WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

REPORT TO JOINT COMMITTEE ON GOVERNMENT AND FINANCE
WEST VIRGINIA LEGISLATURE

AND

MANAGEMENT OF THE
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

November 18, 2013

CERTIFIED PUBLIC ACCOUNTANTS

November 18, 2013

To the Joint Committee on Government and Finance
West Virginia Legislature
Charleston, West Virginia

and

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

We are pleased to present this report related to our audit of the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) for the year ended June 30, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Division's financial reporting process.

This report is intended solely for the information and use of the Joint Committee on Government and Finance and management and is not suitable for any other purpose. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the Division.

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Contents

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditor's Responsibility Under Professional Standards	We have audited the financial statements of the governmental activities and each major fund of the Division for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 11, 2013.
Qualitative Aspects of Accounting Practices	**Adoption of, or Change in, Accounting Policies** Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Division are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Division adopted GASB 63 *Financial Reporting of Deferred Outflows of Resources*, *Deferred Inflows of Resources and Net Position*, GASB 65 *Items Previously Reported as Assets and Liabilities* and GASB 66 *Technical Corrections 2012 (an amendment to GASB Statements No. 10 and No. 62)* in 2013. The adoption of the statements did not have a material effect on the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. **Management's Judgments and 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 estimate(s) affecting the financial statements are summarized in the attached *Summary of Accounting Estimates*.

Area	Comments
	Financial Statement Disclosures The financial statement disclosures are neutral, consistent, and clear.
Difficulties Encountered in Performing the Audit	We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements	Professional standards require us to accumulate all known and likely misstatements indentified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. See the attached *Summary of Recorded Audit Adjustments* and *Summary of Uncorrected Misstatements.*
Disagreements with Management	For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.
Management Representations	We have requested certain representations from management that are included in the management representation letter dated November 18, 2013.
Management 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 auditor's 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.
Other Audit Findings or Issues	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year 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.
Communication Regarding Significant Deficiencies & Material Weaknesses	See attached *Communication Regarding Significant Deficiencies and/or Material Weaknesses.*

Area	Comments
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the Division are attached as Exhibits.
Required Supplementary Information	With respect to the required supplementary information accompanying the financial statements, we have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

West Virginia Department of Transportation
Division of Highways
Summary of Accounting Estimates
Year Ended June 30, 2013

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Division's June 30, 2013 financial statements:

Area	Accounting Policy	Estimation Process	Comments
Depreciation of capital assets	Straight – line method	Based on cost, or if contributed, at fair value of the asset. Depreciation is calculated using the straight-line method over the estimated useful life. Annually, management reviews capital assets for impairment.	We concur with this process.
Valuation of receivables	Net realizable value	Review of net amounts of anticipated collections, established grants, contracts, and loans and historical collection information.	We concur with this process.
Compensated absences	Estimated	Based upon management's calculation of the ultimate liability to be paid.	We concur with this process.
Other post employment benefit liability	Estimated	Based upon the third party trust funds actuarial determination of the annual required contribution which is billed to the Division.	We concur with this process.
Claims and judgments	Estimated	Based upon the legal department's calculation of anticipated environmental and legal liabilities relating to circumstances present at the end of the fiscal year.	We concur with this process.

West Virginia Department of Transportation
Division of Highways
Summary of Recorded Audit Adjustments
Year Ended June 30, 2013

During the course of our audit, we accumulated adjustments that were determined by management to be material to the financial statements and to the related financial statement disclosures, or management otherwise determines were appropriate to make. Following is a summary of the adjustments made to the original trial balance we received.

