

File

**JOINT COMMITTEE ON
GOVERNMENT AND FINANCE**

Materials Distributed

December 17, 2002



Joint Standing Committee on Education
WEST VIRGINIA LEGISLATURE
State Capitol Building
Charleston, WV 25305

Senate Education Committee
Phone (304) 357-7805
Room M-427

House Education Committee
Phone (304) 340-3265
Room M-434

To: Joint Committee on Government and Finance

From: Delegate Mezzatesta

Date: December 17, 2002

Re: Request for Reimbursement of Travel Expenses for Steven Smith

Steven Smith, Manager, National Center for Education Finance, NCSL, has testified as an expert witness for the Legislature in the Tomblin v. Gainer hearings and has presented information on alternative approaches to public school support to the legislative interim Subcommittee on Standards Based Accountability.

It was the consensus of the Subcommittee on Standards Based Accountability at its December meeting to invite Mr. Smith to present further information on a basic foundation formula approach to public school support using West Virginia data at its January interim meeting.

I respectfully request authorization from the Joint Committee for the reimbursement of Steven Smith, NCSL, for reasonable and necessary expenses for attending the January interim meeting of Subcommittee on Standards Based Accountability to make the requested presentation.

Tuesday, November 19, 2002

3:00 - 4:00 p.m.

Joint Committee on Government and Finance

Senate

Tomblin, Chair
Chafin
Craig (absent)
Sharpe
Wooton (absent)
Deem
Sprouse

House

Kiss, Chair
Amores
Mezzatesta
Michael
Staton
Hall
Trump

President Tomblin, Cochair, presided.

1. Approval of Minutes.

Upon motion by Speaker Kiss, properly seconded and adopted, the minutes of the October 22, 2002, meeting were approved.

2. Legislative Oversight Commission on Health and Human Resources Accountability.

On behalf of the Commission, Susan Coghill, Counsel for the Commission, requested the Committee ask Governor Wise to convene a meeting or series of meetings with the state officials, our congressional delegation and leaders in the African American community to facilitate a discussion of problems faced by African Americans in West Virginia and issues raised by HCR 76 passed during the 2002 Regular Session.

Upon motion by Delegate Trump, properly seconded and adopted, Joint Committee will draft a letter to the Governor requesting the issues be addressed.

3. Joint Commission on Economic Development on Status of Workers' Compensation Study.

Senator McCabe and Delegate Cann reported the Commission is waiting for actuarial study

results from the Bureau and independent actuary employed by the Commission. They expect information to be available at the December interim meeting.

4. **Department of Health and Human Resources Monthly Reports.**

Distributed to members of the Committee were the following: Medicaid Report for month of September 2002; Welfare Reform Report, November 2002; and Colin Anderson Center Report, November 2002.

Mr. Paul Nusbaum, Secretary, Department of Health and Human Resources (DHHR), briefly commented on the reports.

5. **Lottery, Unemployment Compensation and Workers' Compensation Status Reports.**

Distributed to members of the Committee were the following: Lottery Operations report for month ended September 2002; Unemployment Compensation Trust Fund report for month ended September 2002; and Workers' Compensation Trust Fund report for month ended September 2002. Attached with each of these reports was an analysis prepared by legislative staff.

Upon motion by Senator Sprouse, properly seconded and adopted, Robert J. Smith, Commissioner, Bureau of Employment Programs, and others he feels is appropriate, will be asked to be present at each interim meeting of the Joint Committee on Government and Finance to explain his monthly reports and respond to questions from the Committee.

6. **General Revenue Report.**

Distributed to members was a report on the status of the state's general revenue as of October 31, 2002.

7. **BRIM Report.**

Mr. Tom Susman distributed the following information: West Virginia Board of Risk

Unaudited State of Net Assets, September 30, 2002, dated October 29, 2002; West Virginia Board of Risk Unaudited Statement of Revenues, Expenses and Changes in Fund Net Assets for the three months ending September 30, 2002, dated October 29, 2002; and WV Board of Risk and Insurance Management Medical Malpractice Program – House Bill 601 Doctors Only, Unaudited Balance Sheet and Unaudited Income Statement, September 30, 2002.

Mr. Susman briefly commented on the reports and responded to questions.

8. CHIP Report.

In response to questions from the October 2002 meeting, a letter with attachment dated October 29, 2002, from Mr. Tom Susman was distributed regarding WV CHIP compliance with actuarial requirements.

Mr. Tom Susman distributed to the Committee reports on State Children's Health Insurance Program Update, dated November 2002; Financial Statements for the three months ended September 30, 2002; and the CCRC Actuaries, LLC, West Virginia Children's Health Insurance Program, September 30, 2002, Quarterly Report, dated November 2002.

Mr. Susman briefly commented on the reports and responded to questions. Sharon Carte, Director, CHIP, responded to questions about the outreach program to find eligible recipients and federal dollars received for CHIP.

9. Public Employees Insurance Agency.

Mr. Tom Susman, Executive Director of the Public Employees Insurance Agency, distributed the following information: (1) PEIA Monthly Management Report, Per Capita Claims, September 2002; (2) PEIA Monthly Management Report, Total Claims, September 2002; (3) Balance Sheets September 30, 2002 and 2001; (4) WV PEIA - Monthly Trend; and (5) WV Public Employees

Insurance Group Performance Overview, July 2, 2002 - September 30, 2002.

Mr. Susman briefly commented on the reports and responded to questions.

10. **Division of Highways Audit**

An audit of the Division of Highways for the year ended June 30, 2002, was distributed. Discussion of the audit and consideration of Highways audit contract renewal was delayed until the next meeting.

11. **Interim Meeting Dates.**

The next meeting dates are December 15-17, 2002.

12. **Other Business**

Upon motion by Speaker Kiss, properly seconded and adopted, the Committee authorized the President and the Speaker to contract for a State Police staffing and organizational structure study but to first brief the Joint Committee on Government and Finance on its costs and terms prior to entering into a contract.

The meeting was adjourned.

John Homburg

Joint Committee on Government and Finance

December 2002

Department of Health and Human Resources

MEDICAID REPORT

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAID CASH REPORT
 SFY2002

	MONTH OF OCTOBER 2002	ACTUALS 07/01/2002 THRU 10/31/2002	PROJECTED 11/01/2002 THRU 06/30/2003	TOTAL SFY2003
REVENUE SOURCES				
BEG. BAL. 7/01/02		2,700,093		\$2,700,093
MATCHING FUNDS				
GENERAL REVENUE		55,509,140	140,384,055	195,893,195
LOTTERY - WAIVER		6,200,000	6,350,000	12,550,000
LOTTERY - TRANSFER		14,828,283	14,100,000	28,928,283
TRUST FUND APPROPRIATION		14,837,647	20,306,328	35,143,975
TRUST FUND BACKLOG		0	1,967,664	2,623,552
PROVIDER TAX		46,500,000	99,300,000	145,800,000
MCH TRANSFER		540,608	1,259,392	1,800,000
OTHER FUNDS		60,957	2,039,043	2,100,000
TOTAL MATCHING FUNDS		141,176,727	285,706,483	427,539,098
FEDERAL FUNDS		375,288,065	899,434,714	1,274,722,779
TOTAL REVENUE SOURCES		\$516,464,792	\$1,185,141,197	\$1,702,261,877
TOTAL EXPENDITURES:				
PROVIDER PAYMENTS		\$407,402,958	\$1,203,380,650	\$1,700,873,618
SUB - TOTAL				\$1,388,059
ACCOUNTS PAYABLE 09/30/02				(\$39,722,300)
BALANCE				(\$38,334,241)

DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MONTHLY FINANCIAL SUMMARY
 MONTH OF OCTOBER 2002
 FISCAL YEAR 2002-2003

CATEGORY OF EXPENDITURES	ACTUALS SFY 2002	ORIGINAL ESTIMATE SFY 2003	REVISED ESTIMATE SFY 2003	ESTIMATE OCTOBER 2002	ACTUAL OCTOBER 2002	ESTIMATE YEAR TO DATE OCTOBER 2002	ACTUAL YEAR TO DATE OCTOBER 2002	Incr/(Dec) Over ESTIMATE	PERCENT
INPATIENT HOSPITALS	\$144,757,167	\$193,391,976	\$193,391,976	12,403,328	12,924,968	52,154,912	55,975,100	3,820,189	7.32%
MENTAL HEALTH HOSPITALS	\$31,357,325	\$31,448,297	\$33,222,964	2,404,168	2,436,719	10,122,987	13,672,323	3,549,336	35.06%
OUTPATIENT HOSPITALS	\$79,491,173	\$85,148,755	\$83,974,283	6,521,499	6,517,833	27,534,876	19,069,780	-8,465,096	-30.74%
CLINICS	\$14,048,061	\$14,477,475	\$12,444,990	1,113,008	849,643	4,726,203	3,725,987	-1,000,216	-21.16%
PHYSICIANS	\$125,284,220	\$132,661,178	\$129,738,289	10,141,720	10,717,063	42,702,735	37,982,566	-4,720,169	-11.05%
LABS	\$6,020,507	\$6,148,438	\$6,298,891	470,906	511,358	1,998,244	2,033,032	44,788	2.25%
DRUGS	\$280,668,500	\$327,636,966	\$327,636,966	24,747,482	26,456,955	102,415,092	98,400,586	-4,014,506	-3.92%
OTHER PRACTITIONERS	\$15,092,555	\$16,168,614	\$15,952,198	1,242,189	1,464,346	5,269,280	4,977,332	-291,948	-5.54%
DENTIST	\$28,186,876	\$32,958,828	\$32,856,828	2,515,117	2,891,341	10,562,130	10,062,794	-499,336	-4.73%
NURSING HOMES	\$300,920,177	\$315,318,503	\$315,318,503	24,120,355	25,095,631	101,653,603	101,116,705	-536,898	-0.53%
GROUP HOMES	\$44,931,399	\$48,224,576	\$50,882,817	3,690,009	3,019,118	15,558,366	19,628,930	4,070,563	26.16%
OTHER CARE	\$119,050,158	\$111,585,605	\$111,919,339	8,541,875	5,912,450	36,043,713	47,711,182	6,667,469	18.50%
EMERGT	\$4,707,325	\$4,300,484	\$5,213,013	329,984	483,848	1,397,134	1,721,215	324,081	23.20%
MEDICARE BUY-IN	\$43,074,882	\$42,931,500	\$43,436,663	3,577,625	3,807,809	14,310,500	15,310,824	1,010,324	7.04%
FAMILY PLANNING	\$1,085,522	\$1,090,137	\$1,490,137	83,857	305,227	356,392	837,354	580,962	163.01%
HOME HEALTH	\$23,069,891	\$22,720,675	\$22,172,869	1,798,557	1,815,910	7,330,377	7,238,568	-91,809	-1.25%
RURAL HEALTH	\$26,207,064	\$26,241,472	\$25,529,103	2,013,553	2,501,338	8,525,283	8,251,789	-273,494	-3.20%
HOME & COMMUNITY - AGED/DISABLED	\$59,151,388	\$50,668,856	\$54,303,474	3,886,247	3,105,293	16,443,807	18,883,251	2,239,444	13.62%
HOME & COMMUNITY - MR/DD	\$119,824,111	\$141,514,196	\$142,728,458	10,792,099	11,194,453	45,278,125	40,171,982	-5,096,143	-11.27%
PERSONAL CARE	\$21,920,642	\$32,705,367	\$32,705,365	2,506,458	1,122,188	10,592,627	6,368,788	-4,203,841	-39.60%
HOSPICE	\$1,430,813	\$2,603,836	\$2,295,090	199,120	48,638	838,795	348,981	-489,814	-58.27%
TARGETED CASE MANAGEMENT	\$9,539,655	\$12,371,067	\$11,955,410	950,691	775,423	4,034,826	3,175,208	-859,618	-21.30%
MANAGED CARE	\$69,777,406	\$62,189,352	\$62,189,352	4,847,899	5,738,188	20,395,237	23,301,111	2,905,874	14.25%
SUB-TOTAL	\$1,554,030,448	\$1,714,506,153	\$1,717,759,878	\$128,837,747	\$133,688,306	\$540,234,945	\$541,068,398	1,151,454	0.21%
LESS: DRUG REBATES				(4,421,062)	(16,872,961)	(17,684,246)	(32,368,980)		
DSH PAYMENTS PRIVATE INSTITUTIONS				0	0	15,073,616	15,737,317	1,336,399	8.87%
DSH PAYMENTS STATE-INSTITUTIONS				0	0	5,617,852	6,126,817	308,965	5.31%
TOTAL	\$1,554,030,448	\$1,737,342,290	\$1,740,596,115	\$124,416,685	\$116,692,345	\$543,442,108	\$538,864,652	-\$14,547,314	-2.88%

NOTE: This report based on estimates of approved claims to be received during the year

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAL SERVICES TRUST FUND AND INTEREST REPORT
 FOR THE MONTH OF OCTOBER 2002
 SFY 2003

TRANSFER DATE	ACTIVITY	DESCRIPTION	DEPOSIT (WITHDRAWAL) PRINCIPAL	INTEREST & DSH DEPOSITS (WITHDRAWAL)	TRUST FUND BALANCE
07/01/02	DEPOSIT	BEG BAL	6,740,977 50		6,740,977 50
07/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		4,122,977 50
07/31/02	INTEREST	Rate AT 1 90 %		6,794 77	4,129,772 27
08/01/02	WITHDRAWAL	Facilities DSH Payment		478,670 00	4,608,442 27
08/01/02	WITHDRAWAL	Facilities DSH Match	(1,515,161.72)		3,093,280 55
08/01/02	DEPOSIT	Private DSH Backlog	(3,086,485 77)		6,794 78
08/01/02	DEPOSIT	Facilities DSH Payment		6,126,816 50	6,133,611.28
08/31/02	INTEREST	Rate AT 1 90 %		5,809 82	6,139,421 10
09/30/02	INTEREST	Rate AT 1 90 %		9,565 25	6,148,986 35
10/01/02	WITHDRAWAL	Match Drop	(2,618,000 00)		3,530,986 35
10/31/02	INTEREST	Rate AT 1 80 %		5,892 83	3,536,879 18
11/01/02	WITHDRAWAL	Facilities DSH Match	(1,358,248 82)		2,178,630 36
11/01/02	WITHDRAWAL	Private DSH Backlog	(282,872 68)		1,895,757 68
11/30/02	INTEREST	Rate AT 1.80 %		3,163 81	1,898,921 49
12/01/02	DEPOSIT	Facilities DSH Payment		5,454,415 00	7,353,336 49
12/01/02	WITHDRAWAL	Private DSH Backlog	(3,389,202 84)		3,964,133 65
12/01/02	DEPOSIT	PEIA Reserve Deposit	2,000,000 00		5,964,133 65
12/01/02	WITHDRAWAL	PEIA Reserve Fund		(2,000,000 00)	3,964,133 65
12/01/02	WITHDRAWAL	Backlog Reduction		(655,887 50)	3,308,246.15
12/31/02	INTEREST	Rate AT 1 80 %		5 521 10	3,313,767 25
01/31/03	INTEREST	Rate AT 1 80 %		5 530 31	3,319,297 56
02/01/03	WITHDRAWAL	Facilities DSH Match	(1,284,915 59)		2,034,381.97
02/01/03	DEPOSIT	Facilities DSH Payment		5,147,899 00	7,182,280 97
02/01/03	WITHDRAWAL	Private DSH Backlog	(3,144,020 76)		4,038,260 22
02/28/03	INTEREST	Rate AT 1 80 %		6,739 41	4,044,999 63
03/01/03	DEPOSIT	PEIA Reserve Deposit	2,000,000.00		6,044,999 63
03/01/03	WITHDRAWAL	PEIA Reserve Fund		(2,000,000 00)	4,044,999 63
03/01/03	WITHDRAWAL	Backlog Reduction		(655,887 50)	3,389,112 13
03/31/03	INTEREST	Rate AT 1 80 %		5,656 06	3,394,768.18
04/01/03	WITHDRAWAL	Match Drop	(236,000 00)		3,158,768 18
04/30/03	INTEREST	Rate AT 1 80 %		5,271 64	3,164,039 82
05/01/03	WITHDRAWAL	Facilities DSH Match	(1,284,915 59)		1,879,124 23
05/01/03	WITHDRAWAL	Facilities DSH Payment		5,147,899 00	7,027,023 23
05/01/03	WITHDRAWAL	Private DSH Backlog	(3,144,020 76)		3,883,002 48
05/31/03	INTEREST	Rate AT 1 80 %		6 480 30	3,889,482 78
06/01/03	WITHDRAWAL	Hospice		(342,975.00)	3,546,507 78
06/01/03	DEPOSIT	PEIA Reserve Deposit	2,000,000.00		5,546,507 78
06/01/03	WITHDRAWAL	Facilities DSH Match	(440,544.00)		5,105,963 78
06/01/03	WITHDRAWAL	Backlog Reduction		(1,311,775 00)	3,794,188 78
06/01/03	WITHDRAWAL	PEIA Reserve Fund		(2,000,000 00)	1,794,188 78
06/30/03	INTEREST	Rate AT 1 80 %		2,994 30	1,797,183 08
TOTALS			(11,661,411 02)	13,458,594 10	1,797,183 08

DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MOUNTAIN HEALTH TRUST
Based on SFY 2003 Rates

November 2002

HMO	PAYMENT	RECIPIENTS ENROLLED	AVERAGE COST PER RECIPIENT
THE HEALTH PLAN	\$3,019,672	31,295	\$96.49
CARELINK	\$1,499,861	15,354	\$97.69
TOTAL	\$4,519,533	46,649	\$96.88
ESTIMATED COMPOSITE ACTUARY RATE (THE 95% RATE IS \$100.89)			\$106.20
PERCENT ESTIMATED SAVINGS			8.77%

John Homburg

Joint Committee on Government and Finance

December 2002

Department of Health and Human Resources

WELFARE REFORM REPORT

**WV WORKS Caseload
2002**

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov
Barbour (01)	208	208	206	207	203	192	190	189	184	179	185
Berkeley (02)	415	422	441	453	445	420	402	416	432	445	443
Boone (03)	371	388	385	371	341	324	328	344	326	331	339
Braxton (04)	149	153	151	151	122	117	121	120	110	126	134
Brooke (05)	106	110	107	90	85	83	80	81	74	85	90
Cabell (06)	705	700	695	714	665	633	646	655	704	711	732
Calhoun (07)	110	107	111	104	91	92	81	77	83	93	94
Clay (08)	115	109	114	107	106	100	103	103	97	94	87
Doddridge (09)	66	66	61	67	57	60	56	57	62	58	65
Fayette (10)	531	502	498	507	484	461	472	475	452	446	491
Gillmer (11)	55	55	58	60	54	54	58	52	56	55	58
Grant (12)	44	40	37	36	36	37	44	44	47	50	51
Greenbrier (13)	167	169	169	161	141	135	129	133	126	127	123
Hampshire (14)	93	93	97	100	94	94	93	95	96	102	100
Hancock (15)	198	194	182	189	164	157	158	170	172	167	176
Hardy (16)	49	53	48	49	49	50	54	49	46	48	50
Harrison (17)	625	629	630	627	574	562	550	539	528	547	560

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov
Jackson (18)	143	139	142	145	124	115	131	132	147	145	136
Jefferson (19)	162	168	174	174	172	166	165	168	171	163	173
Kanawha (20)	1,279	1,278	1,292	1,248	1,168	1,130	1,164	1,224	1,248	1,266	1,304
Lewis (21)	179	185	190	195	178	178	168	174	167	159	161
Lincoln (22)	349	333	334	345	329	323	317	346	330	338	339
Logan (23)	404	378	388	391	376	364	376	408	387	386	386
Marion (24)	299	295	299	295	268	275	272	286	285	280	284
Marshall (25)	297	307	288	293	257	263	242	241	230	254	257
Mason (26)	266	261	251	248	252	245	242	256	265	272	271
Mercer (27)	894	905	926	908	880	830	860	896	906	892	901
Mineral (28)	100	100	100	93	91	90	90	99	94	95	93
Mingo (29)	574	553	541	525	523	500	509	509	496	506	526
Monongalia (30)	123	121	120	106	108	104	104	110	110	119	134
Monroe (31)	82	79	85	93	87	80	72	72	85	78	82
Morgan (32)	85	96	93	95	95	88	92	89	92	83	79
McDowell (33)	864	839	818	806	806	762	774	752	738	736	743
Nicholas (34)	156	156	156	158	153	138	153	156	153	156	155
Ohio (35)	308	286	283	282	272	258	262	274	276	271	271
Pendleton (36)	37	32	33	31	25	24	27	25	30	26	27

