

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

FOR THE PERIOD

JULY 1, 2000 - JUNE 30, 2002

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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CHARLESTON, WEST VIRGINIA 25305-

0610

To the Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the Travel Management Office of the West Virginia Department of Administration's Purchasing Division.

Our examination covers the period July 1, 2000 through June 30, 2002. The results of the examination are set forth on the following pages of this report.

Respectfully submitted,

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

TLS/ela

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

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WEST VIRGINIA DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION
TRAVEL MANAGEMENT OFFICE FUND
EXIT CONFERENCE

We held an exit conference on October 10, 2003 with the Cabinet Secretary of the West Virginia Department of Administration and the Director of the Purchasing Division. All findings and recommendations were reviewed and discussed. The Travel Management Office's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our recommendations in the General Remarks section of this report.

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

INTRODUCTION

The Purchasing Division, consisting of an Acquisition and Contract Administration Section and an Administrative Services Section, is responsible for providing purchasing, travel, inventory, and records management services to all State agencies to assure ethical and cost-consciousness, expenditure of public funds, while providing quality, efficient, and effective service.

The Acquisition and Contract Administration Section is responsible for administering the formal competitive bid process for acquisition of all goods and services over \$10,000.00 for State agencies in an efficient and ethical manner that will reduce cost, maximize competition, and good customer and vendor relations.

The Administrative Services Section is responsible for providing professional services and training to the Purchasing Division staff, agencies, and vendors. In addition, the Administrative Services Section is responsible for various programs and services including: the automated purchasing system (TEAM), fleet management, State Capitol parking, inventory management, records management, Surplus Property Program, travel management, vendor registration, and purchase order encumbrance.

Fleet Management Office

The Fleet Management Office provides management services for approximately 1,500 vehicles and ensures that these vehicles are appropriate for the transportation needs of the users. This office purchases vehicles, which are leased to various State agencies at a lease rate

determined by the Fleet Management Office. A majority of these vehicles were financed through a third party, while some were paid in full with cash.

The Fleet Management Office is also in contract with Peterson, Howell, and Heather (PHH) who provides vehicle maintenance services. PHH credit cards are issued with each leased vehicle and these cards are to be used to make gasoline purchases and to pay for small, routine maintenance services. The Fleet Management Office acts as a billing agent for the PHH contract. Each month, PHH submits an invoice to the Fleet Management Office detailing the credit card activity of all State agencies leasing vehicles from Fleet Management. The invoice is paid by Fleet Management, who then bills each State agency monthly for their applicable charges.

Travel Management Office

The Travel Management Office develops, administers and revises travel regulations for most executive branches agencies. Several statewide contracts are utilized to offer the most cost-efficient and beneficial services to state traveler such as: Diner's Club, National Travel, Avis Car Rental, United Airlines, and Delta Airlines.

Aviation Division

The Aviation Division enhances the efficiency and effectiveness of state government by providing safe and reliable air transportation for the Governor, the Legislature and State agencies.

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

ADMINISTRATIVE OFFICERS AND STAFF

AS OF JUNE 30, 2002

Greg A. Burton Secretary of the Department of Administration
(1/15/01 - Present)

Jack R. Buckalew Secretary of the Department of Administration
(5/27/00 - 1/14/01)

David Tincher Purchasing Division Director

Janie Boggs Fleet Management Office Manager

Catherine DeMarco Travel Management Office Manager

Keith Wood Aviation Division Director

Andrew Fizer Deputy Director of the Finance Division

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our post audit, it became apparent to us, based on the observed noncompliance with the West Virginia Code and other rules and regulations which governed the Travel Management Office (TMO), the TMO did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. We believe an effective system of internal controls would have alerted management to these violations at an earlier date and allowed more timely corrective action.

Auditors' Recommendation

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended and establish a system of internal controls.

Agency's Response

No response by the Travel Management Office. (See pages 12- 14)

Banc One Financing Agreement

2. We noted the escrow account effective May 8, 2002, has not been closed nor has the balance been applied to the outstanding loan principal in accordance with the vehicle Master Lease Purchase Financing Agreement. A total of \$4,088,287.00 was financed for a term of 48 months (June 8, 2002 through May 8, 2006), at a monthly payment of

\$92,938.11 and an interest rate of 4.3428% for a total purchase of 220 vehicles. As of June 30, 2003, the escrow account had a balance of \$131,980.00 in principal plus \$8,425.22 in interest for a total of \$140,405.22.

Auditors' Recommendation

We recommend the TMO comply with the terms of the Master Lease Purchase Financing Agreement.

Agency's Response

The TMO will comply and apply the outstanding principal of the loan. Also, the Purchasing Division will review the language in question in the contract and modify appropriately. (See pages 15- 18)

3. **Vehicle Maintenance Contract (PHH)**

The extended price for gasoline purchases on the Petersen, Howell, and Heather (PHH) card is not mathematically correct on the monthly itemized invoices. By the itemized billing being mathematically incorrect, the TMO may not be paying the actual amount charged for gasoline purchases by PHH cardholders. Also, TMO does not maintain independent records of PHH credit cards issued to the vehicles owned by TMO; as a result, TMO was unable to provide a listing of all active PHH credit cards during the period July 1, 2000 through June 30, 2003. Finally we noted 38 charges for emergency roadside service appearing on PHH invoices were not in compliance with the PHH contract terms. Without access to these records, we could not determine whether the amounts paid for the services from the Travel Management Office Fund, were the proper amounts to be charged.

Auditors' Recommendation

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and ensure that PHH is providing all the necessary information on the itemized invoices. We further recommend the TMO review the PHH invoice to ensure PHH is charging the correct amount for Emergency Roadside Services.

Agency's Response

PHH did not provide a satisfactory response and we will explore the issue further prior to renewing the PHH contract. The current billing procedures will be revised and PHH will direct bill agencies rather than the charges being routed through the Purchasing Division. Additionally, all credit card responsibilities for cards under the Purchasing Division (travel, pcard, vehicle) have been placed under one employee, which we believe will provide improved internal controls. PHH will provide refunds where emergency road service charges were not in accordance with the contract. (See pages 18 - 20)

Monies Due from Surplus Property

4. The Travel Management Office Fund has made limited attempts to collect a total of \$1,253,009.31 due them from the Purchasing Division's Surplus Property Unit for vehicles sold as of June 30, 2003. Had the Travel Management Office Fund been reimbursed the amounts due from Surplus Property for the vehicles sold the outstanding debt for vehicle lease purchases financed by Bank One might not be as great as it is today. Also, if the Travel Management Office Fund had received the monies due them by Surplus Property they would not have had to borrow as much money from Bank One to purchase vehicles needed by State Agencies.