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
This entry is to adjust for federal aid earned and unbilled that was returned in error and therefore now receivable.			
1421	Federal aid earned & unbilled	400,000.00	
3411	Federal aid interstate projects		400,000.00
Total		**400,000.00**	**400,000.00**
Adjusting Journal Entries JE # 2			
To remove maintenance projects from work in process that should not be capitalized.			
5601	Infrastructure expense - Appalachian	19,200.00	
5603	Infrastructure expense - fed. Interstate	447.00	
5605	Infrastructure expense - other fed. Aid	5,583,946.00	
1996	Infrastructure roads - WIP		4,302,788.00
1997	Infrastructure bridges - WIP		1,300,805.00
Total		**5,603,593.00**	**5,603,593.00**
Adjusting Journal Entries JE # 3			
To record special permit revenue for June 2013 permits invoiced in August 2013 that were not originally recorded in fiscal year 2013.			
1561	Accounts receivable earned & unbilled	226,587.00	
3571	Special permits		226,587.00
Total		**226,587.00**	**226,587.00**
Adjusting Journal Entries JE # 4			
To reverse worker's compensation payable recorded that applied to the period of July 2013 to September 2013.			
2501	Accrued invoices payable	2,826,917.00	
4046	Workmens compensation		2,826,917.00
Total		**2,826,917.00**	**2,826,917.00**
Adjusting Journal Entries JE # 5			
To add expenses to work in process that were previously excluded in error.			
1996	Infrastructure roads - WIP	8,147,993.00	
1997	Infrastructure bridges - WIP	4,446,412.00	
5601	Infrastructure expense - Appalachian		1,463,610.00
5603	Infrastructure expense - fed. Interstate		6,707,232.00
5605	Infrastructure expense - other fed. Aid		4,423,563.00
Total		**12,594,405.00**	**12,594,405.00**
Adjusting Journal Entries JE # 6			
To correct accounts receivable.			
1561	Accounts receivable earned & unbilled	553,651.00	
3801	Reimbursement from others (acc. Rec.)		553,651.00
Total		**553,651.00**	**553,651.00**

West Virginia Department of Transportation
Division of Highways
Summary of Uncorrected Misstatements
Year Ended June 30, 2013

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements and to the related financial statement disclosures. Following is a summary of those differences.

Account	Description	Debit	Credit

There were no uncorrected misstatements identified during the course of our audit.

COMMUNICATION REGARDING SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

November 18, 2013

Joint Committee on Government and Finance
West Virginia Legislature
Charleston, West Virginia

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

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered The Division's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Division's internal control to be a significant deficiencies:

Capital Assets

The Division's process for identifying expenditures for infrastructure assets that meets its established capitalization policy is dependent on several criteria, including the type of project and level of expenditures. We noted the Division does not have an adequate process that reviews the type of project and whether it should be capitalized or expensed or make sure all costs related to a project are capitalized. A similar matter was identified in the prior year.

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Without proper monitoring, errors in the reported balances for capital assets and expenses in the Division's Government-wide Financial Statements could occur without being detected by management. In 2013, the Division adjusted infrastructure for the following: a reduction in current year work in process expenditures of approximately $5,604,000 and an increase of current year work in process expenditures of approximately $12,594,000. Total work in process expenditures for the year were approximately $423,436,000. The adjustments were made to eliminate projects from work in process that were actually maintenance and repair projects, and to capture work in process expenditures recorded as part of the year end accumulation of accounts payable that should have been included as capital assets.

We recommend that management update procedures to ensure that a review process is established that will capitalize all costs related to a project, and ensure maintenance projects are not capitalized. Establishing the procedures will help to ensure that capitalized expenditures and related depreciation expenses are complete and accurate.

Information Systems Governance

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:

- Monitoring over system administrator activity is not documented for REMIS and PTS systems. While the REMIS and PTS systems will be replaced, procedures should be implemented for the Division's new applications. Monitoring system administrator activity decreases the risk of unauthorized activity from going unnoticed.

- Programmers in the Division's Information Services Department have access to production programs in the REMIS system. This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority.

- According to WVOT's user account management policy, each agency must have a documented process for periodically reviewing existing user accounts to ensure that access and user account privileges compatible with job function, need-to-know, and employment status. The Division does not currently have a documented process for this review.

- The Division had a vulnerability evaluation conducted in 2010. The report noted several concerns and made recommendations. The Division did not effectively review or address these concerns. The items noted in the 2010 report were similar to the items noted by us.

- Many of the Division's IT policies and procedures have not been updated since the 1980s or are insufficient. The Division has undergone several changes in the last few years including the development of their relationship with the West Virginia Office of Technology (WVOT) and the current installation of new software. Policies and procedures should reflect the current structure of information technology including: required complementary user controls documented in WVOT's SSAE16 report, WVOT policies which require Agency specific policies, and policies to address Division owned applications.

We recommend the following:

- The Division should implement a process to review system administrator activity. Since manual reviews are typically inefficient and susceptible to human error the process should be automated to the fullest extent technically feasible.

- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. If this access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.

