N" indicating whether the contractor is interested in being the prime contractor or sub-contractor. During our review of the bid letting process, we noted two projects for which only one contractor had a "Y" in the system. While this information may enhance the dissemination of information for potential contractors and subcontractors, in instances where only one contractor has expressed interest in being the prime contractor, the competitive process could be affected.

We recommend that the Division review the information provided publicly to potential bidders and ensure that the information provided does not impair the competitive procurement process.

Construction Prequalified Maximum Outstanding Workload

The Division is responsible for prequalifying all contractors as to the maximum allowable outstanding workload permitted during any one time. This limit is established to ensure the appropriate distribution of work among contractors and ensure timely and effective service by the contractor. The maximum workload permitted includes the contractor's workload for out of state work, for which the Division relies on the contractor to report on the proposal submission forms.

For one of the eight projects awarded, the contractor did not list their outstanding workloads on the proposal forms for the project.

We recommend that management strengthen their policies and procedures and ensure that adequate information is provided to ensure that a contractor does not exceed the prequalified maximum workload amount.

Useful Lives of Projects Funded with Bond Proceeds

During the year ended June 30, 2001, the Division sold \$110,000,000 in safe road bonds. Through inquiry and analysis during the course of our review, we noted that these bonds appeared to have been used to finance the construction of highway projects with varying expected useful lives. Further, these projects have expected useful lives significantly shorter than the repayment period of the debt.

Although all projects tested are within guidelines for expenditure of bond proceeds, we recommend that the Division consider the expected useful life of projects planned for funding from the bond proceeds. This consideration should include management priorities and other planning and development factors. Such an analysis would provide management with additional information that may assist in allocating projects to the various funding sources.

Risk Analysis

The Division operates a large complex organization in a complex environment. As such, the Division is confronted with numerous risks that threaten the effective functioning of the Division in carrying out its mission. These risks may result from legal issues, construction issues, revenue source issues, fraud susceptibility, and political issues to name a few.

We recommend that the Division prepare a comprehensive list of the significant risks associated with the various issues and formalize the methods it uses or plans to use to mitigate the risks or otherwise determine that a given risk is at an acceptable level. This risk analysis would facilitate continuity of approach as personnel change and help the Division prioritize and maintain its focus on its mission. If adopted, management should periodically review and update this analysis for changing conditions and ensure that procedures designed to mitigate risks are still in place.

Future Adoption of Accounting Principles

During June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement established financial reporting standards for state and local governments by revising the basic financial statement requirements and requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities. In addition, the Division will now be required to record and depreciate infrastructure assets which include roads, bridges, dams, etc. The Division intends to adopt the provisions of this statement for the fiscal year ending June 30, 2002, which is consistent with the State of West Virginia's planned adoption period.

We recommend that management of the Division devote the necessary resources and complete an analysis of the impact of this statement to the financial reporting process of the Division. The Division should also pro-forma the financial statements for the year ended June 30, 2001 into the required format and ensure that information is available to complete the required management's discussion and analysis section and infrastructure disclosures which will be the responsibility of the Division's management. In addition, the Joint Committee and the Division should ensure that an audit contract with an Independent Certified Public Accountant is renewed in a timely manner to ensure that audit procedures can be applied to the infrastructure assets in a timely manner.

OTHER REQUIRED COMMUNICATIONS

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Division are described in Note 1 of the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2001. We noted no transactions entered into by the Division during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the valuation of inventories, valuation of receivables, compensated absences, and the liability for claims and judgements.

Management's valuation of inventories is based on the weighted average cost generally using the consumption method whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs and inventories have been reduced to their net realizable values. Management's valuation of receivables is based upon contracts with grantors, other third party contracts, and July/August tax collections, and an evaluation of collectibility. Management's estimate of the liability for compensated absences is based upon the amount of vested and earned accrued vacation and sick leave at the anticipated cost to the Division. Management's estimate of claims and judgements is based upon Management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been determined except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Division's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments proposed, whether recorded or unrecorded by the Division, either individually or in the aggregate, indicate matters that could have a significant effect on the Division's financial reporting process. In addition, the attached schedule summarizes uncorrected misstatements of the general purpose financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the general purpose financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Division's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management and representatives from the Legislative Auditor's office prior to retention as the Division's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

* * * * *

This report is intended solely for the information and use of the West Virginia Legislature and the Division's management, and is not intended to be and should not be used by anyone other than these specified parties.

Sutcliffe & Stalraker, PLLC

November 30, 2001

Passed Adjusting Journal Entries
 Period - 2001 12th Mo
 N.V. Dept. of Transportation, Division of Highways
 June 30, 2001

12/7/01 3:39:48 PM

Done by:	Date:	Index:
Reviewer:	Date:	

PAJE No.	Account Description	W/P Ref	Account Number	Asset	Liability	Equity	Revenue Expense
1	FEDERAL AID OTHER PROJECTS	015-0	5491				410,060.00
1	OTHER FEDERAL AID RECEIVABLE		1411	-410,060.00			
To adjust federal aid receivable to actual @ 6/30/01.							
PAJE Totals By Classification				-410,060.00	0.00	0.00	410,060.00
Classification Totals Before PAJE				1,099,730,116.76	-635,654,624.46	-557,166,438.69	93,111,166.19



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

Division of Highways

1900 Kanawha Boulevard East • Building Five • Room 110
Charleston, West Virginia 25305-0430 • 304/558-3505

Bob Wise
Governor

Fred VanKirk, P. E.
Secretary/Commissioner

Jerry Bird
Assistant Commissioner

December 10, 2001

TO: Thedford L. Shanklin, Director
Post Audit Division

FROM: Danny Ellis 
Business Manager

SUBJECT: Audit Response

With regard to the Department of Transportation, Division of Highways management letter, our response to the noted items are attached.

If you need additional information, feel free to contact me at 558-2811.

DE:

Attachment

Independent Engineer's Cost Estimate (*Compliance and Internal Control*)

Section 157-1-7.7b of the Code of State Rules requires the director of the division initiating the request for service to be responsible for preparing an independent engineer's cost estimate prior the receipt of the fee proposal from the consultant. We noted several instances in which the engineer's cost estimate was not prepared by the Division until after the consultant's price proposal was received.

We recommend that the Division devote the necessary resources to ensure that the Code of State Rules and its policies and procedures are followed and cost estimates are prepared in a timely manner.

