

WEST VIRGINIA MUNICIPAL BOND COMMISSION
FOR THE PERIOD
JULY 1, 1984 - JUNE 30, 1988

West Virginia



**LEGISLATIVE AUDITOR
CHARLESTON**

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the West Virginia Municipal Bond Commission.

Our examination covers the period July 1, 1984 through June 30, 1988. The results of this examination are set forth on the following pages of this report. However, only the financial statements for the years ended June 30, 1988 and June 30, 1987 are included in this report. The financial statements covering the period July 1, 1984 through June 30, 1986 are included in the audit workpapers.

Respectfully submitted,

Thedford L. Shanklin
Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

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WEST VIRGINIA MUNICIPAL BOND COMMISSION

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WEST VIRGINIA MUNICIPAL BOND COMMISSION

EXIT CONFERENCE

We held an exit conference on May 3, 1990 with the Executive Director of the West Virginia Municipal Bond Commission and all findings and recommendations were reviewed and discussed. The above-named official's responses are included in italics in the Summary of Findings, Recommendations and Responses and after our recommendations in the General Remarks section of this report.

WEST VIRGINIA MUNICIPAL BOND COMMISSION

INTRODUCTION

In 1921, the West Virginia Legislature created the State Sinking Fund Commission to act as the fiscal agent for the bond issues of the State and its' political subdivisions. The agency was charged with the responsibility of receiving the deposits of the various issuers, investing them for maximum return consistent with State Statute, disbursing funds to meet debt services to the appropriate paying agents, receiving and reconciling cancelled securities, maintaining and reporting the financial accounts of each depositor, and aiding the issuers of these financial instruments in the management of their resources. The agency would encourage the financial growth of the State by helping to maintain a receptive financial market for West Virginia bond issues through professional management services. In 1977, the name of the Commission was changed to the Municipal Bond Commission. The Commission is governed by Chapter 13, Article 3 of the West Virginia Code, as amended.

The Commission is composed of five members: State Tax Commissioner Michael E. Caryl, Chairman; State Treasurer A. James Manchin, Treasurer; State Auditor Glen B. Gainer, Jr.; member; James R. Brotherton, former member of the Jackson County Commission, member; and John Roach, former mayor of Oceana, Wyoming County, member. The Commission elects an Executive Director who is responsible for the day to day operations of the Commission. The Board meets periodically to oversee the operations of the Commission.

Under State Statute, the Commission is appointed as the fiscal agent for all general obligation (tax levy) bond issues of the county commissions, municipalities, and school districts of the State. It determines levy requirements for all such issues each year. The Commission is also appointed fiscal agent for revenue bond issues of municipal utilities. Additional accounts are

maintained for State agency revenue bonds including: Armory, Building Commission, Colleges, and Parks. The Commission also serves as fiscal agent for most, though not all, Public Service Districts. It does not handle State general obligation bonds (Road and Schools), State and local housing bonds, Turnpike Commission issues, nor industrial development bond issues. At the present, 564 bond issues and more than 1500 accounts are under supervision.

Customarily, the Legislature makes a blanket appropriation annually to cover possible deficiencies that could arise in State and general obligation sinking fund accounts. This Act, in part, reads:

"Sinking Fund Deficiencies- There is hereby appropriated to the Governor a sufficient amount to meet a deficiency that may arise....in the funds of the Municipal Bond Commission because of the failure of any state agency for either general obligation or revenue bonds or any local taxing district for general obligation bonds to remit funds necessary for the payment of interest and sinking fund requirement. The Governor is authorized to transfer from time to time such amounts to the Municipal Bond Commission as may be necessary for (this purpose)."

The Commission also maintains discretionary accounts, where State and local governments may deposit surplus funds for investment.

All funds on deposit with the Commission are invested to earn the highest possible yield, consistent with the investment restrictions of State Statute and bond ordinances. Escrowed investments are held for specific bond issues at the request of the issuer. All other funds are invested in the Restricted Consolidated Pool of Investment at the State Treasury.

The Commission's services are provided without cost to its depositors, as the agency is funded entirely from the State General Revenue Fund. The Commission is located in Building Three of the Capitol Complex, on the third floor, Suite 337.

WEST VIRGINIA MUNICIPAL BOND COMMISSION

COMMISSION MEMBERS AND STAFF

JUNE 30, 1988

Michael E. Caryl
State Tax Commissioner Chairman

A. James Manchin
State Treasurer Treasurer

Glen B. Gainer, Jr.
State Auditor Member

James R. Brotherton Member

John Roach Member

R. Witter Hallan Executive Director

Carol L. Kraft Reconciliation Administrator

James Greer Chief Accountant

Wauneda Burns Audit Clerk

WEST VIRGINIA MUNICIPAL BOND COMMISSION
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

COMPLIANCE MATTERS

Expenditures From Appropriated Funds

1. During fiscal years 1985 through 1987, the Municipal Bond Commission purchased supplements to the West Virginia Code and charged them to the Current Expense Account (1700-01) rather than the Equipment Account (1700-03). The amounts expended for the purchase of the Code supplements were in the following amounts in the respective fiscal years: 1985 - \$290.10, 1986 - \$315.93, and 1987 - \$505.28.

