

**JOINT COMMITTEE ON
GOVERNMENT AND FINANCE**

Materials Distributed

November 19, 2002

Tuesday, October 22, 2002

3:00 - 4:00 p.m.

Joint Committee on Government and Finance

Senate

Tomblin, Chair
Chafin
Craig (absent)
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 Senator Sharpe, properly seconded and adopted, the minutes of the September 17, 2002, meeting were approved.

2. Sales Tax Holiday.

Tax Commissioner Rebecca Craig reported that the recent sales tax holiday resulted in a \$1.4 million loss of sales tax revenue.

3. Master Plan for Office Space.

Department of Administration Secretary Greg Burton distributed and briefly discussed a report entitled, "Master Plan for the West Virginia State Capitol Campus" dated June 28, 2002. He said the plan is to bring all agencies which rent space back to the Capitol Complex campus. He said that no final decision relating to this matter would be made without the Committee's input.

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

4. Department of Health and Human Resources Monthly Reports.

Distributed to members of the Committee were the following: Medicaid Report for month

of August 2002; Welfare Reform Report for month of September 2002; and Colin Anderson Center Report for month of October 2002.

5. **Lottery, Unemployment Compensation and Workers' Compensation Status Reports.**

Distributed to members of the Committee were the following: Lottery Operations report for month ended August 2002; Unemployment Compensation Trust Fund report for month ended August 2002; and Workers' Compensation Trust Fund report for month ended August 2002. Attached with each of these reports was an 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 September 30, 2002.

7. **BRIM Report.**

Mr. Tom Susman distributed a report entitled, "West Virginia Board of Risk and Insurance Management (BRIM), October Interims, Fiscal Year 2002, to the Committee.

Mr. Susman briefly commented on the report and responded to questions.

8. **CHIP Report.**

Mr. Tom Susman distributed a report on State Children's Health Insurance Program Update, dated October 2002, to the Committee. The CCRC Actuaries, LLC, West Virginia Children's Health Insurance Program, June 30, 2002, Quarterly Report, dated August 2002, was distributed again to the Committee.

Mr. Susman briefly commented on the report and responded to questions.

9. **Public Employees Insurance Agency.**

Mr. Tom Susman, Executive Director of the Public Employees Insurance Agency, distributed the following information: (1) Letter from The Segal Company to Suttle & Stalnaker regarding "IBNR Calculations for West Virginia PEIA Audit", dated October 11, 2002; (2) Balance Sheets August 31, 2002 and 2001, Accrual Basis; (3) PEIA Monthly Management Report, Per Capita Utilization, August 2002; (4) PEIA Monthly Management Report, Total Claims, August 2002; (5) WV PEIA - Monthly Trend.

Mr. Susman commented briefly on the reports and responded to questions.

10. **Transfer of Funds Report.**

Pursuant to Code §12-4-16, the second quarterly report on transfer of funds was distributed to the Committee.

11. **Interim Meeting Dates.**

The next meeting dates are November 17 - 19, 2002.

12. **Workers' Compensation Study.**

Senator Chafin moved that Senator McCabe and Delegate Cann, Chairs of the Joint Commission on Economic Development, report at next month's meeting on the status of the Worker's Compensation study being done by the Commission.

Mr. Aaron Allred reported that the Actuary's report should be completed no later than December.

President Tomblin said that it would be better to wait for the report from the Actuary.

Senator Chafin withdrew his motion.

The meeting was adjourned.

House Staff

Joint Committee on Government and Finance

November 19, 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 SEPTEMBER 2002

	ACTUALS 07/01/2002 THRU 09/30/2002 2,700,093	PROJECTED 10/01/2002 THRU 06/30/2003	TOTAL SFY2003
REVENUE SOURCES			
BEG. BAL. 7/01/02			\$2,700,093
MATCHING FUNDS			
GENERAL REVENUE	35,066,139	160,827,056	195,893,195
LOTTERY - WAIVER	6,200,000	6,350,000	12,550,000
LOTTERY - TRANSFER	5,200,000	23,728,283	28,928,283
TRUST FUND APPROPRIATION	12,219,647	22,924,328	35,143,975
TRUST FUND BACKLOG	0	1,967,664	2,623,552
PROVIDER TAX	35,300,000	110,500,000	145,800,000
MCH TRANSFER	327,239	1,472,761	1,800,000
OTHER FUNDS	35,752	2,064,248	2,100,000
TOTAL MATCHING FUNDS	97,048,870	329,834,340	427,538,098
FEDERAL FUNDS	263,185,721	991,537,058	1,274,722,779
TOTAL REVENUE SOURCES	\$380,234,591	\$1,321,371,398	\$1,702,261,877
TOTAL EXPENDITURES:			
PROVIDER PAYMENTS	\$374,630,534	\$1,319,068,928	\$1,693,699,462
SUB - TOTAL	\$5,604,056.22		\$8,562,415
ACCOUNTS PAYABLE 09/30/02			(\$45,892,378)
BALANCE			(\$37,329,964)

DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MONTHLY FINANCIAL SUMMARY
 MONTH OF SEPTEMBER 2002
 FISCAL YEAR 2002-2003

CATEGORY OF EXPENDITURES	ACTUALS SFY 2002	ORIGINAL ESTIMATE SFY 2003	CURRENT ESTIMATE SFY 2003	ESTIMATE SEPTEMBER 2002	ACTUAL SEPTEMBER 2002	ESTIMATE YEAR TO DATE SEPTEMBER 2002	ACTUAL YEAR TO DATE SEPTEMBER 2002	Incr/Dec Over ESTIMATE	PERCENT
INPATIENT HOSPITALS	\$144,757,167	\$193,391,976	\$193,391,976	12,231,256	11,405,002	39,751,583	43,050,135	3,298,552	8.30%
MENTAL HEALTH HOSPITALS	\$31,357,325	\$31,448,297	\$31,448,297	2,375,021	2,159,835	7,718,819	11,235,604	3,516,785	45.56%
OUTPATIENT HOSPITALS	\$79,491,173	\$85,148,755	\$85,148,755	6,465,855	6,480,427	21,013,378	12,551,846	-8,461,533	-40.27%
CLINICS	\$14,048,061	\$14,477,475	\$14,477,475	1,111,752	871,837	3,813,194	2,876,344	-736,849	-20.39%
PHYSICIANS	\$125,284,220	\$132,661,178	\$132,661,178	10,018,774	9,789,884	32,561,015	27,265,503	-5,295,512	-16.26%
LABS	\$6,028,507	\$6,148,438	\$6,148,438	468,873	487,948	1,517,338	1,521,678	4,338	0.29%
DRUGS	\$280,668,500	\$327,638,966	\$327,638,966	23,897,726	24,625,198	77,887,610	71,943,631	-5,723,979	-7.37%
OTHER PRACTITIONERS	\$15,092,555	\$16,188,814	\$16,188,814	1,239,105	1,252,627	4,027,091	3,512,888	-514,105	-12.77%
DENTIST	\$29,188,876	\$32,858,828	\$32,858,828	2,476,004	2,313,872	8,047,013	7,171,453	-875,560	-10.88%
NURSING HOMES	\$300,920,127	\$315,318,503	\$315,318,503	23,856,384	25,371,350	77,533,248	76,021,073	-1,512,175	-1.95%
GROUP HOMES	\$44,931,269	\$48,224,576	\$48,224,576	3,851,803	5,632,081	11,868,358	14,609,811	2,741,453	23.10%
OTHER CARE	\$116,050,159	\$111,585,605	\$111,585,605	8,462,104	9,554,417	27,501,838	38,798,732	9,288,894	33.80%
EPSDT	\$4,202,325	\$4,300,484	\$4,300,484	328,354	483,325	1,067,150	1,267,567	200,417	18.78%
MEDICARE BUY-IN	\$43,074,892	\$42,831,500	\$42,831,500	3,577,825	3,772,547	10,732,875	11,512,935	780,060	7.27%
FAMILY PLANNING	\$1,885,522	\$1,080,137	\$1,080,137	83,857	102,925	272,535	632,127	359,592	131.94%
HOME HEALTH	\$23,089,891	\$22,720,875	\$22,720,875	1,720,560	1,933,998	5,591,820	5,412,978	-178,842	-3.20%
RURAL HEALTH	\$28,207,864	\$28,241,472	\$28,241,472	2,003,609	2,085,461	6,511,730	6,250,430	-261,300	-4.01%
HOME & COMMUNITY - AGED/DISABLED	\$50,151,388	\$50,688,856	\$50,688,856	3,883,865	4,482,910	12,557,560	13,578,049	1,020,489	8.13%
HOME & COMMUNITY - MR/DD	\$119,624,111	\$141,514,196	\$141,514,196	10,611,085	12,048,927	34,486,028	34,977,529	491,503	1.43%
PERSONAL CARE	\$21,620,642	\$32,705,387	\$32,705,387	2,488,052	1,626,284	8,086,169	5,266,598	-2,819,571	-34.87%
HOSPICE	\$1,430,813	\$2,603,838	\$2,603,838	196,823	88,247	639,675	301,355	-338,320	-52.89%
TARGETED CASE MANAGEMENT	\$9,539,635	\$12,371,067	\$12,371,067	948,872	660,793	3,083,834	2,399,786	-684,048	-22.18%
MANAGED CARE	\$85,377,406	\$82,189,352	\$82,189,352	4,847,899	6,389,600	15,547,338	17,582,942	2,015,604	12.96%
SUB-TOTAL	\$1,584,030,448	\$1,714,506,153	\$1,714,506,153	\$126,923,058	\$133,643,355	\$411,397,198	\$407,721,082	\$-3,676,106	-0.89%
LESS: DRUG REBATES	(\$51,342,486)	(\$53,052,739)	(\$53,052,739)	(4,421,082)	(1,136,903)	(13,263,185)	(15,362,619)	-2,119,434	15.98%
DSH PAYMENTS PRIVATE INSTITUTIONS	\$81,135,804	\$82,862,327	\$82,862,327	0	0	15,073,616	13,737,217	-1,336,399	-8.87%
DSH PAYMENTS STATE INSTITUTIONS	\$27,752,739	\$23,028,549	\$23,028,549	0	0	5,817,852	6,126,817	308,965	5.31%
TOTAL	\$1,591,576,505	\$1,737,342,290	\$1,737,342,290	\$122,501,966	\$132,508,452	\$419,025,481	\$412,202,507	\$-6,822,975	-1.63%

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 SEPTEMBER 2002
 SFY 2003

TRANSFER DATE	ACTIVITY	DESCRIPTION	DEPOSIT (WITHDRAWAL) PRINCIPAL	INTEREST & DSH DEPOSITS (WITHDRAWAL)	TRUST FUND BALANCE
07/01/02	DEPOSIT	BEG. BAL.			6,740,977.50
07/01/02	WITHDRAWAL	Match Drop	6,740,977.50		4,122,977.50
07/31/02	INTEREST	Rate AT 1.90 %	(2,618,000.00)	6,794.77	4,129,772.27
08/01/02	WITHDRAWAL	Facilities DSH Payment		478,670.00	4,608,442.27
08/01/02	WITHDRAWAL	Facilities DSH Match	(1,515,161.72)		3,093,280.55
08/01/02	DEPOSIT	Private DSH Backlog	(3,086,485.77)		6,794.78
08/01/02	DEPOSIT	Facilities DSH Payment		6,126,816.50	6,133,611.28
08/31/02	INTEREST	Rate AT 1.90 %		5,809.82	6,139,421.10
09/30/02	INTEREST	Rate AT 1.90 %		9,565.25	6,148,986.35
10/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		3,530,986.35
10/31/02	INTEREST	Rate AT 1.90 %		5,501.29	3,536,487.64
11/01/02	WITHDRAWAL	Facilities DSH Match	(1,284,915.59)		2,251,572.05
11/30/02	INTEREST	Rate AT 1.90 %		3,507.96	2,255,080.01
12/01/02	DEPOSIT	Facilities DSH Payment		5,147,899.00	7,402,979.01
12/01/02	WITHDRAWAL	Private DSH Backlog	(3,144,020.92)		4,258,958.10
12/01/02	DEPOSIT	PEIA Reserve Deposit	2,000,000.00		6,258,958.10
12/01/02	WITHDRAWAL	PEIA Reserve Fund		(2,000,000.00)	4,258,958.10
12/01/02	WITHDRAWAL	Backlog Reduction		(655,887.50)	3,603,070.60
12/31/02	INTEREST	Rate AT 1.90 %		5,613.60	3,608,684.20
01/31/03	INTEREST	Rate AT 1.90 %		5,622.35	3,614,306.55
02/01/03	WITHDRAWAL	Facilities DSH Match	(1,284,915.59)		2,329,390.96
02/28/03	INTEREST	Rate AT 1.90 %		3,629.20	2,333,020.16
03/01/03	DEPOSIT	Facilities DSH Payment		5,147,899.00	7,480,919.16
03/01/03	WITHDRAWAL	Private DSH Backlog	(3,144,020.92)		4,336,898.25
03/01/03	DEPOSIT	PEIA Reserve Deposit	2,000,000.00		6,336,898.25
03/01/03	WITHDRAWAL	PEIA Reserve Fund		(2,000,000.00)	4,336,898.25
03/01/03	WITHDRAWAL	Backlog Reduction		(655,887.50)	3,681,010.75
03/31/03	INTEREST	Rate AT 1.90 %		5,735.03	3,686,745.78
04/01/03	WITHDRAWAL	Match Drop	(236,000.00)		3,450,745.78
04/30/03	INTEREST	Rate AT 1.90 %		5,376.28	3,456,122.06
05/01/03	WITHDRAWAL	Facilities DSH Match	(1,725,459.59)		1,730,662.47
05/01/03	WITHDRAWAL	Facilities DSH Payment		5,147,899.00	6,878,561.47
05/01/03	WITHDRAWAL	Private DSH Backlog	(3,144,020.91)		3,734,540.56
05/31/03	INTEREST	Rate AT 1.90 %		5,818.43	3,740,359.00
06/01/03	WITHDRAWAL	Hospice		(342,975.00)	3,397,384.00
06/01/03	DEPOSIT	PEIA Reserve Deposit	2,000,000.00		5,397,384.00
06/01/03	WITHDRAWAL	Backlog Reduction		(1,311,775.00)	4,085,609.00
06/01/03	WITHDRAWAL	PEIA Reserve Fund		(2,000,000.00)	2,085,609.00
06/30/03	INTEREST	Rate AT 1.90 %		3,249.39	2,088,858.39
TOTALS			(11,060,023.50)	13,148,881.88	2,088,858.39

DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MOUNTAIN HEALTH TRUST
Based on SFY 2003 Rates

October 2002

HMO	PAYMENT	RECIPIENTS ENROLLED	AVERAGE COST PER RECIPIENT
THE HEALTH PLAN	\$3,054,887	31,488	\$97.02
CARELINK	\$1,557,399	15,912	\$97.88
TOTAL	\$4,612,285	47,400	\$97.31
ESTIMATED COMPOSITE ACTUARY RATE (THE 95% RATE IS \$100.89)			\$106.20
PERCENT ESTIMATED SAVINGS			8.38%

House Staff

Joint Committee on Government and Finance

November 2002

Department of Health and Human Resources

WELFARE REFORM REPORT

**WV WORKS Caseload
2002**

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct
Barbour (01)	208	208	206	207	203	192	190	189	184	179
Berkeley (02)	415	422	441	453	445	420	402	416	432	445
Boone (03)	371	388	385	371	341	324	328	344	326	331
Braxton (04)	149	153	151	151	122	117	121	120	110	126
Brooke (05)	106	110	107	90	85	83	80	81	74	85
Cabell (06)	705	700	695	714	665	633	646	655	704	711
Calhoun (07)	110	107	111	104	91	92	81	77	83	93
Clay (08)	115	109	114	107	106	100	103	103	97	94
Doddridge (09)	66	66	61	67	57	60	56	57	62	58
Fayette (10)	531	502	498	507	484	461	472	475	452	446
Gilmer (11)	55	55	58	60	54	54	58	52	56	55
Grant (12)	44	40	37	36	36	37	44	44	47	50
Greenbrier (13)	167	169	169	161	141	135	129	133	126	127
Hampshire (14)	93	93	97	100	94	94	93	95	96	102
Hancock (15)	198	194	182	189	164	157	158	170	172	167
Hardy (16)	49	53	48	49	49	50	54	49	46	48
Harrison (17)	625	629	630	627	574	562	550	539	528	547

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct
Jackson (18)	143	139	142	145	124	115	131	132	147	145
Jefferson (19)	162	168	174	174	172	166	165	168	171	163
Kanawha (20)	1,279	1,278	1,292	1,248	1,168	1,130	1,164	1,224	1,248	1,266
Lewis (21)	179	185	190	195	178	178	168	174	167	159
Lincoln (22)	349	333	334	345	329	323	317	346	330	338
Logan (23)	404	378	388	391	376	364	376	408	387	386
Marion (24)	299	295	299	295	268	275	272	286	285	280
Marshall (25)	297	307	288	293	257	263	242	241	230	254
Mason (26)	266	261	251	248	252	245	242	256	265	272
Mercer (27)	894	905	926	908	880	830	860	896	906	892
Mineral (28)	100	100	100	93	91	90	90	99	94	95
Mingo (29)	574	553	541	525	523	500	509	509	496	506
Monongalia (30)	123	121	120	106	108	104	104	110	110	119
Monroe (31)	82	79	85	93	87	80	72	72	85	78
Morgan (32)	85	96	93	95	95	88	92	89	92	83
McDowell (33)	864	839	818	806	806	762	774	752	738	736
Nicholas (34)	156	156	156	158	153	138	153	156	153	156
Ohio (35)	308	286	283	262	272	258	262	274	276	271
Pendleton (36)	37	32	33	31	25	24	27	25	30	26

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct
Pleasants (37)	49	51	52	45	44	38	42	43	45	41
Pocahontas (38)	26	27	31	36	30	29	28	30	28	29
Preston (39)	125	125	132	125	125	105	108	110	115	123
Putnam (40)	169	185	178	170	140	131	139	127	139	138
Raleigh (41)	700	705	713	716	671	646	626	644	626	645
Randolph (42)	113	118	120	128	110	111	97	94	93	92
Ritchie (43)	65	62	65	64	56	54	54	52	58	61
Roane (44)	119	123	132	124	106	101	103	111	116	115
Summers (45)	165	158	174	174	171	176	162	172	160	145
Taylor (46)	98	97	94	87	73	74	80	75	77	83
Tucker (47)	28	26	24	26	23	20	23	21	21	20
Tyler (48)	38	36	35	32	33	31	35	41	42	41
Upshur (49)	316	314	309	302	267	255	269	260	256	256
Wayne (50)	584	552	554	551	523	507	504	510	498	496
Webster (51)	181	182	177	175	164	160	157	155	147	154
Wetzel (52)	113	112	109	112	100	85	78	88	94	97
Wirt (53)	43	45	46	45	42	45	52	51	44	51
Wood (54)	750	760	785	788	707	688	650	656	625	613
Wyoming (55)	404	391	406	388	390	382	406	403	409	403
Total	14,694	14,578	14,639	14,512	13,650	13,142	13,197	13,459	13,398	13,492

Characteristics of the Current WV WORKS Caseload

- ✓ **4,541 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.**
- ✓ **598 cases currently receiving WV WORKS received TANF in another state before moving to West Virginia.**
- ✓ **140 cases in which the parents are excluded from the payment because they were convicted of a drug related felony after August 22, 1996.**
- ✓ **366 cases receive Medicaid but do not receive Food Stamps.**
- ✓ **954 cases receive Food Stamps but adults do not receive Medicaid.**
- ✓ **1,401 cases receive the Marriage Incentive. The Incentive was increased to \$100 monthly effective July 1, 2000.**
- ✓ **1,434 adults receiving WV WORKS are employed.**

11/02

Supportive Services Payments: Types and Amounts
October 2002

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
<p>Clothing: Work or dress clothing when there is a verified offer of employment or short term training. \$600 lifetime</p>	\$70,847	\$16,045	581	\$150	\$86,892
<p>Collateral: Items include grooming expenses, test fees and other expenses related to employment. \$150 lifetime</p>	\$5,195	\$833	98	\$62	\$6,028
<p>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. \$1,500 lifetime</p>	\$168,347	\$31,317	401	\$498	\$199,664
<p>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. \$5,000 year</p>	\$800	\$520	5	\$264	\$1,320
<p>Commercial Driver's License: Payment to purchase license. \$300 lifetime</p>	\$0	\$0	0	\$0	\$0
<p>Driver/Chauffeurs License: Does not include payment for test required due to traffic violations or classes required for DUI convictions. \$60 lifetime</p>	\$50	\$0	1	\$50	\$50
<p>Employer Incentive: Agreements between employers and local DHR offices placing WV WORKS recipients in jobs. Employers are reimbursed 1/2 of the employee's wages for the first 200-600 work hours under these contracts.</p>	\$3,125	\$0	7	\$446	\$3,125

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
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>\$300 lifetime</i>	\$745	\$0	4	\$186	\$745
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 lifetime</i>	\$7,257	\$8,390	13	\$1,204	\$15,647
Tools/Equipment: When needed for a verified offer of employment or for specialized training. <i>\$1,000 lifetime</i>	\$8,396	\$677	46	\$197	\$9,073
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>(2-40 miles-\$5 day; 40+ -\$8) \$200 month limit</i>	\$245,768	\$61,820	3,996	\$77	\$307,588
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>	\$34,948	\$4,827	147	\$271	\$39,775
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>	\$797	\$75	4	\$218	\$872
Total	\$546,275	\$124,504	5,303	\$126	\$670,779

Length of Time on Assistance

Number of Months	Number of Cases
12 months or less	3,341
13-24	2,471
25-36	1,525
37-48	948
49-60	508
Total	8,793

Does not include child only cases.

11/4/02

WORKS Closures Due to Expiration of 60 Months

Month	Number of Closures
12/01	108
1/02	40
2/02	23
3/02	29
4/02	21
5/02	25
6/02	44
7/02	29
8/02	18
9/02	21
10/02	28
Total	386

11/4/02

House Staff

Joint Committee on Government and Finance

November 2002

Department of Health and Human Resources

COLIN ANDERSON CENTER REPORT

Colin Anderson Center Report

November 2002

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

Paul L. Nusbaum, Secretary

Colin Anderson Center Summary Report – November 2002

The Colin Anderson Center (Center) was successfully closed on April 3, 1998. The Department of Health and Human Resources (Department) has completed all required monitoring for persons who left the Center.

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-six 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. Zero compliance clocks remain active. The Department continues to monitor, on an individual basis, those who were discharged from the Colin Anderson Center.

**Colln Anderson Center
 Summary Report - November 2002
 Division of Developmental Disabilities
 Bureau for Behavioral Health and Health Facilities**

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
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Number in ICF/MR 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	66
Number of Individuals with Compliance Clocks* Open	0
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. Zero compliance clocks remain active.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

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

304-347-4810

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 *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 17, 2002

Re: Review of West Virginia Lottery Financial Information
As of September 2002 (FY 2003)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the period ended September 30, 2002 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 22.28 % ABOVE the preceding July through September of fiscal year 2001-2002. This number does not include commission and prize deductions. Gross profit for July - September 2002 was \$96,519,000.00; for the previous fiscal year, July - September 2001 it was \$80,243,000.00. Expressed as a percentage, gross profit is **20.28% higher** in 2002-2003 than in fiscal year 2001-2002.

Joint Committee on Government and Finance

Net Income:

Net income for months of July - September 2002 was \$92,893,000.00; the previous fiscal year it was \$74,780,000.00 This is an increase of 24.22%.

Operating Transfers to the State of West Virginia:

A total of \$ 92,893,000.00 has been accrued to the state of West Virginia for fiscal year 2002-2003. 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	\$ 36,673,000.00
Department of Education	\$ 24,165,000.00
Educational Broadcasting Authority	\$ 1,865,000.00
Library Commission	\$ 6,309,000.00
Higher Education-Central Office	\$ 27,173,000.00
Tourism	\$ 8,193,000.00
Department of Natural Resources	\$ 2,330,000.00
Division of Culture and History	\$ 3,882,000.00
Department of Education and Arts	\$ 2,718,000.00
State Building Commission	\$ 3,000,000.00
School Building Authority	\$ 5,400,000.00
SUBTOTAL BUDGETARY TRANSFERS	\$121,708,000.00

Excess Lottery Fund

General Revenue Fund	
Economic Development Fund	3,800,000.00
Education Improvement Fund	8,541,000.00
WV Infrastructure Council Fund	
Higher Education Improvement Fund	
State Park Improvement Fund	
School Building Authority	
TOTAL EXCESS LOTTERY FUND	12,341,000.00

Veterans Instant Ticket Fund**234,000.00**

RACETRACK VIDEO LOTTERY TRANSFERS:	
Tourism Promotion Fund	\$5,159,000.00
Veterans Memorial Archives	\$100,000.00
John F. "Jack" Bennett Fund	\$20,000.00
Department of Administration	\$1,600,000.00
SUBTOTAL VIDEO LOTTERY TRANSFERS:	\$6,879,000.00
TOTAL TRANSFERS	*\$141,162,000.00

* CASH BASIS

Actual accrual based accounting FY 2003: \$92,893,000.00

Total Cash Distributions FY 2003:	141,162,000.00
Total Applicable to last FY 2002:	80,773,000.00
Total Applicable to FY 2003:	60,389,000.00

Total accrued as of September 30, 2002;	32,504,000.00
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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 September 30, 2002

DATE: October 18, 2002

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

Financial statements of the Lottery for the month ending September 30, 2002 are attached. Lottery revenue, which includes on-line, instant and video lottery sales, was \$85,206,117 for the month of September.

Transfers of lottery revenue totaling \$30,489,821 were made for the month of September to the designated state agencies per Senate Bill 100, Veterans' Fund and the Racetrack Video Lottery Act (§29-22A-10). The amount transferred to each agency is shown in Note 9 on page 13 of the attached financial statements.

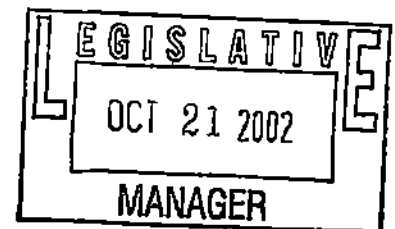
The number of active lottery retailers as of September 30, 2002, was 1,635.

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

SEPTEMBER 30, 2002

WEST VIRGINIA LOTTERY

TABLE OF CONTENTS

	Page
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS.....	3
STATEMENTS OF CASH FLOWS	4
BALANCE SHEETS	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 16

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2002
(Expressed in Thousands)

	CURRENT MONTH		YEAR TO DATE	
	2002	2001	2002	2001
Lottery revenues				
On-line games	\$ 7,129	\$ 7,101	\$ 19,503	\$ 49,904
Instant games	7,912	6,381	25,138	20,361
Racetrack video lottery	57,972	46,993	182,721	144,890
Limited video lottery	12,193	-	35,724	-
	<u>85,206</u>	<u>60,475</u>	<u>263,086</u>	<u>215,155</u>
Direct Costs				
Commissions				
On-line games	499	444	1,365	3,120
Instant games	554	399	1,760	1,273
Racetrack video lottery	36,732	29,775	115,772	91,802
Limited video lottery	6,930	-	20,305	-
	<u>44,715</u>	<u>30,618</u>	<u>139,202</u>	<u>96,195</u>
Prizes				
On-line prizes	3,656	3,605	9,809	24,317
Instant prizes	5,394	4,326	17,023	13,973
	<u>9,050</u>	<u>7,931</u>	<u>26,832</u>	<u>38,290</u>
Ticket Costs	168	132	533	427
Total Direct Costs	<u>53,933</u>	<u>38,681</u>	<u>166,567</u>	<u>134,912</u>
Gross profit	31,273	21,794	96,519	80,243
Operating expenses				
Vendor fees and costs	599	533	1,777	2,745
Advertising and promotions	761	499	1,716	2,272
Wages and related benefits	356	229	1,102	710
Telecommunications	130	207	750	657
Contractual and professional	134	310	334	439
Rental	49	73	143	138
Depreciation and amortization	159	48	456	143
Dep. & amortization to Donated capital	(88)	-	(264)	-
Other general expenses	80	73	270	145
	<u>2,180</u>	<u>1,972</u>	<u>6,284</u>	<u>7,249</u>
Other Operating Income	534	472	2,385	1,272
Operating Income	<u>29,627</u>	<u>20,294</u>	<u>92,620</u>	<u>74,266</u>
Nonoperating income(expense)				
Investment income	137	258	375	695
Interest expense	(33)	(39)	(102)	(181)
	<u>104</u>	<u>219</u>	<u>273</u>	<u>514</u>
Income before nonoperating distributions	29,731	20,513	92,893	74,780
Nonoperating distributions to the State of West Virginia	29,731	20,513	92,893	74,780
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 THREE MONTH PERIOD ENDED SEPTEMBER 30, 2002
(Expressed in Thousands)

	2002	2001
Cash received from customers	\$ 281,549	\$ 158,278
Cash paid to employees	(1,103)	(487)
Cash paid to suppliers	(1,281)	(2,198)
Other operating cash payments	<u>(167,088)</u>	<u>(97,672)</u>
Net cash provided by (used for) operating activities	<u>112,077</u>	<u>57,921</u>
Cash flows from noncapital financing activities		
Transfers to the State of West Virginia	(141,163)	(107,436)
Deferred jackpot prize obligations and related interest paid	<u>(130)</u>	<u>(130)</u>
Cash used in noncapital financing activities	<u>(141,293)</u>	<u>(107,566)</u>
Cash flows from capital and related financing activities		
Purchase of fixed assets	<u>(423)</u>	<u>(34)</u>
Cash flows from investing activities		
Maturities of investments held in trust	437	437
Investment earnings received	<u>313</u>	<u>378</u>
Cash provided by investing activities	<u>750</u>	<u>815</u>
Increase (Decrease) in cash and cash equivalents	(28,889)	(48,864)
Cash and Cash Equivalents - beginning of period	<u>72,199</u>	<u>101,966</u>
Cash and Cash Equivalents - end of period	<u>\$ 43,310</u>	<u>\$ 53,102</u>

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

WEST VIRGINIA LOTTERY
BALANCE SHEETS
(Expressed in Thousands)

ASSETS	September 30, 2002	June 30, 2002
Current assets		
Cash and cash equivalents	\$ 43,310	\$ 72,199
Accounts receivable	17,285	33,363
Ticket Inventory	596	782
Other assets	996	972
Total current assets	<u>62,187</u>	<u>107,316</u>
Leasehold improvements and equipment	10,577	10,162
Less accumulated depreciation and amortization	<u>(4,422)</u>	<u>(3,966)</u>
	<u>6,155</u>	<u>6,196</u>
Investments held in trust	<u>5,321</u>	<u>5,581</u>
Total assets	<u>\$ 73,663</u>	<u>\$ 119,093</u>
 LIABILITIES AND FUND EQUITY		
Current liabilities		
Accrued nonoperating distributions to the State of West Virginia	\$ 26,467	\$ 80,773
Estimated prize claims	12,227	11,983
Accounts payable	3,065	3,181
Other accrued liabilities	22,612	13,573
Total current liabilities	<u>64,371</u>	<u>109,510</u>
Deferred jackpot prize obligations	5,017	5,045
Fund equity		
Donated Capital	4,025	4,288
Retained earnings	250	250
Total fund equity	<u>4,275</u>	<u>4,538</u>
 Total liabilities and fund equity	 <u>\$ 73,663</u>	 <u>\$ 119,093</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, HOT LOTTO, 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 seven 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 three months ended September 30, 2002 and September 30, 2001 approximated \$143,427 and \$137,859, respectively. Sublease rental income for the three months ended September 30, 2002 and September 30, 2001 approximated \$25,932 and \$25,932, 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 \$501,000 and \$404,000 for fiscal years 2002 and 2001, 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 approved House Bill 102, which included the Limited Video Lottery Act. Under this bill, up to 9,000 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 net 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>September 30, 2002</u>	<u>June 30, 2002</u>
Amount on deposit with the IMB	<u>\$43,310</u>	<u>\$72,199</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 HOT LOTTO 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 HOT LOTTO 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 September 30, 2002 were \$4,305,940 and \$10,657,710 while related prize costs for the same periods were \$2,146,498 and \$5,352,006.

