

November 24, 2015

To the Members of the
Joint Committee on Government and Finance
West Virginia Legislature

In planning and performing our audit of the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2015, and in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. We considered the Division's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency and other matters that are immaterial instances of noncompliance in accordance with *Government Auditing Standards*. This letter summarizes our comments and suggestions regarding those matters. We previously reported on the Division's internal control in our report dated November 24, 2015. This letter does not affect our audit report dated November 24, 2015, on the financial statements of the Division.

We will review the status of these comments during our next audit engagement. We have discussed many of these comments with various Division personnel, and we will be pleased to discuss them in further detail at your convenience, or to provide further assistance in implementing the recommendations. The comments are as follows:

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INFORMATION TECHNOLOGY POLICIES

Management is responsible for establishing and maintaining effective information technology systems policies which support the financial reporting function. Effective information technology policies mitigate risks related to security and access while helping to safeguard the assets and data of the Division. The Division's information services policies and procedures have not been updated to reflect changes in the operating environment in recent years as efforts to migrate to WVOASIS have been elevated in importance across the Division. A significant change that has not been addressed is the Division's evolving relationship with the West Virginia Office of Technology (WVOT). As a result, the Division may have exposure to certain risks or may gain certain efficiencies through a comprehensive effort to evaluate and update existing technology policies. The Division also does not have an effective or efficient process to manage events on the network. Proper event log management decreases the risk of a security event going unnoticed.



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We recommend that the Division create and update policies and procedures which reflect the current operational processes in place for the Division and its information services function. Topics which should be addressed include security and access, user account management, application development and change control, and system monitoring and maintenance. Particular attention should be paid to integration of controls and procedures with WVOT. A comprehensive vendor management policy should be implemented that addresses DOH's reliance on functions performed by the WVOT. A key part of this policy should include an evaluation of the WVOT's annual SOC 1 report to identify any issues that may affect the Division. Furthermore, event logs for entity specific applications that are not managed by WVOT should be maintained. An outside vendor solution could assist the Division to centrally manage the logs, review reports, and archive events for storage.

INFORMATION TECHNOLOGY - PASSWORDS

WVOT password standards require that passwords contain at least one alpha character, at least one numeric character, at least one special character, and the most recent 24 passwords cannot be used. The Division's password requirements for Resource Access Control Facility (RACF) require up to eight alpha or numeric characters and the most recent ten passwords cannot be used. The Division should modify their configurations and policies to match the WVOT standards.

It was noted that the passwords for SiteManager must be between four and eight characters long, do not meet complexity requirements, and do not have to be changed periodically. Due to system limitations, the Division is unable to increase the minimum length or complexity of the passwords; however, the Division should require the passwords to be changed every 35 days.

SYSTEM ACCESS

During the walkthrough of RACF security and sensitive access, it was noted that a former Division user, who is now employed by WVOT, still had an active Division RACF user account with special authorities. Upon further discussion, it was noted that the WVOT employee is not using the Division user account; however, it is still in use as a systems account. The account should be restricted so that users cannot logon and use the account in an interactive session.

INTERNAL AUDIT REVIEW

While reviewing the work of and inquiring of internal audit personnel, we noted that recommendations made by the American Association of State Highway and Transportation Officials' Standing Committee on Finance and Administration, Administrative Subcommittee on Internal and External Audit in their peer review report dated February 19, 2015 have yet to be implemented. Specifically the performance, documentation and reporting standards of *Government Auditing Standards*, issued by the Comptroller General of the United States should be followed in establishing key internal audit functions, policies and procedures. An effective internal audit function decreases the risk that fraud or errors within the Division may occur and go undetected. We recommend that the Division move to timely implement the recommendations made by the peer review committee.



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ACCOUNTS PAYABLE

We noted that the Division's controls used in the evaluation of the completeness of accounts payable did not detect \$7.6 million of expenditures in the State Road Fund that should have been accrued as liabilities at June 30, 2015. The Division's accounts payable cutoff procedures should be designed to ensure that all significant liabilities are identified as of the year end and properly reported in the Division's financial statements. We recommend that the Division evaluate and improve the process used to ensure that all significant expenditures incurred prior to year end are properly identified as a liability.

ACCOUNT MAINTENANCE

We noted a number of instances in the existing Division trial balance for which an account description did not accurately describe the composition of items recorded in the account. We also noted a number of accounts with abnormal or dormant balances. As the Division continues to move toward the migration of its current accounting system to the WVOASIS accounting system we recommend that instances described above be evaluated to prevent any future miscoding or misclassification of transactions, we further recommend that prior to the final migration to WVOASIS that the Division's accounting and managerial functions vigorously review accounts to ensure that descriptions accurately represent the nature of the account balance and are labeled in accordance with accepted accounting practices and that all abnormally balanced or dormant accounts are evaluated and settled to prevent migration of "bad data" into the WVOASIS accounting system.

PAYROLL FUNCTION

As part of our audit plan we tested various controls over the payroll function to evaluate the effectiveness of its ability to support balances reported in the Division's financial statements. During our testing, we noted one instance in which the Division was unable to provide support for a payment in the EPICS payroll system in the amount of \$1,707.83 for a check dated October 8, 2014 to a former employee who had a system documented retirement date of October 31, 2013.

We recommend that management evaluate and address the documentation issues and any resulting accounting issues related to this and any other similar transactions to appropriately safeguard the Division's assets and properly disburse earned compensation to its employees.

INFREQUENT TRANSACTIONS

The Division participates in a limited number of transactions that include project partnerships with other states, local governments and other developers. The unique nature of each project requires certain compliance with various project agreements. During the audit, we noted that the Division was entitled to accrue certain amounts of draw down bond investments which had not been previously evaluated, managed or reported. We recommend that the Division maintain a process to evaluate, supervise and monitor such projects to ensure its compliance with such agreements including the methods for allocating costs, receiving payments, and other critical project management issues that are outside of existing routine processes.