If the Code supplements had been charged to the Equipment Account, the account would have been overobligated in the following amounts in the respective fiscal years: 1985 - \$238.59, 1986 - \$147.52, and 1987 - \$476.78.

We recommend the Commission comply with Chapter 5, Article 1A, Section 4 of the West Virginia Code.

We are now in compliance with this audit recommendation. (See pages 8 and 9.)

Annual Inventory Not Filed

2. During our examination, we learned the Commission had not filed the required inventory with the West Virginia Department of Finance and Administration during any of the years encompassing the audit period. The failure to complete the inventory could result in inaccuracies in the official State inventory records.

We recommend the Commission comply with Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended.

We will comply with this audit recommendation. (See page 10.)

All Equipment Not Tagged

3. Our examination of equipment showed four chairs and a bookcase did not have identifying State equipment tags. Inventory tags are required to reduce the likelihood for State property to become lost or converted to personal use.

We recommend the Commission comply with Section 4, Subsection B of the West Virginia State Property Handbook.

We will comply with this audit recommendation. (See page 10.)

WEST VIRGINIA MUNICIPAL BOND COMMISSION

GENERAL REMARKS

INTRODUCTION

We have completed a financial and compliance audit of the West Virginia Municipal Bond Commission. The audit covered the period July 1, 1984 through June 30, 1988.

GENERAL REVENUE ACCOUNTS

Expenditures required for the general operations of the office of the West Virginia Municipal Bond Commission were made from the following appropriated accounts for fiscal years 1985 through 1987.

<u>Number</u>	<u>Description</u>
1700-00	Personal Services
1700-01	Current Expenses
1700-03	Equipment
1700-66	Annual Increment

All expenditures for fiscal year 1988 general operations were made from Unclassified Account (1700-15).

TRUST FUND ACCOUNTS

The West Virginia Municipal Bond Commission maintained the following trust fund accounts during the audit period.

<u>Number</u>	<u>Description</u>
7320-10	Operating Account - For the collection and payment of funds earmarked for bond indebtness.
7325-15	Special Investment Account - For the deposit and investment of surplus funds of State and local governments.

COMPLIANCE MATTERS

Chapter 13, Article 3 of the West Virginia Code, as amended, generally governs the West Virginia Municipal Bond Commission. We tested applicable sections of the above plus general State regulations and other chapters, articles and sections of the West Virginia Code as they pertain to fiscal matters. Our findings are discussed below.

Expenditures From Appropriated Accounts

Chapter 5, Article 1A, Section 4 of the West Virginia Code states in part,

"(a) With the exception of the spending units or purposes mentioned in section five [§5-1A-5] of this article, the proposed appropriations submitted by the governor for the spending units of the executive department shall be itemized and classified according to the provisions of this section. The budget bill shall itemize appropriations separately for: . . .

(2) "Current expenses," which shall mean operating costs other than personal services, and shall not include equipment, repairs and alterations, buildings or lands.

(3) "Equipment," which shall mean equipment items which have an appreciable and calculable period of usefulness in excess of one year . . ."

Our examination showed the Municipal Bond Commission purchased supplements to the West Virginia Code during fiscal years 1985 through 1987 and charged them to the current expense Line Item Code 051 - Miscellaneous, rather than equipment Line Item Code 077 - Books and Periodicals. The amounts expended for the purchase of the Code supplements were in the following amounts in the respective fiscal years: 1985 - \$290.10, 1986 - \$315.93 and 1987 - \$505.28.

According to the line item code descriptions prepared by the West Virginia Department of Finance and Administration, the following definitions apply to Line Item Code 051 - Miscellaneous and Line Item Code 077 - Books and Periodicals:

"051 - MISCELLANEOUS: Those supplies or services which are not classified under any other line item. Taxes, fees or purchase of licenses, packaged computer software, expenses incurred by judges and other legal officers in holding court such as court reporters, stenographic services, juror fees, witness fees, or any other expense for holding court or preparations for holding court . . .

077 - BOOKS AND PERIODICALS: All books plus periodicals when bound for permanent filing. Films, vcr tapes, and records . . ."

We believe supplements to the West Virginia Code are an intergal part of the 19 volumes of the West Virginia Code and should have been charged to the Equipment Account, Line Item 077.