Auditors' Recommendation

We recommend the Travel Management Office Fund collect those monies due them from Surplus Property based on the requirements in Chapter 5A, Article 3, Section 45 of the West Virginia Code.

Agency's Response

We are in the process of changing the current Surplus Property reimbursement rate from 80% to 50%. Also, we are transferring \$400,000 and will transfer the remaining funds as soon as possible. (See pages 20 - 22)

Allocation of Salaries

5. The Travel Management Office could not provide the reasoning used to justify the percentage of time seven employees are working for the Travel Management Office. All or a portion of these seven employees' pay and related benefits were paid from the TMO Fund. Without time records documenting Department of Administration employee's time spent performing duties related to the Travel Management Office, we cannot verify if the appropriate percentages of these employees' salaries are being paid from the TMO Fund.

Auditors' Recommendation

We recommend the TMO provide documentation noting the rationale behind the percentage calculations in compliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency's Response

The Purchasing Division has been underfunded for several years. All employees paid from this fund are needed to perform the responsibilities of the division. No other funds are available to use for the purpose of paying these employees. (See pages 22 - 24)

Federal Excise Taxes Paid on Aviation Fuel Not Recovered

6. During the period July 1, 2000 through June 30, 2002, we tested four payments to Multi Service for aviation fuel; these transactions included charges for Federal Excise Taxes. The TMO has not sought reimbursement for the excise taxes paid. Also, we tried to determine how much Federal Excise Tax was paid on these four invoices for aviation fuel purchases, but was unable to do so because the records were not mathematically correct. The Travel Management Office Fund has lost the use of the monies paid for Federal Excise Taxes charged for aviation fuel purchases because they have not sought reimbursement.

Auditors' Recommendation

We recommend the TMO review invoices and ask for refunds from the Federal government for Federal Excise Taxes paid on aviation fuel in compliance with the Internal Revenue Service, Publication 510, Excise Taxes, and Publication 378, Fuel Tax Credits and Refunds.

Agency's Response

We will work with the Finance Division to obtain a refund for these taxes. (See pages 24 - 26)

Legislative Rule in Conflict With the West Virginia Code

7. The Department of Administration's Procedural Rule Title 148, Series 3 "State Owned Vehicles" has not been amended to include the Division of Natural Resources, the Forestry Division, the Department of Agriculture, the Higher Education Policy Commission and the Higher Education Governing Boards and their institutions. The possibility may exist where a State agency is following the guidelines set by the Department of Administration's

Procedural Rule when they are not required to because they have been exempted by Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended.

Auditors' Recommendation

We recommend the "State Owned Vehicles" Procedural Rule be amended to include those agencies in Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended.

Agency's Response

The deadline has past for filing rule changes, therefore, we will forward the change for the next session. (See pages 26 and 27)

Contract Management

8. We noted contracts could not be provided for cellular phone usage charges paid from the TMO fund during the period July 1, 2000 through June 30, 2003. Without access to these records, we were unable to determine whether the amounts paid for the services from the TMO fund were the proper amounts to be charged. The Purchasing Division's Director stated there are no employees who have been assigned the duty to ensure the cellular phones are being used only for State business.

Auditors' Recommendation

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency's Response

The Purchasing Division will attempt to secure contracts. An employee will be assigned the responsibility of reviewing records. The Department of Administration will develop rules to govern the use of cell phones, which will likely include a form that employees sign agreeing to abide by these policies. (See pages 27 - 29)

Equipment

9. During our audit of equipment purchases and inventory, we noted most of the Aviation Division's equipment was not properly tagged; four equipment items were not reported on the TMO's WVFIMS Fixed Asset Inventory Listing; one item valued at \$1,000.00 could not be physically located; two equipment items were purchased for Purchasing Division employees using TMO monies; and, two other equipment items purchased with TMO monies were given to the Division of Tourism.

Auditors' Recommendation

We recommend the TMO comply with Chapter 5A, Article 3, Section 52 of the West Virginia Code, and State of West Virginia's Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines.

Agency's Response

The Purchasing Division will send personnel to the Aviation Division to reconcile inventory and have all items tagged and documented. (See pages 29 - 32)

Lack of Supporting Documentation

10. The TMO was not able to provide us with supporting documentation for many of the disbursement and payroll transactions of the TMO Fund.

Auditors' Recommendation

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency's Response

The Finance Division has the requested records and will make them available for review upon request. (See pages 32 - 34)

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the West Virginia Department of Administration, Purchasing Division Travel Management Office Fund (TMO). The audit covered the period July 1, 2000 through June 31, 2002.

SPECIAL REVENUE ACCOUNTS

The TMO operated the following special revenue accounts during our test period:

| <u>NUMBER</u> | <u>DESCRIPTION</u> |
|----------------------|-------------------------------|
| 2300 - 099/640 | Travel Management Office Fund |

COMPLIANCE MATTERS

Chapter 5A, Article 3, Sections 48 through 53 of the West Virginia Code generally governs the TMO. We tested applicable sections of the above plus general State regulations and other applicable chapters, articles, and sections of the West Virginia Code as they pertain to fiscal matters. Our findings are listed below.

LACK OF EFFECTIVE SYSTEM OF INTERNAL CONTROL

During the course of our post audit, it became apparent to us, based on the observed noncompliance with the West Virginia Code and other rules and regulations which governed the Travel Management Office, the TMO did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, states

in part:

“The head of each agency shall:

. . . (b) 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. . . .”