**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 HOT LOTTO game for the month and year-to-date periods ended September 30, 2002 were \$231,396 and \$795,279 while related prize costs for the same periods were \$113,384 and \$396,912.

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 September 30, 2002 the POWERBALL prize reserve funds had a balance of \$78,000,000 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 9 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 on or after July 1, 2001 that each tracks share be reduced to 42% and the regular purse fund to 8% 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 September 30, 2002 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>2002</u>	<u>Month</u> <u>2001</u>	<u>Year- to -Date</u> <u>2002</u>	<u>2001</u>
Total credits played	\$667,937	\$546,063	\$2,098,184	\$1,687,031
Credits (prizes) won	(609,964)	(499,070)	(1,915,463)	(1,542,141)
Gross terminal income	<u>\$57,972</u>	<u>\$46,993</u>	<u>\$182,721</u>	<u>\$144,890</u>
Administrative costs	(2,318)	(1,880)	(7,309)	(5,796)
Net Terminal Income	<u>\$55,654</u>	<u>\$45,113</u>	<u>\$175,412</u>	<u>\$139,094</u>
Less distribution to agents	(36,732)	(29,775)	(115,772)	(91,802)
Racetrack video lottery revenues	<u>\$18,922</u>	<u>\$15,338</u>	<u>\$59,640</u>	<u>\$47,292</u>

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

	<u>September 30, 2002</u>	<u>Year-to Date</u>
Lottery Fund	\$ 16,696	\$52,624
Excess Lottery Fund	-	-
Capital Reinvestment Fund	-	-
Tourism Promotion Fund	1,669	5,262
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	<u>557</u>	<u>1,634</u>
Total transfers	<u>\$18,922</u>	<u>\$59,640</u>

NOTE 8. LIMITED VIDEO LOTTERY

The Limited Video Lottery legislation stipulates that two percent (2%) of gross terminal income be deposited into the state lottery fund for administrative costs. Then, thirty percent (30%) of gross profits are to be transferred to the excess lottery fund. Beginning July 1, 2002, the percentage is determined by the amount of aggregate average daily gross terminal income for the three month period ending May 31, 2002, and every August, November, February and May thereafter. Such percentage will be between 30 and 50 percent and will be subject to change on a quarterly basis thereafter. Two percent will be distributed to counties and municipalities in the manner prescribed for in the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act, these amounts are recorded as limited video lottery commissions in the financial statements. A summary of limited video lottery revenues for the month ended September 30, 2002 and year-to-date follows (in thousands):

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

NOTE 8. LIMITED VIDEO LOTTERY (continued)

	<u>Current Month</u>	<u>Year-to-Date</u>
Total credits played	\$146,072	\$423,127
Credits (prizes) won	<u>(133,879)</u>	<u>(387,404)</u>
Gross terminal income	12,193	35,724
Administrative costs	<u>(244)</u>	<u>(715)</u>
Gross Profit	11,949	35,009
Commissions	<u>(6,930)</u>	<u>(20,305)</u>
Limited video lottery revenues	<u>\$ 5,019</u>	<u>\$ 14,704</u>

NOTE 9. 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, 2003 the State Legislature budgeted \$182,070,349 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 September 30, 2002 the Lottery made such distributions and accrued additional distributions of \$27,504,931. 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 September 30, 2002 the Lottery accrued additional distributions relating to racetrack video lottery operations of \$640,527.

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):

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

**NOTE 9. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)**

<u>BUDGETARY DISTRIBUTIONS</u>	<u>September 30, 2002</u>	<u>Year-to-Date</u>
<u>Lottery Fund:</u>		
Bureau of Senior Services	\$ 13,856	\$ 36,673
Department of Education	1,616	24,165
Educational Broadcasting Authority	124	1,865
Library Commission	422	6,309
Higher Education-Central Office	1,817	27,173
Tourism	548	8,193
Natural Resources	156	2,330
Division of Culture & History	260	3,882
Department of Education & Arts	181	2,718
Building Commission	1,000	3,000
School Building Authority	1,800	5,400
Total Lottery Fund	\$21,780	\$121,708
<u>Excess Lottery Fund:</u>		
Economic Development Fund	\$ 1,900	\$ 3,800
Education Improvement Fund	4,630	8,541
WV Infrastructure Council Fund	-	-
Higher Education Improvement Fund	-	-
State Park Improvement Fund	-	-
School Building Authority	-	-
Total Excess Lottery Fund	\$ 6,530	\$ 12,341
Total Budgetary distributions:	\$28,310	\$134,049
Veterans Instant Ticket Fund	\$60	\$234
<u>Racetrack Video Lottery distributions:</u>		
Tourism Promotion Fund	1,590	5,159
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	530	1,600
Total	2,120	6,879
Total nonoperating distributions to the State of West Virginia (cash basis)	30,490	141,162
Accrued nonoperating distributions, beginning	(33,263)	(80,773)
Accrued nonoperating distributions, end	32,504	32,504
Total nonoperating distributions to the State of West Virginia	\$29,731	\$92,893

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

NOTE 10. 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 September 30, 2002, 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>September 30, 2002</u>	<u>June 30, 2002</u>
Present value of deferred prize award obligations:		
Discounted obligations outstanding	\$4,770	\$5,784
Imputed interest accrued	<u>247</u>	<u>236</u>
Total Deferred Jackpot Prize Award Obligations	<u>\$5,017</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 11. 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 11. 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 September 30, 2002 are as follows (in thousands) :

	<u>September 30, 2002</u>	<u>Year-to Date</u>
Lottery contributions (9.5%)	\$25	\$80
Employee contributions (4.5%)	12	39
Total contributions	\$37	\$119

NOTE 12. 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 12. 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 education, 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.

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. *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 17, 2002

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the September 2002 monthly report of the Unemployment Compensation Trust Fund we received from the Bureau of Employment Programs.

For the fiscal year 2002-2003, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2002	\$280,390,998.85
Receipts July 1, 2002 thro September 30, 2002	\$43,553,565.79
Disbursements July 1 thro September 30, 2002	\$48,097,270.05
Balance September 30, 2002	\$275,847,294.59

(This balance is \$ 32,183,762.77 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 - September 2002 are \$10,369,971.50 HIGHER than the preceding July - September 2001.

Receipts are \$ 6,978,905.02 HIGHER than the previous July-September 2001. Overall disbursements are \$17,936,114.68 HIGHER than July - September 2001.

UNEMPLOYMENT RATES:

West Virginia's unemployment rate for the month of September 2002 was 5.4 percent. National unadjusted unemployment rate was 5.4 percent. Seasonally adjusted unemployment rates were 6.1 percent for West Virginia and 5.6 percent nationally.

During the past year (since September 2001) West Virginia's economy has declined by 8,200 jobs. The gains were 2,100 jobs in services and 300 in finance, insurance and real estate. Losses include 2,600 in manufacturing, 2,200 in trade, 300 in government, 800 in transportation and public utilities, 2,200 in mining and 2,500 in construction.

**FINANCIAL CONDITION OF THE UNEMPLOYMENT COMPENSATION TRUST FUND
MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING JUNE 2001 AND JUNE 2002**

	<u>JULY 01</u>	<u>AUG 01</u>	<u>SEPT 01</u>	<u>JULY 02</u>	<u>AUG 02</u>	<u>SEPT 02</u>	<u>THREE MONTH TOTAL VARIANCE *</u>
Balance Forward	<u>\$237,280,143.78</u>	<u>\$237,933,274.07</u>	<u>\$246,272,110.48</u>	<u>\$280,390,998.85</u>	<u>\$277,370,202.53</u>	<u>\$285,052,312.01</u>	<u>\$121,357,985.08</u>
Add Receipts:							
Bond Assessment	\$1,550.82	\$1,422.72	\$4,084.04	\$94.10	\$149.98	\$245.73	(\$8,587.57)
Regular Contributions	\$11,860,679.70	\$19,093,783.37	\$1,135,002.20	\$11,408,859.73	\$19,533,984.22	\$621,815.10	(\$525,026.22)
Extended Benefit Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Unemployment Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TEUC Unemployment Funds	\$0.00	\$0.00	\$50,000.00	\$3,075,000.00	\$2,075,000.00	\$1,975,000.00	\$7,075,000.00
UCFE (Federal Agencies)	\$50,000.00	\$75,000.00	\$0.00	\$50,000.00	\$75,000.00	\$25,000.00	\$25,000.00
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	\$0.00	\$0.00	\$0.00
Treasury Interest Credits	\$0.00	\$0.00	\$3,903,138.12	\$0.00	\$0.00	\$4,313,638.93	\$410,498.81
UCX (Military Agencies)	\$150,000.00	\$150,000.00	\$100,000.00	\$150,000.00	\$150,000.00	\$100,000.00	\$0.00
Total Monthly Receipts	<u>\$12,062,230.32</u>	<u>\$19,320,208.09</u>	<u>\$5,192,224.36</u>	<u>\$14,683,753.83</u>	<u>\$21,834,114.20</u>	<u>\$7,036,697.76</u>	<u>\$6,978,905.02</u>
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	NA
Regular Benefits	\$11,160,779.85	\$10,788,367.25	\$7,817,758.89	\$14,857,820.44	\$11,697,817.79	\$13,369,321.90	\$10,369,854.14
Extended Benefits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Benefits	(\$570.00)	(\$506.00)	(\$295.00)	\$2,635,353.00	\$2,252,176.00	\$2,633,677.00	\$7,522,676.00
UCFE (Federal Workers)Benefits	\$70,698.91	\$57,368.87	\$54,347.20	\$81,352.93	\$53,571.87	\$68,623.79	(\$8,884.29)
UCX (Military Workers)Benefits	\$158,191.27	\$138,140.58	\$128,991.93	\$150,023.78	\$148,638.96	\$179,092.49	\$52,431.47
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	<u>\$11,379,100.03</u>	<u>\$10,981,369.68</u>	<u>\$7,800,803.02</u>	<u>\$17,704,550.15</u>	<u>\$14,152,004.72</u>	<u>\$16,240,715.18</u>	<u>\$17,935,997.32</u>
Trust Fund Balance	<u>\$237,933,274.07</u>	<u>\$246,272,110.48</u>	<u>\$243,683,531.82</u>	<u>\$277,370,202.53</u>	<u>\$285,052,312.01</u>	<u>\$275,847,294.59</u>	<u>\$110,400,692.76</u>

* 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 *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 17, 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 September 30, 2002. (FY 2002-2003)

Total receipts through the third month of the fiscal year are \$ 71,400,117.73. This amount is \$ 46,780,398.53 LESS than the receipts reported for the July - September period of fiscal year 2001- 2002.

Disbursements paid out for the three months are \$198,341,723.63 . This amount is \$ 10,836,937.39 HIGHER than July - September of the last fiscal year.

Total administrative expenses for the three months are \$ 14,073,707.14; which is \$1,756,655.71 MORE than July - September of the previous fiscal year.

The ending trust fund balance as of September 30, 2002 was \$ 808,605,547.10. At the same date the previous fiscal year the trust fund balance was \$ 1,033,261,001.68. The difference is a \$224,655,454.58 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
FOR THE THREE MONTHS STARTING JULY 2001 AND JULY 2002**

RECEIPTS AND DISBURSEMENTS		FUNDS	
MONTH	RECEIPTS *	DISBURSEMENTS	BALANCE
BALANCE FORWARD *			\$1,102,585,271.68
JUL 2001	\$ 70,117,415.54	\$ 60,505,446.65	1,112,087,280.55
AUG 2001	59,546,323.98	69,572,487.10	1,101,711,077.44
SEP 2001	111,483,223.27	69,956,852.49	1,034,261,001.68
TOTALS	\$119,189,516.28	\$187,504,788.24	61A

BENEFITS			ADMINISTRATIVE EXPENSE
WCF	SELF-DISBURS	TOTAL	
\$ 55,978,750.87	\$ 9,842,045.85	\$65,821,795.02	\$ 4,628,808.59
69,117,303.43	11,308,541.52	77,491,834.05	3,915,083.57
53,089,591.31	9,989,384.00	63,078,985.31	3,876,281.18
\$176,187,734.81	\$31,184,801.37	\$209,392,716.18	\$12,217,051.43

MONTH	RECEIPTS *	DISBURSEMENTS	ENDING BALANCE
BALANCE FORWARD **			
JUL 2002	43,182,838.47	70,155,638.73	908,584,350.74
AUG 2002	14,065,403.68	67,740,698.81	854,909,037.81
SEP 2002	14,141,876.38	60,445,416.09	809,606,547.10
TOTALS	\$71,400,117.73	\$198,341,723.63	N/A

WCF	SELF-DISBURS	TOTAL	ADMINISTRATIVE EXPENSE
65,240,050.46	10,785,701.88	\$76,025,841.34	4,915,588.27
63,400,885.78	11,834,998.77	76,126,138.55	4,249,772.03
56,537,071.25	8,908,349.70	64,448,418.95	4,908,345.84
\$184,268,918.49	\$31,310,080.35	\$215,679,098.84	\$14,073,707.14

- * The amounts listed in the RECEIPTS column include the Changes in Investment Value (any income Unrealized Gains and Losses, Realized Gains and Losses, Dividend Income, and Interest Income.) Although this amount is available, it should not be confused with "Cash on Hand".
- ** Balance forward amount included \$210,000,000 transferred from the Coal Miners' Pneumoconiosis Fund in December 1998

Notice: 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 Miners' 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: November 17, 2002

Re: Status of General Revenue Fund October 31, 2002

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month of October 2002. The status of the fund collections are as follows:

The net year-to-date collections are **101.61%** of the estimate for the fiscal year as of October 31, 2002. **The amount above estimate is \$14,022,797.00 for the year.** Viewed on a monthly basis, collections were at 93.85% of the estimate, or \$15,429,115.00 below the monthly estimate.

Consumer sales tax collections are \$4,453,270.00 BELOW the estimate for the year. Collections of consumer sales tax were 98.52% of the yearly estimate.

Corporate net income tax collections are \$8,269,821.00 ABOVE the estimate for the year. Corporate net is \$ 1,162,224.00 below estimate for the month of October.

Personal income tax collections for October are at 89.62% of the

Joint Committee on Government and Finance

estimate. Viewed on a yearly basis personal income tax is 101.36% of the estimate.

Cigarette tax is \$288,147.00 above the monthly estimate and it is \$ 1,481,782.00 above the yearly estimate. Smokeless tobacco tax is \$ 87,769.00 above the monthly estimate and \$22,519.00 above the yearly estimate.

State Road Fund

The state road fund has been collected at 106.78% of the estimate for the year; and 107.35% of the estimate for October 2002. Licenses and registration were slightly above estimates for the year, at \$ 2,953,492.00 above the estimate. Wholesale fuel and use tax was \$798,846.00 below the estimates for the year. The entire fund is \$12,535,298.00 above estimate for the year.

Rainy Day and Personal Income Tax Reserve

On July 3, 2002, a transfer was made from the Rainy Day Fund to the General Revenue Fund in the amount of \$ 40,000,000.00. This is a loan which must be paid back to the Rainy Day Fund within 90 days of the loan. Cash flow demands in the beginning of the new fiscal year generally outpace the revenue collections, making this loan a necessity. This loan was paid back to the Rainy Day Fund on September 30, 2002.

The Rainy Day Fund (Revenue Shortfall Reserve Fund) had a cash balance of \$57,750,612.91 as of October 31, 2002.

Balance July 1, 2002	\$ 56,178,308.63
Revenues July 1, 2002-June 30, 2003 Surplus from 2002 (transferred 8-1-2002)	9,872,304.28
Cash flow loan to General Revenue on July 3, 2002	-40,000,000.00
Received payoff on loan from General Revenue Sept. 30, 2002	+ 40,000,000.00
Disbursed Flood Aid per Senate Bill 2028 on July 29, 2002	- 8,300,000.00
Balance October 31, 2002	57,750,612.91

The Special Income Tax Reserve Fund had a cash balance of \$19,019,318.96 as of October 31, 2002.

Balance July 1, 2002	27,391,035.96
Revenues July-October 2002	00,000,000.00
Disbursements July-October 2002	00,000,000.00
Other adjustments- Disbursed to DHHR for Medicaid deficit:	- 8,371,717.00
Balance October 31, 2002	19,019,318.96

GENERAL REVENUE FUND FY 2002-2003

Monthly Revenue Estimates, July 2002
as of October 31, 2002 WVFIMS

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	FINAL	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY
			MONTHLY OVER/ UNDER ESTIMATES VS ACTUAL COLLECTIONS			OVER/UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS
Business & Occupation Tax	17,400,000	19,748,804	2,348,804	47,900,000	49,884,045	1,984,045
Consumer Sales Tax	83,300,000	73,999,965	-9,300,035	300,600,000	296,146,730	-4,453,270
Personal Income Tax	86,000,000	77,074,285	-8,925,715	330,400,000	334,905,263	4,505,263
Liquor Profit Transfers	0	0	0	1,800,000	2,015,000	215,000
Racing Fees	500,000	780,000	280,000	500,000	780,000	280,000
Beer Tax and Licenses	600,000	630,874	30,874	2,700,000	2,769,411	69,411
Cigarette Tax	3,100,000	3,388,147	288,147	11,700,000	13,181,782	1,481,782
Estate and Inheritance Tax	900,000	549,648	-350,352	4,100,000	3,876,230	-223,770
Business Franchise Fees	70,000	23,095	-46,905	570,000	355,190	-214,810
Charter Tax	190,000	298,174	108,174	2,290,000	2,706,401	416,401
Use Tax	10,700,000	9,512,985	-1,187,015	29,600,000	31,143,127	1,543,127
Property Transfer Tax	560,000	626,683	66,683	2,660,000	2,688,488	28,488
Property Tax	420,000	598,044	178,044	1,620,000	2,095,036	475,036
Cash Flow Transfer	0	0	0	0	0	0
Insurance Tax	12,900,000	20,065,596	7,165,596	34,400,000	39,883,875	5,483,875
Departmental Collections	460,000	453,136	-6,864	1,760,000	1,755,911	-4,089
Corporate net Income Tax	3,700,000	2,537,776	-1,162,224	21,100,000	29,369,821	8,269,821
Miscellaneous Receipts	80,000	195,416	115,416	1,080,000	400,491	-679,509
Miscellaneous Transfers	0	47,547	47,547	500,000	133,071	-366,929
Interest Income	2,000,000	2,247,373	247,373	6,500,000	8,505,821	2,005,821
Video Lottery Transfers	0	341,557	341,557	0	428,217	428,217
Severance Tax	12,900,000	16,256,403	3,356,403	30,100,000	30,680,564	580,564
Business Franchise Tax	8,400,000	984,620	-7,415,380	30,900,000	23,624,959	-7,275,041
Telecommunications Tax	600,000	2,353,527	1,753,527	3,200,000	6,101,382	2,901,382
Special Revenue Transfer	0	0	0	0	0	0
Smokeless Tobacco Tax	300,000	387,769	87,769	1,600,000	1,622,519	22,519
HB 102 - Lottery Transfers	5,616,000	2,165,461	-3,450,539	5,616,000	2,165,461	-3,450,539
TOTALS	250,696,000	235,266,885	-15,429,115	873,196,000	887,218,797	14,022,797
Minus Cash Flow Transfer	0	0	0	0	0	0
TOTALS	250,696,000	235,266,885	-15,429,115	873,196,000	887,218,797	14,022,797
Percent of Estimates		93.85%			101.61%	
Collections this day		27,814,091				

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2002- 2003
Monthly REVENUE ESTIMATES, July 2002
as of October 31, 2002 WVFIMS

FINAL

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	4,000,000	5,703,447	1,703,447	24,800,000	27,753,492	2,953,492
Privilege Tax	13,100,000	14,434,214	1,334,214	55,600,000	63,723,144	8,123,144
Gasoline & Motor Carrier Rd T	19,146,000	19,518,186	372,186	79,087,000	81,219,115	2,132,115
Wholesale Fuel & Use Tax	6,538,000	6,250,372	-287,628	24,900,000	24,110,154	-789,846
Highway Litter Control Fund	119,000	150,745	31,745	509,000	625,393	116,393
TOTALS	42,903,000	46,056,965	3,153,965	184,896,000	197,431,298	12,535,298
Percent of Estimates		107.35%			106.78%	
Collections this day		771,468				

REVENUE SHORTFALL RESERVE FUND as of October 1, 2002: \$57,750,612.91

SPECIAL INCOME TAX REFUND RESERVE FUND as of October, 2002: \$19,019,318.96

GENERAL REVENUE FUND FY 2002-2003
 Monthly Revenue Estimates, July 2002
 as of October 31, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY PERCENT OF ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY PERCENT OF ESTIMATE COLLECTED
Business and Occupation Tax	17,400,000	19,748,804	113.50%	47,900,000	49,884,045	104.14%
Consumer's Sales Tax	83,300,000	73,999,985	88.84%	300,600,000	298,148,730	98.52%
Personal Income Tax	86,000,000	77,074,285	89.62%	330,400,000	334,905,263	101.38%
Liquor Profit Transfers	0	0		1,800,000	2,015,000	111.94%
Racing Fees	500,000	780,000		500,000	780,000	
Beer Tax and Licenses	800,000	630,874	105.15%	2,700,000	2,769,411	102.57%
Cigarette Tax	3,100,000	3,388,147	109.30%	11,700,000	13,181,782	112.68%
Estate and Inheritance Tax	900,000	849,648	61.07%	4,100,000	3,876,230	94.54%
Business Franchise Registration	70,000	23,095	32.99%	570,000	355,180	62.31%
Charter Tax	180,000	298,174	166.93%	2,290,000	2,706,401	118.18%
Use Tax	10,700,000	9,812,988	88.91%	29,600,000	31,143,127	105.21%
Property Transfer Tax	560,000	626,683	111.91%	2,860,000	2,888,488	101.07%
Property Tax	420,000	598,044	142.38%	1,820,000	2,096,038	129.32%
Cash Flow Transfer	0	0		0	0	
Insurance Tax	12,900,000	20,065,598	155.55%	34,400,000	39,883,878	115.94%
Departmental Collections	460,000	453,136	98.51%	1,760,000	1,755,911	99.77%
Corporate Net Income Tax	3,700,000	2,837,776	68.59%	21,100,000	29,368,821	139.19%
Miscellaneous Receipts	80,000	195,416	244.27%	1,080,000	400,491	37.08%
Miscellaneous Transfers	0	47,547		500,000	133,071	26.61%
Interest Income	2,000,000	2,247,373	112.37%	6,500,000	8,505,821	130.86%
Video Lottery Transfers	0	341,557		0	428,217	
Severance Tax	12,900,000	16,256,403		30,100,000	30,880,564	101.93%
Business Franchise Tax	8,400,000	984,620	11.72%	30,900,000	23,624,959	76.46%
Telecommunications Tax	600,000	2,353,527	392.25%	3,200,000	6,101,382	190.67%
Special Revenue	0	0		0	0	
Smokeless Tobacco Tax	300,000	387,769	129.26%	1,800,000	1,822,519	101.41%
H.B. 102- Lottery Transfers	5,616,000	2,165,481		5,616,000	2,165,481	38.56%
TOTALS	250,696,000	235,266,888	93.85%	873,186,000	887,218,793	101.61%
Minus Cash Flow Transfers					0	
TOTALS	250,696,000	235,266,888	93.85%	873,186,000	887,218,793	101.61%
Percent of Estimates		93.85%			101.61%	

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2002-2003
 REVENUE ESTIMATES AS OF JULY 2002
 as of October 31, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	PERCENT OF MONTH ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	PERCENT OF YEAR ESTIMATE COLLECTED
Licenses and Registration	4,000,000	5,703,447	142.59%	24,800,000	27,753,492	111.91%
Privilege Tax	13,100,000	14,434,214	110.18%	55,600,000	63,723,144	114.61%
Gasoline and Motor Carrier Road Tax	19,146,000	19,518,186	101.94%	79,087,000	81,219,115	102.70%
Wholesale Fuel and Use Tax	6,538,000	6,250,372	95.60%	24,900,000	24,110,154	96.83%
Highway Litter Control Fund	119,000	150,745	126.68%	509,000	625,393	122.87%
TOTALS	42,903,000	46,056,964	107.35%	184,896,000	197,431,298	106.78%

West Virginia Board of Risk
Unaudited Statement of Net Assets
September 30, 2002

ASSETS

Short Term Assets

Cash and Equivalents	30,007,149.83
Advance Deposit with Carrier	41,891,658.35
Receivables - Net	4,498,137.42
Prepaid Insurance	1,332,016.71

Total Short Term Assets 77,528,862.31

Long Term Assets

Investments	69,189,896.12
Total Long Term Assets	<u>69,189,896.12</u>

TOTAL ASSETS 146,718,758.43

LIABILITIES

Short Term Liabilities:

Accounts Payable	711,044.70
Premium Tax Payable	242,283.80
Claims Payable	88,569.03
Agent's Commission Payable	1,241,851.18
Unearned Revenue	14,600,120.49
Current Est. unpaid claims	47,643,850.00
Total Short Term Liabilities	<u>64,527,719.20</u>

Long Term Liabilities:

Compensated Absences	143,062.84
Loan Payable	500,000.00
Estimated unpaid claims	113,545,705.00
Total Long Term Liabilities	<u>114,188,767.94</u>

Total Liabilities 178,716,487.14

Unrestricted Deficiency

Prior Year Unrestricted Deficit	<37,934,367.38>
Net Assets (Deficiency)	4,883,241.47
Net Assets (Deficiency)-Pref	1,075,595.57
Net Assets (Deficiency)-High R	<22,198.37>
Total Unrestricted Deficiency	<u><31,997,728.71></u>

Liab. & Unrestricted Deficiency 146,718,758.43

West Virginia Board of Risk

Unaudited Statement of Revenues, Expenses and Changes in Fund Net Assets

for the three months ending September 30, 2002

Operating Revenues

Premium Revenues	13,687,087.01
Revenues-Preferred	2,119,838.85
Revenues-High Risk	369,087.90
Loss - Excess Insurance	<745,637.07>
Total Operating Revenues	15,430,356.49

Operating Expenses

Claims Expense	9,234,802.28
Claims Expense-Prof	443,692.00
Claims Expense-High Risk	323,374.00
Prop. & MS Claims Exp.	520,232.76
Med Mal Claims Exp-High Risk	8,672.12
Med Mal Claims Expense-HR	9,785.70
Personal Services	230,091.04
Payroll-Preferred	14,784.79
Payroll-High Risk	1,055.58
Operating Expenses	437,276.38
Operating-Preferred	664,184.00
Operating-High Risk	68,685.94
Total Operating Expense	11,952,136.55

Operating Income (Loss) **3,478,219.94**

Nonoperating Revenues

Finance Charge-Preferred	54,326.54
Finance Charge- High Risk	7,358.02
Court Fees-Prof	4,798.53
Court Fees-High Risk	316.47
Investment Income	1,788,665.27
Investment-Prof	18,303.47
Investment-High Risk	1,167.88
Appropriation Transfer	575,348.88
Appropriation Transfer Prof	9,481.28
Appropriation Transfer High RI	672.78
Total Nonoperating Revenues	2,458,418.73

Net Assets (Deficiency) **5,936,638.67**

**West Virginia Board of Risk and Insurance Management
 Medical Malpractice Program -House Bill 601 Doctors Only
 UNAUDITED BALANCE SHEET
 September 30, 2002**

	Preferred	High-Risk	Total
Assets			
Cash and Equivalents	\$ 6,808,791	\$ 1,325,750	\$ 7,934,541
Receivables	3,187,170	305,095	3,492,265
Total Assets	<u>\$ 9,795,962</u>	<u>\$ 1,630,845</u>	<u>\$ 11,426,807</u>
Liabilities			
Accounts payable	187,828	10,170	197,998
Premium Tax Liability	218,961	23,323	242,284
Agents Commissions Payable	76,457	13,641	90,098
Unearned Revenue	6,536,259	634,827	7,171,086
Loan Payable	250,000	250,000	500,000
Current Estimated Claim Reserve	461,597	189,074	650,671
Total Liabilities	<u>7,731,102</u>	<u>1,121,035</u>	<u>8,852,137</u>
Noncurrent Liabilities			
Estimated Claim Reserve	1,969,835	718,766	2,688,601
Total Liabilities	9,700,937	1,839,801	11,540,738
Prior Year Retained Earnings (Deficiency)	(960,571)	(186,758)	(1,167,329)
Retained Earnings (Deficiency)	1,075,596	(22,198)	1,053,398
Total Retained Earnings (Deficiency)	<u>95,025</u>	<u>(208,956)</u>	<u>(113,931)</u>
Total Liabilities and Retained Earnings (Deficiency)	<u>\$ 9,795,962</u>	<u>\$ 1,630,845</u>	<u>\$ 11,426,807</u>

**West Virginia Board of Risk and Insurance Management
 Medical Malpractice Program -House Bill 601 Doctors Only
 UNAUDITED INCOME STATEMENT
 for the three months ending September 30, 2002**

	Preferred	High-Risk	Total
Operating Revenues			
Premium Revenues	\$ 2,119,839	\$ 369,088	\$ 2,488,927
Operating Expenses			
Claim and Claim Adjustment Expense	450,164	333,160	783,324
Claim Adjusting Expense - Marsh Fees	347,359	28,318	375,677
Personal Services-Payroll	14,785	1,056	15,840
General and Administrative Expense	316,825	38,268	355,093
Total Operating Expenses	<u>1,129,132</u>	<u>400,801</u>	<u>1,529,934</u>
Operating Income (Loss)	990,706	(31,713)	958,993
Nonoperating Revenues			
Payroll Appropriation Transfer In	9,481	673	10,134
Interest Income	16,303	1,168	17,471
Finance Charge	54,327	7,358	61,685
Court Fees	4,799	316	5,115
Total Nonoperating Revenue	<u>84,890</u>	<u>9,515</u>	<u>94,405</u>
Net Income (Loss)	<u>\$ 1,075,596</u>	<u>\$ (22,198)</u>	<u>\$ 1,053,398</u>

Jun-02

Sep-02

	RETAINED CASE RESERVES	RETAINED IBNR	RETAINED OUTSTANDING	RETAINED CASE RESERVES	RETAINED IBNR	RETAINED OUTSTANDING	Difference
GENERAL LIABILTY STATE	14,170,747	24,824,719	38,995,466	14,530,313	25,428,000	39,958,313	962,847
GENERAL LIABILTY SB3	18,321,214	27,185,892	45,507,106	17,126,755	25,300,000	42,426,755	(3,080,351)
AUTO STATE	1,788,005	3,308,457	5,097,462	1,465,501	2,710,000	4,175,501	(821,961)
AUTO SB3	5,174,006	5,468,639	10,642,645	4,519,078	4,800,000	9,319,078	(1,323,567)
MED MAL STATE	21,098,874	26,904,773	48,003,647	22,361,964	28,600,000	50,961,964	2,958,317
MED MAL SB3	735,043	2,953,845	3,688,888	822,430	3,310,000	4,132,430	443,542
PROPERTY STATE	1,258,559	152,200	1,410,759	735,021	88,000	824,021	(586,738)
PROPERTY SB3	501,801	488,982	990,783	789,301	765,021	1,554,322	563,539
MINE SUBSIDENCE	746,580	1,844,493	2,591,073	806,580	1,980,000	2,796,580	205,507
NEW MED MAL	931,000	1,615,838	2,546,838	1,251,658	2,054,550	3,306,208	759,370
	64,726,829	94,747,838	159,474,667	64,408,601	95,046,571	159,455,172	(19,495)



BOB WISE
GOVERNOR

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION

GREGORY A. BURTON
CABINET SECRETARY

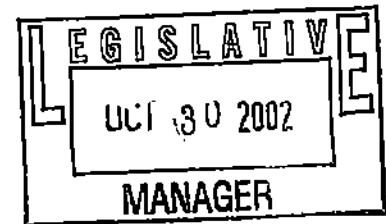
INSURANCE AND RETIREMENT SERVICES

TOM SUSMAN
DIRECTOR

October 29, 2002

The Honorable Earl Ray Tomblin, President
West Virginia Senate
Building 1, Room 227-M
1900 Kanawha Blvd., East
Charleston, West Virginia 25305

The Honorable Robert S. Kiss, Speaker
West Virginia House of Delegates
Building 1, Room 234-M
1900 Kanawha Blvd., East
Charleston, West Virginia 25305



Subject: WV CHIP Compliance with Actuarial Requirements

Dear President Tomblin and Speaker Kiss:

In a meeting of the Joint Committee on Government and Finance held on Tuesday, October 22, 2002, you questioned the West Virginia Children's Health Insurance Program's conformity with a section of State Code that refers to a 90 percent funding requirement. Specifically, State Code §5-16B-6(b) states: "Actuary requirements—Any financial plan, or modifications, approved or proposed by the board shall be submitted to the governor and the Legislature with the actuary's written professional opinion that all estimated program and administrative costs of the agency under the plan, including incurred but unreported claims, will not exceed ninety percent of the funding available to the program for the fiscal year for which the plan is proposed and that the financial plan allows for no more than thirty days of accounts payable to be carried over into the next fiscal year. This actuarial requirement is in addition to any requirement imposed by Title XXI of the Social Security Act of 1997."