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PHYSICAL INVENTORY COUNT PROCEDURES

The following items were noted in detail from the Division's internal outlet reports issued in either draft or final form on the Division's year end inventory count. Final reports were not yet available for Districts 1 and 3 and the Equipment Division as of the date of this letter:

- The initial physical inventory count conducted for the year ended June 30, 2015, for the various locations within District 2 was not completed accurately by the respective district personnel. The Division's internal audit function required a recount within District 2 to be conducted in order to satisfy the accuracy of the procedures.
- The Division's inventory procedures for fuel inventory require that a stick measurement be performed for each tank and any variances greater than five percent from the perpetual inventory balances be adjusted in the perpetual inventory system. Various locations within Districts 2, 4, and 8 did not perform stick measurements of tanks as instructed during the physical inventory completed on or near June 30, 2015. Additionally, various locations within Districts 1, 2, 3, 5, 6, 8, and 10 performed routine stick measurements throughout the year, but did not make the necessary adjustments for variances greater than five percent.

The Division did not require aggregates, such as salt, cinders, etc. to be measured on the day of the year end physical inventory count. These items are counted at various times throughout the year. We recommend that the Division require these items to be counted either as part of the year end physical inventory procedures or at times that are closer to year end to ensure ending inventory balances of such materials can be more accurately reported.

ACCOUNTS RECEIVABLE

Changes in reimbursement determination resulted in an overstatement of accounts receivable in the amount of \$1 million as of June 30, 2015 was discovered by management subsequent to year end to not exist. This item was detected by management and corrected in the accounting records subsequent to year end, but was not corrected in the accounting records as of June 30, 2015. We recommend that management evaluate any adjustments to the accounting records subsequent to year end to ensure they are corrected in the appropriate fiscal year.

STATE INFRASTRUCTURE PROGRAM

In 2015, House Bill (HB) 2778 established the State Infrastructure Fund Program, creating §17 Article 178 with the purpose of developing a state infrastructure bank to work in cooperation with federal programs, to provide funds for transportation infrastructure projects within the State of West Virginia. There has been no activity in the program for the year ended June 30, 2015. We recommend the Division consider evaluating the financial reporting and accounting aspects of the program to establish policies and procedures that ensure that management of the Division can appropriately record and disclose program transactions in accordance with generally accepted accounting principles.



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FINANCIAL STATEMENT SUPERVISORY REVIEW AND APPROVAL

The Administrative Services Manager, with the assistance of her staff, prepares the Division's internal financial statements. There is no documentation that the financial statements are subject to appropriate supervisory review and approval. We recommend that someone independent of the financial statement preparation process formerly review and approve the annual financial statements prior to them being submitted for audit. The review and approval should be appropriately documented.

IMMATERIAL INSTANCES OF NONCOMPLIANCE

Government Auditing Standards requires communication of immaterial instances of noncompliance to those charged with governance. We noted the following immaterial instances of noncompliance:

SCHOLARSHIPS

From a sample of 25 scholarship files reviewed during the course of the current year audit, we noted the following items that appear to be in noncompliance with WV Code § 157-1-4.

- Subsection 4.2.d states that candidates must "demonstrate the need for financial assistance to attend the selected college or university." Currently, the Division's practice assumes the candidate's application submission itself is proof of financial need. We recommend that the Division create a practical procedure for documenting and determining financial need of an applicant that will meet the requirements of the Code.
- Subsection 4.4 states that "all applications are to be reviewed, and those meeting the eligibility requirements will be ranked accordingly: financial need, secondary school or college GPA, SAT or ACT score, written essay, honors and awards, vocational education, and work experience." Currently, the Division does not rank applicants; a committee meets and picks the recipients of the scholarship. We recommend that the Division document its compliance with the Code and rank the applicants.
- Subsection 4.5 states "if after receiving the application and other papers required by the preceding sections, the Commissioner feels that the applicant is entitled to further consideration, a personal interview will be arranged and the applicant will be notified of the time and place at least ten days in advance." Currently, the Division does not interview any scholarship applicants. We recommend that, in conjunction with developing a ranking process, applicant interviews should be conducted and documented in accordance with the Code.
- Subsection 4.9 states that "upon graduation, or completion of the approved course of study, the person awarded the scholarship herein described enters the employ of the Division and remains so employed, the Commissioner of Highways will credit the oldest outstanding note of such person in the amount of \$1,500.00 for every six months period that such person is employed by the Division". Two of the sampled recipients had their loan balances forgiven due to the Division taking several months to place and employ the applicants. We recommend the Division ensure policies outlined in subsection 4.9 be followed and the repayment of notes from scholarship recipients be sought.



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Management was unable to provide certain requested items as part of our testing of this area. Management noted that the missing information was due to such information being stored on an individual computer drive which was cleared prior to backup when the responsible employee resigned. Management is in the process of updating the policies, procedures, and requirements for the scholarship program (including record keeping) and we recommend that all updated procedures be evaluated for compliance with the applicable code section.

STATE WIDE AUCTION

Code of State Rules Section 157-4-3, subsection 3.2 requires that the Highways Commissioner or his designee shall make a finding that equipment is obsolete or unusable prior to disposal. As a result of testing performed on a sample of 25 items which were part of current year auction items, we noted that the Division does not have an established procedure to ensure that the determination of obsolescence or that the equipment is unusable be documented. We recommend that the Division implement a process that ensures that the determination of equipment as obsolete be documented prior to the disposal.

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

Sincerely,