County	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov
Pleasants (37)	49	51	52	45	44	38	42	43	45	41	42
Pocahontas (38)	26	27	31	36	30	29	28	30	28	29	27
Preston (39)	125	125	132	125	125	105	108	110	115	123	123
Putnam (40)	169	185	178	170	140	131	139	127	139	138	138
Raleigh (41)	700	705	713	716	671	646	626	644	626	645	651
Randolph (42)	113	118	120	128	110	111	97	94	93	92	101
Ritchie (43)	65	62	65	64	56	54	54	52	58	61	64
Roane (44)	119	123	132	124	106	101	103	111	116	115	121
Summers (45)	165	158	174	174	171	176	162	172	160	145	153
Taylor (46)	98	97	94	87	73	74	80	75	77	83	78
Tucker (47)	28	26	24	26	23	20	23	21	21	20	18
Tyler (48)	38	36	35	32	33	31	35	41	42	41	46
Upshur (49)	316	314	309	302	267	255	269	260	256	256	260
Wayne (50)	584	552	554	551	523	507	504	510	498	496	477
Webster (51)	181	182	177	175	164	160	157	155	147	154	150
Wetzel (52)	113	112	109	112	100	85	78	88	94	97	100
Wirt (53)	43	45	46	45	42	45	52	51	44	51	45
Wood (54)	750	760	785	788	707	688	650	656	625	613	611
Wyoming (55)	404	391	406	388	390	382	406	403	409	403	407
Total	14,694	14,578	14,639	14,512	13,650	13,142	13,197	13,459	13,398	13,492	13,712

Characteristics of the Current WV WORKS Caseload

- ✓ **4,584 Child Only Cases—parents are not in the home and children are living with a relative, or parents are in the home, receive SSI and are excluded from the WV WORKS payment.**
- ✓ **609 cases currently receiving WV WORKS received TANF in another state before moving to West Virginia.**
- ✓ **141 cases in which the parents are excluded from the payment because they were convicted of a drug related felony after August 22, 1996.**
- ✓ **380 cases receive Medicaid but do not receive Food Stamps.**
- ✓ **1,004 cases receive Food Stamps but adults do not receive Medicaid.**
- ✓ **1,450 cases receive the Marriage Incentive. The incentive was increased to \$100 monthly effective July 1, 2000.**
- ✓ **1,525 adults receiving WV WORKS are employed.**

12/02

Supportive Services Payments: Types and Amounts
November 2002

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Clothing: Work or dress clothing when there is a verified offer of employment or short term training. <i>\$600 lifetime</i>	\$51,093	\$11,980	402	\$157	\$63,073
Collateral: Items include grooming expenses, test fees and other expenses related to employment. <i>\$150 lifetime</i>	\$4,456	\$418	82	\$59	\$4,874
Car Repair: For personally owned vehicles; includes tires, mufflers, or brakes necessary to pass state inspection, state inspection stickers, license plates, vehicle insurance, and driver's education classes. Funds cannot be used to purchase a vehicle. <i>\$1,500 lifetime</i>	\$115,978	\$25,117	291	\$485	\$141,095
Contract Training: A training contract may be written when training is not available on a no-cost basis and the training will be provided to an individual or a group of participants. There is an expectation that the individuals will be able to find employment when they successfully complete the training course. <i>\$5,000 year</i>	\$3,022	\$0	12	\$252	\$3,022
Commercial Driver's License: Payment to purchase license. <i>\$300 lifetime</i>	\$33	\$0	2	\$16	\$33
Driver/Chauffeurs License: Does not include payment for test required due to traffic violations or classes required for DUI convictions. <i>\$60 lifetime</i>	\$4	\$0	1	\$4	\$4
Employer Incentive: Agreements between employers and local DHR offices placing WV WORKS recipients in jobs. Employers are reimbursed ½ of the employee's wages for the first 200-600 work hours under these contracts.	\$687	\$286	3	\$324	\$973

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Professional License: When the cost of the license is not paid by the employer or is not included in the cost of a training course, and obtaining the license is part of the course completion. \$300 lifetime	\$1,223	\$425	11	\$150	\$1,648
Relocation: When there is a verified offer of employment, the family can be relocated to a different state, a different area of the state, or to the same area if the move reduces travel time to one hour or less. \$1,500 lifetime	\$8,702	\$5,286	10	\$1,399	\$13,988
Tools/Equipment: When needed for a verified offer of employment or for specialized training. \$1,000 lifetime	\$3,678	\$2,236	28	\$211	\$5,914
Transportation: Payments are made based on miles traveled to employment or a work activity when there is a cost involved. Public transportation is reimbursed at actual cost. (2-40 miles-\$5 day; 40+ -\$8) \$200 month limit	\$255,006	\$59,038	3,913	\$80	\$314,044
Vehicle Insurance: Payment for vehicle insurance premium. Does not include vehicle insurance premium for vehicles leased through WV WHEELS as vendor is responsible for payment as part of the lease. \$500 lifetime	\$32,458	\$10,458	156	\$275	\$42,916
DUI offenses: Costs related to reinstatement of driver's license which have been revoked due to substance abuse. Includes DUI classes, license reinstatement fees, new license, ignition interlock system. Does not include fines, treatment programs or tests for drug and alcohol use. \$500 lifetime	\$680	\$0	2	\$340	\$680
Total	\$477,020	\$115,244	4,913	\$121	\$592,264

Length of Time on Assistance

Number of Months	Number of Cases
12 months or less	3,410
13-24	2,512
25-36	1,609
37-48	895
49-60	531
Total	8,957

Does not include child only cases.

12/2/02

WORKS Closures Due to Expiration of 60 Months

Month	Number of Closures
12/01	108
1/02	40
2/02	23
3/02	29
4/02	21
5/02	25
6/02	44
7/02	29
8/02	18
9/02	21
10/02	28
11/02	22
Total	408

12/4/02

John Homburg

Joint Committee on Government and Finance

December 2002

Department of Health and Human Resources

COLIN ANDERSON CENTER REPORT

Colin Anderson Center Report

December 2002

**West Virginia Department of Health
and Human Resources**

Paul L. Nusbaum, Secretary

Colin Anderson Center Summary Report – December 2002

The Colin Anderson Center (Center) was successfully closed on April 3, 1998. The Department of Health and Human Resources (Department) has completed all required monitoring for persons who left the Center.

Seventy-eight people were discharged from the Center into community settings in West Virginia, and one person was discharged from Ruby Memorial Hospital to Lakin Hospital. The individual who was discharged to Lakin Hospital expired four months after admission.

Two people were discharged to out-of-state placements at the request of their legal representatives. One of those individuals returned to West Virginia and resides at Pinecrest Hospital at the request of their legal representative.

Twelve people have died (all due to natural causes) since being discharged from the Center.

Therefore, sixty-six people continue to receive services and supports in West Virginia communities. Twenty people receive residential services in an ICF/MR facility. The ICF/MR facilities are between six and eight bed homes. Forty-six people receive residential services through the Home and Community-Based MR/DD Waiver Program. Home and Community-Based residential services are between one and four bed homes.

All those discharged from the Center receive day habilitation services from day programs, community-based day programs, volunteering, senior centers, supported employment and competitive employment.

Sixty-six people have had compliance clocks successfully completed. The compliance clock is the list of services identified prior to discharge by Center staff and community staff as needed services for the individual. Each compliance clock service is required to complete eighteen consecutive months of service. Zero compliance clocks remain active. The Department continues to monitor, on an individual basis, those who were discharged from the Colin Anderson Center.

**Colin Anderson Center
 Summary Report - December 2002
 Division of Developmental Disabilities
 Bureau for Behavioral Health and Health Facilities**

Date of Closure: April 3, 1998

Status	Total
Number Discharged in Community Settings	78
Number Discharged in Medical Settings	1
Total Number of Individuals Discharged	79

Total Number of Individuals Deceased Since Discharge (all due to natural causes)	12
---	-----------

Number in ICF/MR Group Homes (6-8 Beds)	20
Number in MR/DD Waiver Residences (1-4 beds)	46
Total Currently in Community Settings	66

Number of Individuals with Compliance Clocks* Closed	66
Number of Individuals with Compliance Clocks* Open	0
Total Number of Individuals with Compliance Clocks*	66

*A compliance clock is a list of services an individual's treatment team identified prior to discharge as needed services for the individual. In order for a compliance clock to be closed, all of the identified services must be provided for a period of eighteen consecutive months. Zero compliance clocks remain active.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

MEMORANDUM

To: Joint Committee on Government and Finance
Honorable Senator Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House

From: Ellen Clark, CPA *EC*
Director Budget Division
Legislative Auditor's Office

Date: December 15, 2002

Re: Review of West Virginia Lottery Financial Information
As of October 2002 (FY 2003)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the period ended October 31, 2002 from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. The results are as follows:

Lottery Revenues:

Gross lottery revenues are receipts from on-line games, instant games and video lottery. These gross receipts were 26.33 % ABOVE the preceding July through October of fiscal year 2001-2002. This number does not include commission and prize deductions. Gross profit for July - October 2002 was \$124,962,000.00; for the previous fiscal year, July - October 2001 it was \$98,540,000.00. Expressed as a percentage, gross profit is **26.81% higher** in 2002-2003 than in fiscal year 2001-2002.

Joint Committee on Government and Finance

Net Income:

Net income for months of July - October 2002 was \$121,408,000.00; the previous fiscal year it was \$94,959,000.00 This is an increase of 27.85%.

Operating Transfers to the State of West Virginia:

A total of \$ 121,408,000.00 has been accrued to the state of West Virginia for fiscal year 2002-2003. This is on an accrual basis and may not correspond to the actual cash transfers made during the same time period. (Amounts owed to the different accounts according to the Lottery Act are calculated monthly and accrued to the state; actual cash transfers are often made based upon actual cash flow needs of the day-to-day operation of the lottery.)

A schedule of cash transfers follows:

Bureau of Senior Services	\$ 42,230,000.00
Department of Education	\$ 27,826,000.00
Educational Broadcasting Authority	\$ 2,148,000.00
Library Commission	\$ 7,265,000.00
Higher Education-Central Office	\$ 31,290,000.00
Tourism	\$ 9,434,000.00
Department of Natural Resources	\$ 2,683,000.00
Division of Culture and History	\$ 4,470,000.00
Department of Education and Arts	\$ 3,130,000.00
State Building Commission	\$ 4,000,000.00
School Building Authority	\$ 7,200,000.00
SUBTOTAL BUDGETARY TRANSFERS	\$141,676,000.00

Excess Lottery Fund

General Revenue Fund	2,165,000.00
Economic Development Fund	5,700,000.00
Education Improvement Fund	10,000,000.00
WV Infrastructure Council Fund	
Higher Education Improvement Fund	
State Park Improvement Fund	
School Building Authority	
TOTAL EXCESS LOTTERY FUND	17,865,000.00

Veterans Instant Ticket Fund**282,000.00**

RACETRACK VIDEO LOTTERY TRANSFERS:	
Tourism Promotion Fund	\$7,054,000.00
Veterans Memorial Archives	\$100,000.00
John F. "Jack" Bennett Fund	\$20,000.00
Department of Administration	\$2,232,000.00
SUBTOTAL VIDEO LOTTERY TRANSFERS:	\$9,406,000.00
TOTAL TRANSFERS	*\$169,229,000.00

* CASH BASIS

Actual accrual based accounting FY 2003: \$121,100,000.00

Total Cash Distributions FY 2003:	169,229,000.00
Total Applicable to last FY 2002:	80,774,000.00
Total Applicable to FY 2003:	88,455,000.00



P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
FAX: 304-558-3321

Bob Wise
Governor

John C. Musgrave
Director

MEMORANDUM



TO: Joint Committee on Government and Finance

FROM: John C. Musgrave, Director *JCM*

RE: Monthly Report on Lottery Operations
Month Ending October 31, 2002

DATE: November 20, 2002

This report of the Lottery operations is provided pursuant to the State Lottery Act.

Financial statements of the Lottery for the month ending October 31, 2002 are attached. Lottery revenue, which includes on-line, instant and video lottery sales, was \$84,929,165 for the month of October.

Transfers of lottery revenue totaling \$28,066,113 were made for the month of October to the designated state agencies per Senate Bill 100, Veterans' Fund and the Racetrack Video Lottery Act (§29-22A-10). The amount transferred to each agency is shown in Note 7 on page 13 of the attached financial statements.

The number of active lottery retailers as of October 31, 2002, was 1,639.

A listing of the names and amounts of prize winners has been provided to the Clerk of the Senate, the Clerk of the House and Legislative Services.

If any member of the Committee has questions concerning the Lottery, please call me. Also if any members of the Legislature wish to visit the Lottery offices, I would be pleased to show them our facilities and discuss the Lottery with them.

JCM/jt
Attachment

pc: Honorable Bob Wise
Brian Kastick, Cabinet Secretary - Tax & Revenue
John Perdue, Treasurer
Glen B. Gainer III, Auditor
Members of the West Virginia Lottery Commission



WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

FINANCIAL STATEMENTS

OCTOBER 31, 2002



WEST VIRGINIA LOTTERY

TABLE OF CONTENTS

	Page
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS.....	3
STATEMENTS OF CASH FLOWS	4
BALANCE SHEETS	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 16

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE FOUR MONTH PERIOD ENDED OCTOBER 31, 2002
(Expressed in Thousands)

	CURRENT MONTH		YEAR TO DATE	
	2002	2001	2002	2001
Lottery revenues				
On-line games	\$ 6,562	\$ 6,715	\$ 26,065	\$ 56,619
Instant games	8,473	7,284	33,611	27,645
Racetrack video lottery	56,320	46,317	239,041	191,207
Limited video lottery	13,574	-	49,298	-
	<u>84,929</u>	<u>60,316</u>	<u>348,015</u>	<u>275,471</u>
Less commissions				
On-line games	459	420	1,825	3,540
Instant games	593	456	2,353	1,729
Racetrack video lottery	35,684	29,347	151,457	121,149
Limited video lottery	8,248	-	28,553	-
	<u>44,984</u>	<u>30,223</u>	<u>184,188</u>	<u>126,418</u>
Less on-line prizes	3,256	3,407	13,065	27,724
Less instant prizes	5,687	4,973	22,710	18,946
Less ticket costs	182	150	715	577
Less vendor fees and costs	598	521	2,375	3,266
	<u>30,222</u>	<u>21,042</u>	<u>124,962</u>	<u>98,540</u>
Gross profit				
Operating expenses				
Advertising and promotions	603	477	2,318	2,749
Wages and related benefits	389	237	1,491	948
Telecommunications	219	132	969	789
Contractual and professional	114	67	448	506
Rental	48	45	191	183
Depreciation and amortization	421	54	613	198
Other general expenses	102	66	372	211
	<u>1,896</u>	<u>1,078</u>	<u>6,402</u>	<u>5,584</u>
Other Operating Income	154	169	2,540	1,442
Operating Income	<u>28,480</u>	<u>20,133</u>	<u>121,100</u>	<u>94,398</u>
Nonoperating income(expense)				
Investment income	68	174	443	869
Interest expense	(33)	(128)	(135)	(308)
	<u>35</u>	<u>46</u>	<u>308</u>	<u>561</u>
Income before nonoperating distributions	28,515	20,179	121,408	94,959
Nonoperating distributions to the State of West Virginia	<u>(28,515)</u>	<u>(20,179)</u>	<u>(121,408)</u>	<u>(94,959)</u>
Net income	-	-	-	-
Net assets, beginning of year	250	250	250	250
Net assets, end of year	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FOUR MONTH PERIOD ENDED OCTOBER 31, 2002
(Expressed in Thousands)

	2002	2001
Cash received from customers	\$ 371,638	\$ 280,729
Cash paid to employees	(1,499)	(951)
Cash paid to suppliers	(8,975)	(17,832)
Other operating cash payments	<u>(227,226)</u>	<u>(172,709)</u>
Net cash provided by (used for) operating activities	<u>133,938</u>	<u>89,237</u>
Cash flows from noncapital financing activities		
Transfers to the State of West Virginia	(169,229)	(158,583)
Deferred jackpot prize obligations and related interest paid	<u>(437)</u>	<u>(516)</u>
Cash used in noncapital financing activities	<u>(169,666)</u>	<u>(159,099)</u>
Cash flows from capital and related financing activities		
Purchase of fixed assets	<u>(423)</u>	<u>(286)</u>
Cash flows from investing activities		
Maturities of investments held in trust	437	437
Investment earnings received	<u>415</u>	<u>703</u>
Cash provided by investing activities	<u>852</u>	<u>1,140</u>
Increase (Decrease) in cash and cash equivalents	(35,299)	(69,008)
Cash and Cash Equivalents - beginning of period	<u>72,199</u>	<u>101,966</u>
Cash and Cash Equivalents - end of period	<u>\$ 36,900</u>	<u>\$ 32,958</u>

The accompanying notes are an integral
part of these financial statements.

WEST VIRGINIA LOTTERY
BALANCE SHEETS
(Expressed in Thousands)

ASSETS	October 31, 2002	June 30, 2002
Current assets		
Cash and cash equivalents	\$ 36,900	\$ 72,199
Accounts receivable	12,280	33,363
Ticket Inventory	494	782
Other assets	1,041	972
Total current assets	<u>50,715</u>	<u>107,316</u>
Leasehold improvements and equipment	10,577	10,162
Less accumulated depreciation and amortization	<u>(4,580)</u>	<u>(3,967)</u>
	5,997	6,195
Investments held in trust	<u>5,323</u>	<u>5,582</u>
Total assets	<u>\$ 62,035</u>	<u>\$ 119,093</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued nonoperating distributions to the State of West Virginia	\$ 30,965	\$ 85,061
Estimated prize claims	12,894	11,983
Accounts payable	2,401	3,181
Other accrued liabilities	10,782	13,573
Total current liabilities	<u>57,042</u>	<u>113,798</u>
Deferred jackpot prize obligations	<u>4,743</u>	<u>5,045</u>
	61,785	118,843
Net assets		
Invested in capital assets	5,997	6,195
Unrestricted (deficit)	<u>(5,747)</u>	<u>(5,945)</u>
Total fund equity	<u>250</u>	<u>250</u>
 Total liabilities and fund equity	 <u>\$ 62,035</u>	 <u>\$ 119,093</u>

The accompanying notes are an integral
part of these financial statements.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. LEGISLATIVE ENACTMENT

The West Virginia Lottery (Lottery) was established by the State Lottery Act (Act) passed April 13, 1985, which created a special fund in the State Treasury designated as the "State Lottery Fund," a component unit of the State of West Virginia. The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (Commission) and a director. The Commission, consisting of seven members, and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games and to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45 percent of the gross amount received from each lottery shall be allocated for prizes and provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be transferred to the State of West Virginia. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are discretely presented in the comprehensive annual financial report of the State.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below. These policies were applied on a basis consistent with that of the preceding year.

BASIS OF PRESENTATION – The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary type enterprise fund. In accordance with generally accepted accounting principles, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 unless the GASB specifically adopts such FASB statements or interpretations.

USE OF ESTIMATES – The preparation of the financial statements requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

LOTTERY GAME OPERATIONS – The West Virginia Lottery derives its revenues from three basic types of lottery games: instant, on-line, and video type games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. Retailers and bonded agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL, a multi-state "jackpot" game, HOT LOTTO, a multi-state "lotto" game, Cash25 "lotto" game, Daily 3 and 4 "numbers" games, and Travel, a daily "keno" game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of seven percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent's on-line terminal may be rendered inactive if payment is not received each week. No one retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The keyboard operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The coin operated games allow a player to use coins or tokens to place bets for the chance to receive coin or token awards which may be redeemed for cash or used for replay in the coin operated games. The video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as video lottery revenue "gross terminal income" equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to the private and local government entities are reported as commissions.

Racetrack video lottery legislation has established specific requirements for video lottery and imposed certain restrictions limiting the licensing for operation of video lottery games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Limited video lottery is also a self-activated video version of lottery games, which were first placed in operation in December 2001. The games allow a player to use currency to place bets for the chance to receive free games or vouchers which may be redeemed for cash. The limited video lottery games' prize structures are designed to award prizes, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as limited video lottery revenue "gross terminal income" equivalent to all wages, net of related prizes. Amounts required by statute to be paid to

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

private entities are reported as commissions. Limited video lottery permit holders are statutorily responsible for acquiring equipment and bearing the risk associated with the costs of operating the games.

The Lottery has contracted with private vendors to manufacture, distribute, and provide data processing support for instant and on-line games. Under the terms of the agreements, the Lottery pays a percentage of gross revenues or gross profits for the processing and manufacture of the games.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consist of interest-earning deposits with the West Virginia Investment Management Board (IMB) and are recorded at fair value.

INVENTORY – Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost.

OTHER ASSETS – Other assets consist primarily of deposits restricted for payment of certain Multi-State Lottery Association activities, and promotional items for which re-sale is not intended.

LEASEHOLD IMPROVEMENTS AND EQUIPMENT – The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. A portion of these facilities are subleased to the Lottery's game vendors. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the four months ended October 31, 2002 and October 31, 2001 approximated \$191,146 and \$182,620, respectively. Sublease rental income for the four months ended October 31, 2002 and October 31, 2001 approximated \$34,576 and \$34,576, respectively.

Leasehold improvements and purchased equipment, comprised principally of office furnishings and equipment necessary to administer lottery games, are carried at cost. Depreciation is computed by the straight-line method using three to ten year lives.

COMPENSATED ABSENCES – The Lottery has accrued \$501,000 and \$404,000 for fiscal years 2002 and 2001, respectively, for estimated obligations that may arise in connection with compensated absences for vacation and sick leave at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits.