CCRC Actuaries stated in a June 30, 2002 Report on the Children's Health Insurance Program that "Based on the baseline scenario, the program costs are not expected to exceed 90 percent of the funding available to the program through State Fiscal Year 2004." This is further documented in Appendix A of the actuarial report that presents fiscal year 2003 program costs of \$35,072,195. These costs represent only 52 percent of total available funding of \$67,914,638.

The Honorable Earl Ray Tomblin
The Honorable Robert S. Kiss
October 29, 2002
Page Two

Although State Code does not require the five-year projections that appear in the report, the Children's Health Insurance Program Board has requested such projections. The chart below summarizes the calculation for FY 2003 and 2004:

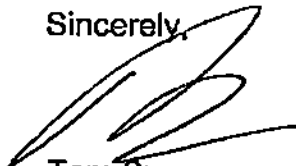
	Fiscal Year 2003	Fiscal Year 2004
Funds Available	\$67,914,638	\$56,292,713
Projected Program Costs	\$35,072,195	\$39,053,763
Percent	52%	69%

Since federal allotments for 2004 through 2007 fiscal years are not known at this time, a conservative estimate is used that results in a shortfall for fiscal years 2005-2007. However, if this case were to occur, preventive measures could be taken well in advance to cap enrollment and avert any deficits.

The rationale above, coupled with the attached report, considers differences in the timing of federal and state fiscal year ends and rollover of funds to counter positions that the program expects to spend more than 90 percent of its allotted state funding in a given year.

Please feel free to contact me if you have any further questions.

Sincerely,



Tom Susman
Director

cc: Sharon Carte, CHIP Director
Aaron Allred, Legislative Manager

Attachments

CHIP ar to Kiss-10-24-02.doc

**WV CHIP
SFY 2003
Costs/Funding per June 30, 2002 Actuarial Report**

Available Beginning Funding:
\$6,465,294 Federal 00 Grant
21,144,989 Federal 01 Grant
16,650,270 Federal 02 Grant
16,650,270 Federal 03 Grant
2,160,340 State Original Funding
4,843,475 State 03 Funding
67,914,638

Available End of Year Funding:
15,315,471
16,650,270
876,703
32,842,444

Net Incurred Program Costs:
28,945,062 Federal Share
6,127,112 State Share
35,072,174 Total

35,072,174 Net Incurred Program Costs
\$67,914,638 Total Available Funding
51.6% Costs/Funding

Aaron Allred
Legislative Auditor's Office

Legislative Oversight Commission on
Health and Human Resources Accountability

November 2002

Department of Administration

State Children's Health Insurance Program
UPDATE



WV CHILDREN'S HEALTH INSURANCE AGENCY

REPORT FOR NOVEMBER 2002

I. Outreach/Health Promotion Activity*

During the month of October 2002

➤ **WVCHIP** Promotion through Various Media

- 110 "Hard Choices" television commercials, produced with funding from the Robert Wood Johnson Foundation, aired on Charter Communications channels such as *Lifetime, Nickelodeon, TBS, USA and ESPN* in the Sissonville System, which covers North Charleston, Dunbar, Cross Lanes and Sissonville areas.
- The print ad "Don't Miss the Bus" (developed by Bryan Boyd Creative Group) was used for ad placement in the Halloween Coloring Book distributed by the *Parkersburg News and Sentinel* in 12 counties.

➤ **WVCHIP** and the WV Healthy Kids Coalition Partnership for Local Community Events

- County Fairs with CHIP Exhibits: Kanawha, Mingo, Lewis, Upshur, Taylor and Fayette Counties
- Health Fairs with CHIP Events: Kids Safety and Health Fair in Mingo County and the NAACP Family Fun Day in Raleigh County.
- Other Special Community Events: Halloween Safety Night in Grafton, Fall Festival in Kanawha County, and the Health Ministry Conference in Kanawha County
- Outreach Through Businesses: Exhibits at the Youth Development Conference in Lewisburg and the Economic Summit Convention in Kanawha County.
- Outreach Through Schools: PTA meetings in Raleigh and Berkeley Counties, all high school football games in Raleigh County, State Golf Tournament in Wheeling and CHIP presentations to school nurses in four counties (Mingo, Lewis, Marion and Fayette).

➤ **WVCHIP** Focus Outreach for Counties with Higher Number of Uninsured Children

- CHIP has established outreach agreements with the following organizations for more focused outreach in the top 15 counties determined with the highest number of uninsured children in the state. Small contracts (\$2,500 or under) will encourage each agency to establish working relationships with other outreach workers and agencies in their respective counties.

- Kanawha--Partnership of African American Churches (PAAC) for minority outreach
- Logan--PRIDE of Logan County through Logan County FRN
- Mingo--Mingo County FRN
- Cabell--Cabell County FRN
- Lewis--Lewis County FRN
- Marion/Monongalia--Marion County FRN
- Raleigh/Fayette--Raleigh County FRN (part of their agreement contains minority outreach in Raleigh County coordinating with the NAACP)

- Upshur/Randolph/Pocahontas--Nicholas County Empowerment Corporation through Nicholas County Starting Points Center
- Wayne--Wayne County FRN
- Wood--Automated Health Systems
- Mercer--Community Connections (Mercer County FRN)
- Berkeley County has not been established yet.

For complete information on outreach events, please see our website at www.wvchip.org, click on "Outreach," scroll down to click on "Outreach Events Calendar," and then click on the current month.

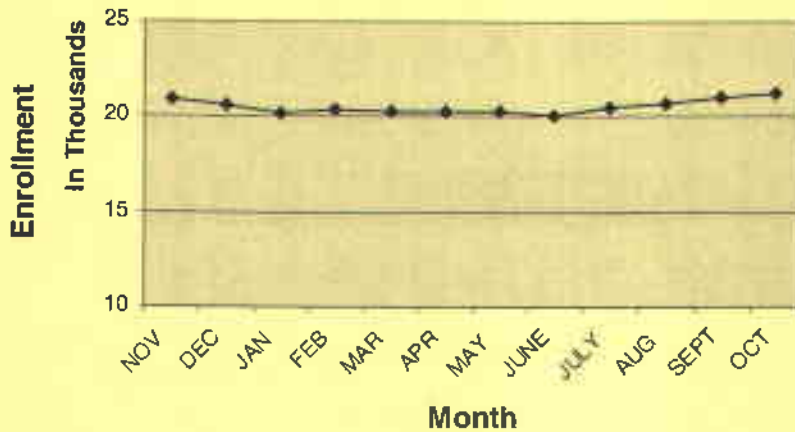
II. Enrollment/Re-enrollment Activity

Enrollment as of October 31, 2002: 21,216

Please see Attachment 1 for enrollment by county and estimated uninsured children by county.

Total unduplicated enrolled for quarter ended September 30, 2002: 23,685

Current 12-Month Enrollment Period: November 2001 through October 2002



New Enrollee Totals: August to October 2002

Month	CHIP	% of Total	CHIP3*	% of Total	Total
August	1,090	65%	582	35%	1,672
September	1,022	64%	571	36%	1,593
October	993	61%	634	39%	1,627

New Enrollees (Never Before on CHIP) Totals: August to October 2002

Month	CHIP	% of Total	CHIP3*	% of Total	Total
August	741	68%	351	32%	1,092
September	622	68%	294	32%	916
October	586	62%	352	38%	938

Re-enrollment Activity for the Current 3 Month Period: August to October 2002

Total Forms Mailed		Enrolled within Notice Period		Reopened Cases After Closure		Final Closures	
Month	Total	#	%	#	%	#	%
August	1557	778	50.0%	343	22.0%	435	28.0%
September	1639	677	41.3%	242	14.7%	435	27.0%
October	1768	711	40.0%	310	17.5%	401	23.0%

* The number of children enrolled as a result of the Phase III expansion which raised the income guidelines to 200% FPL and took effect in October 2000.

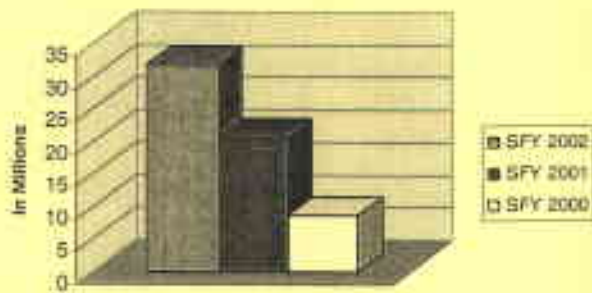
III. Financial Activity

Please see this month's financial statement at Attachment 2.

The average annualized claims cost per child for the month ended September 2002 was around \$1,551.

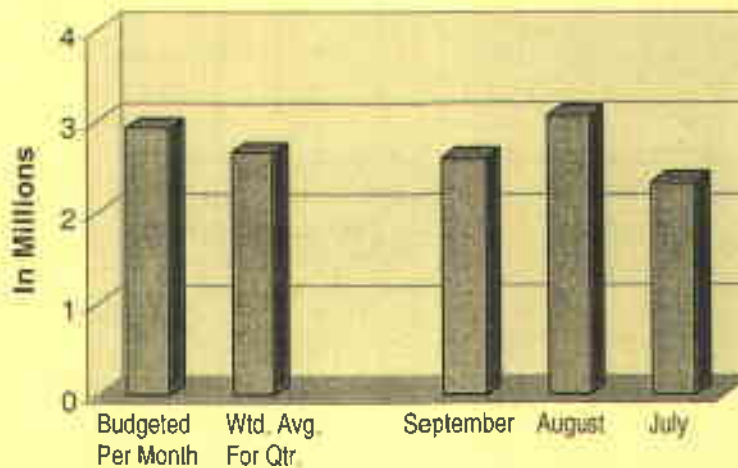
Annual Expenditures for a 3 Year Period: SFY 2000 – SFY 2002

	SFY 2002	FFP% 2002	SFY 2001	FFP% 2001	SFY 2000	FFP% 2000
Federal	26,139,399	82.69	17,099,081	82.74	6,875,879	82.35
State	5,466,863	17.31	3,579,196	17.26	1,860,784	17.65
Total Costs	31,606,626	100.00	20,678,277	100.00	8,736,663	100.00



Monthly Budgeted and Current 2 Month Period: July – August 2002

	Budgeted Per Month	Wtd. Avg. For Qtr.	Actual		
			September 2002	August 2002	July 2002
Federal	2,414,003	2,197,172	2,140,583	2,529,378	1,921,555
State	510,998	459,947	448,101	529,490	402,251
Total	2,925,001	2,657,119	2,588,684	3,058,868	2,323,806



WV CHIP Enrollment Report

November 2002

County Ranking	County Population 2000 (0-18 Yrs)	Total CHIP Enrollment 10/31/2002	Total Medicaid Enrollment 10/1/2002	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Harrison	16,823	798	5,817	6,615	39.3%	99.9%	1	0**
Pendleton	1,883	64	476	540	28.7%	99.0%	2	19
Brooke	5,544	191	1,252	1,443	26.0%	98.5%	3	0**
Boone	6,211	308	2,759	3,067	49.4%	97.9%	4	133
Marshall	12,486	266	2,594	2,860	22.9%	97.5%	5	217
Doddridge	1,986	118	727	845	42.5%	96.4%	6	60
Kanawha	45,159	1,704	14,704	16,408	36.3%	96.4%	7	772
Wirt	1,569	92	545	637	40.6%	96.3%	8	46
Ritchie	2,521	137	819	956	37.9%	96.2%	9	81
Marion	6,709	603	4,303	4,906	73.1%	95.9%	10	516
Grant	2,703	138	779	917	33.9%	95.8%	11	82
Mason	8,565	213	2,246	2,459	28.7%	95.7%	12	249
Braxton	3,487	231	1,632	1,863	53.4%	95.6%	13	155
Ohio	10,861	358	2,798	3,156	29.1%	95.6%	14	480
Clay	2,810	232	1,425	1,657	59.0%	95.1%	15	94
Tyler	2,344	122	739	861	36.7%	94.9%	16	93
Greenbrier	7,896	485	2,608	3,093	39.2%	94.8%	17	306
Webster	2,369	158	1,235	1,393	58.8%	94.7%	18	103
Nicholas	6,519	459	2,577	3,036	46.6%	94.4%	19	324
Wyoming	6,073	458	2,939	3,397	55.9%	94.0%	20	231
Berkeley	20,493	834	5,188	6,022	29.4%	93.9%	21	1,084
Jackson	7,085	286	2,366	2,652	37.4%	93.9%	22	340
Jefferson	10,746	313	1,945	2,258	21.0%	93.9%	23	651
Pleasants	1,879	112	459	571	30.4%	93.9%	24	88
McDowell	6,256	465	4,064	4,529	72.4%	93.8%	25	373
Hardy	3,128	128	959	1,087	34.8%	93.6%	26	200
Lincoln	5,543	419	2,736	3,155	56.9%	93.3%	27	327
Putnam	13,563	538	2,772	3,310	24.4%	93.2%	28	486
Monroe	3,103	183	969	1,152	37.1%	93.1%	29	196
Tucker	1,637	160	501	661	40.4%	93.1%	30	103
Hancock	7,172	259	1,839	2,098	29.3%	92.9%	31	443
Gilmer	1,606	92	619	711	44.3%	92.8%	32	115
Monongalia	17,093	591	3,945	4,536	26.5%	92.6%	33	1,144
Barbour	3,812	338	1,902	2,240	58.8%	92.5%	34	255
Wetzel	4,431	185	1,603	1,788	40.4%	92.5%	35	334
Fayette	10,991	767	4,848	5,615	51.1%	92.1%	36	706
Logan	8,862	544	4,166	4,710	53.1%	92.1%	37	654
Raleigh	18,034	1,062	6,926	7,988	44.3%	91.7%	38	1,395
Cabell	21,019	849	7,323	8,172	38.9%	91.6%	39	1,218
Hampshire	5,359	281	1,633	1,914	35.7%	91.3%	40	295
Mercer	14,100	881	6,365	7,246	51.4%	91.0%	41	1,268
Taylor	3,895	260	1,359	1,619	41.6%	90.9%	42	356
Mineral	6,754	261	1,953	2,214	32.8%	90.7%	43	251
Roane	3,804	273	1,597	1,870	49.2%	90.5%	44	336
Wood	21,344	849	6,756	7,605	35.6%	90.5%	45	1,624
Upshur	5,701	381	2,243	2,624	46.0%	90.4%	46	547
Preston	7,338	473	2,393	2,866	39.1%	90.2%	47	236
Randolph	8,655	434	2,530	2,964	44.5%	89.7%	48	653

DEPARTMENT OF ADMINISTRATION
 WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
 SCHEDULE OF EXPENDITURES FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002
 ATTACHMENT 2

SFY 2003

EXPENDITURES BY HEALTH CARE TYPE	YTD ACTUAL TOTAL
Outpatient Hospital Services	2,294,337
Physicians Services	1,437,253
Prescribed Drugs	1,114,485
Dental Services	1,014,752
Inpatient Hospital Services	622,044
Outpatient Mental Health Facilities	325,898
Vision Services	260,946
Inpatient Mental Health Facilities	79,952
Medical Transportation	64,603
Durable and Disposable Medical Equipment	99,810
Therapy Services	61,700
Other Care Services*	12,531
SUB-TOTAL	\$7,388,311
LESS: DRUG REBATES	0
TOTAL EXPENDITURES BY PROVIDER TYPE	\$7,388,311

EXPENDITURES FOR ADMINISTRATION

Enrollment and Claims Processing	\$278,662
Eligibility and Other Indirect Costs	88,814
Salaries, Taxes and Benefits	101,269
Current Expense and Other	114,301
TOTAL EXPENDITURES FOR ADMINISTRATION	\$583,047
TOTAL EXPENDITURES	\$7,971,358
FUNDED FROM FFY 00 FEDERAL ALLOTMENT	5,660,485
FUNDED FROM FFY 01 FEDERAL ALLOTMENT	931,031
STATE MATCH	1,379,842
TOTAL FUNDING	\$7,971,358

*Other Care Services include Other Practitioners' Services, Home Health, and Clinic Services

**DEPARTMENT OF ADMINISTRATION
WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
SCHEDULE OF EXPENDITURES BY PROVIDER FOR THE MONTH ENDED SEPTEMBER 30, 2002**

September

EXPENDITURES BY HEALTH CARE TYPE	WV CHIP
Outpatient Hospital Services	\$676,255
Physicians Services	434,649
Prescribed Drugs	447,936
Dental Services	313,179
Inpatient Hospital Services	260,726
Outpatient Mental Health Facilities	94,140
Vision Services	95,507
Inpatient Mental Health Facilities	22,565
Medical Transportation	17,395
Durable and Disposable Medical Equipment	28,230
Therapy Services	23,253
Other Care Services*	4,791
SUB-TOTAL	\$2,418,626
LESS: DRUG REBATES	
TOTAL	\$2,418,626
EXPENDITURES FOR ADMINISTRATION	\$170,058
TOTAL EXPENDITURES	\$2,588,684

WV CHILDREN'S HEALTH FUND

WVFIMS FUND 2154 - PHASE II

SFY 2003

Investment Account

As of September 30, 2002

Funds invested	\$304,056
Interest earned	2,388
Total	\$306,444

WV TITLE XIX - MEDICAID FUND

WVFIMS FUND 5452 - PHASE I

SFY 2003

Investment Account

As of September 30, 2002

Funds invested	\$111,455
Interest earned	543
Total	\$111,998



CHILDREN'S HEALTH INSURANCE PROGRAM

FINANCIAL STATEMENTS

**FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2002**

**WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
 COMPARITIVE BALANCE SHEET
 SEPTEMBER 30, 2002 AND 2001
 (Accrual Basis)**

	September 30, 2002	September 30, 2001
ASSETS:		
CASH & CASH EQUIVALENTS	\$1,156,481	\$3,250,497
DUE FROM FEDERAL GOVERNMENT	2,944,562	3,058,178
DUE FROM OTHER FUNDS	622,101	488,390
ACCRUED INTEREST RECEIVABLE	652	9,394
FIXED ASSETS, AT HISTORICAL COST	<u>30,080</u>	<u>28,364</u>
TOTAL ASSETS	<u>\$4,753,876</u>	<u>\$6,834,823</u>
LIABILITIES:		
DUE TO OTHER FUNDS	300,965	339,607
DEFERRED REVENUE	247,628	3,104,236
UNPAID INSURANCE CLAIMS LIABILITY	<u>3,280,000</u>	<u>2,490,000</u>
TOTAL LIABILITIES	<u>\$3,808,791</u>	<u>\$5,833,843</u>
FUND EQUITY	<u>\$945,085</u>	<u>\$900,980</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$4,753,876</u>	<u>\$6,834,823</u>

WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
COMPARITIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 2001
(Accrual Basis)

	September 30, 2002	September 30, 2001
REVENUES:		
FEDERAL GRANTS	\$6,881,729	\$7,160,686
APPROPRIATIONS-LOCAL	1,440,593	1,493,757
INVESTMENT EARNINGS	<u>3,408</u>	<u>48,529</u>
TOTAL OPERATING REVENUES	<u>\$8,325,730</u>	<u>\$8,702,972</u>
OPERATING EXPENDITURES:		
INSURANCE CLAIMS:		
OUTPATIENT SERVICES	\$2,362,898	\$2,262,909
PRESCRIBED DRUGS	1,413,296	1,447,853
PHYSICIAN & SURGICAL	1,236,012	1,074,630
DENTAL	981,057	1,023,239
INPATIENT HOSPITAL	571,257	726,855
OUTPATIENT MENTAL HEALTH	262,434	291,629
OTHER	<u>611,356</u>	<u>621,197</u>
TOTAL CLAIMS	<u>7,438,310</u>	<u>7,448,312</u>
GENERAL & ADMIN:		
ENROLLMENT & CLAIMS PROCESSING	528,906	810,240
ELIGIBILITY & OTHER INDIRECT COST	114,814	214,282
SALARIES AND RELATED BENEFITS	101,269	68,840
OTHER	<u>139,023</u>	<u>112,769</u>
TOTAL ADMINISTRATIVE	<u>884,012</u>	<u>1,206,131</u>
TOTAL EXPENDITURES	<u>8,322,322</u>	<u>8,654,443</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,408	48,529
FUND EQUITY, BEGINNING	941,677	852,451
FUND EQUITY, ENDING	<u>\$945,085</u>	<u>\$900,980</u>

West Virginia Children's Health Insurance Program
Notes to Financial Statements
For the Three Months Ended September 30, 2002

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying general purpose financial statements of the West Virginia Children's Health Insurance Program (CHIP) conform to generally accepted accounting principles (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

Financial Reporting Entity

The West Virginia Children's Health Insurance Program (CHIP) expands access to health services for eligible children. Major revenue sources are federal awards and state appropriations. CHIP uses third party administrators to process claims, pay providers, and review utilization of health services. A nine-member board develops plans for health insurance specific to the needs of children and to develop annual financial plans which promote fiscal stability.

Basis of Accounting

CHIP follows the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Significant revenues subject to accrual are federal awards. Expenditures are recognized when a related liability is incurred.

Assets and Liabilities

Cash and Cash Equivalents

Cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investments Management Board (IMB). In addition, CHIP makes interest-earning deposits in certain investment pools maintained by IMB that are available to CHIP with overnight notice. Interest income from these investments is prorated to CHIP at rates specified by IMB based on the balance of CHIP's deposits maintained in relation to the total deposits of all state agencies participating in the pool. The carrying value of the deposits reflected in the financial statements approximates fair value. CHIP also has an outside bank account which it utilizes to make provider payments. Cash deposits in the outside bank account are considered to be cash and cash equivalents and are generally carried at fair value.

Deferred Revenue

Receipts to reimburse for program expenditures to be incurred in the future periods are classified as deferred revenue.

Insurance Claims Payable

The liability for unpaid claims is based on an estimate of claims incurred but not yet reported as of the balance sheet date. Offsetting amounts receivable for the federal and state share of these expenditures have been recorded.

Note 2

Cash and Investments

At September 30, 2002, information concerning the amount of deposits with financial institutions, including deposits, of the State Treasurer's Office is as follows:

	Carrying Amount	Bank Balance	Collateralized Amount
Deposits with Treasurer	\$ 1,252,159	-----	-----
Deposits with third party administrators	<u>(514,140)</u>	<u>12,570</u>	<u>12,570</u>
Total	<u>\$ 738,039</u>	<u>\$12,570</u>	<u>\$12,570</u>

Investments

	Amount Unrestricted	Fair Value	Investments Pool
Investment with Investment Management Board	\$ 418,442	\$ 418,442	Cash Liquidity

Reconciliation of cash and cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits	
Cash and Cash equivalents as reported	\$1,156,481
Less: investments disclosed as cash equivalents	<u>(418,442)</u>
Carrying amount of deposits as disclosed in this footnote	<u>\$ 738,039</u>

Investments	
Investments as Reported	-----
Add: investments disclosed as cash equivalents	\$ 418,442
Carrying value of investments as disclosed in this footnote	<u>\$ 418,442</u>

Note 3

Due to other funds:

Public Employees Insurance Agency	\$231,332
DHHR	26,000
Automated Health Systems	11,399
Other	<u>32,244</u>
Total due to other funds	<u>\$300,965</u>

Note 4

Risk Management

Unpaid Claims Liabilities

Claims payable, beginning of year	\$3,210,000
Incurred claims expense	7,438,310
Payments:	
Claim payments for current year	3,806,003
Claim payments for prior year	3,582,307
Claims payable, end of year	<u>\$3,260,000</u>

Note 5**Contingencies**

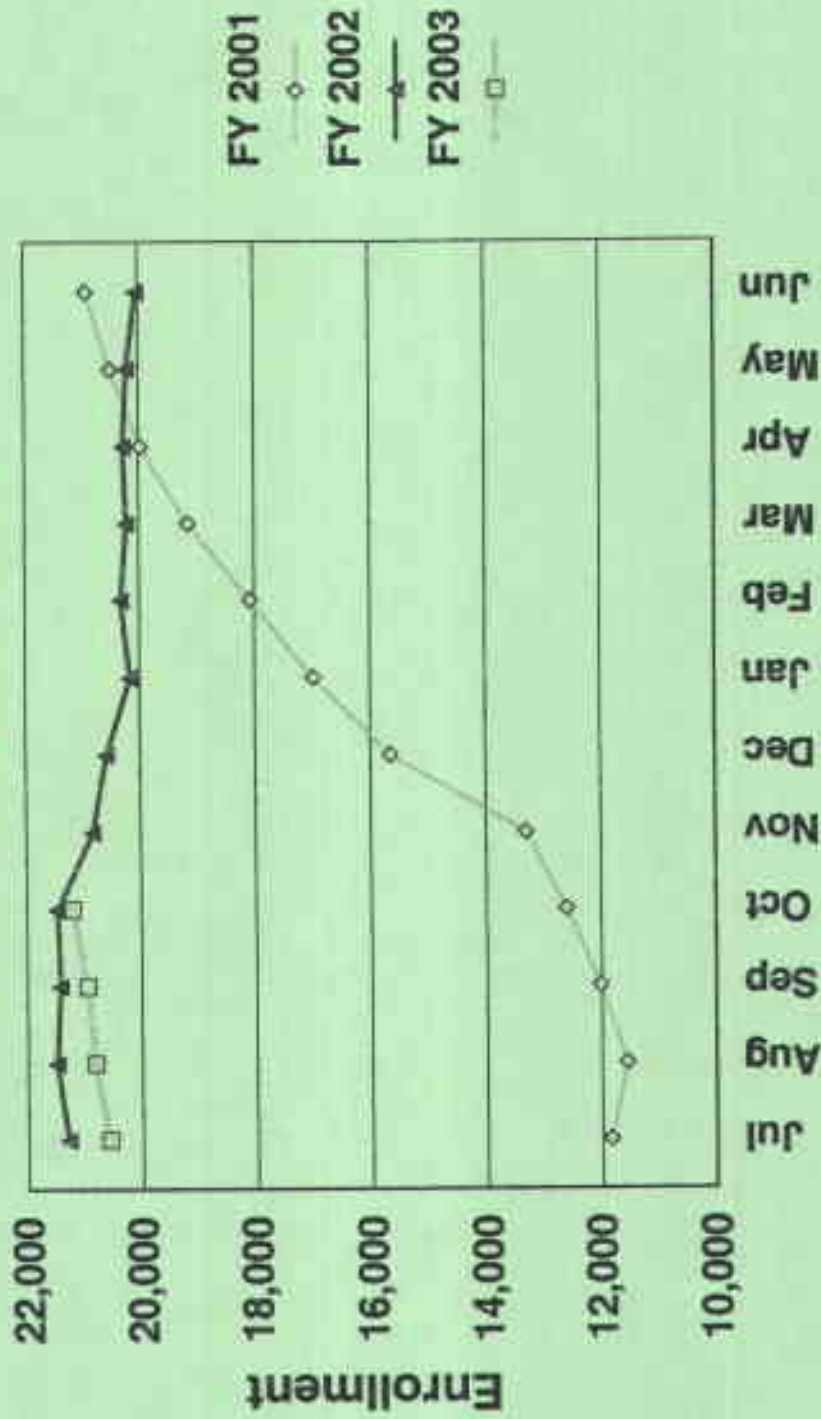
CHIP receives significant financial assistance from the U.S. Government in the form of grants and other federal financial assistance. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for allowable purposes. Federal financial assistance awards are subject to financial and compliance audits under either the federal Single Audit Act or by grantor agencies of the federal government or their designees. Any obligations that may arise from cost disallowance or sanctions as a result of those audits are not expected to be material to the financial statements of CHIP.

**WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
BUDGET TO ACTUAL STATEMENT
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002**

	<u>Year</u>	<u>Year to Date Budget</u>	<u>Year to Date Actual</u>	<u>Year to Date Variance*</u>		<u>Month</u>	<u>September</u>	<u>August</u>	<u>July</u>
PROJECTED COST	\$33,182,000	\$8,295,500	\$7,624,035	\$671,465	8%	\$2,765,167	\$2,504,660	\$2,948,183	\$2,171,192
CO-PAYS	<u>800,000</u>	<u>200,000</u>	<u>235,725</u>	<u>(35,725)</u>	18%	<u>66,667</u>	<u>86,034</u>	<u>83,141</u>	<u>66,550</u>
NET BENEFIT COST	32,382,000	8,095,500	7,388,310	707,190	9%	2,698,500	2,418,626	2,865,042	2,104,642
PERSONNEL	\$420,000	\$105,000	\$101,269	\$3,731	4%	\$35,000	\$32,542	\$32,192	\$36,535
CLAIMS ADMIN.	1,640,000	410,000	258,426	151,574	37%	136,667	11,105	109,343	137,979
ELIGIBILITY	470,000	117,500	88,814	28,686	24%	39,167	52,000	36,814	0
OUTREACH	400,000	100,000	76,929	23,071	23%	33,333	43,975	6,067	26,887
CURRENT	<u>288,000</u>	<u>72,000</u>	<u>57,609</u>	<u>14,391</u>	20%	<u>24,000</u>	<u>30,436</u>	<u>9,410</u>	<u>17,763</u>
TOTAL ADMIN COST	\$3,218,000	\$804,500	\$583,048	\$221,452	28%	\$268,167	\$170,058	\$193,826	\$219,164
FED PARTICIPATION RATE	82.53%					82.53%	82.53%	82.53%	82.53%
TOTAL PROGRAM COST	<u>\$35,800,000</u>	<u>\$8,900,000</u>	<u>\$7,971,358</u>	<u>\$928,642</u>	10%	<u>\$2,966,667</u>	<u>\$2,588,684</u>	<u>\$3,058,868</u>	<u>\$2,323,806</u>
FEDERAL SHARE	29,380,680	7,345,170	6,591,516	753,654	10%	2,448,390	2,140,563	2,529,378	1,921,555
STATE SHARE	<u>6,219,320</u>	<u>1,554,830</u>	<u>1,379,842</u>	<u>174,988</u>	11%	<u>518,277</u>	<u>448,101</u>	<u>529,490</u>	<u>402,251</u>
TOTAL PROGRAM COST	<u>\$35,800,000</u>	<u>\$8,900,000</u>	<u>\$7,971,358</u>	<u>\$928,642</u>	10%	<u>\$2,966,667</u>	<u>\$2,588,684</u>	<u>\$3,058,868</u>	<u>\$2,323,806</u>

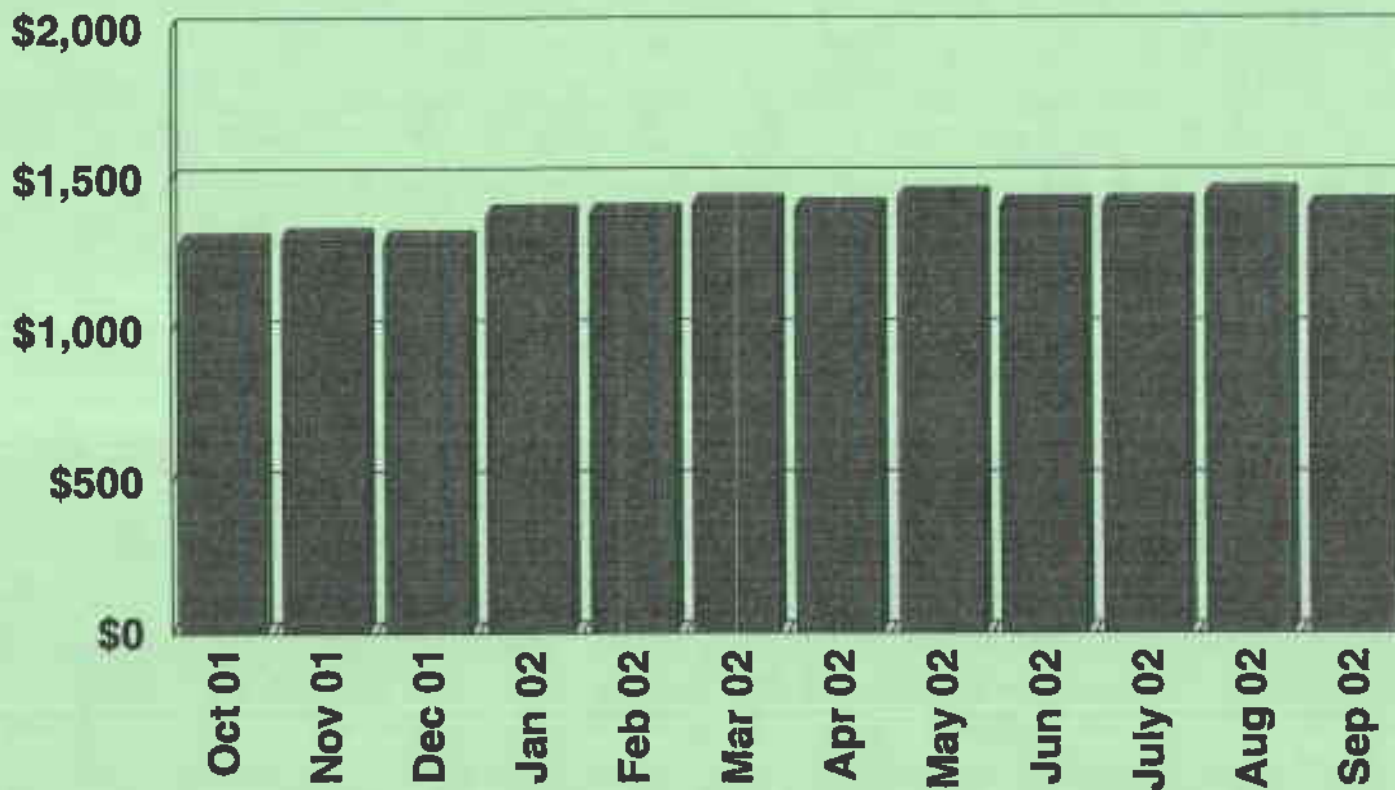
* Positive percentages indicate favorable variances

CHIP ENROLLMENT



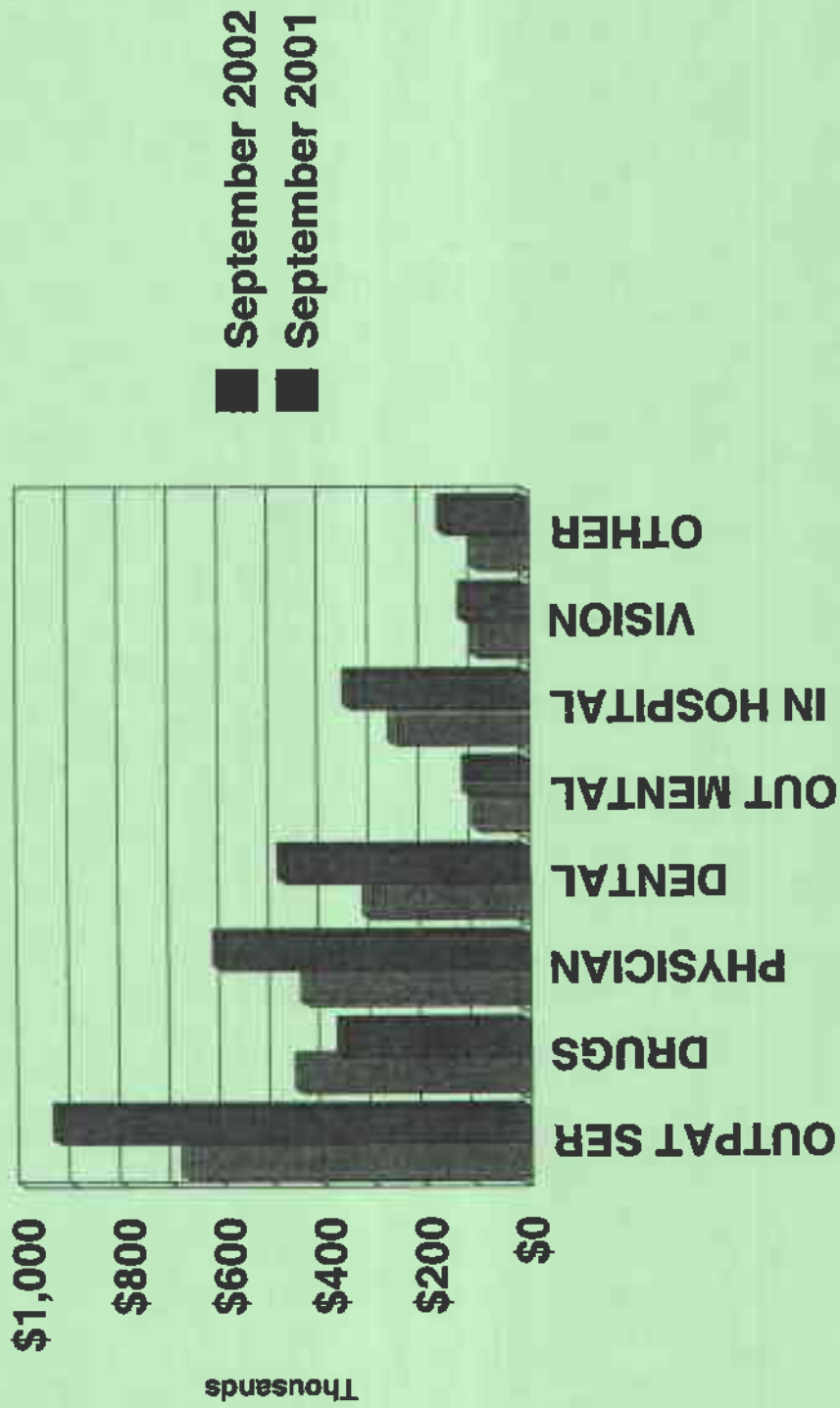
ANNUALIZED HEALTH CARE EXPENDITURES

Cash Basis



EXPENDITURES BY PROVIDER TYPES

Cash Basis

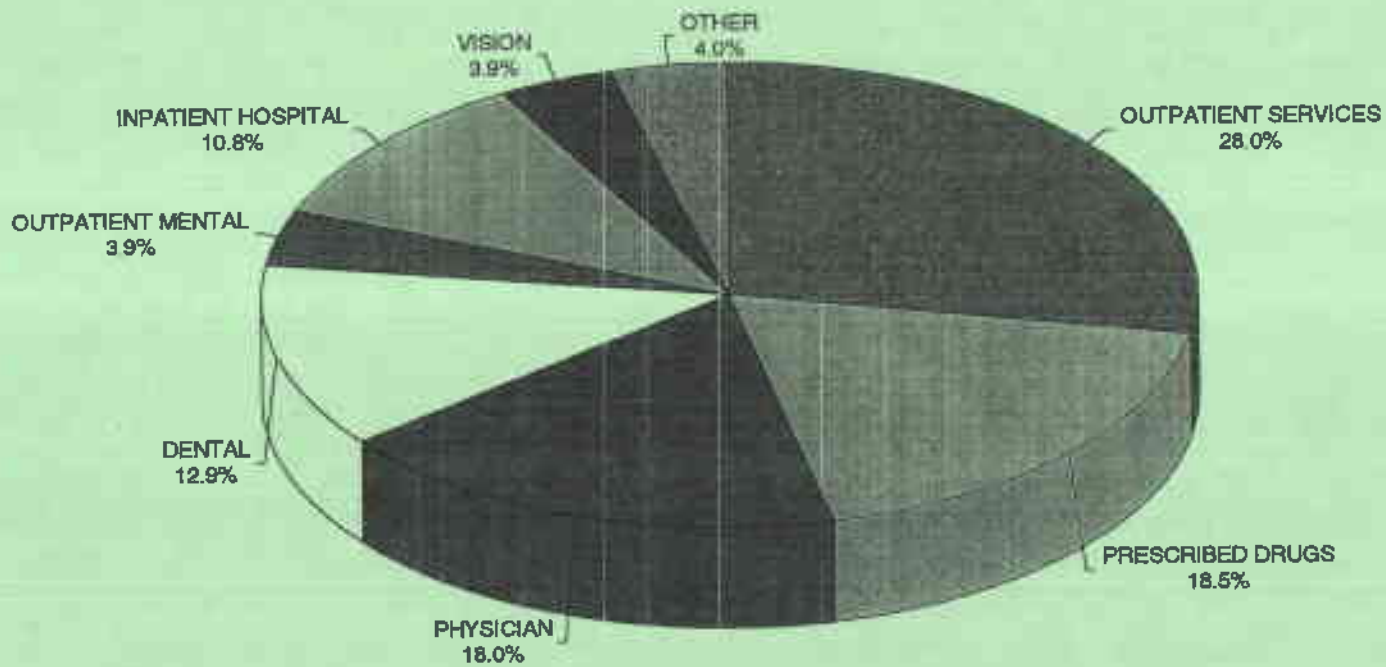


September 30, 2002 Enrollment 20,958
 September 30, 2001 Enrollment 21,435

EXPENDITURES BY PROVIDER TYPES

September 2002

Cash Basis



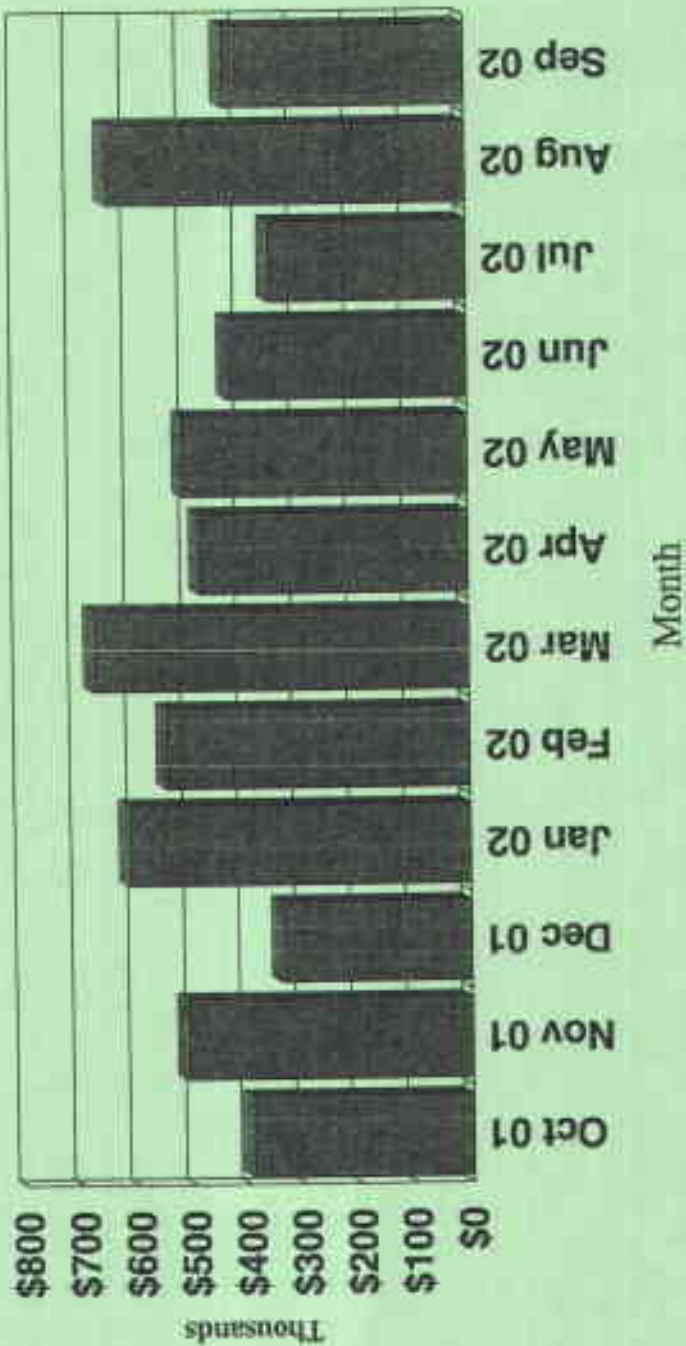
OUTPATIENT SERVICES

Cash Basis



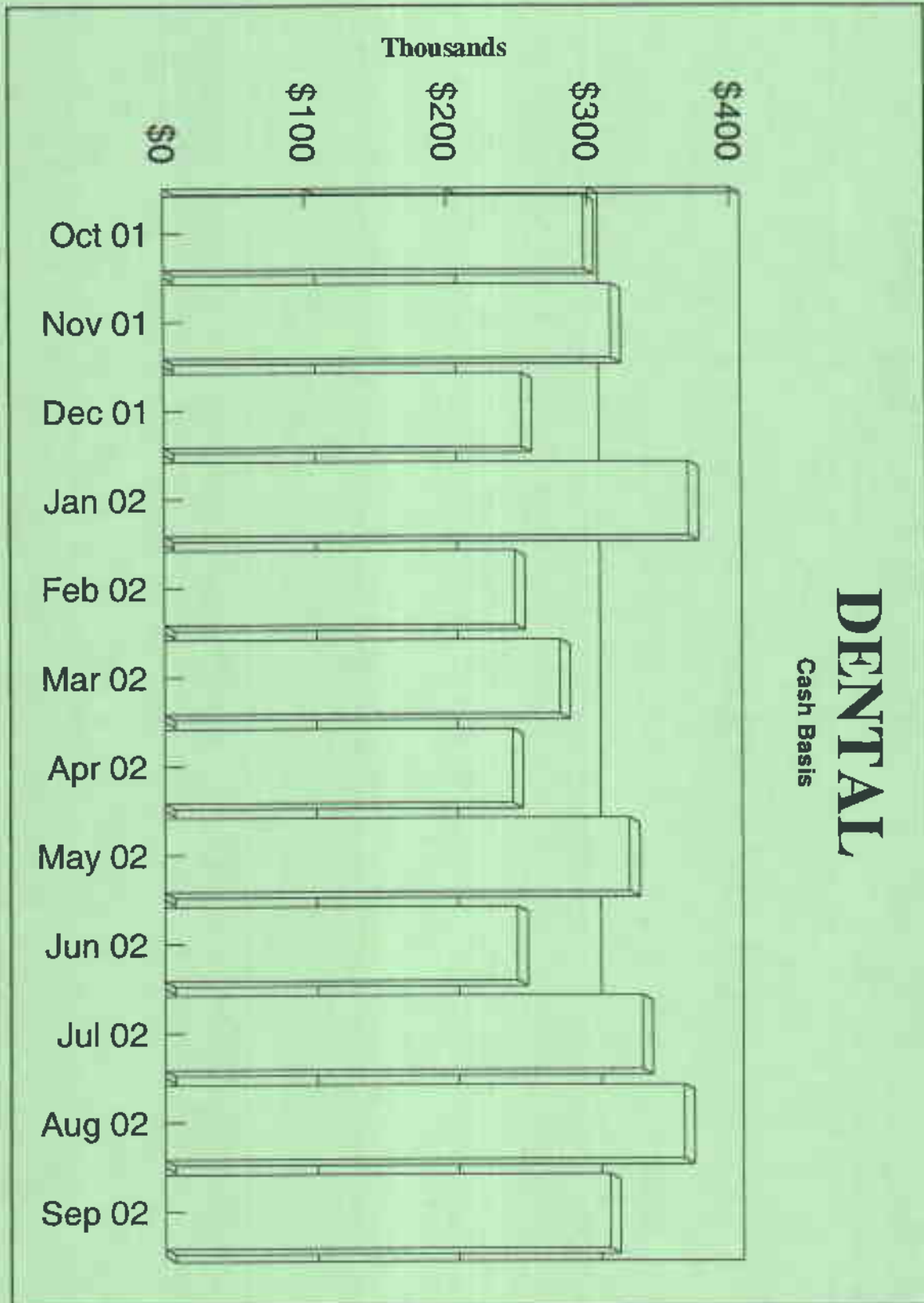
PHYSICIAN

Cash Basis



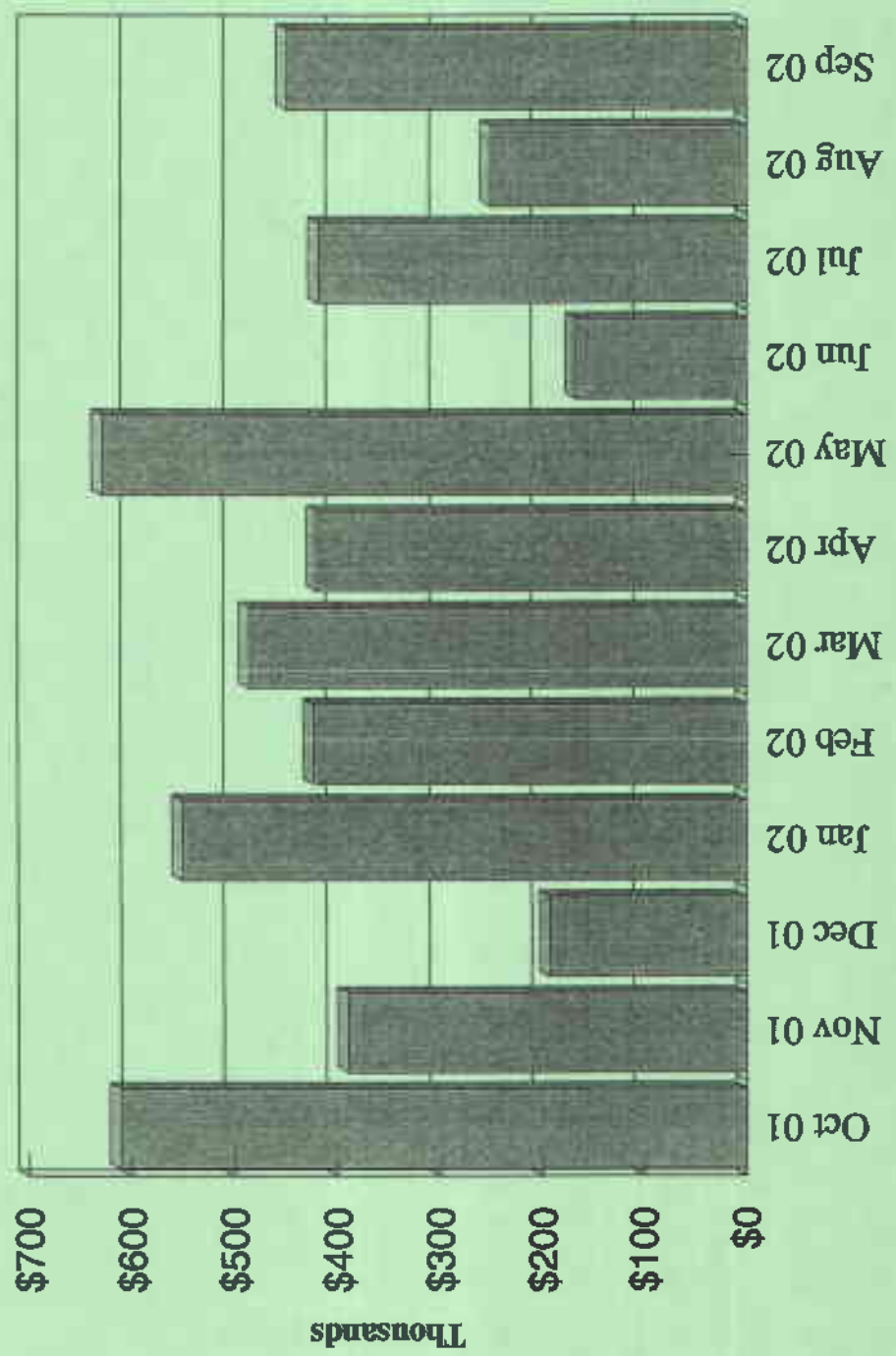
DENTAL

Cash Basis



PRESCRIPTION DRUGS

Cash Basis





CCRC

Actuaries, LLC

**WEST VIRGINIA
CHILDREN'S
HEALTH
INSURANCE
PROGRAM**

**September 30, 2002
QUARTERLY REPORT**

November 2002

TABLE OF CONTENTS

	<u>Page</u>
I. Overview	1
II. Plan Enrollment	2
III. Claim Cost and Trend Analysis	3
IV. Financial Projection – State Fiscal Years 2003-2007	4
V. Statement of Actuarial Opinion	5

Appendix A – West Virginia CHIP Program – State Fiscal Year Financial Forecast

West Virginia Children's Health Insurance Program

Report of Independent Actuary

September 30, 2002 Quarterly Report

OVERVIEW

CCRC Actuaries, LLC ("CCRC Actuaries") was engaged by The West Virginia Children's Health Insurance Program ("CHIP Program") to assist the West Virginia CHIP Board in the analysis of actual and projected plan experience in the current state fiscal year 2003 ("FY 2003") through fiscal year 2007 ("FY 2007"). West Virginia legislation requires that an actuary provide a written opinion that all estimated program and administrative costs of the agency under the plan, including incurred but unreported claims, will not exceed 90 percent of the funding available to the Program for the fiscal year for which the plan is proposed. Based on the Baseline Scenario, the Program costs are not expected to exceed 90 percent of the funding available to the Program through State Fiscal Year 2004. Note that we are currently projecting a Federal funding shortfall of \$21,207,000 in Fiscal Year 2006 based on the current assumptions.

The current program enrollment as of October 2002 consists of 14,274 children as part of Phase II that consists of children whose families are below 150% of the federal poverty level and 6,942 children as part of Phase III that consists of children whose families are between 150% and 200% of the federal poverty level. Phase III children are required to make copayments as part of the benefit structure of the program. Since the June 30, 2002 Quarterly Report, overall enrollment has increased by 631 children. Most of the increased enrollment was in children eligible under Phase III, with an increase of 565 children.

The monitoring and analysis of claim trends is critical to the accurate forecast of future costs of the Program. The analysis of claims has become more critical with the Phase III expansion beginning in October 2000. Financial results indicate that this group had, at least initially, significantly higher health care utilization than families under 150%. More recent experience has indicated after the initial enrollment period the two eligibility groups have similar health care statuses. Therefore, we have based our projections on the average projected health care costs of both eligibility groups.

This report reflects the limitation of the new prescription drug benefit program copayment to Phase III participants. Note that initially these higher copayments were applicable to all CHIP participants. Since the last report, the Center for Medicare and Medicaid Studies ("CMS") has limited the higher copayment structure to Phase III participants. The key component of the new program is a three-tier copayment structure of \$0 copayment for generics, \$10 copayment for preferred brand, and \$15 copayment for non-preferred brand drugs. Under this program, we expect significant cost savings for CHIP in the form of increased rebates from manufacturers and copayments. Based on our analysis, the expected savings from lower ingredient costs, higher copayments and higher drug rebates for State Fiscal Year 2003 will be approximately \$400,000. Fiscal Year 2003 prescription drug rebates totaled \$275,000, compared to the previous projection of approximately \$396,000. Due to the growing materiality of drug rebates, our projections will

separately identify prescription drug rebates. The projected cost of prescription drugs in the attached appendix is before projected rebates.

Under the State Fiscal Year basis, we are now projecting that incurred claim costs under the Baseline scenario assumptions for FY 2003 will be \$31,584,836 compared to the previous projection of \$29,151,082 contained in the June 30, 2002 Quarterly Report. The updated projection for FY 2004 claims is \$35,342,603 compared to the prior projection of \$31,851,465. These increasing costs are a result of the growth in the enrollment in the CHIP program.

PLAN ENROLLMENT

We have updated our projection based on the actual enrollment through October 2002. Current enrollment has gone up because of increasing Phase II and Phase III membership and Phase III enrollment continues to increase. The Program had enrollment at the end of Fiscal Year 2002 of 20,585 children, with 14,208 under Phase II and 6,377 under Phase III. Current enrollment as of October 2002 is 21,216 children, with 14,274 under Phase II and 6,942 under Phase III.

The following chart summarizes the enrollment information using end of month enrollment information by Phase II and Phase III and in total:

<u>Date</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Total</u>	<u>Date</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Total</u>
Jul-00	10,349	0	11,839	July-02	14,208	6,377	20,585
Aug-00	10,097	0	11,567	Aug-02	14,316	6,508	20,824
Sept-00	10,542	0	12,023	Sep-02	14,230	6,728	20,958
Oct-00	12,060	540	12,600	Oct-02	14,274	6,942	21,216
Nov-00	12,122	1,189	13,311				
Dec-00	14,141	1,512	15,653				
Jan-01	14,771	2,218	16,989				
Feb-01	15,316	2,757	18,073				
Mar-01	15,808	3,353	19,161				
Apr-01	15,944	3,839	19,783				
May-01	16,241	4,257	20,498				
Jun-01	16,375	4,548	20,923				
Jul-01	16,462	4,835	21,297				
Aug-01	16,447	5,053	21,500				
Sep-01	16,145	5,290	21,435				
Oct-01	15,895	5,588	21,483				
Nov-01	15,373	5,473	20,846				
Dec-01	14,968	5,625	20,593				
Jan-02	14,565	5,606	20,171				
Feb-02	14,551	5,777	20,328				
Mar-02	14,297	5,926	20,223				
Apr-02	14,287	5,994	20,281				
May-02	14,173	6,036	20,209				
June-02	14,030	6,013	20,043				

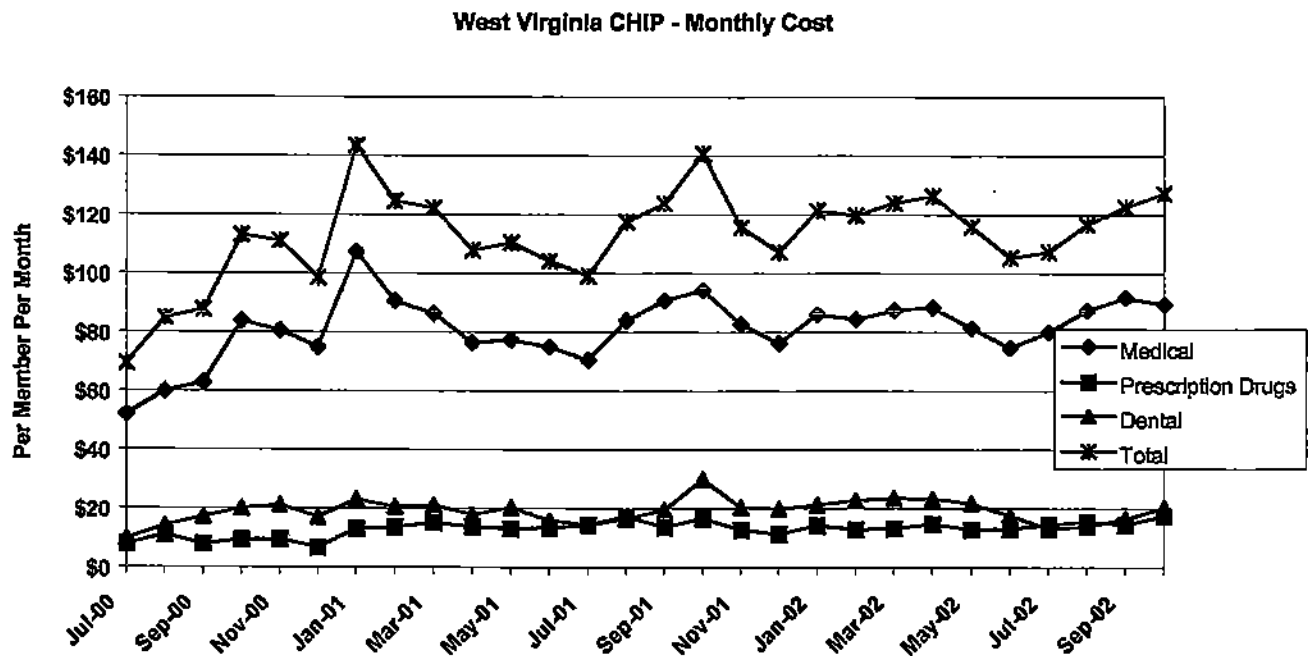
The Baseline program enrollment assumptions are summarized in the following chart. Note that the long-term enrollment has increased by 631 additional children from July 2002 to October 2002.

Scenario	FY2003	FY2004
State - Baseline	21,109	21,216

CLAIM COST AND TREND ANALYSIS

We have continued to utilize the trend assumptions in the June 30, 2002 Quarterly Report. These trends are 10% for Medical and Dental Claims and 21% for Prescription Drug Claims. Note that the 2003 Prescription Drug trend was reduced by approximately 7% based on expected savings from RXIS. While most recent experience has been favorable we have maintained these trend assumptions in this report.