Chapter 12, Article 3, Section 16 of the West Virginia Code, as amended states,

"Any such officer or person who, in violation of any of the provisions of the two preceding sections [§12-3-14, §12-3-15], shall expend any sum or amount of money, or incur any debt or obligation, or make or participate in the making of any such contract, or shall be a party to any such transaction in any official capacity, shall be personally liable therefor, both jointly and severally, and an action may be maintained therefor by the State, or any person prejudiced thereby, in any court of competent jurisdiction, and such official shall further be guilty of a misdemeanor, and, upon conviction thereof, be fined not less than ten nor more than five hundred dollars, and may be confined in jail not less than ten days nor more then one year, and, in addition to the penalties hereinbefore provided, shall forfeit his office. And there shall be no liability upon the State, or the funds thereof, on account of any such debt, obligation or contract."

We noted that if the Code supplements had been charged to the Equipment Account (1700-03), the account would have been overobligated in these amounts in the respective fiscal years: 1985 - \$238.59, 1986 - \$147.52, and 1987 - \$476.78.

We recommend the Commission comply with Chapter 5, Article 1A, Section 4 of the West Virginia Code.

Since the Legislative Auditors brought the Commission's attention to the fact that purchase of books, specifically the WV State Code, should be billed against Line Item Code 077 instead of 051, the Commission has, and will continue to comply with this recommendation.

Annual Inventory Not Filed

Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended, states:

"The head of every department of the state government shall, on or before July fifteenth of each year, file with the director an inventory of all real and personal property, and of all equipment, supplies and commodities in its possession as of the close of the last fiscal year."

During our examination, we learned the Commission had not filed the required inventory with the West Virginia Department of Finance and Administration during any of the years encompassing the audit period. The failure to complete the inventory could result in inaccuracies in the official State inventory records.

We recommend the Commission comply with Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended.

The Commission will comply with this recommendation.

All Equipment Not Tagged

During our examination of equipment, we noted four chairs and a bookcase each valued at more than \$100.00 which is the capitalization threshold, did not have identifying State equipment tags. Section 4, Subsection B of the West Virginia State Property Handbook promulgated by the West Virginia State Agency for Surplus Property states in part,

"All reportable personal property owned the State of West Virginia will be identified as such by the affixation of a property identification decal (tag) with an assigned Inventory Tag Number. . . ."

Inventory tags are required to reduce the likelihood for State property to become lost or converted to personal use.

We recommend the Commission comply with Section 4, Subsection B of the West Virginia State Property Handbook.

Subject bookcase was purchased for \$50 from Surplus Property and lacked a tag as it was still being refinished. It and the four chairs are now tagged. The Commission will tag all future equipment acquisitions.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of appropriations and expenditures of the West Virginia Municipal Bond Commission for the years ended June 30, 1988 and June 30, 1987. The financial statement is the responsibility of the management of the West Virginia Municipal Bond Commission. Our responsibility is to express an opinion on the financial statement based on our audit.

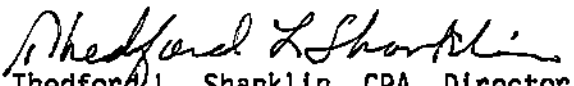
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting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

As described in Note A, the financial statement was prepared in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the appropriations and expenditures of the West Virginia Municipal Bond Commission for the years ended June 30, 1988 and June 30, 1987, on the basis of accounting described in Note A.

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

Respectfully submitted,


Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

December 2, 1988

Auditors: Michael E. Sizemore, CPA, Supervisor
Carolyn J. Epling
Leslie M. Smith

WEST VIRGINIA MUNICIPAL BOND COMMISSION
STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,	
	1988	1987
Appropriations	\$102,212.00	\$123,383.00
Expenditures:		
Personal Services	74,979.89	81,497.62
Current Expenses	11,685.82	22,326.18
Equipment	140.00	787.50
Annual Increment	900.00	1,080.00
	87,705.71	105,691.30
Appropriations Over Expenditures	14,506.29	17,691.70
Expirations and Expenditures After June 30	(14,506.29)	(17,691.70)
Beginning Balance	-0-	-0-
Ending Balance	\$ -0-	\$ -0-

See Notes to Financial Statement

WEST VIRGINIA MUNICIPAL BOND COMMISSION

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policies

Accounting Method: The modified cash basis of accounting is followed for the General Revenue Fund. The major modification from the cash basis is that a 31-day carry-over period is provided at the end of each fiscal year for the payment of obligations incurred in that year. All balances of the General Revenue Fund appropriations for each fiscal year expire on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except that expenditures encumbered prior to the end of the fiscal year may be paid up to 31 days after the fiscal year-end; however, appropriations for buildings and land remain in effect until three years of the passage of the act by which such appropriations were made.