NET ASSETS – As a result of the adoption of GASB Statement No. 34, net assets consist of previously reported retained earnings and the current change in fund net assets. Net assets are presented as unrestricted and invested in capital assets which represents the net book value of all property and equipment of the Lottery.

OPERATING REVENUES AND EXPENSES – Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3. CASH AND CASH EQUIVALENTS

A summary of the amount on deposit with the West Virginia Investment Management Board (IMB) follows (in thousands):

	<u>October 31, 2002</u>	<u>June 30, 2002</u>
Amount on deposit with the IMB	<u>\$36,900</u>	<u>\$72,199</u>

The deposits with the IMB are part of the State of West Virginia's consolidated investment cash liquidity pool and are not separately identifiable as to specific types of securities. Investment income is pro-rated to the Lottery at rates specified by the IMB based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

NOTE 4. PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL jackpot lotto game and HOT LOTTO game, on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL, and HOT LOTTO is 50% of each drawing period's sales, with minimum jackpot levels.

Revenues derived from the Lottery's participation in the MUSL POWERBALL jackpot game for the month and year-to-date periods ended October 31, 2002 were \$3,561,421 and \$14,219,131 while related prize costs for the same periods were \$1,766,337 and \$7,118,343.

Revenues derived from the Lottery's participation in the HOT LOTTO game for the month and year-to-date periods ended October 31, 2002 were \$236,259 and \$1,031,538 while related prize costs for the same periods were \$118,620 and \$515,532.

MUSL places 2% of each POWERBALL drawing period's sales in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. Currently, the MUSL Board of Directors has placed a \$52,000,000 limit on the POWERBALL prize reserve fund. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. At October 31, 2002 the POWERBALL prize reserve funds had a balance of \$78,000,000 of which the Lottery's share was

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. PARTICIPATION IN THE MULTI-STATE LOTTERY(continued)

\$2,979,140. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

NOTE 5. RACETRACK VIDEO LOTTERY

The Racetrack Video Lottery legislation stipulates that sixty-six percent (66%) of racetrack video lottery revenues, net of prizes (gross terminal income) and lottery administrative costs (such costs limited to 4% of revenues), shall be allocated, in lieu of commissions, to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county governments (2%). The remaining income (34% of gross terminal revenues less administrative costs) from racetrack video lottery shall be made available for transfers to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 7 titled "Nonoperating Distributions to the State of West Virginia."

The Racetrack Video Lottery Act was amended in 1999 and requires for fiscal years beginning July 1, 1999 the local county government share (2%) be split 50-50 with incorporated municipalities for certain tracks after the effected tracks have met their fiscal year 1999 net terminal revenue benchmark.

The Racetrack Video Lottery Act was further also amended in 2001 and requires for fiscal years beginning on or after July 1, 2001 that each tracks share be reduced to 42% and the regular purse fund to 8% after each tracks net terminal revenue has reached the fiscal year 2001 net terminal revenue benchmark. In addition, after the fiscal year 2001 benchmark is met, the 4% for administrative costs is to be transferred to the excess lottery revenue fund; a 10% surcharge is deducted (58% will be transferred to the state excess lottery revenue fund and 42% will be held by the Lottery in a separate capital reinvestment fund) from gross terminal revenue. Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. A summary of racetrack video lottery revenues for the month ended October 31, 2002 and year-to-date follows (in thousands):

	<u>Current</u> <u>2002</u>	<u>Month</u> <u>2001</u>	<u>Year- to -Date</u> <u>2002</u>	<u>2001</u>
Total credits played	\$650,935	\$538,335	\$2,749,119	\$2,225,367
Credits (prizes) won	(594,615)	(492,018)	(2,510,078)	(2,034,160)
Gross terminal income	\$56,320	\$46,317	\$239,041	\$191,207
Administrative costs	(2,253)	(1,853)	(9,561)	(7,648)
Net Terminal Income	\$54,067	\$44,464	\$229,480	\$183,559
Less distribution to agents	(35,684)	(29,347)	(151,457)	(121,149)
Racetrack video lottery revenues	<u>\$18,383</u>	<u>\$15,117</u>	<u>\$78,023</u>	<u>\$62,410</u>

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 5. RACETRACK VIDEO LOTTERY (continued)

A summary of video lottery revenues accrued or deferred for certain state funds to conform with the legislation follows (in thousands):

	<u>October 31, 2002</u>	<u>Year-to Date</u>
Lottery Fund	\$ 16,220	\$68,844
Excess Lottery Fund	-	-
Capital Reinvestment Fund	-	-
Tourism Promotion Fund	1,622	6,884
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	541	2,175
Total transfers	\$18,383	\$78,023

NOTE 6. LIMITED VIDEO LOTTERY

Limited video lottery legislation passed in House Bill 102 has established specific requirements for limited video lottery and imposed certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 video lottery terminals placed in limited licensed retailer areas restricted for adult amusement. These licensed retailers must hold a qualifying permit for the sale on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from the limited video lottery games, and requires any licensed retailers to comply with all related rules and regulations of the Lottery in order to continue its retailer status.

The Limited Video Lottery legislation stipulates that two percent (2%) of gross terminal income be deposited into the state lottery fund for administrative costs. Then, thirty percent (30%) of gross profits are to be transferred to the excess lottery fund. Beginning July 1, 2002, the percentage is determined by the amount of aggregate average daily gross terminal income for the three month period ending May 31, 2002, and every August, November, February and May thereafter. Such percentage will be between 30 and 50 percent and will be subject to change on a quarterly basis thereafter. Two percent will be distributed to counties and municipalities in the manner prescribed for in the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act, these amounts are recorded as limited video lottery commissions in the financial statements. A summary of limited video lottery revenues for the month ended October 31, 2002 and year-to-date follows (in thousands):

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 6. LIMITED VIDEO LOTTERY (continued)

	<u>Current Month</u>	<u>Year-to-Date</u>
Total credits played	\$161,068	\$584,195
Credits (prizes) won	(147,494)	(534,897)
Gross terminal income	13,574	49,298
Administrative costs	(271)	(986)
Gross Profit	13,303	48,312
Commissions	(8,247)	(28,553)
Limited video lottery revenues	<u>\$ 5,056</u>	<u>\$ 19,759</u>

NOTE 7. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

As required under its enabling legislation, retained earnings of the Lottery may not exceed \$250,000. Therefore, the Lottery periodically transfers surplus funds, exclusive of amounts derived from racetrack video lottery, to the State of West Virginia in accordance with the legislation. For the year ending June 30, 2003 the State Legislature budgeted \$182,070,349 of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. The enabling legislation specifies that required payments to the West Virginia State Building Commission and School Building Authority for debt service have priority for payment in instances when estimated profits are not sufficient to provide for payment of all budgeted distributions. During the month ended October 31, 2002 the Lottery made such distributions and accrued additional distributions of \$26,351,870. The Lottery does not have a legally adopted annual budget.

Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 7. As of October 31, 2002 the Lottery accrued additional distributions relating to racetrack video lottery operations of \$276,626.

The Racetrack Video Lottery Act stipulates that video lottery revenue will be distributed as follows: Lottery Fund distributions as specified in the State budget (30%); Tourism Promotion Fund (3%); and the Veterans Memorial Fund, the Veterans Memorial Archives, the John F. "Jack" Bennett Fund, or the Department of Administration (1%). A summary of the cash distributions made to certain state agencies to conform with the legislation follows (in thousands):

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)**

<u>BUDGETARY DISTRIBUTIONS</u>	<u>October 31, 2002</u>	<u>Year-to-Date</u>
<u>Lottery Fund:</u>		
Bureau of Senior Services	\$ 5,557	\$ 42,230
Department of Education	3,661	27,826
Educational Broadcasting Authority	283	2,148
Library Commission	956	7,265
Higher Education-Central Office	4,117	31,290
Tourism	1,241	9,434
Natural Resources	353	2,683
Division of Culture & History	588	4,470
Department of Education & Arts	412	3,130
Building Commission	1,000	4,000
School Building Authority	1,800	7,200
Total Lottery Fund	\$19,968	\$141,676
 <u>Excess Lottery Fund:</u>		
Economic Development Fund	\$ 1,900	\$ 5,700
Education Improvement Fund	1,459	10,000
General Purpose Fund	2,165	2,165
Higher Education Improvement Fund	-	-
State Park Improvement Fund	-	-
School Building Authority	-	-
Total Excess Lottery Fund	\$ 5,524	\$ 17,865
Total Budgetary distributions:	\$25,492	\$159,541
Veterans Instant Ticket Fund	\$47	\$282
<u>Racetrack Video Lottery distributions:</u>		
Tourism Promotion Fund	1,895	7,054
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	632	2,232
Total	2,527	9,406
Total nonoperating distributions to the State of West Virginia (cash basis)	28,066	169,229
Accrued nonoperating distributions, beginning	(32,504)	(80,774)
Accrued nonoperating distributions, end	32,953	32,953
Total nonoperating distributions to the State of West Virginia	\$28,515	\$121,408

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 8. DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST

Prior to becoming a member of the Multi-State Lottery in 1988, the prize structure of certain games operated solely by the Lottery included jackpot prizes. The Lottery, at its discretion, could choose to award such prizes in the form of either a lump sum payment or in equal installments over a period of 10 or 20 years, through October 31, 2002, the Lottery has awarded twenty-one deferred jackpot prizes totaling approximately \$28,868,786. Deferred prize awards were recognized as prize liabilities equivalent to the present value of future prize payments discounted at interest rates for government securities in effect on the date prizes were won. The imputed interest portion of the deferred prize awards is calculated using the effective interest method at rates ranging from 7.11% to 9.13%. A summary of the present value of the remaining obligations for deferred jackpot prize awards follows (in thousands):

	<u>October 31, 2002</u>	<u>June 30, 2002</u>
Present value of deferred prize award obligations:		
Discounted obligations outstanding	\$4,550	\$5,784
Imputed interest accrued	<u>193</u>	<u>236</u>
Total Deferred Jackpot Prize Award Obligations	<u>\$4,743</u>	<u>\$6,020</u>

The Lottery has purchased long-term investments consisting principally of zero coupon government securities to fund deferred jackpot prize award obligations. Such investments are maintained in a separate trust fund administered by the West Virginia Investment Management Board on behalf of the Lottery and the jackpot prize winners, with investment maturities approximating deferred prize obligation installment dates. Investments are carried at fair value determined by quoted market prices for the specific obligation or for similar obligations. Changes in fair value are included as part of investment income. In accordance with Statement No. 3 of the Government Accounting Standards Board, these investments are classified as to level of risk in Category 1, which includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

NOTE 9. RETIREMENT BENEFITS

All full-time Lottery employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements covering all retirement systems it administers, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 9. RETIREMENT BENEFITS (continued)

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service are eligible for retirement benefits as established by state statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 9.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are actuarially determined; however actuarial valuations are performed to assist the Legislature in determining appropriate values. The Lottery and employees contributions, for the period ending October 31, 2002 are as follows (in thousands) :

	<u>October 31, 2002</u>	<u>Year-to Date</u>
Lottery contributions (9.5%)	\$27	\$108
Employee contributions (4.5%)	13	51
Total contributions	<u>\$40</u>	<u>\$159</u>

NOTE 10. RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia. Each of these risk pools have issued separate audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

WORKERS' COMPENSATION FUND (WCF)

West Virginia operates an exclusive state-managed Workers' Compensation Insurance Fund (WCF), which means that private insurance companies cannot offer coverage to employers. In accordance with Chapter 23 of the Workers' Compensation Law (the Law), generally, every employer who has a payroll must have coverage except for employers in the agricultural industry with five or fewer employees, volunteer organizations, domestic workers and employers qualifying for territorial coverage. WCF's general objective is to provide a prompt and equitable system for compensation for injury sustained in the course of and growing out of employment. West Virginia Code §21A-3 established the Compensation Programs Performance Council (the Performance Council) to oversee the unemployment compensation system and the workers' compensation system. The Performance Council is responsible for recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of WCF; approval of base premium rates and analyzing

**WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 10. RISK MANAGEMENT (continued)

opportunities for internal operational improvements. The WCF risk pool retains all risk related to the compensation of injured employees under the program.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PEIA)

The Lottery participates in the Public Employees' Insurance Agency which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher educations, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees. Coverage under these programs is limited to \$1 million lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage to the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

BOARD OF RISK AND INSURANCE MANAGEMENT (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage, through an outside insurer, under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

To: Honorable Earl Ray Tomblin, Senate President
Honorable Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government
and Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: December 15, 2002

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the October 2002 monthly report of the Unemployment Compensation Trust Fund we received from the Bureau of Employment Programs.

For the fiscal year 2002-2003, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2002	\$280,390,998.85
Receipts July 1, 2002 thro October 31, 2002	\$54,992,035.00
Disbursements July 1 thro October 31, 2002	\$61,298,217.20
Balance October 31, 2002	\$274,084,816.65

(This balance is \$ 29,407,144.67 higher than at same time period in the last fiscal year.)

Joint Committee on Government and Finance

ITEMS OF NOTE:

Regular benefits paid for July - October 2002 are \$ 13,011,174.48 HIGHER than the preceding July - October 2001.

Receipts are \$ 9,301,730.83 HIGHER than the previous July-October 2001. Overall disbursements are \$23,035,558.59 HIGHER than July - October 2001.

UNEMPLOYMENT RATES:

West Virginia's unemployment rate for the month of October 2002 was 5.5 percent. National unadjusted unemployment rate was 5.3 percent. Seasonally adjusted unemployment rates were 6.2 percent for West Virginia and 5.7 percent nationally.

During the past year (since October 2001) West Virginia's economy has declined by 5,700 jobs. The gains were 2,200 jobs in services and 800 jobs in government. Losses include 2,400 in manufacturing, 1,500 in trade, 300 in transportation and public utilities, 2,100 in mining and 2,300 in construction and 100 in finance, insurance and real estate.

**FINANCIAL CONDITION OF THE UNEMPLOYMENT COMPENSATION TRUST FUND
MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING AUGUST 2001 AND AUGUST 2002**

	<u>AUG 01</u>	<u>SEPT 01</u>	<u>OCT 01</u>	<u>AUG 02</u>	<u>SEPT 02</u>	<u>OCT 02</u>	<u>THREE MONTH TOTAL VARIANCE *</u>
Balance Forward	<u>\$237,933,274.07</u>	<u>\$248,272,110.48</u>	<u>\$243,663,531.82</u>	<u>\$277,370,202.53</u>	<u>\$285,052,312.01</u>	<u>\$275,847,294.59</u>	<u>\$110,400,892.76</u>
Add Receipts:							
Bond Assessment	\$1,422.72	\$4,084.04	\$458.85	\$149.98	\$245.73	\$456.66	(\$5,113.24)
Regular Contributions	\$19,093,783.37	\$1,135,002.20	\$8,334,166.65	\$19,533,964.22	\$621,816.10	\$8,288,012.55	(\$119,160.25)
Extended Benefit Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Unemployment Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TEUC Unemployment Funds	\$0.00	\$50,000.00	\$50,000.00	\$2,075,000.00	\$1,975,000.00	\$2,850,000.00	\$6,800,000.00
UCFE (Federal Agencies)	\$75,000.00	\$0.00	\$0.00	\$75,000.00	\$25,000.00	\$50,000.00	\$75,000.00
Reduced Tax Credits	\$0.00	\$0.00	\$581,018.00	\$0.00	\$0.00	\$0.00	(\$581,018.00)
Reed Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Treasury Interest Credits	\$0.00	\$3,903,138.12	\$0.00	\$0.00	\$4,313,636.93	\$0.00	\$410,498.81
UCX (Military Agencies)	\$150,000.00	\$100,000.00	\$150,000.00	\$150,000.00	\$100,000.00	\$250,000.00	\$100,000.00
Total Monthly Receipts	<u>\$19,320,208.09</u>	<u>\$5,192,224.36</u>	<u>\$9,115,643.40</u>	<u>\$21,834,114.20</u>	<u>\$7,035,697.76</u>	<u>\$11,438,469.21</u>	<u>\$6,680,207.32</u>
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	NA
Regular Benefits	\$10,786,367.25	\$7,617,758.89	\$7,876,913.58	\$11,697,617.79	\$13,369,321.90	\$10,518,116.56	\$9,304,016.53
Extended Benefits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emergency Benefits	(\$505.00)	(\$295.00)	(\$345.00)	\$2,252,176.00	\$2,633,677.00	\$2,439,980.32	\$7,326,978.32
UCFE (Federal Workers)Benefits	\$57,366.87	\$54,347.20	\$59,572.00	\$53,571.97	\$58,623.79	\$46,590.54	(\$12,499.77)
UCX (Military Workers)Benefits	\$138,140.56	\$128,991.93	\$165,362.66	\$148,638.96	\$179,092.49	\$196,259.73	\$91,496.03
Reed Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Adjustments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Monthly Disbursements	<u>\$10,981,369.68</u>	<u>\$7,800,803.02</u>	<u>\$8,101,503.24</u>	<u>\$14,152,004.72</u>	<u>\$16,240,715.18</u>	<u>\$13,200,947.15</u>	<u>\$16,709,991.11</u>
Trust Fund Balance	<u>\$246,272,110.48</u>	<u>\$243,663,531.82</u>	<u>\$244,677,671.88</u>	<u>\$285,052,312.01</u>	<u>\$275,847,294.59</u>	<u>\$274,084,816.65</u>	<u>\$100,371,108.97</u>

* Three month total variance column is the difference between the sum of the previous year's three months data for each category and the current year's three months data. The purpose of the report is to show significant changes in receipts, disbursements, or balances.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
Building 1, Room 332-West Wing
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Charleston, WV 25305-0590*

304-347-4870

MEMORANDUM

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and Finance

From: Ellen Clark, CPA *EC*
Director Budget Division
Legislative Auditor's Office

Date: December 15, 2002

Re: Workers' Compensation Trust Fund

We have reviewed the monthly report of receipts and disbursements for the Workers' Compensation Trust Fund for the month ended October 31, 2002. (FY 2002-2003)

Total receipts through the fourth month of the fiscal year are \$ 112,978,588.61. This amount is \$ 7,856,842.26 LESS than the receipts reported for the July - October period of fiscal year 2001- 2002.

Disbursements paid out for the four months are \$ 266,835,127.74 . This amount is \$ 15,378,294.63 HIGHER than July - October of the last fiscal year.

Components of Disbursements:

Total administrative expenses for the four months are \$ 18,934,791.29; which is \$2,935,342.81 MORE than July - October of the previous fiscal year.

Total benefits paid out for the four months are \$ 289,958,995.67; which is \$ 13,530,520.88 HIGHER than July-October of the previous fiscal year.

The ending trust fund balance as of October 31, 2002 was \$ 781,690,613.87. At the same date

Joint Committee on Government and Finance

the previous fiscal year the trust fund balance was \$ 971,963,869.42. The difference is a \$190,273,255.55 DECREASE in ending trust fund balance.

These calculations are based upon cash received and cash disbursed, (i.e. similar to a checkbook register). Accrual based calculations would change the financial data significantly.

WORKERS' COMPENSATION FUND
UNAUDITED STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE THREE MONTHS STARTING AUGUST 2001 AND AUGUST 2002

11/18/02

14:50

WV WORKERS COMP. → 95583512

ND. 907

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RECEIPTS AND DISBURSEMENTS			
MONTH	RECEIPTS *	DISBURSEMENTS	ENDING BALANCE
BALANCE FORWARD *			\$1,112,087,240.55
AUG 2001	\$ 59,546,323.88	\$ 62,832,487.10	1,101,711,077.44
SEP 2001	(11,483,223.27)	56,988,852.49	1,033,281,001.68
OCT 2001	2,654,914.61	53,852,048.87	871,883,868.42
TOTALS	\$50,718,015.22	\$180,651,388.46	N/A

BENEFITS			ADMINISTRATIVE EXPENSE
WCF	SELF-INSURERS	TOTAL	
\$ 68,117,393.43	\$ 11,384,541.52	\$ 77,481,934.85	\$ 3,818,093.87
53,080,691.31	8,888,394.00	63,078,985.31	3,878,281.18
60,268,648.82	9,776,108.78	70,045,758.61	3,882,387.05
\$178,477,634.56	\$31,128,044.31	\$210,608,878.87	\$11,373,751.90

MONTH	RECEIPTS *	DISBURSEMENTS	ENDING BALANCE
BALANCE FORWARD **			\$808,584,350.74
AUG 2002	\$ 14,865,405.88	\$ 87,740,688.81	654,809,087.61
SEP 2002	14,141,875.38	60,445,476.09	808,805,547.10
OCT 2002	41,578,470.88	68,483,484.11	781,689,813.87
TOTALS	\$69,785,752.14	\$199,679,689.01	N/A

BENEFITS			ADMINISTRATIVE EXPENSE
WCF	SELF-INSURERS	TOTAL	
\$ 63,480,895.78	\$ 11,634,948.77	\$ 75,125,838.55	\$ 4,249,773.03
55,537,078.25	8,888,348.70	64,448,418.85	4,908,348.84
60,632,318.86	10,748,678.87	74,380,998.83	4,851,084.15
\$182,680,285.99	\$31,292,868.34	\$213,953,154.33	\$14,019,203.02

* The amounts listed in the RECEIPTS column include the Change in Investment Value (may include Unrealized Gains and Losses, Realized Gains and Losses, Dividend Income, and Interest Income.) Although this amount is available, it should not be confused with "Cash on Hand".