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our audit of the TMO, we found the following violations of State laws or other rules and regulations:

(1) We noted the escrow account effective May 8, 2002 has not been closed nor has the balance been applied to the outstanding loan principal in accordance with the vehicle Master Lease Purchase Financing Agreement. As of June 30, 2003, the escrow account had a balance of \$131,980.00 in principal plus \$8,425.22 in interest for a total of \$140,405.22. (2) The extended price for gasoline purchases on the Peterson, Howell, and Heather (PHH) card is not mathematically correct on the monthly itemized invoices. (3) The Travel Management Office Fund has made limited attempts to collect a total of \$1,253,009.31 due them from the Purchasing Division’s Surplus Property Unit for vehicles sold as of June 30, 2003. (4) The Travel Management Office could not provide the reasoning used to justify the percentage of time seven employees are working for the Travel Management Office. (5) We tested four payments to Multi Service for aviation fuel. These transactions included charges for Federal Excise Taxes; however, TMO has not sought reimbursement for the taxes paid. (6) The Department of Administration’s Procedural Rule Title

148, Series 3 “State Owned Vehicles” has not been updated to include all State agencies who are exempted from complying with the Rule as stated in Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended. (7) Contracts could not be provided for cellular phone usage charges paid from the TMO fund during the period July 1, 2000 through June 30, 2003. Also, there have been no employees assigned the duty to ensure the cellular phones are being used only for State business. (8) During our audit of equipment purchases and inventory, we noted most of the Aviation Division’s equipment was not properly tagged; four equipment items were not reported on the TMO’s WVFIMS Fixed Asset Inventory Listing; one item valued at \$1,000.00 could not be physically located; two equipment items were purchased for Purchasing Division employees using TMO monies; and, two other equipment items purchased with TMO monies were given to the Division of Tourism. (9) The TMO was unable to provide us with adequate supporting documentation.

We believe, if the TMO had an effective system of internal controls in place, management would have been aware of noncompliance with the West Virginia Code at an earlier date and would have been able to take corrective action in a more timely fashion. The following pages of this report contain additional information regarding the specific noncompliance with the West Virginia Code which came to our attention.

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish a system of internal controls.

Agency’s Response

No response by the Travel Management Office.

Banc One Financing Agreement

The West Virginia Department of Administration, Travel Management Office entered into four separate Master Lease Purchase Financing Agreements with Banc One Leasing Corporation which totaled \$13,210,449.31 during the period July 1, 2000 through June 30, 2003. The balance of these loans at June 30, 2003 was \$8,696,392.02. A separate escrow account has been established through Bank One Trust Company, N.A. for each loan. The purpose of this agreement was for Banc One to provide financing for Fleet Management's vehicle lease purchases.

We noted the escrow account effective May 8, 2002, has not been closed nor has the balance been applied to the outstanding loan principal in accordance with the vehicle Master Lease Purchase Financing Agreement. A total of \$4,088,287.00 was financed for a term of 48 months (June 8, 2002 through May 8, 2006), at a monthly payment of \$92,938.11 and an interest rate of 4.3428% for a total purchase of 220 vehicles. As of June 30, 2003, the escrow account had a balance of \$131,980.00 in principal plus \$8,425.22 in interest for a total of \$140,405.22. There were three change orders reducing the total number of vehicles purchased by five causing \$131,980.00 not to be used, which created the balance in the escrow account.

Section four of the Master Lease Purchase Financing Agreement dated March 16, 2001 states,

“4. Equipment Delivery and Acceptance

In the event any portion of the Equipment is not accepted or the cost of the Equipment is less than the funded amount under an appendix, then the amount of the funding remaining shall be applied as a partial prepayment on that appendix.”

Section 22 of the Master Lease Purchase Financing Agreement dated March 16, 2001 states in part,

“22. Escrow Agent

Each Acquisition Fund shall terminate upon the occurrence of the earlier of (a) the presentation of a proper Payment Request and Acceptance Certificate designated “Final Acceptance Certificate” properly executed by the Lessee or a properly executed notice by the Lessee that no additional funds will be needed from that Acquisition Fund, . . . **Upon termination as described in clause (a) of this paragraph, any amount remaining in that Acquisition Fund shall be used to prepay the principal component of Rental Payments for that Appendix, unless otherwise directed by Lessor and Lessee, and the Payment Schedule shall be revised accordingly.**”
(Emphasis Added)

The final payment made by Banc One to a vendor occurred on October 3, 2002. The Department of Administration did not designate the last Payment Request and Acceptance Certificate submitted to Banc One as the “Final Acceptance Certificate” nor did they give proper notice to Banc One that no additional funds would be needed from the Acquisition Fund (escrow account), nor did they instruct Banc One to apply the balance in the escrow account to the principal of the loan.

Section 24 of the Master Lease Purchase Financing Agreement dated March 16, 2001 states,

“24. Notices

All notices to be given under this Agreement shall be made in writing and mailed to the other party at its address set forth in the appropriate appendix or at such address as to the party may provide in writing from time to time. Any such notice shall be deemed to have been received five (5) days subsequent to mailing.”

The Executive Assistant of the Finance Division stated she had overlooked the fact that she had not requested that Banc One close the escrow account. On July 16, 2003, she sent an email to a representative at Bank One Trust Company requesting Bank One close this escrow account and send a check to the West Virginia Department of Administration’s Purchasing Division. There was no response from Bank One, so a second request was sent on July 22, 2003. Although

the email is a form of writing, an email does not provide a signature of the person sending the request. As a result, there is no verification to Banc One the request was made by an authorized party to the contract. Also, if the money remaining in the escrow account is not used to prepay the principal of the loan, Banc One Leasing Corporation and the Department of Administration, Travel Management Office must give directions for the use of the money as set out in Section 22 of the financing agreement.

The monthly payment according to the Banc One Payment Schedule effective May 8, 2002, was \$92,938.11. Banc One made the last payment to a vendor on October 3, 2002. If TMO had applied the \$131,980.00 principal plus interest income of \$7,601.15 that remained in the escrow account on October 10, 2002, the new monthly payment would have been \$89,427.24 according to the new payment schedule we calculated. Therefore, TMO would have paid \$3,510.87 less per month to Banc One for the remaining 43 payments. This resulted in a total of \$150,967.41 in principal payments and a difference of \$11,393.53 in interest payments for the remaining loan period October 8, 2002 through May 8, 2006.