The following chart summarizes incurred claims on a per member per month ("PMPM") basis for the major categories of medical, dental and prescription drugs based on information received through October 2002. The attachment at the end of the report shows the trends for Phase II and Phase III and an average for the same three categories.



FINANCIAL PROJECTION – STATE FISCAL YEARS 2003-2007

The updated incurred claims for FY 2003 is projected to be \$31,859,836 based on expected enrollment of 21,109 children and projected incurred claim per member per month cost data assumption of \$128.25, as summarized in the following chart. In the June 30, 2002 Quarterly Report, the incurred claims for FY 2003 were projected to be \$32,247,465 based on expected enrollment of 20,585 children and projected incurred claim per member per month cost data assumption of \$129.82.

Category	Incurred Claims	Per Member Per Month	Prior Report Projection Per Member Per Month
Medical	\$ 22,628,202	\$ 91.09	\$ 91.55
Prescription Drugs	5,298,036	21.33	22.84
<u>Dental</u>	<u>3,933,598</u>	<u>15.83</u>	<u>15.42</u>
Total	\$ 31,859,836	\$ 128.25	\$ 129.82

The financial forecast for the State Fiscal Years 2003 through 2007 can be found in Appendix A. We are forecasting adequacy in aggregate through FY 2004 and projecting that under either scenario, the Program will need additional Federal funding beginning in FY 2005.

Appendix A contains a five-year projection period as requested by CHIP management similar to the previous report. The first section of the report is the beginning balances of both Federal and State funding sources. The middle section of the report projects and reports on incurred claim, paid claim and administrative expenses, as well as expected Interest earnings and accrued prescription drug rebates. This section also projects federal and state shares of paid expenses, as well as incurred but not received (“IBNR”) claim liabilities. The last section of the report projects the ending balances of both Federal and State funding sources.

Based on the assumptions developed, we are projecting a shortfall in Federal Funding of \$21,207,000 in SFY 2006 and \$27,095,000 in SFY 2007, comparing to the previous projection of Federal funding deficits of \$2,912,000 in SFY 2005, \$23,508,000 in SFY 2006 and \$28,291,000 in SFY 2007. We are not projecting a shortfall in State funding based on funding levels provided by CHIP management. It should be noted that the Federal Government has not provided projections of expected federal funding in the final years of the projection and these estimates are subject to change.

STATEMENT OF ACTUARIAL OPINION

I, Dave Bond, Managing Partner of CCRC Actuaries, LLC hereby certify that I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I meet the actuarial qualification standards to render Statements of Actuarial Opinion for Children Health Insurance Programs and other self-insured entities. I have been retained by CHIP to render a Statement of Actuarial Opinion regarding the methods and underlying assumptions developed and used in this analysis.

This Statement of Actuarial Opinion was prepared in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries, and the Standards of Practice of the Actuarial Standards Board.

In my opinion, all estimated program and administrative costs of the agency under the plan, including incurred but unreported claims, will not exceed 90 percent of the funding available to the Program for the fiscal year for which the plan is proposed through State Fiscal Year 2004.

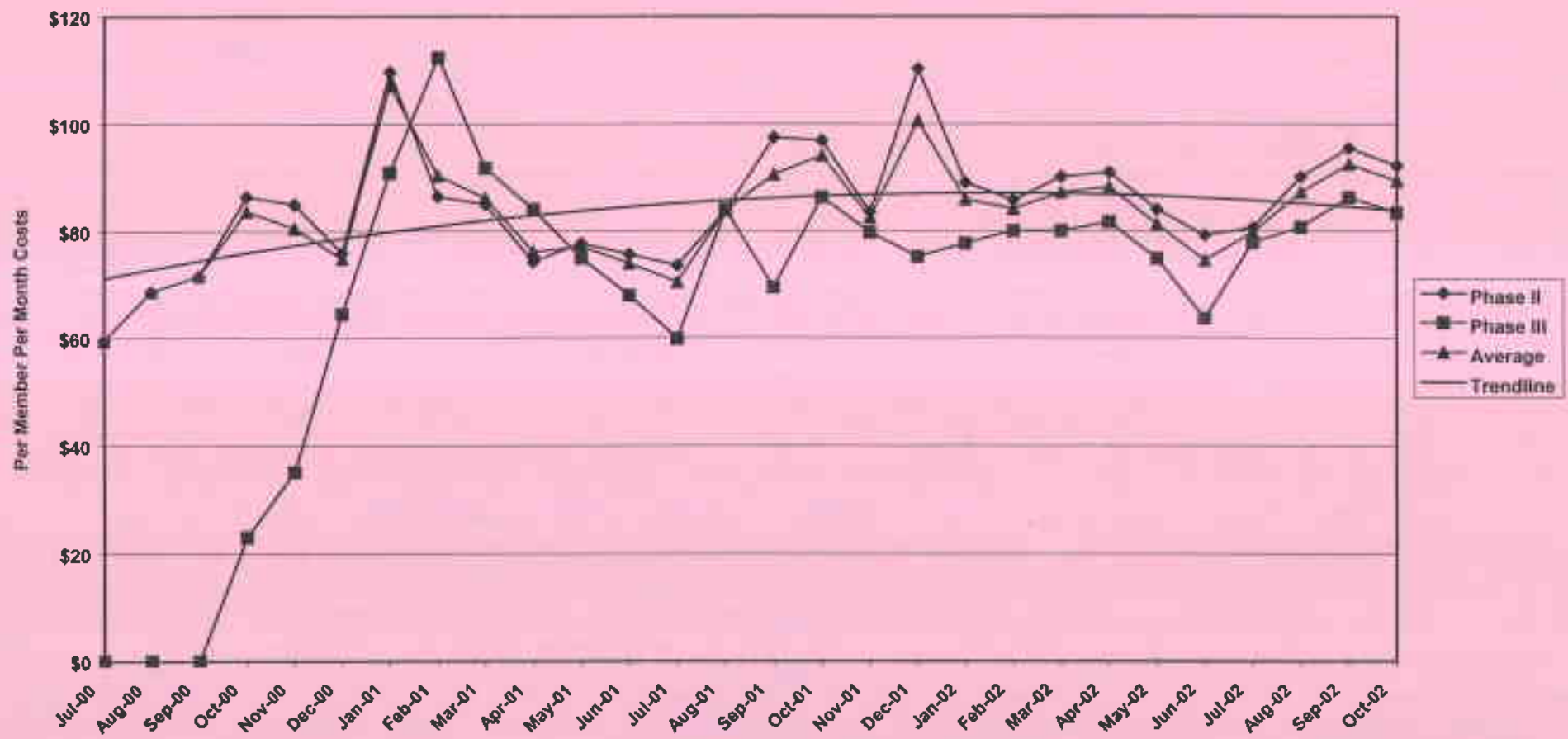
Dave Bond

Dave Bond
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries
Managing Partner
CCRC Actuaries, LLC
Finksburg, Maryland
November 11, 2002

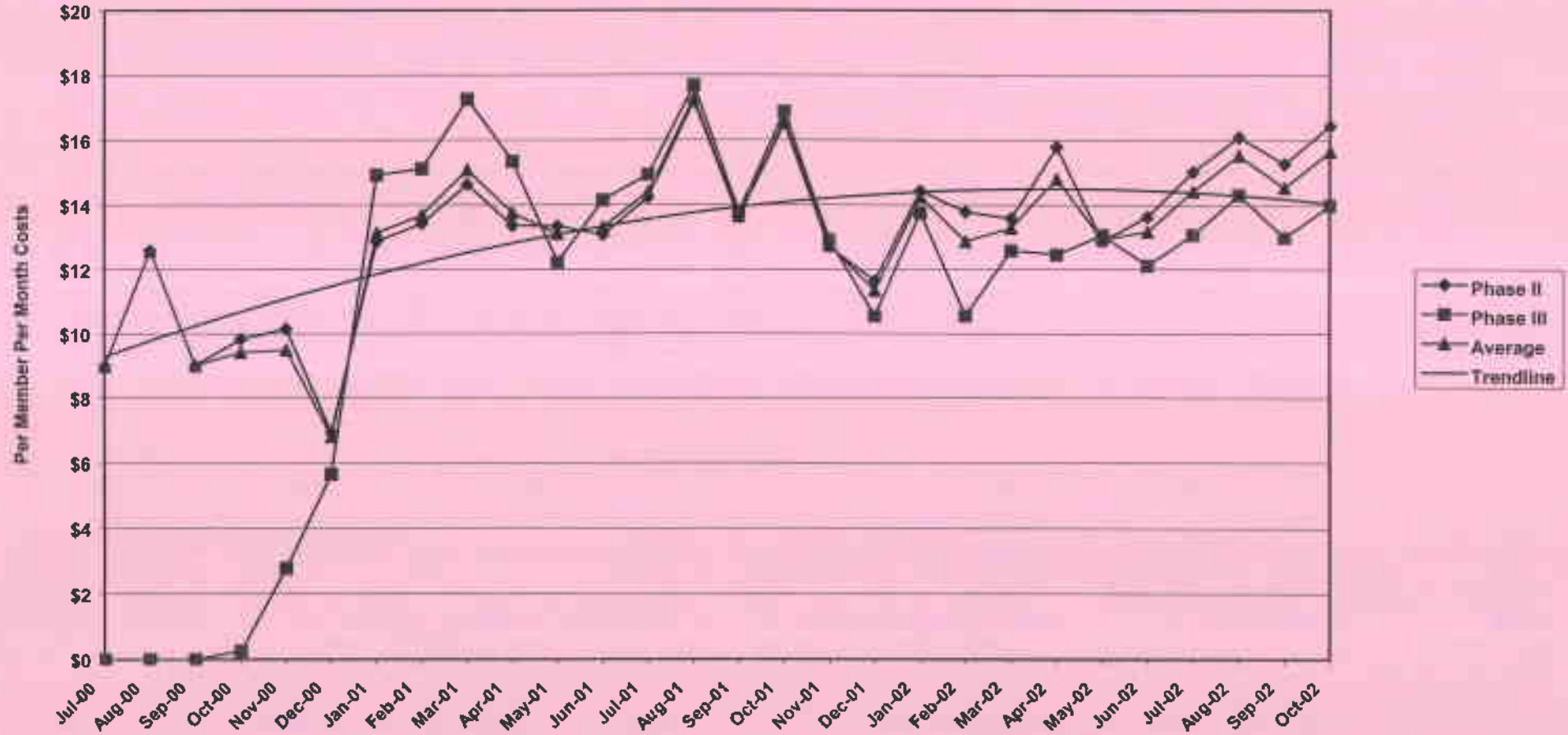
APPENDIX A
West Virginia Children's Health Insurance Program Fiscal Year 2003
September 30, 2002 Quarterly Report

Available Funding - Beginning of the Year	2003	2004	2005	2006	2007
Federal 1999	\$0	\$0	\$0	\$0	\$0
Federal 2000	6,465,294	0	0	0	0
Federal 2001	21,144,989	0	0	0	0
Federal 2002	16,650,270	14,868,156	0	0	0
Federal 2003	18,550,788	18,550,788	571,947	0	0
Federal 2004	0	18,550,788	18,550,788	0	0
Federal 2005	0	0	18,550,788	1,078,571	0
Federal 2006	0	0	0	18,550,788	0
Federal 2007	0	0	0	0	18,550,788
State Original Funding	\$2,160,340	\$0	\$0	\$0	\$0
State Funding 2002	0	0	0	0	0
State Funding 2003	4,843,475	782,015	0	0	0
State Funding 2004	0	6,800,000	628,943	0	0
State Funding 2005	0	0	7,200,000	82,501	0
State Funding 2006	0	0	0	8,600,000	38,279
State Funding 2007	0	0	0	0	9,700,000
Program Costs	2003	2004	2005	2006	2007
Medical Expenses	\$23,074,458	\$25,510,261	\$28,061,287	\$30,867,416	\$33,954,158
Prescription Drug Expenses	6,402,520	6,670,107	7,949,829	9,619,293	11,639,345
Dental Expenses	4,011,174	4,434,804	4,876,065	5,365,871	5,902,458
Administrative Expenses	3,401,045	3,571,097	3,749,652	3,937,135	4,133,992
Program Revenues - Interest	\$0	\$0	\$0	\$0	\$0
Program Revenues - Drug Rebates	275,000	266,000	297,440	309,338	321,712
Net Incurred Program Costs	\$35,614,197	\$39,800,069	\$44,341,393	\$49,480,378	\$55,308,241
Net Paid Program Costs	35,141,197	39,345,069	43,846,393	48,919,378	54,670,241
Federal Share	\$29,392,397	\$32,646,997	\$36,594,952	\$40,836,156	\$45,645,891
State Share of Expenses	6,221,800	6,953,072	7,746,441	8,644,222	9,662,350
Beginning IBNR	\$3,200,000	\$3,673,000	\$4,128,000	\$4,623,000	\$5,184,000
Ending IBNR	3,673,000	4,128,000	4,623,000	5,184,000	5,822,000
Funding Sources - End of the Year	2003	2004	2005	2006	2007
Federal 1999	\$0	\$0	\$0	\$0	\$0
Federal 2000	0	0	0	0	0
Federal 2001	0	0	0	0	0
Federal 2002	14,868,156	0	0	0	0
Federal 2003	18,550,788	571,947	0	0	0
Federal 2004	0	18,550,788	0	0	0
Federal 2005	0	0	1,078,571	0	0
Federal 2006	0	0	0	0	0
Federal 2007	0	0	0	0	0
Federal Shortfall	\$0	\$0	\$0	\$21,206,797	\$27,095,103
State Original Funding	\$0	\$0	\$0	\$0	\$0
State Funding 2002	0	0	0	0	0
State Funding 2003	782,015	0	0	0	0
State Funding 2004	0	628,943	0	0	0
State Funding 2005	0	0	82,501	0	0
State Funding 2006	0	0	0	38,279	0
State Funding 2007	0	0	0	0	75,930
State Shortfall	\$0	\$0	\$0	\$0	\$0

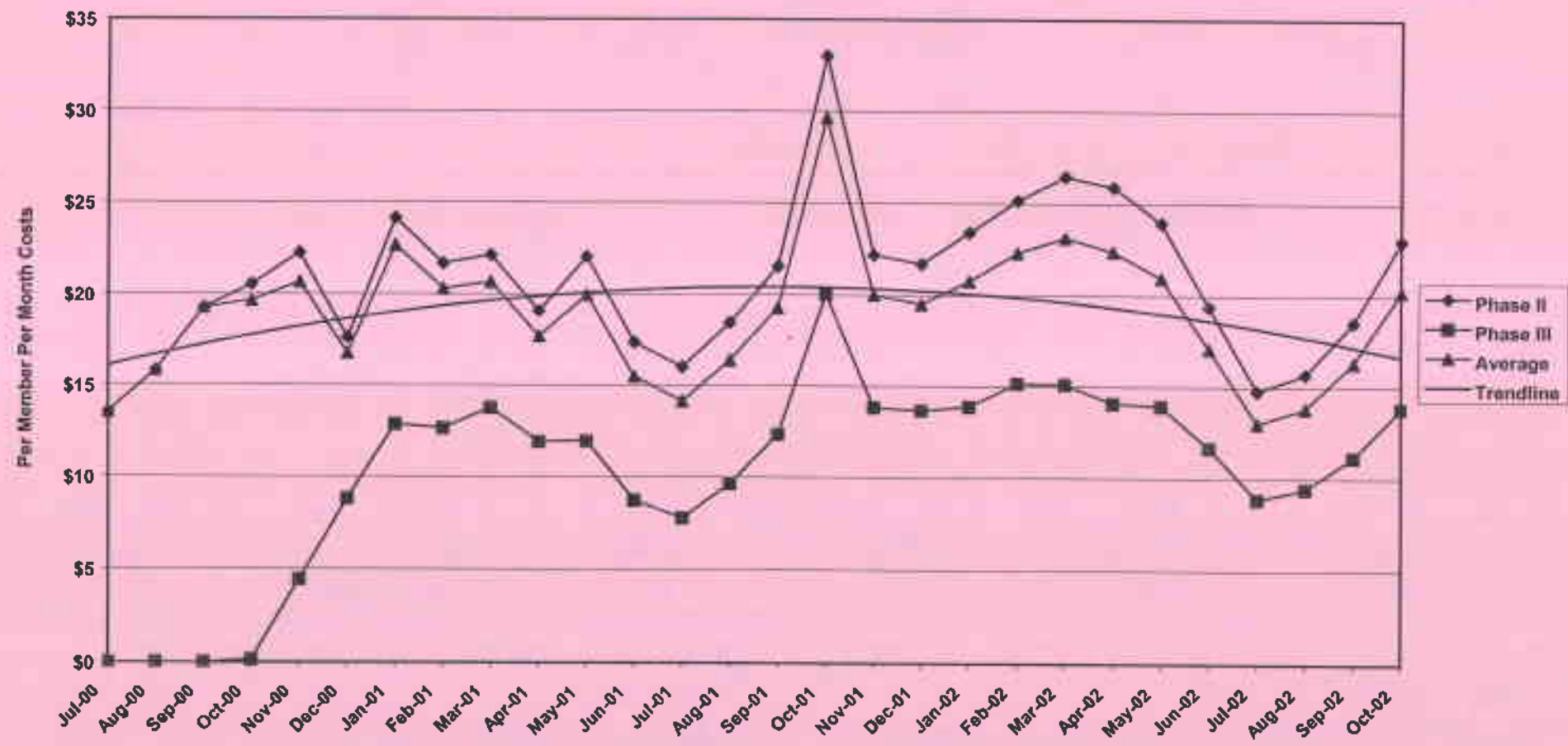
West Virginia CHIP - Medical Monthly Cost



West Virginia CHIP - Dental Monthly Cost



West Virginia CHIP - Drug Monthly Cost



PEIA

MONTHLY MANAGEMENT REPORT

PER CAPITA CLAIMS

SEPTEMBER 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
SEPTEMBER 2002

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	1.0543	1.0478	.5231	1.0225	4.2594	2.5015
	MATERNITY	.6099	.8446	.6959	.7492	2.4588	1.8523
	MEDICAL AND SURGICAL	31.0333	34.8324	27.5440	31.8644	99.2172	92.0061
	NEONATAL COMPLICATIONS	.3271	.3690	.0427	.3312	1.1517	.8643

SUM		33.0247	37.0938	28.8058	33.9672	107.0872	97.2242
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.1539	.2139	.1478	.2251	.4667	.5819
	DIALYSIS	1.3791	1.1507	.7543	1.0070	2.9144	2.8281
	EMERGENCY ROOM	.8472	1.0267	.7981	.8241	2.8549	2.7428
	MATERNITY	.1572	.1770	.1376	.1420	.5016	.3617
	MEDICAL AND SURGICAL	23.5472	27.2362	20.0000	25.8151	78.3493	74.5330

SUM		26.0846	29.8045	21.8378	28.0133	85.0870	81.0476
PHARMACY	PRESCRIPTION DRUGS	50.6405	55.5235	43.5115	46.2824	153.9792	113.2067

SUM		50.6405	55.5235	43.5115	46.2824	153.9792	113.2067
PROFESSIONAL SERVICES	ADVANCED IMAGING	1.3305	1.4459	1.2637	1.5673	4.2194	3.9537
	AMBULANCE	.0039	.0349	.0930	.7728	.0135	.3314
	ANESTHESIA	2.4720	3.0535	1.9267	3.0624	8.9272	9.3839
	CARDIOVASCULAR MEDICINE	.8418	.9698	.8528	1.0376	2.7627	2.8683
	CERVICAL CANCER SCREENING	.2298	.1921	.1537	.1270	.6992	.4005
	DME	1.3652	1.9853	1.4442	1.9767	4.9538	5.5056
	EVALUATION AND MANAGEMENT	15.8338	18.2192	15.8291	18.7090	52.4249	49.7535
	IMMUNIZATION	.4329	.4543	.4970	.5172	1.2936	1.5325

SOURCE: ACORDIA NATIONAL, EXPRESS SCRIPTS, AND MERCK-MEDCO PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
 SEPTEMBER 2002

Page: 2

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
PROFESSIONAL SERVICES	INJECTION	3.0093	2.9084	2.4302	2.9663	9.0959	8.4862
	LAB AND PATHOLOGY	1.6530	2.5252	1.7607	2.4399	6.2788	6.0907
	MAMMOGRAPHY	.6206	.5555	.5712	.5623	1.8730	1.6253
	OTHER	2.2444	3.7233	2.2473	2.0463	14.6223	8.8284
	OTHER IMAGING	2.8205	3.3220	2.5910	3.5142	8.8050	8.7869
	OTHER MEDICINE	4.6249	5.7353	4.1824	5.7449	15.0592	14.2444
	PHYSICAL MEDICINE	1.2695	1.6407	1.3577	1.5405	4.2812	4.0112
	PROSTATE CANCER SCREENING	.0361	.0563	.0392	.0630	.1438	.1521
	SURGICAL	8.7810	10.4332	7.7812	11.0674	30.7116	29.7949

SUM		47.5691	57.2548	45.0213	57.7149	166.1649	155.7495
SUM		157.3189	179.6765	139.1763	165.9779	512.3183	447.2279

SOURCE: ACORDIA NATIONAL, EXPRESS SCRIPTS, AND MERCK-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS
 NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

27 rows selected.

PEIA

MONTHLY MANAGEMENT REPORT

TOTAL CLAIMS

SEPTEMBER 2002

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

SEPTEMBER 2002

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	192,021.06	190,005.77	94,373.55	172,379.66	772,536.14	451,277.92
	MATERNITY	111,087.92	153,272.17	125,547.79	125,942.08	445,955.30	334,156.46
	MEDICAL AND SURGICAL	5,652,165.56	6,321,421.21	4,969,277.03	5,376,997.90	17,995,074.77	16,598,170.08
	NEONATAL COMPLICATIONS	59,571.28	67,083.29	7,710.44	56,058.86	208,885.21	155,925.50

sum		6,014,845.82	6,731,782.45	5,196,908.81	5,731,378.50	19,422,451.42	17,539,529.96
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	28,033.82	38,851.21	26,661.33	37,947.19	84,641.09	104,980.17
	DIALYSIS	251,179.98	209,066.87	136,089.08	169,965.38	528,594.36	510,198.69
	EMERGENCY ROOM	154,310.20	186,405.19	143,978.49	139,365.71	517,801.53	494,816.27
	MATERNITY	28,625.76	32,139.11	24,828.85	23,891.48	90,980.20	65,255.91
	MEDICAL AND SURGICAL	4,288,691.72	4,944,433.61	3,608,244.86	4,358,007.60	14,210,252.77	13,445,974.52

sum		4,750,841.48	5,410,895.99	3,939,802.61	4,729,177.35	15,432,269.95	14,621,225.56
PHARMACY	PRESCRIPTION DRUGS	9,223,263.20	10,073,420.45	7,849,991.35	7,805,261.85	27,927,280.49	20,422,821.20

sum		9,223,263.20	10,073,420.45	7,849,991.35	7,805,261.85	27,927,280.49	20,422,821.20
PROFESSIONAL SERVICES	ADVANCED IMAGING	242,318.24	262,464.81	227,991.36	263,798.23	765,282.23	713,260.99
	AMBULANCE	713.61	6,315.28	16,776.64	128,707.61	2,442.21	59,787.61
	ANESTHESIA	450,225.52	554,363.60	347,594.50	518,057.43	1,619,133.18	1,692,878.29
	CARDIOVASCULAR MEDICINE	153,319.25	176,043.81	153,849.21	174,920.29	501,063.24	517,442.32
	CERVICAL CANCER SCREENING	41,852.17	34,859.14	27,726.64	21,422.58	126,809.37	72,248.08
	DME	248,648.11	360,571.77	260,558.14	333,730.79	896,465.73	993,230.20
	EVALUATION AND MANAGEMENT	2,883,840.92	3,306,858.07	2,855,762.36	3,150,778.12	9,508,325.73	8,975,689.21
	IMMUNIZATION	78,838.64	82,451.87	89,672.42	87,196.99	234,614.52	276,465.09

SOURCE: ACORDIA NATIONAL, EXPRESS SCRIPTS, AND MERCK-MEDCO PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

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

SEPTEMBER 2002
 Page: 2

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
PROFESSIONAL SERVICES	INJECTION	548,096.62	527,823.08	438,442.41	500,595.75	1,649,728.72	1,530,943.26
	LAB AND PATHOLOGY	301,057.63	458,585.51	317,648.80	411,091.79	1,138,785.51	1,098,787.72
	MAMMOGRAPHY	113,026.05	100,769.35	103,051.86	94,703.60	339,705.25	293,203.56
	OTHER	408,776.47	675,284.41	405,443.78	348,227.15	2,652,047.15	1,592,677.41
	OTHER IMAGING	513,699.46	603,211.95	467,456.22	591,803.98	1,596,972.07	1,585,177.11
	OTHER MEDICINE	842,348.39	1,041,423.02	754,560.09	967,425.23	2,731,302.59	2,569,725.69
	PHYSICAL MEDICINE	231,224.18	297,877.33	244,951.23	259,338.49	776,478.51	723,627.99
	PROSTATE CANCER SCREENING	6,567.50	10,225.15	7,078.42	10,611.49	26,083.51	27,437.82
	SURGICAL	1,599,298.42	1,893,682.51	1,403,815.33	1,866,448.20	5,570,180.28	5,375,096.55
sum		8,663,851.18	10,392,810.64	8,122,379.41	9,728,857.92	30,137,419.80	28,097,678.90
sum		28,652,801.68	32,608,909.52	25,109,082.18	27,994,675.62	92,919,421.66	80,681,255.62

SOURCE: ACORDIA NATIONAL, EXPRESS SCRIPTS, AND MERCK-MEDCO PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS
 NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

27 rows selected.

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency

Balance Sheet

September 30, 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

Assets	September 2002	September 2001	Increase <Decrease>
Cash and cash equivalents	\$ 94,123,416	\$ 104,870,928	\$ (10,747,512)
Deposits with third-party administrators	1,477,640	3,840,614	(2,362,974)
Premium accounts receivable-net of allowance for doubtful accounts	25,741,663	18,077,144	9,664,519
Other accounts receivable	6,821,595	5,015,962	1,805,633
Total current assets	127,964,314	129,804,648	(1,840,334)
Furniture and equipment, net of accumulated depreciation	130,731	191,531	(60,800)
Restricted cash-premium stabilization life insurance	1,618,215	3,607,587	(2,089,372)
Restricted cash-new computer system	1,250,000		1,250,000
Total assets	<u>130,963,260</u>	<u>\$ 133,603,766</u>	<u>\$ (2,740,506)</u>
Liabilities and Retained Earnings			
Claims payable	\$ 52,460,000	\$ 47,680,000	\$ 4,780,000
Premium deficiency reserve		7,242,000	(7,242,000)
Current claims payable	9,728,451	8,523,096	1,205,355
Unearned revenue	5,115,814	3,532,051	1,583,563
Accounts payable	6,382,452	8,325,528	(1,943,076)
Other accrued liabilities	840,631	714,207	126,424
Total liabilities	74,527,148	76,016,882	(1,489,734)
Retained earnings	56,336,112	57,586,884	(1,250,772)
Total liabilities and retained earnings	<u>130,863,260</u>	<u>\$ 133,603,766</u>	<u>\$ (2,740,506)</u>

For internal use only. See financial comments.
Prepared October 18, 2002

"WORKING DRAFT"

State of West Virginia
 Public Employees Insurance Agency
 Statements of Revenues, Expenses, and
 Changes in Retained Earnings
 September 30, 2002 and 2001
 Accrual Basis
 (Unaudited-For Internal Use Only)

	Budgeted Three Months Ended Sept 30, 2002	Actual Three Months Ended Sept 30, 2002	Budget Variance Percent	Actual Three Months Ended Sept 30, 2001	This Year vs Last Year Increase <Decrease>	This Year vs Last Year Variance Percent
Operating Revenue						
Premiums						
Employer	\$ 99,451,292	\$ 99,357,210	-0.09%	\$ 85,719,942	\$ 13,637,268	15.91%
Employee	23,778,335	23,775,888	-0.01%	17,745,338	6,030,550	33.98%
Total Premiums	123,229,627	123,133,098	-0.08%	103,465,280	19,667,818	19.01%
Less:						
Payments to managed care organizations	(12,560,000)	(12,455,514)	-0.83%	(11,639,352)	(816,162)	7.01%
Life insurance premiums-basic	(1,561,274)	(1,641,001)	5.11%	(1,273,981)	(367,020)	28.81%
Net premium revenue	109,108,353	109,026,583	-0.07%	90,551,947	18,484,636	20.41%
Administrative fees, net of refunds	1,164,097	1,036,240	-10.98%	1,016,004	20,236	1.99%
Net operating revenue	110,272,450	110,072,823	-0.18%	91,567,951	18,504,872	20.21%
Operating Expenses						
Claims expense-medical	63,002,581	66,898,604	6.18%	68,371,417	(1,472,813)	-2.16%
Claims expense-drugs	24,613,808	24,788,381	0.71%	21,241,763	3,546,618	16.70%
Administrative service fees	3,243,483	3,157,301	-2.68%	2,987,120	170,181	5.70%
Other operating expenses	1,761,730	1,556,709	-11.64%	1,478,457	77,252	5.22%
Total operating expense	92,621,599	96,400,995	4.08%	94,078,757	2,321,238	2.47%
Operating surplus	17,650,851	13,671,828	-22.54%	2,511,865	10,183,634	-644.30%
Nonoperating Revenues						
Interest income,banks, net of fees	24,000	19,517	-18.68%	49,290	(29,773)	-60.40%
Interest income IMB	468,285	405,661	-13.33%	1,028,308	(622,445)	-60.63%
Operating transfers in	-	-	-	1,250,000	(1,250,000)	-100.00%
Total nonoperating revenues	492,285	425,178	-13.68%	2,327,598	(1,202,215)	-81.72%
Net Surplus	18,143,136	14,097,006	-22.30%	2,184,210	14,281,416	-7752.79%
Retained Earnings, beginning of period	-	42,238,965	-	57,771,094	(15,632,188)	-
Retained Earnings, end of period	-	56,335,112	-	\$ 57,588,884	\$ (1,250,772)	-

For internal use only. See financial comments.
 Prepared October 18, 2002

State of West Virginia
Public Employees Insurance Agency
Statements of Revenues, Expenses and
Net Income (Loss)
Month of September 2002 and 2001
Accrual Basis
 (Unaudited-For Internal Use Only)

"WORKING DRAFT"

	Actual Month of September 2002	Actual Month of September 2001	Increase (Decrease)
Operating Revenue			
Premiums			
Employer	\$ 33,370,102	\$ 28,289,948	\$ 5,100,158
Employee	7,908,294	5,912,026	1,996,268
Total Premium	41,278,396	34,181,972	7,096,424
Less:			
Payments to managed care organizations	(4,202,129)	(3,891,343)	(310,786)
Life insurance premiums-basic	(571,700)	(424,893)	(146,807)
Net premium revenue	36,504,567	29,865,736	6,638,831
Administrative fees, net of refunds	341,860	331,551	10,309
Net operating revenue	36,846,427	30,197,287	6,649,140
Operating Expenses			
Claims expense-medical	19,051,820	24,914,266	(5,862,446)
Claims expense-drugs	9,816,870	6,743,626	3,073,044
Administrative service fees	1,144,921	1,069,531	75,390
Other operating expenses	471,211	476,599	(5,388)
Total operating expense	30,484,822	33,204,022	(2,719,400)
Operating surplus (deficit)	6,361,605	(3,006,735)	9,368,340
Nonoperating Revenues			
Interest income, from banks, net of fees	18,517	18,956	3,581
Interest income from IMB	145,932	296,359	(150,427)
Operating transfers in	-	416,668	(416,668)
Total nonoperating revenues	164,449	728,983	(563,534)
Net Income (Loss)	\$ 6,527,254	\$ (2,277,752)	\$ 8,805,006

For internal use only. See financial comments.
Prepared October 18, 2002

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

**Month of September 2002 and 2001
Accrual Basis**

(Unaudited-For Internal Use Only)

"WORKING DRAFT"

The PEIA and its actuary have re-projected the Plan Year Ending 2003 Budget amounts to incorporate the changes in premium and expense estimates which resulted from policyholder enrollment changes which took place during open enrollment and other changes in commitments which have occurred. Amounts reported in the Budgeted Column in the attached Statements of Revenues, Expenses, and Changes in Retained Earnings represent a one twelfth per month recognition of the annual budget. Except for claims expenses, which are from a seasonal budget that was developed by PEIA's actuary.