** Balance forward amount includes \$210,000,000 transferred from the Coal-Workers' Pneumoconiosis Fund in December 1980

Notes: Accrual basis financial information could significantly change the data provided.

This report includes the Workers' Compensation Fund and the Disabled Workers' Relief Fund. It does not include the Employers' Excess Liability Fund or the Coal-Workers' Pneumoconiosis Fund.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

*Budget Division
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304-347-4870

Memorandum

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and
Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: December 15, 2002

Re: Status of General Revenue Fund November 30, 2002

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month of November 2002. The status of the fund collections are as follows:

The net year-to-date collections are **99.75%** of the estimate for the fiscal year as of November 30, 2002. **The amount below estimate is \$2,709,716.00 for the year.** Viewed on a monthly basis, collections were at 92.05% of the estimate, or \$16,732,513.00 below the monthly estimate. November is the first month general revenue collections for the year have been below the yearly estimate. A recap of the first five months of fiscal year 2002-2003:

July 2002: Collections were at 109.15% of the yearly estimate; that amount was \$ 17 million above the estimate.

August 2002: Collections were at 103.16% of the yearly estimate; that amount was \$ 12.1 million above the estimate.

September 2002: Collections were at 104.73% of the yearly estimate; that amount was \$ 29.4 million above the estimate.

Joint Committee on Government and Finance

October 2002: Collections were at 101.61% of the yearly estimate; that amount was \$ 14 million above the estimate.

November 2002: Collections were at 99.75% of the yearly estimate; that amount was \$ 2.7 million below the estimate.

Consumer sales tax collections are \$8,269,320.00 BELOW the estimate for the year. Collections of consumer sales tax were 97.80% of the yearly estimate.

Corporate net income tax collections are \$9,645,338.00 ABOVE the estimate for the year. Corporate net is at 145.28% of the yearly estimate.

Personal income tax collections for November are at 96.34% of the estimate. Viewed on a yearly basis personal income tax is 100.48% of the estimate.

Cigarette tax is \$214,807.00 above the monthly estimate and it is \$ 1,696,589.00 above the yearly estimate. Smokeless tobacco tax is \$ 5,658.00 below the monthly estimate and \$16,861.00 above the yearly estimate.

State Road Fund

The state road fund has been collected at 113.55% of the estimate for the year; and 87.87% of the estimate for November 2002. Licenses and registration were slightly above estimates for the year, at \$ 2,869,867.00 above the estimate. Wholesale fuel and use tax was \$4,216,999.00 above the estimates for the year. The entire fund is \$27,923,058.00 above estimate for the year.

Rainy Day and Personal Income Tax Reserve

On July 3, 2002, a transfer was made from the Rainy Day Fund to the General Revenue Fund in the amount of \$ 40,000,000.00. This is a loan which must be paid back to the Rainy Day Fund within 90 days of the loan. Cash flow demands in the beginning of the new fiscal year generally outpace the revenue collections, making this loan a necessity. This loan was paid back to the Rainy Day Fund on September 30, 2002.

The Rainy Day Fund (Revenue Shortfall Reserve Fund) had a cash balance of \$57,750,612.91 as of November 30, 2002.

Balance July 1, 2002	\$ 56,178,308.63
----------------------	------------------

Revenues July 1, 2002-June 30, 2003 Surplus from 2002 (transferred 8-1-2002)	9,872,304.28
Cash flow loan to General Revenue on July 3, 2002	-40,000,000.00
Received payoff on loan from General Revenue Sept. 30, 2002	+ 40,000,000.00
Disbursed Flood Aid per Senate Bill 2028 on July 29, 2002	- 8,300,000.00
Balance November 30, 2002	57,750,612.91

The Special Income Tax Reserve Fund had a cash balance of \$19,019,318.96 as of November 30, 2002.

Balance July 1, 2002	27,391,035.96
Revenues July-November 2002	00,000,000.00
Disbursements July-November 2002	00,000,000.00
Other adjustments- Disbursed to DHHR for Medicaid deficit:	- 8,371,717.00
Balance November 30, 2002	19,019,318.96

GENERAL REVENUE FUND FY 2002-2003

Monthly Revenue Estimates, July 2002
as of November 27 , 2002 WVFIMS

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	FINAL	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY OVER/UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS
			MONTHLY OVER/ UNDER ESTIMATES VS ACTUAL COLLECTIONS			
Business & Occupation Tax	12,700,000	10,640,746	-2,059,254	60,600,000	60,524,791	-75,209
Consumer Sales Tax	76,100,000	72,283,950	-3,816,050	376,700,000	368,430,680	-8,269,320
Personal Income Tax	72,800,000	70,138,050	-2,661,950	403,200,000	405,043,313	1,843,313
Liquor Profit Transfers	2,000,000	2,000,000	0	3,800,000	4,015,000	215,000
Racing Fees	0	0	0	500,000	780,000	280,000
Beer Tax and Licenses	570,000	592,703	22,703	3,270,000	3,362,114	92,114
Cigarette Tax	2,700,000	2,914,807	214,807	14,400,000	16,096,589	1,696,589
Estate and Inheritance Tax	800,000	440,556	-359,444	4,900,000	4,316,786	-583,214
Business Franchise Fees	20,000	52,656	32,656	590,000	407,846	-182,154
Charter Tax	550,000	402,061	-147,939	2,840,000	3,108,462	268,462
Use Tax	5,700,000	6,542,530	842,530	35,300,000	37,685,657	2,385,657
Property Transfer Tax	640,000	871,030	231,030	3,300,000	3,559,519	259,519
Property Tax	490,000	317,136	-172,864	2,110,000	2,412,172	302,172
Cash Flow Transfer	0	0	0	0	0	0
Insurance Tax	7,400,000	265,687	-7,134,313	41,800,000	40,149,563	-1,650,437
Departmental Collections	410,000	518,820	108,820	2,170,000	2,274,731	104,731
Corporate net Income Tax	200,000	1,575,516	1,375,516	21,300,000	30,945,338	9,645,338
Miscellaneous Receipts	150,000	104,566	-45,434	1,230,000	505,057	-724,943
Miscellaneous Transfers	0	0	0	500,000	133,071	-366,929
Interest Income	1,600,000	1,048,845	-551,156	8,100,000	9,554,666	1,454,666
Video Lottery Transfers	0	0	0	0	428,217	428,217
Severance Tax	18,400,000	16,071,117	-2,328,883	48,500,000	46,751,681	-1,748,319
Business Franchise Tax	-1,100,000	1,297,530	2,397,530	29,800,000	24,922,489	-4,877,511
Telecommunications Tax	500,000	17,637	-482,363	3,700,000	6,119,019	2,419,019
Special Revenue Transfer	0	0	0	0	0	0
Smokeless Tobacco Tax	400,000	394,342	-5,658	2,000,000	2,016,861	16,861
HB 102 - Lottery Transfers	7,372,000	5,179,202	-2,192,798	12,988,000	7,344,663	-5,643,337
TOTALS	210,402,000	193,669,487	-16,732,513	1,083,598,000	1,080,888,284	-2,709,716
Minus Cash Flow Transfer	0	0	0	0	0	0
TOTALS	210,402,000	193,669,487	-16,732,513	1,083,598,000	1,080,888,284	-2,709,716
Percent of Estimates		92.05%			99.75%	
Collections this day		8,572,447				

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2002- 2003
Monthly REVENUE ESTIMATES, July 2002
as of November 27, 2002 WVFIMS

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY OVER/ UNDER ESTIMATES VS ACTUAL COLLECTIONS	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY OVER/UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS
Licenses & Registration	4,500,000	5,584,252	1,084,252	30,467,878	33,337,744	2,869,867
Privilege Tax	12,000,000	10,300,515	-1,699,485	67,988,720	74,023,659	6,034,939
Gasoline & Motor Carrier Rd T	19,147,000	16,039,037	-3,107,963	82,483,140	97,258,152	14,775,012
Wholesale Fuel & Use Tax	5,787,000	4,529,124	-1,257,876	24,422,279	28,639,278	4,216,999
Highway Litter Control Fund	105,000	48,454	-56,546	647,606	673,847	26,242
TOTALS	41,539,000	36,501,383	-5,037,617	206,009,622	233,932,680	27,923,058
Percent of Estimates		87.87%			113.55%	
Collections this day		3,955,088				

REVENUE SHORTFALL RESERVE FUND as of November 1, 2002: \$57,750,612.91

SPECIAL INCOME TAX REFUND RESERVE FUND as of November 1, 2002: \$19,019,318.96

GENERAL REVENUE FUND FY 2002-2003
Monthly Revenue Estimates, July 2002
as of November 30, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY PERCENT OF ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY PERCENT OF ESTIMATE COLLECTED
Business and Occupation Tax	12,700,000	10,640,746	83.78%	60,600,000	60,524,791	99.88%
Consumer's Sales Tax	76,100,000	72,283,950	94.99%	376,700,000	368,430,680	97.80%
Personal Income Tax	72,800,000	70,138,050	96.34%	403,200,000	405,043,313	100.46%
Liquor Profit Transfers	2,000,000	2,000,000	100.00%	3,800,000	4,016,000	105.68%
Racing Fees	0	0		500,000	780,000	156.00%
Bear Tax and Licenses	570,000	592,703	103.98%	3,270,000	3,382,114	102.82%
Cigarette Tax	2,700,000	2,914,807	107.96%	14,400,000	16,096,589	111.76%
Estate and Inheritance Tax	800,000	440,566	55.07%	4,900,000	4,316,788	88.10%
Business Franchise Registration	20,000	52,666	263.28%	590,000	407,846	69.13%
Charter Tax	550,000	402,061	73.10%	2,840,000	3,108,462	109.45%
Use Tax	5,700,000	6,542,530	114.78%	35,300,000	37,685,957	106.76%
Property Transfer Tax	640,000	871,030	136.10%	3,300,000	3,559,519	107.86%
Property Tax	490,000	317,136	64.72%	2,110,000	2,412,172	114.32%
Cash Flow Transfer	0	0		0	0	
Insurance Tax	7,400,000	265,687	3.59%	41,800,000	40,149,583	96.05%
Departmental Collections	410,000	518,820	126.54%	2,170,000	2,274,731	104.83%
Corporate Net Income Tax	200,000	1,575,516	787.76%	21,300,000	30,945,338	145.28%
Miscellaneous Receipts	150,000	104,566	69.71%	1,230,000	505,057	41.08%
Miscellaneous Transfers	0	0		500,000	133,071	26.61%
Interest Income	1,600,000	1,048,846	65.55%	8,100,000	9,554,666	117.96%
Video Lottery Transfers	0	0		0	428,217	
Severance Tax	18,400,000	16,071,117	87.34%	48,500,000	46,751,681	96.40%
Business Franchise Tax	(1,100,000)	1,297,530		29,800,000	24,922,489	83.63%
Telecommunications Tax	500,000	17,637	3.53%	3,700,000	6,119,019	165.38%
Special Revenue Transfer	0	0		0	0	
Smokeless Tobacco Tax	400,000	394,342	98.59%	2,000,000	2,016,881	100.84%
H.B. 102- Lottery Transfers	7,372,000	5,179,202	70.26%	12,988,000	7,344,683	56.55%
TOTALS	210,402,000	193,669,487	92.05%	1,083,598,000	1,080,888,285	99.75%
Minus Cash Flow Transfers					0	
TOTALS	210,402,000	193,669,487	92.05%	1,083,598,000	1,080,888,285	99.75%
Percent of Estimates		92.05%			99.75%	

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2002-2003
 REVENUE ESTIMATES AS OF JULY 2002
 as of November 30, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	PERCENT OF MONTH ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	PERCENT OF YEAR ESTIMATE COLLECTED
Licenses and Registration	4,500,000	5,584,252	124.09%	30,467,878	33,337,744	109.42%
Privilege Tax	12,000,000	10,300,515	85.84%	67,988,720	74,023,659	108.88%
Gasoline and Motor Carrier Road Tax	19,147,000	16,039,037	83.77%	82,483,140	97,258,152	117.91%
Wholesale Fuel and Use Tax	5,787,000	4,529,124	78.26%	24,422,279	28,639,278	117.27%
Highway Litter Control Fund	105,000	48,454	46.15%	647,606	673,847	104.05%
TOTALS	41,539,000	36,501,382	87.87%	206,009,623	233,932,680	113.55%

West Virginia Board of Risk
Unaudited Statement of Net Assets
 October 31, 2002

ASSETS

Short Term Assets

Cash and Equivalents	29,560,377.27
Advance Deposit with Carrier	42,563,633.17
Receivables - Net	7,326,395.22
Prepaid Insurance	1,842,926.62

Total Short Term Assets **81,293,331.18**

Long Term Assets

Investments	69,319,469.79
Total Long Term Assets	69,319,469.79

TOTAL ASSETS **150,612,800.97**

LIABILITIES

Short Term Liabilities:

Accounts Payable	1,298,652.41
Premium Tax Payable	131,202.17
Claims Payable	103,768.38
Agent's Commission Payable	386,017.10
Unearned Revenue	19,163,230.28
Current Est. unpaid claims	44,593,289.00
Total Short Term Liabilities	65,674,159.34

Long Term Liabilities:

Compensated Absences	143,062.84
Loan Payable	500,000.00
Estimated unpaid claims	122,835,037.00
Total Long Term Liabilities	123,478,099.94

Total Liabilities **189,152,259.28**

Unrestricted Deficiency

Prior Year Unrestricted Deficit	<37,934,367.38>
Net Assets (Deficiency)	562,225.44
Net Assets (Deficiency)-Pref	<1,051,738.91>
Net Assets (Deficiency)-High R	<115,577.46>
Total Unrestricted Deficiency	<38,539,458.31>

Liab. & Unrestricted Deficiency **150,612,800.97**

West Virginia Board of Risk

Unaudited Statement of Revenues, Expenses and Changes in Fund Net Assets

for the four months ending October 31, 2002

Operating Revenues

Premium Revenues	18,168,918.05
Revenues-Preferred	3,229,315.69
Revenues-High Risk	562,955.30
Less - Excess Insurance	<994,182.78>
Total Operating Revenues	20,967,006.28

Operating Expenses

Claims Expense	17,752,154.34
Claims Expense-Prof	3,411,588.00
Claims Expense-High Risk	253,008.00
Prop. & MS Claims Exp.	1,015,892.91
Med Mal Claims Exp-High Risk	11,486.13
Med Mal Claims Expense-HR	10,785.70
Personal Services	307,161.32
Payroll-Preferred	18,476.04
Payroll-High Risk	1,420.66
Operating Expenses	578,889.54
Operating-Preferred	991,382.91
Operating-High Risk	103,267.36
Total Operating Expense	24,455,550.91

Operating Income (Loss) **<3,488,544.63>**

Nonoperating Revenues

Finance Charge-Preferred	83,919.74
Finance Charge- High Risk	14,076.54
Court Fees-Prof	8,764.13
Court Fees-High Risk	610.87
Investment Income	1,977,278.34
Investment-Prof	49,390.21
Investment-High Risk	4,439.89
Appropriation Transfer	1,064,409.82
Appropriation Transfer Prof	11,764.40
Appropriation Transfer High RI	900.66
Total Nonoperating Revenues	3,213,453.70

Net Assets (Deficiency) **<275,090.93>**

December 6, 2002

UNAUDITED – For Management Purposes Only – UNAUDITED

**West Virginia Board of Risk and Insurance Management
 Medical Malpractice Program -House Bill 601 Doctors Only
 UNAUDITED BALANCE SHEET
 October 31, 2002**

	Preferred	High-Risk	Total
Assets			
Cash and Equivalents	\$ 8,215,817	\$ 1,644,873	\$ 9,860,690
Receivables	3,613,724	620,401	4,234,125
Total Assets	\$ 11,829,541	\$ 2,265,274	\$ 14,094,815
Liabilities			
Accounts payable	222,794	21,198	243,991
Premium Tax Liability	119,394	11,808	131,202
Agents Commissions Payable	115,055	20,971	136,026
Unearned Revenue	7,755,200	1,426,160	9,181,360
Loan Payable	250,000	250,000	500,000
Current Estimated Claim Reserve	466,531	13,192	479,723
Total Liabilities	8,928,974	1,743,329	10,672,303
Noncurrent Liabilities			
Estimated Claim Reserve	4,932,877	824,280	5,757,157
Total Liabilities	13,861,851	2,567,609	16,429,460
Prior Year Retained Earnings (Deficiency)	(980,571)	(186,758)	(1,167,329)
Retained Earnings (Deficiency)	(1,051,739)	(115,577)	(1,167,316)
Total Retained Earnings (Deficiency)	(2,032,310)	(302,335)	(2,334,645)
Total Liabilities and Retained Earnings (Deficiency)	\$ 11,829,541	\$ 2,265,274	\$ 14,094,815

**West Virginia Board of Risk and Insurance Management
 Medical Malpractice Program -House Bill 601 Doctors Only
 UNAUDITED INCOME STATEMENT
 for the four months ending October 31, 2002.**

	Preferred	High-Risk	Total
Operating Revenues			
Premium Revenues	\$ 3,229,316	\$ 562,955	\$ 3,792,271
Operating Expenses			
Claim and Claim Adjustment Expense	3,423,054	593,772	4,016,826
Claim Adjusting Expense - Marsh Fees	494,867	42,907	537,774
Personal Services-Payroll	18,476	1,421	19,897
General and Administrative Expense	496,496	60,360	556,856
Total Operating Expenses	<u>4,432,893</u>	<u>698,460</u>	<u>5,131,353</u>
Operating Income (Loss)	(1,203,578)	(135,504)	(1,339,082)
Nonoperating Revenues			
Payroll Appropriation Transfer In	11,764	901	12,665
Interest Income	49,390	4,440	53,830
Finance Charge	83,820	14,076	97,895
Court Fees	6,764	511	7,275
Total Nonoperating Revenue	<u>151,838</u>	<u>19,927</u>	<u>171,765</u>
Net Income (Loss)	<u>\$ (1,051,739)</u>	<u>\$ (115,577)</u>	<u>\$ (1,167,316)</u>

Components of General and Administrative Expense
House Bill 601 -UNAUDITED
October 31, 2002

Actuarial Services	15,148
Premium Tax	373,486
Agent's Commission	137,188
BRIM -Attorney Services	2,676
Travel/Advisory Panel	1,552
Computer Services Allocation	6,183
Rent Allocation	4,957
Misc. Office Expenses-Allocation	14,684
Utilities Allocation	501
Maintenance/Machine Rentals-Allocation	482

Total General and Administrative Expense	\$ 556,856
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**Legislative Oversight Commission on
Health and Human Resources Accountability**

December 2002

Department of Administration

**State Children's Health Insurance Program
UPDATE**



WV CHILDREN'S HEALTH INSURANCE AGENCY

REPORT FOR DECEMBER 2002

I. Outreach/Health Promotion Activity*

During the month of November 2002

➤ **WVCHIP** and the WV Healthy Kids Coalition – Partnership for Local Community Events:

Approximately 25 local events/projects were conducted throughout communities in November:

- ◆ Special Community Events: Spanish Immersion Week – Morgantown
Marshall University Youth Day - Huntington
- ◆ Business Related Outreach: Meetings with School Nurses in Berkeley, Mercer, Doddridge, Randolph, Marion, Monongalia, Tyler, Barbour, Harrison, Taylor, Preston, Lewis, Upshur and Wetzel Counties. Layoff Assistance Meetings in Morgantown and Wood Counties.
- ◆ County/and or Health Fairs with CHIP Exhibits: Kanawha, Marion and Putnam Counties.
- ◆ High School Football Games with CHIP Exhibits: McDowell, Raleigh, Wyoming and Fayette Counties.

➤ **WVCHIP** call center activity: In November the call center received 1,740 informational calls and 400 application requests for CHIP.

➤ **WVCHIP** mailed out 19,633 informational flyers to individuals who requested more information through the Free and/or Reduced School Lunch Application. Responses to the informational mailing will be tracked through the call center and applications will be mailed to those respondents.

II. Response to the Joint Legislative Committee on Government and Finance Concerning CHIP Budget for SFY 2004

➤ Please find attached a letter provided in response to a request from the Joint Committee on Government and Finance concerning the reasons why the program is requesting a \$2.3 million improvement in funding for 2004.