For the period October 8, 2002 through June 30, 2003, the interest paid on the original payment schedule was \$98,848.70. However, in accordance with the new payment schedule we calculated, the total interest payments to Banc One would have been \$95,114.54 or a difference of \$3,734.16. The escrow account earned \$824.07 in interest during this period, making the net effect of the interest \$2,910.09.

We recommend the Department of Administration apply the balance of the escrow account to the principal of the loan.

Agency's Response

The Finance Division is working with Bank One to correct this issue. The amount

in question will be applied to the outstanding principal of the loan. The Purchasing Division will review the language in question in the contract and modify appropriately.

Vehicle Maintenance Contract (PHH)

The extended price for gasoline purchases on the Petersen, Howell, and Heather (PHH) card is not mathematically correct on the monthly itemized invoices. We also noted the vehicle license number is not listed for all vehicles on the PHH invoices. The Fleet Management Unit leases vehicles to various State agencies. A PHH credit card is assigned to each vehicle leased to State agencies. The PHH credit card is to be used for purchasing gasoline and paying for small repair and routine maintenance items. PHH sends Fleet Management an itemized monthly invoice containing all outstanding credit card charges incurred by PHH card users. The itemized invoice includes the following: Unit number, Vehicle license number, VIN, PHH card number, Mileage, Activity date, Vendor location, Charge description, Quantity, Unit Cost, Extended price, Tax, and Total due. We attempted to recalculate the extended price for several gasoline purchases appearing on various monthly itemized invoices based on the quantity and unit cost provided, but were unable to do so. The quantity and unit cost columns do not extend to three decimal places on the invoice. By the itemized billing being mathematically incorrect, the TMO may not be paying the actual amount charged for gasoline purchases by PHH cardholders.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, states in part:

“The head of each agency shall:
. . . (b) 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. . . .”

The Purchasing Director stated in a letter dated June 30, 2003, “The extensions on the gasoline invoice are not carried out to the final decimal places for both the quantity and unit cost columns. I am advised that the extended price is the actual amount billed and paid. We will work with PHH to correct this extension problem if possible.”

Also, TMO does not maintain independent records of PHH credit cards issued to the vehicles owned by TMO. When requesting a PHH credit card, TMO sends information to PHH such as: VIN, vehicle license number, and the State agency leasing the vehicle. PHH records this information into their system, which is available to TMO at anytime on the PHH website. TMO can only review current information in the PHH computer system because PHH does not maintain a history of cards no longer in use. This does not allow TMO to examine records that were previously recorded. TMO was unable to provide a listing of all active PHH credit cards during the period July 1, 2000 through June 30, 2003.

In addition, we noted 38 charges for emergency roadside service valued at \$20.00 and \$25.00 per incident, on one PHH invoice for the month of November 2001. The PHH contract dated June 1, 2001 states in part,

“ . . . Emergency Roadside Services \$22.00 per Incident . . . ”

Agency personnel was unable to provide an explanation for these charges. Without access to these records, we could not determine whether the amounts paid for the services from the Travel Management Office Fund were the proper amounts to be charged.

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and ensure that PHH is providing all the necessary information on the itemized invoices. We further recommend the TMO review the PHH invoice to ensure PHH is charging the correct amount for Emergency Roadside Services.

Agency's Response

The Purchasing Division received a response to this issue from PHH. We do not believe the response is satisfactory and will explore the issue further with PHH prior to renewing the contract. Additionally, we intend to revise the billing procedures currently used and have PHH direct bill agencies rather than routing charges through Purchasing where we pay PHH and then bill agencies. Additionally, all credit card responsibilities for the cards under the authority of the Purchasing Division (travel, pcard, vehicle) have been recently placed under the authority of one employee. We believe consolidating these responsibilities will provide improved internal controls. Finally, PHH has agreed that certain charges relating to emergency road service were not in accordance with contract provisions and has agree to analyze these charges and provide refunds where charges differ from contract terms and provisions.

Monies Due from Surplus Property

The Travel Management Office Fund has made limited attempts to collect the monies due them from the Purchasing Division's Surplus Property Unit for vehicles sold. As of June 30, 2003, the Travel Management Office Fund is due \$1,253,009.31 from the Surplus Property Unit, according to the Travel Management Office Fund Aged Accounts Receivable for Surplus Property. Chapter 5A, Article 3, Section 45 of the West Virginia Code, states in part,

“ . . . The agency may sell expendable, obsolete or unused motor vehicles owned by the state to an eligible organization, other than voluntary fire departments. . . . The proceeds of such sales or transfers shall be deposited in the state treasury to the credit on a pro rata basis of the fund or funds out of which the purchase of the particular commodities or expendable commodities was made: Provided, That the agency may charge and assess fees reasonably related to the costs of care and handling with respect to the transfer, warehousing, sale and distribution of state property disposed of or sold pursuant to the provisions of this section.”

The Deputy Director of the Finance Division stated limited collection efforts have

been attempted by the Accounting Section, who performs the accounting function for the Travel Management Office Fund. He stated based upon the revenue sharing ratio, Surplus Property retains 25% of the sales price while 75% is to be deposited into the fund out of which the equipment/vehicles were purchased. Surplus Property is not generating enough revenue to pay their payroll and other expenses to be in a position to pay the monies due the Travel Management Office Fund. He also stated that in March 2003, he began analyzing the revenues generated for federal and state Surplus Property, the expenditures paid from Surplus Property's accounts and the outstanding balance due the Travel Management Office Fund at the request of the Purchasing Division Director. He will be meeting in the next few weeks with the Surplus Property Manager and the Purchasing Division Director to discuss his findings and to set up a payment plan for Surplus Property to pay the monies due the Travel Management Office Fund for vehicle sales.

Had the Travel Management Office Fund been reimbursed the amounts due from Surplus Property for the vehicles sold the outstanding debt for vehicle lease purchases financed by Bank One might not be as great as it is today. Also, if the Travel Management Office Fund had received the monies due them by Surplus Property they would not have had to borrow as much money from Bank One to purchase vehicles needed by State Agencies.

We recommend the Travel Management Office Fund collect monies due them from Surplus Property based on the requirements in Chapter 5A, Article 3, Section 45 of the West Virginia Code.