In total the amounts included in the Budget Column will accumulate through Plan Year 2003 and at the end of our fiscal year agree to the Actuarial Baseline Forecast which was prepared October 16, 2002.

Note that the amounts reported on the monthly Statements of Revenues, Expenses and Net Income (Loss) are determined by subtracting from the current month's year to date totals the year to date totals at the end of the previous month. Due to limited staff and time constraints retrospective adjustments are not possible. At times these monthly statements may be misleading.

September's large monthly Net Income resulted in large part from a revision of estimated claims liability at the end of August downward by approximately \$4,000,000.

PELA IBNR Retrospective and Current Summary

	Jan-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02
Original IBNR																
NonMedicare Medical	29,140,000	36,770,000	36,960,000	38,800,000	40,800,000	41,050,000	41,400,000	40,280,000	38,610,000	36,500,000	41,300,000	40,850,000	40,910,000	42,270,000	41,870,000	40,880,000
Medicare Medical	9,810,000	9,110,000	8,230,000	7,270,000	7,400,000	6,900,000	7,900,000	7,920,000	7,350,000	6,820,000	6,760,000	6,850,000	7,380,000	8,040,000	7,840,000	8,460,000
NonMedicare Drugs	2,380,000	1,400,000	1,360,000	910,000	850,000	1,400,000	2,000,000	2,120,000	3,120,000	280,000	2,360,000	730,000	2,540,000	1,240,000	930,000	1,860,000
Medicare Drugs	1,250,000	950,000	720,000	700,000	670,000	1,200,000	1,250,000	1,190,000	1,840,000	150,000	1,410,000	560,000	1,320,000	860,000	850,000	1,260,000
Total Original IBNR	42,580,000	48,230,000	47,270,000	47,680,000	49,520,000	50,550,000	52,550,000	51,510,000	50,920,000	43,750,000	51,830,000	48,970,000	52,150,000	52,410,000	51,690,000	52,460,000
Paid through 06-30-2002	49,198,547	49,365,791	44,544,520	46,446,131	48,324,003	46,697,943	50,979,958	52,771,747	51,674,211	43,455,448	43,164,483	39,531,879	40,429,490	36,842,945	21,312,967	
Remaining IBNR <i>(using 6 Month factors)</i>	291,831	326,523	400,328	500,247	682,754	913,180	1,244,614	1,806,029	2,433,573	3,526,717	5,014,081	7,237,696	10,630,597	15,351,147	26,210,216	
Restated IBNR	49,490,378	49,692,314	44,944,848	46,946,378	49,006,757	47,611,123	52,224,573	54,577,777	54,357,785	46,982,165	48,178,564	46,769,575	51,060,087	52,194,091	47,523,183	
Change	6,910,378	1,462,314	-2,325,182	-733,622	-513,243	-2,938,877	-325,427	3,067,777	3,437,785	3,232,165	-3,651,486	-2,200,425	-1,089,913	-215,909	-3,966,817	
	16.2%	3.0%	-4.9%	-1.5%	-1.0%	-5.8%	-0.6%	6.0%	6.8%	7.4%	-7.0%	-4.5%	-2.1%	-0.4%	-7.7%	
Restated IBNR																
NonMedicare Medical	39,126,872	39,853,521	37,038,975	38,646,243	39,626,284	39,259,913	43,574,964	44,237,414	43,430,646	37,703,570	38,264,637	36,870,463	39,522,087	41,029,310	36,122,546	
Medicare Medical	7,136,235	7,016,865	6,334,890	6,702,578	7,403,220	6,967,870	7,774,591	8,974,338	9,017,233	7,984,478	8,020,115	7,489,771	7,703,517	8,524,910	7,971,994	
NonMedicare Drugs	2,075,406	1,701,613	1,043,979	895,120	1,249,798	462,469	563,076	582,436	907,327	709,513	897,496	1,533,267	2,526,557	1,551,917	2,076,276	
Medicare Drugs	1,161,843	1,120,314	507,004	702,637	727,453	920,871	312,002	783,399	1,002,457	584,603	496,313	376,074	1,307,926	1,087,954	1,352,367	
	49,490,378	49,692,314	44,944,848	46,946,378	49,006,757	47,611,123	52,224,573	54,577,777	54,357,785	46,982,165	48,178,564	46,769,575	51,060,087	52,194,091	47,523,183	

WV PEIA - Monthly Trend

Plan Demographics	Jul-02	Aug-02	Sep-02	Q302
Total Drug Cost	\$12,620,220	\$13,416,287	\$13,433,139	\$39,469,646
Amount Paid By Plan Sponser	\$6,442,366	\$9,471,904	\$9,947,680	\$25,861,950
Amount Paid By Members	\$6,177,854	\$3,944,383	\$3,485,460	\$13,607,697
Total Claims	238,430	249,501	248,497	736,428
Average Eligible Member	183,358	181,846	183,102	182,769
Average # of Rx's Per Member Per Month	1.30	1.37	1.36	1.34
Plan Paid Per Member Per Month (PMPM)	\$35.14	\$52.09	\$54.33	\$47.17
Average Eligible Enrollees	91,065	90,543	91,109	90,906
Average # of Rx's Per Enrollee Per Month	2.62	2.76	2.73	2.70
Plan Paid Per Enrollee Per Month (PEPM)	\$70.74	\$104.61	\$109.18	\$94.83
Rx Cost Share				
Avg. Claim Cost to Plan	\$27.02	\$37.96	\$40.03	\$35.12
AVG. Member Cost/Claim	\$25.91	\$15.81	\$14.03	\$18.48
Percent member Cost Share	49.0%	29.4%	25.9%	34.5%
Average Ingredient Costs				
Single Source (no generics available)	\$78.41	\$80.31	\$80.41	\$79.73
Multi-Source Brand (generics available)	\$108.69	\$99.98	\$96.10	\$101.61
Generic Drugs	\$17.20	\$17.26	\$17.33	\$17.26
Brand/Generic Dispensing Rates				
Single Source (no generics)	54.71%	54.39%	54.70%	54.59%
Multi-Source Brand % (generics available)	0.16%	0.15%	0.16%	0.15%
Generic Drug	45.13%	45.47%	45.15%	45.25%
Generics Dispensed when available	99.64%	99.68%	99.66%	99.66%
Percent of Plan Cost for Single Source	87.05%	85.74%	85.32%	85.91%
Retail Pharmacy Program				
Avg. Day Supply	31.5	32.0	31.7	31.7
Avg. Plan Cost/Day Supply	\$0.84	\$1.17	\$1.25	\$1.09
Avg. Claim Cost to Plan	\$26.56	\$37.51	\$39.59	\$34.67
Avg. Member Cost / Claim	\$25.80	\$15.68	\$13.94	\$18.37
Percent Member Cost Share	49.28%	29.47%	26.03%	34.63%
Special Maint Netwk (% of claims filled)	6.74%	7.84%	8.43%	7.69%
Other Maint (% of claims filled)	3.32%	2.98%	2.44%	2.91%
Avg. Days Supply for Maint. Netwks	88.2	88.5	88.4	88.4
Total # Claims Fills 1-34 Days Supply	212,029	219,992	219,296	651,317
Total # Claims Fills 35-60 Day Supply	1,642	1,662	1,592	4,896
Total # Claims Fills 61-90 Day Supply	22,074	25,041	25,153	72,268
Total # Claims Fills 91+ Day Supply	1	6		7
Mall Service Program				
Avg. Days Supply	74.3	73.8	70.1	72.8
Avg. Plan Cost/Days Supply	\$0.91	\$1.06	\$1.20	\$1.05
Avg. Cost to Plan	\$67.39	\$77.95	\$83.98	\$76.24
Avg. Member Cost/Claim	\$35.38	\$27.50	\$23.04	\$28.78
Percent Member Cost Share	34.42%	26.08%	21.53%	27.41%
Total # Claims Fill 1-34 Days Supply	697	758	820	2275
Total # Claims Fills 35-60 Days Supply	27	16	22	65
Total # Claims Fills 61-90 Days Supply	1,960	2,026	1,614	5,600
Total # Claims Fills 91+ Day Supply				
Formulary Program				
S/S Formulary Drugs (% by claim)	48.81%	48.85%	49.21%	48.96%
S/S Non-Formulary Drugs (% by claim)	5.90%	5.53%	5.49%	5.64%
M/S Drugs (% by claim)	0.08%	0.06%	0.07%	0.07%
Generic Drugs (% by Claim)	45.13%	45.47%	45.15%	45.25%
S/S Formulary Drugs (% by \$)	80.76%	79.69%	79.43%	80.76%
s/s non-Formulary Drugs (% by \$)	6.28%	6.05%	5.89%	6.05%
M/S Drugs (% by \$)	0.37%	0.19%	0.20%	0.24%
Generic Drugs (% by \$)	12.46%	13.95%	14.37%	13.74%

WV PUBLIC EMPLOYEES INSURANCE (WVA)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	182,769
Group PMPM Cost	\$47.17
# Prescriptions PMPM	1,343
Avg. Ingredient Cost / Rx	\$51.50
Avg. Member Contribution / Rx	\$18.48
Avg. Amount Paid / Rx	\$35.12
Total Amount Paid	\$25,864,288
Generic Rx % of Total	45.3%
Generic Conversion Rate	99.7%
Formulary Compliance Rate	92.1%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	32,963	\$113.03	9.8%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	25,087	\$120.04	7.9%
3	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	30,465	\$62.95	5.1%
4	NSAIA'S	PAIN AND INFLAMMATION	23,753	\$62.11	3.9%
5	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	22,047	\$54.74	3.2%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	12,630	\$87.28	2.9%
2	PRIOSEC 20MG	ULCER DISEASE	8,455	\$124.88	2.8%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	7,653	\$130.19	2.6%
4	PREVACID 30MG	ULCER DISEASE	5,366	\$123.28	1.7%
5	NEXIUM 40MG	ULCER DISEASE	5,452	\$116.28	1.7%

Group Performance Overview Page

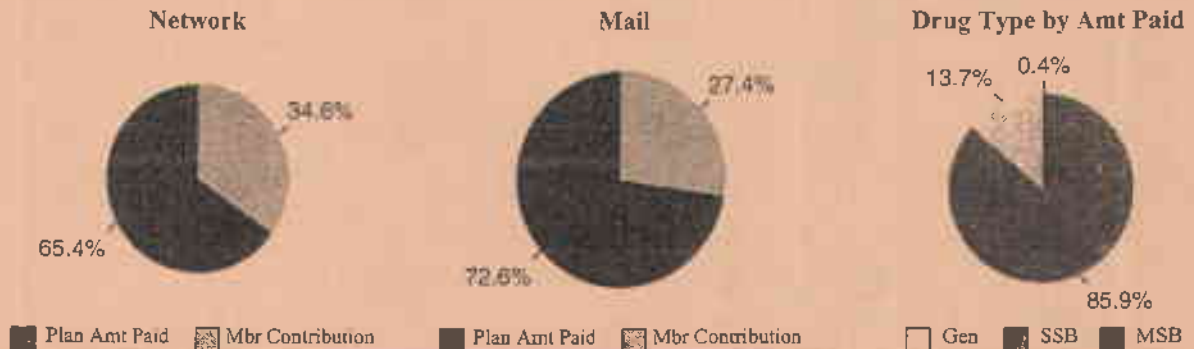
WV PUBLIC EMPLOYEES INSURANCE (WVA)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$37,925,905.35
Total Dispensing Fee (incl. sales tax)	\$1,546,532.77
Total Gross Cost	\$39,472,438.12
Total Member Contribution	\$13,608,149.75
Total Amount Paid	\$25,864,288.37

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	396,736	53.9%	\$80.90	\$26.26	32.5%	33
	MS Brand	1,126	0.2%	\$100.22	\$23.10	23.0%	29
	Generic	330,328	44.9%	\$19.43	\$8.87	45.7%	30
	Sub-Total	728,190	98.9%	\$53.04	\$18.37	34.6%	32
Mail	Brand	5,117	0.7%	\$141.75	\$37.31	26.3%	72
	MS Brand	8	0.0%	\$574.42	\$11.00	1.9%	89
	Generic	2,817	0.4%	\$37.22	\$13.35	35.9%	74
	Sub-Total	7,942	1.1%	\$105.11	\$28.78	27.4%	73
Member Submitted	Brand	210	0.0%	\$48.62	\$21.90	45.0%	28
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	100	0.0%	\$12.07	\$7.58	62.8%	21
	Sub-Total	310	0.0%	\$36.83	\$17.28	46.9%	25
Total	Brand	402,063	54.6%	\$81.66	\$26.40	32.3%	34
	MS Brand	1,134	0.2%	\$103.56	\$23.01	22.2%	30
	Generic	333,245	45.3%	\$19.57	\$8.91	45.5%	30
	Total	736,442	100.0%	\$53.60	\$18.48	34.5%	32

Distribution Summary Page

STATE RETIREES (1)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	33,206
Group PMPM Cost	\$96.87
# Prescriptions PMPM	2,644
Avg. Ingredient Cost / Rx	\$52.43
Avg. Member Contribution / Rx	\$17.88
Avg. Amount Paid / Rx	\$36.63
Total Amount Paid	\$9,650,519
Generic Rx % of Total	46.3%
Generic Conversion Rate	99.7%
Formulary Compliance Rate	92.4%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	13,843	\$114.51	11.5%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	9,462	\$120.44	8.3%
3	NSAIA'S	PAIN AND INFLAMMATION	8,561	\$73.76	4.6%
4	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	10,006	\$55.10	4.0%
5	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	8,238	\$62.53	3.7%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	5,295	\$90.24	3.5%
2	PRILOSEC 20MG	ULCER DISEASE	3,311	\$125.17	3.0%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	3,054	\$132.55	2.9%
4	PLAVIX 75MG	BLOOD MODIFYING	2,243	\$126.79	2.1%
5	CELEBREX 200MG	PAIN AND INFLAMMATION	2,219	\$118.22	1.9%

Group Performance Overview Page

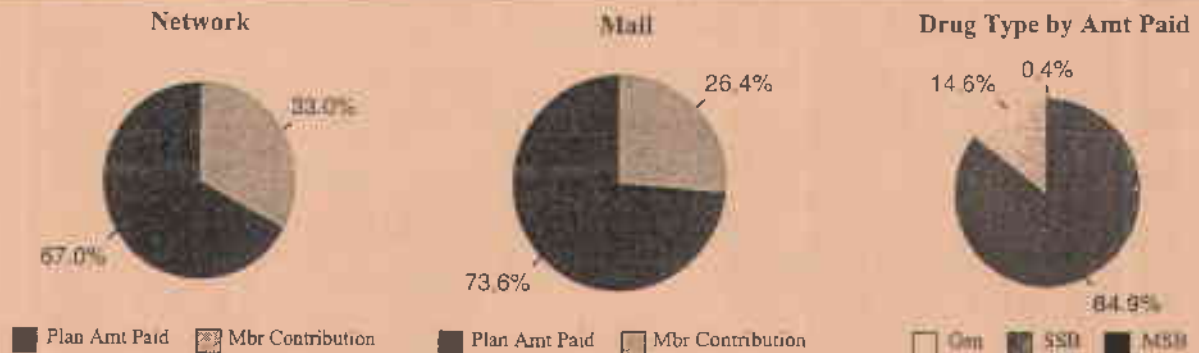
STATE RETIREES (1)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$13,810,983.11
Total Dispensing Fee (incl. sales tax)	\$550,575.03
Total Gross Cost	\$14,361,558.14
Total Member Contribution	\$4,711,039.06
Total Amount Paid	\$9,650,519.08

		Nbr of Rx	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	138,879	52.7%	\$82.89	\$25.58	30.9%	35
	MS Brand	408	0.2%	\$114.42	\$21.79	19.0%	30
	Generic	120,580	45.8%	\$20.15	\$8.71	43.2%	33
	Sub-Total	259,867	98.6%	\$53.83	\$17.75	33.0%	34
Mail	Brand	2,089	0.8%	\$151.23	\$38.34	25.4%	76
	MS Brand	7	0.0%	\$638.39	\$10.00	1.6%	90
	Generic	1,365	0.5%	\$35.65	\$12.75	35.8%	74
	Sub-Total	3,461	1.3%	\$106.63	\$28.19	26.4%	75
Member Submitted	Brand	69	0.0%	\$58.75	\$21.89	37.3%	31
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	32	0.0%	\$9.43	\$6.09	64.6%	23
	Sub-Total	101	0.0%	\$43.12	\$16.89	39.2%	29
Total	Brand	141,037	53.5%	\$83.89	\$25.77	30.7%	36
	MS Brand	415	0.2%	\$123.26	\$21.60	17.5%	31
	Generic	121,977	46.3%	\$20.32	\$8.75	43.1%	33
	Total	263,429	100.0%	\$54.52	\$17.88	32.8%	35

Distribution Summary Page

NON STATE AGENCIES (10)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	16,600
Group PMPM Cost	\$26.03
# Prescriptions PMPM	0.848
Avg. Ingredient Cost / Rx	\$47.82
Avg. Member Contribution / Rx	\$19.25
Avg. Amount Paid / Rx	\$30.70
Total Amount Paid	\$1,296,123
Generic Rx % of Total	46.7%
Generic Conversion Rate	99.7%
Formulary Compliance Rate	62.5%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PROTON PUMP INHIBITORS	ULCER DISEASE	1,371	\$119.11	8.1%
2	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	1,450	\$107.82	7.7%
3	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	1,930	\$62.56	6.0%
4	NSAID'S	PAIN AND INFLAMMATION	1,417	\$50.75	3.6%
5	ANTIHISTAMINES - NON-SEDATING	ALLERGIES	1,113	\$59.62	3.3%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRILOSEC 20MG	ULCER DISEASE	422	\$122.56	2.6%
2	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	551	\$78.11	2.1%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	352	\$122.17	2.1%
4	NEXIUM 40MG	ULCER DISEASE	364	\$116.72	2.1%
5	PREVACID 30MG	ULCER DISEASE	290	\$123.62	1.8%

Group Performance Overview Page

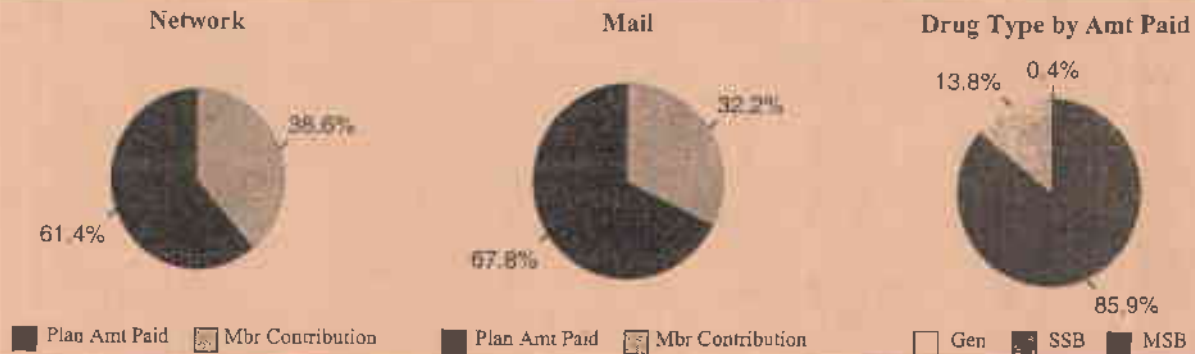
NON STATE AGENCIES (10)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$2,019,093.98
Total Dispensing Fee (incl. sales tax)	\$89,616.21
Total Gross Cost	\$2,108,710.19
Total Member Contribution	\$812,587.68
Total Amount Paid	\$1,296,122.51

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	22,154	52.5%	\$77.02	\$27.87	36.2%	31
	MS Brand	64	0.2%	\$96.18	\$23.45	24.4%	26
	Generic	19,577	46.4%	\$18.17	\$9.22	50.7%	26
	Sub-Total	41,795	99.0%	\$49.48	\$19.12	38.6%	28
Mail	Brand	263	0.6%	\$132.83	\$41.19	31.0%	66
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	133	0.3%	\$37.34	\$15.30	41.0%	70
	Sub-Total	396	0.9%	\$100.76	\$32.49	32.2%	67
Member Submitted	Brand	16	0.0%	\$28.48	\$20.46	71.8%	19
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	15	0.0%	\$8.63	\$6.56	76.0%	22
	Sub-Total	31	0.1%	\$18.87	\$13.73	72.8%	21
Total	Brand	22,433	53.1%	\$77.64	\$28.02	36.1%	31
	MS Brand	64	0.2%	\$96.18	\$23.45	24.4%	26
	Generic	19,725	46.7%	\$18.29	\$9.26	50.6%	26
	Total	42,222	100.0%	\$49.94	\$19.25	38.5%	29

Distribution Summary Page

NON STATE AGENCIES PLAN B (11)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	1,044
Group PMPM Cost	\$10.39
# Prescriptions PMPM	0,574
Avg. Ingredient Cost / Rx	\$47.62
Avg. Member Contribution / Rx	\$31.57
Avg. Amount Paid / Rx	\$18.10
Total Amount Paid	\$32,516
Generic Rx % of Total	44.8%
Generic Conversion Rate	99.6%
Formulary Compliance Rate	6.5%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	63	\$120.13	8.8%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	51	\$114.05	6.8%
3	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	79	\$67.22	6.2%
4	ANTIHISTAMINES - NON-SEDATING	ALLERGIES	64	\$65.15	4.9%
5	INSULIN SENSITIZING AGENTS	DIABETES	16	\$166.11	3.1%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRIOSEC 20MG	ULCER DISEASE	22	\$117.67	3.0%
2	AVONEX ADMINISTRATION PACK 30MCG	IMMUNE DISORDERS	1	\$2,586.15	3.0%
3	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	32	\$75.82	2.8%
4	LIPITOR 40MG	HIGH BLOOD CHOLESTEROL	11	\$203.12	2.6%
5	CELLCEPT 500MG	MISC CONDITIONS	1	\$2,126.51	2.5%

Group Performance Overview Page

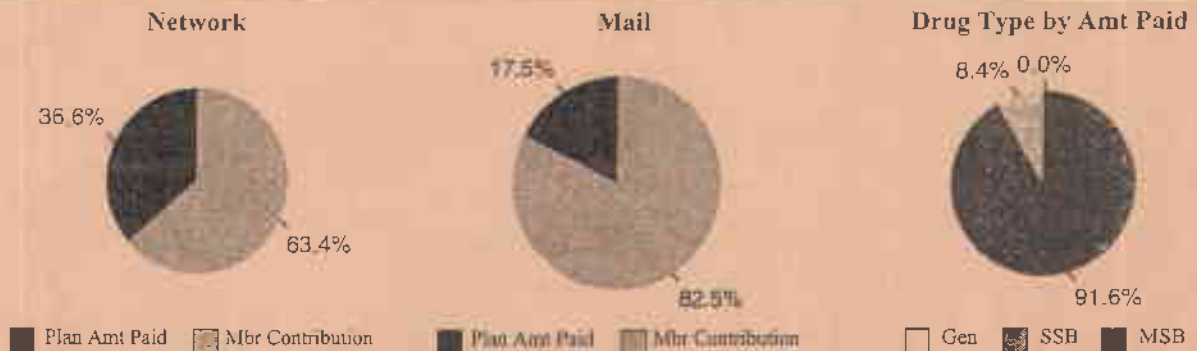
NON STATE AGENCIES PLAN B (11)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$85,520.27
Total Dispensing Fee (incl. sales tax)	\$3,688.25
Total Gross Cost	\$89,208.52
Total Member Contribution	\$56,692.39
Total Amount Paid	\$32,516.13

		Nbr of Rx's	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	984	54.8%	\$76.69	\$46.48	60.6%	32
	MS Brand	3	0.2%	\$37.54	\$37.54	100.0%	20
	Generic	801	44.6%	\$16.35	\$12.98	79.4%	25
	Sub-Total	1,788	99.6%	\$49.59	\$31.46	63.4%	29
Mail	Brand	4	0.2%	\$116.03	\$99.99	86.2%	75
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	3	0.2%	\$22.72	\$13.00	57.2%	53
	Sub-Total	7	0.4%	\$76.04	\$62.71	82.5%	65
Member Submitted	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	1	0.1%	\$6.26	\$6.26	100.0%	2
	Sub-Total	1	0.1%	\$6.26	\$6.26	100.0%	2
Total	Brand	988	55.0%	\$76.85	\$46.70	60.8%	32
	MS Brand	3	0.2%	\$37.54	\$37.54	100.0%	20
	Generic	805	44.8%	\$16.36	\$12.97	79.3%	25
	Total	1,796	100.0%	\$49.67	\$31.57	63.6%	29

Distribution Summary Page

COBRA (12) Period Overview

Group Performance Overview Page

Provided by **WVA – WV Public Employees Ins**

Prepared by **Express Scripts, Inc.**
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	554
Group PMPM Cost	\$70.01
# Prescriptions PMPM	1,282
Avg. Ingredient Cost / Rx	\$71.04
Avg. Member Contribution / Rx	\$18.54
Avg. Amount Paid / Rx	\$54.62
Total Amount Paid	\$116,286
Generic Rx % of Total	44.8%
Generic Conversion Rate	98.9%
Formulary Compliance Rate	7.6%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	162	\$63.92	6.8%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	72	\$125.88	6.0%
3	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	70	\$116.22	5.4%
4	MISC. ANTICONVULSANTS	SEIZURES/PAIN	54	\$138.68	5.0%
5	AMINOGLYCOSIDES	INFECTIONS	3	\$2,449.06	4.9%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PROLASTIN 500MG	ASTHMA	2	\$4,419.80	5.8%
2	TOBI 300MG/5ML	INFECTIONS	3	\$2,449.06	4.9%
3	TEMODAR 250MG	CANCER	3	\$1,581.38	3.1%
4	AVONEX ADMINISTRATION PACK 30MCG	IMMUNE DISORDERS	4	\$872.31	2.3%
5	PULMOZYME 1MG/ML	ASTHMA	3	\$1,118.66	2.2%

Group Performance Overview Page

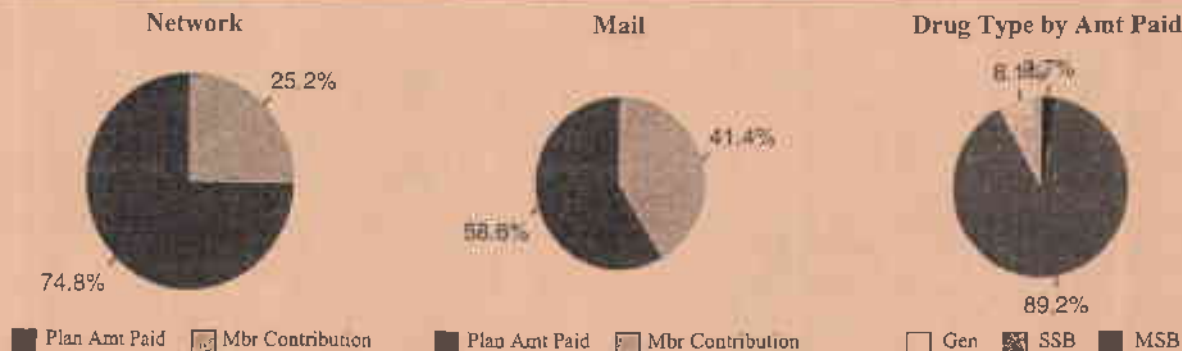
COBRA (12)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$151,251.25
Total Dispensing Fee (incl. sales tax)	\$4,514.53
Total Gross Cost	\$155,765.78
Total Member Contribution	\$39,479.43
Total Amount Paid	\$116,286.35

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	1,148	53.9%	\$115.67	\$26.54	22.9%	30
	MS Brand	11	0.5%	\$295.38	\$13.49	4.6%	24
	Generic	941	44.2%	\$18.53	\$8.56	46.2%	26
	Sub-Total	2,100	98.6%	\$73.08	\$18.42	25.2%	28
Mail	Brand	10	0.5%	\$134.15	\$51.83	38.6%	71
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	2	0.1%	\$31.17	\$31.17	100.0%	90
	Sub-Total	12	0.6%	\$116.98	\$48.39	41.4%	74
Member Submitted	Brand	7	0.3%	\$100.92	\$19.72	19.5%	19
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	10	0.5%	\$18.49	\$8.36	45.2%	20
	Sub-Total	17	0.8%	\$52.43	\$13.04	24.9%	19
Total	Brand	1,165	54.7%	\$115.74	\$26.72	23.1%	30
	MS Brand	11	0.5%	\$295.38	\$13.49	4.6%	24
	Generic	953	44.8%	\$18.55	\$8.61	46.4%	26
	Total	2,129	100.0%	\$73.16	\$18.54	25.3%	28

Distribution Summary Page

STATE RETIREES ASST 20 (2)

Period Overview

Group Performance Overview Page

Provided by **WVA – WV Public Employees Ins**

Prepared by **Express Scripts, Inc.**
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	447
Group PMPM Cost	\$110.46
# Prescriptions PMPM	3.289
Avg. Ingredient Cost / Rx	\$45.76
Avg. Member Contribution / Rx	\$14.27
Avg. Amount Paid / Rx	\$33.59
Total Amount Paid	\$148,129
Generic Rx % of Total	48.7%
Generic Conversion Rate	99.6%
Formulary Compliance Rate	14.6%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	213	\$107.19	11.3%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	180	\$123.42	11.0%
3	NSAIA'S	PAIN AND INFLAMMATION	137	\$80.47	5.5%
4	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	183	\$51.75	4.7%
5	PLATELET AGGREGATION INHIBITORS	BLOOD MODIFYING	61	\$109.55	3.3%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRELOSEC 20MG	ULCER DISEASE	76	\$126.35	4.8%
2	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	89	\$83.00	3.7%
3	PLAVIX 75MG	BLOOD MODIFYING	46	\$124.73	2.8%
4	PREVACID 30MG	ULCER DISEASE	39	\$130.71	2.5%
5	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	43	\$112.23	2.4%

