

LEGISLATIVE AUDIT REPORT

REPORT OF SECURITIES HELD BY THE STATE TREASURER

AS OF April 21, 2010

REPORT OVERVIEW

Duplicate, Erroneous, and Missing Entries

Conflicting Inventories

Pending Securities



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POST AUDIT DIVISION



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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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The Joint Committee on Government and Finance:

In compliance with the provisions of W.Va. Code §12-5-3, as amended, we have examined and listed all of the securities in the custody of the State Treasurer as of April 21, 2010. A copy of this list so examined and certified shall be transmitted to the State Treasurer and the Department of Administration in accordance with the above statute.

We have conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Our audit has disclosed a finding and two informational items, which are detailed in this report. The State Treasurer's Office has responded to the audit findings and we have included the responses at the end of each finding.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

**SECURITIES HELD BY THE STATE TREASURER
AS OF APRIL 21, 2010**

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Informational Item 2**Pending Securities**

- During our reconciliation of the State Treasurer’s Office Safekeeping inventory, we noted that “pending securities” are entered into the Safekeeping system before they are properly approved.

Auditor’s Recommendation

We recommend the State Treasurer’s Office identify pending securities on the Safekeeping system.

Spending Unit’s Response

See page 9 for response.

**SECURITIES HELD BY THE STATE TREASURER
AS OF APRIL 21, 2010**

INTRODUCTION

POST AUDIT AUTHORITY

This is a special report on the securities located inside the vault of the State Treasurer's Office. This special report was conducted pursuant to W.Va. Code §12-5-3, which states,

“Before the first day of July, two thousand one and at least every two fiscal years thereafter, the Legislative Auditor shall examine and list all of the securities in the custody of the State Treasurer. A copy of the list so examined and certified shall be transmitted to the State Treasurer and the Department of Administration.”

BACKGROUND

W.Va. Code §12-5-1, as amended, defines a security as,

“The term securities when used in this article shall include all bonds, securities, debentures, notes or other evidences of indebtedness, and for purposes of this chapter all cash received by any state spending unit intended to serve as security for a legal obligation, whether pursuant to court order or otherwise.”

Further, W.Va. Code §12-5-2(a), as amended, sets forth the Treasurer's duties which states,

“The Treasurer of this state, unless otherwise expressly provided by law, shall be custodian of all securities required by law to be deposited with the state or held in legal custody by the state, and all departments of this state, commissioners or agents of the state, who hold any such securities, shall transfer and deliver the same to the State Treasurer to be kept and held by him as legal custodian thereof until released in the manner provided by law:”

The duty of the Treasurer to maintain an accurate accounting of all securities is provided for in W.Va. Code §12-5-4, as amended, which states,

“It shall be the duty of the Treasurer to keep an accurate account of all securities received by him or her and collect and account for the interest as it becomes due and payable and the principal whenever it is due.”

Responsibility for maintaining security over noncash securities is provided for in W.Va. Code §12-5-5(a), as amended, which states,

“The noncash securities retained in the treasury shall be kept in a vault. The Treasurer shall use due diligence in protecting the securities against loss from any cause. The Treasurer shall designate certain employees to take special care of the securities. Only the Treasurer and the designated employees may have access to the securities, and at least two of these persons shall be present whenever the securities are handled in any manner. The Treasurer may contract with one or more banking institutions in or outside the state for the custody, safekeeping and management of securities. The contract shall prescribe the rules for the handling and protection of the securities.”

Finally, the authority for the establishment of the Treasurer’s Safekeeping Fund is provided for in W.Va. Code §12-5-5(b), as amended, which states,

“The Treasurer's Safekeeping Fund is established in the state treasury. The Treasurer shall deposit moneys received pursuant to this article in the Treasurer's Safekeeping Fund. The Treasurer is authorized to invest the money in accordance with this code and the restrictions placed on the money, with earnings accruing to the moneys in the fund. The Treasurer shall prescribe the forms and procedures for processing the moneys.”

**SECURITIES HELD BY THE STATE TREASURER
AS OF APRIL 21, 2010**

ADMINISTRATIVE OFFICERS AND STAFF

John Perdue State Treasurer

Danny EllisAssistant State Treasurer (As of July 1, 2010)

Paul Hill Assistant State Treasurer (Until June 30, 2010)

Sarah LongDeputy State Treasurer for Cash Management

Malissa HohmannDirector of Internal Audit

Michelle Painter Director of EFT and Financial Services

Carolyn Bellamy Safekeeping Manager

Caroline Chamness..... Safekeeping Specialist

Kevin Brown, CPA..... Accountant

**SECURITIES HELD BY THE STATE TREASURER
AS OF APRIL 21, 2010**

REPORT SCOPE

We have reviewed all securities listed on the State Treasurer's Office Safekeeping inventory as of April 21, 2010. This special report was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

OBJECTIVES and METHODOLOGIES

Our objectives throughout the special report was to ensure compliance with W.Va. Code §12-5-3 and examine and list all of the securities in the custody of the State Treasurer.