- The Division should establish policies and procedures to create a documented review process of user account management. These policies and procedures should address mainframe access as well as access to Division owned applications.

- The Division should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Division complete a code review on all online/ecommerce applications. Furthermore, we recommend that the Division develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Division as well as procedures to address recommendations and other IT security concerns.

- The Division should create and establish policies and procedures which reflect the current structure of information technology. While creating these policies and procedures, consideration should be given to required complementary user controls documented in WVOT's SSAE16 report, WVOT policies which require Agency specific policies, and policies to address Division owned applications.

  When reviewing WVOT's SSAE16 report, special attention should be given the sections addressing required complementary user controls. WVOT has identified these controls as being vital to achieving some of its own controls objectives. These complementary user controls are the responsibility of the Division to design and implement.

  While WVOT has written several policies which are applied state wide, some of these policies require supporting policies written by each agency. The Division should review all policies issued by the Chief Technology Officer and write corresponding Division policies, as required.

  Applications which are owned and maintained by the Division require application specific policies and procedures which do not exist for the current system. Since new systems are being implemented, the Division should write policies and procedures for the new applications. Topics which should be addressed include user account management, anti-virus, patch management, change control, system monitoring, incident response, event log management, and compliance with software licensing agreements.

* * * * *

This communication is intended solely for the information and use of management, the Joint Committee of Government and Finance, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Suttle & Stalnaker, PLLC

Suttle & Stalnaker, PLLC
Charleston, West Virginia

Certain Written Communications between Management and Our Firm

Management Comment Letter

Engagement Letter

Management Representations Letter

MANAGEMENT COMMENT LETTER

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

November 18, 2013

Joint Committee on Government and Finance
West Virginia Legislature
Charleston, West Virginia

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

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, 2013 , in accordance with auditing standards generally accepted in the United States of America, we considered the Division's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 18, 2013, contains our report on significant deficiencies and/or material weaknesses in the Division's internal control and is included as an attachment. This letter does not affect our report dated November 18, 2013, on the financial statements of the Division.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Division personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. The management comments are as follows:

Internal Control

Travel Expenditures

We tested 25 travel expenditures and noted the following:

- 5 had no documentation of advance approval for the employee's travel.
- 3 had no documentation of the State Auditor's Office approval of the Travel Expense Settlement within 15 days after travel,
- 1 did not have an approved DOT-55P for use of personal vehicle, and
- 1 did not have a proper DOH90 or proof they met eligibility requirements for reimbursement.

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We recommend the Division review the approval process and reinforce the documentation needed for travel reimbursements. We also recommend that the Division try to coordinate a more timely process for approval from the State Auditor's Office.

Inventory

Based on discussions with Division personnel and review of inventory records, we noted that the Division has a number of non-inventory items recorded as part of inventory. These items are not depleted but rather maintained at historical cost in perpetuity. These items would be more appropriately recorded as either capital assets or expenses. They could still be tracked separately if there is concern regarding theft or misplacement of the assets. In addition, several items selected for price testing had not been purchased within the previous two years but no procedure was in place to document whether the items may need to be considered for impairment.

We recommend that management establish a process for personnel to review inventory listings for items that should be capitalized or expensed and for items that may be impaired or obsolete.

Journal Vouchers

Two of the four departments that process journal vouchers do not appear to have an adequate review process in place to verify that approved entries have been posted properly. Also, one transaction tested was not approved prior to entry and one department's journal vouchers had not been reviewed and approved for the previous five months.

We recommend that management review their policies and procedures for review and approval of journal vouchers, reinforce the importance of timely review, and ensure that secondary reviewers are made aware of their responsibilities in case the primary reviewer is unavailable or busy.

Internal Audit

Based on discussions with the internal audit section of the Division, they have not been subject to a peer review since October of 2005 and may not meet the required continuing professional education (CPE) requirements for 2013. Paragraph 3.82 of Government Auditing Standards (GAS) requires that each audit organization performing audits in accordance with GAS must have an external peer review performed by reviewers independent of the audit organization being review at least once every 3 years. Paragraph 3.76 of GAS requires that auditors performing work in accordance with GAS, including planning, directing, performing auditing procedures, or reporting on an audit conducted in accordance with GAS, should complete 24 hours of continuing professional education that relates directly to government auditing or the government environment and those who are not directly involved in those activities but who charge 20 percent or more of their time annually to GAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits.