Group Performance Overview Page

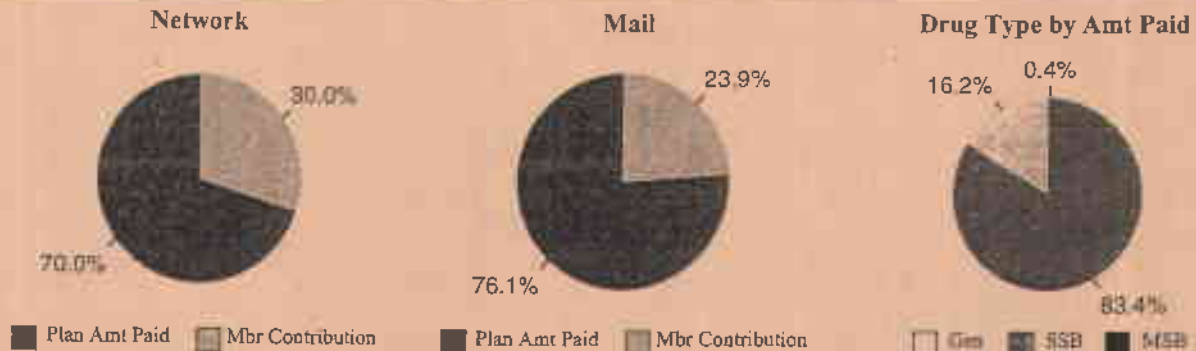
STATE RETIREES ASST 20 (2)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$201,789.13
Total Dispensing Fee (incl. sales tax)	\$9,277.00
Total Gross Cost	\$211,066.13
Total Member Contribution	\$62,937.35
Total Amount Paid	\$148,128.78

		Nbr of Rx	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	2,222	50.4%	\$75.59	\$21.41	28.3%	34
	MS Brand	9	0.2%	\$97.49	\$33.14	34.0%	41
	Generic	2,125	48.2%	\$17.50	\$6.52	37.3%	32
	Sub-Total	4,356	98.8%	\$47.30	\$14.17	30.0%	33
Mail	Brand	31	0.7%	\$137.22	\$34.76	25.3%	75
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	22	0.5%	\$33.33	\$5.18	15.5%	75
	Sub-Total	53	1.2%	\$94.10	\$22.48	23.9%	75
Member Submitted	Brand	1	0.0%	\$60.00	\$15.00	25.0%	20
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	0	0.0%	\$0.00	\$0.00	0.0%	0
	Sub-Total	1	0.0%	\$60.00	\$15.00	25.0%	20
Total	Brand	2,254	51.1%	\$76.43	\$21.59	28.2%	34
	MS Brand	9	0.2%	\$97.49	\$33.14	34.0%	41
	Generic	2,147	48.7%	\$17.66	\$6.51	36.9%	32
	Total	4,410	100.0%	\$47.86	\$14.27	29.8%	33

Distribution Summary Page

STATE RETIREES ASST 40 (3)

Period Overview

Group Performance Overview Page

Provided by **WVA – WV Public Employees Ins**

Prepared by **Express Scripts, Inc.**
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	2,169
Group PMPM Cost	\$122.17
# Prescriptions PMPM	3.256
Avg. Ingredient Cost / Rx	\$48.45
Avg. Member Contribution / Rx	\$13.04
Avg. Amount Paid / Rx	\$37.52
Total Amount Paid	\$794,851
Generic Rx % of Total	49.5%
Generic Conversion Rate	99.7%
Formulary Compliance Rate	43.6%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	1,019	\$111.84	11.1%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	738	\$116.33	8.4%
3	NSAIA'S	PAIN AND INFLAMMATION	709	\$78.17	5.4%
4	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	856	\$56.29	4.7%
5	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	581	\$59.41	3.4%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	385	\$89.49	3.4%
2	PRIOSEC 20MG	ULCER DISEASE	280	\$121.83	3.3%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	243	\$127.84	3.0%
4	PLAVIX 75MG	BLOOD MODIFYING	173	\$119.36	2.0%
5	CELEBREX 200MG	PAIN AND INFLAMMATION	183	\$110.37	2.0%

Group Performance Overview Page

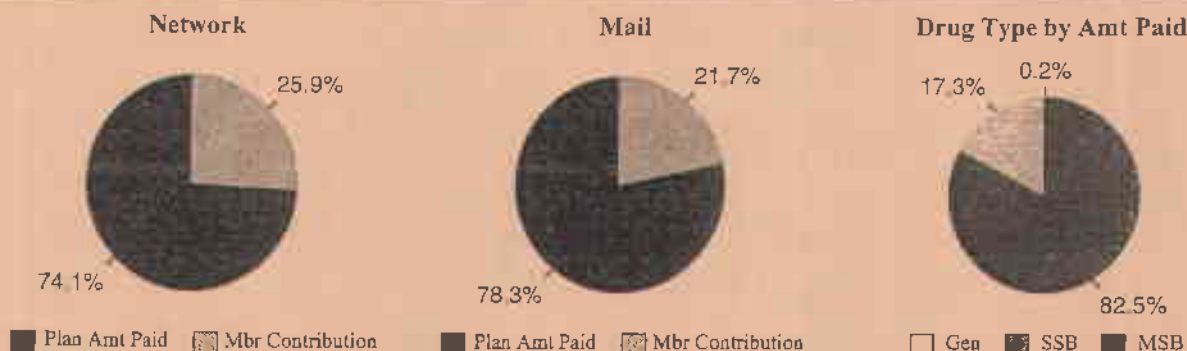
STATE RETIREES ASST 40 (3)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$1,026,269.47
Total Dispensing Fee (incl. sales tax)	\$44,799.39
Total Gross Cost	\$1,071,068.86
Total Member Contribution	\$276,217.52
Total Amount Paid	\$794,851.34

		Nbr of Rx's	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	10,459	49.4%	\$79.67	\$19.05	23.9%	35
	MS Brand	30	0.1%	\$79.45	\$28.41	35.8%	34
	Generic	10,363	48.9%	\$19.52	\$6.65	34.1%	33
	Sub-Total	20,852	98.4%	\$49.78	\$12.90	25.9%	34
Mail	Brand	206	1.0%	\$132.73	\$26.30	19.8%	77
	MS Brand	1	0.0%	\$126.61	\$18.00	14.2%	84
	Generic	118	0.6%	\$45.91	\$14.29	31.1%	79
	Sub-Total	325	1.5%	\$101.19	\$21.91	21.7%	77
Member Submitted	Brand	1	0.0%	\$103.67	\$72.00	69.5%	25
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	6	0.0%	\$25.37	\$6.61	26.1%	25
	Sub-Total	7	0.0%	\$36.56	\$15.96	43.6%	25
Total	Brand	10,666	50.3%	\$80.69	\$19.19	23.8%	35
	MS Brand	31	0.1%	\$80.97	\$28.07	34.7%	36
	Generic	10,487	49.5%	\$19.82	\$6.73	34.0%	34
	Total	21,184	100.0%	\$50.56	\$13.04	25.8%	34

Distribution Summary Page

STATE RETIREES ASST 60 (4)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	3,183
Group PMPM Cost	\$137.79
# Prescriptions PMPM	3,319
Avg. Ingredient Cost / Rx	\$50.35
Avg. Member Contribution / Rx	\$10.95
Avg. Amount Paid / Rx	\$41.51
Total Amount Paid	\$1,315,938
Generic Rx % of Total	48.4%
Generic Conversion Rate	99.7%
Formulary Compliance Rate	51.4%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	1,638	\$113.05	11.6%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	1,125	\$120.64	8.5%
3	NSAIA'S	PAIN AND INFLAMMATION	1,016	\$70.78	4.5%
4	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	1,282	\$53.16	4.3%
5	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	949	\$64.44	3.8%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	599	\$88.97	3.3%
2	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	390	\$128.27	3.1%
3	PRILOSEC 20MG	ULCER DISEASE	380	\$124.48	3.0%
4	PLAVIX 75MG	BLOOD MODIFYING	282	\$124.18	2.2%
5	PREVACID 30MG	ULCER DISEASE	284	\$120.60	2.1%

Group Performance Overview Page

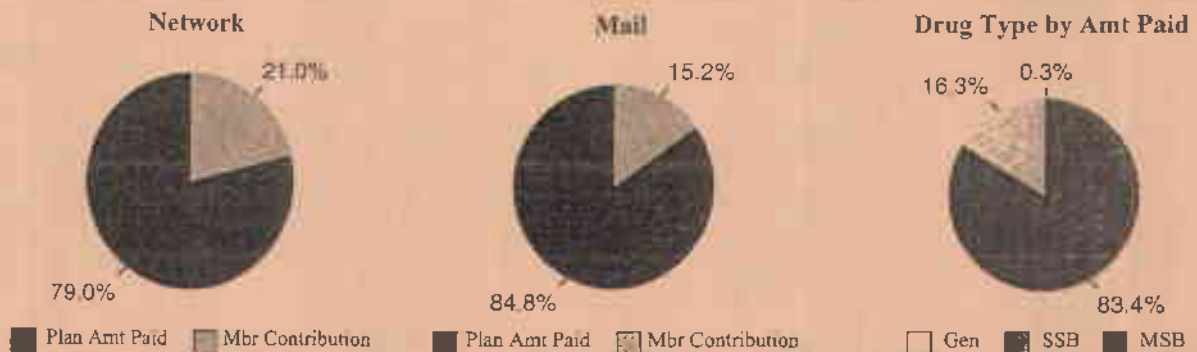
STATE RETIREES ASST 60 (4)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$1,596,224.59
Total Dispensing Fee (incl. sales tax)	\$66,916.52
Total Gross Cost	\$1,663,141.11
Total Member Contribution	\$347,202.90
Total Amount Paid	\$1,315,938.21

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	16,067	50.7%	\$81.46	\$15.15	18.6%	35
	MS Brand	52	0.2%	\$94.40	\$16.05	17.0%	32
	Generic	15,115	47.7%	\$20.16	\$6.36	31.6%	33
	Sub-Total	31,234	98.5%	\$51.82	\$10.90	21.0%	34
Mail	Brand	237	0.7%	\$155.75	\$20.43	13.1%	76
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	226	0.7%	\$33.99	\$8.58	25.3%	73
	Sub-Total	463	1.5%	\$96.32	\$14.65	15.2%	75
Member Submitted	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	4	0.0%	\$16.17	\$4.50	27.8%	19
	Sub-Total	4	0.0%	\$16.17	\$4.50	27.8%	19
Total	Brand	16,304	51.4%	\$82.54	\$15.23	18.4%	35
	MS Brand	52	0.2%	\$94.40	\$16.05	17.0%	32
	Generic	15,345	48.4%	\$20.36	\$6.39	31.4%	34
	Total	31,701	100.0%	\$52.46	\$10.95	20.9%	35

Distribution Summary Page

STATE AGENCIES (5)

Period Overview

Group Performance Overview Page

Provided by **WVA - WV Public Employees Ins**

Prepared by **Express Scripts, Inc.**
www.express-scripts.com

Current Period: July 1, 2002 - September 30, 2002

Avg. Eligible Members / Month	122,488
Group PMPM Cost	\$31.47
# Prescriptions PMPM	0.937
Avg. Ingredient Cost / Rx	\$51.50
Avg. Member Contribution / Rx	\$20.03
Avg. Amount Paid / Rx	\$33.58
Total Amount Paid	\$11,564,091
Generic Rx % of Total	43.5%
Generic Conversion Rate	99.6%
Formulary Compliance Rate	84.9%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	13,272	\$112.13	8.4%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	11,166	\$120.14	7.6%
3	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	17,649	\$63.26	6.3%
4	ANTIHISTAMINES - NON-SEDATING	ALLERGIES	12,333	\$61.31	4.3%
5	NSAIA'S	PAIN AND INFLAMMATION	11,067	\$52.24	3.3%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRIOSEC 20MG	ULCER DISEASE	3,672	\$125.21	2.6%
2	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	5,146	\$85.04	2.5%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	3,189	\$129.93	2.3%
4	NEXIUM 40MG	ULCER DISEASE	2,628	\$114.97	1.7%
5	PREVACID 30MG	ULCER DISEASE	2,419	\$124.17	1.7%

Group Performance Overview Page

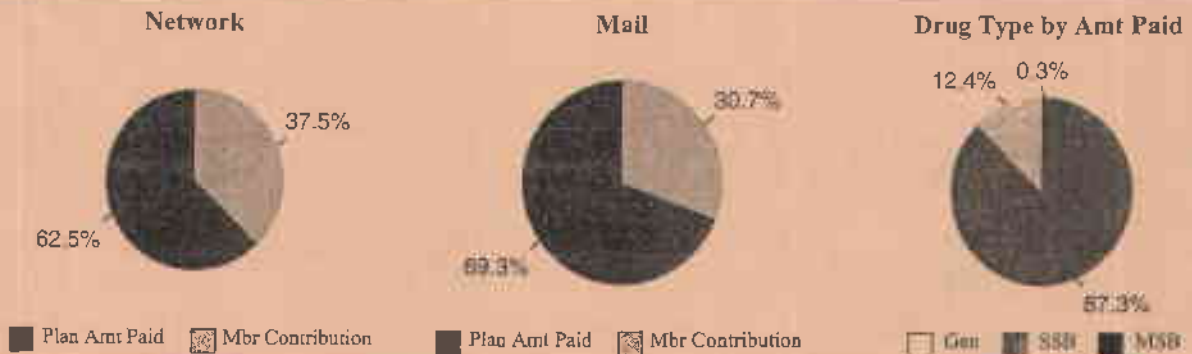
STATE AGENCIES (5)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$17,738,460.27
Total Dispensing Fee (incl. sales tax)	\$724,215.82
Total Gross Cost	\$18,462,676.09
Total Member Contribution	\$6,898,584.94
Total Amount Paid	\$11,564,091.15

		Nbr of Rx's	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	191,928	55.7%	\$79.64	\$28.03	35.2%	32
	MS Brand	529	0.2%	\$89.13	\$24.36	27.3%	28
	Generic	148,940	43.2%	\$18.96	\$9.47	49.9%	27
	Sub-Total	341,397	99.1%	\$53.18	\$19.93	37.5%	30
Mail	Brand	2,047	0.6%	\$131.12	\$38.88	29.7%	68
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	827	0.2%	\$39.97	\$15.81	39.6%	73
	Sub-Total	2,874	0.8%	\$104.89	\$32.24	30.7%	70
Member Submitted	Brand	113	0.0%	\$41.32	\$21.96	53.1%	28
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	31	0.0%	\$11.12	\$10.05	90.4%	17
	Sub-Total	144	0.0%	\$34.82	\$19.39	55.7%	26
Total	Brand	194,088	56.4%	\$80.16	\$28.14	35.1%	32
	MS Brand	529	0.2%	\$89.13	\$24.36	27.3%	28
	Generic	149,798	43.5%	\$19.07	\$9.50	49.8%	28
	Total	344,415	100.0%	\$53.61	\$20.03	37.4%	30

Distribution Summary Page

NON STATE RETIREES (6)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	2,414
Group PMPM Cost	\$93.60
# Prescriptions PMPM	2,582
Avg. Ingredient Cost / Rx	\$51.63
Avg. Member Contribution / Rx	\$17.48
Avg. Amount Paid / Rx	\$36.25
Total Amount Paid	\$677,746
Generic Rx % of Total	47.5%
Generic Conversion Rate	99.8%
Formulary Compliance Rate	23.2%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	1,048	\$114.80	12.5%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	666	\$116.63	8.0%
3	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	735	\$55.16	4.2%
4	SELECTIVE SEROTONIN REUPTAKE	DEPRESSION	593	\$61.37	3.8%
5	NSAIA'S	PAIN AND INFLAMMATION	506	\$71.09	3.7%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	389	\$87.47	3.5%
2	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	266	\$127.85	3.5%
3	PRILOSEC 20MG	ULCER DISEASE	185	\$124.75	2.4%
4	PLAVIX 75MG	BLOOD MODIFYING	169	\$130.94	2.3%
5	PREVACID 30MG	ULCER DISEASE	165	\$118.97	2.0%

Group Performance Overview Page

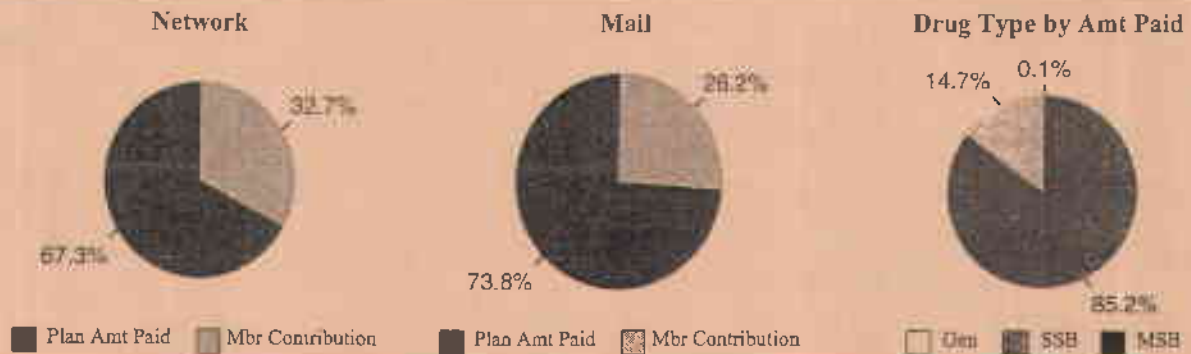
NON STATE RETIREES (6)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$965,179.48
Total Dispensing Fee (incl. sales tax)	\$39,291.27
Total Gross Cost	\$1,004,470.75
Total Member Contribution	\$326,724.56
Total Amount Paid	\$677,746.19

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	9,612	51.4%	\$83.47	\$25.46	30.5%	35
	MS Brand	15	0.1%	\$73.59	\$25.61	34.8%	36
	Generic	8,788	47.0%	\$19.50	\$8.40	43.1%	32
	Sub-Total	18,415	98.5%	\$52.94	\$17.32	32.7%	33
Mail	Brand	178	1.0%	\$146.07	\$37.39	25.6%	76
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	99	0.5%	\$35.36	\$10.89	30.8%	75
	Sub-Total	277	1.5%	\$106.50	\$27.92	26.2%	76
Member Submitted	Brand	3	0.0%	\$54.08	\$18.00	33.3%	20
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	0	0.0%	\$0.00	\$0.00	0.0%	0
	Sub-Total	3	0.0%	\$54.08	\$18.00	33.3%	20
Total	Brand	9,793	52.4%	\$84.60	\$25.67	30.3%	36
	MS Brand	15	0.1%	\$73.59	\$25.61	34.8%	36
	Generic	8,887	47.5%	\$19.67	\$8.43	42.9%	32
	Total	18,695	100.0%	\$53.73	\$17.48	32.5%	34

Distribution Summary Page

NON STATE RETIREES 20 (7)

Period Overview

Group Performance Overview Page

Provided by **WVA – WV Public Employees Ins**

Prepared by **Express Scripts, Inc.**
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	59
Group PMPM Cost	\$107.05
# Prescriptions PMPM	2,847
Avg. Ingredient Cost / Rx	\$51.00
Avg. Member Contribution / Rx	\$15.50
Avg. Amount Paid / Rx	\$37.61
Total Amount Paid	\$18,841
Generic Rx % of Total	47.1%
Generic Conversion Rate	99.6%
Formulary Compliance Rate	0.8%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	26	\$105.80	10.8%
2	NARCOTIC AGONISTS	SEVERE PAIN	7	\$237.77	6.5%
3	PROTON PUMP INHIBITORS	ULCER DISEASE	14	\$112.25	6.2%
4	CALCIUM REGULATORS	OSTEOPOROSIS	14	\$100.00	5.5%
5	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	23	\$54.18	4.9%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	13	\$100.03	5.1%
2	DURAGESIC 100MCG/HR.	SEVERE PAIN	3	\$396.10	4.7%
3	PREVACID 30MG	ULCER DISEASE	9	\$113.61	4.0%
4	EVISTA 60MG	OSTEOPOROSIS	12	\$81.73	3.8%
5	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	10	\$80.56	3.2%

Group Performance Overview Page

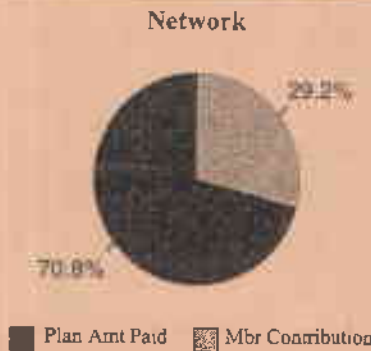
NON STATE RETIREES 20 (7)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Drug Type by Amt Paid



Total Ingredient Cost	\$25,552.16
Total Dispensing Fee (incl. sales tax)	\$1,055.00
Total Gross Cost	\$26,607.16
Total Member Contribution	\$7,766.40
Total Amount Paid	\$18,840.76

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	264	52.7%	\$82.98	\$22.24	26.8%	37
	MS Brand	1	0.2%	\$44.22	\$30.00	67.8%	30
	Generic	236	47.1%	\$19.73	\$7.90	40.0%	32
	Sub-Total	501	100.0%	\$53.11	\$15.50	29.2%	35
Mail	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	0	0.0%	\$0.00	\$0.00	0.0%	0
	Sub-Total	0	0.0%	\$0.00	\$0.00	0.0%	0
Member Submitted	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	0	0.0%	\$0.00	\$0.00	0.0%	0
	Sub-Total	0	0.0%	\$0.00	\$0.00	0.0%	0
Total	Brand	264	52.7%	\$82.98	\$22.24	26.8%	37
	MS Brand	1	0.2%	\$44.22	\$30.00	67.8%	30
	Generic	236	47.1%	\$19.73	\$7.90	40.0%	32
	Total	501	100.0%	\$53.11	\$15.50	29.2%	35

Distribution Summary Page

NON STATE RETIREES 40 (8)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
www.express-scripts.com

Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	221
Group PMPM Cost	\$121.65
# Prescriptions PMPM	3.195
Avg. Ingredient Cost / Rx	\$48.79
Avg. Member Contribution / Rx	\$12.81
Avg. Amount Paid / Rx	\$38.08
Total Amount Paid	\$80,652
Generic Rx % of Total	50.0%
Generic Conversion Rate	100.0%
Formulary Compliance Rate	3.4%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PROTON PUMP INHIBITORS	ULCER DISEASE	89	\$127.42	11.0%
2	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	98	\$112.68	10.7%
3	INSULIN SENSITIZING AGENTS	DIABETES	26	\$175.76	4.4%
4	NSAIA'S	PAIN AND INFLAMMATION	70	\$60.51	4.1%
5	CALCIUM BLOCKERS	HIGH BLOOD PRESS/HEART DISEASE	79	\$48.46	3.7%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRIOSECC 20MG	ULCER DISEASE	30	\$141.72	4.1%
2	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	44	\$85.08	3.6%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	23	\$122.95	2.7%
4	PLAVIX 75MG	BLOOD MODIFYING	23	\$113.58	2.5%
5	NERIUM 40MG	ULCER DISEASE	19	\$132.19	2.4%

Group Performance Overview Page

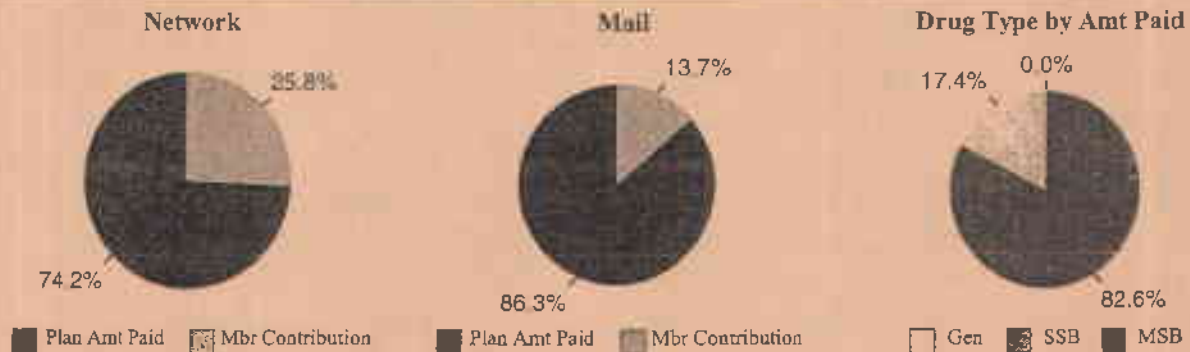
NON STATE RETIREES 40 (8)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 - September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$103,333.31
Total Dispensing Fee (incl. sales tax)	\$4,445.00
Total Gross Cost	\$107,778.31
Total Member Contribution	\$27,126.33
Total Amount Paid	\$80,651.98

		Nbr of Rxs	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	1,037	49.0%	\$79.24	\$19.15	24.2%	36
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	1,050	49.6%	\$19.38	\$6.24	32.2%	34
	Sub-Total	2,087	98.5%	\$49.13	\$12.65	25.8%	35
Mail	Brand	23	1.1%	\$215.95	\$27.70	12.8%	90
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	7	0.3%	\$37.58	\$11.05	29.4%	82
	Sub-Total	30	1.4%	\$174.33	\$23.82	13.7%	88
Member Submitted	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	1	0.0%	\$23.05	\$6.00	26.0%	30
	Sub-Total	1	0.0%	\$23.05	\$6.00	26.0%	30
Total	Brand	1,060	50.0%	\$82.21	\$19.33	23.5%	37
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	1,058	50.0%	\$19.51	\$6.27	32.1%	35
	Total	2,118	100.0%	\$50.89	\$12.81	25.2%	36

Distribution Summary Page

NON STATE RETIREES 60 (9)

Period Overview

Group Performance Overview Page

Provided by WVA – WV Public Employees Ins

Prepared by Express Scripts, Inc.
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Current Period: July 1, 2002 – September 30, 2002

Avg. Eligible Members / Month	385
Group PMPM Cost	\$145.97
# Prescriptions PMPM	3,326
Avg. Ingredient Cost / Rx	\$52.64
Avg. Member Contribution / Rx	\$10.88
Avg. Amount Paid / Rx	\$43.88
Total Amount Paid	\$168,596
Generic Rx % of Total	47.6%
Generic Conversion Rate	99.8%
Formulary Compliance Rate	5.8%

YOUR GROUP'S TOP 5 THERAPEUTIC DRUG CLASSES BY INGREDIENT COST

Your Rank	Therapeutic Class Name	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	HMG COA REDUCTASE INHIBITORS	HIGH BLOOD CHOLESTEROL	206	\$104.78	10.7%
2	PROTON PUMP INHIBITORS	ULCER DISEASE	142	\$117.93	8.3%
3	NSAIA'S	PAIN AND INFLAMMATION	108	\$73.94	3.9%
4	HEMATOPOIETIC GROWTH FACTORS	ANEMIA	3	\$2,455.07	3.6%
5	INSULIN SENSITIZING AGENTS	DIABETES	46	\$159.03	3.6%

YOUR GROUP'S TOP 5 DRUGS BY INGREDIENT COST

Your Rank	Drug Name & Strength	Most Common Indication	# Rxs	Avg. Ing. Cost / Rx	% Total Ing. Cost
1	PRIOSEC 20MG	ULCER DISEASE	50	\$115.32	2.9%
2	LIPITOR 10MG	HIGH BLOOD CHOLESTEROL	65	\$85.58	2.8%
3	LIPITOR 20MG	HIGH BLOOD CHOLESTEROL	45	\$111.77	2.5%
4	NEXIUM 40MG	ULCER DISEASE	38	\$116.82	2.2%
5	PLAVIX 75MG	BLOOD MODIFYING	29	\$133.05	1.9%

Group Performance Overview Page

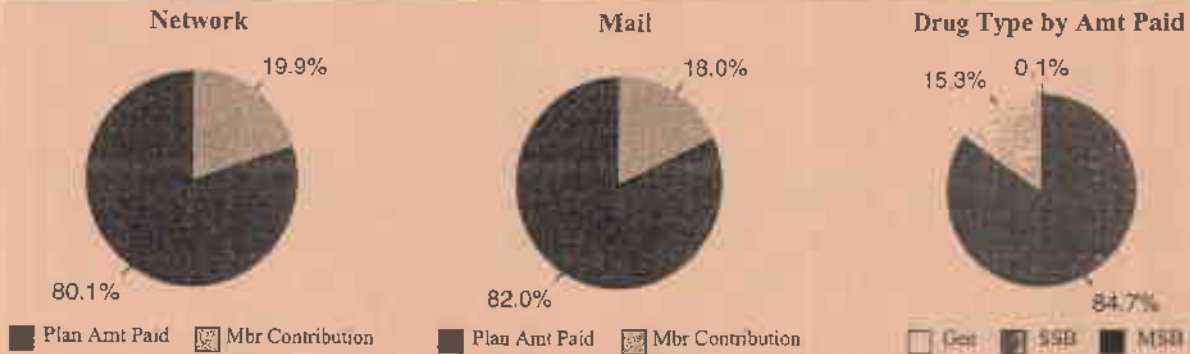
NON STATE RETIREES 60 (9)

Period Overview

Distribution Summary Page

Current Period: July 1, 2002 – September 30, 2002

Cost Breakdowns



Total Ingredient Cost	\$202,248.33
Total Dispensing Fee (incl. sales tax)	\$8,138.75
Total Gross Cost	\$210,387.08
Total Member Contribution	\$41,791.19
Total Amount Paid	\$168,595.89

		Nbr of Rx's	% Of Total	Gross Cost / Rx	Mbr. Contr. / Rx	Mbr. % Contr. / Rx	Avg. Days / Rx
Network	Brand	1,982	51.6%	\$84.93	\$14.91	17.5%	35
	MS Brand	4	0.1%	\$44.44	\$16.48	37.1%	25
	Generic	1,812	47.2%	\$20.21	\$6.20	30.7%	33
	Sub-Total	3,798	98.9%	\$54.01	\$10.76	19.9%	34
Mail	Brand	29	0.8%	\$165.40	\$28.84	17.4%	78
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	15	0.4%	\$29.59	\$7.00	23.7%	78
	Sub-Total	44	1.1%	\$119.10	\$21.40	18.0%	78
Member Submitted	Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	MS Brand	0	0.0%	\$0.00	\$0.00	0.0%	0
	Generic	0	0.0%	\$0.00	\$0.00	0.0%	0
	Sub-Total	0	0.0%	\$0.00	\$0.00	0.0%	0
Total	Brand	2,011	52.3%	\$86.09	\$15.11	17.5%	36
	MS Brand	4	0.1%	\$44.44	\$16.48	37.1%	25
	Generic	1,827	47.6%	\$20.29	\$6.21	30.6%	33
	Total	3,842	100.0%	\$54.76	\$10.88	19.9%	34

Distribution Summary Page



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, 2002, and have issued our report thereon dated October 31, 2002. Professional standards require that we provide you with the following information related to our audits.

**THE AUDITORS' RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN
THE UNITED STATES OF AMERICA 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, 2002, 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 judgment, 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.

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Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008 • E-mail: cpa@suttlecpa.com

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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, and accordingly, we do not express such an opinion. However, the results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described below.

Information Systems Controls (*Internal Control*)
(Partial Prior Year Comment)

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. (Also noted in prior year)
- There are no formal policies and procedures for review and monitoring of various information system security reports such as the "failed access report." (Also noted in prior year)
- There are no policies and procedures in place for conducting periodic intrusion testing of the various computer systems maintained by the Division.

We recommend that the Division strengthen their policies and procedures related to information systems controls and ensure that controls are operating as designed. In addition, the Division should work with the Information System and Controls Department of the State of West Virginia to ensure that periodic intrusion testing is conducted for all significant systems utilized by the Division. 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. We have made progress toward some of the specific items noted with this recommendation. We have established formal network logon/password policies and we have electronically interfaced the monthly mainframe report of terminated personnel with the PC network user accounts system to automate account deletions. Also, we have cooperated fully with the Information Services and Communications Division in the statewide initiative to perform periodic intrusion detection. The first test resulted in no unknown or unacceptable accesses from outside the DOT computer network. We will continue to cooperate with IS&C on this and all other security policies and programs.