Management Response – West Virginia Division of Highways (WVDOH) agrees with the recommendation. Vacancies are being filled in the Consultant Services Section of the Engineering Division, and additional staff will be assigned to Contract Administration Division to address staff and time limitations. The backlog of pending consultant agreements has been reduced from approximately 425+ two years ago to approximately 200 this year. The combination of additional staff and decreasing backlog of agreements will allow WVDOH to prepare the independent engineer's estimate prior to receipt of the consultant fee proposals. A memorandum has been sent from the Deputy State Highway Engineer, Development, to all Districts and Divisions involved with Consultant Engineering Services, stating that their District/Division must prepare the independent engineers cost estimate prior to the receipt of the consultant fee proposal.

Procurement of Architectural and Engineering Services (*Compliance and Internal Control*)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper document 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." Further, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.

We noted the following during our review of documentation related to the procurement of architectural and engineering services:

- The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire and/or Consultant Cost Accounting Information Statement on file for three of the projects selected for review.

- For one of the projects reviewed, the members of the selection committee were not documented.
- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented.

We recommend that the Division strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services.

Management Response – West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer, Development, has been sent to all Districts and Divisions involved with Consultant Engineering Services. This memorandum emphasize that all documentation related to procurement of Consultant Engineering Services must be placed in the project files. Each District/Division was instructed to take any necessary action to ensure that project files are maintained, and contain all documentation required by Chapter 5A, Article 8, Section 9 of the West Virginia Code.

Information Systems Controls (*Internal Control*)

The management of the Division is responsible for establishing and maintaining adequate information systems internal controls.

The Division operates a wide variety of computer applications, many of which affect federal and state programs data. During our review of the information systems controls we noted the following:

- There are no formal policies and procedures for review and monitoring of the user account access maintenance.
- There were several user accounts that did not belong to current employees of the Division.
- There are no formal policies and procedures for review and monitoring of various information system security reports such as the “failed access report”.

We recommend that the Division strengthen their policies and procedures related to information systems controls and ensure that controls are operating as designed. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of information system controls.

Management Response - Agree. Policies and procedures are in place, but in conjunction with management and internal auditing we will review them and identify areas to strengthen and will effect needed changes.

OTHER COMMENTS AND RECOMMENDATIONS

During our audit we become aware of several other matters that are opportunities for strengthening internal control and opportunities for improving operating efficiency. Our

comments and suggestions follow. In addition, we became aware of immaterial instances of noncompliance which are also reported below. We have discussed these comments and suggestions with various Division personnel, and will be pleased to discuss them further at your convenience.

Internal, External, and Procedures Compliance Audit Group

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An Audit policies and procedures manual provides personnel with written documentation of specific responsibilities and controls to be followed in their performance of audit work. These policies should be as standard as possible while allowing appropriate flexibility to address unique circumstances. Standardization of policies provides for fewer discrepancies, consistent identification and treatment of issues, consistent sampling methodologies, and consistent reporting. In addition to providing consistent information, a manual facilitates transitions when adopting new procedures or personnel change, and provides an overview of evaluating the current system. While reviewing the audit manuals for the audit groups, we noted that the manuals were not current.

We recommend that the Division update their audit policies and procedures manual, which documents the policies and procedures related to the audit groups. The manual should contain general policies as well as specific procedures performed in auditing information, identify personnel responsible for performing such procedures, and specify reporting requirements. In addition, the manual should include appropriate guidance related to how to handle issues identified and the appropriate reporting and follow up required. All personnel should have a thorough working knowledge of the manual and the manual should be updated as needed.

Management Response – Agree. We acknowledge that the manuals of Transportation Auditing are in need of review and update. The Audit Manuals are living documents that change as the environment in which we operate evolves. Changes in audit standards, organizational structure, and the legal environment all require updates to our operating procedures. Historically, although day-to-day operating procedures are changed, we have not always immediately made updates to our respective manuals in a timely manner. This is mainly attributed to staffing constraints and day-to-day audit needs. We will prioritize updating these manuals in the upcoming calendar year. Our review of these manuals will include necessary attention to the pertinent areas outlined in this recommendation.

Internal Audit – Information System Reviews

The Division operates a wide variety of computer applications and systems, many of which have a direct and material effect on federal and state award programs and are critical to the daily operations of the Division. Further, these applications and systems are significantly dependent upon controls and edit checks included within these systems.

During our review of the internal audit functions and focus of fieldwork, we noted that the internal audit group did not devote time and resources to testing the general and application controls and edit checks which are applicable to the critical information systems of the Division.

We recommend that the internal audit group's work plan include adequate coverage and review of the significant information systems in place. This review should focus on identifying the significant information systems to be reviewed, reviewing general and application controls in place, reviewing edit checks for proper functioning, and other significant steps as identified in the review. Further, the internal audit group should consider hiring a person with a relevant information systems background to assist in the performance of the review. This position could also be outsourced through the use of an information systems audit specialist from a certified public accounting firm.

Management Response – Agree. The Internal Audit Plan for 2002 includes a review of relevant information systems. We are currently exploring the most effective way to complete these reviews. As noted in the recommendation, the current internal audit staff does not include the necessary specialized expertise to effectively complete this audit work. We will acquire this expertise through training of current staff, or acquisition of Information Systems Auditors through hiring or outsourcing.

Internal Audit and Procedures Compliance – Audit Methodology and Rotation

Section 4.6 of *Government Auditing Standards* states in part that, "The work is to be properly planned, and auditors should consider materiality, among other matter, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures." During our review, we determined that the internal audit group and the procedures compliance group did not have a formalized audit methodology and rotation for determining which areas of the Division would be reviewed. Therefore, some low risk areas appeared to be over audited and other higher risk areas were not considered for review.

We recommend that the internal audit group and the procedures compliance group consider developing a risk based audit methodology approach. Under this approach, the audit groups would annually review all operations of the Division and appropriately identify the significant risk areas where substantial resources and time should be devoted. Lower risk areas could be audited on a rotational basis and covered on a two to three year cycle. By applying audit risk concepts, the audit groups can enhance their ability to recognize opportunities for efficiency and effectiveness.

Management Response – Agree. While some audits within each district could be delayed which will allow more frequent reviews in other areas, it is our opinion that the maintenance and construction functions should have some audit coverage each year for each district. The primary risk factor which changes in the maintenance organizations are primarily related to personnel changes within those organizations. Presently, the maintenance organizations within the districts are audited on a four to six year basis,

more emphasis will be placed on audit scheduling of those organizations that have known personnel changes. It is felt that construction projects are already scheduled based on a risk factor because reviews are scheduled primarily based on monetary amounts due to the higher risk of significant problems on larger projects. The Audit staff has recently received training in risk analysis and will employ this training in evaluating departmental needs and exposure to risk.