**For complete information on outreach events, please see our website at www.wvchip.org, click on "Outreach," scroll down to click on "Outreach Events Calendar," and then click on the current month.*

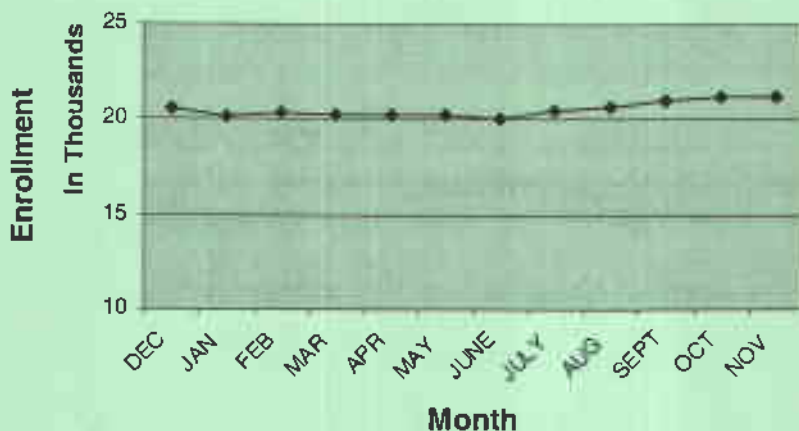
III. Enrollment/Re-enrollment Activity

Enrollment as of November 30, 2002: 21,180

Please see Attachment 1 for enrollment by county and estimated uninsured children by county.

Total unduplicated enrolled for quarter ended September 30, 2002: 23,685

Current 12-Month Enrollment Period: December 2001 through November 2002



New Enrollee Totals: August to October 2002

Month	CHIP	% of Total	CHIP3*	% of Total	Total
September	1,022	64%	571	36%	1,593
October	993	61%	634	39%	1,627
November	873	59%	614	41%	1,487

New Enrollees (Never Before on CHIP) Totals: August to October 2002

Month	CHIP	% of Total	CHIP3*	% of Total	Total
September	622	68%	294	32%	916
October	586	62%	352	38%	938
November	467	60%	308	40%	775

Re-enrollment Activity for the Current 3 Month Period: August to October 2002

Total Forms Mailed		Enrolled within Notice Period		Reopened Cases After Closure		Final Closures	
Month	Total	#	%	#	%	#	%
September	1693	677	41.3%	242	14.7%	435	27.0%
October	1768	711	40.0%	310	17.5%	401	23.0%
November	1270	470	37.0%	145	11.4%	325	25.6%

* The number of children enrolled as a result of the Phase III expansion which raised the income guidelines to 200% FPL and took effect in October 2000.

IV. Financial Activity

Please see this month's financial statement at Attachment 2.

The average annualized claims cost per child for the month ended October 2002 was around \$1,580.

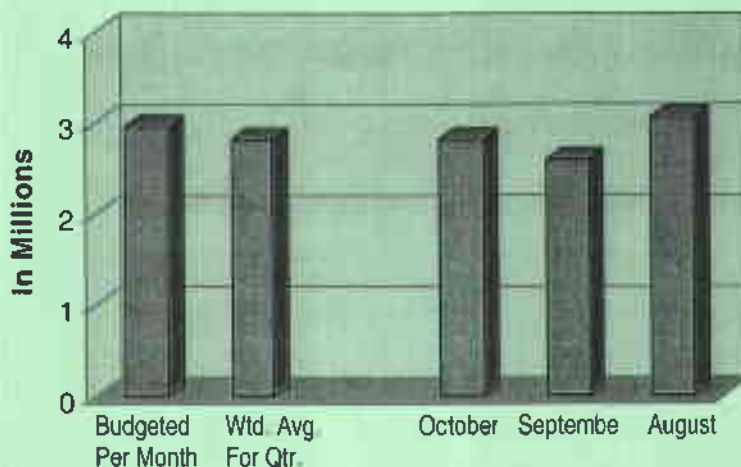
Annual Expenditures for a 3 Year Period: SFY 2000 – SFY 2002

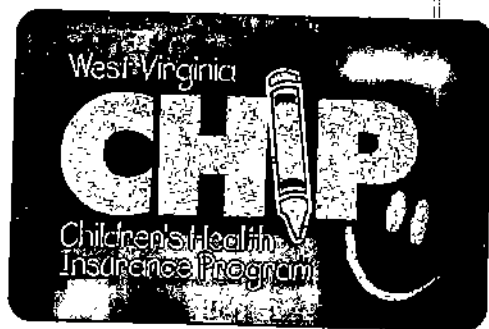
	SFY 2002	FFP% 2002	SFY 2001	FFP% 2001	SFY 2000	FFP% 2000
Federal	26,139,399	82.69	17,099,081	82.74	6,875,879	82.35
State	5,466,863	17.31	3,579,196	17.26	1,860,784	17.65
Total Costs	31,606,262	100.00	20,678,277	100.00	8,736,663	100.00



Monthly Budgeted and Current 2 Month Period: August – October 2002

	Budgeted Per Month	Wtd. Avg. For Qtr.	Actual		
			October 2002	September 2002	August 2002
Federal	2,448,390	2,331,764	2,325,330	2,140,583	2,529,378
State	518,277	489,939	492,227	448,101	529,490
Total	2,966,667	2,821,703	2,817,557	2,588,684	3,058,868





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CHARLESTON, WV 25305
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HELPLINE 877-982-2447
www.wychip.org

December 5, 2002

The Honorable Earl Ray Tomblin, President
West Virginia Senate
Building 1, Room 227-M
1900 Kanawha Blvd., East
Charleston, WV 25305

The Honorable Robert S. Kiss, Speaker
West Virginia House of Delegates
Building 1, Room 234-M
1900 Kanawha Blvd., East
Charleston, WV 25305

HAND DELIVERED

Subject: WV CHIP 2004 Budget Allocation

Dear Senate President Tomblin and Speaker Kiss:

The West Virginia Children's Health Insurance Program (CHIP) submitted a request for \$7,122,654 in state matching funds for SFY 2004 on October 18, 2002. This amount included a request for improvement due to a 4% increase in enrollment and a 13% increase in program costs. A more recent actuarial report, dated December 4, 2002, projects the state match to be \$7,195,332. This revised figure takes into account a higher projected enrollment of 22,000 in the coming year due to economic downturn. The requested state match for SFY 2004 represents a 17% increase over last year's approved budget request because the program still had \$1,298,185 remaining from initial startup funds. These startup funds will be depleted in SFY 2003.

An enclosed chart by CCRC Actuaries, LLC shows total program projected costs at this enrollment level and the state matching funds that would be required through 2007.

Please contact me if you have any other questions.

Sincerely,

Sharon L. Carte
Director

Enclosure

cc Keith Burdette, Governor's Legislative Liaison
Greg Burton, Secretary of Administration
Tom Susman, Director of Insurance and Retirement Services
Evelyn Moore, Senate Finance
Nancy Tyler, House Finance

West Virginia Children's Insurance Agency
Projection of FY 2004 Expenditures Based On Enrollment of 22,000 as of 1/2003

Available Funding - Beginning of the Year	2003	2004	2005	2006	2007
Federal 1999	\$0	\$0	\$0	\$0	\$0
Federal 2000	6,485,294	0	0	0	0
Federal 2001	21,144,989	0	0	0	0
Federal 2002	16,650,270	14,344,188	0	0	0
Federal 2003	18,550,788	18,550,788	0	0	0
Federal 2004	0	18,550,788	17,454,306	0	0
Federal 2005	0	0	18,550,788	0	0
Federal 2006	0	0	0	18,550,788	0
Federal 2007	0	0	0	0	18,550,788
State Original Funding	\$2,160,340	\$0	\$0	\$0	\$0
State Funding 2002	0	0	0	0	0
State Funding 2003	4,843,476	671,101	0	0	0
State Funding 2004	0	6,800,000	275,789	0	0
State Funding 2005	0	0	7,200,000	0	0
State Funding 2006	0	0	0	8,600,000	0
State Funding 2007	0	0	0	0	9,700,000
Program Costs	2003	2004	2005	2006	2007
Medical Expenses	\$23,515,771	\$28,467,376	\$29,114,113	\$32,025,524	\$35,228,077
Prescription Drug Expenses	5,519,159	6,833,082	8,268,041	10,004,330	12,105,239
Dental Expenses	4,088,104	4,601,228	5,061,349	5,567,484	6,124,232
Administrative Expenses	3,401,045	3,571,097	3,749,852	3,837,135	4,133,892
Program Revenues - Interest	\$0	\$0	\$0	\$0	\$0
Program Revenues - Drug Rebates	275,000	266,000	287,440	309,338	321,712
Net Incurred Program Costs	\$36,249,079	\$41,188,791	\$45,895,715	\$51,225,135	\$57,289,828
Net Paid Program Costs	35,778,079	40,658,781	45,391,715	50,863,135	56,619,828
Federal Share	\$28,916,366	\$33,991,458	\$37,877,734	\$42,276,104	\$47,284,789
State Share of Expenses	6,332,714	7,195,332	8,017,981	8,949,031	10,005,039
Beginning IBNR	\$3,200,000	\$3,873,000	\$4,203,000	\$4,707,000	\$5,279,000
Ending IBNR	3,873,000	4,203,000	4,707,000	5,279,000	5,929,000
Funding Sources - End of the Year	2003	2004	2005	2006	2007
Federal 1999	\$0	\$0	\$0	\$0	\$0
Federal 2000	0	0	0	0	0
Federal 2001	0	0	0	0	0
Federal 2002	14,344,188	0	0	0	0
Federal 2003	18,550,788	0	0	0	0
Federal 2004	0	17,454,306	0	0	0
Federal 2005	0	0	0	0	0
Federal 2006	0	0	0	0	0
Federal 2007	0	0	0	0	0
Federal Shortfall	\$0	\$0	\$1,872,640	\$23,725,316	\$28,714,001
State Original Funding	\$0	\$0	\$0	\$0	\$0
State Funding 2002	0	0	0	0	0
State Funding 2003	671,101	0	0	0	0
State Funding 2004	0	275,789	0	0	0
State Funding 2005	0	0	0	0	0
State Funding 2006	0	0	0	0	0
State Funding 2007	0	0	0	0	0
State Shortfall	\$0	\$0	\$542,213	\$349,031	\$305,039
Assumptions	2003	2004	2005	2006	2007
Enrollment	21,501	22,000	22,000	22,000	22,000
Medical PMPM	\$ 91.14	\$ 100.26	\$ 110.28	\$ 121.31	\$ 133.44
Prescription Drugs PMPM	21.39	25.88	31.32	37.90	45.85
Dental PMPM	15.84	17.43	19.17	21.09	23.20
Total PMPM	\$ 128.38	\$ 143.57	\$ 160.77	\$ 180.29	\$ 202.48

WV CHIP Enrollment Report

December 2002

County Ranking	County Population 2000 (0-18 Yrs)	Total CHIP Enrollment 11/30/2002	Total Medicaid Enrollment 11/30/2002	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Harrison	16,823	789	5,861	6,630	39.4%	99.9%	1	0**
Pendleton	1,883	64	479	543	28.8%	99.0%	2	19
Brooke	5,544	192	1,280	1,472	26.6%	98.5%	3	0**
Boone	6,211	305	2,781	3,086	49.7%	97.9%	4	133
Marshall	12,488	286	2,597	2,883	23.1%	97.5%	5	217
Doddridge	1,986	121	726	847	42.6%	96.4%	6	60
Kanawha	45,159	1,694	14,771	16,465	36.5%	96.4%	7	772
Wirt	1,569	95	562	657	41.9%	96.3%	8	46
Fitchie	2,521	125	837	962	38.2%	96.2%	9	81
Marion	6,709	609	4,324	4,933	73.5%	95.9%	10	516
Grant	2,703	134	793	927	34.3%	95.8%	11	82
Mason	8,585	219	2,250	2,479	28.9%	95.7%	12	249
Braxton	3,487	229	1,641	1,870	53.6%	95.6%	13	155
Ohio	10,861	358	2,831	3,187	29.3%	95.6%	14	480
Clay	2,810	224	1,412	1,638	58.2%	95.1%	15	94
Tyler	2,344	122	752	874	37.3%	94.9%	16	93
Greenbrier	7,896	477	2,634	3,111	39.4%	94.8%	17	308
Webster	2,369	150	1,248	1,398	59.0%	94.7%	18	103
Nicholas	6,519	460	2,608	3,068	47.1%	94.4%	19	324
Wyoming	6,073	446	2,953	3,399	56.0%	94.0%	20	231
Berkeley	20,493	852	5,236	6,088	29.7%	93.9%	21	1,084
Jackson	7,085	289	2,374	2,663	37.6%	93.9%	22	340
Jefferson	10,748	294	1,961	2,255	21.0%	93.9%	23	651
Pleasants	1,879	111	466	577	30.7%	93.9%	24	88
McDowell	6,256	466	4,063	4,529	72.4%	93.8%	25	373
Hardy	3,128	132	961	1,093	34.9%	93.6%	26	200
Lincoln	5,543	419	2,757	3,176	57.3%	93.3%	27	327
Putnam	13,563	548	2,779	3,325	24.5%	93.2%	28	486
Monroe	3,103	195	991	1,186	38.2%	93.1%	29	196
Tucker	1,637	156	516	672	41.1%	93.1%	30	103
Hancock	7,172	264	1,870	2,134	29.8%	92.9%	31	443
Gilmer	1,608	93	613	706	44.0%	92.8%	32	116
Monongalia	17,093	593	4,013	4,606	26.9%	92.6%	33	1,144
Barbour	3,812	331	1,948	2,277	59.7%	92.5%	34	255
Wetzel	4,431	186	1,628	1,812	40.9%	92.5%	35	334
Fayette	10,991	752	4,878	5,630	51.2%	92.1%	36	706
Logan	8,862	544	4,180	4,724	53.3%	92.1%	37	654
Raleigh	18,034	1,086	6,954	8,040	44.6%	91.7%	38	1,395
Cabell	21,019	852	7,351	8,203	39.0%	91.6%	39	1,218
Hampshire	5,359	270	1,670	1,940	36.2%	91.3%	40	295
Mercer	14,100	877	6,382	7,259	51.5%	91.0%	41	1,268
Taylor	3,895	253	1,341	1,594	40.9%	90.9%	42	356
Mineral	6,754	263	1,942	2,205	32.6%	90.7%	43	251
Roane	3,804	272	1,638	1,908	50.2%	90.5%	44	336
Wood	21,344	856	6,831	7,687	36.0%	90.5%	45	1,624
Upshur	5,701	387	2,247	2,634	46.2%	90.4%	46	547
Preston	7,338	486	2,413	2,899	39.5%	90.2%	47	236
Randolph	6,655	424	2,538	2,962	44.5%	89.7%	48	653

DEPARTMENT OF ADMINISTRATION
WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
SCHEDULE OF EXPENDITURES FOR THE FOUR MONTHS ENDED OCTOBER 31, 2002
 (Accrual Basis)

ATTACHMENT 2

SFY 2003

EXPENDITURES BY HEALTH CARE TYPE	YTD ACTUAL TOTAL
Outpatient Hospital Services	3,211,230
Physicians Services	1,975,505
Prescribed Drugs	1,585,595
Dental Services	1,438,747
Inpatient Hospital Services	580,435
Outpatient Mental Health Facilities	371,385
Vision Services	390,860
Inpatient Mental Health Facilities	112,475
Medical Transportation	81,809
Durable and Disposable Medical Equipment	176,178
Therapy Services	100,296
Other Care Services	10,571
	\$10,034,886
SUB-TOTAL	\$10,034,886
LESS: DRUG REBATES	0
TOTAL EXPENDITURES BY PROVIDER TYPE	\$10,034,886
EXPENDITURES FOR ADMINISTRATION	
Enrollment and Claims Processing	\$883,273
Eligibility and Other Indirect Costs	143,996
Salaries and Benefits	134,535
Current Expense and Other	160,886
	\$1,322,690
TOTAL EXPENDITURES FOR ADMINISTRATION	\$1,322,690
TOTAL EXPENDITURES	\$11,357,576

DEPARTMENT OF ADMINISTRATION
WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
SCHEDULE OF EXPENDITURES FOR THE MONTH ENDED OCTOBER 31, 2002
 (Accrual Basis)

SFY 2003

EXPENDITURES BY HEALTH CARE TYPE

**YTD ACTUAL
TOTAL**

Outpatient Hospital Services	916,892
Physicians Services	538,253
Prescribed Drugs	471,110
Dental Services	423,995
Outpatient Mental Health Facilities	45,487
Vision Services	129,714
Inpatient Mental Health Facilities	32,523
Durable and Disposable Medical Equipment	76,369
Therapy Services	12,233
	<hr/>
SUB-TOTAL	\$2,646,576
LESS: DRUG REBATES	0
	<hr/>
TOTAL EXPENDITURES BY PROVIDER TYPE	\$2,646,576

EXPENDITURES FOR ADMINISTRATION

Enrollment and Claims Processing	\$124,948
Eligibility and Other Indirect Costs	55,182
Salaries and Benefits	33,265
Current Expense and Other	160,886
	<hr/>
TOTAL EXPENDITURES FOR ADMINISTRATION	\$374,281
	<hr/>
TOTAL EXPENDITURES	\$3,020,857
	<hr/> <hr/>

WV CHILDREN'S HEALTH FUND

WVFIMS FUND 2154 - PHASE II

SFY 2003

Investment Account

As of October 31, 2002

Funds invested	\$304,056
Interest earned	2,866
Total	\$306,922

WV TITLE XIX - MEDICAID FUND

WVFIMS FUND 5452 - PHASE I

SFY 2003

Investment Account

As of October 31, 2002

Funds invested	\$111,455
Interest earned	718
Total	\$112,173



CHILDREN'S HEALTH INSURANCE PROGRAM

FINANCIAL STATEMENTS

**FOR THE FOUR MONTHS
ENDED OCTOBER 31, 2002**

WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
BALANCE SHEET
October 31, 2002
(Accrual Basis)

ASSETS:

CASH & CASH EQUIVALENTS	\$1,259,697
DUE FROM FEDERAL GOVERNMENT	3,118,527
DUE FROM OTHER FUNDS	660,132
ACCRUED INTEREST RECEIVABLE	659
FIXED ASSETS, AT HISTORICAL COST	<u>30,080</u>
TOTAL ASSETS	<u>\$5,069,089</u>

LIABILITIES:

DUE TO OTHER FUNDS	\$458,659
DEFERRED REVENUE	344,517
UNPAID INSURANCE CLAIMS LIABILITY	<u>3,320,000</u>
TOTAL LIABILITIES	<u>\$4,123,176</u>
FUND EQUITY	<u>945,913</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$5,069,089</u>

WEST VIRGINIA CHILDREN'S HEALTH INSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FOUR MONTHS ENDED OCTOBER 31, 2002
 (Accrual Basis)

REVENUES:	
FEDERAL GRANTS	\$9,388,162
APPROPRIATIONS-LOCAL	1,971,414
INVESTMENT EARNINGS	<u>4,236</u>
TOTAL OPERATING REVENUES	<u>\$11,361,812</u>
OPERATING EXPENDITURES:	
INSURANCE CLAIMS:	
OUTPATIENT SERVICES	\$3,211,230
PRESCRIBED DRUGS	1,585,595
PHYSICIAN & SURGICAL	1,975,505
DENTAL	1,438,747
INPATIENT HOSPITAL	580,435
OUTPATIENT MENTAL HEALTH	371,385
VISION	390,860
OTHER	<u>481,329</u>
TOTAL CLAIMS	<u>\$10,034,886</u>
GENERAL & ADMIN:	
ENROLLMENT & CLAIMS PROCESSING	\$683,273
ELIGIBILITY & OTHER INDIRECT COST	143,996
SALARIES AND RELATED BENEFITS	134,535
OTHER	<u>160,886</u>
TOTAL ADMINISTRATIVE	<u>1,322,690</u>
TOTAL EXPENDITURES	<u>\$11,357,576</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,236</u>
FUND EQUITY, BEGINNING	<u>941,677</u>
FUND EQUITY, ENDING	<u>\$945,913</u>

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency

October 31, 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

Assets	October 2002	October 2001	Increase <Decrease>
Cash and cash equivalents	\$ 93,470,251	\$ 107,738,182	\$ (14,267,931)
Deposits with third-party administrators	1,771,699	4,174,650	(2,402,951)
Premium accounts receivable-net of allowance for doubtful accounts	20,263,342	12,280,031	7,983,311
Other accounts receivable	7,385,558	4,722,342	2,663,214
Total current assets	122,890,848	128,915,205	(6,024,357)
Furniture and equipment, net of accumulated depreciation	120,731	181,531	(60,800)
Restricted cash-premium stabilization life insurance	1,458,220	3,380,585	(1,922,375)
Restricted cash-new computer system	1,333,000		1,333,000
Total assets	126,005,899	\$ 132,477,331	\$ (6,874,532)
Liabilities and Retained Earnings			
Claims payable	\$ 50,320,000	\$ 49,520,000	\$ 800,000
Premium deficiency reserve	-	7,242,000	(7,242,000)
Current claims payable	4,863,000	4,138,858	724,142
Unearned revenue	4,851,907	3,279,039	1,572,868
Accounts payable	3,674,488	10,894,504	(7,320,018)
Other accrued liabilities	839,858	714,207	125,449
Total liabilities	64,549,049	75,888,708	(11,337,659)
Retained earnings	61,253,750	56,590,823	4,663,127
Total liabilities and retained earnings	125,802,799	\$ 132,477,331	\$ (6,874,532)

For internal use only. See financial comments.
Prepared November 18, 2002

"WORKING DRAFT"

State of West Virginia
 Public Employees Insurance Agency
 Changes in Retained Earnings
 October 31, 2002 and 2001
 Accrual Basis
 (Unaudited-For Internal Use Only)