Agency's Response

The Finance Division has expressed concern about the Surplus Property cash flow situation in the last year. Based on that concern, some funds were not transferred timely. Since both organizations report to the Purchasing Division all parties were aware of this situation. We

are in the process of changing the Surplus Property reimbursement rate. Currently Surplus Property keeps 20% of sale proceeds. That rate will change to 50% soon. We believe this change will ease cash flow concerns at Surplus Property. Additionally, we are transferring \$400,000 and will transfer the remaining funds as soon as possible.

Allocation of Salaries

The Travel Management Office could not provide the reasoning used to justify the percentage of time seven employees are working for the Travel Management Office. All or a portion of these seven employees' pay and related benefits were paid from the TMO Fund. Without time records documenting Department of Administration employee's time spent performing duties related to the Travel Management Office, we cannot verify the appropriate percentages of these employees salaries are being paid from the TMO Fund.

The Purchasing Director stated he knew there were people on the TMO Fund payroll that did not belong there, but there was no other payroll to put them on. The Purchasing Director also said he does not know the reasoning used to determine the percentages for each of these seven employees noted above and currently, there is a movement to reorganize the Department of Administration and in this reorganization employees will be paid from the proper accounts. He further stated these employees duties are as follows: Employee #1 - Assistant General Counsel for the Department of Administration who provides legal assistance for the Travel Management, Aviation Division and Fleet Management; Employee #2 - provides communications for the Purchasing Division and provides assistance to Travel Management and Fleet Management on their newsletters; Employee #4 - Previously was the Manager of the Celebration 2000 project and subsequently became the new business development manager who talks with new vendors who want to do business with the State, and he provides Travel Management and Fleet Management with

PowerPoint presentations for training purposes; Employee #5 - Secretary to the Director of Purchasing who provides secretarial support to Travel Management and Fleet Management; Employee #6 - Part-time employee who assists Employee #2; and, Employee #7 - Assisted Employee #4 with the Celebration 2000 project, subsequently assisted Purchasing Division Buyers with contract management and currently works as Assistant Fleet Manager.

Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, states in part:

“The head of each agency shall:
 . . . (b) 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. . . .”

The following table depicts six of the seven employees’ average salaries and average employee benefits paid from the TMO Fund during July 1, 2000 through June 30, 2003 and the percentage of the employees’ time allotted to the TMO Fund in accordance with the Payroll Expenditure Schedules effective during the period noted above:

| <u>Employee</u> | <u>Job Title</u> | <u>Average Salary Paid from the TMO Fund</u> | <u>Average Employee Benefits Paid from the TMO Fund</u> | <u>Total Average Amount Paid from the TMO Fund</u> | <u>Percentage of Employee’s Salary Paid from the TMO Fund 2300</u> |
|-----------------|----------------------|--|---|--|--|
| 1 | Attorney | \$ 18,695.78 | \$ 6,543.52 | \$ 25,239.30 | 36% |
| 2 | Pub Info Spec III | 25,507.53 | 8,927.64 | 34,435.17 | 55% |
| 3 | Purchasing Director | 26,138.50 | 9,148.47 | 35,286.97 | 33% |
| 4 | New Bus Dev Mgr | 52,485.67 | 18,369.98 | 70,855.65 | 100% |
| 5 | Adm Secretary | 16,231.33 | 5,680.97 | 21,912.30 | 50% |
| 6 | Office Assistant III | <u>26,922.33</u> | <u>9,422.82</u> | <u>36,345.15</u> | 100% |

| <u>Employee</u> | <u>Job Title</u> | <u>Average Salary Paid from the TMO Fund</u> | <u>Average Employee Benefits Paid from the TMO Fund</u> | <u>Total Average Amount Paid from the TMO Fund</u> | <u>Percentage of Employee's Salary Paid from the TMO Fund 2300</u> |
|-----------------|------------------|--|---|--|--|
| e | | <u>\$165,981.14</u> | <u>\$58,093.40</u> | <u>\$224,074.54</u> | |

The seventh employee was paid an average salary of \$3,965.74 and average employee benefits of \$1,388.01 for a total average amount paid from the TMO Fund of \$5,353.75 during the period August 15, 2001 through June 30, 2003.

We recommend the TMO provide documentation noting the rationale behind the percentage calculations in compliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency's Response

The Purchasing Division has been underfunded for several years. All employees paid from this fund are needed to perform the responsibilities of the division. No other funds are available to use for the purpose of paying these employees.

Federal Excise Taxes Paid on Aviation Fuel Not Recovered

During the period July 1, 2000 through June 30, 2002, we tested four payments made to Multi Service for aviation fuel; these transactions included charges for Federal Excise Taxes. The TMO has not sought reimbursement for the Excise Taxes paid. We tried to determine how much Federal Excise Tax was paid on these four invoices for aviation fuel purchases, but was unable to do so because the records were not mathematically correct. We multiplied the total gallons purchased by \$.184 (Federal Excise Tax per gallon) and was unable to recalculate the total amount of Federal Excise Taxes as shown on the invoices. The invoices indicated the following total

charges for Federal Excise Taxes:

| <u>Vendor Name</u> | <u>Invoice Date</u> | <u>Federal Excise Tax Paid</u> |
|--------------------|---------------------|--------------------------------|
| Multi Service | 08/03/2001 | \$173.87 |
| Multi Service | 01/18/2002 | 94.39 |
| Multi Service | 06/22/2001 | 74.47 |
| Multi Service | 03/01/2002 | <u>115.20</u> |
| | | <u>\$457.93</u> |

The Internal Revenue Service, Publication 510, Excise Taxes states in part:

“. . . Registered producers may sell aviation fuel tax free or at a tax-reduced rate for sales to the persons or for the nontaxable uses described below. . . . A registered producer may sell aviation fuel tax free for any of the following uses. . . Exclusive use by a state, as defined earlier under Definitions. . . This includes any state, any of its political subdivisions, the District of Columbia, and the American Red Cross. . . A credit or refund is allowable to the ultimate purchaser for taxed aviation fuel used for a non-taxable use. . . .”

The Internal Revenue Service, Publication 378, Fuel Tax Credits and Refunds states

in part:

“. . . If you are an ultimate purchaser, you can claim a refund for the excise tax on fuels you purchase and use for a nontaxable use. You can file a claim for refund for any quarter of your tax year for which you can claim \$750 or more. This amount is the excise tax on all fuels used for a nontaxable use during that quarter or any prior quarter (for which no other claim has been filed) during the tax year. If you cannot claim at least \$750 at the end of a quarter, you carry the amount over to the next quarter of your tax year to determine if you can claim at least \$750. . . .”