Procedures Compliance – Findings Follow Up

Section 4.7 of *Government Auditing Standards* states that, “Auditors should follow up on known material findings and recommendations from previous audits.” During our review of the follow up procedures for the procedures compliance audit group, we noted that follow up appeared to be inconsistent. In addition, most follow up was not documented and resolved in a timely manner.

We recommend that the audit group strengthen its procedures regarding finding follow up and ensure that all material findings are resolved appropriately in a timely manner. Further, audit logs should include a column for audit follow up and final resolution to enhance the controls regarding finding follow up and resolution.

Management Response – Agree. While the follow up process generally works well, and audits that are not responded to in a timely manner are followed up by e-mail, we will establish a quarterly review process to ensure that a more consistent follow up process is performed. In addition, we will add a column in the audit log to show when the audit response is resolved.

External Audit – Staffing Structure

During our review of the external audit group, we became aware of a significant backlog of external audits being performed. Further review revealed that significant amounts of internal audit staff time were used to assist the external audit function during the course of the fiscal year. This reduced the internal audit department’s ability to complete internal audits in significant operations of the Division.

We recommend that management review the staffing structure and external audit procedures being performed to determine whether external audit procedures can be streamlined, whether additional personnel are needed, or whether various functions of the group should be outsourced.

Management Response – Agree. We are in the process of filling three staff vacancies in the External Audit Section. We have also streamlined some of our audit programs in order to be more efficient. We will continue to look for more ways to be more efficient and achieve the audit missions.

Internal, External, and Procedures Compliance Audit – Data Extraction Software

The audit groups perform various audit related processes regarding controls and procedures in place; however, the audit groups do not utilize data extraction software to assist in their testing and analyses. Data extraction software, if used properly, helps to strengthen audit procedures performed and can be used to examine larger populations of data within a shorter time period. Further, data extraction software assists auditors with data inquires, analyses, reporting, and various analytical procedures.

We recommend that the audit groups consider purchasing data extraction software and obtain the necessary training to enable the software to be used during their audits.

Management Response – Agree. The Internal Audit Group acknowledges the validity and value of data extraction software. We have explored the possibility of purchasing this type of audit tool in the past. We currently utilize Crystal Reporting Software to extract data from the statewide accounting system (FIMS). We realize that a more comprehensive data extraction software package could be a useful tool for completing our audit work. We will continue to explore options in this area and will pursue acquiring an appropriate package in calendar year 2002.

Information Systems

There is no separate login to the Remote Entry Management Information System (REMIS) application. The only login required is through the infrastructure of the RACF security system. A layering of security, at both the application (REMIS) and IBM network level (RACF) would provide a security design that gives maximum deterrence to intruders.

We recommend that management consider establishing a user access requirement at both the infrastructure and application layers of the information system.

Management Response - Agree. When a Division employee logs onto the mainframe computer, their access rights to the computer system infrastructure are first checked against the mainframe (RACF) authorized user registry maintained by Information Systems and Communications Division. Then the employee's access rights to REMIS applications are independently checked against the REMIS authorized user registry that controls access to specific information within REMIS. While the user enters their name and password once, the recommended layered security concept is effectively performed with the current login process for the REMIS system.

DMV Windows NT User Accounts

The Windows NT network domain for the Department of Motor Vehicles (DMV) Cash Remittance System has user accounts set up for generic, non-specific employees such as administrative temps and user information desks.

Each access account into the system is a potentially exploitable entry for an unauthorized user. Security at the infrastructure network level as well as the application level provides maximum deterrence to intruders.

We recommend that all user accounts for access to all systems be specific to employees. If additional user accounts are needed for special functions or vendor access, these should be documented by policy. In addition, if vendor accounts are needed occasionally, they should be deactivated when not in use.

Management Response - The Division agrees with the findings and will make it a policy that each individual user be assigned an individual account to identify their usage.

DMV Windows NT System Generated User Accounts

The DMV domain uses the system generated administrator and guest accounts. In addition, the administrator account does not have a requirement to change the password periodically. The MS Windows NT 'administrator' and 'guest' accounts are automatically created with the installation of Windows NT. This makes the existence of these accounts universally known to intruders.

We recommend that the administrator and guest accounts be disabled and a user account for each administrative staff member be created with appropriate access rights.

Management Response - Agree. Information Services Division will remove all "guest" accounts. We will review the network administration issues concerning the removal of "administrator" accounts and will apply appropriate methods to minimize this access issue.

DMV Windows NT Intruder Detection Settings

The Windows NT network has intruder detection settings, which reset intruder attempts after five minutes, and reset locked accounts after five minutes. Intruder detection locks a user out of an account after a set number of failed login attempts. If the count of attempts is reset too soon, it essentially allows an intruder an unlimited number of attempts to gain unauthorized access. If the lockout is reset too soon, the intruder who is locked out can wait a short time and re-attempt the unauthorized access with other passwords. In addition, the administrator may never have knowledge of the attempted intrusion.

We recommend that intruder attempts be retained for at least one day, and that lockout is maintained until the administrator resets the user account.

Management Response - Agree. Information Services Division will apply these network logon settings.

DMV Windows NT Network Backup

The backup tapes for the Windows NT network are not stored off site. In the event of damage due to fire or other disaster at the site, backup tapes would also be lost and restoration would be much more difficult.

We recommend that the DMV periodically store backup tapes in a different location off site.

Management Response - Agree. Information Services Division will work with DMV personnel to develop a process whereby backup data will be stored off site.

DMV Cash Remittance System User Accounts

There are some cashier accounts in the DMV Cash Remittance (cash register) System that are not listed on the active or separated employee list. Each access account into systems is a potentially exploitable entry for an unauthorized user.

We recommend that all user accounts for access to the cash remittance system be specific to employees of the DMV.

Management Response - The Division agrees that only employees should have access to the system and to the information that is entered into the system. The Division does have a contractor relationship that provides help desk support for programming issues for the cash register system. In order for this support to continue, the contractor must have access to the system. The contractor does not have access to the information that is entered into the system.

West Virginia State Code Compliance

Contracts Procured Non-Competitively

During the course of our audit, we noted that the Division procured public relations services through a subcontract with an engineering firm and procured right of way services using the non-competitive selection methodology allowed under Chapter 5G of the West Virginia State Code. The Division obtained a legal opinion from their internal legal counsel and the federal grantor has granted permission if the procurement is allowable under West Virginia State Code.