Our examination included the securities on deposit with the State Treasurer and duly executed receipts for securities held in escrow by custodial banks for the State Treasurer. We obtained an inventory report of securities held by the State Treasurer on April 21, 2010. We performed a physical inventory count of all non-cash securities located in the State Treasurer's vault, determined amounts of cash on deposit in State accounts, as well as obtained confirmation of securities held in escrow with Citigroup and reconciled our count to the inventory report. Letters of confirmation were sent to State agencies remitting securities for safekeeping by the State Treasurer's Office and any differences were reconciled.

EXIT CONFERENCE

We held an exit conference on August 6, 2010 with the Assistant State Treasurer, the Deputy State Treasurer of Administration and the Director of Internal Audit of the West Virginia State Treasurer's Office and all findings and recommendations were reviewed and discussed. The State Treasurer's Office responses have been included at the end of each finding.

**SECURITIES HELD BY THE STATE TREASURER
AS OF APRIL 21, 2010**

Reportable Compliance Issues and Other Matters

Finding 1	Duplicate, Erroneous, and Missing Entries
Condition:	During our reconciliation of the State Treasurer’s Office (STO) Safekeeping inventory, we found six instances of duplicate entries entered into the Safekeeping system, one erroneous entry listed under the wrong agency name and wrong amount, and one security not listed on the Safekeeping inventory was found inside the vault.
Criterion:	W.Va. Code §12-5-4, as amended, states in part, “It shall be the duty of the Treasurer to keep an accurate account of all securities received by him ...”
Effect:	Because of the duplicate and erroneous entries and missing security from the Safekeeping inventory, it is possible that the balances of WVFIMS Treasurer’s Safekeeping Fund 1346 would be misstated.
Cause:	According to the Safekeeping Specialist, duplicates and erroneous entries are entered due to human error; however, when noticed by the Safekeeping staff, duplicate entries are then deleted. In regards to the security not listed on the Safekeeping report, the Safekeeping Specialist informed our staff that the security was overlooked when other securities from the same agency were transferred to the STO.
Recommendation:	We recommend that the STO comply with the provisions of W.Va. Code §12-5-4, as amended, by keeping an accurate accounting of all securities received.
Spending Unit’s Response:	The duplicate and erroneous entries in the safekeeping system were actually caught during our secondary review process and the auditors were given a list of these errors at the close of their fieldwork. When the audit occurred, the information had been entered by an initial data entry person but the secondary review had not been performed. It is important to note that as of July 1, 2010 we have a new safekeeping system that puts the initial data entry into the system in a pending status. The item does not enter into the cash and inventory section of the safekeeping system until the secondary reviewer completes his or her review.

Informational Item 1**Conflicting Inventories****Item Noted:**

During our reconciliation of the STO Safekeeping system, our office sent inventory confirmations to State agencies holding securities with the STO. The Department of Environmental Protection's (DEP) Division of Mining and Reclamation and the Office of Oil and Gas noted discrepancies between the STO Safekeeping system inventory and their own inventory. These discrepancies were noted by our office and found to be an issue between the STO and DEP.

Recommendation:

We recommend that the STO work with the DEP divisions and reconcile all differences between their inventory listings.

Spending Unit's**Response:**

We ask that you note in your report differences referenced between our office and the Departmental of Environmental Division (DEP) of Mining and Reclamation and the Office of Oil and Gas during your confirmation process were reconciled during the audit and found not to be differences after further review. The DEP had CFO and bond keeper position turnover that caused the new employee's lack of historical knowledge STO will continue to send quarterly confirmation reports to all agencies that we hold inventory for in safekeeping as we have performed for in past years. Any discrepancies are followed up on immediately.

Informational Item 2**Pending Securities****Item Noted:**

During our reconciliation of the STO Safekeeping system, we noted that the STO enters “pending” securities received by State agencies into the Safekeeping system, which makes them a part of the vault inventory. The “pending” security is a security that has recently been received by the STO and is kept in a separate folder inside of the vault awaiting review. Upon review of the “pending” security, the Safekeeping specialist explained that a “pending” security may be returned to the agency due to missing documentation or other problems that would not allow the “pending” security to stay a part of the vault inventory. However, we noted that neither the Safekeeping system nor the vault inventory specifies if a security is “pending”.

Effect:

Because of the “pending” securities being added to the Safekeeping inventory, it is possible that the balances of the Safekeeping Inventory would be misstated.

Recommendation:

We recommend that the STO identify pending securities on the Safekeeping system inventory.

Spending Unit's**Response:**

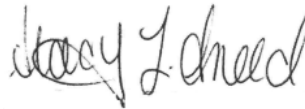
It is correct that our old safekeeping system in use during the audit period in question, took pending securities to an inventory status before secondary approval. Our new safekeeping system places any initial data entry into a pending status and after approval of the secondary reviewer then it is added to the inventory system. It is important to note, however, that even in our old system we did perform a secondary review process that allowed us to correct any data entry errors that were made.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Stacy L. Sneed, CPA, CICA, 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 W.Va. Code §4-2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 14th day of September 2010.



Stacy L. Sneed, CPA, CICA, Director

Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copy forwarded to the West Virginia State Treasurer's Office.