The TMO accountant stated they have never sought reimbursement of Federal Excise Taxes paid on aviation fuel. Based on the four items noted above, the possibility may exist that additional Federal Excise Taxes have been paid by the TMO which they have not sought

reimbursement for. The TMO Fund has lost the use of the monies paid for Federal Excise Taxes charged for aviation fuel purchases because they have not sought reimbursement.

We recommend the TMO review invoices and ask for refunds from the Federal government for Federal Excise Taxes paid on aviation fuel in compliance with the Internal Revenue Service, Publication 510, Excise Taxes, and Publication 378, Fuel Tax Credits and Refunds.

Agency's Response

The Finance Division has been responsible for collection of these taxes. We will work with Finance and PHH to collect necessary information and obtain a refund for these taxes.

Legislative Rule in Conflict With the West Virginia Code

The Department of Administration's Procedural Rule Title 148, Series 3 "State Owned Vehicles" has not been amended to include the Division of Natural Resources, the Forestry Division, the Department of Agriculture, the Higher Education Policy Commission and the Higher Education Governing Boards and their institutions. Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended, states in part,

"(a) The secretary of administration shall promulgate rules relating to the ownership, purchase, use, storage, maintenance and repair of all motor vehicles and aircraft owned by the state of West Virginia and in the possession of any department, institution or agency thereof: Provided, That the provisions of sections forty-eight through fifty-three, inclusive, of this article do not apply to the division of highways of the department of transportation, the West Virginia state police of the department of military affairs and public safety, the division of natural resources, the division of forestry, the department of agriculture, the higher education policy commission and the higher education governing boards and their institutions: . . ."

However, the Department of Administration's Procedural Rule Title 148, Series 3 "State Owned Vehicles" states in part,

“§148-3-1. General.

1.1 Scope. – This Procedural Rule governs all State owned vehicles with the exception of those vehicles owned or leased by Division of Highways of the Department of Transportation and the Division of Public Safety of the Department of Military Affairs and Public Safety. . . .”

The possibility may exist where a State agency is following the guidelines set by the Department of Administration’s Procedural Rule when they are not required to because they have been exempted by Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended.

We recommend the “State Owned Vehicles” Procedural Rule be amended to include those agencies in Chapter 5A, Article 3, Section 48 of the West Virginia Code, as amended.

Agency’s Response

Since the deadline for filing rule changes has passed, we are unable to request the change this session, and will forward the change for next session. However, should the Judiciary Committee support an emergency rule change, we will file this session.

Contract Management

We noted contracts could not be provided for cellular phone usage charges paid from the TMO fund during the period July 1, 2000 through June 30, 2003. Without access to these records, we were unable to determine whether the amounts paid for the services from the TMO fund were the proper amounts to be charged. The Purchasing Division Director stated there are no employees who have been assigned the duty to ensure the cellular phones are being used only for State business. The payments made to vendors for cellular phone usage were as follow:

| <u>Vendor</u> | <u>Fiscal Year</u> <u>2003</u> | <u>Fiscal Year</u> <u>2002</u> | <u>Fiscal Year</u> <u>2001</u> | <u>Total</u> |
|----------------------|---|---|---|---------------------|
| AllTel | \$ 0.00 | \$ 826.74 | \$2,270.56 | \$ 3,097.30 |

| | | | | |
|---------------|-------------------|-------------------|-------------------|--------------------|
| AT&T Wireless | 3,533.46 | 2,220.40 | 741.14 | 6,495.00 |
| NTelos | <u>748.40</u> | <u>185.72</u> | <u>0.00</u> | <u>934.12</u> |
| | <u>\$4,281.86</u> | <u>\$3,232.86</u> | <u>\$3,011.70</u> | <u>\$10,526.42</u> |

Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which states

in part,

“The head of each agency shall:

. . . (b) 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. . . .”

We recommend the TMO comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency’s Response

The Purchasing Division will attempt to secure contracts. An employee will be assigned the responsibility of reviewing records. The Department of Administration will develop rules to govern the use of cell phones. These rules will likely include a form that employees sign agreeing to abide by these policies. The Department of Administration will request legislation this session to allow the Purchasing Division to join multi state coops and use certain national contracts. Upon passage, the Purchasing Division intends to join the Western States Contracting Alliance cell phone contract and make use of that contract mandatory for all state agencies.

Equipment

We noted several instances of noncompliance with the State of West Virginia Purchasing Division Inventory Management and Surplus Property Disposition Policies and

Guidelines. With the exception of four equipment items valued at a total of \$8,646.99, there were no State property tag numbers on any equipment located at the Aviation Division.

Section 3.11 of the State of West Virginia Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines, revised October 1, 2000, states:

“All equipment over \$1,000 will have a numbered equipment identification tag and that equipment will be entered into the WVFIMS Fixed Asset system. Agency’s will be responsible for obtaining and placing the proper tags on all equipment under their jurisdiction. Tags are to be placed on all items of property/equipment in such a manner that it may be easily seen and read.”

Aviation Division employees said the Finance Division has never issued State property tag numbers for any of their equipment. The equipment cannot be properly traced without a numbered tag, therefore, verification of the equipment at the Aviation Division is not possible.

Also, there were four equipment items, noted in the table below, with an acquisition price of \$1,000.00 or more that were not reported on the TMO’s WVFIMS Fixed Assets Inventory listing.

| <u>Equipment</u> | <u>Date Purchased</u> | <u>Cost of Equipment</u> |
|-------------------------------------|-----------------------|--------------------------|
| A17 Aircraft Jet Jack, 8 ton 34"/60 | 04/20/01 | \$3,060.00 |
| Office Desk | 01/17/01 | 1,000.00 |
| <u>Equipment</u> | <u>Date Purchased</u> | <u>Cost of Equipment</u> |
| Dell Optiplex GX 240 Minitower PC | 02/20/02 | 1,594.00 |
| Dell Optiplex GX150 Minitower PC | 09/25/01 | <u>1,803.00</u> |
| | | <u>\$7,457.00</u> |

Sections 3.6 of the State of West Virginia’s Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines, revised October 1, 2000,

states:

“The Purchasing Division has established a capitalization figure of \$1,000 and a useful life of one (1) year or more as reportable property. This means that any item which has an original acquisition cost of \$1,000 or more and a useful life of one (1) year or more is required to be entered into the WVFIMS Fixed Asset system. Although not required by the Purchasing Division, agencies may, however, enter property or equipment costing less than \$1,000 in the WVFIMS Fixed Asset system.”