	Budgeted Four Months Ended Oct 31, 2002	Actual Four Months Ended Oct 31, 2002	Budget Variance Percent	Actual Four Months Ended Oct 31, 2001	This Year vs Last Year Increase <Decrease>	This Year vs Last Year Variance Percent
Operating Revenue						
Premiums						
Employer Premiums-State	\$ 108,298,863	\$ 108,607,690	0.28%	\$ 97,100,626	\$ 12,508,965	12.88%
Employee Premiums-State	22,132,231	21,816,174	-1.43%	16,658,601	6,259,873	40.24%
Local Premiums	18,680,187	18,632,760	-0.34%	12,264,923	4,337,833	35.28%
Retiree Premiums	14,387,683	13,702,300	-4.77%	11,362,241	2,320,059	20.38%
Basic Life Insurance	2,081,699	2,033,182	-2.33%	1,728,661	304,601	17.61%
Other Premiums and Adjustments	280,530	578,884	108.71%	358,516	221,368	61.75%
Total Premiums	184,869,603	184,370,656	-0.30%	138,420,457	25,950,399	18.75%
Less:						
Payments to managed care organizations	(16,746,687)	(16,648,928)	-0.58%	(15,528,096)	(1,121,030)	7.22%
Life insurance premiums-basic	(2,081,699)	(2,181,007)	4.77%	(1,700,042)	(480,465)	28.25%
Net premium revenue	146,041,137	145,539,924	-0.34%	121,191,820	24,348,104	20.09%
Administrative fees, net of refunds	1,852,129	1,523,147	-1.87%	1,495,415	24,732	1.66%
Net operating revenue	147,893,266	147,063,071	-0.38%	122,690,235	24,372,836	19.87%
Operating Expenses						
Claims expense-medical	87,570,945	88,181,048	-1.38%	92,049,179	(5,658,133)	-6.36%
Claims expense-drugs	34,003,708	36,035,528	8.88%	28,876,934	7,158,595	24.79%
Administrative service fees	4,324,644	4,268,372	-1.53%	4,029,048	229,326	5.68%
Other operating expenses	2,345,973	2,135,381	-9.09%	1,945,955	189,426	9.73%
Total operating expense	128,245,270	128,420,329	0.29%	126,801,116	1,619,213	1.35%
Operating surplus (deficit)	19,647,996	19,642,742	-0.03%	(4,210,879)	22,853,621	-537.98%
Nonoperating Revenues						
Interest income, banks, net of fees	32,000	30,452	-4.84%	65,695	(35,443)	-53.79%
Interest income IMB	824,353	541,649	-33.25%	1,297,813	(755,694)	-58.25%
Operating transfers in	-	-	-	1,667,000	(1,667,000)	-100.00%
Total nonoperating revenues	856,353	572,101	-33.25%	1,930,508	(1,359,900)	-69.92%
Net Surplus (Deficit)	20,504,349	20,214,843	-1.41%	(2,280,371)	22,495,214	-1710.78%
Retained Earnings, beginning of period	35,616,667	35,616,667	-	57,771,094	(15,632,188)	-27.05%
Retained Earnings, end of period	36,120,718	35,831,506	-0.80%	41,138,903	4,663,127	11.34%

For internal use only. See financial comments.
 Prepared November 18, 2002

"WORKING DRAFT"

**State of West Virginia
Public Employees Insurance Agency
Statements of Revenues, Expenses and
Net Income (Loss)
Month of October 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)**

	Actual Month of October 2002	Actual Month of October 2001	Increase (Decrease)
Operating Revenue			
Premiums			
Employer Premiums-State	\$ 27,543,588	\$ 24,316,592	\$ 3,226,996
Employee Premiums-State	5,442,573	3,847,718	1,594,855
Local Premiums	4,188,833	3,104,095	1,084,738
Retiree Premiums	3,447,829	2,875,668	571,961
Basic Life Premiums	533,213	433,613	99,600
Other Premiums and Adjustments	181,922	307,240	(125,318)
	<hr/>	<hr/>	
Total Premium	41,337,758	34,884,928	6,452,832
Less:			
Payments to managed care organizations	(4,194,411)	(3,888,743)	(305,668)
Life insurance premiums-basic	(540,000)	(426,581)	(113,445)
	<hr/>	<hr/>	
Net premium revenue	36,603,341	30,569,622	6,033,719
Administrative fees, net of refunds	386,907	382,411	4,496
	<hr/>	<hr/>	
Net operating revenue	36,990,248	30,952,033	6,038,215
Operating Expenses			
Claims expense-medical	19,292,442	23,677,762	(4,385,320)
Claims expense-drugs	11,247,148	7,635,171	3,611,977
Administrative service fees	1,101,071	1,041,926	59,145
Other operating expenses	578,672	466,498	112,174
	<hr/>	<hr/>	
Total operating expense	32,219,333	32,821,357	(602,024)
Operating surplus (deficit)	4,770,915	8,130,676	(3,359,761)
Nonoperating Revenues			
Interest income, from banks, net of fees	10,935	16,805	(5,870)
Interest income from IMB	135,788	269,207	(133,419)
Operating transfers in	-	417,000	(417,000)
	<hr/>	<hr/>	
Total nonoperating revenues	146,723	693,012	(546,289)
Net Income (Loss)	\$ 4,917,638	\$ (1,166,512)	\$ 6,084,150
	<hr/>	<hr/>	

For internal use only. See financial comments.
Prepared November 18, 2002

"WORKING DRAFT"

Financial Comments

**Month of October 2002 and 2001
Accrual Basis**

(Unaudited-For Internal Use Only)

The PEIA and its actuary have re-projected the Plan Year Ending 2003 Budget amounts to incorporate the changes in premium and expense estimates which resulted from policyholder enrollment changes which took place during open enrollment and other changes in commitments which have occurred. Amounts reported in the Budgeted Column in the attached Statements of Revenues, Expenses, and Changes in Retained Earnings represent a one twelfth per month recognition of the annual budget. Except for claims expenses, which are from a seasonal budget that was developed by PEIA's actuary.

In total the amounts included in the Budget Column will accumulate through Plan Year 2003 and at the end of our fiscal year agree to the Actuarial Baseline Forecast which was prepared October 16,2002.

Note that the amounts reported on the monthly Statements of Revenues, Expenses and Net Income (Loss) are determined by subtracting from the current month's year to date totals the year to date totals at the end of the previous month. Due to limited staff and time constraints retrospective adjustments are not possible. At times these monthly statements may be misleading.

WV PEIA - Monthly Trend

Plan Demographics	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Total Drug Cost	\$12,619,457	\$13,416,981	\$13,410,284	\$14,174,110		
Amount Paid By Plan Sponsor	\$6,442,108	\$9,472,738	\$8,933,401	\$10,727,379		
Amount Paid By Members	\$6,177,349	\$3,944,243	\$3,476,884	\$3,446,730		
Total Claims	298,447	249,538	248,201	283,543		
Average Eligible Member	183,358	181,846	183,102	183,123		
Average # of Rx's Per Member Per Month	1.30	1.37	1.36	1.44		
Plan Paid Per Member Per Month (PMPM)	\$35.13	\$52.09	\$54.25	\$58.58		
Average Eligible Enrollees	91,065	90,643	91,109	91,145		
Average # of Rx's Per Enrollee Per Month	2.82	2.76	2.72	2.89		
Plan Paid Per Enrollee Per Month (PEPM)	\$70.74	\$104.62	\$109.03	\$117.70		
Rx Cost Share						
Avg. Claim Cost to Plan	\$27.02	\$37.96	\$40.02	\$40.70		
Avg. Member Cost/Claim	\$25.91	\$15.81	\$14.01	\$13.08		
Percent member Cost Share	49.0%	29.4%	25.9%	24.3%		
Average Ingredient Costs						
Single Source (no generics available)	\$78.40	\$80.30	\$80.38	\$80.85		
Multi-Source Brand (generics available)	\$108.69	\$99.86	\$95.87	\$109.06		
Generic Drugs	\$17.20	\$17.26	\$17.33	\$16.30		
Brand/Generic Dispensing Rates						
Single Source (no generics)	54.71%	54.39%	54.88%	54.61%		
Multi-Source Brand % (generics available)	0.16%	0.15%	0.16%	0.13%		
Generic Drug	45.13%	45.47%	45.16%	45.25%		
Generics Dispensed when available	99.64%	99.68%	99.66%	99.70%		
Percent of Plan Cost for Single Source	87.04%	85.74%	85.32%	86.11%		
Retail Pharmacy Program						
Avg. Day Supply	31.5	32.0	31.7	31.4		
Avg. Plan Cost/Day Supply	\$0.84	\$1.17	\$1.25	\$1.28		
Avg. Claim Cost to Plan	\$26.58	\$37.51	\$39.58	\$40.27		
Avg. Member Cost / Claim	\$25.80	\$15.67	\$13.92	\$12.99		
Percent Member Cost Share	49.28%	29.47%	26.01%	24.39%		
Special Maint Netwk (% of claims filled)	6.74%	7.84%	6.42%	8.16%		
Other Maint (% of claims filled)	3.32%	2.99%	2.44%	2.35%		
Avg. Days Supply for Maint. Netwks	88.2	88.5	88.4	88.4		
Total # Claims Fills 1-34 Days Supply	212,049	220,028	219,075	233,351		
Total # Claims Fills 35-60 Day Supply	1,643	1,668	1,584	1,663		
Total # Claims Fills 61-90 Day Supply	22,070	25,038	25,089	25,739		
Total # Claims Fills 91 + Day Supply	1	6	0	3		
Mail Service Program						
Avg. Days Supply	74.3	73.8	70.2	72.2		
Avg. Plan Cost/Days Supply	\$0.91	\$1.06	\$1.20	\$1.13		
Avg. Cost to Plan	\$67.39	\$77.95	\$84.03	\$81.55		
Avg. Member Cost/Claim	\$35.38	\$27.50	\$23.05	\$21.22		
Percent Member Cost Share	34.42%	26.08%	21.63%	20.65%		
Total # Claims Fill 1-34 Days Supply	697	788	816	834		
Total # Claims Fills 35-60 Days Supply	27	16	22	10		
Total # Claims Fills 61-90 Days Supply	1,980	2,025	1,815	1,943		
Total # Claims Fills 91 + Day Supply	0	0	0	0		
Formulary Program						
S/S Formulary Drugs (% by claim)	48.80%	48.85%	49.19%	49.27%		
S/S Non-Formulary Drugs (% by claim)	5.90%	5.54%	5.49%	5.34%		
M/S Drugs (% by claim)	0.08%	0.06%	0.07%	0.06%		
Generic Drugs (% by Claim)	45.13%	45.47%	45.16%	45.25%		
S/S Formulary Drugs (% by \$)	80.76%	79.68%	79.43%	80.46%		
S/S Non-Formulary Drugs (% by \$)	6.29%	6.08%	6.88%	6.66%		
M/S Drugs (% by \$)	0.37%	0.19%	0.20%	0.20%		
Generic Drugs (% by \$)	12.46%	13.98%	14.37%	13.59%		

WV PEIA - Monthly Trend

Jan-03	Plan Demographics	Feb-03	Mar-03	Apr-03	May-03	Jun-03	2002 - 2003 Fiscal
	Total Drug Cost						\$53,620,832
	Amount Paid By Plan Sponsor						\$36,575,626
	Amount Paid By Members						\$17,045,206
	Total Claims						999,729
	Average Eligible Member						182,867
	Average # of Rx's Per Member Per Month						1.37
	Plan Paid Per Member Per Month (PMPM)						\$50.01
	Average Eligible Enrollees						90,966
	Average # of Rx's Per Enrollee Per Month						2.76
	Plan Paid Per Enrollee Per Month (PEPM)						\$100.52
	Rx Cost Share						
	Avg. Claim Cost to Plan						\$36.59
	AVg. Member Cost/Claim						\$17.05
	Percent member Cost Share						31.8%
	Average Ingredient Costs						
	Single Source (no generics available)						\$80.01
	Multi-Source Brand (generics available)						\$103.28
	Generic Drugs						\$17.01
	Brand/Generic Dispensing Rates						
	Single Source (no generics)						54.60%
	Multi-Source Brand (generics available)						0.15%
	Generic Drug						45.25%
	Generics Dispensed when available						99.67%
	Percent of Plan Cost for Single Source						85.96%
	Retail Pharmacy Program						
	Avg. Day Supply						31.6
	Avg. Plan Cost/Day Supply						\$1.14
	Avg. Claim Cost to Plan						\$36.14
	Avg. Member Cost / Claim						\$16.94
	Percent Member Cost Share						31.92%
	Special Maint Netwk (% of claims filled)						7.81%
	Other Maint (% of claims filled)						2.76%
	Avg. Days Supply for Maint. Netwks						88.4
	Total # Claims Fills 1-34 Days Supply						884,501
	Total # Claims Fills 35-60 Day Supply						6,558
	Total # Claims Fills 61-90 Day Supply						97,936
	Total # Claims Fills 91+ Day Supply						10
	Mail Service Program						
	Avg. Days Supply						72.7
	Avg. Plan Cost/Days Supply						\$1.07
	Avg. Cost to Plan						\$77.63
	Avg. Member Cost/Claim						\$26.82
	Percent Member Cost Share						25.68%
	Total # Claims Fill 1-34 Days Supply						3105
	Total # Claims Fills 35-60 Days Supply						75
	Total # Claims Fills 61-90 Days Supply						7,544
	Total # Claims Fills 91+ Day Supply						0
	Formulary Program						
	S/S Formulary Drugs (% by claim)						49.03%
	S/S Non-Formulary Drugs (% by claim)						6.66%
	M/S Drugs (% by claim)						0.07%
	Generic Drugs (% by Claim)						45.25%
	S/S Formulary Drugs (% by \$)						80.03%
	s/s non-Formulary Drugs (% by \$)						5.93%
	M/S Drugs (% by \$)						0.23%
	Generic Drugs (% by \$)						13.70%



PRESCRIPTION BENEFIT PLAN COST ANALYSIS
 EXPRESS SCRIPTS, INC.
 WVA - WV PUBLIC EMPLOYEES INS (3615)
 DATE RANGE FROM: 2002-10-01 THRU: 2002-10-31

PAGE 1

00116171
 AD18S148
 2002-11-08

GROUP: COBRA	COBRA			
Dt Filled CCYY-MM				
2002-10				
	ELIGIBLES:	389	INGREDIENT COST:	49,807.57
	MEMBERS:	576	DISPENSING FEE:	1,609.50
	RX USERS:	227	SALES TAX:	0.66
	TOTAL RXS:	759	DEDUCTIBLE:	1,374.17
			COPAY:	8,509.83
			AMOUNT PAID:	41,533.73
			AVG AMT PD / RX:	54.72
			AVG AMT PD / USER:	182.97
			AVG AMT PD / PEPM:	112.86

GROUP: 01	STATE AGENCIES			
Dt Filled CCYY-MM				
2002-10				
	ELIGIBLES:	53409	INGREDIENT COST:	6,438,233.60
	MEMBERS:	122591	DISPENSING FEE:	282,447.94
	RX USERS:	47896	SALES TAX:	126.66
	TOTAL RXS:	124959	DEDUCTIBLE:	286,808.02
			COPAY:	1,453,730.84
			AMOUNT PAID:	4,960,172.34
			AVG AMT PD / RX:	39.89
			AVG AMT PD / USER:	104.00
			AVG AMT PD / PEPM:	92.87

GROUP: 02	NON STATE AGENCIES			
Dt Filled CCYY-MM				
2002-10				
	ELIGIBLES:	7484	INGREDIENT COST:	743,101.53
	MEMBERS:	16416	DISPENSING FEE:	32,932.25
	RX USERS:	5896	SALES TAX:	63.33
	TOTAL RXS:	15487	DEDUCTIBLE:	44,696.42
			COPAY:	170,479.67
			AMOUNT PAID:	560,922.02
			AVG AMT PD / RX:	36.22
			AVG AMT PD / USER:	95.14
			AVG AMT PD / PEPM:	74.95

GROUP: 02B	NON STATE AGENCIES PLAN B			
Dt Filled CCYY-MM				
2002-10				
	ELIGIBLES:	648	INGREDIENT COST:	55,374.24
	MEMBERS:	1414	DISPENSING FEE:	2,075.75
	RX USERS:	466	SALES TAX:	0.00
	TOTAL RXS:	1005	DEDUCTIBLE:	12,665.88
			COPAY:	11,448.55
			AMOUNT PAID:	33,335.76
			AVG AMT PD / RX:	33.17
			AVG AMT PD / USER:	71.54
			AVG AMT PD / PEPM:	51.44

GROUP: 07	STATE RETIREES			
Dt Filled CCYY-MM				
2002-10				
	ELIGIBLES:	22767	INGREDIENT COST:	4,814,254.51
	MEMBERS:	32942	DISPENSING FEE:	192,895.85
	RX USERS:	23220	SALES TAX:	136.04
	TOTAL RXS:	91768	DEDUCTIBLE:	54,888.44
			COPAY:	1,145,574.30
			AMOUNT PAID:	3,808,823.49
			AVG AMT PD / RX:	41.48
			AVG AMT PD / USER:	163.95
			AVG AMT PD / PEPM:	167.21

GROUP: 0720	STATE RETIREES ASST 20			
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PRESCRIPTION BENEFIT PLAN COST ANALYSIS
EXPRESS SCRIPTS, INC.
 WVA - WV PUBLIC EMPLOYEES INS (3615)
 DATE RANGE FROM: 2002-10-01 THRU: 2002-10-31

Dt Filled CCYY-MM 2002-10		ELIGIBLES: 353 MEMBERS: 463 RX USERS: 351 TOTAL RXS: 1539	INGREDIENT COST: 71,148.12 DISPENSING FEE: 3,263.28 SALES TAX: 0.00 DEDUCTIBLE: 579.61 COPAY: 14,244.20 AMOUNT PAID: 59,584.56	AVG AMT PD / RX: 38.72 AVG AMT PD / USER: 169.76 AVG AMT PD / PEPM: 168.79
GROUP:0740 STATE RETIREES ASST 40				
Dt Filled CCYY-MM 2002-10		ELIGIBLES: 1674 MEMBERS: 2248 RX USERS: 1743 TOTAL RXS: 7595	INGREDIENT COST: 368,171.94 DISPENSING FEE: 16,082.46 SALES TAX: 2.34 DEDUCTIBLE: 3,238.48 COPAY: 57,944.63 AMOUNT PAID: 323,073.63	AVG AMT PD / RX: 42.64 AVG AMT PD / USER: 186.35 AVG AMT PD / PEPM: 193.00
GROUP:0760 STATE RETIREES ASST 60				
Dt Filled CCYY-MM 2002-10		ELIGIBLES: 2297 MEMBERS: 3391 RX USERS: 2650 TOTAL RXS: 12004	INGREDIENT COST: 612,809.57 DISPENSING FEE: 25,483.74 SALES TAX: 0.00 DEDUCTIBLE: 8,324.81 COPAY: 71,858.84 AMOUNT PAID: 561,081.86	AVG AMT PD / RX: 46.74 AVG AMT PD / USER: 211.73 AVG AMT PD / PEPM: 244.27
GROUP:08 NON STATE RETIREES				
Dt Filled CCYY-MM 2002-10		ELIGIBLES: 1664 MEMBERS: 2383 RX USERS: 1633 TOTAL RXS: 6423	INGREDIENT COST: 332,427.30 DISPENSING FEE: 13,606.24 SALES TAX: 11.64 DEDUCTIBLE: 4,480.71 COPAY: 78,008.83 AMOUNT PAID: 263,554.67	AVG AMT PD / RX: 41.03 AVG AMT PD / USER: 161.39 AVG AMT PD / PEPM: 158.39
GROUP:0820 NON STATE RETIREES 20				
Dt Filled CCYY-MM 2002-10		ELIGIBLES: 47 MEMBERS: 60 RX USERS: 48 TOTAL RXS: 204	INGREDIENT COST: 8,973.09 DISPENSING FEE: 444.00 SALES TAX: 0.00 DEDUCTIBLE: 10.79 COPAY: 1,830.94 AMOUNT PAID: 7,575.36	AVG AMT PD / RX: 37.13 AVG AMT PD / USER: 157.82 AVG AMT PD / PEPM: 161.18
GROUP:0840 NON STATE RETIREES 40				



PRESCRIPTION BENEFIT PLAN COST ANALYSIS
EXPRESS SCRIPTS, INC.
WVA - WV PUBLIC EMPLOYEES INS (3615)
DATE RANGE FROM: 2002-10-01 THRU: 2002-10-31

PAGE 3
00115171
AD1BS148
2002-11-08

Dt Filled CCYY-MM
2002-10

ELIGIBLES: 179
MEMBERS: 237
RX USERS: 184
TOTAL RXS: 805

INGREDIENT COST: 38,843.70
DISPENSING FEE: 1,686.75
SALES TAX: 0.00
DEDUCTIBLE: 324.31
COPAY: 6,097.73
AMOUNT PAID: 34,108.41

AVG AMT PD / RX: 42.37
AVG AMT PD / USER: 185.37
AVG AMT PD / PEPM: 190.55

GROUP: 0860

NDN STATE RETIREES 60

Dt Filled CCYY-MM
2002-10

ELIGIBLES: 254
MEMBERS: 402
RX USERS: 304
TOTAL RXS: 1441

INGREDIENT COST: 73,961.35
DISPENSING FEE: 3,075.75
SALES TAX: 0.00
DEDUCTIBLE: 647.48
COPAY: 8,815.81
AMOUNT PAID: 67,573.81

AVG AMT PD / RX: 46.89
AVG AMT PD / USER: 222.28
AVG AMT PD / PEPM: 266.04



PRESCRIPTION BENEFIT PLAN COST ANALYSIS
EXPRESS SCRIPTS, INC.
WVA - WV PUBLIC EMPLOYEES INS (3615)
DATE RANGE FROM: 2002-10-01 THRU: 2002-10-31

PAGE 4

00115171
AD185148
2002-11-08

Client Div Id
WVA

ELIGIBLES: 91145
MEMBERS: 183123
RX USERS: 84418
TOTAL RXS: 263389

INGREDIENT COST: 13,607,203.52
DISPENSING FEE: 555,673.48
SALES TAX: 340.67
DEDUCTIBLE: 415,135.02
COPAY: 3,028,642.67
AMOUNT PAID: 10,719,339.64

AVG AMT PD / RX: 40.70
AVG AMT PD / USER: 126.98
AVG AMT PD / PERM: 117.61

To the Joint Committee on Government and Finance
West Virginia Legislature

and

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

We have audited the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. Professional standards require that we provide you with the following information related to our audits.