In order to strengthen the Division's position regarding these types of procurements, before such arrangements are entered into in the future, we recommend that the Division obtain a legal opinion from the Attorney General's Office regarding the appropriateness of the non-competitive selection methodology for the services described above.

Management Response - West Virginia Code §17-2A-7 provides in pertinent part:
Notwithstanding any law to the contrary, the commission:

- (1) Shall select and employ a competent legal staff adequate for the ordinary legal services required by him and shall provide therefore such quarters, equipment, facilities, services and stenographic and other personnel as may be necessary;
- (2) May call upon the attorney general and the prosecuting attorneys of the several counties, with their respective jurisdiction, for legal assistance and services as provided by law;

...

(emphasis added)

The Commissioner of Highways has complied with his statutory duty by employing competent legal counsel and has obtained from that counsel a legal opinion concerning non-competitive procurement of design-related services.

West Virginia Code §5-3-1 provides the "attorney general shall give written opinions and advice upon questions of law ... whenever required to do so, in writing," by listed public officials and agencies, including the Commissioner of the Division of Highways. That same section provides that it is the duty of the Attorney General to render written opinions or advice to the President of the Senate and the Speaker of the House "whenever [the attorney general] is requested in writing to do so." The West Virginia Supreme Court has stated that opinions of the Attorney General are not precedent, *State v. Wassick*, 156 W. Va. 128, 191 S.E.2d 275 (1972), and that such opinions are persuasive when issued rather contemporaneous with the adoption of a statute in question, *Walter v. Ritchie*, 156 W. Va. 98, 191 S.E.2d 275 (1972). 157 CSR §1.7, "Procurement Procedures for Negotiated Contract", was promulgated under authority of W.Va. Code §§17-2A-4b and 8. These statutes were first passed in 1963 and 1957, respectively.

Therefore, any opinion of the Attorney General concerning procedures authorized by these statutes would not be contemporaneous with passage of the statutes. Moreover, since opinions of the attorney general have no precedential value, and the Commissioner of Highways has already obtained a legal opinion from his own statutorily authorized legal counsel, the Commissioner has deemed it unnecessary to obtain additional legal opinions on the matter.

Advertising of Contracts

Chapter 59, Article 3, Section 2 of the West Virginia State Code requires that a Class II legal advertisement be published once a week for two successive weeks with at least an interval of six full days within such period between the date of the first publication and the date of the second publication.

During the fiscal year ended June 30, 2001, we noted two contracts from which advertisements could not be located and noted five state-wide contracts for which the advertisement interval was not in compliance with the West Virginia State Code.

We recommend that the Division strengthen policies and procedures and ensure that the advertisement of procured services are documented and in accordance with West Virginia State Code.

Management Response – WVDOH agrees with the recommendation. A memorandum from the Deputy State Highway Engineer, Development will be sent to all Districts/Divisions regarding the requirements of Chapter 59, Article 3, Section 2 of the West Virginia State Code. The memorandum will emphasize the advertisement interval required. The memorandum will also emphasize the need to ensure that project files are maintained, and contain all documentation required.

Scholarships for Highways Personnel

West Virginia Code Section 17-2A-4b authorizes the Commissioner of Highways to Award Scholarships to competent persons and the Code of State Rules section 157-1-4 sets forth the eligibility and documentation requirements for issuance of the scholarships. During our review of the scholarships program, we noted that documentation of the selection and certain eligibility requirements were not maintained by the Department.

We recommend that the Department Strengthen their policies and procedures and ensure that adequate documentation is maintained to ascertain compliance with the West Virginia State Code.

Management Response - We concur that the committee will keep the documentation they use to make their selection. This information will be filed in the Human Resources Division.

Subletting of Contracts

Title 157, Series 3, Section 10.1 of the Code of State Rules states in part that “a contractor will be permitted to sublet a portion thereof but shall perform, with his or her own organization, work amounting to not less than 50% of the total contract cost.” Further, contractors are required to file a “Subcontractor Request” form (form OC-403) which accumulates the amount of the contract to sublet to the subcontractor.

During our review of two out of eight of these forms during the fiscal year ended June 30, 2001 we noted errors in the cumulative totals and percentage of subcontract work performed to date.

We recommend that the Division implement review procedures including math checks to ensure that forms filed with the Division are accurate and complete.

Management Response – WVDOH agrees with the recommendation. A memorandum from Deputy State Highways Engineer/Development, will be sent to all construction areas that the Subcontractor Request form (OC-403) be reviewed for accuracy. The memorandum will emphasize the need to perform math checks of the cumulative totals

and percentage of subcontractor work performed. This issue will be further discussed at the Construction Seminar to be held in the Spring of 2002.

Equipment Rental Rates

Currently the West Virginia State Rail Authority (the Authority) rents on an annual basis certain equipment from the West Virginia Division of Highways (the Division) which is used for performing routine maintenance and operations of the Authority. The Division bills the Authority for the equipment rental, based upon the equipment rental rates as established by the Division. However, the Authority has not paid the Division for the equipment rental rates, which has resulted in a dispute of the liability owed to the Division from the Authority.

We recommend that the Authority and the Division negotiate an agreement for the equipment rental rates in a timely manner.

Management Response - The Division agrees to negotiate this matter with the Authority

Property and Equipment

Management is responsible for establishing and maintaining adequate information to safeguard assets from misappropriation, theft, or loss. The Division maintains a listing of property and equipment; however, the listing did not agree to the general ledger balances and contained several assets which had been disposed of or abandoned. Further, the Division's capitalization threshold amount of \$500 has not been updated in several years. We recommend that the Division reconcile the general ledger Balances to the equipment master reports (listing) and ensure that differences are appropriately resolved. Further, the Division should consider an increase in the dollars threshold used to capitalize fixed assets.

Management Response - Public Transit maintains an inventory listing of all equipment purchased by the state's transit systems in a computerized program called "Automated Vehicle Inventory System" (AVIS). As mandated by the Federal Transit Administration (FTA) this inventory system accounts for the total cost of an item, as well as the federal, state and local share. The primary AVIS schedule reflects ALL equipment purchased utilizing particular grant funds, no matter when it was purchased or if it has been disposed of. A subsidiary report lists all items that have reached the end of their federal useful life. If this report is totaled and subtracted from the primary report, the total should agree to the general ledger balance reflected on the financial statements.