The TMO Accountant stated that he initially listed the equipment items on the Travel Management Office Fund fixed asset list. He was notified the equipment was listed on the Purchasing Divisions inventory list. Therefore, he removed the items from the TMO list. The Purchasing Division provided documentation to us showing the computers are on the Purchasing Division fixed asset listing. The TMO Accountant also stated the aircraft jet jack should be on the TMO fixed asset listing and he would correct the error. Without accurate records, equipment items may be converted to personal use.

Further, the office desk included in the table above could not be located; this desk was purchased from Federal Surplus Property. The invoice listed the Fleet Management Unit as the agency that received the desk and was signed by the Fleet Manager and the Purchasing Division Director. Section 3.3 of the State of West Virginia Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines, revised October 1, 2000, states:

“Agencies are responsible for all property, regardless of its state (removable or fixed), origin, or acquisition cost.”

The Fleet Manager stated that she did not recall the desk being purchased or received. Also, the Purchasing Division employee who is responsible for the Purchasing Division inventory records was unable to locate the desk in the WVFIMS fixed asset inventory listing. Without being able to locate the desk purchased from Federal Surplus Property, we could not determine if the State

received the benefit of the purchase nor could we determine if TMO fund monies were used in accordance with the purposes of the TMO fund as stated in the West Virginia Code.

Chapter 5A, Article 3, Section 52 of the West Virginia Code states:

“There is hereby created a special fund in the state treasury, out of which all costs and expenses incurred pursuant to this section shall be paid. All allocations of costs and charges for operating, repairing and servicing motor vehicles and aircraft made against any institution, agency or department shall be paid into such special fund by said department or agency. All funds so paid or transferred into this special fund are hereby appropriated for the purposes of this section and shall be paid out as the secretary may designate; said funds to be transferred to include all appropriations for the acquisition, maintenance, repair and operation of motor vehicles and aircraft and for personnel.”

Finally, two equipment items were purchased for Purchasing Division employees using the TMO Fund and two other purchases of equipment have been given to the Division of Tourism by a Purchasing Division employee. The following table details the four items purchased:

| <u>Equipment Item</u> | <u>Cost</u> | <u>Date Paid</u> | <u>Purchased For Purchasing Division</u> |
|-----------------------|-------------------|------------------|--|
| Computer | \$1,594.00 | 12/31/01 | Buyer |
| Computer monitor | 195.00 | 12/31/01 | Buyer |
| Cellular Phone | 179.95 | 06/15/00 | Celebration 2000 Employee |
| Hands Free Adapter | <u>9.95</u> | 06/22/00 | Celebration 2000 Employee |
| | <u>\$1,978.90</u> | | |

The cellular phone and the hands free adapter were purchased from AllTel in June 2000 for Purchasing Division employees, in the amount of \$179.95 and \$49.95, respectively. We were told that these items were purchased for the Celebration 2000 project and in April of 2003 the items were given to the Division of Tourism. These four purchases are in noncompliance with the purpose of the TMO fund as stated in Chapter 5A, Article 3, Section 52 of the West Virginia Code.

The Purchasing Division Director stated he did not know why the equipment

purchased for the Buyer was paid from the TMO fund. He stated that he was unaware of the situation with the equipment purchased from AllTel, but he would get the equipment back.

We recommend the TMO comply with Chapter 5A, Article 3, Section 52 of the West Virginia Code, and the State of West Virginia's Purchasing Division Inventory Management and Surplus Property Disposition Policies and Guidelines.

Agency's Response

The Purchasing Division will send personnel to the Aviation Division to reconcile inventory and have all items tagged and documented.

Lack of Supporting Documentation

The TMO was unable to provide us with adequate supporting documentation. The Department of Administration Finance Division's Accounting Section performs the accounting related duties for the TMO including payroll, procurement, accounts receivable and accounts payable and maintains documentation pertaining to these duties. As a result, we were unable to test these transactions to determine their compliance with State laws or other rules and regulations.

Chapter 5A, Article 8, Section 17, of the West Virginia Code as amended, states in part,

“Except as provided in section seven-a, article one, chapter fifty-seven of this code, no record shall be destroyed or otherwise disposed of by any agency of the state, unless it is determined by the administrator and the director of the section of archives and history of the division of culture and history that the record has no further administrative, legal, fiscal, research or historical value. . . .”

The documentation not provided was as follows:

- We noted the following four instances in which payroll related documentation was not provided to us: (1) the EPICS payroll registers were not provided for the following dates: July 16, 2000, July 31, 2000, September 15, 2000, and September 30,

2000; (2) increment payrolls were not provided for July 2000 and July 2001; (3) for the pay period ending December 16, 2001, there were no time sheets available for one employee; and, (4) there was no West Virginia State Withholding form found for one employee. Without access to these records, we could not audit the payroll transactions occurring during the periods July 1, 2000 through July 31, 2000, September 1, 2000 through September 30, 2000, and increment payrolls during July 2000 and July 2001. Also, we could not determine if one employee's gross pay was properly authorized or if another employee's West Virginia State withholding allowance was deducted at the amount which had been authorized by that employee.

The Accounting Section's Payroll Unit personnel stated she requested the EPICS payroll registers from an Auditor's Office employee, but we did not received them. She also looked for the July 2000 and 2001 increment payrolls, but could not find them. Also, the Purchasing Division Administrative Secretary said the employee's time sheets could not be located because they were probably misfiled and Payroll Unit personnel stated the WV State Withholding form had probably been misfiled.