**THE AUDITORS' RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN
THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable assurance, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

**REPORTABLE CONDITIONS IN INTERNAL CONTROL AND REPORTABLE COMPLIANCE
FINDINGS**

In planning and performing our audit of the financial statements of the Division for the year ended June 30, 2002, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters described below involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described below are believed to be a material weakness.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Division's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions, and accordingly, we do not express such an opinion. However, the results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described below.

Information Systems Controls (*Internal Control*)
(Partial Prior Year Comment)

The management of the Division is responsible for establishing and maintaining adequate information systems internal controls.

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:

- There are no formal policies and procedures for review and monitoring of the user account access maintenance. (Also noted in prior year)
- There are no formal policies and procedures for review and monitoring of various information system security reports such as the "failed access report." (Also noted in prior year)
- There are no policies and procedures in place for conducting periodic intrusion testing of the various computer systems maintained by the Division.

We recommend that the Division strengthen their policies and procedures related to information systems controls and ensure that controls are operating as designed. In addition, the Division should work with the Information System and Controls Department of the State of West Virginia to ensure that periodic intrusion testing is conducted for all significant systems utilized by the Division. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of information system controls.

Management Response: Agree. We have made progress toward some of the specific items noted with this recommendation. We have established formal network logon/password policies and we have electronically interfaced the monthly mainframe report of terminated personnel with the PC network user accounts system to automate account deletions. Also, we have cooperated fully with the Information Services and Communications Division in the statewide initiative to perform periodic intrusion detection. The first test resulted in no unknown or unacceptable accesses from outside the DOT computer network. We will continue to cooperate with IS&C on this and all other security policies and programs.

Accounts Receivable Collection and Financial Reporting

Article V of the Constitution of West Virginia states in part that, "the legislative, executive and judicial departments shall be separate and distinct, so that neither shall exercise the powers properly belonging to either of the others." Furthermore, Article 10, Section 6 of the Constitution of West Virginia states in part that, "credit of the state shall not be granted to, or in aid of any county, city, township, corporation or person; nor shall the state ever assume, or become responsible for the debts or liabilities of any county, city, township, corporation or person." Furthermore, the Division's accounts receivable policies and procedures state that entities with past due balances will have credit discontinued until the account is brought current.

We noted that management of the Division has extended credit to other entities, including State agencies and political subdivisions that have accounts receivable balances that are past due. Thus, the Division significantly decreases their ability to collect these balances through the regular collection process. Furthermore, the Division does not have policies and procedures for analyzing and adjusting on a monthly basis the allowance for doubtful accounts as reported in the Division's financial statements.

The extension of credit to other State agencies and political subdivisions could be construed as the Division appropriating funds, thus usurping the constitutional authority the legislature. Also, the net realizable value of accounts receivable may be overstated on financial reports prepared by the Division.

We recommend that the Division suspend the extension of credit to entities, including other State agencies and political subdivisions with past due balances until the account is brought current. Also, we recommend that the Division evaluate accounts with balances outstanding to identify any other State agencies or political subdivisions that should not be granted credit due to a history of late payment. In addition, the Division should review its policies and procedures to determine if changes are needed and should develop policies and procedures for analyzing the amount reported in the allowance for doubtful accounts in the Division's financial statements.

Management Response: The Division of Highways agrees with the recommendation that a policy be developed to analyze the allowance accounts for Accounts Receivable. The Accounts Receivable Supervisor is preparing an analytical spreadsheet with historical information to better support making adjustments to our allowance accounts. We will incorporate the policy dealing with the allowance account into the existing collection policy for the Accounts Receivable Section. We also offer the following comments:

1. *The Division of Highways does cease credit extension for entities that have past due balances. For hauling permit and escort services accounts through our Enforcement Division, and our "SS" accounts (bid letting and specs) no further charges are allowed until the balance is paid in full. Trucks often have to wait at the state line because we will not issue permits or provide escorts on an overdue account. When entities that have leases with Property Management for sign (logo) rental or property rentals become delinquent, they are noticed that their lease will be cancelled or their signs removed. If payment is not received, these actions are taken.*
2. *In the case of governmental entities, the situation is more complicated. The Division aggressively employs every legal recourse available to collect debts from entities such as County Commissions, Public Service Divisions, Towns, School Boards, Prisons, and State Agencies. We have a record of taking many of these entities to the Court of Claims for Collection, where we have been overwhelmingly successful. However this is often a more complex situation than can be dealt with a simple refusal of services. For example, we have had Emergency Services Organizations with an outstanding balance need gasoline for an ambulance or a school board for its busses. Often in rural areas we are the only source for gasoline in emergency situations. During the past several years the number of governmental entities obtaining gasoline from the Division of Highways has significantly decreased. It has been our goal to eliminate this service completely, but emergency situations arise where this is impossible. We receive calls from members of the legislature requesting the Division's services for their constituency in dire circumstances such as water hauling during a drought or assistance from flood damage. Some of these situations are on an emergency status from the Governor's Office and some are not. The Division of Highways asserts that government must provide for its citizens particularly in exigent circumstances. The Division has responded to these requests with this premise rather than a strictly financial one. The Division seeks guidance from the Legislature for handling matters such as these and requests for services to governmental entities from the Governor's Office on a non-emergency basis to entities indebted to the Division. The Division is currently carrying balances for many government entities for water emergency services.*
3. *The Division does not agree that the extension of credit to entities with outstanding balances "significantly decreases their ability to collect these balances through the regular collection process". There are two applicable time periods for the collection of debts. We have 2 years to collect non-contractual debts and 10 years to collect debts incurred by contract. The Statute of Limitations begins to run when the debt is incurred or the contract is signed. Therefore subsequent debts have no effect on collecting a prior debt that has a different Statute of Limitations. During the applicable time period Accounts Receivable, The Claims Division, and ultimately the Legal Division work systematically to obtain payment. Prior to the Statute of Limitations expiring, the debt is referred to the Legal Division where a determination is made whether to file a lawsuit. Many factors are considered primarily being if the entity has sufficient funds or assets to satisfy a judgment. If it appears feasible to file a lawsuit, a case is filed in Circuit Court or a claim in the Court of Claims. When the Division receives a judgment, every means available to execute the judgment is pursued.*

Independent Engineer's Cost Estimate (Compliance and Internal Control)
(Prior Year Comment)

Section 157-1-7.7b of the Code of State Rules requires the director of the division initiating the request for service to be responsible for preparing an independent engineer's cost estimate prior to the receipt of the fee proposal from the consultant. As noted in the prior year, we noted several instances in which the engineer's cost estimate was not prepared by the Division until after the consultant's price proposal was received.

We recommend that the Division devote the necessary resources to ensure that the Code of State Rules and its policies and procedures are followed and cost estimates are prepared in a timely manner.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken various actions to address this issue. The Division feels that the actions taken this past year will ensure that future cost estimates will be prepared in a timely manner.

Procurement of Architectural and Engineering Services (Compliance and Internal Control)
(Prior Year Comment)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.

We noted the following during our review of documentation related to the procurement of architectural and engineering services:

- The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire and/or Consultant Cost Accounting Information Statement on file for one of the projects tested. (Also noted in prior year)
- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Also noted in prior year)

We recommend that the Division strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken various actions to address this issue. The Division feels that the actions taken this past year will ensure that the required documentation will be maintained in the project files.

Davis Bacon Compliance (Compliance and Internal Control)

The management of the Division is required to ensure that contractors and subcontractors are paying employees the prevailing wage rates as established by the Department of Labor for the locality at the time of the construction payroll.

The Division obtains certified payrolls from the contractors/subcontractors and is required to perform prevailing wage inspections and issue reports on their findings. During our review of this process we noted the following:

- One project had been active for greater than one year and only had three inspections performed, of which the last inspection was performed in August of 2001. Further, the February inspection on one of these projects was not completed until May of 2002. (District 3)
- One project that was active for over one year had not been inspected since March of 2001. (District 4)
- All contractor payrolls for the items selected were properly submitted; however, neither the Labor Interviews nor the Compliance Inspections were provided. (District 7)

We recommend that the Division strengthen their policies and procedures related to the monitoring of prevailing wage and ensure that controls are operating as designed. The policies and procedures at a minimum should include the frequency and time requirements for performing the prevailing wage monitoring. Further, the internal audit group of the Division should consider designing audit procedures for the monitoring and review of the prevailing wage inspection reports.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer – Development will be sent to Contract Administration Division and all Districts. The memorandum will provide direction to all Districts regarding the frequency and timing of the prevailing wage/EEO reports.

The procedures compliance section of Transportation Auditing currently performs reviews of compliance with Davis Bacon during the course of their work on specific construction contracts. The Internal Audit section of Transportation Auditing is currently in the process of performing audit procedures in the Contract Administration area. Davis Bacon Compliance is included within the scope of that ongoing audit.

Evaluation of Consultant's Work (Compliance and Internal Control)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, Section 157-1-7.10 of the code of State Rules requires upon completion or performance termination of the consultant's work, the responsible Division will prepare a report recording its evaluation of the consultant's efforts. A copy shall be sent to the consultant for review and comment and any written comments received shall be attached to the final report. All consultants with active contracts shall be evaluated in March of each year on each active project.

We noted the following during our review of the Division's evaluation of consultants' work:

- The Consulting Services Section of the Engineering Division did not have timely periodic evaluations of consultant's efforts on file for two projects.
- The March annual consultant evaluations could not be located for five of the active projects reviewed.

We recommend that the Division strengthen their policies and procedures regarding required documentation for the evaluation of consultants.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer – Development will be sent to all Divisions and Districts involved with Consultants. This memorandum will emphasize the need to perform the required evaluations in a timely fashion. Each Division/District will be instructed to take any necessary action to ensure that the required documentation will be contained in the project files as required by Chapter 5A, Article 8, Section 9, of the West Virginia Code.

Level of Subcontract/Subconsulting Work (*Compliance and Internal Control*)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, the policies and procedures of the Division require the prime contractor/consultant to perform at least 51% of any contracted service.

The Consulting Services Section of the Engineering Division reviews the contractors/consultant's cost proposals for the amount of subcontract/subconsulting work proposed; however, the Division has not established procedures to ensure that the contractor/consultant maintains the required 51%.

We recommend that the Division develop controls for monitoring the contractor/subcontractor's compliance with the 51% rule.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer - Development will be sent to all Divisions and Districts involved with the Consultants. This memorandum will emphasize the procedures to be followed regarding the monitoring of Consultant's compliance with the 51% rule, as required by Chapter 5A, Article 8, Section 9, of the West Virginia Code.

Contractor Awarded Projects Documentation (*Compliance and Internal Control*)

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Section 157-3-4.1 of the Code of State Rules requires all bidders on projects let to contract by the Division shall be prequalified as provided for by rules or regulations, or both, of the commissioner. A Certificate of Qualification will be issued by the commissioner fixing the amount of incomplete work a contractor may have under contract at any one time and the type of work for which the contractor is qualified.

To obtain a Certificate of Qualification, the contractor must file a Contractor's Prequalification Statement containing the information as required based on the category of work for which prequalification is being requested.

Further, the 1980 Division of Highways Construction Manual Addendum #120 "Finalization Procedures", page 6, step 7, requires the following authorized documentation: "(g) To Date Quantity Validation Report signed by the Project/Resurfacing Section and District Finals Section reviewers. In addition, Section 157-3-5.6 of the Code of State Rules requires the contractor shall be required, in addition to any other form of insurance or bonds required under the terms of the contract and specifications, to procure and maintain during the life of the contract the following types of insurance in the amounts set forth."

The Division requires contractors to submit Prequalification Statements 15 days prior to the bid "letting" date. These statements serve to qualify the contractor for the type of work he may be awarded and fixes the amount of incomplete work a contractor may have under contract at any one time. We noted that one contractor award did not submit a Prequalification Statement.

The "To Date Quantity Validation" reports are used in the "finalization" process for the contractor's final payment and show the amount of material approved and used for the project. We noted two instances in which there were no authorizing signatures at the project level on the "To Date Quantity Validation" reports.

In addition, we noted one instance in which the Division did not have an insurance certificate for a contractor on a specific project.

We recommend that the Division strengthen their policies and procedures over the retention of significant documents on contractor awarded projects.

Management Response: West Virginia Division of Highways agrees with the recommendation. A memorandum from the Deputy State Highway Engineer - Development will be sent to all Divisions and Districts involved with Contractors. This memorandum will emphasize that all documentation related to the award of construction contracts must be placed in the project files. Each Divistor/District will be instructed to take any necessary action to ensure that project files are maintained and contain all documentation required by Chapter 5A, Article 8, Section 9.

OTHER COMMENTS AND RECOMMENDATIONS

During our audit we became aware of several other matters that are opportunities for strengthening internal control and opportunities for improving operating efficiency. Our comments and suggestions follow. In addition, we became aware of immaterial instances of noncompliance which are also reported below. We have discussed these comments and suggestions with various Division personnel, and will be pleased to discuss them further at your convenience.

Internal, External, and Procedures Compliance Audit Group

Internal, External, and Procedures Compliance Audit - Policies and Procedures Manual (Prior Year Comment)

An audit policies and procedures manual provides personnel with written documentation of specific responsibilities and controls to be followed in their performance of audit work. These policies should be as standard as possible while allowing appropriate flexibility to address unique circumstances. Standardization of policies provides for fewer discrepancies, consistent identification and treatment of issues, consistent sampling methodologies, and consistent reporting. In addition to providing consistent information, a manual facilitates transitions when adopting new procedures or personnel change, and provides an overview for evaluating the current system. While reviewing the audit manuals for the audit groups, we noted that the manuals were not current.

We recommend that the Division update their audit policies and procedures manual, which documents the policies and procedures related to the audit groups. The manual should contain general policies as well as specific procedures performed in auditing information, identify personnel responsible for performing such procedures, and specify reporting requirements. In addition, the manual should include appropriate guidance related to how to handle issues identified and the appropriate reporting and follow up required. All personnel should have a thorough working knowledge of the manual and the manual should be updated as needed.

Management Response: We agree that the manuals of Transportation Auditing are in need of review and update. After this comment was made in the prior year's management letter Transportation Auditing was reestablished as a separate division. Due to the appointment of a new director the audit methodology and documentation standards as well as methods used to select areas for audit are in the process of being revised. Because of the ongoing changes the updates of the manuals have been deferred until standard procedures and documentation and overall risk assessment strategies are developed.

Internal Audit - Information System Reviews (Prior Year Comment)

The Division operates a wide variety of computer applications and systems, many of which have a direct and material effect on federal and state award programs and are critical to the daily operations of the Division. Further, these applications and systems are significantly dependent upon controls and edit checks included within these systems. During our review of the internal audit functions and focus of fieldwork, we noted that the internal audit group did not devote time and resources to testing the general and application controls and edit checks, which are applicable to the critical information systems of the Division.

We recommend that the internal audit group's work plan include adequate coverage and review of the significant information systems in place. This review should focus on identifying the significant information systems to be reviewed, reviewing general and application controls in place, reviewing edit checks for proper functioning, and other significant steps as identified in the review. Further, the internal audit group should consider hiring a person with appropriate information systems background to assist in the performance of the review. This position could also be outsourced through the use of an information systems audit specialist from a certified public accounting firm.

Management Response: We agree that review of significant information systems is within the scope of our work. This comment was also noted in prior years management letter. Since that time we have modified our audit approach to include a review of such systems within the scope of each audit that we undertake during the course of the coming year. We are currently in the process of completing audits of two significant areas of operation within the Department. In each audit we are performing a comprehensive review of those information systems that impact the area under audit. We believe that current personnel have sufficient knowledge in this area to develop the skills necessary to carry out a Department wide information systems audit. We are developing those skills by focusing on individual systems and components of an information system audit and believe that we will have developed the skills necessary to perform a comprehensive audit of all systems within an appropriate period of time.

Internal Audit and Procedures Compliance - Audit Methodology and Rotation (Prior Year Comment)

Section 4.6 of *Government Auditing Standards* states in part that, "The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures." As noted in the prior year, we determined that the internal audit group and the procedures compliance group do not have a formalized audit methodology and rotation for determining which areas of the Division should be reviewed. Therefore, some low risk areas appeared to be over audited and other higher risk areas were not considered for review.

The Division has made significant progress in this area; however, we recommend that the internal audit group and the procedures compliance group continue the development of a risk based audit methodology approach. Under this approach, the audit groups would annually review all operations of the Division and appropriately identify the significant risk areas where substantial resources and time should be devoted. Lower risk areas could be audited on a rotational basis and covered on a two to three year cycle. By applying audit risk concepts, the audit groups can enhance their ability to recognize opportunities for efficiency and effectiveness.

Management Response: As noted in the management letter comment, we have made progress in this area since the prior year. We agree that risk assessment is critical in properly focusing our audit efforts. The internal audit section is in the process of developing a comprehensive universe of potential audits to undertake and has started work on audits of two areas of Department operations based on preliminary assessments of risk. We believe that a complete universe of potential audits, a methodology for formally assessing risk in those identified audits and methods to ensure that the universe and the risk assessments are updated on an ongoing basis will be completed by June 20, 2003.

The Procedures Compliance section continues select individual construction projects for review based on the size of the contracts, which we feel is the most significant indicator of risk in this area. Other indicators of risk, such as the personnel assigned to the project and the nature of the work to be carried out are also considered in an informal way. The scheduling of maintenance reviews is on a rotating basis. Because the primary function of this section is to assist management in assessing the level of compliance with proscribed policies and procedures that exists in the maintenance organizations throughout the State, we feel that coverage of all maintenance organizations should be achieved on a rotating basis. We have established a goal to shorten the rotation cycle on maintenance organizations to two years.

Audit Committee

Currently the Division has an established internal audit department with an audit committee established through its mission statement; however, we noticed that the audit committee has not been active and has not provided insight and guidance to the internal audit department.

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 to review the results of the internal audit department's work from the previous quarter.

Management Response: The Division of Highways' Audit Committee was abolished May 18, 2000 by Commissioner's Order. However, effective May 18, 2000, the Transportation Audit Committee was established. We agree with the recommendation to resume scheduled meetings with the Director of Internal Auditing to review the Annual Audit Plan, review all internal audit recommendations that have not been answered, resolve all unanswered and/or disputed recommendations, and address any other concerns brought before the committee.

Procedures Compliance – Findings Follow Up (Prior Year Comment)

Section 4.7 of *Government Auditing Standards* states that, "Auditors should follow up on known material findings and recommendations from previous audits." During our review of the follow up procedures for the procedures compliance audit group, we noted that follow up appeared to be inconsistent. In addition, most follow up was not documented and resolved in a timely manner.

We recommend that the audit group strengthen its procedures regarding finding follow up and ensure that all material findings are resolved appropriately in a timely manner.

Management Response: In response to prior year's comment in this area we modified our audit log to document the follow up and resolution of comments and continued to review outstanding reports on a monthly basis to ensure that responses are received within an acceptable period of time. We have found that our methods for monitoring follow up on reports issued by the procedures compliance section to be adequate to ensure that all critical items are addressed in a timely manner. However, we agree that our process for monitoring follow up is somewhat informal. We have recently developed a more formalized process for monitoring individual reports to ensure that all material findings are resolved appropriately in a timely manner. We believe that the process that we have implemented addresses the concerns raised in this comment.

Information Systems

Programming Controls

Although there is a set routine for control of programming and programming changes, there are no policies or procedures governing the testing, compiling, or movement of code from the test environment to production. In addition, there is no clear policy of the level of authority necessary to request a programming project or change.

We recommend enhancement of the programming controls policies and procedures to include (but not be limited to) the request, approval, testing, and movement to production of programs.