Expenditures paid after June 30 in the carry-over period and expirations were as follows:

	<u>Expenditures</u>		<u>Expirations</u>	
	<u>Paid After June 30,</u>		<u>July 31</u>	<u>July 31</u>
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
Personal Services	\$ -0-	\$ -0-	\$ -0-	\$ 6,978.38
Current Expenses	-0-	7,059.89	-0-	3,917.71
Equipment	-0-	185.00	-0-	(449.28)
Annual Increment	-0-	-0-	-0-	-0-
Unclassified	<u>1,594.88</u>	<u>-0-</u>	<u>12,911.41</u>	<u>-0-</u>
	<u>\$1,594.88</u>	<u>\$7,244.89</u>	<u>\$12,911.41</u>	<u>\$10,446.81</u>

Note B - Pension Plan

All eligible employees are members of the West Virginia Public Employees' Retirement System. Employees' contributions are 4.5 percent of their compensation and employees have vested rights under certain circumstances. The West Virginia Public Employees' Retirement System (PERS) matches contributions at 9.5 percent of the compensation on which the employees made contributions. However, legislation suspended the matching contributions by PERS during fiscal years 1987 and 1988. A recent ruling by the West Virginia Supreme Court of Appeals has mandated these contributions plus interest be restored.

Note C - Trust Funds

The West Virginia Municipal Bond Commission is charged with the duty to act as fiscal agent for the bond issues of the State of West Virginia and its political subdivisions and may exercise all powers necessary or appropriate to effectuate this purpose as set forth in Chapter 13, Article 3, Section 6 of the West Virginia Code. All funds on deposit with the Commission are invested in the Restricted Consolidated Pool - Pool Number 140, maintained by the West Virginia Board of

Investments with the exception of escrowed investments which are held for specific bond issues at the request of the issuer in separately identified pool accounts. As of June 30, 1988, the West Virginia Municipal Bond Commission held the following amounts in a trust capacity:

Cash	\$ 9,179.38
Investments:	
Escrowed Investments	43,374,067.09
Pool Investments	<u>140,637,230.62</u>
Total Trust Funds	<u>\$184,011,297.71</u>

Subsequent to June 30, 1988, sizable losses on sales of investments were reported by the West Virginia State Board of Investments as having occurred during the period April 1, 1987 through June 30, 1987. The amount shown as Pool Investments above has not been adjusted to reflect any decline in the available balance of invested funds. The West Virginia State Board of Investments has not determined the required adjustment necessary to reflect any decline in the balance of the Pool Investments. Instead, the West Virginia State Board of Investments has established an amortization fund composed of zero coupon bonds which mature on February 15, 2005, to fund any deficit in the Restricted Consolidated Pool - Pool Number 140.

SUPPLEMENTAL INFORMATION

WEST VIRGINIA MUNICIPAL BOND COMMISSION
 STATEMENTS OF APPROPRIATIONS AND EXPENDITURES
 GENERAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
<u>Personal Services - Account 1700-00</u>		
Appropriations	\$ -0-	\$88,476.00
Expenditures	-0-	81,497.62
	-0-	6,978.38
Transmittals	-0-	-0-
Balance	<u>\$ -0-</u>	<u>\$ 6,978.38</u>
 <u>Current Expense - Account 1700-01</u>		
Appropriations	\$ -0-	\$32,827.00
Expenditures	-0-	28,909.29
	-0-	3,917.71
Transmittals Paid after June 30	-0-	7,059.89
Balance	<u>\$ -0-</u>	<u>\$10,977.60</u>
 <u>Equipment - Account 1700-03</u>		
Appropriations	\$ -0-	\$ 1,000.00
Expenditures	-0-	1,449.28
	-0-	(449.28)
Transmittals Paid After June 30	-0-	185.00
Balance	<u>\$ -0-</u>	<u>(\$ 264.28)</u>

WEST VIRGINIA MUNICIPAL BOND COMMISSION
 STATEMENTS OF APPROPRIATIONS AND EXPENDITURES
 GENERAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
<u>Unclassified - Account 1700-15</u>		
Appropriations	\$102,212.00	\$ -0-
Expenditures:		
Personal Services	75,879.89	-0-
Current Expenses	13,029.09	-0-
Equipment	391.61	-0-
	<u>89,300.59</u>	<u>-0-</u>
	12,911.41	-0-
Transmittals Paid After June 30	<u>1,594.88</u>	<u>-0-</u>
Balance	<u>\$ 14,506.29</u>	<u>\$ -0-</u>
 <u>Annual Increment - Account 1700-66</u>		
Appropriations	\$ -0-	\$1,080.00
Expenditures	<u>-0-</u>	<u>1,080.00</u>
	-0-	-0-
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

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

Given under my hand this 21st day of May,
1990.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

Copy forwarded to the Commissioner of the Department of Finance and Administration to be filed as a public record. Copies forwarded to the West Virginia Department of Tax and Revenue; the Executive Director of the Municipal Bond Commission; Citizen Members of Municipal Bond Commission; Governor; Attorney General; State Treasurer and, State Auditor.