Accounts Receivable Collection and Financial Reporting

Article V of the Constitution of West Virginia states in part that, "the legislative, executive and judicial departments shall be separate and distinct, so that neither shall exercise the powers properly belonging to either of the others." Furthermore, Article 10, Section 6 of the Constitution of West Virginia states in part that, "credit of the state shall not be granted to, or in aid of any county, city, township, corporation or person; nor shall the state ever assume, or become responsible for the debts or liabilities of any county, city, township, corporation or person." Furthermore, 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 has extended credit to other entities, including State agencies and political subdivisions 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. Furthermore, the Division does not have policies and procedures for analyzing and adjusting on a monthly basis the allowance for doubtful accounts as reported in the Division's financial statements.

The extension of credit to other State agencies and political subdivisions could be construed as the Division appropriating funds, thus usurping the constitutional authority the legislature. Also, the net realizable value of accounts receivable may be overstated on financial reports prepared by the Division.

We recommend that the Division suspend the extension of credit to entities, including other State agencies and political subdivisions with past due balances until the account is brought current. Also, we recommend that the Division evaluate accounts with balances outstanding to identify any other State agencies or political subdivisions that should not be granted credit due to a history of late payment. In addition, the Division should review its policies and procedures to determine if changes are needed and should develop policies and procedures for analyzing the amount reported in the allowance for doubtful accounts in the Division's financial statements.

Management Response: The Division of Highways agrees with the recommendation that a policy be developed to analyze the allowance accounts for Accounts Receivable. The Accounts Receivable Supervisor is preparing an analytical spreadsheet with historical information to better support making adjustments to our allowance accounts. We will incorporate the policy dealing with the allowance account into the existing collection policy for the Accounts Receivable Section. We also offer the following comments:

1. *The Division of Highways does cease credit extension for entities that have past due balances. For hauling permit and escort services accounts through our Enforcement Division, and our "SS" accounts (bid letting and specs) no further charges are allowed until the balance is paid in full. Trucks often have to wait at the state line because we will not issue permits or provide escorts on an overdue account. When entities that have leases with Property Management for sign (logo) rental or property rentals become delinquent, they are noticed that their lease will be cancelled or their signs removed. If payment is not received, these actions are taken.*
2. *In the case of governmental entities, the situation is more complicated. The Division aggressively employs every legal recourse available to collect debts from entities such as County Commissions, Public Service Divisions, Towns, School Boards, Prisons, and State Agencies. We have a record of taking many of these entities to the Court of Claims for Collection, where we have been overwhelmingly successful. However this is often a more complex situation than can be dealt with a simple refusal of services. For example, we have had Emergency Services Organizations with an outstanding balance need gasoline for an ambulance or a school board for its busses. Often in rural areas we are the only source for gasoline in emergency situations. During the past several years the number of governmental entities obtaining gasoline from the Division of Highways has significantly decreased. It has been our goal to eliminate this service completely, but emergency situations arise where this is impossible. We receive calls from members of the legislature requesting the Division's services for their constituency in dire circumstances such as water hauling during a drought or assistance from flood damage. Some of these situations are on an emergency status from the Governor's Office and some are not. The Division of Highways asserts that government must provide for its citizens particularly in exigent circumstances. The Division has responded to these requests with this premise rather than a strictly financial one. The Division seeks guidance from the Legislature for handling matters such as these and requests for services to governmental entities from the Governor's Office on a non-emergency basis to entities indebted to the Division. The Division is currently carrying balances for many government entities for water emergency services.*
3. *The Division does not agree that the extension of credit to entities with outstanding balances "significantly decreases their ability to collect these balances through the regular collection process". There are two applicable time periods for the collection of debts. We have 2 years to collect non-contractual debts and 10 years to collect debts incurred by contract. The Statute of Limitations begins to run when the debt is incurred or the contract is signed. Therefore subsequent debts have no effect on collecting a prior debt that has a different Statute of Limitations. During the applicable time period Accounts Receivable, The Claims Division, and ultimately the Legal Division work systematically to obtain payment. Prior to the Statute of Limitations expiring, the debt is referred to the Legal Division where a determination is made whether to file a lawsuit. Many factors are considered primarily being if the entity has sufficient funds or assets to satisfy a judgment. If it appears feasible to file a lawsuit, a case is filed in Circuit Court or a claim in the Court of Claims. When the Division receives a judgment, every means available to execute the judgment is pursued.*

Independent Engineer's Cost Estimate (Compliance and Internal Control)
(Prior Year Comment)

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. As noted in the prior year, 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: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken various actions to address this issue. The Division feels that the actions taken this past year will ensure that future cost estimates will be prepared in a timely manner.

Procurement of Architectural and Engineering Services (Compliance and Internal Control)
(Prior Year Comment)

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 one of the projects tested. (Also noted in prior year)
- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Also noted in prior year)

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

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken various actions to address this issue. The Division feels that the actions taken this past year will ensure that the required documentation will be maintained in the project files.

Davis Bacon Compliance (Compliance and Internal Control)

The management of the Division is required to ensure that contractors and subcontractors are paying employees the prevailing wage rates as established by the Department of Labor for the locality at the time of the construction payroll.

The Division obtains certified payrolls from the contractors/subcontractors and is required to perform prevailing wage inspections and issue reports on their findings. During our review of this process we noted the following:

- One project had been active for greater than one year and only had three inspections performed, of which the last inspection was performed in August of 2001. Further, the February inspection on one of these projects was not completed until May of 2002. (District 3)
- One project that was active for over one year had not been inspected since March of 2001. (District 4)
- All contractor payrolls for the items selected were properly submitted; however, neither the Labor Interviews nor the Compliance Inspections were provided. (District 7)

We recommend that the Division strengthen their policies and procedures related to the monitoring of prevailing wage and ensure that controls are operating as designed. The policies and procedures at a minimum should include the frequency and time requirements for performing the prevailing wage monitoring. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of the prevailing wage inspection reports.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer – Development will be sent to Contract Administration Division and all Districts. The memorandum will provide direction to all Districts regarding the frequency and timing of the prevailing wage/EEO reports.

The procedures compliance section of Transportation Auditing currently performs reviews of compliance with Davis Bacon during the course of their work on specific construction contracts. The Internal Audit section of Transportation Auditing is currently in the process of performing audit procedures in the Contract Administration area. Davis Bacon Compliance is included within the scope of that ongoing audit.

Evaluation of Consultant's Work (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 157-1-7.10 of the code of State Rules requires upon completion or performance termination of the consultant's work, the responsible Division will prepare a report recording its evaluation of the consultant's efforts. A copy shall be sent to the consultant for review and comment and any written comments received shall be attached to the final report. All consultants with active contracts shall be evaluated in March of each year on each active project.

We noted the following during our review of the Division's evaluation of consultants' work:

- The Consulting Services Section of the Engineering Division did not have timely periodic evaluations of consultant's efforts on file for two projects.
- The March annual consultant evaluations could not be located for five of the active projects reviewed.

We recommend that the Division strengthen their policies and procedures regarding required documentation for the evaluation of consultants.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer – Development will be sent to all Divisions and Districts involved with Consultants. This memorandum will emphasize the need to perform the required evaluations in a timely fashion. Each Division/District will be instructed to take any necessary action to ensure that the required documentation will be contained in the project files as required by Chapter 5A, Article 8, Section 9, of the West Virginia Code.

Level of Subcontract/Subconsulting Work (*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, the policies and procedures of the Division require the prime contractor/consultant to perform at least 51% of any contracted service.

The Consulting Services Section of the Engineering Division reviews the contractors/consultant's cost proposals for the amount of subcontract/subconsulting work proposed; however, the Division has not established procedures to ensure that the contractor/consultant maintains the required 51%.

We recommend that the Division develop controls for monitoring the contractor/subcontractor's compliance with the 51% rule.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer - Development will be sent to all Divisions and Districts involved with the Consultants. This memorandum will emphasize the procedures to be followed regarding the monitoring of Consultant's compliance with the 51% rule, as required by Chapter 5A, Article 8, Section 9, of the West Virginia Code.

Contractor Awarded Projects Documentation (*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." Section 157-3-4.1 of the Code of State Rules requires all bidders on projects let to contract by the Division shall be prequalified as provided for by rules or regulations, or both, of the commissioner. A Certificate of Qualification will be issued by the commissioner fixing the amount of incomplete work a contractor may have under contract at any one time and the type of work for which the contractor is qualified.

To obtain a Certificate of Qualification, the contractor must file a Contractor's Prequalification Statement containing the information as required based on the category of work for which prequalification is being requested.

Further, the 1980 Division of Highways Construction Manual Addendum #120 "Finalization Procedures", page 6, step 7, requires the following authorized documentation: "(g) To Date Quantity Validation Report signed by the Project/Resurfacing Section and District Finals Section reviewers. In addition, Section 157-3-5.6 of the Code of State Rules requires the contractor shall be required, in addition to any other form of insurance or bonds required under the terms of the contract and specifications, to procure and maintain during the life of the contract the following types of insurance in the amounts set forth."

The Division requires contractors to submit Prequalification Statements 15 days prior to the bid "letting" date. These statements serve to qualify the contractor for the type of work he may be awarded and fixes the amount of incomplete work a contractor may have under contract at any one time. We noted that one contractor award did not submit a Prequalification Statement.

The "To Date Quantity Validation" reports are used in the "finalization" process for the contractor's final payment and show the amount of material approved and used for the project. We noted two instances in which there were no authorizing signatures at the project level on the "To Date Quantity Validation" reports.

In addition, we noted one instance in which the Division did not have an insurance certificate for a contractor on a specific project.

We recommend that the Division strengthen their policies and procedures over the retention of significant documents on contractor awarded projects.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer -- Development will be sent to all Divisions and Districts involved with Contractors. This memorandum will emphasize that all documentation related to the award of construction contracts must be placed in the project files. Each Division/District will be 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.

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 (Prior Year Comment)

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.

Management Response: We agree that the manuals of Transportation Auditing are in need of review and update. After this comment was made in the prior year's management letter Transportation Auditing was reestablished as a separate division. Due to the appointment of a new director the audit methodology and documentation standards as well as methods used to select areas for audit are in the process of being revised. Because of the ongoing changes the updates of the manuals have been deferred until standard procedures and documentation and overall risk assessment strategies are developed.

Internal Audit -- Information System Reviews (Prior Year Comment)

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 appropriate 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: We agree that review of significant information systems is within the scope of our work. This comment was also noted in prior years management letter. Since that time we have modified our audit approach to include a review of such systems within the scope of each audit that we undertake during the course of the coming year. We are currently in the process of completing audits of two significant areas of operation within the Department. In each audit we are performing a comprehensive review of those information systems that impact the area under audit. We believe that current personnel have sufficient knowledge in this area to develop the skills necessary to carry out a Department wide information systems audit. We are developing those skills by focusing on individual systems and components of an information system audit and believe that we will have developed the skills necessary to perform a comprehensive audit of all systems within an appropriate period of time.

Internal Audit and Procedures Compliance - Audit Methodology and Rotation (Prior Year Comment)

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." As noted in the prior year, we determined that the internal audit group and the procedures compliance group do not have a formalized audit methodology and rotation for determining which areas of the Division should be reviewed. Therefore, some low risk areas appeared to be over audited and other higher risk areas were not considered for review.

The Division has made significant progress in this area; however, we recommend that the internal audit group and the procedures compliance group continue the development of 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: As noted in the management letter comment, we have made progress in this area since the prior year. We agree that risk assessment is critical in properly focusing our audit efforts. The internal audit section is in the process of developing a comprehensive universe of potential audits to undertake and has started work on audits of two areas of Department operations based on preliminary assessments of risk. We believe that a complete universe of potential audits, a methodology for formally assessing risk in those identified audits and methods to ensure that the universe and the risk assessments are updated on an ongoing basis will be completed by June 20, 2003.

The Procedures Compliance section continues select individual construction projects for review based on the size of the contracts, which we feel is the most significant indicator of risk in this area. Other indicators of risk, such as the personnel assigned to the project and the nature of the work to be carried out are also considered in an informal way. The scheduling of maintenance reviews is on a rotating basis. Because the primary function of this section is to assist management in assessing the level of compliance with proscribed policies and procedures that exists in the maintenance organizations throughout the State, we feel that coverage of all maintenance organizations should be achieved on a rotating basis. We have established a goal to shorten the rotation cycle on maintenance organizations to two years.

Audit Committee

Currently the Division has an established internal audit department with an audit committee established through its mission statement; however, we noticed that the audit committee has not been active and has not provided insight and guidance to the internal audit department.

We recommend that the Division internal audit committee schedule at least quarterly meetings with the director of the internal audit department. The purpose of these meetings should be to approve the internal audit department plan, approve the internal audit department budget, provide guidance as to the extent of testing and follow-up to be performed, and to review the results of the internal audit department's work from the previous quarter.

Management Response: The Division of Highways' Audit Committee was abolished May 18, 2000 by Commissioner's Order. However, effective May 18, 2000, the Transportation Audit Committee was established. We agree with the recommendation to resume scheduled meetings with the Director of Internal Auditing to review the Annual Audit Plan, review all internal audit recommendations that have not been answered, resolve all unanswered and/or disputed recommendations, and address any other concerns brought before the committee.

Procedures Compliance -- Findings Follow Up (Prior Year Comment)

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.

Management Response: In response to prior year's comment in this area we modified our audit log to document the follow up and resolution of comments and continued to review outstanding reports on a monthly basis to ensure that responses are received within an acceptable period of time. We have found that our methods for monitoring follow up on reports issued by the procedures compliance section to be adequate to ensure that all critical items are addressed in a timely manner. However, we agree that our process for monitoring follow up is somewhat informal. We have recently developed a more formalized process for monitoring individual reports to ensure that all material findings are resolved appropriately in a timely manner. We believe that the process that we have implemented addresses the concerns raised in this comment.

Information Systems

Programming Controls

Although there is a set routine for control of programming and programming changes, there are no policies or procedures governing the testing, compiling, or movement of code from the test environment to production. In addition, there is no clear policy of the level of authority necessary to request a programming project or change.

We recommend enhancement of the programming controls policies and procedures to include (but not be limited to) the request, approval, testing, and movement to production of programs.

Management Response - Agree. We will formalize our current routines (revise our written procedures) for testing, compiling and moving programming changes from test to production. We will also establish policies and methodologies that will ensure that programming change requests are made by a responsible authority.

DMV Windows NT User Accounts
(Prior Year Comment)

As noted in the prior year, 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 - Original Response: Resolution of the recommendation that all user accounts for access to the Cash Remittance System be specific to employees of the DMV is in progress. Information Services Technicians and District IS Coordinators are assigning separate user accounts.

UPDATE: Completed. The generic accounts have been disabled and current operators have been assigned specific individual accounts. Vendor accounts are now created with an expiration date and are disabled upon completion of user need or work.

DMV Windows NT System Generated User Accounts
(Prior Year Comment)

As noted in the prior year, 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 - Original 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.

UPDATE: Completed. Guest accounts have been deleted. Also, the administrator accounts have been renamed for all machines.

DMV Windows NT Network Backup
(Prior Year Comment)

As noted in the prior year, 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 - Original Response: Agree. Information Services Division will work with DMV personnel to develop a process whereby backup data will be stored off site.

UPDATE: DMV is working with their contractor, Fletcher Data Systems to develop a process for periodic off-site storage of backup tapes generated by the internal tape drive of the Cash Register System.

DMV Windows NT Intruder Detection Settings (Prior Year Comment)

As noted in the prior year, 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 - Original Response: Agree. Information Services Division will apply these network logon settings.

UPDATE: Completed. The account lockout policy has been changed to lockout the user account after three unsuccessful logon attempts. The counter is automatically reset after 24 hours. Finally, all lockouts require a network administrator to reset the user account.

DMV Cash Remittance System User Accounts (Prior Year Comment)

There are some cashier accounts in the DMV Cash Remittance (cash register) System that are not listed on the active or separated employee list. Some of these accounts are temporary accounts and accounts shared by employees. 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 - Completed. The generic accounts have been disabled and current operators have been assigned specific individual accounts.

MS Windows NT Network Visibility

Many computers and servers (1010 objects) are readily visible to any non-DOT Windows workstation that attaches to an active network wall connection. There is no need to configure the foreign workstation to do this. When testing access to 12 selected objects, one object provided the next level of access (an empty folder and printer list) without any logon challenge. Each of the computers or servers visible provides a piece of information on the topology and arrangement of the network. Any computers that can be accessed may provide additional vulnerabilities and access to confidential information.

We recommend that network information be visible only to terminals logged onto the MS Windows NT domain. We also recommend that those objects that are visible be verified as secured and reviewed periodically for security access.

Management Response - It is a feature of Windows networking to display computers on the network through Network Neighborhood or My Network Places. Seeing the objects does not necessarily mean that the data associated with the object can be accessed without proper authentication. Internal testing showed that a username and password were requested before access to the data was granted. However, we will investigate what devices, software or settings will prevent visibility of network information to terminals that are physically connected to, but not logged onto the MS Windows NT domain (unauthorized users).

Programming Project Tracking

The REMIS project tracking system is not kept up to date with all of the programming that has been requested. Project tracking of programming requests keeps track of the steps necessary to approve and release a program change. It also allows users to verify the status of the request for programming and be involved in the testing process.

We recommend utilizing the project tracking system and keeping it up to date on the status of requests. We also recommend continuing the efforts to add the project tracking capability to the help desk application to allow tracking of service requests in that area.

Management Response - Agree. We recognize the need for a comprehensive system to accept, control and track the progress of programming change requests. We currently use multiple systems, including the BI-15 Project Request (REMIS projects) System, the Project Status query on the Information Services Division's Intranet website, as well as Microsoft Project. We continue searching for a unified solution for managing programming projects. It is our intent to acquire or develop an application to efficiently accomplish this objective.

West Virginia State Code Compliance

Advertising of Contracts (Prior Year Comment)

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, 2002, we noted three 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.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the advertisement interval required. These actions should ensure that project files are maintained, and contain all documentation required.

Subletting of Contracts (Prior Year Comment)

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 eighteen of these forms during the fiscal year ended June 30, 2002 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: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the need to perform math checks of the cumulative totals and percentage of subcontractor work required. These actions should ensure that these forms will be accurate and complete.

**Construction Prequalified Maximum Outstanding Workload
(Prior Year Comment)**

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 two of the 18 projects tested, 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: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the need to show all required information on the prequalification forms and to ensure that a contractor does not exceed the pre-qualified maximum workload amount. These actions should ensure that these forms will be accurate and complete.

Decisions from Hearings Held by or before the State Highway Commissioner Not Recorded in the Commissioner's Order Book.

Chapter 5A, Article 8, Section 9, of the West Virginia Code states in part: "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. . ." Also, Title 157, Series 1, Section 3.11 of the Division of Highways Procedural Rules, as amended, states in part: "Service of Commissioner's Decision, Subpoenas and Notices. Every decision when made by the Commissioner of Highways shall be recorded in the Commissioner's Order Book . . ." Further, Title 157, Series 1, Section 2.3 of the Division of Highways Procedural Rules, as amended, states: "Commissioner's Order Book. The Commissioner of Highways shall maintain in his office a record of all orders issued by him, which record shall be designated as the Commissioner of Highways' Order Book. All orders issued by the Commissioner during each day shall be entered therein, and all such orders so entered shall be indexed and cross-indexed so as to afford a method of ready access to such order issued by the Commissioner."

The official orders (determinations and/or decisions) issued by the State Highway Commissioner are recorded in an imaging system maintained by the Correspondence and Files Section of the State Highway Commissioner's Office. However, records pertaining to these hearings are not retained in the imaging system. Also, when we requested a list of all orders issued by the Commissioner from July 1, 2001, forward, such list was not readily attainable from the imaging system.

We recommend the Division comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, and Title 157, Series 1, Section's 3.11 and 2.3 of the Division of Highway's Procedural Rule, as amended.

Management Response: It is our opinion we are in compliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, and Title 157, Series 1, Section's 3.11 and 2.3 of the Division of Highways' Procedural Rule, as amended. The official orders are recorded and maintained by the Correspondence and Files Section. We interpret the "records pertaining to hearings" referenced in the audit findings as public hearings regarding road and bridge proposals affecting the traveling public. The public hearing records are maintained by the engineering department responsible for conducting and recording the hearings. As we progress toward our department wide automated records retrieval system, access to all records will be accomplished.

Other

Land and Land Improvements

We noted that the Division does not have policies and procedures for identifying and recording land and land improvements. Under the new GASB 34 reporting model, fixed assets including land and land improvements must be recorded in the government wide financial statements and land improvements must be depreciated over the estimated useful lives. As a result, the Division had to reclass and record depreciation on approximately \$4.4 million dollars of land improvements.

We recommend management develop policies and procedures on the recording of land and land improvements to make sure that depreciable assets are properly accounted for.

Management Response: The Division agrees with the recommendation. The Division has modified our policies on buildings and grounds policies to accommodate land improvements.

Accounts Payable – Monthly Reconciliation

During our review, we noted that the general ledger did not reconcile to the accounts payable as reported in the authorization system. The reconciliation of the general ledger to the authorization system should be done on at least a monthly basis to ensure the proper reporting of accounts payable.

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

Management Response: The past fiscal year had numerous funding changes to our projects. Corrections have been made to both the authorization system and the accounts payable system. These changes and system discrepancies are now being investigated and corrections made to alleviate the reconciliation problems. The Finance Division plans to reconcile the accounts payable system to the authorization system on a quarterly basis. We believe this will allow for the correction necessary for the funding changes made to projects.

Risk Analysis (Prior Year Comment)

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: West Virginia Division of Highways is currently preparing 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.

Security of Inventory

During our physical inventory observation we noted that there were several locations where inventory was not secured during non-business hours. Further, we noted that the fuel pumps at one location were not secured and proper distribution records for the fuel pumps were not being maintained.

We recommend that management evaluate the costs and benefits of securing inventory and ensure that locations not secured are adequately documented and supported by a cost/benefit analysis. Further, management should ensure that all fuel pumps are adequately secured and that adequate records are maintained to support the distribution of fuel.

Management Response: The Division agrees with this recommendation. The Division notified the particular organizations involved to tighten their security measures. We also reminded all organizations to insure the assets of the Division were protected. The Division has in the past few years installed security systems and fenced some locations to help deter access by unauthorized individuals. The Division will continue to incorporate additional security measures into our annual buildings and grounds program.

Employee Cross-Training

An integral part of an entity's internal control structure is an effective cross-training program, which involves the identification of key job responsibilities and the development of a cross-training program to ensure that employees are cross-trained to minimize interruptions when key employees may be unable to perform their current job responsibilities. This program should include a formal schedule for cross-training employees and specifically address the cross-training requirements for positions that will become available due to retirement.

We recommend that the Division develop policies and procedures to ensure that all key employee positions are cross-trained and that written procedures exist for all significant job responsibilities.

Management Response: We agree with the recommendation to "develop policies and procedures to ensure that all key employee positions are cross-trained and that written procedures exist for all significant responsibilities". The Business Manager's Office will review all department's internal operating procedures and develop, by committee, a cross-training procedure for key positions as approved by the Secretary of Transportation.

State-wide Cost Allocation Plan

The Division does not participate in the State-wide Cost Allocation Plan (SWCAP). Thus, indirect costs incurred for the State of West Virginia are not allocated and collected by the West Virginia Department of Transportation.

We recommend that management of the Division work with the Financial Accounting and Reporting Section and perform a cost/benefit analysis of participating in the SWCAP.

Management Response: The Division agrees with this recommendation. The Division has contacted the FARS Section to further discuss this matter.

Federal Tax Withholdings

The Department has consistently had overpayments related to Worker's Compensation buy backs when reconciling the quarterly Federal Form 941 with the federal tax withholdings remitted to the Internal Revenue Service. The amount of overpayment as of June 30, 2002 was approximately \$208,000.

We recommend that management of the Department take the appropriate credits and ensure that the federal tax withholdings remitted are accurate and reconciled to the quarterly Federal Form 941 and the EPICS payroll system.

Management Response: The Division agrees with this recommendation. The Finance Division Payroll Supervisor has been requested to prepare some analyticals to determine a range necessary to cover unexpected wage problems. The Division has also initiated the process to reduce the amount on deposit.

Grant Time Period

The Division did not submit a bill for reimbursement or request a timely extension for billing qualifying expenditures under the Governor's Highway Safety grant award from the Governor's Office of Highway Safety. Specifically, the Division incurred approximately \$1.2 million dollars in qualifying expenditures which may have been lost if an extension of time was not granted by the grantor agency. However, subsequent to our initial fieldwork, the Division received an extension of time for billing the qualifying expenditures from the grantor agency.

We recommend that management of the Division develop policies and procedures to ensure that all federal and state grants are properly expended and billed within the grant time period. Specifically, management of the Division should consider developing a tickler list of all grants and grant time periods and establish procedures for monitoring expenditures and billings to ensure that all federal and state grants available are billed and collected within the grant time periods established within the grant agreement.

Management Response: The Federal Aid Section of the Finance Division will develop a spreadsheet of all grants and grant time periods to ensure all federal and state grants are billed within the grant time period. The spreadsheet list of grant projects will periodically be monitored for expenditures and billings generated.

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 financial statements. In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The GASB has also issued several related statements, Statement 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38 – *Certain Financial Statement Note Disclosures*. These statements established financial reporting standards for state and local governments by revising the basic financial statement requirements, requiring the recording of infrastructure assets and related accumulated depreciation, 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 Division adopted the provisions of these statements for the fiscal year ended June 30, 2002, which is consistent with the State of West Virginia's adoption period. The adoption of GASB Statement No. 34 did have a material effect on the reported operations and net assets of the Division which are summarized in Note 2 of the financial statements.

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, valuation of infrastructure assets, depreciation of fixed assets, compensated absences, and the liability for claims and judgments.

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 infrastructure assets is based upon estimated historical cost of assets constructed from July 1, 1980 to July 1, 2001. The estimated historical cost for these years was based on capital outlay expenditures reported by the Division in the annual reports for those years, less an amount estimated for the historical cost of the acquisition for land for right-of-way. As permitted by GASB Statement No. 34, the Division has elected to not capitalize infrastructure assets constructed prior to July 1, 1980. Management's estimate of depreciation expense is based upon the estimated useful lives of the assets depreciated utilizing the straight-line method of depreciation. 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 judgments 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.

Other Information in Documents Containing Audited Financial Statements

The Division has presented management's discussion and analysis which is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We do not have an obligation to perform any procedures to corroborate the information contained in these documents. Though we have not audited or expressed an opinion or any other form of assurance on such information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the 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 judgment, 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 financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the 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.

Suttle & Stalnaker, PLLC

October 31, 2002

Adjusting Journal Entries
West Virginia Department of Transportation, Division of Highways
June 30, 2002

AJE No.	Account Description	Account Number	Debits	Credits
1	BOND INTEREST	4099	473,589.51	
1	INTEREST ON INVESTMENTS	3101		473,589.51
	To record accrued interest at 6/30/02.			
2	ALLOWANCE FOR BILLED RECEIVABLES	1581		1,483,000.00
2	REIMBURSEMENT FROM OTHERS	3801	1,483,000.00	
	To adjust the allowance for doubtful accounts at 6/30/02.			

Passed Adjusting Journal Entries
 Period - 2002 12th Mo
 N.V. Dept. of Transportation, Division of Highways
 June 30, 2002

PAJE No.	Account Description	W/P Ref	Account Number	Asset	Liability	Equity	Revenue Expense
1	BUILDINGS	M-3	1931	112,513.75			
1	WORK-IN-PROGRESS		1932	-112,513.75			

To adjust WIP to actual and move finished building costs to buildings at 6/30/02

PAJE Totals By Classification	0.00	0.00	0.00	0.00
Classification Totals Before PAJE	6,024,546,258.58	-740,860,045.47	-5,479,735,963.80	196,069,783.72

AGENDA

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

Tuesday, November 19, 2002

3:00 - 4:00 p.m.

Senate Finance Room

- 1. APPROVAL OF OCTOBER 22, 2002, MINUTES.**
- 2. COMMITTEE REPORTS/REQUESTS:**
 - Legislative Oversight Commission on Health and Human Resources
Accountability** (*Requests a letter be sent to Governor requesting a meeting be convened to address problems faced by African Americans in West Virginia – HCR 76 2002 Regular Session*)
- 3. PRESENTATION BY THE JOINT COMMISSION ON ECONOMIC DEVELOPMENT
ON THE STATUS OF WORKERS' COMPENSATION STUDY.**
- 4. MONTHLY/QUARTERLY REPORTS - PRESENTATION AND DISTRIBUTION:**
 - **Reports from Department of Health and Human Resources on Medicaid, Welfare Reform and
Colin Anderson Center;**
 - **Status Report from Lottery Commission;**
 - **Status Reports from the Bureau of Employment Programs on Unemployment Compensation and
Workers' Compensation;**
 - **Status report on the State's general revenue prepared by legislative staff.**
- 5. PRESENTATION AND DISTRIBUTION:**
 - a. BRIM Report,**
 - b. CHIP Report, and**
 - c. PELA Monthly Report.**
- 6. DIVISION OF HIGHWAYS AUDIT - PRESENTATION AND DISTRIBUTION.**
- 7. CONSIDERATION OF HIGHWAYS AUDIT CONTRACT RENEWAL.**
- 8. NEXT MEETING DATES: December 15-17.**
- 9. OTHER BUSINESS.**
- 10. ADJOURNMENT.**



WEST VIRGINIA LEGISLATURE
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 25305

November 19, 2002

Honorable Members
Joint Committee on Government and Finance
West Virginia Legislature

Gentlemen:

During the 2002 General Session, the West Virginia Legislature passed HCR 76, requesting a study of the high unemployment rate and other socioeconomic problems confronting the African American community in West Virginia. This resolution was referred to the Legislative Oversight Commission on Health and Human Resources Accountability ("LOCHHRA") for consideration during the present interim period. At LOCHHRA's July interim meeting, the commission's members heard testimony from a number of presenters who spoke on topics as diverse as the high unemployment rate of African Americans in West Virginia, disparities in health status based on race, including higher morbidity and mortality rates, the academic achievement gap, over representation of African Americans in both the adult and juvenile justice systems, the scarcity of minority-owned businesses, the disproportionately higher numbers of African Americans on welfare and the practice of racial profiling by law enforcement officers. In addition, the commission heard from prominent leaders in West Virginia's African American community.

At its October interim meeting, LOCHHRA considered and unanimously approved a motion upon the request of Delegate Carrie Webster, lead sponsor of HCR 76, to recommend to the Joint Committee on Government and Finance that a letter be sent to Governor Bob Wise requesting him to convene a meeting with state officials, our congressional delegation, and key leaders of the African American community to develop strategic plans and identify resources to address these issues.

Joint Committee on Government and Finance
November 19, 2002
page 2

Accordingly, this letter formalizes the motion adopted by the Commission. We therefore urge the Joint Committee on Government and Finance to act on HCR 76 by asking Governor Wise to convene a meeting or series of meetings with the state's top officials and leaders in the African American community to facilitate a discussion of the issues raised in HCR 76.

Respectfully submitted,



Senator Roman W. Prezioso
Co-Chair, Legislative Oversight Commission
On Health and Human Resources
Accountability



Delegate Mary Pearl Compton
Co-Chair, Legislative Oversight Commission
On Health and Human Resources
Accountability