Further, FTA is not concerned with the financial aspects of equipment as a whole, but per individual item. The AVIS system was developed and designed to comply with the federal requirements. The individual assets are safeguarded by the Division through completion of annual certifications that state the equipment item is still in their possession, the mileage (if applicable) and the condition of the item. A physical inspection of the equipment is performed during on site reviews conducted by Division

staff on a periodic basis. The capitalization threshold amount for AVIS is \$5,000. Concerning increasing the capitalization threshold, the Division of Highways is considering such an increase.

Accounts Receivable Collections

The Department's accounts receivable policies and procedures state that entities with past due balances will have credit discontinued until the account is brought current. We noted that management of the Department continues to extend credit to entities that have accounts receivable balances that are past due. Thus, the Department significantly decreases their ability to collect these balances through the regular collection process.

We recommend that the Department suspend the extension of credit to entities with past due balances until the account is brought current. Also, we recommend that the Department evaluate accounts with balances outstanding to identify any entities that should not be granted credit due to a history of late payment.

Management Response -- Certain services such a hauling permits, issuing specifications, logo signs and permit escort services are now being cut off when outstanding invoices become 90 days old. The Department agrees to analyze the other types of outstanding receivables in order to identify those accounts for which credit should be suspended.

External Audit -- Accounts Receivable Follow Up

The External Audit Group of the Division's audit department is responsible for performing a final audit of all contracts before final payment is made. We noted that the external audit group and the accounts receivable department of the Division did not have policies and procedures in place to ensure that all amounts identified as overpayments to contractors were collected.

We recommend that the Division develop policies and procedures to ensure all amounts identified as overpayments to contractors are collected in a timely manner and reported to the External Audit Group as resolved.

Management Response -- The policies and procedures for collection of overpayments to contractors are the same as those for other receivables. When invoices are unpaid, the Department sends the customer monthly statements until the invoice is paid. In addition, collection letters are sent to the customer when unpaid invoices reach 90 and 120 days. After that period the uncollected receivables are forwarded to Legal Division for further action.

Accounts Receivable -- Monthly Reconciliation

During our review we noted that the aged receivables report generated from the accounts receivable system did not reconcile to the accounts receivable as reported on the authorization system. The reconciliation of the accounts receivable system to the

authorization system should be done on at least a monthly basis to ensure the proper reporting of accounts receivable.

We recommend that monthly reconciliation be performed to reconcile the accounts receivable system to the authorization system. Further, differences should be investigated and resolved in a timely manner.

Management Response – The Division agrees to perform a monthly reconciliation of the accounts receivable system to the authorization system. This reconciliation will be documented in a monthly “Accounts Receivable Status Report”. Additionally, any differences will be investigated and resolved in a timely manner.

Competitive Procurement – Internet Listing

Currently, the Division posts a “proposal planholders list” on the internet prior to the bid opening dates for construction projects. This list displays the contractors that have requested any or all proposal documents, construction plans, or cross sections of the project. In addition, beside each contractors name is a column for either “Y” or “N” indicating whether the contractor is interested in being the prime contractors or sub-contractor. During our review the bid letting process, we noted two projects for which only one contractor had a “Y” in the system. While this information may enhance the dissemination of information for potential contractors and subcontractors, in instances where only one contractor has expressed interest in being the prime contractor, the competitive process could be affected.

We recommend that the Division review the information provided publicly to potential bidders and ensure that the information provided does not impair the competitive procurement process.

Management Response – This issue has been reviewed several times by the WVDOH. This information is provided to the public in order to allow sub-contractors, material providers, DBE firms, etc., an opportunity to contact potential bidders of highway construction projects. WVDOH feels that the benefits of providing this information are substantial and it does not impair the competitive procurement process.

Construction Prequalified Maximum Outstanding Workload

The Division is responsible for prequalifying all contractors as to the maximum allowable outstanding workload permitted during any one time. This limit is established to ensure the appropriate distribution of work among contractors and ensure timely and effective service by the contractors. The maximum workload permitted includes the contractor’s workload for out of state work, for which the Division relies on the contractor to report on the proposal submission forms.

For one of the eight projects awarded, the contractor did not list their outstanding workloads on the proposal forms for the project.

We recommend that management strengthen their policies and procedures and ensure that adequate information is provided to ensure that a contractor does not exceed the prequalified maximum workload amount.

Management Response – A memorandum will be sent by the Deputy State Highway Engineer/Development, to the Contract Administration Division emphasizing that all required information must be shown on the prequalification forms and to ensure that a contractor does not exceed the prequalified maximum workload amount. A copy of this memorandum will be provided to the Contractor's Association of WV for distribution to their membership.

Useful Lives of Projects Funded with Bond Proceeds

During the year ended June 30, 2001, the Division sold \$110,000,000 in safe road bonds. Through inquiry and analysis during the course of our review, we noted that these bonds appeared to have been used to finance the construction of highway projects with varying expected useful lives. Further, these projects have expected useful lives significantly shorter than the repayment period of the debt.

Although all projects tested are within guidelines for expenditure of bond proceeds, we recommend that the Division consider the expected useful life of projects planned for funding from the bond proceeds. This consideration should include management priorities and other planning and development factors. Such an analysis would provide management with additional information that may assist in allocating projects to the various funding sources.

Management Response – The Division does consider, through established processes that include management priorities and other planning and development factors, the expected useful life of projects to be undertaken using bond proceeds. These processes are an intricate part of the overall planning process.

The Division believes that all projects undertaken with bond proceeds will have useful lives throughout the bond repayment period.

Risk Analysis

The Division operates a large complex organization in a complex environment. As such, the Division is confronted with numerous risks that threaten the effective functioning of the Division in carrying out its mission. These risks may result from legal issues, construction issues, revenue source issues, fraud susceptibility, and political issues to name a few.

We recommend that the Division prepare a comprehensive list of the significant risks associated with the various issues and formalize the methods it uses or plans to use to mitigate the risks or otherwise determine that a given risk is at an acceptable level. This risk analysis would facilitate continuity of approach as personnel change and help the Division prioritize and maintain its focus on its mission. If adopted, management should periodically review and update this analysis for changing conditions and ensure that procedures designed to mitigate risks are still in place.

Management Response – The WVDOH has many internal controls to constantly evaluate risks associated with legal, construction, revenue source, fraud, and political issues. Recognizing that changes in upper management could occur and that significant risks are associated with these issues, WVDOH will prepare a comprehensive list of significant risks that could threaten our ability to carry out our mission. This list will be reviewed periodically and updated as required.

Further Adoption of Accounting Principles

During June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement established financial reporting standards for state and local governments by revising the basic financial statement requirements and requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities. In addition, the Department will now be required to record and depreciate all fixed assets and infrastructure assets which include roads, bridges, dams, etc. The Department intends to adopt the provisions of this statement for the fiscal year ended June 30, 2002, which is consistent with the State of West Virginia's planned adoption period.