The internal audit department submitted a request in October of 2013 for a new peer review to be performed during fiscal year 2015. We recommend that the internal audit department review their internal tracking systems to ensure future compliance with GAS regulations.

Audit Committee

Currently the Division has an established internal audit department which was reestablished in an Executive Order dated May 13, 2005 from the Secretary of Transportation. However, based on discussions with management the audit committee has not met as a group in fiscal year 2013.

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 review the results of the internal audit department's work from the previous quarter. Furthermore, we recommend that the Director of Internal Audit schedule regular meetings with the Commissioner of the Department of Transportation to discuss audit issues and concerns as they may arise.

Accounts Payable

We noted one invoice for fiscal year 2014 insurance coverage for $2,826,917 was recorded in fiscal year 2013 activity. Upon discovery during the audit, management recorded an entry to correct this error.

We recommend that management review accounts payable at the end of the fiscal year to verify that transactions have been recorded into the proper period.

Accounts Receivable

We noted several errors in recording accounts receivable as follows:

- A federal reimbursement was returned to the federal government in error and was subsequently resubmitted to the federal government,

- Numerous negative amounts were included in the listing due to incorrect Federal share amounts being recorded

- Negative amounts were recorded as a result of payments being applied to receivables which had not yet been recorded but were recorded subsequent to the close of the fiscal year.

We recommend that accounts receivable personnel review the year end receivables for obvious errors that can be corrected prior to the close of the fiscal year.

Legal Department

The legal department has several lawyers that also have private practices. Lawyers who do not have private practices are asked to sign a form stating that they will devote all their efforts to the Division. There is no similar form addressing how lawyers with private practices will isolate their private practice from Division responsibilities.

We recommend that such a form be developed to help ensure that potential conflicts are appropriately addressed.

Right of Way Leases

During testing of leases of real property it was noted that one of the leases tested was not included on the "Right of Way Lease Receivables To Be Billed for Month Of" report the Right of Way Division provides to the Finance Department. The report mentioned is used to notify finance to send out invoices each billing period to the lessee. Since the lease was not included on the report, an invoice was not sent to the lessee for fiscal years 2012 and 2013. In addition, it was noted that for one of the leases tested the first period's rent payment received by Division was coded to account #6031 Sale of Right of Way Property, an expense account. This payment would have been better coded to account #3791 Rental of Real Estate.

We recommend that management research the errors noted to determine the best way to correct and prevent these errors going forward.

State Compliance

Consulting Contracts

WV Code §157-1-7.9 states, "After notification to proceed is given to a consultant in writing, the responsible Division will meet regularly with the consultant to discuss progress and problems as they may occur with notes of the meetings recorded (either on paper or electronically) in the project files." During testing of consulting agreements it was noted that the engineering division is holding monthly progress meetings with consultants; however there are no notes from the meetings included in the project files. It was also noted that the Maintenance Division does not perform monthly progress meetings.

We recommend that management work with relevant divisions to establish or revise policies to ensure compliance with the West Virginia Code.

Construction Contracts

WV Code §157-3-5.2 requires that "the award of contract, if it be awarded, will be made within 30 calendar days after the opening of proposals to the lowest pre-qualified bidder. The commissioner may, with the agreement of the successful bidder, withhold award for any length of time. The successful bidder will be notified by letter, mailed to the address shown on their proposal, that their bid has been accepted and that they have been awarded the contract." While testing did not reveal significant deviation from the requirement that contracts be awarded within 30 calendar days of the letting date, the Division does not keep adequate records documenting compliance. The current record-keeping system relies on one employee writing down a note during the award meeting when verbal awarding of the contract occurs.

WV Code §157-3-4 requires that contractors not exceed the limit of incomplete work imposed by the Director and stated on the contractor's Certificate of Qualification. The Division does not require every contractor to send in letters attesting to their current amount of incomplete work, and there is no other procedure to allow the Division to monitor this.

WV Code §157-1-7.4a states the minimum requirement of WV State Code for publicizing the solicitation are that the advertisement will appear once a week on a weekday, for two consecutive weeks in the daily Charleston newspaper; that the advertisement will be posted in various offices of the Division which will afford the greatest dissemination; that the advertisement will be furnished to other organizations such as engineering societies if they request it; and finally that the notice will appear on the Internet at www.wvdot.com. For 9 out of 26 projects tested the Division was unable to provide documentation that the advertisement had been properly placed.

