

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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CHARLESTON, WEST VIRGINIA 25305-0610

MEMORANDUM

DATE: July 9, 2002

TO: Theodore L. Shanklin, Director

FROM: Ethelbert Scott, Jr. *ES*
Jean Ann Krebs *JAK*

SUBJECT: FOLLOW-UP REVIEW OF THE SPECIAL REPORT OF THE WEST VIRGINIA BOARD OF EDUCATION'S INTERNAL CONTROL STRUCTURE FOR THE REGIONAL EDUCATION SERVICE AGENCIES (RESA) FOR THE PERIOD JULY 1, 1998 THROUGH JUNE 30, 2001

In accordance with your instructions, we performed a follow-up review of the implementation of recommendations contained in our special report of the West Virginia Board of Education's Internal Control Structure for Regional Education Service Agencies (RESA) for the period July 1, 1998 through June 30, 2001. This report was presented to the Legislative Post Audit Committee on January 7, 2002. In conducting the review, we spoke with the following Department employees: Mr. William Luff, Deputy Superintendent of Schools, Mr. G. A. McClung, Assistant State Superintendent, Mr. Joe Panetta, Director of the Office of School Finance, and Mr. Mike McKown, the Director of Internal Operations. The review shows that the recommendations have been implemented, with the exception of recommendations that were affected by changes in the West Virginia Code. The actions taken by the Board concerning each finding are set out as follows.

FINDING #1 - IMPLEMENTATION OF PRIOR STUDY RECOMMENDATIONS

The Department of Education had not implemented two recommendations reported in a prior internal control study performed by our office of the awarding of grants to RESAs for the period July 1, 1993 through May 24, 1996.

We recommended in the prior study that the Department include language requiring audit procedures to be performed on State grant expenditures when contracting with the Chief Inspector's Office or independent CPA firms when performing their annual audits and that program offices responsible

for monitoring the expenditure of grant monies should not be responsible for administering grant programs. We also recommended program offices responsible for administering certain grant programs should not also be responsible for monitoring the expenditure of grant monies under these same programs.

We Recommended:

The Board strengthen internal controls over grants to RESAs and implement our prior study recommendations.

Board Action:

Before the release of our report, we received a copy of a letter which had been sent to the Chief Inspector requesting inclusion of language in audit contracts requiring test procedures to be performed on State grants. This request complied with the study recommendation and we included the letter in our report.

However, we were told by the Director of the Office of School Finance that on May 22, 2002 a workshop was held with the Chief Inspector's Office with various accounting firms in attendance. The auditing of State grants was discussed and the accounting firms, as well as the Chief Inspector's Office, expressed concerns about consistency of work required, specific audit tests, costs, bids, etc. The Director stated that because of the concerns noted above, the Department decided not to use the services of the Chief Inspector's Office and to independently have one accounting firm audit the State grants of the eight RESAs for the 2002 fiscal year. The Department plans to prepare a "Request for Proposal" (RFP) and to award a contract to a firm based on bids in accordance with Department of Administration's purchasing procedures. The Director stated that the services performed by the accounting firm may be an "agreed upon procedures" type report. As of July 8, 2002, this process is still in the planning stages; however, the Director of the Office of School Finance and the Director of Internal Operations, who met with us jointly, stated that they believe at least by calendar year-end the auditor selection process would be complete and the FY2002 audits would begin.

The prior study also noted the lack of segregation of duties in that the program directors award and administer grant funds as well as monitor the grant expenditures. The Director of Internal Operations stated that this practice is still on-going and it would take more personnel to implement segregation of such duties. As an off-setting strength, he stated when a grant is awarded, a budget for the grant is recorded into the accounting system. The system is designed so that expenditures cannot exceed budgeted amounts.

Post Audit Division Comments:

The Board should complete the selection process as soon as possible in order to assure that grant funds are expended in accordance with the grant agreements.

FINDING #2 - GOALS AND OBJECTIVES

Formal goals and objectives are not established for RESAs at their semi-annual meetings between RESA representatives, the State Board, and the State Superintendent of Schools as set out in Legislative Rule, Title 126, Series 72. Further, we believe the Board should monitor RESA performance and develop procedures to assess the degree to which RESAs obtain goals and objectives.

We Recommended:

The Board strengthen internal controls over RESAs, establish goals and objectives, and monitor RESA performance.

Board Action:

Effective July 1, 2002, enrolled H.B. 4319 revised Chapter 18, Article 2, Section 26 of the West Virginia Code and significant changes were made. The law provides that rules will be promulgated by November 1, 2002. The Deputy Superintendent stated that new rules are being developed and significant changes are being made; he anticipates the new rules will enable the Board to have greater control over the RESAs, provide more specific directives and provide more accountability for meeting those directives. The draft rules are due for public comment approximately August 9th.

Post Audit Division Comments:

We agree with the Board's actions.

FINDING #3 - FAILURE TO MAINTAIN OFFICIAL MINUTES

The Board did not maintain official minutes of meetings with RESA officials. During our study period we were told two RESA meetings had been conducted and the Board maintained "notes" of these meetings instead of official minutes.

We Recommended:

The Board of Education should maintain official minutes of meetings.

Board Action:

An Assistant State Superintendent stated that minutes are now maintained because RESA officials meet with Board members at the Board's regular meetings. The Legislative rule has been amended to delete the "at least semi-annually" stipulation for meetings and replaced with "when mutually agreed". Further, the entire Code section has been revised and new rules are currently being developed and due to be promulgated by November 1, 2002.

Post Audit Division Comments:

We agree with the Board's actions.

FINDING #4 - RESA SERVICE AND EVALUATION REPORTS

RESA and county schools are not, in all cases, submitting reports and evaluations of services provided by RESAs to the State Board of Education as required by Chapter 18, Article 2, Section 26(f) of the West Virginia Code as amended.

We Recommended:

The Board comply with Chapter 18, Article 2, Section 26(f) of the West Virginia Code and require RESAs and county schools to submit reports and evaluation of services provided.

Board Action:

The Board took no action on this recommendation.

Post Audit Division Comments:

This Code section has been amended and Section 26(f) no longer reads as such. Under the new revised Code, Section 26(g) states the RESAs shall submit reports as specified by rule. This rule is to be promulgated by November 1, 2002. Secondly, the new law states schools "may" (instead of originally "shall") submit evaluations of RESAs to the State Superintendent.

FINDING #5 - RULES NOT PROMULGATED

Chapter 18, Article 2, Section 26(c) of the West Virginia Code stated that rules were to be promulgated to address counties that did not participate in RESA programs or services; however, the Board did not promulgate such rules.

We Recommended:

The Board comply with Chapter 18, Article 2, Section 26(f) of the West Virginia Code as amended.

Board Action:

The Board took no action on this recommendation.

Post Audit Division Comments:

This Code section was amended and the Board is no longer required to promulgate rules requiring a county board that declines to participate in RESA programs or services to show just cause for not participating.