We recommend that management of the Department devote the necessary resources and complete an analysis of the impact of this statement to the financial reporting process of the Department. The Department should also pro-forma the financial statements for the year ended June 30, 2001 into the required format and ensure the information is available to complete the required management's discussion and analysis section and infrastructure disclosures which will be the responsibility of the Division's management. In addition, the Joint Committee and the Division should ensure that an audit contract with an Independent Certified Public Accountant is renewed in a timely manner to ensure that audit procedures can be applied to the infrastructure assets in a timely manner.

Management Response – The Department has begun work on the pro-forma statement for the year ending June 30, 2001, including the management discussion and analysis section and infrastructure disclosures. We also agree that the fiscal year 2002 contract for the Independent Certified Public Accountant should be finalized as soon as possible, to facilitate adoption of the GASB 34 reporting changes. Furthermore, it should also be noted that if the Division fails to adopt these reporting standards it would not receive an unqualified audit opinion on the financial statements, and it would also prevent the

Division and State of West Virginia from receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF MAINTENANCE EXPENDITURES - STATE ROAD FUND
Year Ended June 30, 2001

Maintenance expenditures by operations category:

Routine maintenance	\$ 134,209,294
Emergency road operations	21,769,499
District maintenance support	5,067,791
Other maintenance service	29,758,903
Small bridge repair and replacement	23,918,473
Renovation projects	37,980,873
Contract paving	<u>54,502,360</u>
 Total maintenance expenditures	 <u>\$ 307,207,193</u>

Maintenance expenditures by expenditure category:

Expressway, trunkline and feeder	\$ 55,920,698
State local services	171,380,254
Contract paving and secondary roads	54,499,114
Small bridge repair and replacement	23,921,719
Litter control program	<u>1,485,408</u>
 Total maintenance expenditures	 <u>\$ 307,207,193</u>

See Independent Auditors' Report.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION BONDS
JUNE 30, 2001

Fiscal Year Ending June 30	Better Highways and Refunding Bonds		State Road Bonds (Series 1998)		State Road Bonds (Series 1999)		State Road Bonds (Series 2000)		Total Outstanding June 30, 2001		State Road Bonds (Issued July 2001)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 11,960,000	\$ 1,691,806	\$ -	\$ 10,091,095	\$ 1,305,000	\$ 5,705,805	\$ -	\$ 6,288,439	\$ 13,263,000	\$ 23,717,145	\$ 8,220,000	\$ 4,791,147
2003	7,843,000	1,087,506	4,530,000	10,091,095	1,750,000	5,650,995	-	6,288,439	13,925,000	23,038,035	8,115,000	4,897,906
2004	5,725,000	635,225	7,090,000	9,864,905	1,825,000	5,575,745	-	6,288,439	14,640,000	22,344,514	8,430,000	4,584,156
2005	3,610,000	299,037	9,830,000	9,532,945	1,910,000	5,495,445	-	6,288,439	15,370,000	21,615,866	8,845,000	4,165,156
2006	1,480,000	86,950	12,630,000	9,099,545	1,990,000	5,409,495	-	6,288,439	16,100,000	20,884,429	9,270,000	3,749,169
2007-11	-	-	81,725,000	34,719,888	11,480,000	25,358,515	-	31,442,195	93,205,000	91,700,598	53,230,000	11,848,631
2012-16	-	-	40,185,000	15,896,575	80,450,000	16,899,517	-	31,442,195	120,635,000	64,278,087	13,890,000	739,988
2017-21	-	-	32,900,000	8,129,126	5,615,000	294,788	69,135,000	27,526,637	81,630,000	35,950,551	-	-
2022-26	-	-	15,370,000	1,045,125	-	-	66,865,000	10,794,776	82,235,000	11,841,501	-	-
	\$ 30,620,000	\$ 3,800,574	\$ 204,080,000	\$ 108,370,099	\$ 106,325,000	\$ 70,570,305	\$ 110,000,000	\$ 132,649,958	\$ 451,024,000	\$ 315,390,926	\$ 110,000,000	\$ 34,790,153

See Independent Auditor's Report.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 SCHEDULE OF REVENUE AND EXPENDITURES - FEDERAL AID
 HIGHWAYS MATCHING FUND*
 (Special \$0.05 per gallon Gasoline Tax)

Year Ended June 30, 2001

Revenues:	
Gasoline tax	\$ 45,189,530
Federal aid:	
Interstate highways	18,433,294
Appalachian highways	60,030,258
Other highways	84,984,206
Investment and interest income	974,516
Miscellaneous income	<u>835,628</u>
Total revenues	<u>210,447,432</u>
Expenditures:	
Road construction:	
Interstate highways	22,459,974
Appalachian highways	81,535,102
Other highways	<u>127,308,645</u>
Total expenditures	<u>231,303,721</u>
Excess (deficiency) of revenues over expenditures	(20,856,289)
Fund balance, beginning of year	16,127,912
Transfer to close Highways Matching Fund	<u>4,728,377</u>
Fund balance, end of year	<u>\$ -</u>

* These amounts are included in the State Road Fund in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for financial reporting purposes.

See Independent Auditors' Report.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF FEDERAL HIGHWAY ADMINISTRATION AUTHORIZATIONS**