WV Code §157-3-5.6 requires contractors to maintain specific types of insurance over the life of the contract. For 4 of the 26 projects tested, certificates of insurance were not available.

One of the 26 projects tested was missing multiple documents supporting the awarding and maintenance of the contract tested. The Division was unable to provide support that: 1) the project received commissioner approval in accordance with WV Code §157-3-3.2, 2) the project was advertised in accordance with WV Code §157-1-7.4a, 3) the contractor was prequalified in accordance with WV Code §157-3-4.8 and 5.5, 4) a guaranty was submitted in accordance with WV Code §157-3-4.8 and 5.5, 5) the contract was properly awarded in accordance with WV Code §157-3-5.2, or 6) the contract was properly insured in accordance with WV Code §157-3-5.6.

We recommend that management review policies and procedures in place and make any necessary changes so that the Division can be in compliance with the West Virginia Code.

Scholarships

WV Code §157-1-4.1 states that there can be no more than 15 recipients of the Scholarship award at any one time. As of June 30, 2013, there were 16 active scholarship recipients.

WV Code §157-1-4.2a requires that an applicant must be a West Virginia resident to be eligible for a scholarship from the Division. The current procedure is to have the candidate fill out a scholarship application and to use the address supplied on the application as documentation of West Virginia residency. No other documentation is requested such as a Driver's License, photo ID card, and/or utility bill in applicant's name showing a West Virginia address.

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 Division policy is that a candidate's application is itself proof of financial need. We recommend that the Division create a practical procedure for determining financial need that will meet the requirements of the West Virginia Code and the need for Division to have qualified personnel. Documentation should be maintained to support that the relevant West Virginia Code requirements are being fulfilled.

We recommend that management review policies and procedures in place and make any necessary changes so that the Division can be in compliance with the West Virginia Code.

Materials and Equipment

WV Codes, §157-4-3.4 and 3.5 states, "Notice shall be given to all state agencies and state institutions, and counties and municipalities in the area where such sale is to be made prior to notice to the general public. First priority shall be given to state agencies and state institutions and thereafter to the counties and municipalities." During testing of disposition of materials and equipment, the Division was unable to provide supporting documentation that notice of the disposition of materials and equipment was given to state agencies and institutions first and counties and municipalities second. Per discussion with the Division, the auctioneer sends out the notice of the auction to the state agencies, institutions, counties, and municipalities. The Division was able to provide a copy of the advertisement and a receipt of the postage sent, however, we were unable to determine from the receipt to whom the notices were sent.

We recommend that the Division request adequate documentation from the auctioneer in order to show that notice of the disposition of materials and equipment was sent to state agencies and institutions first and counties and municipalities second.

Receipts

WV Code §12-2-2(a) sates in part "All officials and employees of the state authorized by statute to accept moneys on behalf of the State of West Virginia shall keep a daily itemized record of all moneys received for deposit in the State Treasury and shall deposit within one business day with the State Treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. The State Treasurer may grant an exception to the one business day rule when circumstances make compliance difficult or expensive." For 5 of 25 receipt transactions tested the Division did not comply with this regulation. In addition 17 of 25 transactions tested (non-federal deposits) did not have documentation of proper review or approval.

The Division should review the collection and deposit procedures to determine the impediments to complying with the Statute and implement procedures to enable timely deposits or request an exception from the State Treasurer if applicable. In addition, the Division should document approvals.

Information Technology

User Security Awareness and Confidential Information Handling

Employee information with names and social security numbers was emailed to auditors on multiple occasions. Employees should be aware of sensitive documents as well as the corresponding security measures. Strong security awareness training reduces the risk of unauthorized access to confidential information.

We recommend the Division enhance their security awareness training to ensure more frequent communication regarding proper handling of customer information.

Event Log Management

The Division 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.

We recommend that the Division implement a process to manage network event logs for entity specific applications that are not managed by WVOT. A third party tool could assist the Division to centrally manage the logs, review reports, and archive events for storage.

Software Licensing Agreements

The Division does not have a system in place to ensure compliance with all software licensing agreements. Non-compliance with software licensing agreements could result in large fines.

We recommend that the Division develop procedures to ensure compliance with software licensing agreements.