- The following four WVFIMS documents and supporting documentation were not provided to us:

| <u>Vendor</u> | <u>WVFIMS Cover Sheet Number</u> | <u>WVFIMS Cover Sheet Date</u> | <u>Amount Paid</u> |
|---|--|--|---------------------|
| DL Peterson Trust (PHH) | I4918702 | 07/17/01 | \$271,745.74 |
| DL Peterson Trust (PHH) | I5107292 | 12/05/01 | 202,756.60 |
| Board of Risk and Insurance Management | E401011 | 04/03/01 | 5,788.00 |
| Multi Service | I4962561 | 08/08/01 | <u>1,887.65</u> |
| | | | <u>\$482,177.99</u> |

Without access to these records, we were unable to determine the following: (1) if the correct amounts were paid; (2) if

payments were made promptly; (3) if the disbursements were authorized and approved by an appropriate agency representative; (4) if purchasing procedures were followed; (5) if payments were made in accordance with the terms specified in the PHH contract; and, (6) if payments were made in accordance with Chapter 5A, Article 3, Section 52 of the West Virginia Code. The Accounting Section was unable to locate these documents.

We recommend the TMO comply with Chapter 5A, Article 8, Section 17 of the West Virginia Code, as amended.

Agency's Response

The Finance Division has the requested records and will make them available for review upon request. The Purchasing Division will also review its retention schedule for these items and assure that they are managed in accordance with the schedule.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of cash receipts, disbursements and changes in cash balance of the Travel Management Office Fund for the years ending June 30, 2002 and June 30, 2001. The financial statement is the responsibility of the management of the Travel Management Office Fund. Our responsibility is to express an opinion on the financial statement based on our audit.

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

As described in Note A, the financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to in the first paragraph above present fairly, in all material respects, the revenues collected and expenses paid of the Travel Management Office Fund for the years ended June 30, 2002 and June 30, 2001 in conformity with the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Respectively submitted,

Theodore L. Shanklin, CPA, Director
Legislative Post Audit Division

July 9, 2003

Auditors: Ethelbert Scott, Jr., CPA, Supervisor
Rhonda L. Combs, Auditor-in-Charge
Charles L. Lunsford
Bonita P. Compton
William H. Spencer, CPA

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION'S TRAVEL MANAGEMENT OFFICE FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCE
SPECIAL REVENUE

| | Year Ended June 30, | |
|--|------------------------------|------------------------------|
| | <u>2002</u> | <u>2001</u> |
| <u>Travel Management Office Fund (2300-099/640)</u> | | |
| Cash Receipts: | | |
| Vehicle Lease Income | \$5,673,526.00 | \$5,607,457.05 |
| Vehicle Maintenance Income (PHH) | 2,230,376.60 | 2,567,202.29 |
| Aviation Income | 261,049.75 | 251,290.00 |
| Other Income | <u>508,832.74</u> | <u>602,385.34</u> |
| | 8,673,785.09 | 9,028,334.68 |
| Disbursements: | | |
| Personal Services | 609,141.22 | 566,830.25 |
| Annual Increment | 9,128.09 | 8,102.50 |
| Employee Benefits | 181,109.33 | 179,457.09 |
| Current Expenses | 339,450.61 | 374,844.10 |
| Repairs and Alterations | 13,033.54 | 75,897.79 |
| Vehicle Maintenance Expense (PHH) | 2,541,718.04 | 2,691,270.81 |
| Vehicles | 5,193,026.05 | 5,078,766.06 |
| Equipment | 12,087.71 | 14,762.70 |
| Public Employees Insurance Reserve | <u>6,089.00</u> | <u>5,722.00</u> |
| | <u>8,904,783.59</u> | <u>8,995,653.30</u> |
| Cash Receipts (Under)/Over Disbursements | (230,998.50) | 32,681.38 |
| Beginning Balance | <u>1,280,353.85</u> | <u>1,247,672.47</u> |
| Ending Balance | <u><u>\$1,049,355.35</u></u> | <u><u>\$1,280,353.85</u></u> |

* See Notes to Financial Statement

WEST VIRGINIA DEPARTMENT OF ADMINISTRATION

PURCHASING DIVISION

TRAVEL MANAGEMENT OFFICE FUND

NOTES TO FINANCIAL STATEMENTS

Note A - Accounting Policies

Accounting Method: The cash basis of accounting is followed, therefore certain revenue and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Note B - Pension Plan

All eligible employees are members of the West Virginia Public Employees' Retirement System. Employees' contributions are 4.5% of their annual compensation and employees have vested rights under certain circumstances. The Department of Administration Purchasing Division Travel Management Office Fund matches contributions at 9.5% of the compensation on which the employees made contributions. The Travel Management Office Fund's pension expenditures were as follows:

| | <u>Year Ended June 30,</u> | |
|-----------------|-----------------------------------|--------------------|
| | 2002 | 2001 |
| Special Revenue | <u>\$57,695.34</u> | <u>\$54,582.56</u> |

Note C - Vehicle Classification

During fiscal year 2001, all vehicle purchases, including purchases made by obtaining financing through a third party bank and purchases for "cash", were classified under the "Vehicle" expense category. However, beginning July 1, 2001, all vehicles purchased by obtaining financing through a third party bank are classified as "Debt Service - Principal" and Debt Service - Interest". The vehicle purchases for "cash" as of July 1, 2001, are still classified as a "Vehicle" expense. This reclassification of expenses materially affects the comparability of the financial statements between the periods (fiscal years 2002 and 2001) presented; therefore, we classified all vehicle purchase as a "Vehicle" expense for both periods to maintain consistent application of the amounts between the periods.

Note D - Vehicle Maintenance Expense (PHH) Classification

During the period July 1, 2000 through May 30, 2001, all PHH vehicle maintenance expense

disbursements were classified under the “Repairs and Alterations” expense category. However, beginning May 31, 2001, the PHH vehicle maintenance expenses are classified as a ”Current Expense”. This reclassification of expenses materially affects the comparability of the financial statements between the periods (fiscal years 2002 and 2001) presented; therefore, we classified all vehicle maintenance expenses separately on the financial statement as a “Vehicle Maintenance Expense (PHH)” for both periods to maintain consistent application of amounts between the periods.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

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

Given under my hand this _____ day of _____ 2003.

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the West Virginia Department of Administration; Governor; Attorney General; State Auditor; and, Director of Finance Division, Department of Administration.