Year Ended June 30, 2001

Authorization Number	Authorization Description	FHWA Authorization Balance, July 1, 2000	2000-2001 Authorizations (Deobligations)	Cash Payments from (to) FHWA to (from) WVDOH	FHWA Authorization Balance, June 30, 2001
010	CONSOLIDATED PRIMARY (F)	\$ 397,344	\$ -	\$ 54,765	\$ 342,579
012	PRIMARY (F)	10,398	-	288	10,110
W32	URBAN SYSTEM (M)	21,367	-	460	20,907
042	INTERSTATE (I)	315,266	-	90,357	224,909
044	INTERSTATE 4-R (IR)	60,203	-	8,023	52,180
Q01	INTERSTATE MAINTENANCE	68,396,679	44,295,027	34,118,281	78,573,425
075	RURAL SECONDARY (RS)	148,174	-	285	147,889
080	PLANNING & RESEARCH (HPR)	22,288	-	16,465	5,823
Q55	PLANNING & RESEARCH	6,722,286	3,497,070	3,339,810	6,879,546
Q45	METROPOLITAN PLANNING	2,720,302	962,541	825,975	2,856,868
Q56	HPR STUDIES - MAND. 25%	1,921,199	1,165,690	1,067,801	2,019,088
098	EMERGENCY RELIEF (ER)	24,576	1,104,000	1,056,228	72,348
Q12	BRIDGE REPLACEMENT (BR, BH)	33,782,551	12,568,757	23,833,213	22,518,094
Q11	BRIDGE REPLACEMENT (BRO)	58,322,672	9,426,570	11,294,442	56,454,800
Q10	BRIDGE REPLACEMENT (BR, BE)	75,390,718	40,848,467	39,001,864	77,237,321
138	HAZARD ELIMINATION (RRS)	37,336	-	15,435	21,901
139	PROTECTIVE DEVICES (RRP)	28,050	-	24,828	3,222
141	HAZARD ELIMINATION (HES)	350,064	-	(7,374)	357,438
18E	PUBLIC LANDS FY92+	10,347	-	10,347	-
Q20	STP - AREAS < 200K POP.	29,099,267	19,951,512	16,231,919	32,818,860
307	DEMO PROJ 149 (B)	7,513,073	-	24,334	7,488,739
309	DEMO PROJ 149 (D)	2,971,015	-	218,579	2,752,436
Q05	NATL HIGHWAY SYSTEM	42,118,190	44,792,531	49,659,709	37,251,012
Q50	FUNDING RESTORATION - AF	693,630	-	549,921	143,709
31J	FUNDING RESTORATION - CP	105,032	-	59,776	45,256
Q40	CONGESTION/AIR QUALITY	14,602,385	8,551,588	1,852,324	21,301,649
Q21	STP - OPTIONAL SAFETY	5,454,000	2,533,301	715,282	7,272,019
Q22	STP - ENHANCEMENT	18,598,931	5,625,833	2,339,118	21,885,646
Q24	STP - FLEXIBLE	5,081,990	15,434,954	3,522,857	16,994,087
Q25	STP - AREAS < 5K POP.	13,467,879	8,177,651	10,552,461	11,093,069
Q26	STP - PROTECTIVE DEVICES	3,159,138	854,154	323,245	3,690,047
Q27	STP - HAZARD ELIMINATION	2,827,951	854,155	656,058	3,026,048
Q28	STP - HAZARD ELIMINATION	3,278,471	1,384,223	300,942	4,361,752
Q97	SCENIC BYWAYS	2,247,922	591,332	328,462	2,510,792
333	INTERIM SCENIC BYWAYS	130,039	-	842	129,197
341	HIGHWAY DEMO PROJECTS	23,993,698	-	14,695,279	9,298,419
361	CONGESTION RELIEF	139,612,442	-	19,128,749	120,483,693
362	HIGH PRIORITY NEH CORRIDOR	24,947,568	-	6,721,661	18,225,907
363	HIGH PRIORITY NEH CORRIDOR	2,391,206	-	-	2,391,206
365	RURAL ACCESS	1,880,467	-	(1,987,928)	3,868,395
QRB	PARK FACILITY STUDIES	7,600	-	-	7,600
QRS	PAVEMENTS RESEARCH	140	-	-	140
QT9	INNOVATIVE BRIDGE RESEARCH	1,260,367	-	1,028,872	231,494
QX2	INNOVATIVE BRIDGE CONSTRUCTION	505,000	441,000	281,503	664,497
Q03	FEDERAL FUNDS REDISTRIBUTION	4,651,973	2,024,574	3,793,645	2,882,901
Q04	SAFETY INCENTIVE	153,696	-	-	153,696
Q06	BRIDGE DISCRETIONARY	3,484,000	5,700,930	3,517,064	5,667,866
Q3D	OHIO RIVER WELCOME CENTER	1,382,513	613,508	80,393	1,915,628
Q4A	COAL HERITAGE TRAIL	3,508,000	1,754,132	293,718	4,968,414
Q48	MINORITY BUSINESS PROGRAM	573,562	90,300	389,098	274,764
Q64	NATL CORRIDOR DEVELOPMENT	16,894,553	8,780,605	7,088,722	18,586,436
Q68	TRANSPORTATION COMM SYSTEM	629,329	1,205,966	155,167	1,680,128
Q76	MINIMUM GUARANTEE - SPECIAL	18,898,073	9,411,762	10,918,686	17,391,149
Q77	MINIMUM GUARANTEE - EXEMPT	12,531,700	3,007,058	9,337,545	6,201,213
Q78	MINIMUM GUARANTEE	3,607,683	757,646	3,240,900	1,124,429
Q89	LOCAL TECHNICAL ASSISTANCE	115,000	125,000	219,278	20,722
Q90	SEC 1103-08 DEMOS - STEA	12,638,606	-	3,947,491	8,691,115
Q92	HIGH PRIORITY PROJECTS	71,868,648	35,948,414	30,977,840	76,839,222
Q95	FERRY BOAT & TERMINAL CONST	96,000	(96,000)	-	-
Q98	APPALACHIAN DEVELOPMENT HIGH	120,627,782	67,861,439	65,351,111	123,138,111
36T	APPALACHIAN (ADP)	13,958,825	-	6,725,161	7,233,664
37P	PRIORITY TECHNOLOGIES	14,800	2,943	-	17,744
Q94	NATL RECREATION TRAILS	1,898,083	692,510	435,779	2,154,814