Server Management

WVOT manages servers as directed by the Division. However, there is not clear documentation of the Division's review of servers and the required service needs to be requested from WVOT. During our review we found 10 servers for which WVOT was maintaining backups; however, the Division had replaced those servers. While WVOT was aware that the servers had been replaced, the Division has not given WVOT authorization to delete the back ups for the servers no longer in use. Additionally, several Windows 2003 servers were identified on the Division's network. Microsoft support for Windows 2003 servers is expected to end soon. Continued long term use of this operating system increases the risk of unauthorized access to the respective server platforms.

We recommend that the Division create a formal, documented plan for phasing Windows 2003 server platforms out of use. Furthermore, we recommend that the Division develop policies and procedures for conducting a documented periodic review of the information hosted on servers and the servers backed up by WVOT.

* * * * *

This communication is intended solely for the information and use of management, the Joint Committee of Government and Finance, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Suttle & Stalnaker, PLLC

Suttle &Stalnaker, PLLC
Charleston, West Virginia

ENGAGEMENT LETTER

Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2013

Mr. Keith Chapman, Business Manager
West Virginia Division of Highways
Charleston, West Virginia

We are pleased to confirm our understanding of the services that the West Virginia Legislative Joint Committee on Government and Finance (Joint Committee) has engaged us to perform with respect to the West Virginia Division of Highways for the year ended June 30, 2013. We will audit the financial statements of the governmental activities and the major fund (State Road Fund), including the related notes to the financial statements, which collectively comprise the basic financial statements of the West Virginia Division of Highways as of and for the year ended June 30, 2013. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the West Virginia Division of Highways' basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the West Virginia Division of Highways' RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1) Management's Discussion and Analysis.

We understand that you also plan to issue a Comprehensive Annual Financial Report (CAFR) and the audited financial statements will be included as part of the CAFR, which will also include an introductory section and various statistical tables. Such information, which does not constitute RSI, will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the West Virginia Division of Highways and other procedures we consider necessary to enable us to express such opinions. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

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Phone (304)-485-6584 • Fax (304)-485-0971
www.suttlecpas.com • E-mail: cpa@suttlecpas.com
A Professional Limited Liability Company

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that West Virginia Division of Highways is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. You agree to assume all management responsibilities for any non-audit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, violations of contracts or grant agreements, or abuse that we may report.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

We have advised you of the limitations of our audit regarding the detection of fraud and the possible effect on the financial statements (including misappropriation of cash or other assets). We are available to perform, as a separate engagement, extended procedures specifically designed to detect fraud; however, you have declined to engage us to do so at this time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the West Virginia Division of Highways' compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Engagement Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the West Virginia Division of Highways and the Joint Committee on Government and Finance of the West Virginia Legislature; however, management is responsible for any further distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Suttle & Stalnaker, PLLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Suttle & Stalnaker, PLLC personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the U.S. Government Accountability Office. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit in June 2013 and to issue our reports no later than the November 2013 meeting of the Joint Committee. Horace Emery is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

If any dispute arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under Rules for Professional Accounting and Related Services Disputes before resorting to litigation. Costs of any mediation proceeding shall be shared equally by all parties.

We generally base our fees on the time required at our regular rates for the services and personnel assigned plus out of pocket costs and relevant computer charges. Our charges also include other appropriate factors, including the difficulty of the assignment, the degree of skill required, time limitations imposed on us by others, the experience and ability of the personnel assigned, and the value of the services to the client. Our fee for the audit services described in this letter is included in the contract with the West Virginia Legislature Joint Committee on Government and Finance for the audit of the financial statements of the West Virginia Division of Highways.

Additional services, including those related to the issuance of the CAFR, will be invoiced directly to the West Virginia Division of Highways.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

We will attempt to minimize our fees consistent with quality work. The extent to which we can do this will depend on your personnel offering us clerical and other assistance to prepare schedules, perform analyses, and provide source documents. This fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or the incomplete or untimely receipt by us of the information on the client participation list. All other provisions of this letter will survive any fee adjustment.

Client and accountant both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules of Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review report accompanies this letter.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

We appreciate the opportunity to be of service to the West Virginia Division of Highways and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Suttle & Stalnaker, PLLC

Suttle & Stalnaker, PLLC

RESPONSE:

This letter correctly sets forth the understanding of the West Virginia Division of Highways.