Management Response - Agree. We will formalize our current routines (revise our written procedures) for testing, compiling and moving programming changes from test to production. We will also establish policies and methodologies that will ensure that programming change requests are made by a responsible authority.

DMV Windows NT User Accounts
(Prior Year Comment)

As noted in the prior year, the Windows NT network domain for the Department of Motor Vehicles (DMV) Cash Remittance System has user accounts set up for generic, non-specific employees such as administrative temps and user information desks.

Each access account into the system is a potentially exploitable entry for an unauthorized user. Security at the infrastructure network level as well as the application level provides maximum deterrence to intruders.

We recommend that all user accounts for access to all systems be specific to employees. If additional user accounts are needed for special functions or vendor access, these should be documented by policy. In addition, if vendor accounts are needed occasionally, they should be deactivated when not in use.

Management Response - Original Response: Resolution of the recommendation that all user accounts for access to the Cash Remittance System be specific to employees of the DMV is in progress. Information Services Technicians and District IS Coordinators are assigning separate user accounts.

UPDATE: Completed. The generic accounts have been disabled and current operators have been assigned specific individual accounts. Vendor accounts are now created with an expiration date and are disabled upon completion of user need or work.

DMV Windows NT System Generated User Accounts
(Prior Year Comment)

As noted in the prior year, the DMV domain uses the system generated administrator and guest accounts. In addition, the administrator account does not have a requirement to change the password periodically. The MS Windows NT "administrator" and "guest" accounts are automatically created with the installation of Windows NT. This makes the existence of these accounts universally known to intruders.

We recommend that the administrator and guest accounts be disabled and a user account for each administrative staff member be created with appropriate access rights.

Management Response - Original Response: Agree. Information Services Division will remove all "guest" accounts. We will review the network administration issues concerning the removal of "administrator" accounts and will apply appropriate methods to minimize this access issue.

UPDATE: Completed. Guest accounts have been deleted. Also, the administrator accounts have been renamed for all machines.

DMV Windows NT Network Backup
(Prior Year Comment)

As noted in the prior year, the backup tapes for the Windows NT network are not stored off site. In the event of damage due to fire or other disaster at the site, backup tapes would also be lost and restoration would be much more difficult.

We recommend that the DMV periodically store backup tapes in a different location off site.

Management Response - Original Response: Agree. Information Services Division will work with DMV personnel to develop a process whereby backup data will be stored off site.

UPDATE: DMV is working with their contractor, Fletcher Data Systems to develop a process for periodic off-site storage of backup tapes generated by the internal tape drive of the Cash Register System.

DMV Windows NT Intruder Detection Settings (Prior Year Comment)

As noted in the prior year, the Windows NT network has intruder detection settings, which reset intruder attempts after five minutes, and reset locked accounts after five minutes. Intruder detection locks a user out of an account after a set number of failed login attempts. If the count of attempts is reset too soon, it essentially allows an intruder an unlimited number of attempts to gain unauthorized access. If the lockout is reset too soon, the intruder who is locked out can wait a short time and re-attempt the unauthorized access with other passwords. In addition, the administrator may never have knowledge of the attempted intrusion.

We recommend that intruder attempts be retained for at least one day, and that lockout is maintained until the administrator resets the user account.

Management Response - Original Response: Agree. Information Services Division will apply these network logon settings.

UPDATE: Completed. The account lockout policy has been changed to lockout the user account after three unsuccessful logon attempts. The counter is automatically reset after 24 hours. Finally, all lockouts require a network administrator to reset the user account.

DMV Cash Remittance System User Accounts (Prior Year Comment)

There are some cashier accounts in the DMV Cash Remittance (cash register) System that are not listed on the active or separated employee list. Some of these accounts are temporary accounts and accounts shared by employees. Each access account into systems is a potentially exploitable entry for an unauthorized user.

We recommend that all user accounts for access to the cash remittance system be specific to employees of the DMV.

Management Response - Completed. The generic accounts have been disabled and current operators have been assigned specific individual accounts.

MS Windows NT Network Visibility

Many computers and servers (1010 objects) are readily visible to any non-DOT Windows workstation that attaches to an active network wall connection. There is no need to configure the foreign workstation to do this. When testing access to 12 selected objects, one object provided the next level of access (an empty folder and printer list) without any logon challenge. Each of the computers or servers visible provides a piece of information on the topology and arrangement of the network. Any computers that can be accessed may provide additional vulnerabilities and access to confidential information.

We recommend that network information be visible only to terminals logged onto the MS Windows NT domain. We also recommend that those objects that are visible be verified as secured and reviewed periodically for security access.

Management Response - It is a feature of Windows networking to display computers on the network through Network Neighborhood or My Network Places. Seeing the objects does not necessarily mean that the data associated with the object can be accessed without proper authentication. Internal testing showed that a username and password were requested before access to the data was granted. However, we will investigate what devices, software or settings will prevent visibility of network information to terminals that are physically connected to, but not logged onto the MS Windows NT domain (unauthorized users).

Programming Project Tracking

The REMIS project tracking system is not kept up to date with all of the programming that has been requested. Project tracking of programming requests keeps track of the steps necessary to approve and release a program change. It also allows users to verify the status of the request for programming and be involved in the testing process.

We recommend utilizing the project tracking system and keeping it up to date on the status of requests. We also recommend continuing the efforts to add the project tracking capability to the help desk application to allow tracking of service requests in that area.

Management Response - Agree. We recognize the need for a comprehensive system to accept, control and track the progress of programming change requests. We currently use multiple systems, including the BI-15 Project Request (REMIS projects) System, the Project Status query on the Information Services Division's Intranet website, as well as Microsoft Project. We continue searching for a unified solution for managing programming projects. It is our intent to acquire or develop an application to efficiently accomplish this objective.

West Virginia State Code Compliance

Advertising of Contracts (Prior Year Comment)

Chapter 59, Article 3, Section 2 of the West Virginia State Code requires that a Class II legal advertisement be published once a week for two successive weeks with at least an interval of six full days within such period between the date of the first publication and the date of the second publication.

During the fiscal year ended June 30, 2002, we noted three contracts for which advertisements could not be located and noted five state-wide contracts for which the advertisement interval was not in compliance with the West Virginia State Code.

We recommend that the Division strengthen policies and procedures and ensure that the advertisement of procured services are documented and in accordance with West Virginia State Code.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the advertisement interval required. These actions should ensure that project files are maintained, and contain all documentation required.

Subletting of Contracts (Prior Year Comment)

Title 157, Series 3, Section 10.1 of the Code of State Rules states in part that "a contractor will be permitted to sublet a portion thereof but shall perform, with his or her own organization, work amounting to not less than 50% of the total contract cost." Further, contractors are required to file a "Subcontractor Request" form (form OC-403) which accumulates the amount of the contract to sublet to the subcontractor.

During our review of two out of eighteen of these forms during the fiscal year ended June 30, 2002 we noted errors in the cumulative totals and percentage of subcontract work performed to date.

We recommend that the Division implement review procedures including math checks to ensure that forms filed with the Division are accurate and complete.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the need to perform math checks of the cumulative totals and percentage of subcontractor work required. These actions should ensure that these forms will be accurate and complete.

Construction Prequalified Maximum Outstanding Workload
(Prior Year Comment)

The Division is responsible for prequalifying all contractors as to the maximum allowable outstanding workload permitted during any one time. This limit is established to ensure the appropriate distribution of work among contractors and ensure timely and effective service by the contractor. The maximum workload permitted includes the contractor's workload for out of state work, for which the Division relies on the contractor to report on the proposal submission forms.

For two of the 18 projects tested, the contractor did not list their outstanding workloads on the proposal forms for the project.

We recommend that management strengthen their policies and procedures and ensure that adequate information is provided to ensure that a contractor does not exceed the prequalified maximum workload amount.

Management Response: As noted in our response to the 2001 audit, West Virginia Division of Highways has undertaken actions that emphasize the need to show all required information on the prequalification forms and to ensure that a contractor does not exceed the pre-qualified maximum workload amount. These actions should ensure that these forms will be accurate and complete.

Decisions from Hearings Held by or before the State Highway Commissioner Not Recorded in the Commissioner's Order Book.

Chapter 5A, Article 8, Section 9, of the West Virginia Code states in part: "The head of each agency shall . . . Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities. . ." Also, Title 157, Series 1, Section 3.11 of the Division of Highways Procedural Rules, as amended, states in part: "Service of Commissioner's Decision, Subpoenas and Notices. Every decision when made by the Commissioner of Highways shall be recorded in the Commissioner's Order Book . . ." Further, Title 157, Series 1, Section 2.3 of the Division of Highways Procedural Rules, as amended, states: "Commissioner's Order Book. The Commissioner of Highways shall maintain in his office a record of all orders issued by him, which record shall be designated as the Commissioner of Highways' Order Book. All orders issued by the Commissioner during each day shall be entered therein, and all such orders so entered shall be indexed and cross-indexed so as to afford a method of ready access to such order issued by the Commissioner."

The official orders (determinations and/or decisions) issued by the State Highway Commissioner are recorded in an imaging system maintained by the Correspondence and Files Section of the State Highway Commissioner's Office. However, records pertaining to these hearings are not retained in the imaging system. Also, when we requested a list of all orders issued by the Commissioner from July 1, 2001, forward, such list was not readily attainable from the imaging system.

We recommend the Division comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, and Title 157, Series 1, Section's 3.11 and 2.3 of the Division of Highway's Procedural Rule, as amended.

Management Response: It is our opinion we are in compliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, and Title 157, Series 1, Section's 3.11 and 2.3 of the Division of Highways' Procedural Rule, as amended. The official orders are recorded and maintained by the Correspondence and Files Section. We interpret the "records pertaining to hearings" referenced in the audit findings as public hearings regarding road and bridge proposals affecting the traveling public. The public hearing records are maintained by the engineering department responsible for conducting and recording the hearings. As we progress toward our department wide automated records retrieval system, access to all records will be accomplished.

Other

Land and Land Improvements

We noted that the Division does not have policies and procedures for identifying and recording land and land improvements. Under the new GASB 34 reporting model, fixed assets including land and land improvements must be recorded in the government wide financial statements and land improvements must be depreciated over the estimated useful lives. As a result, the Division had to reclass and record depreciation on approximately \$4.4 million dollars of land improvements.

We recommend management develop policies and procedures on the recording of land and land improvements to make sure that depreciable assets are properly accounted for.

Management Response: The Division agrees with the recommendation. The Division has modified our policies on buildings and grounds policies to accommodate land improvements.

Accounts Payable – Monthly Reconciliation

During our review, we noted that the general ledger did not reconcile to the accounts payable as reported in the authorization system. The reconciliation of the general ledger to the authorization system should be done on at least a monthly basis to ensure the proper reporting of accounts payable.

We recommend that monthly reconciliations be performed to reconcile the general ledger to the accounts payable authorization system. Further, differences should be investigated and resolved in a timely manner.

Management Response: The past fiscal year had numerous funding changes to our projects. Corrections have been made to both the authorization system and the accounts payable system. These changes and system discrepancies are now being investigated and corrections made to alleviate the reconciliation problems. The Finance Division plans to reconcile the accounts payable system to the authorization system on a quarterly basis. We believe this will allow for the correction necessary for the funding changes made to projects.

Risk Analysis (Prior Year Comment)

The Division operates a large complex organization in a complex environment. As such, the Division is confronted with numerous risks that threaten the effective functioning of the Division in carrying out its mission. These risks may result from legal issues, construction issues, revenue source issues, fraud susceptibility, and political issues to name a few.

We recommend that the Division prepare a comprehensive list of the significant risks associated with the various issues and formalize the methods it uses or plans to use to mitigate the risks or otherwise determine that a given risk is at an acceptable level. This risk analysis would facilitate continuity of approach as personnel change and help the Division prioritize and maintain its focus on its mission. If adopted, management should periodically review and update this analysis for changing conditions and ensure that procedures designed to mitigate risks are still in place.

Management Response: West Virginia Division of Highways is currently preparing a comprehensive list of significant risks that could threaten our ability to carry out our mission. This list will be reviewed periodically and updated as required.

Security of Inventory

During our physical inventory observation we noted that there were several locations where inventory was not secured during non-business hours. Further, we noted that the fuel pumps at one location were not secured and proper distribution records for the fuel pumps were not being maintained.

We recommend that management evaluate the costs and benefits of securing inventory and ensure that locations not secured are adequately documented and supported by a cost/benefit analysis. Further, management should ensure that all fuel pumps are adequately secured and that adequate records are maintained to support the distribution of fuel.

Management Response: The Division agrees with this recommendation. The Division notified the particular organizations involved to tighten their security measures. We also reminded all organizations to insure the assets of the Division were protected. The Division has in the past few years installed security systems and fenced some locations to help deter access by unauthorized individuals. The Division will continue to incorporate additional security measures into our annual buildings and grounds program.

Employee Cross-Training

An integral part of an entity's internal control structure is an effective cross-training program, which involves the identification of key job responsibilities and the development of a cross-training program to ensure that employees are cross-trained to minimize interruptions when key employees may be unable to perform their current job responsibilities. This program should include a formal schedule for cross-training employees and specifically address the cross-training requirements for positions that will become available due to retirement.

We recommend that the Division develop policies and procedures to ensure that all key employee positions are cross-trained and that written procedures exist for all significant job responsibilities.

Management Response: We agree with the recommendation to "develop policies and procedures to ensure that all key employee positions are cross-trained and that written procedures exist for all significant responsibilities". The Business Manager's Office will review all department's internal operating procedures and develop, by committee, a cross-training procedure for key positions as approved by the Secretary of Transportation.

State-wide Cost Allocation Plan

The Division does not participate in the State-wide Cost Allocation Plan (SWCAP). Thus, indirect costs incurred for the State of West Virginia are not allocated and collected by the West Virginia Department of Transportation.

We recommend that management of the Division work with the Financial Accounting and Reporting Section and perform a cost/benefit analysis of participating in the SWCAP.

Management Response: The Division agrees with this recommendation. The Division has contacted the FARS Section to further discuss this matter.

Federal Tax Withholdings

The Department has consistently had overpayments related to Worker's Compensation buy backs when reconciling the quarterly Federal Form 941 with the federal tax withholdings remitted to the Internal Revenue Service. The amount of overpayment as of June 30, 2002 was approximately \$208,000.

We recommend that management of the Department take the appropriate credits and ensure that the federal tax withholdings remitted are accurate and reconciled to the quarterly Federal Form 941 and the EPICS payroll system.

Management Response: The Division agrees with this recommendation. The Finance Division Payroll Supervisor has been requested to prepare some analyticals to determine a range necessary to cover unexpected wage problems. The Division has also initiated the process to reduce the amount on deposit.

Grant Time Period

The Division did not submit a bill for reimbursement or request a timely extension for billing qualifying expenditures under the Governor's Highway Safety grant award from the Governor's Office of Highway Safety. Specifically, the Division incurred approximately \$1.2 million dollars in qualifying expenditures which may have been lost if an extension of time was not granted by the grantor agency. However, subsequent to our initial fieldwork, the Division received an extension of time for billing the qualifying expenditures from the grantor agency.

We recommend that management of the Division develop policies and procedures to ensure that all federal and state grants are properly expended and billed within the grant time period. Specifically, management of the Division should consider developing a tickler list of all grants and grant time periods and establish procedures for monitoring expenditures and billings to ensure that all federal and state grants available are billed and collected within the grant time periods established within the grant agreement.

Management Response: The Federal Aid Section of the Finance Division will develop a spreadsheet of all grants and grant time periods to ensure all federal and state grants are billed within the grant time period. The spreadsheet list of grant projects will periodically be monitored for expenditures and billings generated.

OTHER REQUIRED COMMUNICATIONS

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Division are described in Note 1 of the financial statements. In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The GASB has also issued several related statements, Statement 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38 – *Certain Financial Statement Note Disclosures*. These statements established financial reporting standards for state and local governments by revising the basic financial statement requirements, requiring the recording of infrastructure assets and related accumulated depreciation, and also requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities.

The Division adopted the provisions of these statements for the fiscal year ended June 30, 2002, which is consistent with the State of West Virginia's adoption period. The adoption of GASB Statement No. 34 did have a material effect on the reported operations and net assets of the Division which are summarized in Note 2 of the financial statements.

We noted no transactions entered into by the Division during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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 estimates affecting the financial statements were the valuation of inventories, valuation of receivables, valuation of infrastructure assets, depreciation of fixed assets, compensated absences, and the liability for claims and judgments.

Management's valuation of inventories is based on the weighted average cost generally using the consumption method whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs and inventories have been reduced to their net realizable values. Management's valuation of receivables is based upon contracts with grantors, other third party contracts, and July/August tax collections, and an evaluation of collectibility. Management's estimate of the infrastructure assets is based upon estimated historical cost of assets constructed from July 1, 1980 to July 1, 2001. The estimated historical cost for these years was based on capital outlay expenditures reported by the Division in the annual reports for those years, less an amount estimated for the historical cost of the acquisition for land for right-of-way. As permitted by GASB Statement No. 34, the Division has elected to not capitalize infrastructure assets constructed prior to July 1, 1980. Management's estimate of depreciation expense is based upon the estimated useful lives of the assets depreciated utilizing the straight-line method of depreciation. Management's estimate of the liability for compensated absences is based upon the amount of vested and earned accrued vacation and sick leave at the anticipated cost to the Division. Management's estimate of claims and judgments is based upon Management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Other Information in Documents Containing Audited Financial Statements

The Division has presented management's discussion and analysis which is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We do not have an obligation to perform any procedures to corroborate the information contained in these documents. Though we have not audited or expressed an opinion or any other form of assurance on such information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been determined except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Division's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by the Division, either individually or in the aggregate, indicate matters that could have a significant effect on the Division's financial reporting process. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

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 auditors' 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.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management and representatives from the Legislative Auditor's office 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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of the West Virginia Legislature and the Division's management, and is not intended to be and should not be used by anyone other than these specified parties.

Switla & Stalacher, PLLC

October 31, 2002

Adjusting Journal Entries
 West Virginia Department of Transportation, Division of Highways
 June 30, 2002

AJE No.	Account Description	Account Number	Debits	Credits
1	BOND INTEREST	4099	473,589.51	
1	INTEREST ON INVESTMENTS	3101		473,589.51
	To record accrued interest at 6/30/02.			
2	ALLOWANCE FOR BILLED RECEIVABLES	1581		1,483,000.00
2	REIMBURSEMENT FROM OTHERS	3801	1,483,000.00	
	To adjust the allowance for doubtful accounts at 6/30/02.			

Passed Adjusting Journal Entries
 Period - 2002 12th Mo
 W.V. Dept. of Transportation, Division of Highways
 June 30, 2002

PAJE No.	Account Description	M/P Ref	Account Number	Asset	Liability	Equity	Revenue Expense
1	BUILDINGS	M-3	1931	112,513.75			
1	WORK-IN-PROGRESS		1932	-112,513.75			
To adjust WIP to actual and move finished building costs to buildings at 6/30/02							
PAJE Totals By Classification				0.00	0.00	0.00	0.00
Classification Totals Before PAJE				6,024,546,258.55	-740,880,046.47	-3,475,733,965.80	196,069,753.72

(Speaker Kiss presides)

AGENDA

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

Tuesday, December 17, 2002

3:00 - 4:00 p.m.

Senate Finance Room

1. **APPROVAL OF NOVEMBER 19, 2002, MINUTES.**
2. **COMMITTEE REPORTS/REQUESTS:**

Education Subcommittee on Standards Based Accountability. (Request for Reimbursement of travel expenses for Steven Smith, NCSL, for attending January interim meeting.)(Delegate Mezzatesta)
3. **MONTHLY/QUARTERLY REPORTS - PRESENTATION AND DISTRIBUTION:**
 - Reports from Department of Health and Human Resources on Medicaid, Welfare Reform and Colin Anderson Center;
 - Status Report from Lottery Commission;
 - Status Reports from the Bureau of Employment Programs on Unemployment Compensation and Workers' Compensation; and
 - Status report on the State's general revenue prepared by legislative staff.
4. **PRESENTATION ON WORKERS' COMPENSATION DEFICIT - Robert J. Smith, Commissioner, Bureau of Employment Programs.**
5. **PRESENTATION BY THE JOINT COMMISSION ON ECONOMIC DEVELOPMENT ON THE STATUS OF WORKERS' COMPENSATION STUDY. (Senator McCabe, Delegate Cann)**
6. **PRESENTATION AND DISTRIBUTION: (Tom Susman)**
 - a. BRIM Report,
 - b. CHIP Report, and
 - c. PEIA Monthly Report.
7. **DIVISION OF HIGHWAYS AUDIT - PRESENTATION AND DISTRIBUTION. (Horace Emery of Suttle & Stalaker)**
8. **CONSIDERATION OF HIGHWAYS AUDIT CONTRACT RENEWAL.**
9. **MOTION - Expense Reimbursement and Compensation to 2001-2002 Members of the Legislature Who Are Not Returning to Serve and Citizens for Participation in Committee Meetings on Which They Are Members in Interim Meetings Authorized for January 2003.**
10. **NEXT MEETING DATES: January 5-7, 2003.**
11. **OTHER BUSINESS.**
12. **ADJOURNMENT.**