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 SCHEDULE OF FEDERAL HIGHWAY ADMINISTRATION AUTHORIZATIONS

Year Ended June 30, 2001

Authorization Number	Authorization Description	FHWA Authorization Balance, July 1, 2000	2000-2001 Authorizations (Deobligations)	Cash Payments from (to) FHWA to (from) WVDOH	FHWA Authorization Balance, June 30, 2001
387	HEATED BRIDGE ADMINISTRATION	70,294	(2,943)	-	67,351
391	IVHS ACTIVITIES	37,525	(30,000)	-	7,525
394	ALL WEATHER PAVEMENT MARKING	5,658	-	-	5,658
414	PUBLIC LANDS	4,103,897	5,274,000	415,613	8,962,285
415	FOREST HIGHWAYS	2,031,817	567,348	2,199,795	399,370
45A	DEMO PROJECTS	-	24,945,000	-	24,945,000
510	CORRIDOR 'E' IMPROVEMENT	1,460,209	-	1,222,387	237,822
519	HIGHWAY DEMO PROJECT - PE	13,406	-	-	13,406
521	CORRIDOR 'G' IMPROVEMENT	1,758,714	-	955,632	803,082
529	CORRIDOR 'D' IMPROVEMENT	361,340	-	361,264	76
541	HIGHWAY STUDIES	158,342	-	(41,622)	199,964
547	CORRIDOR 'L' IMPROVEMENT	517,424	-	-	517,424
54C	APPALACHIAN SYSTEM	38,734,492	-	20,087,164	18,647,328
54E	APPALACHIAN SYSTEM	32,000,000	-	-	32,000,000
559	1995 DEMO (PL 103-331)	39,997,002	-	2,408,148	37,588,854
638	APPALACHIAN (APD)	198	-	198	-
639	APPALACHIAN ACCESS (APL)	262	-	-	262
641	APPALACHIAN (APD)	8,339	-	8,339	-
642	APPALACHIAN ACCESS (APL)	26,126	-	-	26,126
76A	NATIONAL PARK SERVICE (HFL)	-	-	-	-
795	APPALACHIAN (APD)	18,317,397	214,613	9,186,969	9,345,042
796	APPALACHIAN ACCESS (APL)	978,265	-	-	978,265
9BA	HISTORIC BRIDGE PRESERVATION	-	1,509,560	-	1,509,560
92E	TRANS. SYSTEMS PRESERVATION	-	1,371,975	-	1,371,975
94A	TRANS. ASSISTANCE - RURAL (B)	2,862	-	(75)	2,937
94D	R&D AGREEMENTS W/STATES - GOE	309,054	-	-	309,054
OTH	NON-DOH (334,338,96A)	47,907	12,707	12,715	47,900
TOTAL		<u>\$ 1,023,102,576</u>	<u>\$ 394,803,404</u>	<u>\$ 425,243,580</u>	<u>\$ 992,662,400</u>
PAYMENTS TO OTHERS				<u>486,475</u>	
TOTAL PAID TO WVDOT-DOH				<u>\$ 424,757,105</u>	

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the financial statements of the West Virginia Department of Transportation, Division of Highways as of and for the year ended June 30, 2001, and have issued our report thereon dated November 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the West Virginia Department of Transportation, Division of Highways' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2001-1 and 2001-2. Additionally, we noted certain immaterial instances of noncompliance that we have reported to management of the West Virginia Department of Transportation, Division of Highways, and the Joint Committee on Government and Finance in a separate letter dated November 30, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the West Virginia Department of Transportation, Division of Highways' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the West Virginia Department of Transportation, Division of Highways' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-1 through 2001-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the West Virginia Department of Transportation, Division of Highways, and the Joint Committee on Government and Finance in a separate letter dated November 30, 2001.

This report is intended solely for the information of the West Virginia Legislature, the Division's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith & Stalman, PLLC

November 30, 2001

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2001

2001-1	Independent Engineer's Cost Estimate
Criteria:	Section 157-1-7.7b of the Code of State Rules requires the director of the division initiating the request for service to be responsible for preparing an independent engineer's cost estimate prior to the receipt of the fee proposal from the consultant.
Condition:	We noted several instances in which the engineer's cost estimate was not prepared by the Division until after the consultant's price proposal was received.
Context:	Total expenditures for architectural and engineering services were approximately \$96,650,000, for the year ended June 30, 2001.
Cause:	Due to staff and time limitations, the Division has been unable to prepare the independent engineer's cost estimate prior to receipt of the fee proposal from the consultant.
Effect:	The Division is in noncompliance with the Code of State Rules and cost estimates prepared by the Division risk being influenced by submitted proposals.
Recommendation:	We recommend that the Division devote the necessary resources to ensure that the Code of State Rules and its policies and procedures are followed and cost estimates are prepared in a timely manner.
Management Response:	West Virginia Division of Highways agrees with the recommendation. Vacancies are being filled in the Consultant Services Section of the Engineering Division, and additional staff will be assigned to Contract Administration Division to address staff and time limitations. Along with the additional staff, the backlog of consultant agreements has been reduced from approximately 425+ two years ago to approximately 200 this year. The combination of additional staff and decreasing backlog of agreements will allow WVDOH to prepare the independent engineer's estimate prior to receipt of the consultant fee proposals. A memorandum has been sent from the Deputy State Highway Engineer, Development, to all Districts and Divisions involved with Consultant Engineering Services, stating that their District/Division must prepare the independent engineers cost estimate prior to the receipt of the consultant fee proposal.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2001

2001-2	Procurement of Architectural and Engineering Services
Criteria:	<p>Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall 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." Further, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.</p>
Condition:	<p>We noted the following during our review of documentation related to the procurement of architectural and engineering services:</p> <ul style="list-style-type: none">• The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire and/or Consultant Cost Accounting Information Statement on file for three of the projects selected for review.• For one of the projects reviewed, the members of the selection committee were not documented.• For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented.
Context:	<p>Total expenditures for architectural and engineering services were \$96,650,000, for the year ended June 30, 2001.</p>
Cause:	<p>The Division was unable to locate some of the documentation and policies and procedures of the Division do not clearly specify the documentation which should be maintained.</p>
Effect:	<p>The Division was unable to provide supporting documentation related to compliance with the West Virginia State Code.</p>
Recommendation:	<p>We recommend that the Division strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services.</p>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2001

2001-2 (Continued)

Procurement of Architectural and Engineering Services

Management Response:

West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer, Development, has been sent to all Districts and Divisions involved with Consultant Engineering Services. This memorandum emphasizes that all documentation related to procurement of Consultant Engineering Services must be placed in the project files. Each District/Division was instructed to take any necessary action to ensure that project files are maintained, and contain all documentation required by Chapter 5A, Article 8, Section 9 of the West Virginia Code.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2001

2001-3	Information Systems Controls
Criteria:	The management of the Division is responsible for establishing and maintaining adequate information systems internal controls.
Condition:	<p>The Division operates a wide variety of computer applications, many of which affect federal and state programs data. During our review of the information systems controls we noted the following:</p> <ul style="list-style-type: none">• There are no formal policies and procedures for review and monitoring of the user account access maintenance.• There were several user accounts that did not belong to current employees of the Division.• There are no formal policies and procedures for review and monitoring various information system security reports such as the "failed access report."
Context:	Information systems controls potentially can affect all federal and state programs and are critical to the daily operations of the Division.
Cause:	Policies and procedures have not been adequately updated and information system controls have not been monitored by the Division.
Effect:	Unauthorized access to critical information systems may occur and not be detected.
Recommendation:	We recommend that the Division strengthen their policies and procedures related to information systems controls and ensure that controls are operating as designed. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of information system controls.
Management Response:	Not available at date of printing report.