By: Keith E Chap

Title: BUSINESS MGR.

Date: 7/18/13

Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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SYSTEM REVIEW REPORT

To the Members of Suttle & Stalnaker, PLLC
and the West Virginia Society of CPAs Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC (the firm) in effect for the year ended May 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC in effect for the year ended May 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)* or *fail*. Suttle & Stalnaker, PLLC has received a peer review rating of pass.

Kelley, Galloway & Company, PSC

Kelley, Galloway & Company, PSC
Ashland, Kentucky
November 2, 2011

MANAGEMENT REPRESENTATIONS LETTER

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
Division of Highways
1900 Kanawha Boulevard East • Building Five • Room 110
Charleston, West Virginia 25305-0430 • (304) 558-3505

Earl Ray Tomblin
Governor

Paul A. Mattox, Jr., P. E.
Secretary of Transportation/
Commissioner of Highways

November 18, 2013

Suttle & Stalnaker, PLLC
The Virginia Center
1411 Virginia Street, East, Suite 100
Charleston, West Virginia 25301

This representation letter is provided in connection with your audit of the financial statements of West Virginia Department of Transportation (WVDOT), Division of Highways (the Division), a component unit of the WVDOT and the State of West Virginia, which comprise the respective financial position of the governmental activities and each major fund of the Division, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General fund for the year ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of November 18, 2013 the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 11, 2013, including our responsibility for the preparation and fair presentation of the financial statements and for the preparation of the supplementary information in accordance with the applicable criteria.
- The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates are reasonable.

- **Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.**
- **All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.**
- **We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the entity's accounts.**
- **The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements. A list of the uncorrected misstatements is attached to the representation letter, if any.**
- **The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.**
- **Guarantees, whether written or oral, under which the Division is contingently liable, if any, have been properly recorded or disclosed.**

Information Provided

- **We have provided you with:**
  - **Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.**
  - **Additional information that you have requested from us for the purpose of the audit.**
  - **Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.**
  - **Minutes of the meetings of the Division or summaries of actions of recent meetings for which minutes have not yet been prepared.**
  - **Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.**
- **All material transactions have been recorded in the accounting records and are reflected in the financial statements.**
- **We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.**
- **We have no knowledge of any fraud or suspected fraud that affects the entity and involves:**
  - **Management,**
  - **Employees who have significant roles in internal control, or**
  - **Others where the fraud could have a material effect on the financial statements.**

- We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government – specific

- We have made available to you all financial records and related data.
- There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- We have a process to track the status of audit findings and recommendations.
- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- The Division has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- The Division has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- The Division has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

- **The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.**
- **The financial statements properly classify all funds and activities.**
- **All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.**
- **Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.**
- **Investments, derivative instruments, and land and other real estate held by endowments are properly valued.**
- **Provisions for uncollectible receivables have been properly identified and recorded.**
- **Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.**
- **Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.**
- **Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.**
- **Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.**
- **Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.**
- **We have appropriately disclosed Division's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.**
- **We acknowledge our responsibility for the Required Supplementary Information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.**
- **We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*, as discussed in Note 1. The Division is therefore unable to disclose the impact that adopting GASB Statement No. 67 will have on its financial position and the results of its operations when the Statement is adopted.**

- **We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, as discussed in Note 1. The Division is therefore unable to disclose the impact that adopting GASB Statement No. 68 will have on its financial position and the results of its operations when the Statement is adopted.**

- **We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations*, as discussed in Note 1. The Division is therefore unable to disclose the impact that adopting GASB Statement No. 69 will have on its financial position and the results of its operations when the Statement is adopted.**

- **We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, as discussed in Note 1. The Division is therefore unable to disclose the impact that adopting GASB Statement No. 70 will have on its financial position and the results of its operations when the Statement is adopted.**

- **Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.**

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Sincerely,

Paul A. Mattox, Jr.

Paul A. Mattox, Jr., Secretary of Transportation/Commissioner of Highways

Keith E. Chapman

Keith E. Chapman, Assistant Secretary for Finance DOT/Business Manager DOH

James B. Hash

James B. Hash, Director, Finance and Administration Division

Kimber L. Asseff

Kimber L. Asseff, Director, Information Services Division

Susan M. Creager

Susan M. Creager, Financial Reporting Supervisor